Globalisation and Economic Development: the Brazilian Experience Regarding the Expansion of Transnational Corporations

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**Abstract**

Given the transformations of the so-called globalisation era towards a more intense capital and goods mobility, this paper aims to discuss the character of both inward and outward movements of transnational corporations in response to economic policy orientation in Brazil. It focuses on the Brazilian development trajectory and the dynamics of transnational companies over the last two decades, a period when most liberalisation measures have been adopted in the country, until the upsurge of the financial turmoil in 2008. The first section addresses the presence of large foreign companies in Brazil and argues for different nature of foreign investments according to the shifts in economic policy orientation over the period. It distinguishes the mergers and acquisitions movement mainly on services in the 1990s from the growth recovery phase characterised by more productive investments in mid-2000s. The second section discusses the emergence of Brazilian transnational groups as a more recent and still regionalised phenomenon relying on a limited number of companies. It is argued that this process has taken place in a favourable international and macroeconomic environment combined with supportive governmental measures, particularly of the national development bank. The analysis allows for the recognition of several challenges posed by both inward and outward movements of transnational corporations to the domestic recovery of a sustained development trajectory, especially considering the recent international crisis context.

**Keywords**: transnational corporations; Brazilian economy; foreign direct investment; economic policy.

**JEL Classification**: F21; F23; O11; O54.

**ANPEC Area 7 – International Economics**

**Introduction**

One of the most discussed topics in recent years concerns the rising power of emerging economies in the international dynamics. This subject has been studied under different perspectives, including political, geopolitical, economic, international relations and social views. Its importance has been reinforced by the major negative effects of the current international economic crisis on the growth performance of developed countries.

In the economic literature, the debate on the importance of emerging economies is commonly centred around the rise of the so-called “BRICs”, term coined by O’Neill (2001) to highlight the increasing role played by Brazil, Russia, India and China in the world economic growth. According to IMF (2011) estimates, emerging countries accounted for almost half of the world Gross Domestic Product (GDP) in purchasing power parity (PPP) in 2011 and their contribution to the world GDP growth is projected to achieve 2/3 until 2016. Although GDP or global consumption figures in current prices still show a leading role of advanced economies by a significant margin, the overall picture points to a multipolar world landscape where emerging economies may play a greater role in the global economic dynamism in comparison to what they usually did, especially after the economic crisis burst in 2008, as shown by recent works of the World Bank (Canuto, 2010; Canuto & Giugale, 2010; World Bank, 2011; Canuto & Leipziger, 2012).

The growing participation of emerging economies is also observed in terms of world trade and capital flows. They have become important producer and consumer markets as well as great financial centres. Part of this dynamics is explained as a result of the adoption of liberalisation measures and economic openness reforms in those countries, particularly after the 1980s onwards. Part, however, is a consequence of pressures and search of financial institutions and large corporations, namely the transnational corporations (TNCs), of developed countries for new profitable regions to allocate their resources around the world.

Large foreign direct investments (FDI) carried out by TNCs in emerging economies as well as the increasing internationalisation of domestic groups from these countries are examples of this growing importance of such economies in the international landscape. FDI data from United Nations Conference on Trade and Development (UNCTAD)[[2]](#footnote-2) reveals a rising flow trend towards emerging economies in the last decades. In 1980, the total amount of global FDI was around US$ 54.1 billion, with only 13.8% sent to developing countries. In 2010, this set of countries accounted for 46.1% of total FDI inflows which surpassed US$ 1.2 trillion. In its turn, the participation of FDI outflows from these economies in the total world amount shifted from 6.2% in 1980 to 24.8% in 2010, making also explicit an increasing role of these economies in the internationalisation process of their companies in the recent period.

This greater international presence, however, does not have any meaning in its own whether not considered any measure of economic development. A well-disseminated view shared by financial institutions and most mainstream economists supports that this rising importance of emerging (or developing) countries would be a result of their commitment to the globalisation process. In particular, that the adoption of liberalising policies and the indiscriminate allowance for foreign capital inflows would necessarily increase domestic productivity and promote economic growth (Kuczynski & Williamson, 2003; Goldman Sachs, 2007).

A critical view on this movement, however, would point to huge differences between the economic development trajectories of emerging economies. The aforementioned facts highlighting the rising power of these economies at international level are mainly attributable to the performance of India and, above all, China. Moreover, under a Keynesian perspective, investment is the engine of economic growth, so that investment-oriented economic policies would result in higher levels of output and employment (Keynes, 1936; Keynes, 1937). In an open economy, as considered in the so-called globalisation era of more intense capital and goods mobility, foreign capital may play an important role as a source to finance new investments and, therefore, promote domestic growth – one form of economic development.

Nonetheless, one should remember that this movement of global companies to reallocate their capital around the world is part of their strategy to arrange global or regional production networks in order to capture the benefits from different markets. Needless to say, cross-border capital of TNCs – commonly recognised as foreign direct investment – does not necessarily mean new investments (or greenfield investments) in the Keynesian sense of new facilities, equipments and machineries that through linkages with other productive sectors generate more output and employment. Part of FDI may only be financial capital, generally associated with cross-border mergers and acquisitions (M&A). Dunning (1994) classifies FDI into four categories according to which companies make investments abroad, i.e. internationalise themselves: (a) resource seeking, to exploit natural resources or unskilled labour force; (b) market seeking, to explore domestic markets where the investment is made; (c) efficiency seeking, to explore economies of scale and scope based on production rationalisation; (d) strategic asset seeking, to assure resources and capabilities for the investing company in order to maintain or increase its competitiveness in regional or global markets, which is frequently carried out through M&A.

In this regard, it is worthwhile highlighting in an economic development perspective that governments’ posture towards foreign capital – basically, the degree and the manner of economic openness – is central to the trajectory a country may follow. Together with macroeconomic and other public policies supporting productive investments, such as industrial, financial, trade and foreign exchange policies, it has historically proved to be important to different development processes of many economies, particularly in promoting a more sustained pattern of growth, rising the overall level of income in the country, and improving domestic social welfare (Chang, 2003a; Chang, 2003b; Di Maio, 2009; Hausmann & Rodrik, 2006; Palma, 2009; Rodrik, 2007a; Wade, 1990).

Given these remarks about the globalisation process and its implications for domestic growth through the dynamics of large companies, this paper aims to discuss the character of both inward and outward movements of transnational corporations in response to economic policy orientation in Brazil. It focuses on the Brazilian development trajectory and the dynamics of transnational companies over the last two decades, a period when most liberalisation measures have been adopted in the country, until the upsurge of the financial turmoil in 2008. The analysis offers a contribution to this literature on economic policy orientation and economic development as well as allows for the recognition of several challenges posed by both inward and outward movements of TNCs to the Brazilian recovery of a sustained development trajectory, especially considering the recent international crisis context.

The paper presents two sections after this introduction. The first section addresses the presence of large foreign companies in Brazil and argues for different nature of foreign investments according to the shifts in economic policy orientation over the period. It distinguishes the mergers and acquisitions movement mainly on services in the 1990s from the growth recovery phase characterised by more productive investments in mid-2000s. The second section discusses the emergence of Brazilian transnational groups as a more recent and still regionalised phenomenon relying on a limited number of companies. It is argued that this process has taken place in a favourable international and macroeconomic environment combined with supportive governmental measures, particularly of the national development bank. Some concluding remarks follow.

**1. Transnational companies in Brazil: different opportunities from the privatisation process to the economic growth recovery**

Brazilian industrialisation process has been markedly influenced by the presence and strategies of transnational corporations. Foreign capital played an important role, especially during the 1950s and 1960s when the production internalisation of many consumer durables, intermediate goods and capital goods took place through investments in such sectors which generate anticipated demand for other sectors.

Capital inflows have been benefited not only from the abundance of capital in that period of American and European companies’ decisions of internationalisation looking for new economic sources of accumulation, but also from domestic policies aiming to attract capital flows. In Brazil, SUMOC Instruction 113, implemented in 1955, allowed direct import of equipment and capital goods in general at the most favoured exchange rate as a way to get the necessary technology to continue and deepen the industrialisation process as well as to finance it (Fishlow, 1972).

Different from other industrialisation processes, notably from East Asian countries, Brazil has always intensely relied more on an interaction between state and foreign capital than on national private business. Three interesting features could be highlighted. Firstly, there has been no such a policy to create “national champions”, frequently adopted by Asian countries such as the Republic of Korea and China, although most private companies were created during the Import Substitution Industrialisation (ISI) period and benefited from subsidies and protected market. Secondly, most large Brazilian corporations during the period of massive industrialisation that lasted until the late 1970s were state-owned companies, such as CSN, Embraer, Petrobrás, and Vale. Many of them, however, were privatised in the 1990s[[3]](#footnote-3) following a new economic conception summarised in the so-called “Washington Consensus”[[4]](#footnote-4).

Thirdly, Brazilian private business groups, which although public companies remain basically under the control of particular families, have often concentrated themselves in lower value-added consumer goods. One of the major criticisms of these companies’ behaviour lies in the fact that they have never been active players in promoting domestic industrialisation and development. Their lack of “animal spirits”[[5]](#footnote-5) or “entrepreneurship”[[6]](#footnote-6) could be both due to their close relationship with the state in the sense that investments were conducted when the risk of failure was almost nonexistent and due to private financial institutions in Brazil which have historically based their operations on high-profit and low-risk financial instruments[[7]](#footnote-7) instead of supporting new investments (Miranda & Tavares, 2000).

Therefore, the importance of foreign capital for the Brazilian development path has been clear. The regulated state-led period, however, has been replaced by the so-called globalisation era, governed in most countries by a market-oriented agenda based on letting the markets get the prices right, i.e. deregulating markets or avoiding major governmental intervention to the markets functioning.

Box 1 shows the basic recommendations to pursue economic growth under this approach. On the left, there are policies expressed by the “Washington Consensus” view which were mostly implemented by countries, particularly in Latin America, during the 1980s and the early 1990s. On the right, there are recommendation policies that emerged in the late 1990s to reply to some criticisms of the reasons why countries in fact did not succeed by adopting initial policies but, on the contrary, were facing a financial crisis[[8]](#footnote-8). The choice should be then to deepen economic reforms under a second and third generation of reforms, particularly focused on institutional adjustments regarding both microeconomic level and macroeconomic prudential regulation (Rodrik, 2007b; Kuczynski & Williamson, 2003).

**Box 1. Pursuing economic growth policies according to the neoliberal approach**

|  |  |
| --- | --- |
| **Original “Washington Consensus”** | **“Augmented Washington Consensus”**  **(additions to the original 10 items)** |
| 1. Fiscal discipline | 11. Corporate governance |
| 2. Reorientation of public expenditures | 12. Anticorruption |
| 3. Tax reform | 13. Flexible labour markets |
| 4. Interest rate liberalisation | 14. Adherence to WTO\* disciplines |
| 5. Unified and competitive exchange rates | 15. Adherence to international financial codes and standards |
| 6. Trade liberalisation | 16. “Prudent” capital-account opening |
| 7. Openness to foreign direct investment | 17. Nonintermediate exchange rate regimes |
| 8. Privatisation | 18. Independent central banks/inflation targeting |
| 9. Deregulation | 19. Social safety nets |
| 10. Secure property rights | 20. Targeted poverty reduction |

Source: Rodrik (2007b, p.17). \* World Trade Organisation.

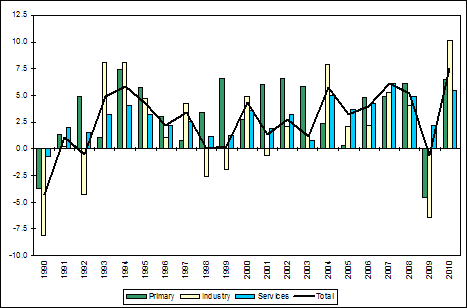
In Brazil such policies were initially adopted in the government of President Collor in the early 1990s[[9]](#footnote-9), but intensified by the implementation of a new price stability plan – “Plano Real” – in 1994. After many attempts failed during the 1980s, this plan succeeded in controlling the inflationary process, basically through two economic policies in a context of international capital liquidity recovery and reduced restrictions on capital and goods circulation.

Firstly, a contractionary monetary policy was adopted by raising interest rates. Besides avoiding an economic acceleration, the main purpose was, initially, to attract capital flows and accumulate international reserves necessary for sustaining the plan and, afterwards, to prevent capital flights from the country when financial crisis elsewhere started to happen, since these outflows would represent a serious balance of payments constraint. Secondly, a fixed exchange rate, that allowed the domestic currency appreciation against the U.S. dollar (but not its depreciation), was implemented. The intensification of trade openness regime and the imposition of a ceiling on exchange rate have meant a large amount of artificially cheapened imported goods, making domestic producers unable to raise prices (Batista Jr., 1996).

Nevertheless, inflation control has been made possible at high costs to the balance of payments and economic growth. At the beginning, as a result of a decrease in inflation rates there has been an immediate purchasing power gain for lower income population. Additionally, banks have expanded consumer credit as a way to offset such gains they were used to obtain during the inflationary period. Consequently, consumption booms but none sustained economic growth rates have been observed (figure 1).

Every time the economy started to grow, the current account deficit however enlarged, as shown in figure 2, due to increasing imports and income transfers, such as profit and dividend remittances and travelling expenditures. In order to avoid a balance of payments constraint and maintain the foreign exchange regime, rising interest rates have been adopted, as a way either for attracting more capital flows or imposing restrictions on credit to cause a slowdown in the economy and reduce imports, thus promoting a “stop and go” process (Delfim Netto, 1998).

**Figure 1. Brazil: Real GDP\* annual rate of change by sector, 1990-2010 (%)**



Source: author’s calculations based on Brazilian Central Bank data, available at: https://www3.bcb.gov.br/sgspub. \* Gross Domestic Product.

This economic adjustment was harmful both to the public finance and the real sector. On the one hand, higher interest rates have augmented public debt and debt service payments, the main determinant of public deficit (Tavares, 1998). Following the neoliberal approach, an acceleration in the privatisation process and the adoption of a contractionary fiscal policy of increasing taxes and cutting expenditures have been verified. On the other hand, the combination of intense capital inflows oriented to privatisations in the form of M&A, strong international competition at home market through an overvalued exchange rate, rising interest rates and unfavourable long-term horizon for investments given the prospects of lower levels of aggregate demand has caused a disarticulation within domestic productive chains. These issues resulted in a deterioration of domestic industry capacity to promote growth and employment (Coutinho, 1997).

**Figure 2. Brazil: Trade and current account balances, 1990-2010 (US$ billion)**



Source: author’s calculations based on Brazilian Central Bank data, available at: https://www3.bcb.gov.br/sgspub. Note: L.A. = left axis; R.A. = right axis.

The unsustainable imbalance in external accounts and the speculation against the domestic currency led to the Brazilian crisis in 1999. That year strong depreciation was followed by a change in the macroeconomic regime, which has been grounded on a trick growth puzzle between floating (but managed) exchange rate, inflation target and primary budget surplus since then. Following the policy recommendations of the “New Consensus Macroeconomics” approach, the main tool used to get inflation rate within a pre-set range has become the management of interest rates (Arestis, 2007). Hence, in order to avoid deviations of inflation rates up from the target, higher levels of interest rates are established (or a resistance to lower them is observed). Obviously, this is negative to economic growth, since they spoil credit and thus investment and consumption.

Moreover, in a context of liberalised financial and foreign exchange markets, high interest rates – more precisely, a large differential between domestic and international interest rates – attract capital flows, mainly portfolio financial capital, into the country. That results in an appreciation of national currency, which in its turn tends to increase imports, put pressure on current account balance and disarticulate productive chains, especially at moments of low domestic growth perspective.

High interest rates also increase public debt and then require a fiscal budget adjustment to guarantee the achievement of primary budget surplus, a sign to markets that the government has sound finance and its debt may be viewed as a safe investment. That commonly means cuts in public investments, infrastructure and social expenditures. It is therefore a system that, without policy counterbalances, perpetuates low economic growth rates.

One could, nonetheless, distinguish two periods in the Brazilian economy in the last decade, pointing to an economic policy reorientation although still highly conditioned by strategies of domestic and international investors. The first period is related to strong volatility in exchange rates, high interest rates and a relative stagnation of the world economy. These movements have adversely impacted domestic economic growth, which has only shown some signs of recuperation due to international liquidity recovery, rising Chinese demand and commodity prices – Brazil’s main exports – since 2003 and 2004, thus generating huge current account surpluses and the possibility of increasingly accumulating foreign reserves (see figures 1, 2 and 3).

**Figure 3. Brazil: Foreign reserves and real exchange rate\* (June 1994 = 100),**

**1990-2010**



Source: author’s calculations based on Brazilian Central Bank data, available at: https://www3.bcb.gov.br/sgspub. \* Annual average.

However, a cycle of economic growth, which characterised the second period, has only been achieved after 2004 when some domestic policies regarding income distribution and investment expenditures were implemented or intensified together with the favourable international conditions. Main policy directions to be mentioned are (see figure 4): (a) expansionary monetary policy by decreasing interest rates, although in a slow pace and still one of the highest in the world; (b) a consequent credit expansion as percentage of GDP and a deliberate policy of the National Economic and Social Development Bank (BNDES) to support productive capacity growth; (c) the proposal of the National Program for the Acceleration of Growth (PAC), mainly focused on infrastructure; (d) minimum wage recovery policy and formal jobs creation in large scale; (e) income transfer programmes, such as “Bolsa Família”, benefiting poor families and regions.

**Figure 4. Brazil: Economic policy reorientation**

|  |  |
| --- | --- |
| **Basic interest rate (Selic) target defined by the Monetary Policy Council, 1999-2011 (% p.a.)** | **Credit evolution as percentage of GDP, 2001-2010** |
| **BNDES total disbursement, 1995-2010 (R$ billion)** | **BNDES total disbursement by sector, 1995-2010 (%)** |
| **Minimum wage in purchasing power of February 2010**  **(January 1995 = 100)\*** | **Formal employment index by sector, 1990-2010**  **(December 2009 = 100)** |

Source: author’s calculations based on Brazilian Central Bank data, available at: https://www3.bcb.gov.br/sgspub. \* Nominal minimum wage deflated by the National Consumer Price Index (INPC).

The combination of credit expansion, income gains and job creation has meant an increasing prospective demand and favourable expectations for capitalists to invest. Such decisions, once made, have reinforced the boom in the business cycle, partially interrupted by the crisis downturn in 2008 which has required countercyclical policies managed by government and public banks in the following years[[10]](#footnote-10). The persistence of the currency appreciation trend, however, has started to put pressure on the current account balance and the industrial production, especially due to the rising import amounts both of final and intermediate goods[[11]](#footnote-11) (figure 3).

This previous discussion about macroeconomic domestic and international conditions within an institutional framework biased in favour of capital flows is essential to a better understanding of companies’ strategies to invest in Brazil over the last decades. Figure 5 clearly shows two cycles of foreign direct investments (FDI) in the Brazilian economy recently: one in the second half of the 1990s and another in the second half of the 2000s. The first occurred during the previously mentioned privatisation boom and the second during an economic growth recovery before the crisis. The amount invested in the country was expressively high, especially in the second period.

**Figure 5. Brazil: FDI inflows, 1990-2010**



Source: author’s calculations based on UNCTAD data, available at: http://unctadstat.unctad.org/.

A distinctive feature between both cycles, however, is related to the investment nature. Whereas most of the flows in the late 1990s only represented a capital ownership transfer through M&A processes, strong productive capital inward movement after 2005 was driven by greenfield investments (Rocha, 2011). This difference may also be noticed in a comparison with the new domestic capacity created in the country[[12]](#footnote-12) (figure 6). Despite being hard to distinguish the FDI contribution as a source of capital accumulation, it is possible to verify that: (a) in the beginning of the 1990s there was an increase in new productive capacity without significant FDI inflows; (b) in the late 1990s there was a reduction in physical investments proportionally to GDP although much more capital entered into the economy, which reinforces the M&A movement; (c) in the second half of the 2000s there was a recovery of domestic investments partially accompanied by increasing FDI inflows, which is a sign that new capacity creation was not only a result of foreign capital, but that most part of this capital followed a new directive of transnational corporations into the country, in order to expand their production and investment in a growing economy.

**Figure 6. Brazil: FDI inflows and Gross Formation of Fixed Capital as percentage of GDP, 1990-2009**



Source: author’s calculations based on UNCTAD and IBGE data, available respectively at: http://unctadstat.unctad.org/ and http://www.ibge.gov.br/home/.

There is another clear difference between both cycles: the sectoral direction of FDI inflows (table 1). The majority of such flows in the late 1990s were destined to services, basically public services after the government broke up its monopoly in sectors such as electricity and telecommunications in 1995. Privatisation was viewed as a way to supposedly improve efficiency of services offered by state enterprises and get funds to control public budget. Under a less restrictive framework for capital mobility, abundant foreign capital has played not only an important role in the privatisation wave, but also in M&A movements in the private sector[[13]](#footnote-13). It is worthwhile mentioning, additionally, the banking restructuring process in the period with the entrance of international banks in the economy by some acquisitions: HSBC bought a national private bank called Bamerindus in 1997 and Santander acquired Banespa, the public bank of the state of São Paulo, in 2000.

**Table 1. Brazil: FDI inflows by sector, 1996-2009 (%)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Sectors** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| **Agriculture, livestock and mining** | **1.4** | **3.0** | **0.6** | **1.5** | **2.2** | **7.1** | **3.4** | **11.5** | **5.3** | **10.2** | **6.1** | **14.8** | **29.6** | **14.7** |
| **Industry** | **22.7** | **13.3** | **11.9** | **25.4** | **17.0** | **33.3** | **40.2** | **34.9** | **52.8** | **29.8** | **39.3** | **36.1** | **31.9** | **39.2** |
| Food and beverages | 2.4 | 2.1 | 0.6 | 4.5 | 3.3 | 2.7 | 10.0 | 3.2 | 26.4 | 9.6 | 3.3 | 5.4 | 5.1 | 1.8 |
| Chemical products | 2.9 | 2.4 | 1.5 | 4.6 | 3.7 | 7.3 | 8.4 | 7.1 | 6.7 | 3.5 | 5.1 | 2.2 | 2.5 | 3.6 |
| Metallurgy | 0.4 | 0.0 | 0.5 | 0.4 | 0.8 | 2.0 | 0.7 | 2.7 | 4.0 | 1.4 | 7.7 | 13.9 | 11.4 | 12.4 |
| Electrical, electronic and commun. equipments | 1.3 | 2.2 | 1.8 | 5.4 | 2.5 | 7.2 | 5.4 | 4.0 | 2.6 | 2.9 | 2.5 | 1.6 | 1.1 | 2.2 |
| Automotive | 3.7 | 1.5 | 4.6 | 6.6 | 3.2 | 7.4 | 9.4 | 7.5 | 4.2 | 4.3 | 1.3 | 2.6 | 2.2 | 7.1 |
| Others | 11.9 | 5.1 | 2.9 | 3.8 | 3.5 | 6.6 | 6.4 | 10.4 | 8.9 | 7.9 | 19.4 | 10.4 | 9.7 | 12.0 |
| **Services** | **75.9** | **83.7** | **87.5** | **73.1** | **80.9** | **59.6** | **56.4** | **53.6** | **41.9** | **60.1** | **54.5** | **49.1** | **38.5** | **46.1** |
| Utilities | 21.2 | 23.2 | 9.5 | 10.8 | 9.9 | 6.9 | 8.2 | 5.0 | 5.8 | 7.3 | 10.5 | 1.8 | 2.1 | 3.2 |
| Retail and wholesale trade | 8.0 | 5.1 | 9.4 | 9.7 | 5.2 | 6.9 | 7.6 | 6.3 | 5.9 | 12.9 | 6.6 | 8.2 | 5.8 | 9.1 |
| Financial intermediation | 5.0 | 10.4 | 25.4 | 6.1 | 21.3 | 9.4 | 6.2 | 3.0 | 4.2 | 4.1 | 11.9 | 17.3 | 8.7 | 8.2 |
| Post and telecommun. | 8.0 | 5.4 | 11.0 | 29.4 | 36.5 | 19.6 | 22.3 | 21.8 | 14.7 | 8.8 | 5.5 | 0.9 | 1.0 | 1.0 |
| Others | 33.7 | 39.6 | 32.1 | 17.1 | 7.9 | 16.9 | 12.0 | 17.5 | 11.3 | 26.9 | 20.1 | 20.9 | 20.9 | 24.6 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **Total (US$ million)** | **7,665** | **15,311** | **23,271** | **27,572** | **29,876** | **21,042** | **18,778** | **12,902** | **20,265** | **21,522** | **22,231** | **33,705** | **43,886** | **30,444** |

Source: author’s calculations based on Brazilian Central Bank data, available at: https://www3.bcb.gov.br/sgspub.

Note: “others” include a miscellaneous assortment of activities. Figures for more representative activities are shown in the table. Data presented for investments over US$ 10 million in the year.

Given that in the 1990s the type of investment was concentrated on M&A in services, participation of industry in FDI inflows remained relatively low. This does not mean, however, that no real investments were carried out by companies. The price stability and a perspective of regional integration with the creation of Mercosur have also attracted investments to explore a potential consumer market. In the automobile industry, for instance, there was a movement to explore economies of scale and scope in the production between Brazil and Argentina with the new automotive regime. In addition, other global players such as Japanese and French companies (Honda, Toyota, Peugeot and Renault) have adopted a strategy to strengthen themselves (or definitely enter) in the domestic market conducing investments in new facilities.

Since 2000, industry has regained importance in FDI inflows even though services sectors in general have remained the main foreign investment receiver. Economic growth recovery may explain initiatives of transnational companies already established in Brazil to increase their capacity and attend prospective demand. Nonetheless, it should also be considered the international liquidity wave after 2003, which on the one hand was translated into some M&A movements, such as the merger between the Belgian Interbrew and the Brazilian Ambev in 2004[[14]](#footnote-14), and on the other hand contributed to a boom in commodity prices and a rising participation of primary sector in FDI inflows, mainly of oil, gas and mining sectors, simultaneously with a decrease in services share.

Last but not least, FDI-related income movements should be analysed, given the massive presence of transnational subsidiaries from developed countries in Brazil and their insertion in a global corporate strategy. Figure 7 shows the increasing services and income deficit trend during the 1990s and especially the 2000s. The largest deficit share has corresponded to income rather than services. A higher participation of services could be observed in the early 1990s and late 2000s. From the total income deficit, FDI-related income has remained not much expressive until 2004, reflecting the stronger participation of interests paid for portfolio capital in the income deficit. After 2007, however, FDI-related income has regained participation, representing more than a half of this deficit. The absolute majority of FDI-related income deficit was due to profit and dividend remittances, quite a different feature in relation to the 1990s when some combination between reinvested earnings and interests paid on intercompany loans was verified.

**Figure 7. Brazil: Income deficit details, 1990-2010**

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| --- | --- |
| **Services and income deficit in current account** | **FDI-related income deficit by category (%)** |

Source: author’s calculations based on Brazilian Central Bank data, available at: https://www3.bcb.gov.br/sgspub.

These observations are particularly important in rethinking the role of transnational corporations in the country. Engaged into their global strategy and benefited from the lack of capital controls, they promoted massive profit and dividend remittances from subsidiaries in emerging markets such as Brazil, which were profitable and in expansion, to headquarters in developed countries in order to offset big losses resulted from the crisis.

Furthermore, in some industries, such as the automobile industry, production in places such as Mexico was partially redirected to Brazil through increasing imports, given the U.S. stagnation, the fast demand recovery in Brazil, the Brazilian currency appreciation and the existence of a bilateral trade agreement between them to avoid import tariffs (ECLAC, 2009). Both movements have clearly contributed to put pressure on current account deficit (figure 2) and once again on prospective economic growth, since the macroeconomic regime remains based on the trick growth puzzle. Therefore, as country’s national interests and transnational corporations’ interests inside the country do not necessarily coincide, policy initiatives to manage them are required whenever a long-term national development strategy indeed exists. As Chang (2003c, p.269) points out:

“the current literature tends to regard the process of globalisation and the rise of TNCs as an unstoppable process that no one can control and in which nations, especially developing nations, are passive agents that will have to fully embrace this process or perish. However, such a view is misleading, since there is a lot of room for manoeuvre for national governments and since such room may even be increasing for some countries in some industries, especially with the recent aggressive expansion of some TNCs from East Asia [or, in general, from developing economies]. It would be a big mistake for a developing country to voluntarily give up all such room for manoeuvre by adopting a universally liberal FDI policy across all sectors. What is needed is a more differentiated and strategic approach to TNCs, which will allow host countries to intelligently ‘use’ TNCs for their long-term developmental purposes”.

**2. Emerging Brazilian transnational companies: a recent but still limited process**

Brazilian outward expansion is a much more recent phenomenon. Even after the economic openness in the early 1990s, there was no strong movement of Brazilian companies going global in that decade, probably as a consequence of a competitive need for assuring first their markets domestically. It is clear how the outward FDI stock has almost not changed during the 1990s, except for a slight increase in the last years, resulting in a marked drop in Brazil’s total world participation (figure 8). Some attempts, however, have been made, especially after the price stabilisation and the institutional framework to establish Mercosur. In the fiercer competitive environment, some companies have engaged into the internationalisation strategy mainly to conquer regional markets. Most of them concentrate their operations in Latin America and have quite often expanded themselves abroad through acquisitions (Fleury & Fleury, 2009).

**Figure 8. Brazil: Outward FDI flows and stock, 1990-2010**

|  |  |
| --- | --- |
| **FDI outflows** | **Outward FDI stock** |

Source: author’s calculations based on UNCTAD data, available at: http://unctadstat.unctad.org/.

Brazilian outward movement has been marked by some particular features. Firstly, in 2000s companies intensified their investments abroad not only in near regions, but also in developed economies. The process, however, still remains more characterised as a regional rather than a global internationalisation, in the sense companies continue investing above all in Latin America or, more specifically, Mercosur, where they have better market positions and can benefit from a favourable trade and investment institutional framework with partner countries. Secondly, most corporations have preferentially engaged into the internationalisation movement through M&A operations rather than greenfield investments, although construction of new facilities and joint venture partnerships were also observed (see appendix table).

Thirdly, Brazilian internationalisation process still relies on a small, although increasing, number of companies, among which there is a large disparity and polarisation (figure 9). In fact, the number of big businesses with a strong presence abroad is even more limited. Only a few, such as Petrobrás, Vale, Gerdau, Ambev[[15]](#footnote-15), Votorantim and Odebrecht, have presented both total sales and number of units abroad higher than the average. The great majority of companies, however, have shown similar size and number of international units, just below the mean.

**Figure 9. Distribution of Brazilian transnational corporations’ standardised size and number of units abroad before the crisis, 2007**



Source: author’s calculations based on data from Fleury & Fleury (2009) presented at the appendix table.

Note: from the appendix table, Braskem, Camargo Correa, Coopinhal, Duas Rodas, Metagal, Ibope and YKP were not considered due to the lack of either size or units abroad information. For variables size and number of units abroad, mean and standard deviation for the 41 remaining companies were, respectively, US$ 5,175 million and US$ 12,945 million and 14 units and 22 units.

UNCTAD (2009) also indicates a relatively limited number of Brazilian global giant players. Among the top 100 non-financial transnational corporations from developing countries[[16]](#footnote-16), there were only three from Brazil in 2007 (Vale, Petrobrás and Gerdau). This does not mean, however, the inexistence of other leading companies able to compete and, especially as a result of the crisis, to consolidate abroad[[17]](#footnote-17). They have international presence, but are concentrated in particular market niches, such as Embraer in the aircraft industry.

Finally, although Brazilian transnational companies operate in different sectors, most of them not closely related to each other, they are more concentrated in low-tech segments, expressed by the predominance of resource-based companies, basic input suppliers, construction enterprises and consumer goods producers. In fact, this reflects the previously stressed structure of national business. Only a few companies are equipment and component suppliers (most in automotive industry) and systems assemblers which involve a higher technological degree (e.g. Embraer and Marcopolo).

Given these characteristics of internationalised national groups, the sharp rise of Brazilian outward movement in the 2000s may be explained by a combination of interrelated international and domestic macroeconomic conditions, structural factors, competitive strategies and supportive measures for internationalisation. International liquidity and growing markets were inviting conditions for companies to expand their operations abroad both as an opportunity to produce near their customers and as a source of finance for their activities in international financial markets. In this sense, national currency appreciation trend has benefited them to raise foreign funds. Together with the decline of domestic interest rates, this movement has meant a structural change towards the reduction in the cost of credit[[18]](#footnote-18).

Another relevant feature is related to the boom in commodity prices. Given the abundance of natural resources in the country and the fact that many Brazilian large companies are resource-based, they could register huge gains and consequently intensify their consolidation process as global players.

It should be mentioned, additionally, the shift in governmental orientation towards the expansion of companies activities abroad. Despite no deliberate policy focused on supporting specific sectors, there has been at least a recognition that having large national corporations able to compete globally is a decisive component to attenuate country’s external vulnerability to international market conditions in a more liberalised world where competition is not limited to national boundaries anymore. Consequently, supportive initiatives to companies’ internationalisation have become a governmental concern[[19]](#footnote-19).

In 2002 BNDES created a credit line to support the outward process of domestic corporations[[20]](#footnote-20). The bank also established an office in Montevideo and a subsidiary (BNDES Limited) in London in 2009 as an effort to enlarge its operations in regional and international markets. The expansion of such supportive initiatives was conditioned by the improvement in external accounts, i.e. the elimination of the balance of payments constraint through current account surpluses obtained after 2003 (figure 2) and the accumulation of international reserves (figure 3). This fact reveals the importance of managing the balance of payments in order to avoid discontinuities in conditions and policies necessary for the internationalisation process.

However, governments should be aware of not promoting an “undesirable internationalisation”, once companies could start investing and producing elsewhere as a response to domestic unfavourable competitive and macroeconomic policies, such as appreciated exchange rate, inadequate internal finance conditions and high tax burden. In such a case, they would prefer to expand their operations abroad rather than domestically, causing a fall in national production, employment and income levels. In the internationalisation process governments should promote there is neither a crowding out movement between domestic and international production nor the suppression of national productive basis (in other words, a deindustrialisation process), but on the contrary a consolidation and competitive expansion of corporations’ activities, requiring that policies be inserted into a coordinated national development plan.

It is difficult to assess in which extent Brazil has experimented or not an “undesirable internationalisation”, more probable to occur towards closer and trade partner countries such as Argentina, but it should certainly be a governmental concern, especially given some unfavourable macroeconomic conditions. In addition, if on the one hand the context of international economic crisis gives the opportunity for large and competitive companies from emerging economies to expand themselves abroad, mainly through acquisitions, on the other hand it requires an increase in domestic finance and thus in governmental support to sustain the outward movement.

**Concluding remarks**

The discussion presented in this paper raised some central issues of the nature of foreign inward investments and the recent increasing expansion of national companies abroad, especially regarding the Brazilian development trajectory over the last two decades. On the one hand, there was a remarkable shift in FDI inflows into the country from a M&A movement focused on services mainly as a result of the privatisation boom in the 1990s to more productive investments given the economic growth recovery between 2004 and the emergence of the global economic crisis. On the other hand, despite the still limited number of large Brazilian companies at global level, there was a rising internationalisation process of these corporations over the last years.

The approach adopted in this paper highlights the understanding of both movements in the light of domestic economic policy reorientation that together with changing international economic conditions influence corporate strategies and their investment decisions. During the 1990s neoliberal reforms towards economic openness were implemented and a clear free market biased framework regarding economic policy was dominant. Capital mobility was thus encouraged in full, exposing the country to external vulnerabilities. In 1999, immediately after the Brazilian currency crisis, a new but also orthodox macroeconomic regime was adopted.

After 2004, however, favourable international economic conditions – such as the liquidity recovery, the increasing Chinese demand and a rise in commodity prices – together with a more developmental view in the government to promote growth and equity as policy counterbalances created room for the beginning of structural changes. Current account surpluses and the accumulation of international reserves as a shield against external shocks were decisive to the adoption of supportive internationalisation measures taken under the recognition of the need for promoting large companies able to compete abroad. A reduction in the cost of credit has also contributed to strengthen company finances and let them go global – inclusive through acquisition opportunities opened during the economic crisis – as well as to boost consumption and investment, thus achieving higher growth rates, a pull factor for foreign investments in new productive capacity.

Nevertheless, some challenges, which are further aggravated by the developments of the international crisis, arise from both inward and outward processes to the domestic recovery of a sustained development trajectory. Firstly, negative effects of possible corporate rearrangements in worldwide or regional production networks could be mentioned on: (a) country’s external accounts, when there are intense profit and dividend remittances under the global corporate strategy and increasing imports to take advantages from local markets in expansion; (b) national productive basis, when an “undesirable internationalisation” occurs as a result of domestic push factors (e.g. adverse macroeconomic conditions) or when national production starts to be substituted by imports from elsewhere in order to meet a rising domestic demand.

Secondly, there is a concern about the direction of macroeconomic policies – especially the trend in foreign exchange and interest rates – and the balance of payments management, in order to avoid constraints that may lead either economic growth or internationalisation supportive measures to be aborted. Foreign exchange and interest rates are key macroeconomic prices that together with sector specific competitiveness conditions influence businessmen decisions to invest, so that policies addressing their level and stability are central to encourage them to take such a long-term decision. Under the developments of the international crisis, however, the management of these policies has proved to be more difficult and a rising lack of confidence of businessmen has been observed, therefore resulting in lower economic dynamism.

Thirdly, the nature of the Brazilian outward movement becomes another central issue, once it is characterised as relatively concentrated in near economies and above all low-tech segments with low spillovers in the economic structure despite the existence of some sector and market diversification. In the context of the international crisis, some opportunities arise in terms of foreign acquisitions. However, it does not seem to be the general case for most Brazilian companies as they are facing as well fierce competition domestically from imported goods. Additionally, the quick deterioration of external accounts recently has become a grave governmental concern and so has reduced the impetus for internationalisation supportive measures.

In the face of these challenges posed by both inward and outward movements, state intervention is required in order to combine contrasting interests between transnational corporations and the country as well as to restore both economic growth and internationalisation processes necessary to achieve a sustained development pattern at international level. Hence, the way the state handles capital and trade flows, especially whether inserted into a clear and broad national development plan less vulnerable to changes in conjuncture, becomes a crucial determinant of the development trajectory the country can follow given the international economic dynamics.

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**Appendix table. Brazil: Companies operating abroad before the crisis, 2007**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Company** | **Sector** | **Size (sales in US$ million)** | **First export** | **First plant abroad** | **Units abroad** | **Countries (sequence)** | **Mode of entry (sequence)** |
| *Manufactured goods* |  |  |  |  |  |  |  |
| Ambev | Beverage | 14,400 | 1979 | 1993 | 35 | LA, USA, EU | Acq, JV |
| Artecola | Auto parts, shoes | 120 | - | 2000 | 5 | LA, USA, EU | JV, Acq |
| Busscar | Bus assembly | 260 | - | 1999 | 9 | LA | Acq, JV |
| Braskem | Chemicals | - | - | 2006 | 2 | LA | JV |
| Camargo Correa | Cement and engineering | 4,000 | - | 2003 | - | LA | Acq |
| Cinex | Furniture | 15 | - | 2002 | 2 | LA | GF |
| Citrosuco | Beverage | 312 | - | 1997 | 1 | USA | Acq |
| Coopinhal | Coffee | - | - | 2006 | 1 | Russia | JV |
| Coteminas | Textile | 550 | 1997 | 1997 | 11 | USA | JV, Acq |
| CSN | Steel | 5,500 | 1977 | 2001 | 9 | USA, EU | Acq |
| Cutrale | Orange juice | 1,000 | - | 1990 | 1 | USA | Acq |
| Duas Rodas | Food | - | - | 1997 | 3 | LA | GF |
| Duratex | Construction materials | 692 | 1957 | 1995 | 10 | LA, EU | Acq |
| Embraco | Compressors | 590 | 1980s | 1994 | 6 | EU, Asia | Acq |
| Embraer | Aircraft | 3,906 | 1975 | 1979 | 3 | China, EU | JV, Acq, GF |
| Friboi | Food | 11,500 | 1997 | 2005 | 6 | USA, LA, EU, ME | Acq |
| Gerdau | Steel | 14,000 | 1980 | 1980 | 63 | LA, USA, EU, India | Acq, GF |
| Guerra | Trucks | 80 | 1993 | 2005 | 1 | LA | GF |
| H. Stern | Jewelry | 200 | - | 1955 | 80 | LA, EU, ME | GF, JV |
| Ipiranga | Oil and gas | 10,000 | - | 1995 | 4 | LA | JV, GF |
| Klabin | Paper | 1,500 | 1970s | 1996 | 1 | LA | GF |
| Marcopolo | Bus assembly | 843 | 1961 | 1991 | 9 | South Africa, LA, EU, China | JV, GF, Acq |
| Metagal | Auto parts | - | - | 1996 | 1 | LA | - |
| Metalcorte | Electric engines | 180 | - | 2005 | 1 | LA | Acq |
| Metalfrio | Refrigeration | 300 | - | 2005 | 4 | EU, USA | Acq |
| Natura | Cosmetics | 1,600 | - | 1981 | 6 | LA, EU | GF |
| Oxiteno | Chemicals | 2,205 | 1990s | 2003 | 6 | LA | Acq |
| Perdigão | Food | 3,000 | 1976 | 1990 | 4 | ME, EU, LA | JV, GF |
| Petrobrás | Oil | 79,120 | - | 1972 | 100 | LA, Africa, USA | Acq |
| Random | Trucks | 1,900 | 1973 | 1994 | 7 | LA | GF |
| Sabó | Auto parts | 170 | 1975 | 1992 | 9 | LA, EU, USA | Acq, GF |
| Sadia | Food | 4,100 | 1967 | 1991 | 10 | EU, LA, ME, Japan | JV, Acq |
| Santista | Textile | 365 | 1994 | 1995 | 8 | LA, EU | Acq, JV |
| Smar | Industries solutions | 80 | 1989 | 1988 | 7 | LA, EU | GF |
| Tigre | Construction materials | 850 | - | 1977 | 6 | LA | GF, Acq |
| Tramontina | Tools and house supply | 700 | - | 1986 | 10 | USA, ME | GF |
| Vale | Mining | 23,350 | 1949 | 1984 | 52 | USA, EU, China | Acq, GF |
| Votorantim | Mining | 1,750 | - | 2004 | 1 | LA | Acq |
| Votorantim | Cement | 11,500 | 1970 | 2001 | 29 | Canada, USA | Acq, JV |
| Weg | Electric engines | 1,500 | 1980s | 1995 | 12 | LA, EU, China | Acq |
| *IT and services* |  |  |  |  |  |  |  |
| CI&T | Business intelligence | 150 | - | 2006 | 2 | USA, EU | GF |
| Andrade Gutierrez | Engineering and construction | 2,150 | - | 1980 | 11 | LA | GF, Acq |
| Atech | IT | 50 | - | 1997 | 1 | USA | GF |
| Datasul | Business intelligence | 95 | 1993 | 2001 | 4 | LA | GF |
| Ibope | Telecommunication | - | - | 1991 | 16 | LA | JV, GF |
| Odebrecht | Engineering and construction | 11,322 | 1979 | 1979 | 14 | LA, Africa, EU | Acq, GF |
| Politec | Business intelligence | 250 | - | - | 2 | USA, Japan | GF, Acq |
| YKP | Business intelligence | 18 | - | - | - | LA | JV |

Source: Fleury & Fleury (2009).

Note: EU = European Union; LA = Latin America; ME = Middle East; Acq = acquisition; JV = joint venture; GF = greenfield plant.

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2. Available at: http://unctadstat.unctad.org/. [↑](#footnote-ref-2)
3. CSN, Embraer and Vale were created in 1941, 1969 and 1942, and privatised in 1993, 1994 and 1997, respectively. Petrobrás, in its turn, was founded in 1953 and remains state-owned in spite of being a public company (Fleury & Fleury, 2009). [↑](#footnote-ref-3)
4. Expression coined by Williamson (1989) to express the neoliberal economic approach on which recommendation policies of multilateral organisms, such as the World Bank and the International Monetary Fund (IMF), were based. [↑](#footnote-ref-4)
5. See Keynes (1936). [↑](#footnote-ref-5)
6. See Schumpeter (1912). [↑](#footnote-ref-6)
7. This was particularly true after 1964 when a modernisation of Brazilian financial system was promoted and the indexation mechanism was implemented, a common way to make non-operating profits by banks and companies investing in financial markets during the highly inflationary period in the 1980s. [↑](#footnote-ref-7)
8. Most remarkable financial crises during the 1990s were Mexican, Asian, Russian and Brazilian crises. [↑](#footnote-ref-8)
9. In a large extent, tariff barriers were reduced, financial markets deregulated, capital inflows allowed, companies privatised and public expenditures controlled (Belluzzo & Almeida, 2002). [↑](#footnote-ref-9)
10. For instance, tax reduction on goods produced by some sectors, such as auto industry and construction, credit expansion by public banks to programmes related, for example, to construction and by BNDES in order to reanimate private confidence and promote a financial restructuring of some companies involved in derivatives losses during the crisis. [↑](#footnote-ref-10)
11. It is not by chance that the government has adopted tax measures trying to control capital inflows to the country, especially regarding foreign exchange derivatives markets. [↑](#footnote-ref-11)
12. Palma (2013) shows that for Latin America in general the massive capital inflows over the last two decades of economic liberalisation has not resulted in significant increases in productive investments. [↑](#footnote-ref-12)
13. There were striking evidences of this “denationalisation process” in the automotive industry with cases such as Metal Leve sold to Mahle and other companies (Varga, Nakata and Cofap) acquired by foreign capital (Fleury & Fleury, 2009). [↑](#footnote-ref-13)
14. InBev then acquired North American Anheuser-Busch in 2008 by US$ 52 billion to form ABInBev, the world’s leading brewer (UNCTAD, 2009). [↑](#footnote-ref-14)
15. After Ambev’s merger with Interbrew, it is quite difficult to assess the origin of capital. In fact, the new company is normally considered as Dutch capital. This is a common problem that arises when boundaries to capital are diminished and M&A operations take place. [↑](#footnote-ref-15)
16. Ranking mostly dominated by Asian corporations. Companies ranked both by foreign assets and the transnationality index, an average of foreign assets, sales and employment to their respective totals. [↑](#footnote-ref-16)
17. It could be mentioned, for instance, JBS-Friboi and Marfrig as big internationalised groups in food sector, whose positions were reinforced through acquisitions during the crisis (Valor Econômico, 2010; Valor Econômico, 2011). [↑](#footnote-ref-17)
18. This has represented an opportunity to expand business abroad, inclusive through M&A, among many other alternatives of wealth allocation. [↑](#footnote-ref-18)
19. Before this change in perception, companies were basically “investing abroad on their own accord without support of the government – in contrast, for example, to Chinese firms [...]” (Sauvant, 2005, p.660). This relative lateness of policy reorientation may help to explain differences between countries and the still limited internationalisation process of Brazilian corporations in relation to other international experiences, especially from Asia. [↑](#footnote-ref-19)
20. Within BNDES Finem, there is a credit line offered by the bank for projects of implementation, expansion or modernisation of facilities abroad over R$ 10 million. More details available at: http://www.bndes.gov.br/. The first operation using this credit line was a loan of US$ 80 million to JBS-Friboi to acquire more than 80% of Argentinian Swift Armour capital in 2005. In 2010 approvals to this internationalisation programme reached R$ 2.6 billion and total spending, R$ 3.8 billion (Valor Econômico, 2011). [↑](#footnote-ref-20)