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Brazilian Emerging Multinationals: In Search of a Second Wind

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In Search of a Second Wind

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Abstract

This paper is the second of three working papers looking at the role and projection of Brazil as an emerging global power[1]. Is Brazil's rise on the global stage barely beginning, or has it already hit a plateau, held back by numerous domestic challenges and the external constraints of the global governance system? In this second paper we examine Brazil's emerging multinational companies, which constitute one of the most visible aspects of the country's economic hard power.

BRAZILIAN COMPANIES GOING GLOBAL

Brazilian companies are often considered to have only a modest record when it comes to internationalization. Because of the large size of their domestic market and the immediate availability of natural resources at home, Brazilian firms claim to have had little incentive to expand their activities globally, except as a risk-diversification tactic against the country's once endemic domestic economic instability.

The boom in outward investment from 2002 to 2009 marked an important shift in corporate Brazil's attitude towards global markets. In just a few years, meatpackers JBS and Marfrig have propelled the country to a dominant force in the global beef industry. The jet manufacturer Embraer is regularly cited as a prominent example of an emerging-market company, which had taken a lead in a highly competitive and technology-intensive sector. Brazilian brands have started to spread internationally, such as Havaianas, whose flip-flops are a fashion statement world-wide.

This working paper explores the universe of Brazilian multinational companies. Who are the most active Brazilian players in the global market and how "multi-national" are they? What are their motives for expanding globally, and what are the remaining challenges they need to overcome in order to keep conquering new markets? We first present a panorama of the current standing of Brazil's multinational companies based on the most recent corporate rankings published by research institutions and the business press. We then look at the main driving forces behind their globalization, as well as the various obstacles they face on the long road to becoming world-class players or consolidating their position as such.

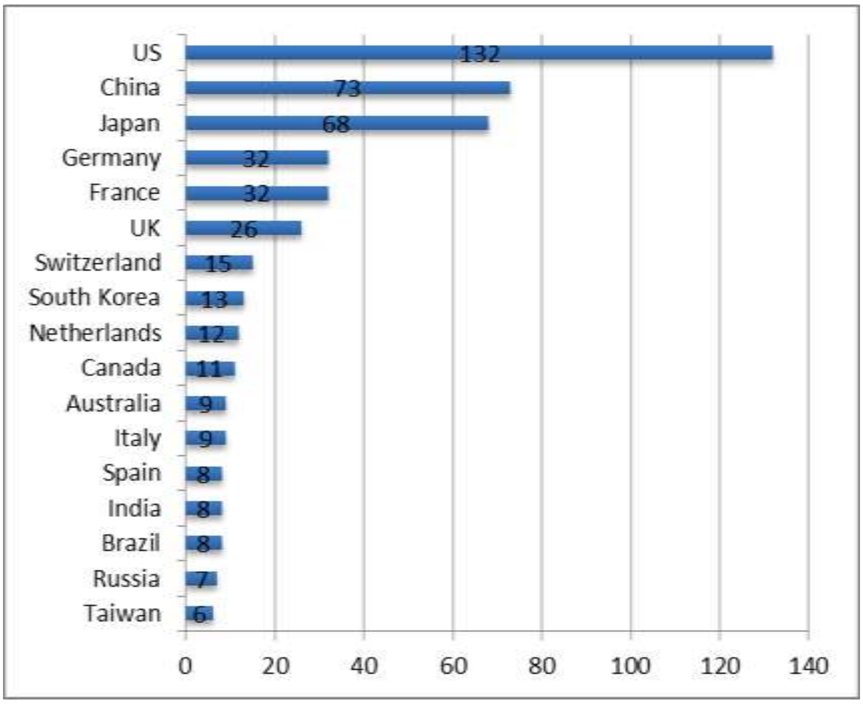
Why is it important for a country to have multinational companies? While small and medium-sized enterprises constitute the backbone of any economy and are responsible for creating jobs, the presence of large companies that operate globally provides an invaluable source of research, growth, knowledge and innovation for their home countries. Not only do multinational companies bring significant tax revenues, they also help local suppliers connect with global production chains and contribute to improving their "country brand", which ultimately benefits all sectors of the economy. Large companies also have the deep pockets needed to invest in research and development. Furthermore, a country's multinationals often represent one of the most visible aspects of its economic hard power. As Brazil seeks to play a more influential role in global political affairs, the active operations of Brazilian companies on a worldwide scale provide a source of economic leverage and prestige through which the country can acquire and wield power in international relations.

I. ARE BRAZILIAN MULTINATIONALS BIG AND NUMEROUS ENOUGH?

Brazil still lagging behind its peers

"It is time for Brazilian businessmen to abandon their fear of becoming multinational businessmen," urged former Brazilian President Lula da Silva while addressing the Portuguese Industrial Association in 2003.[2] Ten years later, looking at the current standing of Brazilian firms in the annual Global Fortune 500 ranking, it is hard to tell whether Lula's vision has been fulfilled or not. On the one hand, Brazil has made an important breakthrough with a total number of 8 firms among the world's top 500 companies (by revenues) in 2012, compared to only 3 in 2005 (*see Table 1 and Chart 1*). It is well ahead of Mexico (3 firms), stands on equal terms with India (8 firms) and is slowly catching up with South Korea (13 firms). Closer to home, Brazil outshines its Latin American neighbors (*see Table 2*).

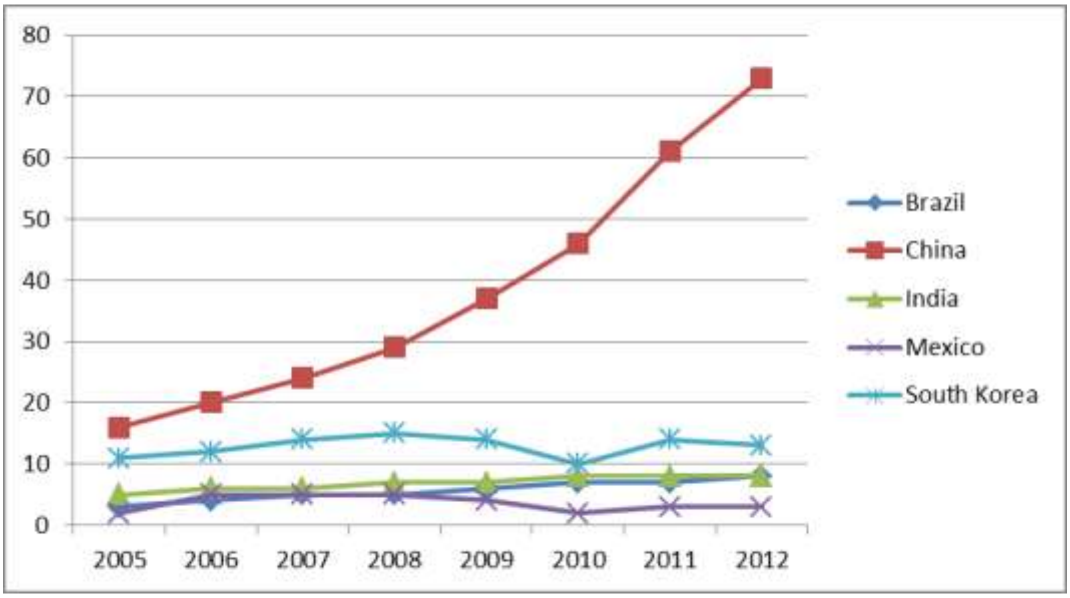
Table 1: Number of companies listed in the 2012 Global 500 ranking Fortune (July 2012)



Source: Authors based on data from Fortune Global 500 (2012 edition)[3]

Chart 1: Year-on-year evolution of the number of companies listed in the annual Global 500 ranking of Fortune (July 2012)

[2] http://unctad.org/en/docs/webiteiia200416_en.pdf [Accessed: 10 April 2013]
[3] http://money.cnn.com/magazines/fortune/global500/2012/full_list/ [Accessed: 10 April 2013]



Source: Authors based on data from Fortune Global 500 (2012 edition)

Table 2: Largest Latin American firms according to the 2012 Global 500 ranking of Fortune

Rank '12	Company	Ownership[3]	Revenues ($ Millions)	Country
23	Petrobras	Government	145,915	Brazil
34	Pemex	Government	125,344	Mexico
36	PDVSA	Government	124,754	Venezuela
88	Banco do Brasil	Government	81,887	Brazil
136	Banco Bradesco	Public	65,137	Brazil
159	Vale	Public	58,990	Brazil
176	América Móvil	Family/Public	53,510	Mexico
286	JBS	Family/Public	36,921	Brazil
303	Ecopetrol	Government	35,520	Colombia
311	Itaúsa-Investimentos Itaú	Family/Public	34,701	Brazil
380	Ultrapar Holdings	Family/Public	29,073	Brazil
399	Brazilian Distribution (CBD)	Family/Public	27,839	Brazil
483	CFE	Government	20,143	Mexico

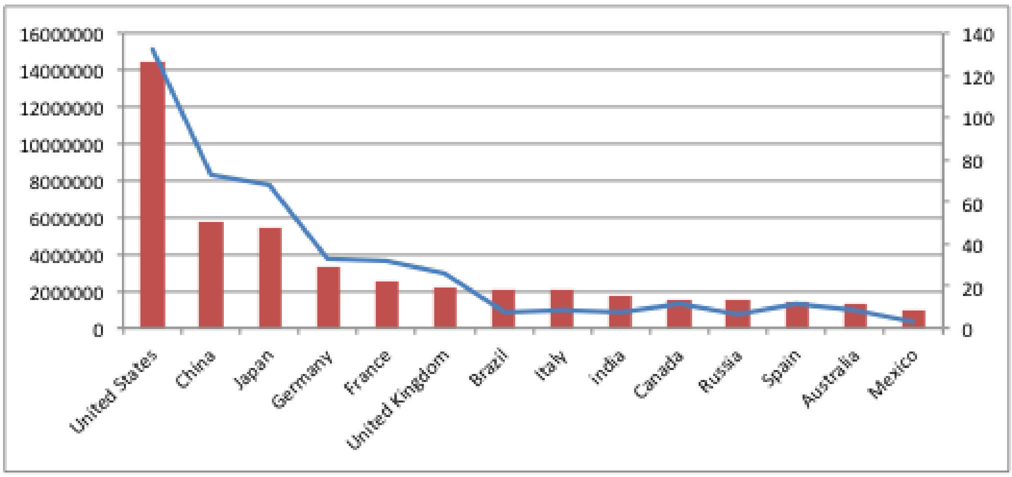
Source: Authors based on data from Fortune Global 500 (2012 edition)

On the other hand, Brazil's performance pales by comparison with the spectacular incursion of Chinese firms, whose total number in the Global Fortune 500 ranking increased six-fold since 2005 to reach 73 in 2012. When compared with other countries of similar economic weight, Brazil also lags behind (*see Chart 2*). Brazil was the world's sixth largest economy in 2011, according to the World Bank[4]. However, with 8 companies among the 500 largest companies in the world, it ranks only 13th in terms of total number of companies ranked per country. By contrast, the United Kingdom, with a nominal GDP roughly equal to that of Brazil, is home to no

[4] Depending on the value of the Brazilian Real (one of the currencies which has revaluated the most with respect to the US Dollar in the last two years), Brazil's economy is the 6th or the 7th biggest in the world.

less than 26 Global 500 companies. With a GDP 25% smaller than that of Brazil, India is already on a par with the Latin American giant, with a total of 8 companies in the ranking.

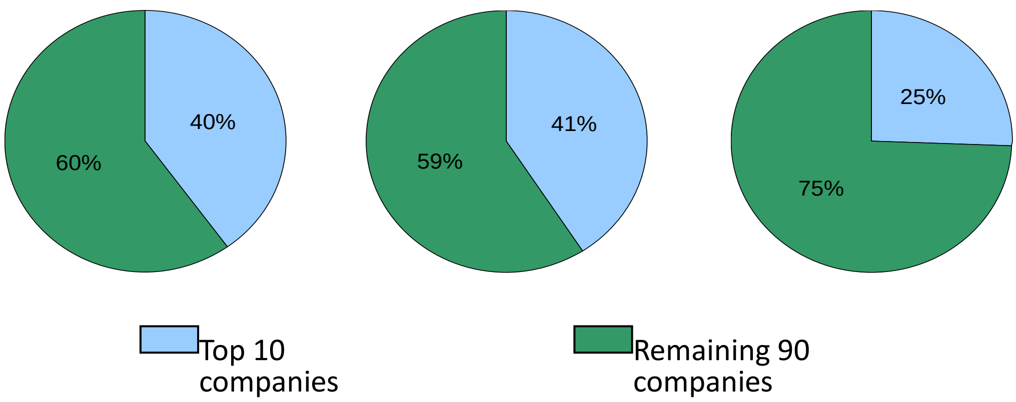
Chart 2: Nominal GDP and number of Fortune Global 500 per country



Source: Lourdes Casanova with data from World Bank and Fortune Global 500 (2012 edition)

Another way to reflect on the relative scarcity of large Brazilian companies is to look at the concentration of wealth within the country's corporate sector. In 2012, the ten largest Brazilian companies accounted for 40% of the accumulated revenues of the country's top 100 firms, signaling the fact that the biggest Brazilian companies concentrate a lot of power with respect to the rest. At the world level, the ten largest companies accounted for only 25% of the top 100 corporate revenues (*see Chart 3*). In other words, the performance in global corporate rankings of a handful of very large firms such as Petrobras and Vale should not hide the relatively thinner presence of average-sized Brazilian multinational companies.

Chart 3: Concentration of corporate revenues in Brazil, Latin America and the world



Source: Authors based on data from Revista Exame, América Economía, Fortune Global 500 (2012 editions)

The largest Brazilian firms are not necessarily the most global

The demographics of leading Brazilian companies broadly mirror the relative strengths of the Brazilian economy. Among the 8 Brazilian firms listed in the 2012 Global Fortune 500 ranking, three are financial institutions (Banco do Brasil, Banco Bradesco, and Itaúsa, a holding company which controls Itaú Unibanco), two are from the extractive sector (Petrobras and Vale), one is a food processing company (JBS), and the latest entrant is a retailer (Grupo Pão de Açúcar). This make-up largely echoes Brazil's economic projection as a regional financial center, a natural resource powerhouse, a large-scale food exporter, and a booming domestic consumer market.

Corporate rankings come in many forms. Some evaluate companies on the basis of their revenues or sales, others on their market capitalization. Whatever criteria are chosen, the semi-public energy giant Petrobras is undisputedly Brazil's largest company. The state-controlled Banco do Brasil is the country's largest bank (*see Table 2 and 3*).

Table 3: Brazil's largest non-financial companies by sales

Rank	Company	Sector	Sales (in millions US dollars, 2011)
1	Petrobras	Oil and gas	130.172
2	Vale	Mining	55.014
3	Petrobras Distribuidora	Oil and gas	39.654
4	Odebrecht	Multisector	33.659
5	JBS Friboi	Food	32.944
6	Ultrapar	Oil and gas	25.942
7	CBD - Grupo Pão de Açúcar	Retail	24.840
8	Ipiranga	Oil and gas	22.461
9	Gerdau	Metals	18.876
10	Braskem	Petrochemicals	17.686
11	Eletrobras	Energy	17.625
12	Telesp	Telecommunications	15.529
13	Carrefour	Retail	15.333
14	Volkswagen	Automobile	15.039
15	Telemar	Telecommunications	14.877

Source: América Economía (2012)[5]

The examination of corporate rakings nonetheless comes with an important caveat. Not all big companies qualify as *multinational* companies to the same extent. Some of the firms listed in the Global Fortune 500 ranking may be very large in terms of revenues and number of employees, but have a limited presence in overseas markets. This is the case of several financial services and

[5] http://rankings.americaeconomia.com/2012/las-500-empresas-mas-grandes-de-america-latina/las-50-mayores-de-brasil.php [Accessed: 20 April 2013]

insurance institutions whose activities focus predominantly on their domestic markets. Therefore, to get an accurate picture of the rise of Brazilian firms in the global marketplace – and of their capacity to compete internationally – it is important to complement the analysis with other rankings and indices that integrate the global footprint of firms in their overall evaluation.

In 2010, the Sociedade Brasileira de Estudos e Empresas Transnacionais e da Globalização Econômica (SOBEET), a Brazilian think-tank, and the Vale Columbia Center on Sustainable International Investment (VCC) published a study on 30 listed Brazilian multinationals. According to the study, in 2009 Vale was the Brazilian company with the largest foreign assets abroad, at nearly US$ 35 billion. It alone accounted for about 40% of total foreign assets held by the top 30 Brazilian companies (*see Table 5*). With almost US$ 14 billion of foreign assets, the steel company Gerdau, which never qualified for the Global Fortune 500 ranking, was closely behind the energy giant Petrobras (US $16 billion).

Table 5: Ranking of non-financial Brazilian companies by foreign assets, 2009

Rank	Company	Sector	Foreign assets (in millions of US dollars)
1	Vale	Mining	34,934
2	Petrobras	Oil and gas	15,937
3	Gerdau	Steel	13,916
4	Votorantim	Conglomerate	7,809
5	JBS-Friboi	Food	5,296
6	Camargo Corrêa	Conglomerate	2,161
7	Marfrig	Food	1,529
8	Ultrapar	Oil and gas	1,514
9	Embraer	Manufacturing	1,378
10	Weg	Manufacturing	509

Source: SOBEET and Vale Columbia Center[6]

Another authoritative source is the Transnationality Ranking of Brazilian Companies published every year by the Fundação Dom Cabral (FDC), based in Belo Horizonte in the state of Minas Gerais.[7] According to the 2012 edition of the ranking (*see Table 6*), Brazil's most internationalized company is the food processing company JBS-Friboi, followed by Gerdau, the

[6] http://www.vcc.columbia.edu/files/vale/documents/EMGP-Brazil-Report-2010-Final.pdf. [Accessed: 10 April 2013]

[7] The Transnationality Ranking of Brazilian Companies assesses the level of internationalization of Brazilian firms based on three indicators: percentage of revenues of foreign subsidiaries with respect to total revenues, percentage of foreign assets with respect to total assets, and percentage of foreign employees with respect to the total number of employees. To establish its ranking, FDC focuses on corporations with "physical presence abroad", using the following criteria: commercial offices, distribution centers, production and assembly unit, services, research and development with constant personnel abroad, and banking agencies.

largest steel producer in Latin America, and the software company Stefanini IT Solutions. With 140 production units worldwide, JBS-Friboi is the firm with the highest percentage of employees abroad, and the highest ratio of foreign revenues to total revenues. Stefanini IT Solutions has the highest ratio of foreign assets to total assets. Vale, for its part, has the strongest international foothold, with subsidiaries in 38 countries outside Brazil (*see Table 7*).

Table 6: Most internationalized Brazilian companies

Rank 2012	Company	Index	Rank 2012	Company	Index
1	JBS_Friboi	0.538	26	Petrobras	0.082
2	Gerdau	0.516	27	Minerva	0.065
3	Stefanini IT Solutions	0.464	28	Bematech	0.045
4	Metalfrio	0.452	29	Banco do Brasil	0.043
5	Marfrig	0.444	30	BRQ IT Services	0.040
6	Ibope	0.438	31	Alusa	0.036
7	Odebrecht	0.424	32	Bradesco S.A.	0.034
8	Sabó	0.363	33	Ultrapar	0.033
9	Magnésia	0.361	34	Gol	0.030
10	Tigre	0.298	35	Randon	0.024
11	Suzano Papel e Celulose	0.283	36	Eliane	0.024
12	Vale	0.278	37	Totvs	0.020
13	Weg	0.246	38	Tam	0.020
14	Brasil Food	0.238	39	DHB	0.012
15	Ci&T	0.195	40	Porto Seguro	0.008
16	Artecola	0.194	41	Oi	0.004
17	Embraer	0.173	42	Tegma	0.003
18	Camargo Corrêa	0.165	43	Seculus	0.002
19	Marcopolo	0.149	44	Cemig	0.001
20	Agrale	0.130	45	Portobello	0.001
21	Andrade Gutierrez	0.123	46	Eletrobras	0.000 [2]
22	Natura	0.119	47	M. Dias Branco	0.000 [2]
23	Cia Providência	0.107			
24	Itaú - Unibanco	0.100			
25	América Latina Logística	0.091			

Source: 2012 Transnationality Index of the Fundação Dom Cabral[8]

Table 7: Ranking of Brazilian companies by number of countries with subsidiaries

[8] http://www.fdc.org.br/pt/Documents/2012/ranking_transnacionais_brasileiras2012.pdf [Accessed: 10 April 2013]

Rank 2012	Company	Number of countries[1]
1	Vale	38
2	Stefanini IT Solutions	26
3	Odebrecht	25
4	Banco do Brasil	24
5	Marfrig	21
	Weg	21
6	Brasil Foods	20
	Marcopolo	20
7	Gerdau	19
8	Magnesia	18
9	Andrade Gutierrez	17
	Camargo Corrêa	17
	Itaú - Unibanco	17
10	JBS-Friboi	16

Source: 2012 Transnationality Index of the Fundação Dom Cabral

The Transnationality Ranking offers some intriguing revelations. Metalfrio, one of the world's largest manufacturers of commercial refrigeration equipment, has now become the fourth most internationalized Brazilian company. This performance is the result of a series of acquisitions in Turkey, Russia and the United States over the years. With total sales of less than US$ 500 million in 2012, Metalfrio is, however, largely absent from corporate rankings based on company size. Conversely, Petrobras, Brazil's largest company, ranks only 26th in the 2012 Transnationality Ranking. In other words, the biggest Brazilian companies are not necessarily very internationalized, while the most internationalized Brazilian companies are not necessarily very big.

Brazilian companies are increasingly investing outside their natural markets

The year 2006 was a turning point for the Brazilian economy. For the first time, total outflows of foreign direct investment (FDI) outweighed total inflows into Brazil, which themselves reached record levels in the mid-2000s. From 2000 to 2003, outward FDI from Brazil averaged less than US$ 1 billion a year. Over the four-year period 2004-2008, this average jumped to nearly US$ 14 billion.[9] Such prowess was largely seen as evidence of the take-off of Brazilian multinational companies and their increasingly active presence in global markets. Until 2009, Brazil had the largest stock of outward FDI from all emerging countries. Its FDI outflows started going down in 2009, most likely in response to the world-wide economic and financial crisis. The total outflows

[9] SOBEET and Columbia Vale Center (2010), *Brazil multinationals positive after the global crisis*, http://www.vcc.columbia.edu/files/vale/documents/EMGP-Brazil-Report-2010-Final.pdf [Accessed: 25 April 2013]

were negative in 2009 and 2011 due to the repatriation of capital, mainly through intra-firm lending by foreign affiliates of Brazilian multinational enterprises (MNEs) to their parent firms.[10]

What are the main destinations of Brazil's outward FDI? Numerous studies have highlighted the strong Latin American focus of Brazilian firm's international activities. Before expanding to industrialized markets or other emerging markets, Brazilian companies have traditionally begun by establishing operations in their natural markets: countries from their immediate geographical neighborhood. This is a far cry, however, from saying that Brazilian companies dominate Latin American markets. For example, only a handful of Brazilian multinationals (e.g. Gerdau, Odebrecht, Samot) have established a major presence in Mexico, the second biggest economy of the continent. In the meantime, several Mexican companies (e.g. Grupo Carso, Telmex, América Móvil, Bimbo, Homex, Cinepolis) have made significant investments in Brazil. It is interesting to note that between 2005 and 2010 Mexico's FDI in Brazil represented US$4.7 billion, while over the same period Brazil invested only US$684 million in Mexico (ECLAC 2012). While Brazil is double the size of the Mexican economy, its investments in Mexico are only 15% of those of Mexico in Brazil.

According to a study by the Vale Columbia Center based on data from the Central Bank of Brazil and UNCTAD,[11] the Americas region[12] accounted, on average, for 79% of all FDI stock from Brazil between 2001 and 2008, followed by Europe (21%). The last few years have witnessed a relative decline in outward FDI stock in Latin America and the Caribbean, coupled with an expansion in Europe and the United States.

It is worth noting, however, that the top destinations of Brazilian FDI in the period 2001-2010 were jurisdictions in the Caribbean that are generally known as tax havens, such as the Cayman Islands (34%), the British Virgin Islands (11%) and the Bahamas (10%). Some European countries such as Austria, the Netherlands and Luxembourg have also been used by Brazilian companies to settle subsidiaries or special purpose entities through which they channel their outward investments. This practice has been widely construed as a way for Brazilian firms to reduce their tax burden and bypass domestic regulations. As a consequence, the exact geographic distribution of Brazilian outward FDI is difficult to assess since Brazilian companies often use intermediary vehicles located in deregulated jurisdictions to make their investments in third countries.

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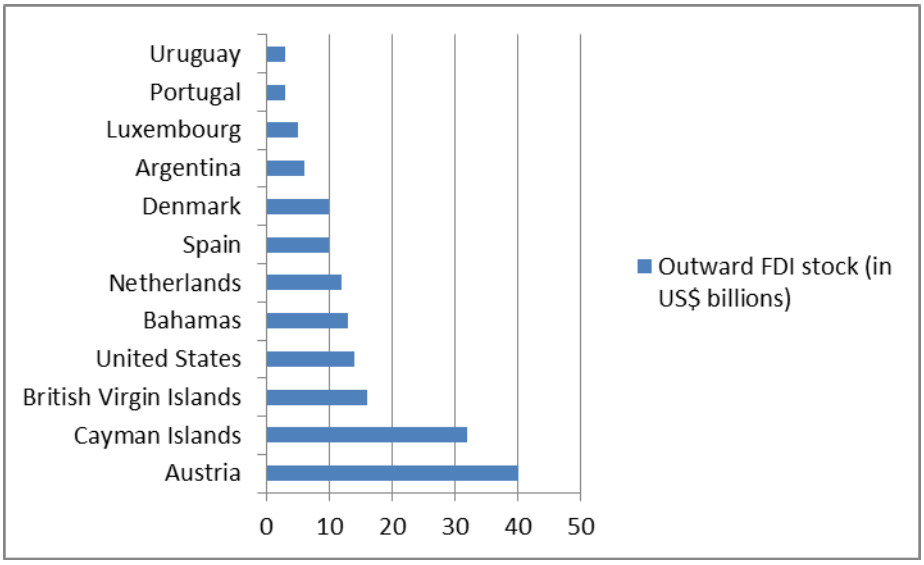
[10] SOBEET and Columbia Vale Center (2012), *Outward FDI from Brazil and its policy context, 2012,* http://www.vcc.columbia.edu/files/vale/documents/Profile-_Brazil_OFDI_10_May_2012_-_FINAL.pdf [Accessed: 25 April 2013]

[11] Based in Geneva, the United Nations Conference on Trade and Development (UNCTAD) is a subsidiary organ of the United Nations General Assembly.

[12] North America, Latin America and the Caribbean

Leaving aside tax havens and the specific case of European countries used to settle special purpose vehicles, the United States was the first destination of outward FDI stock from Brazil in 2010, followed by Denmark and Spain (*see Table 8*). In Latin America, Argentina and Uruguay were the two main recipients of Brazilian FDI. Asia and Africa accounted for a very low share of total outward Brazilian FDI. However, their share may increase as Brazilian companies from the extractive industries, agribusiness and the construction sector increasingly look to invest in countries from these two regions.

Table 8: Geographic destination of outward Brazilian FDI in 2010

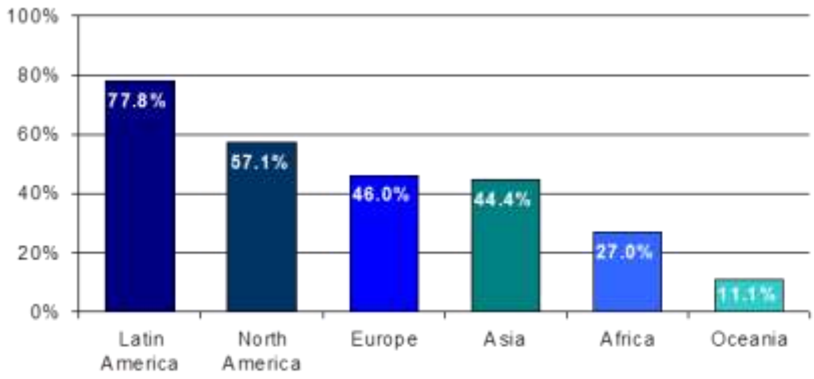


Source: Vale Columbia Center based on data from the Central Bank of Brazil and UNCTAD

This overall picture is corroborated by FDC's 2012 Transnationality Ranking of Brazilian Companies, which highlights the strong regional focus of most multinational Brazilian firms, while also revealing the significant proportion of Brazilian companies with subsidiaries in Asia (44.4%) and Africa (27%) (*see Chart 5*).

Chart 5: Brazilian companies' presence abroad[13]

[13] Proportion of firms listed in the 2012 Transnationality Ranking of Brazilian companies that operate in the region through subsidiaries or franchises



Source: 2012 Transnationality Index of the Fundação Dom Cabral

II. INCREASING THEIR MARKET POWER: THE GLOBAL TRAJECTORIES OF BRAZILIAN MULTINATIONALS

Why have Brazilian companies expanded their operations outside their home country, and what are the strengths and weaknesses they have exhibited in doing so? In this section we look at the trajectories of former Brazilian "national champions" and family-owned companies, and examine the main drivers and specificities of their internationalization.

From "national champions" to global players

To capture the specificities of large Brazilian multinational companies, it is fundamental to understand the continent-wide context from which these companies have emerged. As pointed out by Sinha (2005) and Ramamurti (2012), high tariffs, underdeveloped capital markets, inadequate levels of research and development, market domination by family-owned conglomerates with risk-averse cultures, and a turbulent political and economic climate have historically frustrated the emergence of globally-oriented Latin American firms. These factors, combined with state protection, have fostered the growth of large-scale family-owned companies which favored expansion in their domestic markets, often through sector diversification. When not family-controlled, companies from the continent have often been state-owned and based on primary resources like oil, gas and metals.

This state of affairs largely applies to the Brazilian context, with the added particularity of Brazil's policy to promote "national champions" which prevailed until the economic liberalization era in the 1990s. National champions can be defined as state-backed firms protected from competition, which benefit from government export subsidies and are designated vehicles for national industrial policy objectives such as employment, economic growth and international prestige (Casanova 2009b). Brazil's policy of nurturing national champions was and still is deeply interwoven with its broader economic policy of import substitution industrialization, which reached a peak in the 1960s and 1970s.

Forty years later, many of yesterday's national champions feature among Brazil's most prominent global companies. During its long years as a state-owned enterprise (1969-1994), the aircraft manufacturer Embraer was largely shielded from competition and developed a market niche in the supply of small jet planes for the civilian and military markets, both in Brazil and the region. Due to a conjunction of adverse internal and external factors, Embraer faced heavy losses and was privatized in 1994, with foreign ownership limited to 40%. The company's operations were rationalized and sales abroad boosted its growth. Embraer is today the world's third largest manufacturer of commercial aircraft and has established operational units in the United States, Portugal, France, Singapore and China.[14] The company is now looking to extend its presence in Africa's rising aviation sector.[15]

Vale is another example of a former state-owned giant which grew in isolation from 1942 to 1995 before taking off as publicly-traded company. The Companhia Vale do Rio Doce (CVRD), as it was known prior to 2007, first developed as an industrial conglomerate with wide interests in shipping, railroads and forestry, as well as mining. Its privatization took place in several phases during the period 1995-2002. Vale is now publicly listed in the São Paulo, New York, Hong Kong and Madrid stock markets. Following a series of joint ventures and acquisitions, the company strengthened its hold on the domestic market and built capacity at the global level to meet the booming demand for commodities from rapidly growing emerging countries. The boldest move of all took place in 2006, when Vale made a US$17.8 all-cash acquisition of the Canadian nickel producer, Inco. With operations in 27 countries, the Brazilian mining giant is now present on all continents and is the largest producer of iron ore and iron ore pellets, and the second largest producer of nickel.[16] With revenues of US$48 billion in 2012, Vale is the one of the three largest metals and mining company in the world, alongside the Australian BHP Billiton and the Anglo-Australian Rio Tinto. Although the company is now publicly traded, the Brazilian government still has a direct stake of 5.3% through BNDES, the national development bank. In addition,

[14] http://www.embraer.com/en-US/ConhecaEmbraer/EmbraerNumeros/Pages/Home.aspx [Accessed: 30 April 2013]
[15] http://www.standardmedia.co.ke/?articleID=2000068698&story_title=Kenya-Embraer-seeks-to-grow-sales-in-Africa [Accessed: 28 April 2013]
[16] http://assets.vale.com/docs/Documents/en/investors/Company/Fact-sheet/factsheeti.pdf [Accessed: 28 April 2013]

PREVI, the pension fund of workers of state-controlled bank Banco do Brasil, holds 14.85% of the company's shares.[17]

Another classic Brazilian national champion is Petrobras, which was founded in 1953 and benefited from a state monopoly on oil until 1997. Unlike Embraer and Vale, Petrobras is only partially privatized and remains under government control. In September 2010, it became the Brazilian company with the largest market capitalization, and fourth largest in the world in 2010, after a world-record initial public offering (IPO) of US$72.8 billion in São Paulo to fund its offshore development plans. The company still retains significant advantages from state support, which has proved particularly helpful when negotiating with foreign governments for exploration rights. Today, it has operations in 27 countries outside Brazil, including Angola, Argentina, Benin, Bolivia, Ecuador, Gabon, Namibia, Nigeria, and the United States. With 80,497 employees, revenues of US$137.3 billion and profits of US$10.3 billion in 2012, Petrobras trades on the stock exchanges of São Paulo, New York, Madrid and Buenos Aires.

Driving forces behind the internationalization of Brazilian companies: from macro to micro factors

While it is only recently that Brazilian companies have started to attract the attention of international markets, their global expansion is not a new phenomenon. Similarly to companies from other Latin American countries, the internationalization process of Brazilian firms occurred in four successive phases (Casanova 2009a)[18]. The first two phases – in the 1970s and 1980s – witnessed modest signs of internationalization, with some companies starting to export to and establish operations in their so-called "natural markets" in countries with a cultural affinity. Target markets included Latin American countries but also Spain and Portugal, as well as Portuguese-speaking African countries.

It was during this period that many family-owned companies such as engineering and construction services firm Odebrecht, the family-owned conglomerates Votorantim, Camargo Corrêa and Andrade Gutierrez, the construction company Tigre, and electrical devices producer WEG started their first business operations abroad. Following its short-lived "economic miracle" in the 1960s and early 1970s, Brazil suffered a long period of economic stagnation triggered by the debt crisis in the 1980s. Hard pressed by falling sales at home, internationalization became the only viable option for these companies to keep growing. Large construction firms faced with falling public investment increasingly looked to foreign markets to stay afloat. For example, Odebrecht began its international operations in 1979 with infrastructure projects in Chile and

[17] http://www.previ.com.br/pv_obj_cache/pv_obj_id_83B93DF47954C1960407555004F120642EE62300/filename/previ-report2012en.pdf [Accessed: 28 April 2013]

Peru. In 1984, the company first set foot in Africa with the construction of a hydroelectric power plant in Angola.

The third phase broadly corresponds to the "Washington Consensus" years (1990-2002), during which Latin American governments, encouraged (and to a certain extent obliged) by the International Monetary Fund and the World Bank, abandoned their import-substitution policies and adopted pro-market strategies, including the privatization of state-owned enterprises in telecommunications, mining, energy, transportation and infrastructure. In Brazil, the impact of this "competitive shock" was two-fold (Cyrino and Tanure 2009). First, it forced the best-positioned Brazilian companies to restructure their operations in order to survive in the face of heightened competition from local subsidiaries of foreign multinationals. Firms sought to consolidate their positions domestically by pursuing efficiencies, comparative advantages and foreign financing, and, inevitably, accelerating their international expansion. Second, it exposed the most fragile companies to acquisitions by foreign firms, and ultimately meant weaker companies faced extinction.

A fourth phase can be identified, beginning around 2002, with soaring commodity prices and high growth rates facilitating a more aggressive global expansion of Brazilian firms, notably through the acquisition of foreign firms and assets (Casanova 2009b). This phase particularly benefitted resource-based companies, whose strong cash position permitted large-scale acquisitions in both advanced and emerging markets. It was during the 2000s that Vale, Petrobras and several other companies experienced their most intensive internationalization phases.

The fall of Lehman Brothers in September 2008 and the financial crisis that ensued marked the start of a new phase with global investments moving from the "North" (i.e., Europe and the US) to the "South" (i.e., emerging markets). The investment risk has now switched to the developed world, while thanks to the growth drivers to be found in emerging markets, they have become "El Dorado" again. In 2011, FDI inflows into Latin America and the Caribbean reached US$ 154 billion, 28% more than in 2010. Latin America was the region that recorded the highest percentage increase in FDI inflows, which brought its share of global inward FDI to 10% (ECLAC, 2012). For Brazilian companies this means that new sources of growth are located in other emerging markets or simply at home.

Besides these broad macro-economic factors, a number of firm-specific objectives have stimulated the international expansion of Brazilian firms. In the case of Petrobras and Vale, investments abroad have been chiefly motivated by the desire to secure access to natural resources in foreign markets. Other companies such as the bus manufacturer Marcopolo and

Embraer have "followed the client" by focusing on opening commercial offices abroad in order to better serve local markets and become more responsive to customers' needs. Circumventing tariff and non-tariff barriers has been another major motive for investing abroad. By opening production units in key markets instead of limiting themselves to exports, Brazilian companies such as Gerdau in the steel industry, and Cutrale, the orange juice producer, were able to jump trade barriers and break into the protected markets of developed countries. Finally, several Brazilian firms have used the internationalization process as a way to learn and acquire new skills by competing in sophisticated markets with demanding consumers (Cyrino and Tanure 2009). In 2005, the beauty products company Natura Cosméticos opened a retail store in Paris, through which it was able to connect with the latest consumer trends while disseminating its brand name in the world's most iconic perfume and cosmetics marketplace.

A helping hand from the Brazilian government

One decisive and distinctive factor behind the global expansion of Brazilian companies is the instrumental role played by BNDES, Brazil's national development bank, as a financing agent and investment partner for the country's corporate sector. In addition to more traditional forms of export financing, BNDES has fostered domestic mergers and acquisitions and the cross-border expansion of Brazilian companies through two main support mechanisms. First, the bank operates a credit line with favorable interest rates dedicated to investments and projects to be performed abroad. Second, it has taken a direct participation in several Brazilian companies through its investment arm BNDESPar.

In 2013, BNDESPar controlled 30.38% of the pulp and paper company Fibria[19], 19.85% of JBS[20], and 5.3% of Vale[21], among others. In the period between 2007 and 2012, BNDES offered financing totaling 40.8 billion reais to six companies: JBS, Marfrig, Oi, BRF, Fibria and Ambev (ECLAC 2012, p55). The backing of BNDES proved instrumental in driving consolidation in the meat, pulp, ethanol, telecommunications and banking industries. Financing from BNDES, whether in the form of loans or equity participation, facilitated the merger of domestic firms and accelerated the creation of new Brazilian champions such as Brasil Foods, born from the merger of Sadia y Perdigão, Fibria, born from the merger of Aracruz Celulosa and Votorantim Celulose e Papel, and Banco Itaú Unibanco, born from the merger of Banco Itaú and Unibanco. Additionally, companies which received loans or equity from BNDES benefited from improved credit ratings and therefore greater access to international capital markets. By helping these companies to

[19] http://fibria.infoinvest.com.br/static/enu/estrutura-acionaria.asp?idioma=enu [Accessed: 28 April 2013]
[20] http://www.jbs.com.br/ri/ [Accessed: 28 April 2013]
[21] http://www.vale.com/EN/investors/company/shareholding-structure/Pages/default.aspx [Accessed: 28 April 2013]

reach the necessary size to compete in global markets, BNDES has played a key role, albeit indirect, in promoting the internationalization of Brazilian businesses.

The support of BNDES is especially crucial given that the cost of credit has been a recurring obstacle for Brazilian companies wanting to go global. From 1999 to 2012, Brazil's interest rates averaged 16.27%.[22] Long-term loans by private commercial banks remain prohibitively expensive. In their survey of Brazilian outward investors,[23] SOBEET and the Vale Columbia Center found that 58% of respondents indicated their own capital as the main source of funding, while 10% referred to BNDES. None mentioned domestic commercial bank loans, although 13% of respondents mentioned loans from overseas banks.

The issue of financing may, however, come back on the agenda of emerging Brazilian companies since BNDES president Luciano Coutinho recently announced in an interview for *O Estado de S. Paulo* that "the promotion of competitiveness for large multinational companies is an order of business that has been concluded" and "got as far as it could go" in providing support for the petrochemical, pulp, slaughter-house, steel, orange juice and cement industries.[24] According to Mr Coutinho, BNDES will now focus its efforts on supporting more innovation-based sectors such as health and pharmaceuticals, where Brazilian companies continue to suffer from a lack of competitiveness. The Brazilian private sector needs to think long term and invest more in innovation, which till now has been mainly supported by public sector investments (Casanova et al. 2011).

The ability to navigate in turbulent waters

Another distinctive feature of emerging Brazilian multinational companies relate to their specific experience of doing business in Brazil. For decades these firms have thrived in a domestic environment marked by unstable economic conditions as well as complex regulatory frameworks, infrastructure challenges and a very diverse business environment. While these factors may have impeded their long-term growth and development, the ability to deal with limited infrastructure and financial instability has become one of the major competitive advantages of Brazilian firms, especially when doing business in other geographies with similar constraints. It is important to note that Brazilian managers as managers from other emerging countries have learnt to manage in turbulent waters (Cuervo-Cazurra 2012), which is another competitive advantage in driving the internationalization process.

[22] http://www.tradingeconomics.com/brazil/interest-rate [Accessed: 28 April 2013]
[23] SOBEET and Columbia Vale Center (2010), *Brazil multinationals positive after the global crisis*, http://www.vcc.columbia.edu/files/vale/documents/EMGP-Brazil-Report-2010-Final.pdf [Accessed: 28 April 2013]
[24] http://economia.estadao.com.br/noticias/economia-geral,bndes-decide-abandonar-a-politica-de-criacao-de-campeas-nacionais,151356,0.htm [Accessed: 28 April 2013]

For example, Brasil Foods was able to develop a unique logistics expertise by building a world-class distribution network for its frozen and refrigerated products. Through its Sadia brand, Brasil Foods enjoys a strong foothold in the Middle East. Its shipments to the region accounted for 32% of its total exports in 2011, with products sold in the United Arab Emirates, Saudi Arabia, Egypt, Kuwait, Qatar, Bahrain, Iran, Iraq, Jordan and Lebanon.[25] Another example is Vale, which had to create vast transport networks integrating mines, railroads, ports and ships to transport and export its mineral resources. Today the company operates approximately 10,000 kilometers of railroad network and claims to have the largest mineral vessels in the world.

A long road to become world-class players

Brazilian firms continue to face daunting challenges in their globalization. Many of these are not specific to international activities, but relate to the general business environment which prevails in their domestic market. It is common for Brazilian entrepreneurs to complain about the "*custo Brasil*" or the "Brazil cost", an expression used to describe the operational complications and added costs associated with doing business in Brazil. These include excessive bureaucracy, a byzantine tax system, high labor costs, the underdevelopment of infrastructure, and corruption. According to a survey of outward investors conducted by SORBEET and the Columbia Vale Center in 2010, the top-ranking *internal* barrier to the internationalization of Brazilian firms was the tax burden (19% of respondents), followed by currency fluctuations (17%), competition with projects in Brazil (14%), high credit costs (11%), and the lack of skilled human resources (8%).

Beyond these home-grown factors, Brazilian companies also face a number of challenges which derive from the prevailing global economic competition. Among the principal *external* barriers to internationalization, the respondents to the SORBEET and Columbia Vale Center survey cited tough competition in mature markets (31%), the regulatory environment (14%), difficulties in managing international operations (10%), barriers imposed by local industry (9%), and difficulties in raising funds in overseas markets on competitive terms (9%). The lack of double taxation treaties was also mentioned.

The promotion of outward investment has never been a high priority for Brazilian policymakers. The internationalization process of Brazilian multinationals has been largely driven by companies themselves, unlike in Spain, where the banking sector played a key role, or in China, where the government is a key driving force for the global expansion of Chinese companies (Fleury and Fleury 2011). Apart from the financial support of BNDES and some stand-alone

[25] http://www.brasilfoods.com/ri/siteri/web/conteudo_en.asp?idioma=1&conta=44&tipo=32276 [Accessed:28 April 2013]

programs to support the internationalization of Brazilian companies, there is no holistic approach to strengthen their position in global markets. This contrasts with the more aggressive stance adopted by several Asian countries (notably South Korea and China) to increase the global competitiveness of "strategic" industries (Cyrino and Tanure 2009).

In addition, Brazil has only signed 14 bilateral investment treaties with other countries, a very low number compared to the 90 signed by China and 61 signed by India.[26] Similarly, Brazil is at risk of remaining a bystander to the dramatic reconfiguration of the global trading system which may unfold as the result of the new generation of mega-trade agreements currently being discussed, such as the Trans-Pacific Partnership, which groups economies from the Pacific Rim and the Trans-Atlantic Trade and Investment Partnership between the European Union and the United States. As a member of the Mercosur trading bloc, Brazil cannot sign trade agreements with other countries on its own. The long-term risk of this looming economic isolation of Brazil is that Brazilian companies get increasingly sidelined from global value chains and production networks.[27]

COMING BACK HOME?

For many years, Brazilian firms have been shy about going global. Brazil's corporate sector still lags behind those of equivalent economies and fails to impress when compared with the dynamism of Chinese and Indian companies. Although the last few years have witnessed an important "catching up" and several Brazilian corporations are now recognized as global leaders in their respective sectors, many more qualify as global companies "in the making". Indeed, some of the most internationalized Brazilian firms are still relatively small companies and their expansion may take the world by surprise, as occurred with the stellar rise of meatpacking companies JBS, Marfrig and Brasil Foods, which all took leading positions in only a few years.

The expansion of Brazilian multinational companies first started in neighboring Latin American countries and then extended to the rest of the world. As pointed out by the Fundação Dom Cabral, about 57% of globally active Brazilian companies have a presence in North America, 46% in Europe and 44% in Asia. Brazil's size and richness in natural resources nourished some of the domestic conglomerates that later went global. Furthermore, the role of government has been instrumental through policies to protect and promote the development of "national champions" and the use of development loans by the public development bank BNDES to foster the

[26] https://icsid.worldbank.org/ICSID/FrontServlet?requestType=ICSIDPublicationsRH&actionVal=ViewBilateral&reqFrom=Main# [Accessed: 28 April 2013]
[27] http://www.estadao.com.br/noticias/impresso,o-brasil-fora-das-cadeias-produtivas-globais,1001501,0.html [Accessed: 28 April 2013]

competitive development of Brazilian companies in strategic sectors and support their international expansion.

The literature on Brazilian multinational companies provides extensive insights into their internationalization strategies, entry modes, success factors, and remaining obstacles to their further global expansion. International and national corporate rankings established by the financial press and research institutes also give a clear view of the hierarchy of Brazilian firms, whether in terms of size, revenues or presence abroad. What is less clear is how the globalization of Brazilian companies will continue going forward. Is there room for continuous expansion? How many of them are consistently winning global market shares and have entered the top 10 in their respective industries? How does their performance compare to those of their Chinese, India, Mexican or South African counterparts?

Finally, a question remains over the commitment of Brazilian companies – and of the Brazilian government – to internationalization. In 2011, the replacement of Roger Agnelli by Murilo Ferreira as Vale's chief executive was widely interpreted as a sign of the government's intention to favor domestic investments over the expansion of the company's global activities. With the country's immense infrastructure needs to prepare for the World Cup 2014 and the Rio Olympic Games in 2016, it is not surprising that many Brazilian companies are starting to look inward again. For instance, Petrobras is divesting from the United States and Argentina as part of a worldwide asset-selling plan to fund the development of its deep-water oil discoveries off the coast of Brazil.

While it is too early to tell whether the "renationalization" of globally active companies will become a generalized trend, it is clear that the promotion of homegrown multinational enterprises still does not feature among the government's highest priorities. The announcement by BNDES of the end of its policy of supporting the international expansion of domestic companies in sectors deemed strategic, such as food processing or petrochemicals, also signals the beginning of a new era for Brazilian multinationals. Looking ahead, the Brazilian champions of tomorrow will increasingly need to rely on their own strengths to fulfill their global potential.

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