



Centre for Economic and Regional Studies of the Hungarian
Academy of Sciences – Institute of World Economics
MTA Közgazdaság- és Regionális Tudományi Kutatóközpont
Világgazdasági Intézet

Working paper

246.

November 2018

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BRAZILIAN FOREIGN DIRECT INVESTMENT IN ECE:

HOST COUNTRY DETERMINANTS

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Centre for Economic and Regional Studies HAS Institute of World Economics

Working Paper Nr. 246 (2018) 1–23. November 2018

Brazilian Foreign Direct Investment in ECE: host country determinants

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ISSN 1215-5241

ISBN 978-963-301-675-6



Brazilian Foreign Direct Investment in ECE: host country determinants¹

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Abstract:

Outward Foreign Direct Investments (OFDI) from Emerging Multinational Enterprises (EMNEs) is a rather recent phenomenon that has significantly changed the patterns of the international capital markets, with important consequences also for the host countries' economies. On the global scene Brazil was among the new significant emerging foreign investors, that has shown impressive investment growth in the 2000s. This paper investigates the host country determinants of Brazilian OFDI, with mainly (though not exclusively) focusing on the East Central European (ECE) region. Besides empirical interest on the main locational determinants of Brazilian FDI, we are also interested in the more theoretically oriented question whether Brazilian foreign investments follow the patterns of the established theories on FDI motivations.

JEL Codes: F21, F2, G11, O54, P12

Keywords: Brazil, OFDI, internationalization, multilatinas, EMNEs, pull factors, home-country determinants, East Central European region

Introduction

Outward Foreign Direct Investments (OFDI) from Emerging Multinational Enterprises (EMNEs) is a rather recent phenomenon that has significantly changed the patterns of the international capital markets, with important consequences also for the host countries' economies. On the global scene Brazil was among the new significant emerging foreign investors, that has shown impressive investment growth in the 2000s.

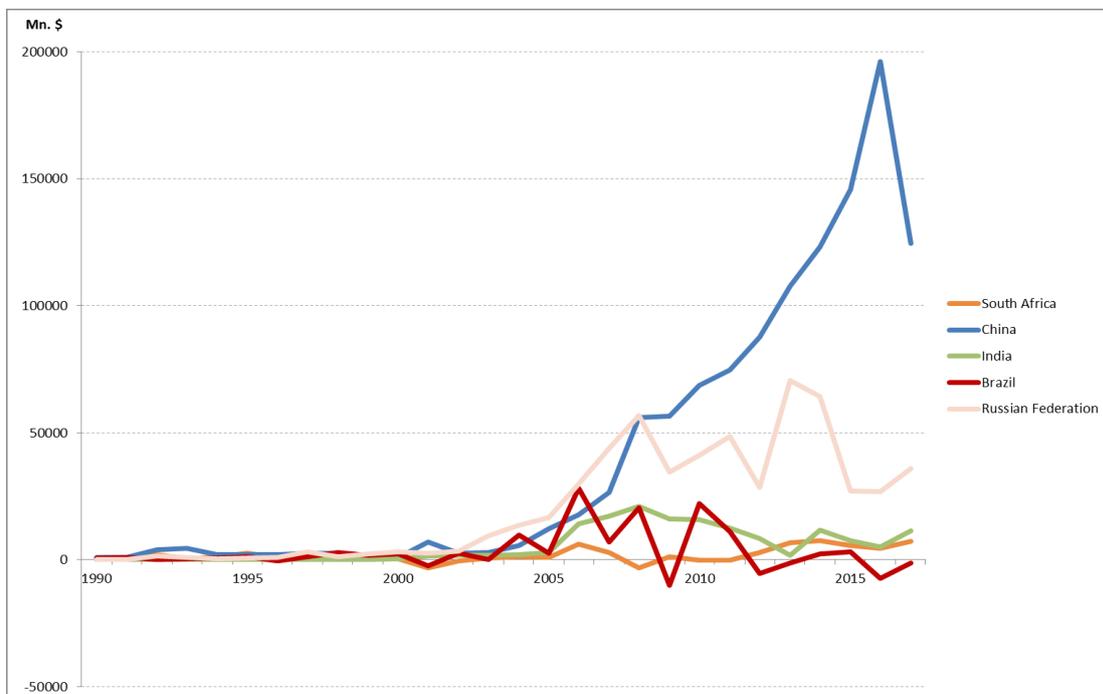
¹ This paper was written in the framework of the research project "Non-European emerging-market multinational enterprises in East Central Europe" (K-120053), supported by the National Research, Development and Innovation Office (NKFIH).

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*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

In 2000 Brazil has outperformed even China in both absolute terms of OFDI flows and in its share to global or developing OFDI flows. By 2010 it was third among the BRICS only after China and Russia, while since then it has been gradually falling behind, and became the laggard in the group, with negative figures – divestment amid a severe economic crisis – in 2016-17 (UNCTAD, 2018). In terms of OFDI stock however, if the share of total developing country OFDI stock is considered, Brazil was still on the third place in 2015 with 6,5 per cent- compared to 36 per cent of China and 9 per cent of Russia, and followed by 5,8 per cent in the case of South Africa and 4,9 per cent for India (WB, 2018).

Figure 1: FDI outflows in BRICS economies, 1990-2017 (millions of dollars)



Source: own construction based on UNCTAD data 2018

Historically, Brazilian companies (both state- and privately owned ones) were rather focusing on local (and regional) markets. This picture has changed significantly in the early 2000s, when the boom in outward foreign direct investment started and marked the beginning of a new era. As we have shown in our former study (Ricz, 2017) Brazil emerged as an important investor abroad only after 2003, when outward FDI flows from Brazil started to gain momentum as a result of several (coinciding) events. First, in economic front the export boom (based mainly of primary commodities export)

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

generated increasing trade surplus, and this - hand in hand with large flows of incoming FDI and the appreciation of the Real (the Brazilian currency) - has boosted foreign exchange reserves, which has meant a favourable scenario for Brazilian firms to invest abroad. In more general terms, the global market opportunities have also favoured these firms, as commodity prices were booming, fuelled by increasing demand from China, and led to (overly) optimistic atmosphere in global markets and rising investor's confidence. Not surprisingly, looking at the sectorial division we see an increase towards the natural resources sector (metals, mining, oil, gas and steel) (Resende et al., 2010).

We have presented this recent rise of Brazilian global players (and their descent after 2014) in a previous study, where we have extensively analysed conducive factors (both external and domestic) beyond this surge in outward investments (Ricz, 2017). By analysing internationalization strategies of Brazilian companies, we have also partially covered some corporate specific factors. In this study we switch towards focusing on *host country determinants* of Brazilian OFDI, with mainly (though not exclusively) focusing on the East Central European region, thus we analyse the so called *pull factors* related to host country ability to attract investments. In the next phase of the research the focus will be more on the corporate level, as we aim to conduct interviews with the representatives of main Brazilian firms present in our region and explore their specific and unique motivations to invest here within the framework of case study analyses.

Besides empirical interest on the main locational determinants of Brazilian FDI, we are also interested in the more theoretically oriented question whether Brazilian foreign investments follow the patterns of the established theories on FDI motivations.

This paper is written in the framework of a larger research project focusing on "Non-European emerging-market multinational enterprises in East Central Europe"³, whereas the majority of OFDI is coming from the Asian region (mainly China, and some other East and South Asian countries), but also from some other emerging countries such as Russia, Turkey or South Africa. Compared to China or Russia, the leading OFDI countries of the emerging world, Brazil is lagging behind in terms of OFDI flows also globally, but even more so in the ECE region, where it plays a peripheral role at best, as we have shown in

³ The project (K-120053) is supported by the National Research, Development and Innovation Office (NKFIH) in Hungary.

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

the already mentioned previous study (Ricz, 2017). The significance of Brazilian OFDI has also been undermined by the most recent economic (and multi-layered) crisis hitting Brazil since the second half of 2014, and amidst the long and rocky recovery since 2017, while the outlook is not too promising either (Sheng – Carrera, 2018).

The larger research project relies on company data provided by Amadeus, this was however almost useless for our Brazilian case study, thus we have collected information about Brazilian companies and their locational motivations mainly from secondary literature, from embassies and ministries, investment promotion agencies and academic experts, whereas on some most recent news have also relied on media sources.

The paper is in six parts, after this introduction we explain the theoretical framework of the research. In the third part we present the big picture of recent Brazilian OFDI flows. The fourth part turns towards analysing host-country determinants of Brazilian OFDI in general and, then in the ECE region in particular. Finally we conclude.

Theoretical considerations

Over the past half a century rich theoretical literature has accumulated around the motivations of enterprises to expand their activities beyond the borders of their country of origin. One of the most comprehensive and probably the most influential theory of internationalization has been the eclectic or OLI paradigm by Dunning (1993). This has claimed that firms investing abroad decide along three major sources of potential advantages, it distinguished two firm-specific advantages, such as ownership and internalization advantages and a third category, location advantages based on beneficial local specificities.

The eclectic paradigm suggests that motives for outward FDI can be classified in four main categories: 1. *resource seeking investments* which aim to gain access to material and human resources at lower costs; 2. *market seeking investments* to gain access to the domestic market of the host country which receives the investments; 3. *efficiency seeking investments*, which refers to investments searching lower production costs, enjoying economies of scale and scope; 4. *asset seeking investments* relying on already

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

existent assets in the host country mainly via joint ventures, acquisitions, mergers, etc. (Narula-Dunning, 2000).

Though outward foreign direct investment (OFDI) from non-European emerging markets is not necessarily a new phenomenon, its magnitude over the past one and a half decade has been astonishing and has led to intensive academic debates. The reasons beyond this growing level of outward foreign direct investment (OFDI) from emerging MNEs are manifold, and mostly refer to new opportunities and challenges present in their host economies as well as in changing circumstances within their home country markets. Although in some cases the strategies and attitude of non-European EMNEs might resemble those of the traditional MNEs from developed countries (DMNEs), there seems to emerge a consensus among analysts, that some components (such as motivations, operational practice and challenges) of the EMNE's are rather different. Thus the assumption of our larger overall research is, that that in many cases new EMNEs are gaining market power based on different factors and drivers as was in the case of the DMNEs. It is in the focus of the current research phase to reveal some of these differences, which according to our preliminary assumptions might run from proactive government policies of the home countries, via specific localization advantages in host countries, to innovative business strategies of the given firms.

Most recent literature suggests that emerging countries do not follow the same path of foreign investment as the developed countries did. Firms in developing and emerging countries are internationalizing at a much earlier stage of economic development, and this may have effects on the determinants of foreign investment decisions.

Furthermore recently even FDI theories devote more and more importance to the role of institutions in determining investment location strategies. In a rather general perspective, investors tend to look for locations where they find favourable institutional environment, that facilitates the expansion of their specific advantages and economic activities (Campanario et al, 2012). In this vein institutions can be regarded as part of the "created assets" of host countries playing a more and more significant role for EMNEs (Narula and Dunning, 2000). Among these institutions we can mention intellectual property right protection, tax policies, government policies related to FDI, and in more general terms macroeconomic policy regime in general, education policies

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

in particular, but even the characteristics (and changes) of the political regime (contributing to political risk) might play a role. These host country locational advantages and institutions are important factors in OFDI decisions as they shall be considered as given, external circumstances, to some extent as immobile factors from the global market perspective (Bevan et al, 2004).

To sum up very shortly the views of established OFDI theories, we highlight that firms investing abroad can be influenced by *home country environment* (including domestic macroeconomic and policy factors); *host country environment* (including market size, government incentives, institutional framework), and also *corporate specific factors* (including push factors for internalization strategies or management factors such as the availability of skills and knowledge necessary to implement company strategies) (UNCTAD, 2007).

As said earlier in this wider research project we mainly follow this latter categorization: in our previous study we focused on the home-country determinants, while in this study we turn towards the host-country factors. Before however engaging with host country determinants, it is worth to present the broader context and shortly overview recent trends of Brazilian outward FDI, including its sectoral and regional composition.

Brazilian OFDI – the big picture⁴

We have extensively described the different historical phases of the internationalization of Brazilian companies in our previous study. Here it is suffice to stay, that in the most recent era of Brazilian OFDI to conquer world markets, starting around 2002-3, foreign investment was mainly driven by *high commodity process* and *increasing demand* from Asia (mainly China). Thus mostly resource-based companies (such as Petrobras and Vale) executed large-scale acquisitions in neighbouring and more distant (developed and emerging) markets. The most highlighted case was that of the Vale, and its acquisition of the Canadian firm Inco in 2006. This transaction has alone

⁴ In this part we heavily rely on our previous study to sum up some general information on Brazilian OFDI trends, and to reveal some updates on the most recent changes.

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

represented 60 per cent of the total Brazilian OFDI flow that year. The *favourable international conditions and rising demand from Asia* have served as important *pull factors*, whereas *domestic economic growth*⁵, rising sales and public investment have also acted as push factors as these allowed for companies to turn their attention towards international markets (as business has been doing well at home).

With the global financial crisis in 2008 however a new period started, as amid the financial and economic turmoil in the Global North, emerging markets became major destinations of FDI flows, and in more general terms the engines of global growth. As a result major Brazilian firms started to *re-orient their activities from advanced markets, towards emerging markets* or even the domestic market. Finally after 2015 with an economic (and political) crisis culminating in Brazil the domestic landscape for internationalized Brazilian firms has changed profoundly. As long as in 2012 and even in 2014 most authors and analysts have been writing about the resilience of Brazilian companies towards economic instability and volatility⁶, in 2017 reports (such as of the Emerging Market Global Players (EMGP) Project) already wrote about *divestment under crises* (Sheng – Carrera, 2017).

With one of the world's biggest corruption crisis (evolving around the widespread money-laundering schemes of Petrobras and other major Brazilian firms), many companies in Brazil, which were affected by the corruption scandal have announced plans to sell foreign subsidiaries and cancel or decrease future investment plans, in order to be able to pay the leniency fees and fines. The most striking example is obviously the Petrobras, which has announced to cut its investment until 2019 by 25 per cent (the equivalent of 32 billion US dollars).

⁵ Major Brazilian companies were also driven by the emergence of a new middle class in Brazil (in line with active social policies under the Lula era) and the subsequent increasing demand for consumer products. The food processing JBS-Friboi, or the retailer CBD (Grupo Pão de Açúcar) are good examples, but also Brazilian banks (Banco do Brasil, Bradesco and Itaú-Unibanco) have benefitted from rising levels of consumer credits (Casanova-Kassum, 2014:72).

⁶ With catchy wording Casanova-Kassum (2014:85) write about the ability of Brazilian firms to tackle the persistent „*voo de galinha*“, which means something like chicken flight, and refers to short-term economic downturns.

Sectoral distribution of Brazilian OFDI

As it is straightforward to see from the above discussion, during the late 2000s mostly export-led Brazilian companies in industries, where Brazil traditionally enjoyed competitive advantages (such as iron ore, steel, meat, soybeans, etc.) have benefitted from improved access to domestic financial markets for financing their (mainly) *market-seeking investments* abroad (Campanario et al., 2012).

According to an analysis focusing on the top 20 Brazilian MNEs (Sheng-Carrera, 2018), the following sectors have contributed to 90 per cent of the total foreign assets (by eleven companies) in 2016⁷: oil and gas extraction (Petrobras), food manufacturing (JBS, Marfrig, BRF, and Minerva), mining (Vale and Magnesita), the primary metal manufacturing (Gerdau and CSN), and the paper and allied products (Fibria and Suzano Papel industries).

At the lower end of the scale six different industries appear, and add up to the remaining 10.2 per cent of foreign assets of the ranked firms: transportation equipment manufacturing industry (Embraer, Iochpe-Maxion, Marcopolo, and Tupy), chemical manufacturing (Braskem), merchant wholesalers and nondurable goods (Natura), printing and related activities (Valid), leather and allied product manufacturing (Alpargatas), and last but not least machinery manufacturing (Metalfrio) industries (ibid. pp. 5.)

All in all, the presented picture reveals a very concentrated sectoral composition in extractive and commodities sectors. This is in line with the Brazilian production and export structure, and is less surprising if the home country endowments are considered, as Brazil is rich in natural resources and has extensive areas suitable for agriculture and livestock. At the same time this concentrated pattern is also present on the firm-level: Petrobras, Vale, and JBS, the top three companies have accounted for the major part of total foreign assets (approx. 62 per cent compared to the total of the top 20 Brazilian MNEs) in 2016 (Sheng-Carrera, 2018:1).

⁷ In this part of the study we highlight the most recent sectoral composition, which reveals however rather a static pattern, and no significant sectoral changes took place during the last years (for a more detailed discussion see Ricz, 2017 or the EMGP successive studies on Brazil, available: <http://ccsi.columbia.edu/publications/emgp/>)

Resende et al. (2010:99) draw attention however to the fact, that not all Brazilian internationalized companies are primarily active in the commodities sector. They recall the service sector, and its growing share in Brazilian OFDI. We can refer for instance to the constructions sector and companies such as Odebrecht or Guitierrez, but even some high-tech companies are more and more active outside Brazil, such as Datasul, Lupatech or Stefanini.

Some authors (Casanova, 2016:33; Amman, 2009) also refer to some outstanding examples, where home-grown technology and innovation has driven the successful internationalization strategies (examples can be Embraer, Embrapa, or even the Camargo Correa⁸).

Regional distribution of Brazilian OFDI (selected host economies)

Historically Brazilian outward FDI is accumulated in its “*natural market*”, composed by its immediate neighbourhood, the Latin American region, and some other Portuguese speaking countries (Portugal, and some of its former colonies in West-Africa). In a wider sense the Ibero-American world can also be regarded as a natural market for Brazil, as it shares strong similarities both cultural and institutional terms (Casanova, 2016:31).

Before however looking at rankings and maps of Brazilian outward FDI flows, we must clarify (in line with Campanaria, 2012) whether the outflows are short-term movements in the financial market (such as portfolio investments or other deposits) or long-term capital movements constituting to the real purpose of making FDI transactions (such as mergers and acquisitions).

Also, the numbers reveal that main destination of Brazilian OFDI flows used to be undoubtedly the Latin American region. However, if we focus on real foreign direct transactions, and leave aside the flows into tax havens (such as those in the Caribbean

⁸ This Brazilian conglomerate has managed to position Hawaiiana flip flops as a global product, with series of innovation in marketing and design, through which these flip flops became a brand image alluding to the relaxed and outdoor lifestyle in Brazil (Casanova, 2016:33). This story might reveal the flexibility and capability to adapt of Brazilian businesses to different realities (sic has to serve clients at the bottom of the pyramid, the Brazilian poor, and then build a global brand on it.)

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

Islands, e.g. the Cayman Islands, the British Virgin Islands and the Bahamas), the European region and the United States gain importance.

Looking at accumulated investment stocks the EU has overtaken Latin America in 2009 and became the main recipient of Brazilian investments. In Europe, however we have to be cautious because of the strong dominance of countries (Denmark, Netherlands, Luxembourg, and more recently Austria), where through setting up special purpose entities Brazilian firms primarily aim at avoiding the burdensome domestic taxes and bypassing complicated Brazilian regulations.

In 2016 the top foreign investment destinations of the top 20 Brazilian MNEs were: 1. United States; 2. Argentina; 3. United Kingdom; 4. China and 5. Mexico. Whereas primary activities in these destinations included production and manufacturing units as well as foreign sales and distribution centres. (Sheng-Carrera, 2018:1)

Looking at the above list, one might remember that the two main export markets for Brazilian products are traditionally United States and most recently China. Thus, the large presence of Brazilian multinational firms and their foreign direct investments in these countries might reflect their market-seeking strategies and the aim to achieve proximity to main customers. According to Sheng and Carrera (2018:6) even though some changes in foreign asset to total asset (FA/TA) ratio for some countries (notably for Fibria and Marcopolo) in 2016 can be observed, these changes were not due to any major new investments abroad, rather due to losses in the domestic market. Amidst a multi-dimensional economic, social, political and institutional crisis in Brazil, most firms were focusing their resources on defending their domestic activities (or having been involved in the overarching corruption scandal paying off the record-breaking fines, such as the Odebrecht or Petrobras), and often even withdrawing investments from overseas.

As we have shown earlier there is also strong presence of major Brazilian MNEs in the Latin American region (including Argentina, Mexico, Chile, Uruguay, Colombia, Paraguay and Peru). Beyond already mentioned factors, such as geographical, institutional and cultural proximity, and especially for the case of Argentina the above addressed issue of following export activities might hold also here, as Argentina is an important market for Brazilian manufactured goods. While in the case of one of the least developed Latin

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

American economy, Paraguay, the low labour costs and favourable taxation policies have played also an important role. (ibid, pp .6)

In general Europe did not represent any special priority in the localization strategies of the Brazilian companies, nor was there any government priority to promote the expansion of Brazilian forms towards the European market. This process was rather driven by the companies themselves, and their own priorities to follow the clients, search for new markets, or the desire to acquire knowledge in Europe. Within the European region the already mentioned United Kingdom has received the most Brazilian FDI in 2016, while traditionally Spain and Portugal have been leading the way, but some companies are also present in Germany, France and Italy.

Finally, we have to admit that the East Central European region have never been on the geographical radar of Brazilian companies. Foreign direct investment coming from Brazil to our region is characterised by relatively low volume and high year-to year volatility as these are mostly bound to one or two transactions of BMNEs (Kugiel, 2016). As we have noted in our former study, these investments stay mostly below any threshold of international surveys that usually map larger OFDI flows (such as EPMG, BCG, FDC, etc.) of mainly top 20 Brazilian (non-financial) companies, and also those of academic research in this regard.

Another characteristic of Brazilian investments in the ECE region is that more often than not, these are not real, productive investments, rather just transactions on papers, such as to avoid large tax burden or other regulations at home. For this it is indicative that from 29 Brazilian-owned companies in Hungary that are present on paper, only 4 have reported to have more than one employee in 2016⁹. Consequently, there is also a relative scarcity on the data, as most investment coming from Brazil into the ECE region is not included in datasets (such as the Amadeus database, the one we aimed to use for this research).

According to FDC (2016) the Brazilian presence in the ECE region is limited to 3 companies in Hungary, 2 in Poland, 1 in Czech Republic (and 1 in Romania and also 1 in Ukraine). Our primary research focusing on Hungary and other Visegrad countries has

⁹ Based on data received from the Brazilian Embassy in Budapest. In any other Hungarian sources much lower number appears regarding Brazilian companies presence in Hungary.

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

revealed a few more companies, which however does not alter significantly the above drawn overall picture.

Within Europe, most Brazilian FDI flows to Western European countries, and the ECE region lags well behind. A possible explanation might be simply the geographical distance, but also the lack or historically low levels of other relations. This relatively low level and modest dynamics of flows of Brazilian foreign investment was further negatively impacted by the recent global crisis, and the Brazilian economy's crisis since 2014 as well as the following slow recovery.

Looking at the Amadeus database we can see that only two companies (both settled in Slovakia) are listed - Rudolph Usinados and Micro Juntas – none of them corresponds to the most important and significant companies in the ECE region, or even in Slovakia itself. As up to now, at the current stage of research we aim to add up a few outstanding examples to the above mentioned two companies, such as Kaco (Hungary), Embraer (Czech Republic), Embraco (Slovakia) and Stefanini (Poland).

Towards analysing host-country determinants of Brazilian OFDI

Turning towards the analysis of host-country determinants of Brazilian OFDI, we first have to admit however that only a few studies look at internationalization strategies of Brazilian companies from the host country perspective. Among these we highlight Amal – Tomio (2012), Calderón (2014), and Nunes de Alcântara et al. (2016), and in the following discussion we heavily build upon their rather general (with no special territorial or regional focus), and still sometimes contradictory results.

Main drivers of Brazilian OFDI: the host country perspective

In one of the most comprehensive analysis on host-country determinants of Brazilian OFDI Nunes de Alcântara et al (2016) identify the following pull factors:

- *reduced or zero tax burdens and simplified corporate and financial rules (the tax heaven argument);*

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

- *geographical proximity and Mercosur membership* (efficiency seeking argument);
- *cultural proximity* (Portuguese as native language);
- *availability of natural resources* (natural-resources-seeking argument);
- *large pool of available workers* (human capital argument);
- *large internal* (local) *market* (market-seeking argument);
- *government effectiveness*

This list is also ranked according to significance level, meaning, that the first five factors are not only positively influencing Brazilian FDI, but their effect is considerably large. The last two elements, although having significant and positive relationship, have a rather minimal effect.

The above list is not just telling in terms of what it is containing, but it is also worth to recall some few missing elements. First and foremost: political stability does not play a role during locational decisions of Brazilian firms. The explanation for this is, that Brazilian investors are used to market imperfections and weak institutional environments in their home country, so they have a different interpretation of political risk than their counterparts from more developed countries. To some extent we could argue similarly in relation with government effectiveness.

Analysing the period between 2002 and 2011, Nunes de Alcântara et al. (2016:177) provide a somewhat different picture: *“Brazilian multinationals do not internationalize their activities in pursuit of cost reduction, efficiency, or to explore new markets or natural resources of the host countries. Results show that Brazilian investments were attracted by the availability of skilled labor, openness of the host market, geographic proximity, improved financial conditions of Brazilian companies, and national companies’ strategy of reaffirmation and consolidation as global players”*.

At the same time Amal and Tomio (2012) highlight a different pattern of internationalization in the case of Brazilian companies, than the model of MNEs from Asian countries. They emphasize that Brazilian OFDI is influenced mainly by *economic performance, cultural distance* and by the *regulatory quality* of the host country.

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

We have shown earlier that considerable share of Brazilian OFDI goes into so called “tax haven” countries (mainly in the Caribbean region, but also some into European countries), with the main motivations being to enjoy preferable, low rates of taxes and other regulations. This regional focus reaffirms convincingly the findings above.

It was also discussed in the previous section, that changes in internal and external economic context has highly influenced the surge of OFDI in Brazil during the 2000s. We must admit, however that besides these main broad macroeconomic trends, other, mainly *firm-specific factors* have also stimulated (or constrained) the internationalization of Brazilian MNEs. These, obviously, differ from case to case, but some commonalities were introduced in our previous study (mainly in line with Casanova-Kassum, 2014:84-85): 1. to *secure access to natural resources* in foreign markets; 2. to *better adapt to local needs* and to *better serve foreign markets*; 3. to *avoid tariff and non-tariff barriers*; 4. to *learn and upgrade* due to higher competition in international markets.

It is straight forward to see, that these can be easily paralleled with the above-mentioned pull factors, such as natural resource seeking, the tax heaven and the market-seeking arguments, while the learning and upgrading motivations were not explicitly included in those studies.

A recent survey (Sheng – Carrera, 2017:10) looking at drivers for internationalization of the top 20 Brazilian MNE’s revealed that access to new markets and proximity to clients were by far the most important factors driving outward investments. These were followed by the aims to reduce costs and to gain access to natural resources, while some have also mentioned the desire to avoid high taxes and institutional voids at home. Proximity to suppliers, and access to new technologies and qualified labour have barely played a role. This picture might however be somewhat misleading, as not necessarily the biggest companies are the most active in outward investing (Casanova and Kassum, 2014).

Finally, among several specificities of Brazilian companies (such as related to state-ownership or influence, family-ownership, the hierarchical market economy structure), an often-highlighted distinctive characteristic is *the so-called resilience to volatility*, meaning the ability to navigate (and do business) under volatile economic and/or

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

political conditions. This ability has been achieved by operating in volatile domestic markets during the twentieth century, characterized by unstable economic conditions (recurring crises), overregulated markets, and infrastructural bottlenecks as well as in more general terms by one of the most challenging business environments in the world. Casanova – Kassum (2014:87) argue, that even though these conditions might have negatively affected both the daily operation and long-term development perspectives of the firms, their resulting ability to successfully operate under such perverse conditions might be regarded today as a competitive advantage, if doing business under similar constraints (physical or legal infrastructural deficiencies) or in uncertain economic or political circumstances. The classic example is the food processing company BRF that has developed a world class distribution network for frozen and refrigerated products, and was able to successfully expand towards the MENA region and overcome all the imperfections typical for these Arab markets.

This latter specific feature of Brazilian companies investing abroad is of special relevance for our current study. Several authors highlight, that Brazilian EMNEs are less concerned about political risk and macroeconomic instability in the host markets, and even better align to institutional shortcomings.

At the same time several studies have highlighted that Brazilian firms tend to invest in countries that resemble their domestic environment, by which we mean that *cultural and institutional proximity* does play an important role, when deciding upon the localization strategy. This preference to invest so called *natural markets* (mainly Latin countries), which resemble similar cultural settings close to their domestic environment.

In a somewhat contradictory manner, however in line with arguments of mainstream theories, Martins (2012) has found that *economic freedom*, “good” *institutional setting* and policies to improve *economic openness* are of large importance for Brazilian investors during their localization decisions, while geographic distance is not a major determinant according to his survey.

Somewhat more surprisingly the size of the host economies (GDP of host countries) does not constitute to be a relevant motivation factor for Brazilian companies to invest abroad (the market seeking argument), as several authors (Martins, 2012; Calderón, 2014) have found that Brazilian firms still tend rather to prefer to export their goods

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

and services instead of investing in large overseas economies. In a similar vein, the same scholars have found that the technology and human capital levels of the host country do not play a decisive role, suggesting that Brazilian OFDI is not primarily determined by asset seeking or augmenting motivations (even though counter examples mainly from technology-intensive sectors exist).

Finally, we sum up the main findings of Andreff (2015:89) related to the Brazilian case from his comparative analysis on OFDI strategies of BRIC (Brazilian, Russian, Indian and Chinese) multinational companies. According to this research Brazilian MNEs' are pre-dominantly market seeking, to some extent resource seeking and to a much lesser degree, and only more recently, technological asset seeking (which constituted to be less than 10 per cent of declared OFDI motives). Andreff has found no sign of an efficiency seeking strategy, meaning to relocate production into countries with low unit labour costs. Even though technological upgrading is in general an important driving force for developing and emerging countries' companies, in Brazil technology seeking OFDI has responded of only 7,2 per cent of the surveyed MNEs (Carvalho, 2009 cited by Andreff, 2015:89).

Traditionally Brazilian MNEs tended to internationalize product development activities with the aim of adapting products to local markets, with the core of R&D activities remaining within Brazil. This was also proven by Maehler et al. (2011, also cited by Andreff, 2015:89), who have analysed Brazilian subsidiaries located in Portugal in different industries, and have shown the innovations there were typically incremental and occurred mainly in relation with product development (aligning to Portuguese customers' needs via new products' creation).

Even though Brazilian MNEs in general might be underrepresented in technology-intensive sectors, some of them have significantly invested in R&D expenditures abroad, even if not yet in the very high-tech ends, like some of their Indian or Chinese counterparts. There are however some examples of foreign expansion of smaller Brazilian IT companies, such as Stefanini, and more recently we find outstanding trans-border mergers (such as the most recent case of Embraer and Boeing suggests), which might signal that Brazilian MNEs started to try to improve their strategic position in the global scene and climb up the value chain through investment in technological assets.

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

To sum up we might conclude that host country determinants of Brazilian OFDI are neither totally resembling DMNE's, nor can be totally explained by traditional FDI theories present in the literature, which might lead us to reconsider these in the light of "atypical" behaviour of the BMNEs. At the same time, we have some reservations on treating emerging markets multinationals as a homogenous group, as we have seen important differences among, for instance, Brazilian and Chinese or Indian MNE's internationalisation strategies in general, and host-country determinants in particular, this requires however further research, also on the firm-level, to which we turn in the next phase of the research project.

ECE region in focus

If we wish to narrow down our regional focus on Europe, and even on East Central Europe while analysing main host-country determinant of Brazilian OFDI, we unfortunately encounter a "blind spot" in the literature. To our best knowledge no analysis has been yet focusing on Brazilian companies' investment strategies in Europe from a host-country/region perspective (see eg. Brennan's (2011) book on Southern MNE's in Europe, and its respective chapters on host-country determinants, which analyse only the Chinese and Indian case, while the volume of Szentiványi (2017) on FDI in Central and Eastern Europe, basically only refers to negligible levels of Brazilian FDI in the region).

An obvious reason is undoubtedly that most Brazilian FDI flows to Western European countries, however these amounts are also relatively low if compared to those of other outward investor emerging economies with similar characteristics (such as China, Russia or India). Referring specifically to the Brazilian case we have already highlighted the possible explanation of prioritizing the "natural market", close both in geographical and cultural, institutional terms. Furthermore, and related to the sectorial composition of Brazilian OFDI, we have seen an increase towards the natural resources sector (metals, mining, oil, gas and steel), which also results in different regional priorities than ECE.

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

All in all, the ECE region does not represent any special emphasis in the internationalization strategies of Brazilian (or even Latin American) firms, on the contrary, there are only a few companies, which are actively present in our region. To name the most important outstanding examples, we refer to the following companies: Kaco, a Brazilian auto parts manufacturer (Hungary); Embraer, the Brazilian aircraft manufacturer and aviation technology (Czech Republic), Embraco, the Brazilian refrigerator producer (Slovakia) and Stefanini, the Brazilian IT company (Poland).

It is straightforward to see, that even though low levels of OFDI is coming, these reveal a rather diverse sectoral composition and we find examples at both the lower and higher ends of the value chain. This finding offers some optimistic outlook for further research into the firm-level.

The few relevant examples reveal some interesting cases (which will be deeper analysed in the next phase of the research via case study methods), such as the Brazilian car component manufacturer KACO (formerly known as Sabó), which was founded by a Hungarian immigrant in the 1950s and became a global supplier to Volkswagen. This case might reveal the *role of diaspora, personal ties or informal institutions*, acting as an important pull factor (which is often analysed in the case of China and other Asian countries). We hope to find some similar unique pull factors also in the other above cited cases during the next phase of the research.

On the other side of the same story, we might try to look for reasons why Brazilian MNEs' (and multilatinas' in more general terms) have been or are staying away from the ECE region. One obvious reason for this we have mentioned earlier: simply the prevalence of geographical distance. However not only being literally far away, but also cultural distance plays a role, as well as the lack or historically low levels of diplomatic, political and even economic relations, which also add up to the low and volatile incoming investment flows. To overcome these (and other) shortcomings a recent study Kugiel et al. (2016) has suggested a new cooperative approach towards emerging markets and a strengthened cooperation between V4 countries, to be better able to emerge as potential FDI location on the horizon of the BICS (Brazil, India, China and South Africa) countries. This finding is especially relevant for pro-active strategies towards Brazilian companies.

Concluding remarks

To conclude we first remind the Reader, that after the golden era of the 2000s Brazilian OFDI flows have been diminishing since 2010 on global level. However, as the ECE region has been out of the focus of Brazilian companies already during the 2000s, these more recent negative trends were not necessarily felt in our region.

We have shown that Brazilian OFDI reveals in general a very concentrated pattern in terms of sectoral composition, mainly dominated by the extractive and commodities sectors, and also in terms of company size (the top three companies – Petrobras, Vale, and JBS – have accounted for the major part of total foreign assets of top Brazilian MNEs). We have also drawn attention however to some outstanding examples in other sectors, such as in more technological-intensive sectors (such as the Embraer in aviation industry) and some international successes of smaller companies (such as Natura or Stefanini).

In terms of regional distribution, the hegemony of natural markets was to some extent broken down, as leaving aside the Caribbean tax heavens, the United States and Europe emerges as important destinations of Brazilian OFDI. For the most recent years however, amid a multi-dimensional economic, social, political and institutional crisis in Brazil, most firms were focusing their resources on defending their domestic positions and activities (or paying off leniency fees and fines due to the overarching investigations related to the Petrobras scandal and the Operation Lava Jato, such as the Odebrecht or Petrobras), and often even withdrawing investments from overseas (divestment).

Looking at host country determinants of Brazilian OFDI we can sum up by stating that some contradictory claims co-exist in the very few studies dedicated to analyse these pull factors, and some timely changes and shifts also complicate the picture. But in general, we can assume that Brazilian firms are still very much affected by geographical and cultural proximity and tax issues. Depending on the very specific cases and companies, the availability of natural resources, human capital and large host markets might play very different role during the locational decisions. At the same time due to their home country experiences, Brazilian firms tend to be highly resilient to

*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
host country determinants*

macroeconomic or political instabilities, and often less affected by institutional voids. As a rule, Brazilian firms are rarely considering the internationalization strategy as a way of technological upgrading and learning opportunity, though counter examples also exist.

Regarding the ECE region, we have concluded that it does not represent any special emphasis in the internationalization strategies of Brazilian (or even Latin American) firms, on the contrary, there are only a few companies, which are actively present in our region. These investments - more often than not - stay mostly below any threshold of international surveys and databases that usually map larger OFDI transactions (such as Amadeus or EPMG) and also those Brazilian surveys that focus on the top Brazilian companies (such as BCG, FDC). This also explains the lack of focused academic research in this regard.

Accordingly, we must admit, that to reveal real driving forces of those few Brazilian companies, which invest in the ECE region, it is insufficient to look at existing analysis, databases and rely on interviews with some institutional actors (such as embassies, investment promotion agencies and some domestic and international experts). We are convinced that to explore real motivations and analyse localisation decisions, a case study approach and analysis is highly in need. Thus, in the following phase of the research we will definitely take up on this, and aim to conduct interviews on the firm-level, and to provide case study analysis on the major Brazilian actors present in the ECE region (such as among others with Kaco, Embraer, Embraco and Stefanini).

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*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
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*Judit Ricz / Brazilian Foreign Direct Investment in ECE:
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