INTERNATIONALIZATION OF BRAZILIAN COMPANIES: PULL OF OPPORTUNITIES ABROAD OR PUSH OF DOMESTIC INSTITUTIONAL VOIDS?

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Abstract

The article discusses the internationalization of Brazilian firms, which strongly increased in the last 20 years, and that has sparked numerous studies on the conditions of emerging countries to generate globally competitive companies. An important issue is how the study of these companies can contribute to International Business theories. Internationalization models and theories did not acknowledge the institutional conditions of countries, as they have been developed by studying companies in advanced countries going to other similar countries. But in emerging countries, institutional environment is a crucial aspect to understand business operations. In Brazil, the appearance of a new type of capitalism - state capitalism - changes the conditions of competition between firms, by selecting *national champions*, while maintaining a difficult and unstable business environment for all the others. The economic opening of the country was a powerful incentive for the internationalization of companies, as well as institutional voids, which, in many cases, lead them to escape the uncertainties of the home environment.

Key words: *Brazilian multinationals; institutional voids; internationalization; emerging countries, strategic escape*

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1. Introduction

In the early 1980s, several authors studied the internationalization of companies from emerging countries (Lall, 1983; Wells, 1983), which contradicted the prevailing theories at the time. Currently, this renewed curiosity is explained by the leadership attained by some of these companies in their industries, which was the subject of academic publications (Sauvant, 2008; Ramamurti and Singh, 2009; Cuervo-Cazurra, 2010) and business magazines like The Economist (2008, 2009, 2010) and BCG report (2009). One of the aspects discussed refers to the economic, cultural, political and institutional conditions of these countries, most of which went through periods of import substitution and closed economies, but, nevertheless, generated multinational companies (MNCs).

Import substitution strategies and tariff barriers brought multinational companies of selected industries to Brazil and other Latin American countries. But there was a good side effect - the countries' integration in the production networks of MNCs – which stimulated exports and technological learning in some industries. Inward FDI contributed significantly to these countries' process of economic change and growth.

An important issue is how the study of these companies can contribute to the theories of international business. Some authors argue that new theories are needed to explain this phenomenon (Guillén and Garcia-Canal, 2009, Luo and Tung, 2007; Mathews, 2006), since the traditional theories were developed in central countries, between the 1960's and 1980's, by observing the expansion of companies from these to other developed countries (Dunning, 1980, 1988; Johanson and Vahlne, 1977). Much of the literature consisted of generalizations that did not take into account the countries' context, or were specific case studies on selected companies at a given time (Ramamurti, 2009).

Another group sees emerging markets' multinationals as any other MNCs, so their behavior can be adequately explained by traditional theories (Dunning, Kim and Park, 2008). And a third group suggests that local environment is crucial to explain the success of some of these companies. Institutional deficiencies pose an extra challenge, and overcoming them can bring valuable lessons to complement incumbent theories. Presently, studies try to understand how emerging countries' multinationals are capable to compete not only in other emerging markets, but also with developed countries' multinationals in their own markets.

Internationalization models and theories did not acknowledge the institutional conditions in developed countries as a possible influence over the process, but in emerging countries such conditions seem important. In Latin America, economic liberalization encouraged companies to increase their skills to become multinationals. And institutional deficiencies, in the form of high taxes, poor infrastructure, bureaucracy, corruption, inflation and uncertainty drove companies to other countries, including tax havens, which offer a shield against government measures.

The international literature has not given due attention to Latin American companies (known as Multilatinas or Translatinas), where Brazilian, Mexican, Argentinean and Chilean firms stand out (America Economía, 2011). Most papers focus on Asian companies, especially from China and India. But Multilatinas are surprising scholars, having increased their skills through an initial technology transfer process of licensing and alliances, followed

by endogenous learning, and later started acquiring firms in developed countries to further enhance their technological capabilities.

As of the 1990 decade, economic liberalization had a fundamental role in stimulating internationalization, by modifying the environmental conditions, thus urging firms to enhance competitiveness, by improving their products and manufacturing processes to compete with foreign firms that already were in the region, and many others that were attracted by the new liberal environment. In doing this, they developed capacities, experience and confidence that prepared them for international competition. Inward FDI helped them accelerate the reverse process and they rapidly increased their investments abroad (Luo and Tung, 2007). Several state companies that had grown and consolidated under government protection were privatized. There was no need for public policies to support internationalization, just the removal of institutional barriers was sufficient to drive companies to search for new markets.

But the institutions in these countries do not work properly, and give rise to informal arrangements that seek to overcome the difficulties imposed by bureaucracy, poor infrastructure, patronage, corruption, unstable economic environment, very high taxes, etc. These are the *institutional voids* pointed by Khanna and Palepu (2006) and Luo and Tung (2007) that "push" companies to other countries, and especially to tax havens, which offer a shield against government overbearing taxation. Heavy institutional voids in home countries hinder companies' performance, and many go abroad to escape this environment.

Peculiar governance structures, based on family groups, allowed some companies to compensate for institutional voids (Khanna and Rivkin, 2001). Support from the group and privileged interaction with the government make operations easier. Individual social networks also have a key role, leading to the *capitalism of ties* or *network capitalism* mentioned by Lazzarini (2011). State capitalism resurges in emerging markets, by supporting selected companies not only at home but also in their international expansion.

Thus, supported by extensive bibliographical and documental research, we argue that Brazilian companies face two main motivations in their internationalization process. The first is the pull of opportunities in international markets to which they are able to respond, after the implementation of pro-market reforms in their home countries. Once local firms learned to serve more demanding domestic consumers, some of them reached a level of sophistication in capabilities that enabled them to become multinationals and invest abroad. The second is the push from severe institutional deficiencies in the domestic markets that stimulate companies to internationalize, in the form of *strategic escape*.

The objective of this paper is to discuss the contradiction between the explicit purpose of the Brazilian government in supporting the internationalization of domestic companies, through financing, incentives and focused support to a small group - the *national champions* - and its passive attitude in maintaining an unfavorable institutional environment that poses difficulties to all other companies and drives many of them abroad.

2. State capitalism and its varieties in emerging countries

Besides the internationalization of emerging markets' companies, another issue is an important topic of discussion – the appearance of a new type of capitalism in these countries – State capitalism - and how it supports the international expansion of firms.

A special report in The Economist (January 2012) and subsequent comments brought a debate over this new model, which has as main features: 1) state support to leading companies in sectors with comparative advantage, 2) the presence of private shareholders in such companies, many of which open up their capital and engage in mergers and acquisitions, both at home and internationally, and 3) despite the state's control, these companies are

professionally managed by competent and experienced executives. In fact, these companies are a hybrid type of corporation, supported by the state, but behaving like a private multinational. And this would be the main reason for this model's success.

But in addition to the strengths, there are also problems and risks. When government favors some companies, all others are discriminated against. Also, state capitalism works well when directed by a competent state authority. It may operate well when countries are at the stage of *catching up*, but may be unable to promote innovations. And this model benefits people who have good relationships and are well connected instead of those innovative that have no connections, which leads to cronyism, corruption and inequality. The Economist report points out that a large number of governments in emerging countries are learning to use the market to achieve political objectives, and that the "invisible hand of the market" is giving way to the visible, and sometimes authoritarian, hand of state capitalism.

There are several types of capitalism that differ from the traditional market capitalism: *capitalism of ties or bonds*, in the case of Brazil (Lazzarini, 2011); *coordinated capitalism* (Hall and Soskice, 2001); *hierarchical capitalism* (state as a complementarity, Schneider, 2009); *alliance capitalism* (Gerlach, 1992); *relationship capitalism* (Rajan and Zingales, 2004); or the *developmental-biased democratic capitalism*, seen in Brazil and India (Rothkopf, 2012). But, in varying degrees, all involve a close relationship between private companies and the state. In Brazil, *capitalism of ties* leans on three main axes: the political system, formed by the parties and their representatives; the government actors - direct (the government itself) and indirect (SOEs and their pension funds); and domestic private groups (Lazzarini, 2011).

Business groups have a significant role in developing economies (Khanna and Palepu, 1997), as seen in Korean *chaebols*, Turkish families, Latin American and Spanish *grupos* and Indian business groups. They are a set of firms which are legally independent but linked by formal and informal bonds and usually take coordinated actions (Khanna and Rivkin, 2001). Due to institutional voids such as information asymmetries, poor contract enforcement, imperfect regulatory structures and absence of intermediary institutions, transaction costs for acquiring technology, finance and managerial talent increase, and business groups perform the role of missing institutional intermediaries by filling these gaps. They generate their own internal markets for financial capital and managerial talent (Aulakh and Kotabe, 2008).

Large Latin American companies are strongly diversified, and each major group has direct hierarchical control over dozens of different companies. Many groups have been owned and managed by families, for several generations. They have survived the liberalization of the economy and the effects of globalization in the years 1990 and 2000 (Schneider, 2009). On the other hand, coupled with the security that affiliation brings, managers of group-affiliated firms typically have weaker incentives to run their firms efficiently.

Academics compare the Brazilian "new developmentalism" to the policy adopted during the import substitution period (Balestro, 2011), and point out some significant differences. This new growth strategy involves some economic and fiscal measures and a strategic role for the State to induce economic development. Instead of "state intervention" they mention "state coordination", through an industrial policy that coordinates the economic actors, and which defines the means to take part in the global economy. But there are common features between both types of developmentalism, especially the idea that development is not spontaneous and a direct result of free market forces, hence it must be planned and organized.

The analytical framework of the varieties of capitalism (VoC) is being increasingly used to study the trajectory of Latin American countries, in the period that followed the end of

national-developmentalism and the liberalizing reforms of the 1990s. These countries face the challenge of responding to the adverse effects of the international crisis of September 2008, and defining new strategies for development, and there is a critical view of the recent past and the search for a new model to meet today's challenges (Diniz, 2009). This author highlights the process of building a "sustainable democracy", distinct from earlier models, because it considers the stability of rules of political competition and power alternation. There is also a process of institutional improvement, despite the frequent cases of corruption and cronyism between Government and Congress mentioned in newspapers and business magazines. What is new is the objection to economic stability at the expense of economic growth, and the need for new development policies, incorporating the dimensions of ethics, equity and sustainability, and state coordination.

With regard to instruments to promote the internationalization of national companies, Brazil has very few. Since 2004, the industrial policy in force made clear the importance of supporting Brazilian multinationals, but even today this support is given to few companies. One of the strong instruments (acquisition of stock shares) is operated by BNDES (National Bank of Economic and Social Development) to some large firms elected as *national champions*. The selection process by which the bank decides to allocate capital showed that companies with good operating performance were chosen, but more funds were offered to firms that have political connections (verified by campaign donations to politicians who were elected), although there is no evidence that the bank is systematically bailing out companies in poor financial health (Lazzarini et al., 2012).

The bank was founded in 1952, as a federal agency, responsible for defining and implementing the national policy for economic development. At the beginning, it invested heavily in infrastructure, but the creation of several SOEs released the bank to invest more in private firms and industry. During the 1960s, credit lines were created for the agribusiness sector and small and medium firms. An important change occurred in 1971 when it also became a SOE, thus allowing for more flexibility in hiring, greater freedom in raising and investing funds and less political interference. In the 1970s, it was a cornerstone of the import substitution policy.

During all these years, BNDES has been an important actor in the country’s economic development. As of 2003, it has consolidated social issues in its mission, in order to promote the competitiveness of the Brazilian economy, together with sustainability, employment and income creation and reduction of social and regional inequalities. It has become the world largest development bank, bigger than the World Bank, the Inter-American Development Bank (IADB) and the United States Export-Import Bank.

Currently, BNDES recognizes the importance of internationalization as an essential tool for the strengthening of Brazilian companies and increasing the country’s competitiveness (Além and Cavalcanti, 2005). Until the mid-2000s, internationalization was driven by the companies’ initiative, without the support of a deliberate policy to support the creation of Brazilian multinationals.

All these actions have supporters (Finchelstein, 2009) and critics (Gudynas, 2009; Attuch, 2009). As most *national champions* are large competitive firms that belong to low technological intensity sectors, with a limited potential to change the profile of Brazilian industry, they could do without this huge support, and seek funds in the stock market. There is a need for support to higher technological intensity industries in order to open up new alternatives to the successful commodities export sector (Arbix and Caseiro, 2011). This type of intervention has positive aspects, and it is commendable that a government supports its

businesses as a way to counterbalance the transnational capital. But some questions demand answers: how and who decides on the use of state resources, which belong to the whole society? Which companies should benefit and under what conditions? (Gudynas, 2009).

Four ex-presidents showed concern about present operations (Attuch, 2009). One mentions the lack of focus, as if the funds were unlimited. A second argues against subsidized loans to multinational automotive companies such as FIAT, VW, Renault and GM, or even to large Brazilian groups, which have an easy access to stock markets. Another issue is the help that BNDES offers to Brazilian companies in difficulties, which, in some cases, had very bad results, where cronyism replaced objective financial analyses. And another ex-president says that the bank's cheap money ("from father to son") must be given to new ventures, not to existing ones. Table 1 shows the participation of BNDES in some major companies.

Table 1. BNDES shares in Brazilian multinationals (2010)

Industry/Company	**%**	**Industry**/Company	**%**
Aviation	**5.05**	**Pulp and Paper**	
EMBRAER		FIBRIA	**40.33**
Food Processing		KLABIN	**20.25**
JBS	**22**	**Chemicals**	
MARFRIG	**14.7**	BRASKEM	**42 ***
Electromechanical		**Steel**	
METALFRIO	**7.59**	CSN	**3.83**
Metal-mechanical		GERDAU	**7.23**
TUPY	**35.77**	**Textiles**	
LUPATECH	**11.45**	COTEMINAS	**10.35**
IND. ROMI	**7.13**	**Info. Technology**	
Mining		BEMATECH	**8.22**
VALE	**6.71**	TOTVS	**6.52**
Auto parts		**Transportation**	
IOSCHPE-MAXION	**24.44**	ALL LOGISTICS	**19.24**

* BNDES and PETROBRÁS; Source: Arbix and Caseiro, 2011

Moran (2008) mentions the reasons why developed countries' governments have chosen *national champions*. The first is justified by industrial policy, to ensure the presence of national companies in economic sectors considered particularly valuable for providing good jobs and high value-added operations. The second reason is called strategic trade, to ensure the presence of domestic firms in sectors with relevant economies of scale, high entry barriers, and abundant rents and externalities, so as to prevent early purchase by competitors. And the third reason - national security – intends to avoid dependence on foreign suppliers.

But the experiences of developed countries show that these reasons are influenced by political pressures, and do not always achieve the best results. In Japan, the Ministry of International Trade and Industry "chose" Isuzu and Mitsubishi Motors for support. Toyota, Honda and Suzuki were ignored, but rose through the entrepreneurial effort of their founders, without government help.

State intervention on private businesses often flees from the reasons and strategic decisions of the corporate world. The Brazilian government demanded explanations for the dismissal of employees at Vale and Embraer, two successful global companies that were

privatized in the 1990s, and which saw their demand fall as a result of the 2008 financial crisis. In the case of VALE, government demanded CEO change in April 2011.

Recent actions taken in Argentina to re-nationalize Spanish company Repsol; the conflicts between the government of Bolivia and Petrobrás and, more recently, the expulsion of Brazilian construction company Queiroz Galvão and the problems with Brazilian engineering firm Odebrecht, expelled from Ecuador, illustrate the influence of state capitalism and the institutional voids in these countries.

3. Institutional theory, internationalization and institutional voids

Besides traditional theories of International Business (Uppsala School, OLI paradigm, Internalization theory), multinationals have recently been studied from the perspective of institutional theory. This approach was a reaction to the organizational models based on rationality and emphasizes the relationship between the organization and the environment, valuing the role of culture. It postulates that decisions are limited by different conditions such as the home country, the host country, and the supranational environment, which can be summarized as "rules of the game" (Kostova et al., 2008; Meyer, 2004). Institutional theory focuses on the processes by which structures, rules, norms, values and routines are established as authoritative guidelines for social behavior (Scott, 1995). To increase the chances of survival as organizations grow, they must adapt to the rules and beliefs that prevail in a given environment, which will give them acceptance and legitimacy. The need for legitimacy leads growing businesses to emulate the structure, strategy and culture of successful firms in their industry (DiMaggio and Powell, 1983).

Main studies seek to understand how business strategies respond to fundamental institutional transitions, especially in emerging countries, such as the transition from a protected economy (like Brazil, with import substitution that lasted until the late 1980s) to a market economy (PENG, 2003; WRIGHT et al., 2005).

Several studies in different countries (Argentina, Chile, Czech Republic, South Korea, Hungary, Poland, Russia, India), with distinct transition trajectories and cultural traditions, showed the prevalence of informal network-based strategies, resulting from common institutional attributes, such as the absence of formal market institutions (Peng, 2003). Wright et al. (2005) mention the use of Institutional Theory, by itself or together with the Resource-Based View and the Transaction Costs Theory, to explain the movement of MNCs from developed to emerging countries, and from these to other emerging or developed markets.

The concept of institutions comprises several elements like customs and beliefs, religion, legislation, judiciary system, bureaucracy, government structures and market mechanisms, which are difficult to measure. There are formal and informal institutions. The first define the rules by which economic actors should interact, through contracts or employment relationships (North, 1990). When first entering in an unfamiliar legal context, investors need to adapt their business practices. These rules are encoded and can be quickly understood and incorporated by new entrants. On the other hand, informal institutions are the limitations created by individuals, not formally encoded, but embedded in the norms, values and shared beliefs of a society. They can impose heavy restrictions and persist in the event of changes in formal institutions. These rules are tacit and foreign investors will have to gradually learn how informal institutions work and how to operate under these conditions.

Multinational companies that operate in several countries with distinct institutional environments face diverse types of pressure and react in different ways to similar challenges, which significantly affects their competitive strategy (Porter, 1990). Institutional distance between countries is a very important issue in deciding among host countries for investments

(Ghemawat, 2001). This concept involves public policies, intellectual property protection, corruption, privatization degree, educational system, the country's culture and values, among other features. The greater the institutional distance, the harder it is for the multinational company to gain legitimacy and transfer its strategic routines to subsidiaries (Kostova and Zaheer, 1999, Xu and Shenkar, 2002).

The determinants of foreign direct investment (FDI) can be classified into *push factors* and *pull factors*. The first refers to the characteristics of the home country that encourage companies to go abroad, while the latter are the opportunities and challenges that exist in host countries (UNCTAD, 2006). There are four main categories: market conditions and trade, production costs, local conditions for doing business and local public policies.

Many developing countries have a limited domestic market in terms of scale and opportunities for expansion or face export barriers (tariff and non-tariff), which may be two strong incentives to settle in other countries. The first aspect is not a problem for Brazil, but the second one resulted, since 2005, in a wave of acquisitions by the major Brazilian meat companies (JBS, Marfrig, BR Foods) in nearby countries such as Argentina and Uruguay. Facing strong sanitary barriers on the part of the largest buyer markets (Japan, USA and Europe), they started their internationalization process (Stal, Sereia and Silva, 2010).

Therefore, local market conditions can provide a healthy competitive environment that encourages companies to internationalize. But when business environment is adverse, there is a strong incentive for companies to seek opportunities abroad. For developed countries' multinationals, doing business in emerging markets often means facing barriers created by imperfections or by the complete absence of institutions that are naturally present in their home countries.

These gaps are known as *institutional voids,* and can be defined as the lack of specialized intermediaries, of efficient regulatory systems, of mechanisms that ensure the implementation of contracts, underdeveloped capital markets, poor infrastructure, lack of security, poor education, lack of qualified workers, corruption, bureaucracy, volatile economic and political environment, lack of transparency, failure to protect property rights. They make it difficult and costly for companies in these countries to access capital or qualified human resources, and hinder investments in R&D or in building global brands (Khanna and Palepu, 2006). When they enter emerging markets, multinationals face the same problems as local firms. But the latter are more successful, due to their experience in working in this peculiar environment, or through familiarity with customers' needs, both at home and in other countries of the same stage of development (Dawar and Frost, 1999; Cuervo-Cazurra and Genc, 2008).

Emerging countries' multinationals are used to operating in environments with institutional deficiencies, as shown in an UNCTAD study on the conditions of the 50 least developed countries in the world. The less developed are the institutions of a country, the greater is the presence of emerging multinationals. Institutional voids drive companies abroad (Witt and Lewin, 2007), and they will go to developed countries only if they have clear ownership advantages or in search of strategic assets such as technological capacity. In the absence of these advantages, they will enter geographically or culturally close countries because they know how to operate in such confuse environments.

Making use of informal relationships to compensate for institutional weaknesses may open doors (*gwanxi* in China, *blat* in Russia or the *Brazilian knack*), but also lead to corruption, in order to achieve business objectives in a hostile environment (Martinsons,

1999; Cuervo-Cazurra, 2006). Using these skills and informal networks is expensive and reduces firms' competitiveness (Luo and Tung, 2007).

Acemoglu and Robinson (2012) say that one single element can explain the unequal performance of countries – the quality of their institutions. But Chang (2002) presents a different view on the importance of institutions and policies for developing countries. He argues that these countries were pressured by developed countries to adopt "good policies" and "good institutions" to stimulate economic growth. Good policies would be competitive exchange rates to stimulate export growth, import liberalization, tax reform, generation of adequate domestic savings to finance investment, mainly by tightening fiscal policy, privatization of SOEs, and reducing the government role to providing core public services, like basic education, health and sanitation, and a framework for economic activity. These measures were suggested by what became known as the "Washington Consensus", which had an enormous influence on Latin American countries.

Good institutions would be those effective in developed countries, such as democracy, an independent judiciary system, an independent central bank, a professional bureaucracy and the protection of property rights. But these countries have not reached their present stage by using the policies and institutions that they insist in recommending to developing countries. They used "bad" industrial and trade policies, such as infant industry protection and export subsidies, which are now banned by WTO, and they also experienced vote buying, corruption and electoral fraud (Chang, 2002). Differences in industrial, commercial and technological policies are responsible for the economic success or failure of countries. And there is no common recipe that may be applied to different countries.

4. Cultural heritage: Portuguese colonization in Brazil

Faoro (1957) highlights the intertwining of public and private interests and acknowledges the colonial period as the origin of corruption and bureaucracy in Brazil. Portugal, an absolutist state, brought to the colony the patrimonial structure of the kingdom (where the state becomes an asset of its ruler), which remains rooted among us. This legacy still survives in the government through the "Brazilian knack", by which most politicians see their public position as private property.

The "Brazilian knack" arises from the difficulty of dealing with the principle of everybody's equality before the law. It consists of a "way to solve situations that are forbidden by law or by some authority, without contesting, attacking or refusing the law, and, at the end, getting what is wanted "(DaMatta, 1992). It can be understood as something close to a favor or to corruption, but it can also be seen as an imaginative way to circumvent the inconsistencies of the Brazilian laws and norms, in a way that does not refuse them openly, avoiding a direct conflict, thus becoming an important element in the formation of the Brazilian identity (Barbosa, 1992). As presented by Machado (2007):

> *"……………..Unfortunately, in Brazil transaction costs are still very high, hence reducing the competitiveness of our companies, and by extension, of our economy. Among many reasons, the constant changes in the rules of the game, the frequent disrespect for property rights, the lack of absolute equality of all citizens before the law, the slow procedures of legal processes, the chaotic tax system and the infrastructure deficiencies that burden the production and trade of goods and services" (Machado, 2007).*

Using the neo-institutionalism approach, Senna (1995) examines Brazil economic history, and the negative impact brought by the neglect of institutions. He shows the

dominance of a centralized state that sought to adapt institutions to the interests of rulers and their support groups. And that Brazilians have believed in the state as an entity that generated wealth, capable of promoting economic progress and social justice, thus neglecting the mechanisms of political representation, in order to react to the often arbitrary actions of rulers.

Bomfim (2008) refers to the cultural heritage that Latin American countries received from Portugal and Spain, to the exploitation of the colonies and the destruction of native people, and attempts to explain the reasons for our backwardness. He argues that the conditions in which South American nationalities were formed are the true cause of our current problems - people had the same origin, were formed under similar conditions, were educated by the same processes. And if the antecedents are common and the symptoms are the same, it is quite possible that the background is the real cause.

5. Internationalization of Brazilian companies: the push of pro-market reforms and institutional voids

Among Latin American countries, only Brazil, Mexico, Argentina and Chile have companies classified as multinational, ranging from those at the beginning of this process to a few *global players*, such as Mexican Cemex, Argentinean Techint, Chilean Sonda and Brazilian Vale. However, these countries have specific sets of advantages and disadvantages. Natural resources are a common advantage factor, although many Multilatinas do not base their competitiveness on such resources. Mexico has benefited from the proximity and preferential access to U.S. market (Ramamurti, 2009). All of them took advantage of industrialization protectionist policies or of import substitution, before choosing internationalization in the 1980s and 1990s. As disadvantages associated to the countries, political and institutional turmoil is a common factor, less important in the case of Chile (Fleury and Fleury, 2011). Table 2 shows some recent rankings of Latin American Multinationals.

Table 2. Presence of Multilatinas in some rankings

Ranking 2011	Brasil	México	Chile	Argentina
BCG (100 New Global Challengers)	13	7	2	1
Financial Times Global 500	9	3	2	0
Forbes (The Global 2000)	37	17	9	0
America Economía (66 Multilatinas)	27	15	11	4

Source: elaborated by the author

Countries with the largest outward foreign investments can be divided into three groups. The first involves countries with large populations, like Brazil, Mexico, Argentina, Colombia and Venezuela, whose companies have achieved a high degree of efficiency by serving large domestic markets, which helped their international expansion. Chile belongs to a second group, with a small population, but opened its economy in the 1970s, which forced companies to increase their competitiveness, making its international integration easier. The third group consists of small countries, the so-called *tax havens* such as Bermuda, British Virgin Islands, Cayman Islands and Panama. In fact, investments do not originate from such countries, but are resources invested by companies from other countries, who rely on local advantages offered to foreign investors, such as low taxes. In general, these investments will proceed to other countries, in an operation known as "trans-shipping FDI" (Fujita, 2005). It is

noteworthy the large number of multinational companies registered in these tax havens - 58% of Brazilian outward investments, according to Central Bank data (2011).

The first generation of multinational companies from emerging countries appeared in the context of import substitution strategies (the 1970s), operating in an environment protected by high tariffs, with limited resources, and adapting products to local conditions, in labor intensive processes, known at the time as "appropriate technology". The main objective was to gain markets and production efficiency (Dunning, 1988, 1994) and investments were directed to other developing countries, usually neighbors. This movement originated predominantly in Latin America - Argentina, Mexico, Chile, Brazil, Colombia and Venezuela (Gammeltoft, 2008). At first, companies abroad intended to establish partnerships with their customers, staying close to adjust products, to provide technical assistance and logistics support, thus ensuring export channels for their products.

The second wave of internationalization was stimulated by a combination of factors "pull and push" (attracting foreign firms and encouraging the exit of local firms), and the major goal was to obtain strategic assets, hence the existence of investments in both developing and developed countries, outside from their neighborhood. This phase began in the 80's and was dominated by multinationals from Asian Tigers - South Korea, Taiwan, Hong Kong and Singapore - soon followed by companies from Malaysia, Thailand, China, India and the Philippines (Minda, 2008). Outward investments from these countries were more significant than those from first-generation emerging countries' MNCs, and were targeted to more technologically sophisticated sectors (Chudnovsky and López, 2000).

Brazilian companies do not possess the same capacities as Asian MNCs in high technology or capital-intensive industries. The disadvantage partly results from the initial model of industrial development, the low rate of accumulation of physical and human capital, but also the lack of vision of public policies, especially those related to education, industry, and research and development. All these elements led to low levels of productivity and less innovation capacity (MINDA, 2008). Brazil relied on its large home market, on the abundance of natural resources and on laws that protected domestic firms.

On the contrary, Asian Tigers adopted a policy of export promotion, motivated by the reduced size of their domestic markets and scarce natural resources, having achieved an international position through exports of high value-added industrial products (Furtado, 2004). Korea, Taiwan, Singapore and Hong Kong had undergone major changes since the 1960s, and had a number of industrial companies that manufactured technologically complex products, competing on equal conditions with developed countries' firms (Kim and Nelson, 2000). These changes involved the acquisition and assimilation of technologies which, in turn, demanded high levels of investment in physical and human capital, besides entrepreneurship, learning and innovation.

The success of these Asian countries was a result of consistent and targeted government policies aimed at strengthening innovation and the influx of knowledge. They made strategic investments in human resources, R&D infrastructure (technology parks, incubators, public laboratories) and the protection of intellectual property rights. The lack of similar policies in Brazil, and also in Latin America, explains the low proportion of companies in high technology industries (Chudnovsky and López, 2000).

The second generation of Latin American MNCs came up with economic liberalization. Until then, large domestic markets had given companies a double mistaken feeling of protectionism and competitiveness. The opening of the economy showed that this was only true for a small group of companies, many of which were state enterprises that had

grown under government protection, and once privatized, were capable to compete abroad. Some private firms also survived and grew during this period and became internationally successful, even though import substitution strategy was always accused of leading to uncompetitive companies, which is the main reason for its unpopularity (Wells Jr., 2009). This is confirmed by hundreds of firms that closed or were acquired by foreign entrants.

Economic liberalization played a key role in stimulating internationalization, by modifying the environmental conditions under which the companies operated, requiring increased competitiveness. Many state enterprises, which had grown and consolidated under government protection, were privatized, and were capable to compete abroad. In Latin America, Chile was the first country where this occurred, in 1975, and then spread across the continent. There was no need for public policies to support internationalization - the simple removal of institutional barriers drove companies to seek new markets.

Economic opening changed the profile of the largest companies in Latin America. Between 1991 and 2001, the number of state enterprises dropped from 20% to less than 9%, and foreign multinationals increased from 27% to 39%. This increased competition put pressure on local firms, which traditionally manufactured products and services for their local market (Santiso, 2008), and the most dynamic enterprises became Multilatinas. In the course of time, there were other reasons for outward investments – to access technology and international funding sources, to circumvent tariff and non-tariff barriers, and to take advantage of a growing number of regional free trade agreements.

Currently, the third generation of emerging countries MNCs consists of firms that stand out in an environment of global competition, contending with other multinationals in emerging and also in developed countries, and threatening established global competitors (Aulakh, 2007). One of Brazilian MNCs' distinguished features is the large number of family groups. They act as responses to market failures and high transaction costs, operating in multiple industries, bound together by formal (e.g., equity) and informal (e.g., family) ties (Khanna and Rivkin, 2001; Khanna and Yafeh, 2007).

Based on the literature on emerging countries' multinationals, Silva, Rocha and Carneiro (2009) proposed a typology of Brazilian multinationals, which takes into account the specificities of their international path. Some firms are *natural resource seekers*, such as Petrobras and Vale; some are *quasi-global champions*, that operate in several countries and regions (Gerdau, Odebrecht, Marcopolo); others are *regional marketers* (Banco Itaú, Oxiteno, ALL); some are classified as *major exporters* (BR Foods, JBS, Klabin); finally, some are *born globals,* like Totvs and Stefanini.

The analysis of the destination of Brazilian FDI reveals a high regional concentration. Until 2006, most of it was directed to the Americas, which represented 70% of all foreign investment from Brazil, followed by Europe, with 29%, while all Asia, Africa and Oceania accounted for the remaining 1%. This concentration in the Americas has diminished over time, from representing 87% in 2001 to 52% in 2010, while Europe has gained importance, moving from 12% in 2001 to 48% in 2010. Other continents continued to account for 1%.

Within the region, the surprise comes from the countries in which Brazilian firms have invested. The largest recipients are Cayman Islands, British Virgin Islands and the Bahamas, countries that are considered as tax havens because of their low taxes and regulations and high privacy protection. The three countries together concentrated 38.4% of Brazilian FDI in 2010. Investments in Austria (also considered a tax haven) jumped almost tenfold from 2006 to 2007, from US$ 3.8 billion to US$ 31.2, and reached US$ 37 billion in 2010.

The Doing Business report series, published by the World Bank (www.doingbusiness.org), shows that in 2011 Brazil was ranked 126th among 183 countries. The overall index is composed of nine topics (time to open and close a business, enforcement of contracts, getting credit, paying taxes, etc.). Chile was in the 39th place, Mexico in 53rd and Argentina in 113rd. In worse positions than Brazil, we find in South America, Ecuador (130th), Bolivia (153rd) and Venezuela (177th).

An IMD study (*World Competitiveness Yearbook 2011*) compares 59 countries by applying 331 competitiveness criteria, which have been selected as a result of extensive research using economic literature, international, national and regional sources and feedback from the business community, government agencies and academics. The following table shows the results for Argentina, Brazil, Chile and Mexico.

Table 3. World Competitiveness Yearbook 2011 (selected countries)

Selected variables	Argentina	Brazil	Chile	Mexico
Overall Competitiveness	**54**	**44**	**25**	**38**
Economic Performance	39	30	17	16
Government Efficiency	57	55	12	43
Business Efficiency	51	29	21	43
Infrastructure	45	51	40	49
International Trade	44	57	38	43
Institutional Framework	55	58	21	39
Education	45	56	47	54

Source: https://www.worldcompetitiveness.com/OnLine/App/Index.htm

Brazil is in the 44th place, and the worst evaluation item was, in fact, the public sector efficiency (55th), with a large difference between government and business efficiency (29th). In Chile, both government and companies are efficient, but the government (12th) is more efficient than the companies (21st)! In Argentina, both sectors are quite inefficient, as well as in Mexico, that shows better indicators. All four countries do very badly in Education, with slightly better numbers for Chile and Argentina. Brazil and Argentina share the same terrible results in institutional framework.

Porter (2012) criticizes the Brazilian government for the lack of an efficient business environment. The explosion of natural resources, of which Brazil is one of the most endowed countries, made the country seem prosperous, but it is not a result of productivity gains. Improving fundamentals such as health, education and infrastructure is critical:

"The role of the government is a disaster - bureaucratic, with complex and heavy taxes, inefficient - and the weight of the public sector delays country growth. Governments do not create wealth, only businesses do, and protectionism is a dead idea nowadays."

The “Brazil cost” remains high, with an excessive tax burden, high cost of credit, outdated labor laws and unbearable costs, deficient infrastructure, lack of skilled workers and a stifling bureaucracy. These voids place a huge burden on the country's reputation, making life harder for local firms and hindering the attraction of foreign companies. Steel company Gerdau has two employees to deal with taxes in its American subsidiaries, while in Brazil it needs 200 employees (Teixeira, 2011).

Brazil has too many laws, written in affected language, which hinders their understanding, as well as rules and resolutions that, instead of ensuring the good operation of institutions, cause the opposite effect, putting bureaucracy as an end in itself. Survey done by the Brazilian Institute of Tax Planning shows that since the publication of the 1988 Constitution, 4.2 million federal, state and city laws have been approved (Carelli and Salvador, 2011).

Stal and Cuervo-Cazurra (2011) analyzed the application of the Investment Development Path (IDP) (Dunning and Narula, 1996) to emerging countries' multinational companies, using the evolution of Brazilian outward FDI. The results show that two factors encouraged companies to go abroad earlier than would be expected by the IDP model: the opening of the economy in the 1990's, when many companies had already developed competitive skills in the domestic market to face foreign competitors; and the presence of institutional voids, from which the companies sought to escape.

6. Concluding Remarks

This paper discussed the internationalization of Brazilian companies and the active role of the government in supporting this process. We argued that these actions are based on a new form of state intervention, known as state capitalism or developmentalism, in which a group of *national champions* are selected, by some unclear criteria, while keeping an unfavorable institutional environment for all other firms. Many companies choose international expansion as an escape response to severe institutional voids.

Many scholars have used the varieties of capitalism approach to discuss business strategies and public policies, and refer to "state coordination" instead of "state intervention", by means of an industrial policy that coordinates the economic actors, and defines how to participate in the global economy (Balestro, 2011). Diniz (2009) mentions the building of a sustainable democracy and institutional improvement, and the denial of economic stability at the expense of economic growth, which requires state coordination.

The academic interest in Multilatinas, and especially in Brazilian multinationals, is quite recent. The attempt to explain how companies born in discouraging business environments with serious institutional deficiencies have managed to survive and expand in the international market leads to inevitable comparisons with the Asian Tigers. And they are clearly unfavorable to us. The experience of these countries demonstrates the importance of technological innovation and public policies that stimulate the growth of local firms and their internationalization. China launched in 1999 the *Go Global* program, encouraging high-performing companies to invest overseas to increase their competitiveness, by granting low-interest loans to finance the acquisitions of foreign companies.

There is a lack of public policies in Latin America as a whole that value technological innovation and the complementary conditions for such. The overcoming of the indicated institutional voids requires improving education at all levels, increasing the supply of qualified professionals, provision of credit, a developed capital market, excellent technological institutions, more flexible labor laws, less bureaucratic procedures for entry and exit of businesses, protection of intellectual property rights, a good transportation infrastructure (roads, ports and airports) and reduction of cumulative taxes. Specific policies to support internationalization are desirable, especially for smaller companies.

Policy-making takes place in an institutional environment in which there are no generally accepted norms or rules to construct policy measures and instruments to deal with inward or outward FDI. Brazil has yet to develop, on a sufficient scale, efficient mechanisms to ensure the enforcement of contracts in the international arena. It has signed 37 double

taxation treaties (DTTs) and 14 bilateral investment treaties (BITs), until June 2011. As pointed out by UNCTAD, international investment agreements (IIAs) are a part of a set of policy instruments affecting companies' decisions to invest. They include BITs, DTTs and other agreements, including free trade area agreements with investment clauses. Brazil has no explicit agenda to strengthen the role of IIAs as an investment instrument to encourage inward and outward FDI (Campanário, Stal and Muniz, 2012).

Casanova and Mendoza (2009) analyzed the *Global Latinas*, and present an optimistic view regarding the peculiar domestic experience of meeting the needs of consumers at the base of the social pyramid. Another relevant feature is firms' flexibility, developed by surviving the economic turmoil in the last 20 years.

Brazilian multinational companies faced a push factor in the form of the implementation of pro-market reforms, in the 1990's. These induced domestic firms to upgrade their local capabilities beyond the level expected from the development of the country, helping them to become multinational companies. The end of the import substitution period, during which local businesses were protected from competition with foreign companies, had a central role in stimulating internationalization, by modifying the environmental conditions and demanding greater competitiveness from firms. But sometimes they use international expansion to escape domestic institutional constraints, due to perceived misalignments between firm-level needs and the environment. Regardless of the skills and networks possessed by the companies in handling these constraints, they are costly and hinder their competitiveness.

The selection of *national champions* by Brazilian BNDES reveals the contradiction (economic, social and environmental) between its financial options and its slogan: "the development bank of all Brazilians." Critics insist that the bank must show greater transparency in its decision criteria regarding which companies to support, under which conditions, and that social and environmental requirements be met.

Knowing the history of our countries and the cultural legacy of our settlers may bring us some comfort, by explaining certain behaviors and removing from our shoulders the burden of blame for their deficiencies. But after so long, the acceptance of this heritage, with all its problems, is our responsibility. It is urgent to change this context, which modern institutional theory explains and provides the tools for its analysis and correction.

The different types of capitalism show the new role of the State in building stronger institutions. As mentioned earlier, not all institutions have the same relevance in the different stages of development of each country. But the *institutional voids* described in the article are quoted by various authors of International Business as those that most influence companies' decisions to establish subsidiaries in certain countries. And the institutional distance between countries is a critical issue for international investments.

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