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Business and Diplomacy in the age of Globalization: Brazilian Multinational Corporations

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Abstract

Brazil has emerged as a major economic power with increasingly greater visibility and influence on the world stage by projecting both its political and economic power beyond South America. While this transition is the result of pro-active policies mainly on the part of the Lula administration to “re-insert” the country into the most important global institutions and decision-making organizations, it is also a reflection of the gradual emergence of powerful private sector economic actors with global reach and increasing involvement in Brazilian foreign relations.

This paper highlights the growing significance of international business firms as influential actors in Brazilian foreign policy. The emergence of large successful Brazilian multinational companies (BMNCs) with access to technology, capital, specialized human resources, information, and effective decision-making capabilities poses several significant challenges as well as opportunities for Brazilian foreign policy.[1]

Resumo

O Brasil surge no mundo como uma importante potencia econômica com visibilidade e influencia crescentes ao projetar cada vez mais seu poder político e economico para além da America do Sul. Esta transição é devida a uma serie de políticas pro-ativas principalmente da parte do governo Lula para a “re-inserção” do pais nas principais instituições e centros de decisão globais como tambem é reflexo da ascensão gradual de importantes atores economicos do setor privado com ação global e papel crescente nas relações exteriores do país.

Este trabalho realça a importancia de empresas brasileiras de projeção internacional como atores influentes na politica externa brasileira. Um numero cada vez maior de empresas multinacionais brasileiras com acesso a tecnologia, capital, recursos humanos especializados, informação e capacidade de decisão efetiva cria simultaneamente desafios e oportunidades para a politica externa brasileira.

[1] I wish to thank Diogo Mazeron for his assistance with the graphs in this paper

Introduction

Brazil’s recent success on the international economic front has prompted significant changes and challenges to the country’s traditional arbiter of foreign policy: the Foreign Ministry (hereinafter referred to as Itamaraty). Itamaraty has traditionally held the monopoly of information, agenda-setting and policy implementation roles in Brazil. Since 1985, however, the re-democratization process, together with increased globalization, have gradually diluted the ministry’s traditional roles.

This working paper is an initial attempt at framing the foreign policy implications of deeper integration with the world economy on the part of Brazil’s leading international companies. The initial assumption is that the emergence of large national economic actors with growing international operations, such as Brazilian multinationals (BMNCs), will impact the foreign policy-making process and, over time, may cause growing divergence between the public and private sector regarding foreign policy priorities.

This paper begins with a general introduction and presents several general propositions regarding this research project. Part II offers a quick review of Brazil’s recent economic and trade developments. Part III describes the government’s policy of re-insertion while Part IV offers some insight into the private sector’s role and the process of internationalization of Brazilian companies. Part V links BMNCs with foreign policy issues and Part VI highlights emerging issues on the foreign policy agenda. Finally, Part VII concludes with a review of the major arguments of this paper.

Brazil’s ambitious nationalist foreign policy during the two terms of the Lula administration (2003 – 2010) has been matched by a growing level of confidence on the part of several of the country’s most important economic firms. Brazil’s international interests have multiplied over time and so has the international presence of Brazilian companies and citizens. The aim of this project is to explore how the emergence of BMNCs affects Brazilian foreign policy both in its practice and its priorities. Several relevant questions immediately come to mind:

1) How does the process of internationalization of Brazilian companies affect Itamaraty?
2) What will the relationship between the Brazilian state (Itamaraty) and its largest corporate citizens look like in the future following greater internationalization?
3) Is Itamaraty actively developing the services it will need to provide to these global Brazilian corporations in the near future?

I begin, however, with several general propositions regarding the internationalization of Brazilian firms and the growing complexity of Brazilian foreign policy:

1) As the economy grows, the overall monopoly of Itamaraty over foreign policy information and influence will decrease in favour of other ministries, agencies and several major private sector groups. The internationalization of Brazilian firms is one of many causes of the rise in "parallel" diplomacy.
2) Brazilian multinationals have effectively assumed the role of new influential actors in the foreign policy-making universe as both "clients" of Itamaraty and as "alternative" (complementary) sources of information and competency in international issues.
3) Brazil's foreign policy agenda and diplomatic network have greatly expanded due to the government's strong desire to "re-insert" itself into the most important international institutions and regimes and due to growing demands from new stakeholders who interact ever more frequently with Itamaraty.
4) As the economy grows, domestic policies (i.e. industrial policy, innovation policy, etc.) have increasingly greater international repercussions and warrant more cohesiveness in order to maximize their effectiveness.

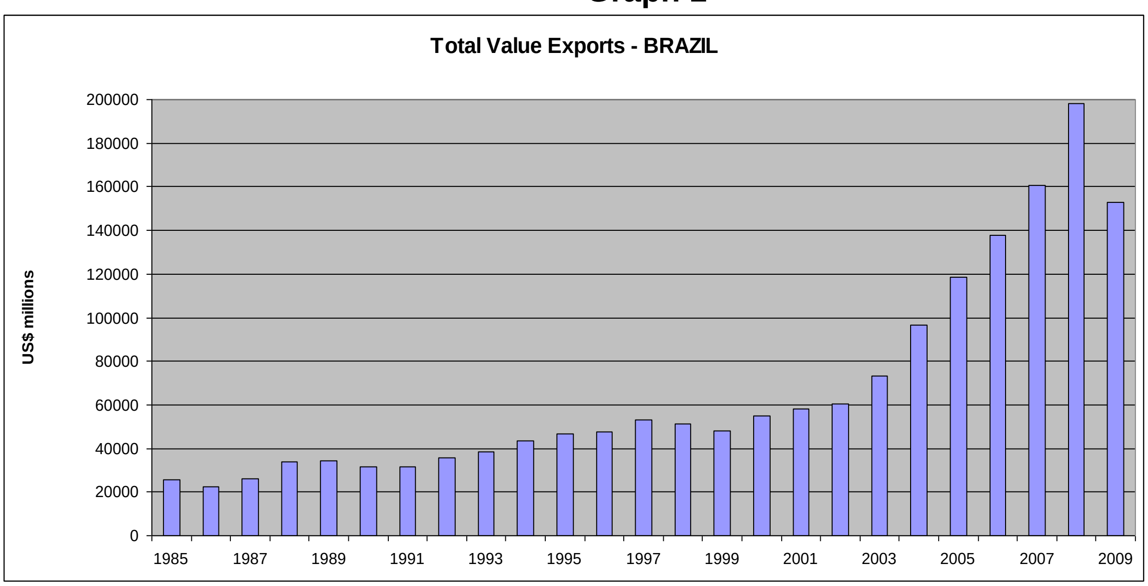
II

Brazil as a Growing Economic Power

Brazil began opening up its economy in the 1990s beginning with the Collor government (1990 – 1992). Given its large domestic market and a period of sustained domestic growth, Brazil followed a different development trajectory than that of many of its neighbours. The opening of the Brazilian market allowed several national firms to re-structure, master external competition and ultimately, embark on more aggressive strategies including overseas expansion.

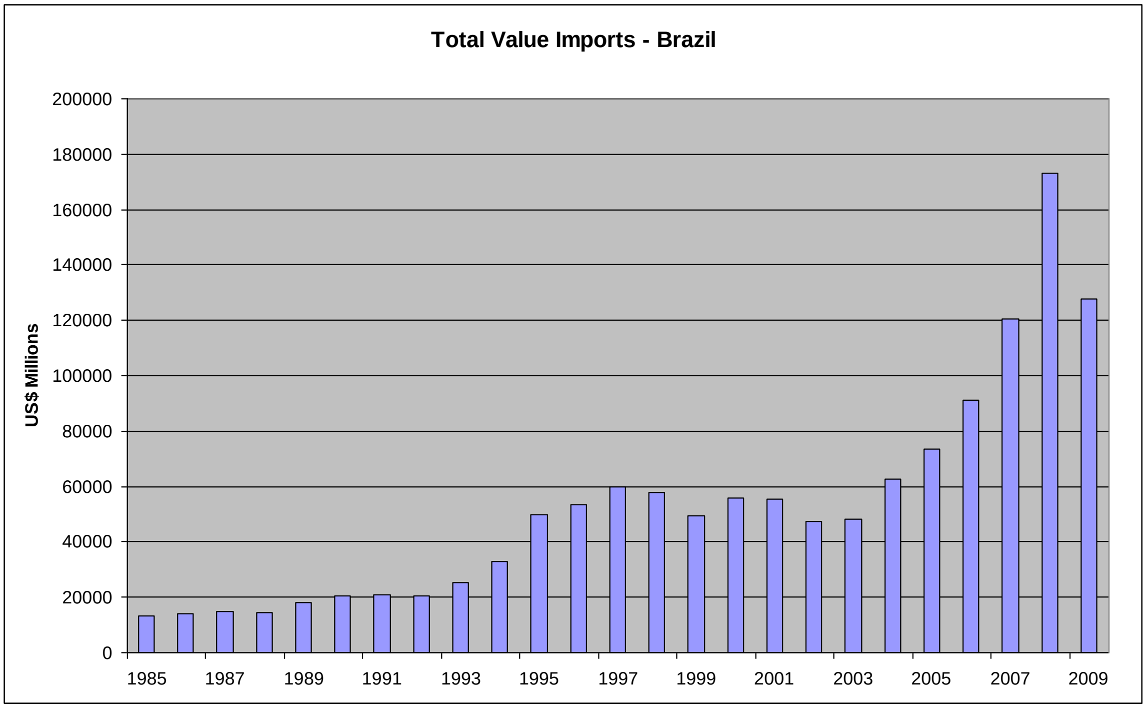
Increases in foreign direct investment (FDI), exports, imports and the number of exporting companies are all powerful indicators of the country's newfound economic power. Graph 1 shows how the export boom began in earnest beginning in 2003. The gradual opening to international markets is also confirmed in graph 2 which illustrates the evolution of imports in Brazil.

Graph 1



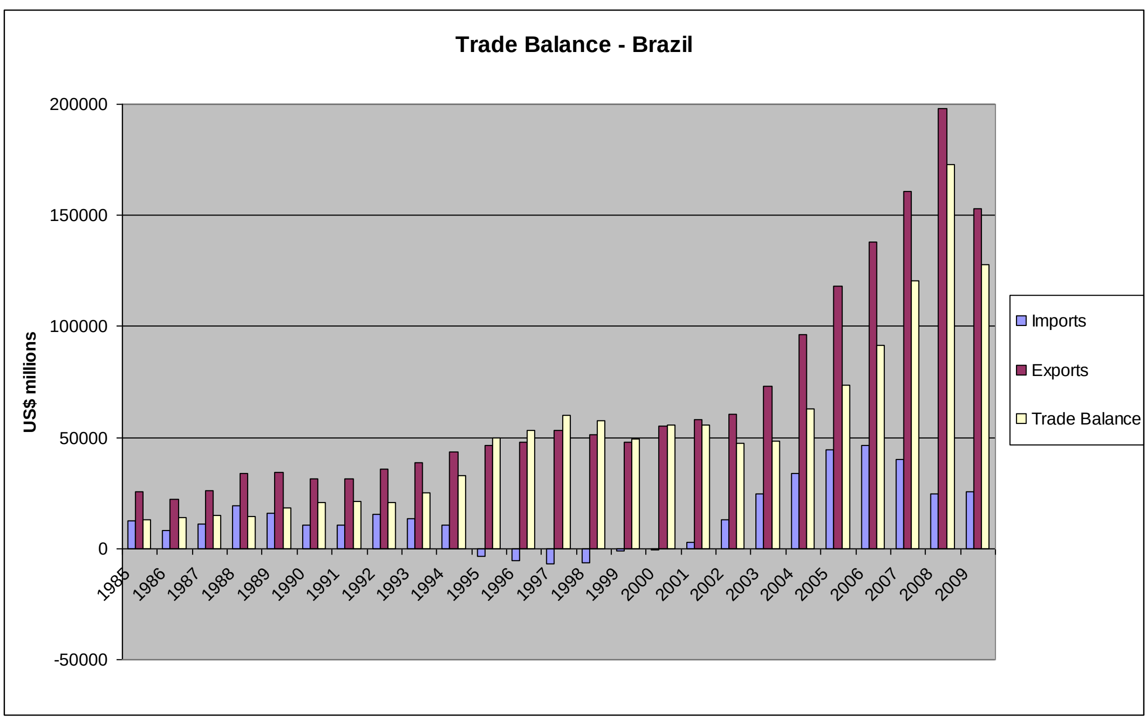
Banco Central do Brasil

Graph 2



Banco Central do Brasil

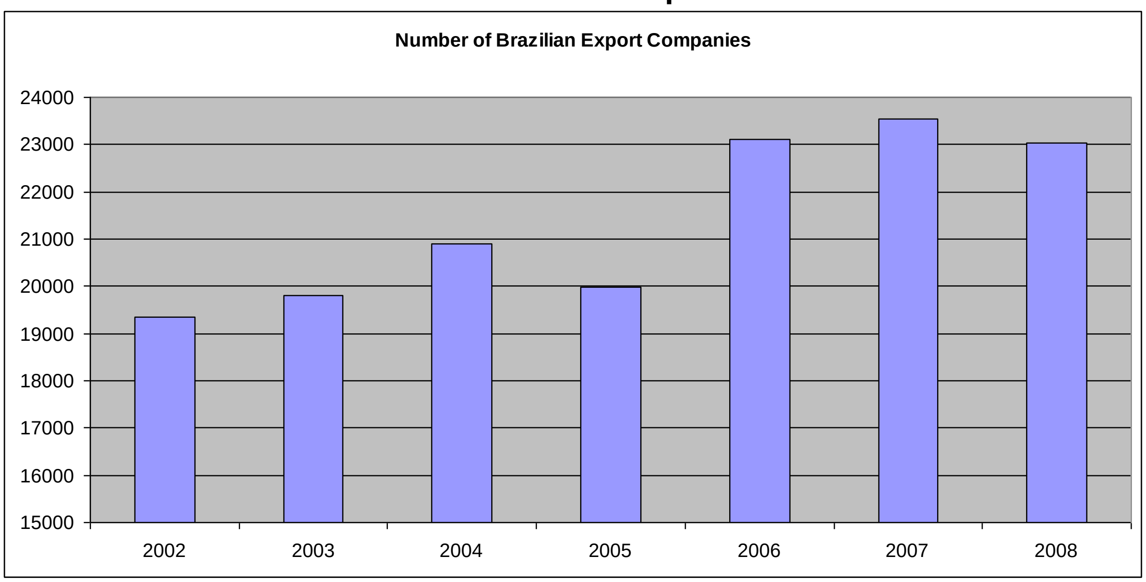
Graph 3



Banco Central do Brasil

Graph 3 shows a substantial increase in Brazil's trade balance caused by a large increase in the number of Brazilian export companies (Graph 4). Brazil still represents, however, a small share of world trade and most of its exports are of low added-value (mainly agricultural and mineral commodities). Historically, Brazil has had neither a strong trade promotion structure nor a strong export culture. Brazil has also traditionally suffered from excessive and inefficient bureaucracy, high taxes, lack of financing, exchange rate instability, economic instability, insufficient infrastructure, and faulty logistical support. All of these constraints pose a significant uncompetitive handicap to domestic firms usually referred to as "custo Brasil" (the additional cost of doing business in Brazil).

Graph 4



Banco Central do Brasil

Graph 5 illustrates the explosion of inward foreign direct investment beginning in 1997 and further expansion beginning in 2007. Graph 6 shows a very substantial increase in outward foreign direct investment from 2004 onward.[2] Between 2000 and 2003, Brazil invested approximately $1 billion abroad. From 2004 to 2007 the average jumped to $14 billion a year. In 2006, outward FDI surpassed inward FDI for the first time in Brazil's history. With both strong inward and outward foreign direct investment Brazil has become a "dual player"

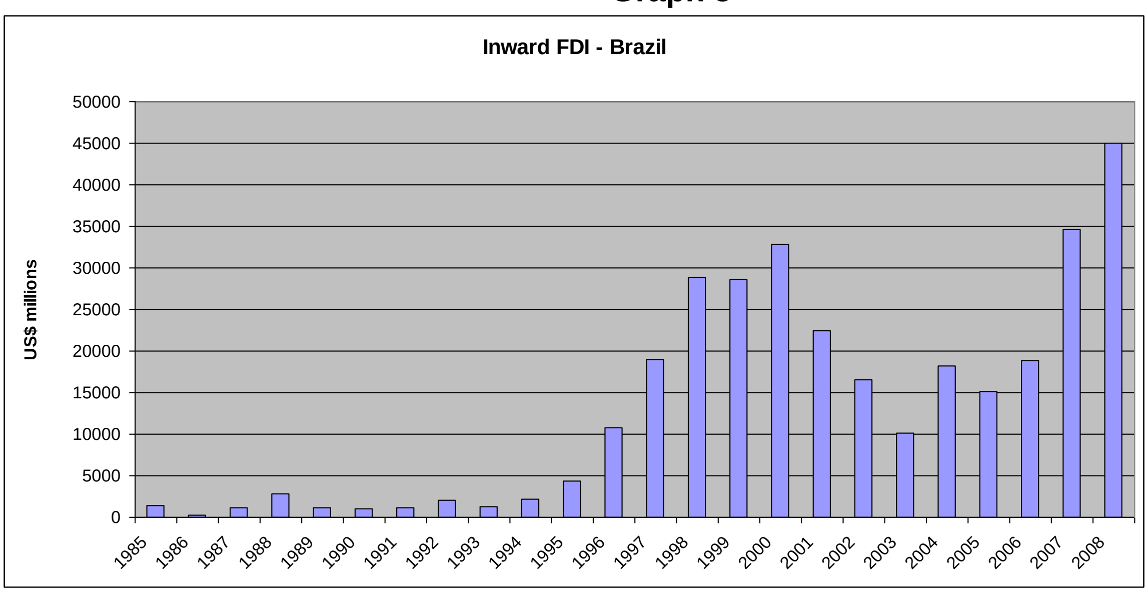
[2] According to the SOBEET/VALOR study (2009, p.12) currently the three major destinations for Brazilian outward foreign direct investment are the United States, China and Argentina.

with an important role as capital importer and exporter, making it a major economic actor in the international arena. Goldstein (2007) argues, however, that foreign direct investment from emerging economies, including Brazil, has traditionally been concentrated in a small number of companies.

Brazil's outward foreign direct investment has traditionally been concentrated, especially in neighboring countries, in construction, infrastructure and natural resources. Over time, Brazil's outward foreign direct investment is likely to diversify both in destination and sector of activity.

Brazil has been a major destination for foreign direct investment since the late 1990s (graph 5) and recently has developed its own outward foreign direct investment capability. The growing strength of its currency (BRL - Brazilian Real) as well as access to international capital markets on the part of its most sophisticated firms has supported their increase in international financial activity. At present there are over 30 Brazilian companies listed on the New York Stock Exchange (Madrid is another popular exchange and VALE seeks to be the first Brazilian company with a request pending for the Hong Kong stock exchange). By being able to list in foreign stock exchanges companies are able to diversify their sources and methods of funding their international expansion.

Graph 5



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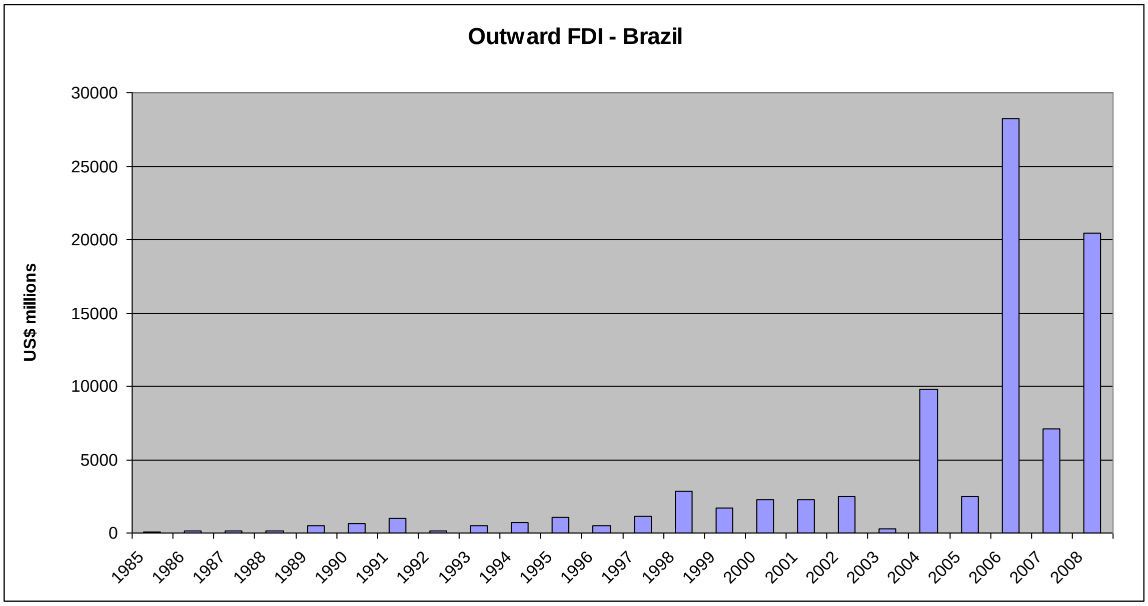
Graph 6

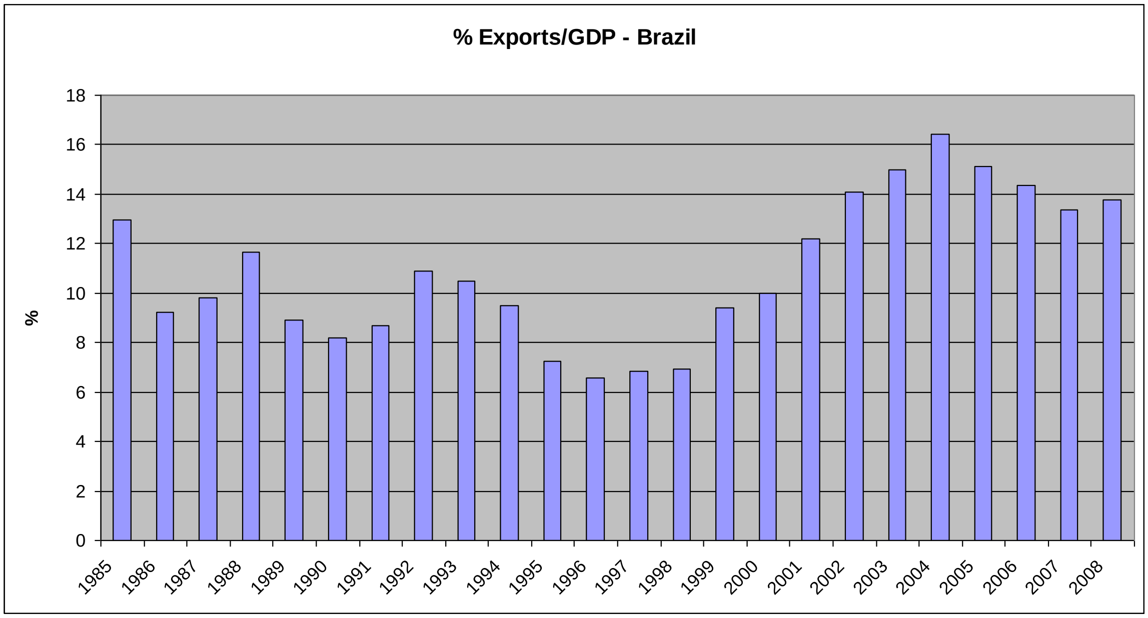


Banco Central do Brasil

Graph 7

Banco Central do Brasil

Graph 8



Banco Central do Brasil

Despite these significant developments, graphs 7 and 8 show that Brazilian exports still represent a relatively small percentage of world exports and of the country's total gross domestic product. While many Brazilian firms have been slow to expand abroad via exports some have begun to internationalize primarily through investment. Brazil remains one of Latin America's least open economies but with sustained growth in future, its trade coefficient (foreign trade/GNP) will certainly increase over time.

III
Government Policy of Multilateral Re-Insertion

Brazil has clearly demonstrated its desire to play an active role in the international agenda-setting process, especially regarding trade and finance issues. Brazil's call for the reform of the major global governance institutions comes at a time when the global economic environment is becoming increasingly complex. There is widespread consensus that Brazil has many natural attributes to become a "global trader" given its comparative advantage, especially in both agricultural and mineral commodities. Firms with a greater potential for higher value-added development have been identified as "national champions". These companies have usually benefited from protection against market forces, import duties, preferential orders from the domestic market and/or public procurement.

The choice of "national champions" can be seen as an initial case study of how the internationalization of the Brazilian economy affects Itamaraty's behaviour and practice regarding large Brazilian companies. The choice of which company, sector, geographic area, and/or business leader to support may be regarded as national strategic decisions with foreign policy implications. The policy of national champions aligns itself with the government's rhetorical call for a "new commercial geography". The choice of an alternative economic world order is based on a "neo-developmentalist" worldview which underlines Itamaraty's promotion of traditional Brazilian policy objectives such as national autonomy and development.

The constantly shifting global landscape, however, poses several challenges to Brazilian foreign policy. Brazil seeks to increase multi-polarity in the major global institutions by carefully building coalitions with other partners of the global South. On the other hand, Brazil is a firm believer in reciprocity-based multilateralism and is a fervent supporter of Latin American regional integration.

Both policies have two main objectives: a significant increase in exports and an effort to further diversify markets for Brazilian exports. These policies are subsumed under a "South–South" orientation of Brazilian trade strategy whereby the perceived value of greater diversification of its export markets (as well as the expansion of its diplomatic network) will bring additional “political” benefits (i.e., greater international support for Brazil’s claim for a seat on the U.N. Security Council) and recognition as the de facto regional leader and a rising global actor.

Brazil clearly wishes to participate in the international agenda-setting process as a leading member of the international community. Recent evidence of greater international involvement with the world community includes Brazil’s active leadership role in the WTO Doha Round, a dramatic increase in the number of new diplomatic missions around the world, the creation of and membership in new international groups (IBSA, BRICs, UNASUL, G20, etc.). Together with enhanced political visibility, growing economic clout will bolster Brazil’s quest for greater influence in the most important centers of global governance.

A period of political and economic stability has also strengthened most of the country’s democratic institutions. During this period, the country has reaped the combined benefits of lower inflation, stable exchange rates, fiscal stability and, recently, investment grade status on its foreign debt. In addition, the Brazilian government also controls several major agencies (the national development bank - BNDES, Banco do Brasil, Caixa Econômica Federal, Embrapa, and, in the near future, EximBank Brasil, among others) which play an important role in supporting those companies and corporate strategies which converge with major foreign policy objectives.

IV

Private Sector Policy: Internationalization of Brazilian Firms

As mentioned earlier, the Brazilian economy began to open up in the 1990s after having delayed liberalization longer than many of its neighbors. Privatization began in earnest in 1994. Brazilian companies have had, however, a long, and at times inconsistent, track record of exports and attempts at internationalization (see graph 1).

Casanova (2009) describes the process of internationalization of Latin American firms occurring in four phases:

1) Emerging Foreign Direct Investment (1970 – 1982)
2) The Lost Decade (1982 – 1990)
3) The Washington Consensus (1990 – 2002)
4) Going Global (2002 – present)

During the first wave of internationalization in the 1970s, which occurred under a military regime, several Brazilian companies – Petrobras (oil), Sadia (poultry), Marcopolo (buses) – achieved some initial success with exports to African countries, the Middle East, Iran, Iraq and the Gulf states. The second wave of internationalization took place during the 1980s, usually considered as the “lost decade” due to problems with massive foreign debt, and subsequent default, hampered any realistic chance of success on the part of local firms to establish a successful presence abroad. In the early 1990s, another wave of BMNCs attempted to position themselves as multinational players but most ended up being bought by foreign groups (Metal Leve, Cofap, etc.).

Initially, most Latin American and Brazilian internationalization took place hemispherically within the region. Mercosur served as an ‘incubating’ experience for several Brazilian companies (i.e. Sabo, Lupatech, Ambev) before going global (Gouveia, 2004). Since then, Brazilian companies have become increasingly more integrated into global trade circuits, business networks, and supply and production chains. Overall, many Latin American firms have started to expand overseas only recently with Brazilian and Mexican companies in the lead. The complete “multilatina” cycle encompasses the entire growth cycle of a company from regional to global player. While many Brazilian companies have outgrown their domestic, and subsequently their regional markets and gone on to become global companies, the majority of Brazilian companies are still in the “regional” phase of their process of internationalization.

During the 1990s, Brazilian firms were subjected to challenging external shocks in the form of trade liberalization, tax reform, competitive exchange rates and privatization. In addition to the external shocks, the process of internationalization of Brazilian firms has been driven primarily by “private” economic interests even though the government has also benefited from the advantage of having its political ambitions bolstered by the emergence of large Brazilian private companies with global aspirations. Re-insertion, in other words, is facilitated by the presence of major national economic actors which help leverage the image of a rising economic and political power.

Important reasons to internationalize include the need to improve competitiveness, secure new markets, take advantage of new sources of credit and tap international financial markets (i.e., the JBS initial public offering to fund its acquisition of Swift in the U.S.). The privatization of state-owned companies and increased global merger and acquisition activity have also been important drivers in the process of internationalization of Brazilian firms. Two other major factors have been the increase in value of the Brazilian real (BRL), which has made assets abroad less expensive, and the fundamental role of BNDES in underwriting the initial international operations of many of Brazil’s national champions mainly in South America and especially through BNDESPar, its investment holding company.

There are two main sources for the classification and measurement of the degree of internationalization of Brazilian companies. The leading financial daily, *Valor Econômico*, has partnered with research institute SOBEET – Brazilian Society of Transnational Corporations and Economic Globalization (hereinafter VALOR/SOBEET) to produce an annual ranking of Brazil’s most internationalized companies. Alternatively, Brazilian business school, Fundação Dom Cabral, located in Belo Horizonte, together with consulting firm KPMG have prepared an annual survey of Brazilian transnational companies (hereinafter FDC/KPMG). While both sources use slightly different methodologies modeled loosely on UNCTAD's methods based on international sales, assets and number of employees, they both support this paper's main propositions regarding the steady growth and influence of Brazilian multinationals.

Several of these companies have traditionally been treated as "national champions" – companies identified by the government as possessing the capability of competing internationally on the basis of their international business strategies and the likelihood of raising the value-added component of many of their local suppliers and subsidiaries.[3] Financial institutions are not included in this study given the different use of their assets regarding economic activity (financial as opposed to manufacturing, etc.). However, banks such as Banco do Brasil and Banco Itaú have a significant and growing international presence, especially in South America (Banco Itaú has currently over 5000 employees abroad). Additionally, Banco Itaú is presently ranked the biggest bank in South America ranked by assets.[4]

Listed below are the top 25 Brazilian companies with the highest degree of internationalization in 2009 according to the two abovementioned sources followed by a brief description of several of the most highly internationalized companies:[5]

[3] This research project is limited mainly to private sector companies. Petrobras is not included in this study given its particular role and history as well as its significant (approximately 48%) ownership on the part of the Brazilian government.
[4] The 2010 edition of the FT 500 (a listing of the world's biggest companies) lists 11 Brazilian companies including 5 banks.
[5] Additional (non-Brazilian) rankings include *América Economia* and *Boston Consulting Group's* annual lists of multilatinas. Both of theses sources include many of the same companies: Odebrecht, VALE, Embraer, Gerdau, Petrobras, Sadia (now Brazil Foods), JBS, Andrade Gutierrez, WEG, and Camargo Corrêa among others.

VALOR/SOBEET	**FDC/KPMG**
JBS	Gerdau
Odebrecht	Sabo
Gerdau	Marfrig
Metalfrio	VALE
Coteminas	Metalfrio
IBOPE	Odebrecht
Sabo	Aracruz
Magnesita	Tigre
Marfrig	Artecola
AmBev	Suzano
VALE	Lupatech
Artecola	Marcopolo
Marcopolo	Embraer
WEG	Itautec
GOL	Camargo Corrêa
Embraer	WEG
Duratex	ALL
Itautec	Stefanini
Camargo Corrêa	Votorantim
Stefanini	Petrobras
Votorantim	Natura
Andrade Gutierrez	TAM
Tupy	DHB
CI&T	Portobello
TAM	Ultrapar

Examples of Brazilian Multinational Companies

JBS (animal protein): 68.4% on the VALOR/SOBEET Internationalization Index. JBS is the largest privately-held company in Brazil and is currently the world leader in animal protein. It is the result of several different mergers (over 30 acquisitions and mergers in the last 15 years) and, until recently, did not figure on any list of major Brazilian companies. JBS/Friboi has approximately 84% of its sales abroad due to its presence in 23 countries around the world and its products are sold in 110 countries. Following its recent purchase of U.S. poultry producer Pilgrim's Pride, JBS now has more employees abroad than it has in Brazil. JBS has received substantial financial support on the part of BNDES in order to successfully conduct its aggressive international acquisition plan.

ODEBRECHT (construction, engineering, petrochemicals): 63% on the VALOR/SOBEET Index. Traditionally dependent on government contracts, Brazilian engineering companies sought international diversification when faced with slow growth in the domestic market. Odebrecht began its international operation in 1979 with a hydroelectric plant project in Peru and it is now present in 18 countries. It is the largest construction firm in Latin America and the 15th largest in the world. Odebrecht also controls BRASKEM, the largest petrochemical company in Latin America. The company currently derives over 80% of its sales revenue abroad. Odebrecht has also traditionally been a major beneficiary of BNDES especially in many of its projects throughout Latin America. Odebrecht has historically played a leading role in Angola (its first project - the Capanda hydroelectric dam – dates back to 1984). The company has recently opened an office in Washington, D.C. given its growing involvement with the World Bank and IMF in securing funding for its projects around the world (it currently manages 28 different construction projects).

GERDAU (metallurgy and steel): 55.9% on the VALOR/SOBEET Index. While Gerdau has a production presence in 14 countries, half of the company's total sales currently come from the U.S. (Gerdau Ameristeel is the 4th largest steel company in the United States). It has several subsidiaries which benefit from high U.S. tariffs applied to imports from abroad (including Brazil). Gerdau is also the BMNC with the largest percentage of assets abroad (54%).

VALE (mining): 29% on the VALOR/SOBEET Index. VALE is another “national champion” and the second largest mining company in the world (biggest producer of iron ore and second biggest producer of nickel) with a presence in 34 countries. VALE has over half of its total assets (52%) abroad due to its growing portfolio of directly-owned subsidiaries. VALE was privatized in 1997 but the Brazilian government still holds an important share through BNDES and several public pension funds of several state-owned companies.

WEG (electric motors): 21.2% on the VALOR/SOBEET Index. WEG started exporting in 1971 and is present today in over 60 countries. WEG is the largest Latin American electric motor manufacturer with 6 of its 13 factories overseas (including China, India and South Africa).

EMBRAER (aircraft): 20.2% on the VALOR/SOBEET Index. While few companies in Brazil earn more than 50% of their revenue outside of Brazil, Embraer earns over 90% of its revenue from exports making it Brazil’s largest exporter (2009 revenue: $5.4 billion). Embraer, another “national champion”, was privatized in December 1994 after years as a beneficiary of the country’s policy of “market reserve” for nascent industries, state financing and technological support. It has successfully established a niche for itself as a producer of small/medium-sized business jets for regional, military and corporate aviation and is qualified to compete for orders from the U.S Department of Defense. Embraer is also one of the more experienced Brazilian companies in the U.S. and has used U.S. lobbyists in the past.[6]

CAMARGO CORRÊA (conglomerate): 17.7% on the VALOR/SOBEET Index. Over 50% of the company’s revenue proceeds from its international operations. Its key activities include construction, engineering, energy, transportation, textiles and footwear. The company is present in 18 countries.

VOTORANTIM (conglomerate): 16% on the VALOR/SOBEET Index. Votorantim is present in 14 countries and has interests ranging from cement, metal, pulp, paper and agribusiness.

[6] See “Setor Privado do Brasil intensifica lobby junto ao Congresso americano” by Ricardo Balthazar and Raquel Landim in *Valor Economico*, March 16, 2009.

V

Brazilian Multinationals and Foreign Policy

The process of internationalization of Brazilian firms multiplies the number of policy options and challenges for the government as well as for private firms. According to Strange and Stopford (1992) modern diplomacy is based on a triangular diplomacy framework: state–state, state–firm and firm–firm relations. As the Brazilian corporate footprint expands internationally, so too will the need for diplomatic institutional and functional coverage and coordination. The growing number of political and economic actors, often with competing agendas, will increase the difficulty of coordinating public and private interests. This trend will also challenge Itamaraty's traditional monopoly of information and its established practice by substantially raising the profile of trade and trade related issues – areas where the private sector has been particularly critical of Itamaraty over the years (Marques, 2009).

Several recent cases involving Brazilian firms serve to highlight the growing involvement of Brazilian multinationals in international disputes between Brazil and several of its economic partners and the growing interdependence between political and economic priorities. Brazil's discourse and practice has always been friendly to emerging countries though at times contested by its neighbors. Several BMNCs have recently encountered difficulties with some neighboring countries. Going forward, it is likely that private interests of major firms will occasionally clash with broader national interests. On the other hand, greater interaction between private managers and government policy managers may help turn BMNCs into complementary instruments or agents of Brazilian foreign policy (i.e. VALE's investment in the Moatize coal mine in Mozambique is rumoured to have resulted from pressure from Lula's "presidential diplomacy").

The following cases serve as examples of where private and public interests have recently clashed or where the private sector has been critical of Itamaraty's apparent lack of support on behalf of BMNCs. In the absence of an integrated foreign policy linking political objectives to economic priorities this short list of examples will undoubtedly grow over time.

Bolivia: After operating in Bolivia for many years and following substantial investments in the local gas sector by foreign investors, President Evo Morales nationalized several foreign companies, including the local subsidiary of Petrobras. The company, one of Bolivia's largest, if not the largest foreign investor, was forced to renegotiate its agreement with the government. Despite a strong call for action on the part of the Brazilian private sector, Itamaraty all but accepted Bolivia's sovereign right to go ahead with the nationalization of its gas sector. Another Brazilian company, construction company Queiroz Galvão, has also recently suffered pressure from the Bolivian government regarding the terms of an earlier contract. Banco do Brasil also has an important foothold in Bolivia financing soybean and gas deals.

Ecuador: In Ecuador, construction company Odebrecht was expelled from the country following a dispute involving the company's role in the construction of a large hydroelectric project (San Francisco). Ecuador also delayed payments to BNDES despite the fact that Brazil is the largest foreign investor in Ecuador and that the country is the second largest recipient of BNDES financing after Argentina. Again in this case, the government was severely criticized by firms and business associations for taking less than a firm stance in defending Brazilian private and sovereign interests**.** Critics of Itamaraty's "diplomacy of generosity" claim that in Ecuador, Bolivia and Paraguay (renegotiation of the terms of the Itaipu treaty) the National Mobilization System (Sinamob) policy, established in 2007 clearly allowed the Brazilian government to take all necessary measures to defend its interests.[7]

United States: For years Brazil's agribusiness sector has been the most dynamic force in developing new markets for its products and making a significant contribution to Brazil's trade balance. Brazil is the world's largest orange juice producer and many of its firms have led a long battle with the government demanding a firmer stance against the imposition of high tariffs on its exports of orange juice to the U.S. A similar complaint is shared by the producers of ethanol, sugar, textiles, and steel, all of whom feel that the Brazilian government has not been able to eliminate or reduce heavy tariffs on Brazilian exports. In these cases, private firms have been left to their own devices and obliged to seek alternative solutions to their problems including aggressive public relations campaign in the U.S. media.

[7] See Rubens Barbosa, "Contradição Interna", *O Estado de São Paulo*, July 28, 2009.

One reason steelmaker Gerdau invested in the U.S. was to be able to use the existing trade barriers in the U.S. to protect local producers from external competitors. The absence of bilateral commercial agreements with a traditionally important destination for Brazilian exports has also served as an incentive for a complete change in corporate strategy on the part of several firms (Cutrale, Gerdau, Embraer, etc.).

Iran: Several Brazilian firms are actively involved in securing contracts to supply Iran with food (mainly animal protein) and ethanol. This will undoubtedly conflict with existing and pending international sanctions against Iran on the part of the international community. Any infringement poses the risk of the U.S. applying pressure to Brazilian companies with any major presence in the U.S. (i.e. Petrobras). Over 400 Brazilian companies had exports to Iran in 2009, despite relatively high tariffs and the lack of bank guarantees.[8] Many of these companies will also wish to increase their presence in this market as soon as it is feasible.

Iraq: Large Brazilian companies are also very interested in participating in contracts for large infrastructure projects in Iraq. Accordingly, they have tried to forge separate but parallel contacts with the Iraqi and U.S. authorities, often independently from the Brazilian government and, at times, in spite of the government's objection to the U.S.'s role in the region.[9]

While a firm's success abroad is viewed mainly as the result of its comparative advantage, strategic insight, access to capital and managerial competency, the role of the state and a shared worldview between government and its largest economic citizens is of great importance for the success of BMNCs. Equally important is an integrated national policy for the internationalization of Brazilian firms.

These examples illustrate the growing number of cases where Brazilian multinationals demand greater responsiveness on the part of the government in defending their interests. Anecdotal evidence suggests that Itamaraty has been ill-equipped to handle or unwilling to

[8] Trade with Iran currently represents 0.8% of Brazil's total trade. See Roberto Maltchik, (2010), "Brasil procura saída para manter exportações". *O Globo*, June 11.

[9] In the past, Brazilian companies have been invited to participate in projects coordinated by the U.S. Army Corps of Engineers in Iraq.

treat these and other commercial issues in general, with the level of priority and firmness demanded by the private sector.

Over time, the rise in the number of BMNCs will increase the probability that these large corporations will, for better or worse, be more involved in foreign policy issues and require much greater interaction with Itamaraty. The growing contingent of large Brazilian companies with a global reach will alter the traditional diplomatic practice of dealing mainly with other governments. Itamaraty will deal increasingly with many of the country's largest firms which, in turn, will certainly influence Brazil's future course of international relations. Large modern Brazilian firms possess the technology, capital, access to and contacts with major markets which allow them to counter Itamaraty's traditional monopoly over all decisions regarding foreign policy. Major firms and related trade associations have already begun to provide technical expertise and information to Itamaraty and other ministries (i.e. ICONE – a large agribusiness think tank funded by major agribusiness firms and business associations currently provides important technical data to government officials and negotiators).

Earlier research (Marques, 2009) highlights the perception of the Brazilian business class regarding foreign policy priorities and agents during the Cardoso and Lula governments with the following empirical results: 1) a significant segment of the private sector (43% of the respondents) believes there is a lack of sufficient, effective and permanent channels of communication and intermediation between the government and the private sector regarding foreign policy-making issues (despite sporadic consultative arrangements such as SENALCA and SENEUROPA in the past); 2) Itamaraty is widely viewed (69%) as ineffective regarding trade promotion, international negotiations and promotion of the country's image abroad; 3) there is limited exposure to and interaction with Itamaraty on the part of most business groups; 4) there is a low level of satisfaction with Itamaraty on the part of the private sector (only 26% of private sector respondents rate their satisfaction with Itamaraty as "very satisfied" or "satisfied"); 5) there are significant disparities between government priorities and private sector priorities (i.e. United Nations Security Council, Free Trade Area of the Americas, South–South policy orientation, etc.); 6) according to 78% of respondents, there is also insufficient participation in the national foreign policy debate on the part of most private sector actors.

VI

BMNCs and New Issues on the Foreign Policy Agenda

Brazil's new international activism has proceeded on two levels: a strong push for multilateralism on the part of the government and the growth of Brazilian multinational companies on the part of the private sector. It is undeniable that these new players, both large multinational companies and small and medium-sized companies (primarily from the service sector), have established new directions, if not priorities, in the foreign policy agenda of Brazil.

Going forward, Itamaraty will be forced to break with its tradition and embrace this opportunity to treat corporate actors as an <u>important new constituency</u>. Alternatively, greater demand for "international public service" on the part of corporate citizens will allow Itamaraty to embark on needed reforms and justify its strategic role as the principal gatekeeper regarding foreign affairs.

These important corporate actors are new and often critical "clients" of Itamaraty. Such criticism is likely to force Itamaraty to review several of its established practices. Under a more demanding economic climate, multinationals can and will play an important role in the advancement of Brazil's image, reputation and economic well-being. Brazil's international companies are also an increasingly important source of information, best practices, contacts, ideas and often act as promoters of international standards.

These new "clients" of Brazil's diplomatic service will certainly make greater demands for additional "services" and increase pressure on Itamaraty for <u>additional resources</u> (as well as from other ministries). Brazil's drive towards greater visibility and clout in the international arena will entail substantial changes in the provision of, among others:

- consular services,
- policy planning,
- public diplomacy,
- trade negotiations,
- trade promotion,

- scientific and technological exchange,
- security and health arrangements,
- tax and investment agreements.

At this stage of Brazil's development and level of internationalization, trade considerations will likely remain top priorities given their direct impact on the country's macro-economic health. This growing emphasis on economic or commercial diplomacy will serve to underpin the government's neo-developmentalist view of the world and its goal to alter the global "commercial geography". Brazil's aim to become a global trader and to contribute towards the creation of an alternative "new commercial geography" raises the profile and importance of trade and commercial issues among other foreign policy priorities. Brazil's role in creating this new commercial order is most visible with its immediate neighbours in South America where it currently finances over forty infrastructure projects.

By opening itself to the world, Brazil's domestic political agenda has been greatly expanded by international issues and the use of new <u>foreign policy instruments</u>: the recent creation of specialized attachés assigned to Brazilian embassies abroad (reporting directly to different domestic ministries), much greater use of BNDES and other government agencies as instruments of regional integration and foreign policy (the newly created sovereign wealth fund, EMBRAPA, EximBank Brasil among others).

The steady pace of internationalization will undoubtedly create additional foreign policy priorities linked to the growing exposure of Brazilian companies and investors to global markets. As these companies expand their activity internationally, Brazil will also need to negotiate additional <u>bilateral tax and investment treaties</u> to prevent Brazilian companies from being penalized for their growing international activities. Issues such as taxation, regulation, trade and antitrust will grow in importance and require greater intervention and coordination on the part of Itamaraty and other government departments.

The continued growth of <u>outward foreign direct investment</u> on the part of private investors together with an increase in the amount of <u>bank credit</u> extended to many of Brazil's neighbours and new trading partners has placed Brazil in an unusual position as a large creditor nation notwithstanding its traditional role as a leading representative of emerging economies. Lending by BNDES, and to a lesser extent by Banco do Brasil and Caixa Federal, will have an increasingly significant role throughout South America and, given its size and resources, around the world as well.

Brazil's growing international presence will also produce a new generation of the Brazilian diaspora including many white collar managers and executives who will join the growing number of Brazilian nationals living and working around the world. Brazilian "corporate" citizens will join the ranks of those requiring greater consular and administrative assistance on the part of Brazil's diplomatic network. These new demands will undoubtedly put additional pressure on and force changes to the way Brazil has traditionally dealt with its citizens abroad.[10] Over time this trend will also have a positive effect on the amount of remittances sent back to Brazil.

Eventually, greater coordination between the private sector and government will be required to make full use of the country's "brand" as an international standard of quality, creativity and leadership in varied fields such as the environment, the arts, agriculture among others. A strong national brand secures attention, respect and trust of the public and governments around the world. Responsibility for the Brazil brand must be negotiated among many different parts of the government and, ultimately, be projected externally mainly by Itamaraty.

Finally, the speed of internationalization will also warrant a proactive policy regarding the promotion and the use of the Portuguese language as a competitive advantage. With a rising global profile, Brazil may wish to elevate the level of recognition of the Portuguese language to match its growing international projection. Brazil is also expected to play a leading role in fostering the development of a lusophone economic bloc with several BMNCs already present in many of these countries (CPLP).

[10] Recent estimates for the Brazilian diaspora stand at 4 million Brazilian citizens living abroad (*Monitor Mercantil* July 24, 2008).

This preliminary list identifies several foreign policy issues driven in large part by the scope of internationalization of Brazilian companies. More issues will certainly arise once the pace of internationalization increases fueled by the synergy between corporate managers and government officials and the tension between micro and macro economic utilities.

VII
CONCLUSIONS

While Brazil's process of internationalization is still at a very early stage, it is important to consider the policy implications of increased internationalization on the part of Brazil's major firms. Despite the country's desire to move up the value-added ladder, Brazil is still a relatively closed economy when compared to other emerging market economies. The average internationalization index for larger Brazilian companies has remained at the 20% level since 2006 according to the SOBEET/VALOR series. Many small and medium-sized companies have yet to adopt export-driven and internationally-orientated strategic plans. The size and attractiveness of Brazil's domestic market remain as major factors which greatly moderate the rate of internationalization of Brazilian companies.

Several Brazilian companies have indeed become world leaders in their respective sectors with global product mandates and occupy leading positions in international rankings. As mentioned at the beginning of this paper, continued economic growth and success will force the Brazilian state to respond with greater efficiency to multiple external challenges and new variables (additional actors, issues, etc.). As Brazilian private interests expand globally, so too must the government's responsibility to protect these interests.

Rugman and Verbeke (1990) argue that "few governments have the necessary knowledge and the required implementing apparatus to catapult domestic firms into becoming competitive multinational enterprises". Brazilian companies will certainly emerge with greater international ambitions requiring increased cooperation between government and the private sector. The public sector will retain, however, an important responsibility regarding the overall competitiveness of the country's firms. Though it is companies that generate wealth, government must assume responsibility for the long-term competitive advantage of its firms. Brazilian companies seek to be reassured that Itamaraty supports their efforts to internationalize and that economic competitiveness is made a public policy priority. There is no doubt that Brazil is competent in many different areas (i.e., petroleum, steel, aircraft, agricultural and mineral commodities, hydroelectric power, etc.) but it must become even more "competitive" in order to increase its share of world trade. To become more competitive, the country must align its domestic industrial policies with its ambitious foreign policy. International trade must be included, like national security, in national strategic thinking. Brazilian foreign and economic policy must keep up with the reality of challenges, and pressures that BMNCs confront when competing with international competitors.

While the emergence of Brazilian multinationals is an established fact, Brazil's quest for a greater role in international affairs and greater visibility will undoubtedly require greater obligations and responsibilities from its citizens, both private and corporate. Given the fact that the Brazilian corporate footprint is often greater than its diplomatic presence, there is the need for a culture of greater "corporate" diplomacy on the part of the business sector in order to better promote and defend Brazilian corporate priorities. Corporate managers must become more active in promoting a better understanding on the part of the population of the role of major domestic firms and their contribution to society.

As employers, tax-payers and generators of wealth, corporations are important strategic international actors. Itamaraty, however, has traditionally failed to engage fully and effectively with many of these societal actors. The current leading group of important companies contributes increasingly to the discussion of foreign policy issues and Itamaraty must be prepared to harness such input and manage this interaction between government and business leaders.

Significant change has begun to occur within the government's bureaucratic structure which deals with international issues. Driving these changes is globalization, regionalization and, ultimately, the existence of successful private sector economic groups with increasingly wider international interests. These actors demand greater transparency and inclusion in the policy-making process and responsibility for the conduct of diplomacy will undoubtedly spread among a wider group of actors.

The ever changing nature of the global political and corporate map leads BMNCs to transcend Itamaraty's traditional monopoly over foreign policy. This paper draws attention to the fact that the expansion of BMNCs is not without consequence to the conduct of foreign policy. Foreign policy-making will remain problematic without strong and effective policy networks and channels to facilitate efficient interest aggregation and implementation. Support, in the form of integrated government policy, is essential for sustained growth of Brazilian multinational corporations. As relations between private sector and government agents responsible for foreign policy become more fluid and effective, this diplomatic-commercial relationship has the potential to leverage Brazil’s rise to the top ranks of global economic and political influence.

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