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Outward FDI from Brazil and its policy context, 2012

by

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Brazil became a significant source of outward foreign direct investment (OFDI) only in the 2000s. Concentrated in the secondary and tertiary sectors, OFDI from Brazil goes primarily to neighboring economies and the United States and Europe. OFDI flows from Brazil include large amounts in tax havens to escape domestic regulations and taxes. Brazil's OFDI flow was negative (-US$ 10 billion) in 2009 during the global financial and economic crisis, due to the repatriation of capital, mainly through intra-firm lending by foreign affiliates of Brazilian multinational enterprises (MNEs) to their parent firms. However, in 2010, OFDI flows from Brazil were positive again, at US$ 12 billion. The stock jumped from US$ 52 in 2000 to US$ 181 billion in 2010. Except for loans provided selectively by the state investment bank BNDES, Brazil still has no institutionalized policy measures to support OFDI. Always lower than inward FDI so far, Brazil's OFDI follows Brazilian economic growth and local currency appreciation that generate increased savings, and its recent growth reflects market opportunities abroad that are open to Brazilian national champions with competitive advantages and large-scale operations.

Trends and developments

In the 1990s, after monetary stabilization and pro-market reforms, Brazil consolidated its position as a significant global recipient of FDI flows. In the decade since 2000, it also became a significant investor abroad together with other emerging economies. Annex table 1 shows that a noticeable increase in OFDI is a new development, common to all the BRIC (Brazil, Russia, India and China) economies, driven by their domestic economic growth coupled with monetary stability and stimulated by market opportunities globally. In Brazil, the expansion of export-led industries, mainly commodities, resulted in an increasing trade surplus. Large inward FDI (IFDI) flows and the trade surplus have boosted foreign-exchange reserves, coupled with an

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appreciation of the Brazilian currency, the Real. This scenario has favored OFDI by Brazilian firms. Export-led enterprises have enjoyed increasing access to domestic capital markets for financing market-seeking[1] investments abroad, particularly in industries in which Brazilian firms are competitive, such as soybeans, meat, iron ore, steel, sugar, coffee, aluminum, cocoa beans, orange juice, and tobacco.[2] Investments in other, non-export-led sectors such as infrastructure, energy and construction have also been important in the FDI strategies of large Brazilian firms.

Country-level developments

Brazilian MNEs are playing a noticeable role in outward FDI from emerging economies. Annex table 1 presents the OFDI stock from Brazil and comparator economies: Russia, China, India, and Mexico. In the period 2000-2010, the stock of OFDI of these economies showed a strong upward trend. It was dominated by the growth of OFDI from Russia and India, and to a lesser extent by that of OFDI from China. During 2000-2010, the relative weight (share) of OFDI from Brazil in total OFDI from these selected economies was, on average, 27%. By 2008, as annex table 1 shows, Brazil had a larger stock of OFDI than all of the other large emerging economies considered, except for Russia. Only in 2009 did China surpass Brazil.

For the BRICs, high OFDI growth has only taken place in the 21st century. Between 2000 and 2010, Russia and China had higher rates of growth of their OFDI stocks than that of Brazil's. On average, the growth rate in 2000-2010 of Brazilian's OFDI was 14% below the average of the BRICs. In 2009, most likely in response to the world-wide economic and financial crisis, OFDI outflows from Brazil were negative, with Brazilian companies repatriating US$ 10 billion from their foreign affiliates through intra-company loans. Annex table 2 shows a peak outflow in 2006 of US$ 28 billion from Brazil. Outflows were high in 2006 (and larger than its FDI inflows in that year) due to the acquisition of the Canadian INCO by Vale, a Brazilian MNE in the mineral sector. This investment was made by means of a special purpose entity (SPE) outside Canada. Besides this operation, Canada has never been a significant receiver of Brazilian OFDI, so it is not included in annex table 4.

Annex table 3 shows the distribution of OFDI stock from Brazil by sector in the period 2001-2010, with a sharp change in the general trend in 2009 and 2010. Between 2001 and 2008, data show a concentration of investments in the services sector (about 90%). The finance and insurance service industries accounted, on average, for 55% of OFDI stock in 2000-2008. In the same period, the primary sector accounted for 2% and the secondary sector accounted for 7%. Within the secondary sector, manufacturing accounted for 35%, and construction for 27%, followed by food, beverages and tobacco, which accounted for 11%. In 2009 and 2010 OFDI in the primary sector shows a marked increase relative to total OFDI stock, with a large increase in mining and quarrying. Due to this increase (mainly driven by investments by Vale), the share of the primary sector rose from 2% in 2008 to about 31% in 2010. This rise was accompanied by an almost unchanged stock in the secondary sector and a decline of the stock in the

[1] John H. Dunning defined the concepts of market-seeking, resource-seeking and efficiency-seeking FDI. See, John H. Dunning and Rajneesh Narula, *Multinationals and Industrial Competitiveness: A New Agenda* (Northampton: Edward Elgar, 2001).

[2] Diego Finchelstein, "Different states, different internationalizations: a comparative analysis of the process of firms' internationalization in Latin America," Paper presented at the 28th LASA International Congress, Rio de Janeiro, June 2009), pp. 11-14.

services sector. As a result, in 2010 the secondary sector accounted for about 8% and the services sector for 61% of Brazil's total OFDI stock. The bulk of OFDI in services is largely accounted by investments made in tax havens through SPEs, foreign affiliates established with the purpose of managing foreign exchange risk, facilitating financing and avoiding tax, and as financial services FDI.

Annex table 4 presents the distribution of OFDI by selected host economies; it shows a high level of regional concentration, particularly in North America, Latin America and the Caribbean, which together accounted, on average, for 79% of all FDI stock from Brazil between 2001 and 2008, followed by Europe (21%); Asia, Africa and Oceania together accounted for the remaining 1%. The largest recipients are the Cayman Islands, the British Virgin Islands and the Bahamas –fiscal regulations in Brazil seemingly induce investments in tax havens to escape regulatory and tax obligations. This suggests that Brazilian MNEs undertake trans-shipping FDI in tax-haven economies while waiting for good opportunities to make productive investments in third countries. This behavior is different from that of Chinese companies that tend to be involved in round-tripping FDI likely due to some extent to the favorable conditions offered by the Chinese Government to foreign investments.[3]

The distribution of Brazil's OFDI and its concentration in the Americas has changed somewhat over time. Data from BACEN suggest that, between 2001 and 2010, there has been a systematic decrease in the participation in Latin America and the Caribbean, coupled with an expansion in Europe and the United States (annex table 4). However, on average, in 2001-2010 as a whole, the top host economies of Brazilian OFDI were tax havens in the Caribbean such as the Cayman Islands (34%), British Virgin Islands (11%) and the Bahamas (10%). In 2008, the Cayman Islands stood at 43% of Brazil's total OFDI stock and 91% of the annual cross-border intra-company loans of Brazilian MNEs.[4] In 2010, these shares declined to 17% and 79%, respectively. FDI outflows to tax havens often flow back to Brazil (so-called "round tripping"), mainly in the form of intra-company loans, but there is no formal research on this phenomenon and, as noted earlier, it is likely that some of them represent trans-shipping rather than round-tripping FDI. The concentration of Brazilian OFDI in these economies is probably due to the high levels and complexity of regulations and taxes imposed on businesses at home.[5]

In 2010, the United States was host to around 8% of Brazil's OFDI stock (nearly double its share in 2000) (annex table 4) and 4% of intra-company loans. Until 2008, the presence of Brazilian MNEs in Europe was concentrated in Denmark and Spain, each representing 22% of Brazil's FDI stock in Europe, followed by Luxembourg (16%), Netherlands (11%), United Kingdom (6%), and Portugal (5%). Other European economies received less than 1.5% each. In 2010, however, the share of Austria jumped to 46% and that of the Netherlands to 13%, while those of Denmark and Spain fell to levels close to 11% each. In other regions of the world, the presence of Brazilian MNEs adds up to about US$ 200 million, which pales in comparison to Brazil's OFDI stock in the Americas of US$ 56 billion or Europe of US$ 23 billion. In 2001-2010, Brazil's

[3] Eva Stal and A. Cuervo-Cazurra "The investment development path and FDI from developing countries: the role of pro-market reforms and institutional voids," *Latin American Business Review*, vol. 12 (2011), pp. 209-231.

[4] See, Banco Central do Brasil (BACEN), www.bacen.gov.br.

[5] In fact, the *Ease of Doing Business 2011* report of the World Bank ranks Brazil 126th in the world in terms of the overall "ease of doing business" and the 150th place in terms of the criterion "paying taxes" in a comparison of 183 economies (http://www.doingbusiness.org/reports/subnational-reports/brazil).

OFDI stock grew most strongly in the United States (from US$ 2 billion to US$ 14 billion), Spain (from US$ 2 billion to US$ 10 billion) and Denmark (from US$ 1 billion to US$ 10 billion).

Brazil's Central Bank (BACEN) records data for all of the country's inflows and outflows of capital.[6] Firms must declare the purpose of outflows, whether a short-term movements in the financial market (portfolio, deposits, derivatives, currency loans, etc.) or long-term capital movements for the purpose of making an FDI transaction (mergers and acquisitions (M&As) or greenfield projects). Brazilian firms channel OFDI, in most cases, through SPEs. They are holding companies or regional headquarters, specializing in finance and insurance (around 62% of Brazil's OFDI is in these industries). SPEs by companies from Brazil and other emerging markets as well as developed economies tend to be established in tax havens. In 2008, about 56% of Brazil's OFDI stock was located in the Cayman Islands; by 2010, this share was below to 36%. Once sent to an SPE, FDI can either be re-directed back to the domestic economy (round-tripping FDI) or invested in a third economy (trans-shipping FDI). There is no information on the final destination of the FDI, in terms of either the sector or the economy ultimately receiving the investment. The data collection responds to the residence principle, i.e., the central bank authority reports investments in "mailbox" locations rather than in the actual address of operations. So the data do not necessarily reflect the true bilateral holding of financial assets.[7]

The corporate players

The number of Brazilian MNEs is steadily increasing.[8] Annex table 5 provides a list of top Brazilian MNES and their foreign assets and suggests that there is a concentration of foreign assets in the seven top-ranked MNEs; Itausa, a banking holding company is the largest Brazilian MNE. It is closely followed by Vale (mining), Odebrecht (engineering and construction), Petrobras (oil and gas), Gerdau (steel), Votorantim (conglomerate), and JBS (food). Other MNEs on the list are far behind in the raking of foreign assets. This is part of a new trend toward the internationalization of firms from emerging markets.[9]

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[6] BACEN registers all operations and foreign investments of Brazilian firms abroad and foreign companies in Brazil. It publishes statistics on stock of capital and flow, classified by foreign deposits, derivatives, currency loans, financial leasing, and FDI (including intra-company loans) and portfolio investments. BACEN also records the allocation of resources in terms of economic sectors and country of destination. Annex tables 3 and 4 this information. Rules and statistics are available at: http://www4.bcb.gov.br/rex/cbe/port/ResultadoCBE2007.asp

[7] Christian Daude and Marcel Fratzscher, "The pecking order of cross-border investment," *Journal of International Economics,* 7 (2008), pp. 94-119.

[8] In Brazil, only aggregate figures on MNEs are available from official sources. BACEN reported a total number of nearly 1,876 companies with OFDI and 116 destination countries in 2009 (www.bacen.gov.br). Two private institutions collect data ranking MNEs: Fundação Dom Cabral (FDC), *Ranking das Transnacionais Brasileiras* (Belo Horizonte: FDC, 2010); and Sobeet/Valor, "The most internationalized: globalized Brazilian companies and sectors," in *Valor Econômico*, "Anuário Multinacionais Brasileiras*,"* September 2010. Both take into account foreign sales, assets and jobs in relation to total sales, assets and jobs of the MNEs covered. Other sources of information on top outward investors are: Boston Consulting Group, 100 New Global Challengers (http://www.bcg.com), *Financial Times*, FT Global 500 (http://www.ft.com/reports/ft500-2010); *Forbes* Global Special Report: The Forbes Global 2000, Scott DeCarlo, ed. (http://www.forbes.com/2005/03/30/05f2000land.html), and "Ranking Multilatinas," *America Economía* (http://rankings.americaeconomia.com/2010/multilatinas/).

[9] For a general perspective on Brazilian firms' internationalization see, Edmund Amann, "Technology, public policy and the emergence of Brazilian multinationals," in Lael Brainard and Leonardo Martinez-Diaz, eds., *Brazil as an Economic Superpower? Understanding Brazil's Changing Role in the Global*

In the mining sector, Vale, a former state-owned enterprise, leads large Brazilian M&As and greenfield projects abroad, as can be seen in annex tables 6 and 7. Vale operates in all continents. Today it is a diversified, export-driven MNE, the world second-largest mining company, having a complex logistical system. Vale is the largest producer of iron ore and pellets, as well as the second largest producer of nickel and a huge logistics operator. In the energy sector, the company currently operates nine hydroelectric plants.[10]

Petrobras, the largest Brazilian company, ranks fifth in the list by foreign assets in annex table 5; it is a leading technology player in the sector, including in bio-fuels. The Government controls 56% of the voting shares in Petrobras.[11] The company has drilled the world's deepest exploration well: the Tupi offshore oil field (7,000 meters below sea level). It has the potential to turn Brazil into a global energy producer. Today, Brazil has reserves of 26.9 billion barrels of oil. Due to these new resources, the company set a new record for an initial public offering (IPO), selling US$ 67 billion in new common and preferred stock.

Brazilian companies have a competitive advantage in the steel sector. Gerdau is the largest Brazilian private company dedicated to the production and sale of steel products, most recently completing large M&A deals and greenfield projects and operating plants in 13 economies. This company achieved its highest degree of internationalization in 2008, with foreign sales representing 76% of total revenues. In the construction industry, the largest Brazilian company, Odebrecht, is penetrating the international market as well, starting in 1979 in neighboring Latin American economies.

Brazil has a large presence in the global food market. An important player in this sector is JBS, a meat-packing firm that has expanded internationally, having completed some large M&A deals. Since 2005, JBS has completed significant acquisitions in Argentina, the United States, Australia, and Italy.[12] Then in 2007, after the acquisition of Swift Foods, JBS Friboi increased its assets to hold about 45% of global meat market. It became the largest global producer of beef, accounting for 40% of the international trade of beef world-wide, the largest processor of leather and third in pork production.[13]

Embraer is the largest Brazilian MNE in the high-technology aerospace industry. Founded in 1969 as a state-owned enterprise, this firm became the world's third largest manufacturer of commercial aircraft and a leading producer of regional jets with up to 120 seats, operating in 78 economies. Embraer's main strategy is the construction of risk-sharing international partnerships, as it depends heavily on a global supply chain

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Economy (Washington, D.C.: Brookings Institution Press, 2009); and Afonso Fleury and Maria Tereza Leme Fleury, "Brazilian multinationals: surfing the waves of internationalization," in Ravi Ramamurti and Jitendra V. Singh, eds., *Emerging Multinationals in Emerging Markets* (Cambridge: Cambridge University Press, 2009), pp. 200-243.

[10] Lourdes Casanova and Hoeber Henning, "Vale: a leading emerging multinational", in José Ramsey and Andre Almeida, eds., *The Rise of Brazilian Multinationals* (Rio de Janeiro: Elsevier Editora, 2009).

[11] For an overview of Petrobras international activities, see Andrea Goldstein, "The emergence of multilatinas: the Petrobras experience", *Universia Business Review*, special issue on Multilatinas, 2010.

[12] Giuliana Aparecida Santini and Gessuir Pigatto, "Internacionalização das empresas Brasileiras frigoríficas," *47º Congresso da SOBER,* Porto Alegre, julho 2009, available at: *www.sober.org.br/palestra/13/832.pdf*.

[13] Eliana Ribeiro and Márcio Todeschini, "A maior do mundo", *Época Negócios* (São Paulo, ano 3, nº 32, 2009), pp. 160-171.

and the corresponding foreign alliances.[14] In 2002, it opened a factory in China (Harbin Embraer Aircraft Industry – HEAI), in association with China's state-owned company AVIC in which it holds a 51% stake, for assembly, sale and post-sale support.

Effects of the recent global crises

Global FDI flows declined sharply during the financial crisis of 2008-2009. Brazil's large negative FDI outflow of US$ 10 billion in 2009 (annex table 2) resulted from a surge in the repayment of intra-company loans from Brazilian affiliates abroad to their parent companies, which reached a net value of US$ 14.6 billion in 2009. The combination of Brazilian currency appreciation and loss of market value of overseas equity did not result in more ventures abroad for Brazilian companies. MNEs were hit by tightened international credit conditions and uncertainty regarding the outcome of the economic crisis, now affecting the Euro zone in particular.[15]

Outward M&As by Brazilian firms plummeted sharply in 2009, although the effects of the crisis in Brazil were relatively limited. In 2010, Brazil's GDP growth was 7.5%. Equity investments made by Brazilian MNEs in foreign affiliates reached US$ 11.5 billion in 2010, 3.9% of world outward equity investment flow, reaching the 5th position in the world, behind the United States, China, Hong Kong (China), and Belgium.[16]

FDI can be indirectly financed through trans-shipment investment by using foreign affiliates in third countries or institutions such as SPEs, which are constructed in hubs, such as Luxembourg, Austria and Hungary, in that order. In 2009 and 2010, the stock of Brazilian OFDI in the Cayman Islands and other tax havens was considerably lower than in any year during 2000-2008. Also, in 2009 and 2010, the stock of Brazilian OFDI in Europe rose considerably, mainly due to an increase in FDI in Austria, through SPEs and also by means of "financial intermediation" due to relevant foreign banking takeovers of Austrian banks.[17] As a result, Austria was able to attract Brazilian OFDI of US$ 887 million a year from 2001 to 2006 to US$ 33,7 million a year from 2007 to 2010.

At the same time, FDI from Brazil in the primary and secondary sectors increased, while that in the tertiary sector, and in financial services in particular, decreased. Further research could throw light on the relationship, if any, between these sector and geographic changes and their possible links to MNEs' risk-mitigating strategies during and immediately following the financial crisis of 2008-2009.

In general, the outlook in Brazil is rather optimistic about the recovery of FDI flows.[18] Brazilian MNEs expect to continue internationalizing their operations, in the midst of the burdensome internal tax system, high interest rates and exchange rate uncertainty.

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[14] See http://www.scribd.com/doc/17352804/Embraer-Strategic-Management. For a comprehensive analysis of Embraer see, Maria Cecília Spina Forjaz, "As origens da Embraer," *Tempo Social,* vol. 17, no.1 (São Paulo, June 2005).

[15] James P. Wash and Jiangyan Yu, "Determinants of foreign direct investment: A sectoral and institutional approach," *International Monetary Fund Working Papers*, WP/10/187, July 2010.

[16] UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development,* (New York and Geneva: United Nations, 2011).

[17] C. Bellak and S. Mayer, "Inward FDI in Austria and its policy context," *Columbia FDI Profile* (New York: Vale Columbia Center on Sustainable International Investment, 2010).

[18] *Boletim SOBEET,* 71/2010 and 72/2010, available at: www.sobeet.org.br/boletim.php

Firms in industries sensitive to the business cycle, led by automobiles and chemicals, have more conservative views concerning their FDI plans, while those in less affected industries, such as pharmaceuticals, food and beverages and services, have a more optimistic view. Commodities prices, however, will probably be an important factor determining the future rhythm of Brazilian OFDI, particularly the investment plans of Vale (mining), Gerdau (steel), Petrobas (oil), and several agribusiness firms, like JBS, Bertin and Marfrig.

The policy scene

The use of their own savings in their activities abroad, as seen in the cases of JBS, Marfrig, Bertin (food sector), Itausa (IT), AMBEV (beverages), and other firms. In 2009, as a counter-cyclical policy intervention, BNDES[19] lent US$ 8 billion to foster the expansion of Brazilian MNEs in agribusiness, capital goods, construction, engineering, consumer electronics, energy, technical services, and information technology. The Bank operates a line of credit called "*Investimento Direto Externo*" (literally "Foreign Direct Investment") to stimulate investments of Brazilian MNEs, offering interest rates lower than market's and covering the construction of new installations abroad, acquisition of equipment, M&As, turnover capital, and export support.[20]

Moreover, two main economic policies indirectly encouraged FDI. First, a steady reduction in tax barriers to imports, mainly in the capital goods and the final consumer goods industries, has opened the country to higher levels of international trade, particularly imports of capital goods. This process has directly increased industrial productivity and strengthened the competitiveness of Brazilian enterprises. Second, the privatization of industries such as steel, energy, mining, chemical products, and telecommunications in other economies has stimulated FDI from Brazil in those industries. Incentives for mergers of domestic firms offered by BNDES have also indirectly helped to promote the internationalization of Brazilian firms by facilitating the creation of large MNEs, most notably in the past five years.[21] Despite the lack of an investment policy and tax incentives to promote OFDI, Brazil has emerged as Latin America's main source of FDI, as more and more Brazilian companies have expanded abroad.[22]

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. Brazil had signed 37 double taxation treaties (DTTs) and 14 bilateral investment treaties (BITs), as

[19] BNDES is the major development bank in Brazil. It has a steady source of financial resources from the Government, asset monetization and return on operations. It operates with lower interest rates than the market (www.bndes.gov.br).
[20] See, information on the Banco de Desenvolvimento Econômico e Social (BNDES), particularly IDE and FINEM lines of credit in www.bndes.gov.br
[21] Industrial policies in Brazil do not regulate or give fiscal incentives to OFDI. However, there are incentives to form national champions. More information is available at: http://www.mdic.gov.br/pdp/arquivos/destswf1224095287.ppt
[22] UNCTAD, *World Investment Report 2010*: *Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010). Since 2001, the Central Bank of Brazil has collected information on OFDI. The data differ from UNCTAD's due to differences in the methodologies employed.

of June 1, 2011.[23] 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 FDI (outward and inward).

Contrary to former Brazilian dominant economic thinking, today FDI is considered an essential tool to enhance the competitiveness of Brazilian corporations. Among the most noteworthy proposals in this respect is that for the foundation of a Brazilian Eximbank.[24] The Eximbank is in the agenda of the government, but still an object of dispute within government authorities.[25] It could encourage foreign trade and investment activities and oversee policies related to inward and outward capital flows. Today, BNDES tries to fulfill these functions, although it lacks the legal and operational structure to do so. Another policy initiative is that for the creation of a Brazilian sovereign wealth fund, a state-owned investment fund, to maximize long-term returns by investing some of Brazil's foreign exchange reserves. Such a fund tends to have a higher risk tolerance than official funds managed by monetary authorities, such as BNDES and the Central Bank. The proposition is to increase strategic Brazilian cross-border M&As and greenfield projects, in response to market trends and new investment opportunities.

Conclusions

Several factors could favor the further international expansion of Brazilian MNEs. Domestic economic growth and the appreciation of the Real are crucial favorable macroeconomic conditions. Economic growth in most emerging markets and an economic recovery of European economies are likely to stimulate Brazilian OFDI, especially foreign investment in capital goods, construction, engineering, consumer electronics, energy, aircraft, technical services, and information technology. The commodities markets for ore, steel, oil, and meat protein depend on the growth of demand from emerging economies and should also promote new ventures abroad. In Latin America and Africa, good prospects for agribusiness should encourage new investments from Brazil.

Improved access to domestic finance is necessary to help Brazilian MNEs continue their foreign expansion to compensate for tightened credit conditions in international markets. Further internationalization depends heavily on private capital markets that need to be improved in Brazil. Inflationary pressures and high interest rates inhibit this process. As noted, public policies do not promote Brazilian MNEs' OFDI, except for the financial support of BNDES to some "national champions." Brazil's MNEs take advantage of the robust domestic growth to strengthen their financial muscle and exploit opportunities for investing abroad and improve their competitiveness. The Government will have to take a careful look at participating in more BITs, DTTs and preferential

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[23] UNCTAD, "Brazil: number of double taxation treaties concluded" (New York and Geneva: United Nations, 2011), available at: http://archive.unctad.org/Templates/Page.asp?intItemID=4505&lang=1 and, "Brazil: number of bilateral investment treaties concluded" (New York and Geneva: United Nations, 2011), as at June 1, 2011, available at:
http://archive.unctad.org/Templates/Page.asp?intItemID=2344&lang=1

[24] Milton de Abreu Campanario, Helio Nogueira da Cruz and Marcello Muniz da Silva, "Investimento estrangeiro direto brasileiro: proposta de políticas públicas," in Afonso Fleury, ed., *Gestão empresarial para a internacionalização das empresas brasileiras* (São Paulo: Editora Atlas, 2010).

[25] Jornal Folha de São Paulo, 8 março de 2010.

trade and investment agreements. Furthermore, the regulatory and tax systems in Brazil are quite inadequate to enforce international contracts. As noted, Brazil ranked 126th among 183 countries in the world in terms of "the ease of doing business," or the overall investment environment in the World Bank's *Ease of Doing Business* 2011 report. This situation needs to be improved. The first step is addressing the inefficiencies in the tax system, the main obstacle in Brazil to the inflow and outflow of FDI.

Additional readings

Fleury, Afonso, ed., *Gestão empresarial para a internacionalização das empresas brasileiras* (São Paulo: Editora Atlas, 2010).

Campanario, Milton A., Marcello M. Silva, Milton F. Chagas, Jr., and Leonel C. Pessoa, *Foreign Direct Investment: Diagnosis and Proposals for a Public Policy Agenda for Brazil* (InternexT – *Revista Eletrônica de Negócios Internacionais da ESPM* – http://internext.espm.br/index.php/internext , vol. 6, no 1, 2011).

Fleury, Afonso, and Maria Tereza Fleury. *Brazilian Multinationals: Competences for Internationalization* (New York: Cambridge University Press, 2011).

Useful websites

Foreign trade and international agreements: Government of Brazil, Ministry of Development, Industry and Foreign Trade (MDIC), available at: www.mdic.gov.br.

FDI statistics: Central Bank of Brazil, available at www.bacen.gov.br.

Brazilian Multinationals, available at: www.sobeet.org.br/boletim.php

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The Vale Columbia Center on Sustainable International Investment (VCC), led by Lisa Sachs, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It is a leading forum on issues related to foreign direct investment (FDI), paying special attention to the impact of such investment on sustainable development. Its objectives are to analyze important topical policy-oriented issues related to FDI and to develop and disseminate practical approaches and solutions. (www.vcc.columbia.edu)

Statistical annex

Annex table 1. Brazil: outward FDI stock, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	52	50	54	55	69	79	114	140	156	165	181
Memorandum: comparator economies											
Russia	20	44	62	91	107	147	217	370	206	306	434
China	28	35	37	33	45	57	73	96	148	230	298
India	2	3	4	6	8	10	27	44	63	79	92
Mexico	8	12	13	17	22	30	37	45	46	64	66

Source: UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org/fdi/

Annex table 2. Brazil outward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	2	-2	3	0.2	10	3	28	7	21	-10	12
Memorandum: comparator economies											
China	1	7	3	3	6	12	21	23	52	57	68
Russia	3	3	4	1	14	13	23	46	56	44	52
India	1	1	2	2	2	3	14	17	19	16	15
Mexico	0,3	4	1	1	4	7	6	8	1	7	14

Source: UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org/fdi/.

Annex table 3. Brazil: distribution of outward FDI stock, by economic sector and industry, 2001-2010

(US$ million and per cent)

Sector/industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All sectors/industries	**50,000**	**54,000**	**55,000**	**69,000**	**79,000**	**114,000**	**140,000**	**156,000**	**165,000**	**181,000**
Primary	**1,962**	**148**	**319**	**1,328**	**4,133**	**2,793**	**3,202**	**3,055**	**52,154**	**56,536**
% Primary	3,9%	0,3%	0,6%	1,9%	5,2%	2,5%	2,3%	1,9%	31,6%	31,2%
Agriculture, forestry and fishing	131	46	73	313	78	87	172	180	156	145
Mining and quarrying	4	4	22	291	664	1	373	287	49,852	49,621
Petroleum and gas	1,827	98	224	723	3,390	2,705	2,658	2,588	2,145	6,769
Secondary	**4,031**	**4,188**	**2,341**	**2,340**	**2,899**	**4,977**	**11,799**	**15,144**	**12,038**	**16,945**
% Secondary	8,1%	7,8%	4,3%	3,4%	3,7%	4,4%	8,4%	9,7%	7,3%	9,4%
Food, beverage and tobacco	358	181	283	294	644	571	1,085	1,597	4,176	5,949
Chemicals and refining	765	303	289	65	75	60	108	71	112	167
Non-metallic products	516	336	28	23	27	28	1,974	2,382	2,187	4,123
Construction	1,443	1,872	854	694	686	1,270	1,244	990	1,043	955
Textiles	42	30	45	49	63	512	492	382	312	435
Metallurgy	7	8	8	10	9	221	1,332	1,457	2,370	3,638
Rubber and plastics	61	682	175	237	285	915	350	826	547	493
Other manufacturing	839	776	660	967	1,109	1,400	5,213	7,436	1,287	1,184
Services	**44,007**	**49,663**	**52,340**	**65,332**	**71,969**	**106,230**	**124,998**	**137,800**	**100,807**	**107,513**
% Services	88,00%	92,00%	95,20%	94,70%	91,10%	93,20%	89,2%	88,3%	61,1%	59,3%
Trade (retailing and wholesale)	2,097	2,296	2,344	2,991	3,547	3,289	5,320	3,461	2,271	3,264
Finance and insurance	24,347	29,362	27,463	35,812	38,829	43,201	80,491	78,403	64,310	69,370
Services to companies	16,919	17,432	21,957	25,616	28,598	59,126	27,684	37,016	19,913	18,966
Others services	644	573	576	913	994	614	11,500	18,919	14,312	15,913

Source: Central Bank of Brazil (www.bacen.gov.br).

Note: The Central Bank of Brazil classifies foreign equity capital stakes of 10% or more as FDI; smaller equity capital investments are classified as portfolio investments.

Annex table 4. Brazil: geographical distribution of outward FDI stock, 2001-2010

(US$ billion)

Economy	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
World	50	54	55	69	79	114	140	156	165	181
Developed economies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Europe	6	7	8	18	25	30	31	30	83	87
Denmark	0.02	0.01	0.01	6	9	10	10	7	12	10
Portugal	0.7	1.2	1.1	1.0	0.9	1.0	2	1	2	3
United Kingdom	0.3	0.1	0.4	0.5	1	1	1	2	1	1
Spain	2	3	2	3	3	4	6	7	7	10
Luxembourg	0.6	0.4	2	3	4	4	4	5	5	5
Netherlands	0.6	0.4	0.7	1	3	3	3	3	4	12
Austria	0.0	0.1	0.3	0.4	0.7	4	2	2	45.2	40
Other economies	2	2	2	2	3	3	3	4	6	7
North America	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
United States	2	2	2	3	4	4	9	13	12	14
Other developed economies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0	0
Developing economies	42	45	44	48	50	79	100	111	69	80
Africa	0.42	0.16	0.11	0.13	0.14	0.03	0.11	0.16	0.2	0.2
Angola	0.27	0.03	0.02	0.03	0.02	0.02	0.10	0.14	0.1	0.2
Other countries	0.15	0.13	0.08	0.10	0.12	0.00	0.01	0.03	0.0	0.0
Asia and Oceania	0.04	0.08	0.09	0.06	0.11	0.11	0.18	0.14	0.2	0.2
China	0.02	0.01	0.02	0.03	0.08	0.10	0.12	0.07	0.2	0.2
Other economies	0.02	0.06	0.07	0.03	0.03	0.01	0.06	0.07	0.1	0.1
Latin America and the Caribbean	41	45	44	48	50	79	99	111	69	79
Argentina	2	2	2	2	2	2	3	4	5	6
Bahamas	6	7	7	8	8	9	13	12	13	13
Bermuda	0.99	1.1	0.6	0.4	0.7	15	0.9	0.3	2	1
British Virgin Islands	8	6	7	7	8	11	16	14	17	16
Cayman Islands	19	24	22	26	26	35	56	67	23	32
Netherlands Antilles	0.3	0.4	0.5	0.8	0.6	2	2	2	0	1
Panama	0.96	1.0	0.8	0.4	0.5	0.6	2	5	1	2
Uruguay	4	2	4	2	2	2	3	3	3	3
Other economies	1.2	1.0	0.8	1	2	3	3	3	5	8

Source: Central Bank of Brazil (www,bacen,gov,br) and UNCTAD's FDI/TNC database for 2007 and 2008, available at http://unctadstat,unctad,org/fdi/

Note: The Central Bank of Brazil classifies foreign equity capital stakes of 10% or more as FDI; smaller equity capital investments are classified as portfolio investments.

Annex table 5. Brazil: major MNEs headquartered in the country, ranked by foreign assets in 2009 and 2010

(US$ billion)

Name	Industry	Foreign assets 2009	Rank 2009	Foreign assets 2010	Rank 2010
Itaú-Unibanco (Itaúsa)	Banking	50.0	1	75.2	1
Vale	Mining	46.1	2	55.6	2
Constr. Norberto Odebrecht	Construction	24.4	3	n.a.	n.a.
Petrobras	Oil and gas operations	20.4	4	17.9	5
Gerdau	Steel	14.3	5	15.1	7
Grupo Votorantim	Conglomerate	9.1	6	15.8	6
JBS-Friboi	Food	9.1	7	10.7	8
Embraer	Aerospace and defense	3.7	8	3.1	10
CSN	Steel	2.2	9	n.a.	n.a.
Marfrig	Food	1.4	10	2.5	11
Constr, Andrade Gutierrez	Construction	0.7	11	n.a.	n.a.
Brasil Foods	Food	0.6	12	3.6	9
Marcopolo	Automotive	0.5	13	0.21	15
WEG	Machinery	0.4	14	0.79	12
FIBRIA (former Aracruz Celulose)	Pulp and paper	0.3	15	n.a.	n.a.
Braskem	Chemicals	0.1	16	n.a.	n.a.
Metalfrio	Electrical equipment	0.1	17	n.a.	n.a.
Natura	Cosmetics	0.1	18	0.04	16
Lupatech	Machinery	0.1	19	n.a.	n.a.
ALL Logística	Railroad transportation	0.1	20	n.a.	n.a.
Totvs	Information technology	0.02	21	n.a.	n.a.
Bematech	Information technology	0.002	22	n.a.	n.a.
Banco do Brasil	Banking	n.a.	n.a.	32.7	3
Bradesco	Banking	n.a.	n.a.	26.2	4
Indústrias Romi	Machinery	n.a.	n.a.	0.73	13
Magnesita	Mining	n.a.	n.a.	0.68	14

Sources: The authors, based on indexes published by Valor/Sobeet and Dom Cabral Foundation referring to 2010 data**.**

Annex table 6. Brazil: main M&A deals, by outward investing firm, 2008-2010

(US$ million)

Year	Acquiring company	Target company	Target economy	Target industry	Shares acq. (%)	Value
2010	Vale	BSG Resources Guinea Ltd	United Kingdom	Ferroalloy ores, except vanadium	51	2,500
2010	Marfrig Alimentos SA	Keystone Foods LLC	United States	Meat packing plants	100	1.260
2010	Grupo Votorantim	Cimpor Cimentos de Portugal	Portugal	Cement, hydraulic	17	982
2010	DH&C Outsourcing SA	Diveo Broadband Networks Inc	United States	Information retrieval services	100	422
2010	Votorantim Metais Ltda	Cia Minera Milpo SAA	Peru	Copper ores	15	419
2010	Petrobras	Pasadena Refining System Inc	United States	Petroleum refining	50	350
2010	Braskem SA	Sunoco Chemicals Inc	United States	Chemicals and chemical preparations	100	350
2010	Votorantim Cimentos SA	Cimpor Cimentos de Portugal	Portugal	Cement, hydraulic	4	210
2010	Petrobras	Devon Energy Corp-Cascade	United States	Crude petroleum and natural gas	50	180
2010	Grupo Camargo Correa	Cimpor Cimentos de Portugal	Portugal	Cement, hydraulic	3	180
2009	Banco Itau Holding Financeira	Banco Itau Europa SA	Portugal	Security and commodity services	89	498
2009	Petrobras	Esso Chile Petrolera Ltda	Chile	Petroleum refining	n.a.	400
2009	Vale	Cementos Argos SA-Coal Mine	Colombia	Cement, hydraulic	100	373
2009	Votorantim Group	Cementos Avellaneda	Argentina	Cement	50	202
2009	Banco Bradesco SA	Banco Espirito Santo SA	Portugal	Banks	6	132
2009	Suzano Holding SA	MDS SGPS SA	Portugal	Insurance agents, brokers, and service	50	71
2009	Vale	TEAL Exploration & Mining Inc	Canada	Copper ores	50	66
2009	Marfrig	Grupo Zenda	Uruguay	Leather products	51	49
2009	Petrobras	Chevron Chile SAC	Chile	Products of petroleum and coal	100	12
2009	JBS-Friboi	Pilgrim's Pride	United States	Food products	64	3
2008	Gerdau	Quanex Corp	United States	Steel works, blast furnaces, and rolling mills	100	1,749
2008	Magnesita SA	LWB Refractories GmbH	Germany	Brick and structural clay tile	100	944
2008	JBS-Friboi	Smithfield Beef Group Inc	United States	Beef cattle, except feedlots	100	565
2008	JBS-Friboi	Inalca SpA	Italy	Sausages and other prepared meat products	50	425
2008	Votorantim Metais Ltda	US Zinc Corp	United States	Secondary nonferrous metals	100	295
2008	Gerdau SA	Corporacion Sidenor SA	Spain	Steel works, blast furnaces, and rolling mills	20	287
2008	AmBev	Quilmes Industrial SA(Quinsa)	Argentina	Malt beverages	6	252
2008	JBS-Friboi	Tasman Group Services	Australia	Meat packing plants	100	150
2008	Grupo	Cia Minera Milpo SAA	Peru	Copper ores	6	133

	Votorantim					
2008	Gerdau	Corsa Controladora	Mexico	Cold-rolled steel sheet, strip and bars	49	101

Sources: The authors, based on Thomson ONE Banker, Thomson Reuters; Index Invest Brazil CINDES (Centro de Estudos de Integração e Desenvolvimento), available at www,cindesbrasil,org; and companies' annual reports.

Annex table 7. Brazil: Main greenfield projects, by outward investing firm, 2008-2010

(US$ million)

Year	Investing company	Host economy	Industry	Business Activity	Investment
2010	Vale	Canada	Metals	Manufacturing	2,800.0
2010	Odebrecht	Mexico	Plastics	Manufacturing	2,500.0
2010	Vale	Canada	Metals	Extraction	560.0
2010	Petrobras	Portugal	Alternative/renewable energy	Manufacturing	530.0
2010	Petrobras	Saudi Arabia	Coal, oil and natural gas	Manufacturing	450.0
2010	Vale	Zambia	Metals	Extraction	400.0
2010	Camargo Correa	Angola	Building and construction materials	Manufacturing	400.0
2010	Gerdau	Peru	Metals	Manufacturing	327.0[a]
2010	Hejoassu Administracao	Colombia	Metals	Manufacturing	327.0[a]
2010	Vale	Peru	Chemicals	Extraction	300.0
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	Hejoassu Administracao	Argentina	Metals	Manufacturing	158.9[a]
2010	Vale	Chile	Metals	Extraction	140.0
2009	Odebrecht	Peru	Plastics	Manufacturing	2,500.0
2009	Vale	Mozambique	Coal, oil and natural gas	Electricity	748.6a
2009	Hejoassu Administracao	Peru	Metals	Manufacturing	500.0
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Construtora OAS	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Petrobras	Turkey	Coal, oil and natural gas	Extraction	300.0
2009	JBS	United States	Alternative/renewable energy	Electricity	209.9[a]
2009	Vulcabras SA	Argentina	Textiles	Manufacturing	142.3[a]
2009	JBS	Russia	Food and tobacco	Manufacturing	136.8
2008	Vale	New Caledonia	Minerals	Extraction	3,200.0
2008	Vale	Malaysia	Metals	Manufacturing	2,300.0
2008	Hejoassu Administracao	Colombia	Metals	Manufacturing	1,500.0
2008	Gerdau	Peru	Metals	Manufacturing	1,400.0
2008	Vale	Oman	Metals	Manufacturing	1,365.0
2008	Petrobras	Nigeria	Coal, oil and natural gas	Extraction	1,262.9[a]

2008	Petrobras	Japan	Coal, oil and natural gas	Manufacturing	976.0
2008	Vale	Oman	Metals	Manufacturing	913.1[a]
2008	Gerdau	Argentina	Metals	Manufacturing	524.0
2008	Vale	Peru	Chemicals	Extraction	479.0
2008	Andrade Gutierrez	Venezuela	Metals	Manufacturing	283.2[a]
2008	Gerdau	India	Metals	Manufacturing	302.8
2008	Vale	Mozambique	Coal, oil and natural gas	Extraction	250.0
2008	Embraer (Embraer-Empresa Brasileira de Aeronautica)	Portugal	Aerospace	Manufacturing	206.0
2008	Santana	United States	Textiles	Manufacturing	170.0

Sources: The authors, based on FDI Intelligence, a service from the Financial Times Ltd.

[a] Estimated investment.