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DRIVING FORCES BEHIND THE INTERNATIONAL EXPANSION STRATEGIES OF NON-EUROPEAN EMNEs – A COMPARATIVE ANALYSIS OF THE CHINESE AND BRAZILIAN CASES³

1. INTRODUCTION

The rise of multinational enterprises (MNEs) from emerging markets is topical, important and poses a number of questions and challenges that require considerable attention in the future from academia as well as business management. Outward foreign direct investment (OFDI) from non-European emerging regions is not a new phenomenon, what is new, is the magnitude that this phenomenon has achieved over the past one and a half decade. The recent takeovers of high-profile companies in developed or developing countries by non-European emerging-market MNEs (EMNEs) – such as Lenovo, Wanhua (China), Hindalco (India), CVRD (Brazil), Cemex (Mexico), Lukoil (Russia), etc. – as well as the greenfield or brownfield investments of emerging companies (such as Huawei, ZTE, Tata, Pepco, etc.) show a new trend where new kind of firms become major players globally. According to the World Investment Report investments from emerging-markets reached a record level: “developing Asia now invests abroad more than any other region. Nine of the 20 largest investor countries were from developing or transition economies” (UNCTAD 2015: ix.).

Today, the rise of EMNEs is driven by the Asian economy, mainly China and India, however, this process is broader, incorporates a growing number of developing economies and complemented by the growing share of emerging markets in world exports (Sauvant 2008, Nölke 2014). In addition, non-European EMNEs have become important players in several regions around the globe, ranging from the least developed countries of Africa through the developing markets in Latin America and Asia to the developed countries of the United States or the European

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Union, including East Central European (ECE, i.e. Czech Republic, Hungary, Poland, Slovakia and Slovenia) countries (for an excellent analysis on FDI in ECE region see Szent-Iványi, 2017).

In line with the above, the paper focuses on the driving forces (especially the push factors) behind the international expansion strategy of non-European EMNEs by comparing the cases of Chinese and Brazilian OFDI. Brazil and China are two large emerging economies revealing many cultural, historical, economic, political and institutional differences. At the same time they are the two largest emerging economies among developing countries to invest abroad, and to conquer on world markets by successfully internationalizing public and private companies since the Millennium. In terms of promoting OFDI both countries have extensively relied on public policies and this makes their comparative analysis expedient.

The differences and similarities between these two countries might help us to underline our theoretical argument on the distinctiveness of EMNE's internationalization strategies, especially regarding the role of home country governments in driving OFDI. At the same time the comparison of these two cases makes it also possible to draw generalizable lessons for other developing countries with similar endowments and/or policy aims.

After mapping out investment flows and types of involvement, the main focus is on identifying the motivations of Chinese and Brazilian FDI, with a special emphasis on structural/macro-economic and institutional as well as political factors. According to our preliminary hypothesis push determinants of these investments indeed differ from that of Western companies in terms of specific institutional and political factors that seem important for non-European EMNEs. This hypothesis echoes the call to combine macroeconomic and institutional factors for a better understanding of internationalization of companies (Dunning and Lundan 2008). At the same time, however, the paper also reveals important differences between the Chinese and Brazilian going global strategies, with significant consequences for their 'economic rationality' and potential effects on their longer term domestic economic development (via the potential of OFDI to promote structural changes in the domestic economy).

After the introductory section, in the second chapter, we briefly summarize the existing theories of internationalization and foreign direct investment, including mainstream theories and new theoretical avenues. The third and fourth chapter describes the driving forces behind the international expansion strategies of Chinese and Brazilian MNEs, respectively, by presenting the historical evolution and main characteristics of outward foreign direct investment as well as the main push drivers and public policies. The fifth chapter concludes by comparing the two cases and highlighting major similarities and differences, as well as summarizing main findings and policy implications.

2. THEORY AND DATA

Majority of research on motivations for FDI apply the eclectic or OLI paradigm by Dunning (1992, 1998) that states that firms will venture abroad when they possess firm-specific advantages, i.e. ownership and internalization advantages, and when they can utilize location advantages to benefit from the attractions these locations are endowed with. Different types of investment motivations attract different types of FDI which Dunning (1992, Dunning-Lundan 2008) divided into four categories: market-seeking, resource-seeking, efficiency-seeking and asset-seeking. Localization advantages "comprise geographical and climate conditions, resource

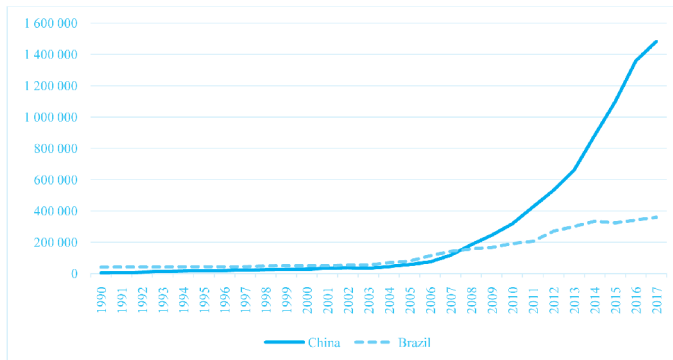
endowments, factor prices, transportation costs, as well as the degree of openness of a country and the presence of a business environment appropriate to ensure to a foreign firm a profitable activity” (Resmini, 2005:3). Much of the extant research and theoretical discussion is based on FDI outflows from developed countries for which market-seeking and efficiency-seeking FDI is most prominent (Buckley et al., 2007; Leitao-Faustino, 2010).

As mentioned above, although Asian FDI is not a new phenomenon, but what is different today is the scale of the phenomenon and the pace it has evolved since the early 2000s. In particular, since China launched its „go global” strategy (2000) and started to invest more and more globally. Nevertheless, traditional economic factors seem to be insufficient in explaining FDI decisions of MNEs. In the last decade international economics and business researchers acknowledged the importance of institutional factors in influencing the behaviour of MNEs (e.g., Tihanyi et al., 2012). Institutions serve to reduce uncertainties related with transactions and minimize transaction costs (North, 1990). Meyer and Nguyen (2005: 67) argue that informal constraints are “much less transparent and, therefore, a source of uncertainty”. As a result, Dunning and Lundan (2008) extended OLI model with the institution-based location advantages which explains that institutions developed at home and host economies shape the geographical scope and organizational effectiveness of MNCs.

The rapid growth of outward FDI from emerging and developing countries resulted in numerous studies trying to account for special features of emerging MNEs' behaviour that is not captured within mainstream theories. For example, Mathews extended OLI paradigm with linking, leverage, learning framework (LLL) that explains rapid international expansion of companies from Asia Pacific (Mathews, 2006). Here linking means partnerships or joint ventures that latecomers form with foreign companies in order to minimize risks involved with internationalization as well as to acquire “resources that are otherwise not available” (Mathews, 2006: 19). Latecomers when forming links with incumbents also analyse how the resources can be leveraged. They look for resources that can be easily imitated, transferred or substituted. Finally, repeated processes of linking and leveraging allow latecomers to learn and conduct international operations more effectively (Mathews, 2006: 20).

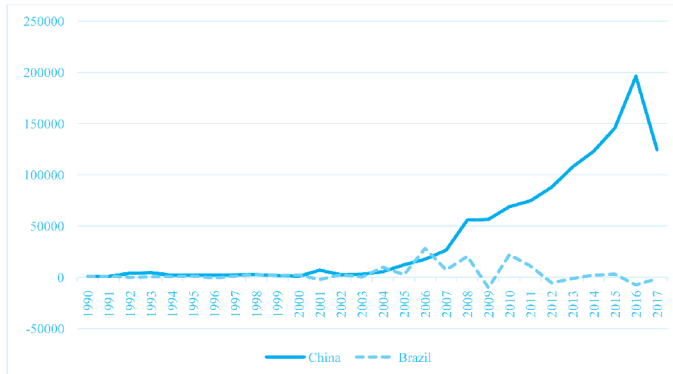
Although emerging-market MNEs from various emerging countries differ in many respects but to some extent they share common characteristics. For example, Peng (2012) reports that Chinese MNEs are characterized by three relatively unique aspects: (1) the significant role played by home country governments as an institutional force, (2) the absence of significantly superior technological and managerial resources, and (3) the rapid adoption of (often high-profile) acquisitions as a primary mode of entry. Kalotay and Sulstarova (2010) highlights that Russian MNEs' investments are also influenced by home country policies while Barnard (2010) writes about the lack of strong firm capabilities among MNEs from South Africa and Taiwan. Gubbi et al. (2010) find that Indian MNEs are also fond of undertaking acquisitions overseas. Since 2002 a marked shift in corporate attitude towards global markets took place in Brazil, too, but “multi-latinas” have emerged throughout Latin America (Casanova-Kassum, 2013). According to Gubbi and Sular (2015) Turkish firms seem to be using the European countries to (1) present themselves as a European Union company, (2) make use of special features of these countries to expand their businesses within and to other countries and, (3) make use of the favourable tax treatment policies available to foreign investors. At the same time while some emerging-market MNEs focus on neighbouring regions, others target the global market, including the countries of the developed world.

Figure 1. Chinese and Brazilian outward FDI stock, million USD, 1990-2017



Data source: UNCTAD

Figure 2. Chinese and Brazilian outward FDI flows, million USD, 1990-2017



Data source: UNCTAD

As the above figures show OFDI has started to gain momentum after the New Millennium both in China and Brazil. 2008 was the first year when Chinese outward FDI stock exceeded the Brazilian stock of OFDI. The year of the global economic and financial crisis indeed provided a tremendous impetus to Chinese OFDI, while the growth of Brazilian outward investments remained rather modest.

In this paper we especially focus on the significant role played by home country governments as an institutional force, by explicitly comparing the Chinese and Brazilian state-led OFDI strategies. As we shall see both governments pursued pro-active and interventionist strategies to promote the international expansion of their MNEs, which thus constitutes to be a distinctive feature of EMNE's behaviour if compared to developed MNE's. Comparing however the Chinese and Brazilian OFDI strategies we will shed light to important differences between them, and will draw relevant policy implications from this analysis, which might provide useful lessons also for other emerging economies.

3. DRIVING FORCES BEHIND THE INTERNATIONAL EXPANSION STRATEGIES OF CHINESE MNEs

Chinese outward FDI has increased in the past decades, however, in the last decade this process accelerated significantly. In 2012, China became the world's third largest investor – up from sixth in 2011 – behind the United States and Japan with an outward FDI flow of 84 billion US dollars and it still holds its position: the value of Chinese outward FDI grew to 183 billion US dollars in 2016, making Chinese MNEs the largest overseas investors among developing countries (UNCTAD 2017). According to Hanemann and Huotari (2017), the volume of investments has further increased in 2016 and has reached 200 billion USD, with a 40 per cent increase compared to the previous year. Several factors fuelled this shift, including the Chinese government's wish for globally competitive Chinese firms or the possibility that outward FDI can contribute to the country's development via multiple channels, such as through 1. investments in natural resources exploration, 2. export of domestic technologies, products, equipment, and labour, 3. technological upgrading or 4. by increasing competitiveness through promoting brands and by building global networks of sales, supply and production (Sauvant – Chen, 2014: 141-142; Luo et al, 2010: 76; Caseiro – Masiero, 2014: 248).

3.1 HISTORICAL OVERVIEW OF THE EVOLUTION OF CHINESE OFDI

In China, in hand with the so-called “Open Door” policy reforms, from the late 70s, the government encouraged investments abroad to integrate the country to the global economy, although the only entities allowed to invest abroad were state-owned enterprises (SOEs). The total investment of these first years was not significant and concentrated to the neighbouring countries, mainly to Hong Kong. The regulations were liberalized after 1985 and a wider range of enterprises – including private firms – was permitted to invest abroad. After Deng Xiaoping's famous journey to the South in 1992, overseas investment increased dramatically, Chinese companies established overseas divisions almost all over the world, concentrated mainly in natural resources. Nevertheless, according to UNCTAD statistics, Chinese outward FDI averaged only 453 million US dollars per year between 1982 and 1989 and 2.3 billion between 1990 and 1999.

In 2000, before joining the World Trade Organization (WTO), the Chinese government initiated the go global or “zou chu qu” policy, which was aimed at encouraging domestic companies to become globally competitive. They introduced new policies to induce firms to engage in overseas activities in specific industries, notably in trade-related activities. In 2001 this encouragement was integrated and formalized within the 10th five-year plan, which also echoed the importance of the go global policy (Buckley et al 2008). This policy shift was part of the continuing reform and liberalization of the Chinese economy and also reflected Chinese government's desire to create internationally competitive and well-known companies and brands. Both the 11th and 12nd five-year plan stressed again the importance of promoting and expanding outward FDI, which became one of the main elements of China's new development strategy.

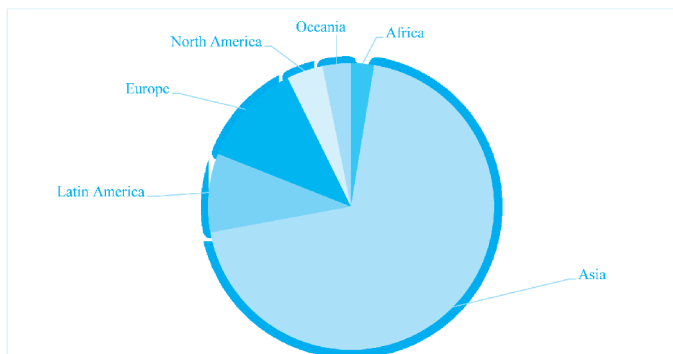
Chinese outward FDI has steadily increased in the last decade (see Figure 1. and 2.), particularly after 2008, due to the above-mentioned policy shift and the global economic and financial crisis. The crisis brought more overseas opportunities to Chinese companies to raise their share in the world economy as the number of ailing or financially distressed firms has increased. Whi-

le outward FDI from the developed world decreased in several countries because of the recent global financial crisis, Chinese outward investments increased even greater: between 2007 and 2011, outward FDI from developed countries dropped by 32 per cent, while China's grew by 189 per cent (He-Wang, 2014: 4; UNCTAD 2013). As a consequence, according to the World Investment Report 2013, in the ranks of top investors, China moved up from the sixth to the third largest investor in 2012, after the United States and Japan – and the largest among developing countries – as outflows from China continued to grow, reaching a record level of 84 billion US dollars in 2012. Thanks largely to this rapid increase of China's outward FDI in recent years; China also became the most promising source of FDI when analysed FDI prospects by home region (UNCTAD 2013: 21).

3.2 CHARACTERISTICS OF CHINESE FOREIGN DIRECT INVESTMENT GLOBALLY⁴

Although traditionally Chinese outward FDI is directed to the countries of the developing world, Chinese investments into the developed world, including Europe increased significantly in the past decade. According to the Clegg and Voss (2012), Chinese outward FDI to the European Union (EU) increased from 0.4 billion US dollars in 2003 to 6.3 billion US dollars in 2009 with an annual growth rate of 57 per cent, which was far above the growth rate of Chinese outward FDI globally. In 2016, Chinese companies invested 35 billion EUR in the EU, a 77 per cent increase from the previous year (Hanemann-Huotari, 2017: 4). While the resource-rich regions remained important for Chinese companies, they started to become more and more interested in acquiring European firms after the financial and economic crisis. The main reason for that is through these firms Chinese companies can have access to important technologies, successful brands and new distribution channels, while the value of these firms has fallen, too, due to the global financial crisis (Clegg – Voss, 2012: 16-19.).

Figure 3. Geographical distribution of China's outward FDI stock, by the end of 2017



Data source: MOFCOM / NBS, PRC

⁴ This section is partly based on a previous research of the author and the book chapter, Szunomár Á, Biedermann Zs. (2014: 7-33).

Although this increase is impressive by all means, according to Chinese statistics, China still accounts for less than 10 per cent of total FDI inflows into the EU or to the US. However, during the examination of the actual final destination of Chinese outward FDI, Wang (2013) found that – as a result of round-tripping investments – developed countries receive more Chinese investments than developing economies: according to his project-level data analysis, 60 per cent of Chinese outward FDI went to developed economies like Australia, Hong Kong, the United States, Germany, and Canada.

Regarding the entry mode of Chinese outward investments globally, greenfield FDI is continues to be important, but there is a trend towards more mergers and acquisition (M&A) and joint venture projects overseas. Overall, greenfield investments of Chinese companies outpace M&As in numerical terms, however, greenfield investments are smaller in value in total as these include the establishment of numerous trade representative offices.

As Clegg and Voss note (2012: 19), the industry-by-country distribution of Chinese outward FDI is difficult to determine from Chinese statistics. However, based on their findings, it can be stated that Chinese investments in mining industry are taking place mainly in institutionally weak and unstable countries with large amounts of natural resources and that these investments are normally carried out by SOEs. Investments in manufacturing usually take place in large markets with low factor costs, while Chinese companies seek technologies, brands, distribution channels and other strategic assets in institutionally developed and stable economies.

In developed economies Chinese investment are less dominated by natural resource seeking or trade-related motives but more concerned with the wide range of objectives, including market-, efficiency- and strategic assets-seeking motives. In the case of developed countries, Chinese SOEs usually have the majority of deal value but non-state firms make the greater share of deals (Rosen and Hanemann, 2013: 71). In addition to greenfield investments and joint ventures, China's merger and acquisition (M&A) activity in developed countries has recently gained a momentum and continue an upward trend since more and more Chinese firms are interested in buying overseas brands to strengthen their own.

As partly mentioned above, a further Chinese specificity is, that state-owned enterprises (SOEs) account for a large majority of OFDI – according to some estimates in 2009 SOEs accounted for 69 per cent of OFDI stocks and 16 of the 18 largest Chinese MNEs were either state-owned or state-controlled (Xue et al., 2010). According to Scissors (2014: 5) however the role of Chinese ownership status is overblown as Chinese rule of law is weak, which means that a privately-owned company has to face as much pressure and constraint as its state-owned competitor. Nevertheless, it is worth to differentiate between SOEs, which has two types: locally administered SOEs (LSOEs) and centrally administered SOEs (CSOEs). Most of the LSOEs operate in the manufacturing sector and they are facing competition from both private companies and other LSOEs, while CSOEs are smaller in number but more powerful as they operate in monopolised industries such as finance, energy or telecommunication (He-Wang, 2014: 6).

Although the share of private firms is growing, SOEs still account for the majority – more than two-thirds – of total Chinese outbound investments, however, the range of investors is broader, next to state-owned and private actors it includes China's sovereign wealth fund and firms with mixed ownership structure. The role of SOEs seems to be declining in the past few years, although the government will continue to emphasize their importance as they rely on the revenue, job creation and provision of welfare provided by the SOEs (He-Wang, 2014: 12).

3.3 WHAT IS BEHIND CHINESE OFDI?: PUSH FACTORS AND PUBLIC POLICIES

Driving forces of OFDI can be grouped into push and pull factors (or home country and host country determinants, respectively), to differentiate the factors that drive investment out of the home country, or attract investments into another country. In this paper we concentrate on the home country determinants, the so-called push factors, as we are especially interested in the very specific role, home country governments might play in promoting the internationalization of EMNEs.

Several types of push factors contribute to the internationalization of companies from developing countries. We can differentiate between institutional and structural push factors. Structural push factors - such as gross domestic product (GDP), export-orientedness, interest rates, stock returns or exchange rate volatility - are related to the home country's domestic economy and market. Institutional push factors are related to the distance between home and host country - such as, for example, cultural proximity that can be measured by the size of the Chinese diaspora in the host country - or government policy (for country and industry recommendations), including specific incentives, taxes, or the role of different actors, and their interplay (Voss et al., 2009; Schüler- Zhou and Schüller, 2009; Luo et al., 2010).

Irwin and Gallagher (2014) found that - unlike Japan or Korea - China's market entry has more to do with developing project expertise and supporting exports than it does with tariff-hopping or outsourcing industries fading on the mainland. They identified two major reasons for China's high (31%) ratio of outward FDI lending to total outward FDI: „First, China has a greater incentive to give outward FDI loans than Japan or Korea ever did because its borrowers are state-owned so it can more easily dictate how they use the money. Second, China has a greater capacity to give outward FDI loans because it has significantly higher savings and foreign exchange reserves than Japan and Korea, both today and especially during equivalent developmental stages” (Irwin-Gallagher, 2014: 22-23)

According to the go global strategy, Chinese companies should evolve into globally competitive firms, however, Chinese companies go abroad for varieties of reasons. The most frequently emphasized motivation is the need for natural resources, mainly energy and raw materials in order to secure China's further development (resource-seeking motivation). *Mutatis mutandis*, they also invest to expand their market or diversify internationally (market-seeking motivation). Nevertheless, services such as shipping and insurance are also significant factors for outward FDI for Chinese companies if they export large volumes overseas (Davies, 2013: 736). Despite China's huge labour supply, some companies move their production to cheaper destinations (efficiency-seeking motivation), to, for example, Southeast Asia. Recently, China's major companies also looking for well-known global brands or distribution channels, management skills, while another important reason for investing abroad is technology acquisition (strategic asset-seeking motivation). Scissors (2014: 4) points out that clearer property rights – compared to the domestic conditions – are also very attractive to Chinese investors, while Morrison (2013) highlights an additional factor, that is, China's accumulation of foreign exchange reserves: instead of the relatively safe but low-yielding assets such as US treasury securities, Chinese government wants to diversify and seeks for more profitable returns.

In China, initially, only large state-owned enterprises from the natural resource sector were supported to invest abroad to overcome the resource scarcity of the Chinese economy. Later

on, to help small and medium-sized enterprises (SMEs) develop their international markets, a government regulation on capital support for SMEs was introduced in 2000, at the very beginning of the 'going-global' policy. In contrast, the promotion of outward FDI by privately-owned companies was only approved in February 2006.

Through the approval process for outward FDI projects and access to foreign exchange and preferential loans, the government can exert direct influence on the growth and patterns of outward investments. The Ministry of Commerce of the People's Republic of China (MOFCOM) requested that companies invest in countries that

1. have a close relationship with China,
2. exhibit complementarities to the Chinese economy,
3. are important trading partners of China,
4. have signed investment and taxation agreements, and
5. are part of an important economic region in the global economy (MOFCOM, 2004).

The Chinese "Catalogue of Industries for Guiding Foreign Investment"

The "Catalogue" has usually been issued by National Development and Reform Commission and the Ministry of Commerce. Initially, in the early 2000's, there were 67 recommended countries and seven recommended industries for Chinese outward FDI. The country recommendations included 26 Asian countries (three in Central Asia), 13 African countries, 12 European countries (ten of them in the European Union, old member states + CZ, HU, PL), 11 countries in North and South America, and five countries in Oceania.

The Catalogue retains the classification of industries based on those that are encouraged, restricted, or prohibited. For manufacturing, the most recommended industries are usually electric machines and consumer electronics, while for services, trade and distribution were suggested most often. In the highly technologically developed EU member countries, France, Germany, the UK, and Sweden, investment in R&D was advocated as well. Rather surprisingly, investment in IT services was recommended in the 'new' EU member countries.

China is indeed paradigmatic for state control of major corporations. However, in opposition to older versions of state capitalism and developmental states, there is neither a classical top-down control nor a "single-guiding enterprise model" such as the South Korean Chaebol or Japanese Keiretsu system. We can distinguish between different views on the characteristics of Chinese state control. One possible opinion is Nölke et. al.'s (2015) state-permeated market economy, where mechanisms of loyalty and trust between members of state-business coalitions are based on informal personal relations. Witt and Redding (2013) consider the Chinese system as a system combining predatory elements with personal relations, while the Chinese themselves are emphasizing the advantages of the strong but effective government that provides internal as well as external stability.

We also support the idea that China forms a unique model on its own, that can be characterized by a sustained - or even never-ending - transition from socialism to capitalism. In China, there are new forms of profit-oriented and competition-driven state-controlled enterprises, such as China Mobile, that have emerged recently, while there are several private firms and public-private hybrids, such as Huawei, Lenovo or Geely, that have also been able to become successful companies on the Chinese market as well as globally (Nölke et. al. 2015). These days, such non-state - but politically

supported - national firms are considered as 'national champions' by state managers (Naughton, 2007; Ten Brink, 2013). With some exceptions - such as IT sector, which is deeply integrated into global production networks - most industries are dominated by national (state-controlled, hybrid and private) capital and not by foreign multinationals (Nölke et. al. 2015).

Regarding mechanisms of economic coordination, decision-making in most Asian states is usually statist. Here, the exception is Japan, which tends toward corporatism, while China is characterised by a mixture of top-down statism with a strong bottom-up element. In China, local variations in institutions, or even informal institutions often supersede formal institutions. (Witt and Redding 2013). Successful institutional innovations diffuse across different localities and inform national level institutional changes (Xu, 2011).

Since Chinese corporate governance is a mixture of top-down and bottom-up control, it is characterised by multiplexity, i.e. the presence of multiple business systems: non-competitive state-owned, profit-oriented and competition-driven state-controlled (such as China Mobile) as well as private firms (Huawei, Lenovo or Geely). Informality as well as *guanxi* ("net of relations", i.e. personal relations) also plays an important role in decision making.

4. DRIVING FORCES BEHIND THE INTERNATIONAL EXPANSION STRATEGIES OF BRAZILIAN MNEs

In the early 2000s amid a rather prosperous and conducive external environment a fundamental shift took place in Brazilian economic policies. Outward orientation became the "name of the game" and has started to determine Brazil's new attitude towards the global market. Several large Brazilian companies became prominent actors on the global level (global players), such as Petrobras (the national oil giant), Odebrecht (construction company), JBS (the meat processing company) or even Embraer (the aircraft manufacturer). There were even Brazilian brands that became known globally (such as the Havaianas). This move of Brazilian companies entering the global market was driven on the one hand by a dynamically ascending Brazilian economy and on the other hand by a deliberate economic policy change. President Lula urged already in 2003 the internationalization of Brazilian companies, and several measures and instruments were put into force to help the aim of Brazilian companies "going global".

4.1 HISTORICAL OVERVIEW OF THE EVOLUTION OF BRAZILIAN OFDI

Historically Brazilian companies (both state- and privately-owned ones) were rather focusing on local (and regional) markets. There is a complexity of reasons beyond this, but the long period of import substitution industrialization and the large domestic market as well as the abundance of natural resources have without doubt played important roles. As a result Brazilian companies in general have had little incentive (and often also important competitiveness constraints) to expand to foreign markets. This picture has changed significantly in the early 2000s, when the boom in outward foreign direct investment started and marked the beginning of a new era.

In the mid of the 90s, after the economic stabilization and market-oriented reforms, Brazil emerged as an important recipient of FDI flows. It was however only after 2003 when Brazil became a significant investor abroad - in parallel with emerging countries, such as China (Figure 1. and 2.). Outward FDI flows from Brazil started to gain momentum as a result of two (coinciding) events.

First, in economic front the export boom (based mainly of primary commodities export) generated increasing trade surplus, and this hand in hand with large flows of incoming FDI and the appreciation of the Real (the Brazilian currency), have boosted foreign exchange reserves, which has meant a favourable scenario for Brazilian firms to invest abroad. Mostly export-led Brazilian companies in industries, where Brazil traditionally enjoyed competitive advantages (such as iron ore, steel, meat, soybeans, etc.) have benefitted from improved access to domestic financial markets for financing their (mainly) market-seeking investments abroad (Campanario et al., 2012). In more general terms, the global market opportunities have also favoured these firms, as commodity prices were booming, fuelled by increasing demand from China, and led to (overly) optimistic atmosphere in global markets and rising investor's confidence. Not surprisingly, looking at the sectorial division we can see an increase towards the natural resources sector (metals, mining, oil, gas and steel) (Resende et al., 2010).

Second, on the policy front, these favourable economic conditions were accompanied by a fundamental shift in Brazilian policy attitude toward global markets (Casanova – Kassum, 2014: 68). This can be best illustrated with the address of the former Brazilian President, Lula urging Brazilian companies to go global in 2003 (at a meeting of the Portuguese Industrial Association in Lisbon): “It is time for Brazilian businessmen to abandon their fear of becoming multinational businessmen” (UNCTAD, 2004: 1).

In 2006 the total Brazilian Direct Investments abroad outweighed the incoming Foreign Direct Investments in Brazil. An unprecedented event, showing the internationalization process of a country that explicitly aimed at consolidating its position as a global player also regarding its outward direct investment flows. However, this was an exceptional year, and this performance can easily be explained by the Vale's acquisition of the Canadian Inco for an estimated 17 billion US dollars (Resende et al, 2010: 99).

It is not unique that yearly amounts of Brazilian OFDI are dominated by one or two transactions of the given year⁵, as indicated also by the relative low volume – most of all in the early 2000s – and relative high year-to-year volatility. Outward investment flows surpassed the 10 billion dollar threshold in 2006 in Brazil, with an average being below 1 billion dollars between 2000 and 2003 on a yearly basis, while between 2004 and 2008 the average jumped close to 17 billion (BCB, 2017).

Furthermore, and also less surprisingly OFDI trends of Brazilian companies tend to highly correlate with the general economic trends of Brazil. It is straightforward to see how OFDI became negative as a response to the 2009 financial crisis, as foreign affiliates of Brazilian multinational enterprises started to repatriate capital to their parent firms mainly via intra-firm lending. Similar – divestment – tendencies can be captured during the last years, since the economic crisis that started in 2014.

4.2 CHARACTERISTICS OF BRAZILIAN FOREIGN DIRECT INVESTMENT GLOBALLY

Brazilian OFDI started to conquer world markets around 2003. This surge in foreign investment was mainly driven by high commodity process and increasing demand from Asia (mainly China), and thus mostly dominated by resource-based companies (such as Petrobras and Vale),

⁵ In 2004 for example the merger between Ambev (a Brazilian drinks group) and Interbrew (a Belgium-based brewer) with its value of 5 billion US dollars has accounted for more than the half of that year's total Brazilian OFDI (with increased intra-company loans also accounting for 22 per cent of total outward flows that year) (UNCTAD, 2004).

which executed large-scale acquisitions in neighbouring and more distant (developed and emerging) markets. Thus during the late 2000s mostly export-led Brazilian companies in industries, where Brazil traditionally enjoyed competitive advantages (such as iron ore, steel, meat, soybeans, etc.) have benefitted from improved access to domestic financial markets for financing their (mainly) market-seeking investments abroad. The most highlighted case was that of the Vale, and its acquisition of the Canadian firm Inco in 2006. This transaction has alone represented 60 per cent of the total Brazilian OFDI flow that year. Besides the favourable international conditions (serving as pull factors), domestic economic growth, rising sales and public investment have acted as domestic push factors as these made it easier for companies to turn their attention towards international markets (as business has been doing well at home).

Resende et al. (2010: 99) draw attention to the fact, that not all Brazilian internationalized companies are primarily active in the commodities sector. They highlight the growing share of the service sector in Brazilian OFDI, and as examples we can refer to the constructions sector and companies such as Odebrecht or Guterrez, but even some high-tech companies are more and more active outside Brazil, such as Datasul, Lupatech or Stefanini. Other authors (Casanova, 2016: 33; Amann, 2009) also refer to some outstanding examples, where home-grown technology and innovation has driven the successful internationalization strategies (examples can be Embraer, Embrapa, or even the Camargo Correa).

Historically Brazilian firms tended to open up commercial offices to support their export activities as their first steps to expand abroad. During the early 2000s greenfield investments were the preferred mode of entry in foreign markets by Brazilian firms, mainly in the mining and energy industry (with Petrobras leading the row by overseas energy investments, but even the Ambev entered into other Latin American markets via greenfield investment – mainly for market-seeking reasons) (Sauvant, 2006: 344). This trend has changed significantly and with OFDI flows gaining momentum by 2006 cross border mergers and acquisitions became the main form of Brazilian companies' foreign investments.

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

If focusing on real foreign direct transactions, and leaving aside the flows into tax havens (such as those in the Caribbean Islands, e.g. the Cayman Islands, the British Virgin Islands and the Bahamas), the European region and the United States gain importance, as final destinations of Brazilian OFDI. Looking at accumulated investment stocks the EU has overtaken Latin America in 2009 and became the main recipient of Brazilian investments. In Europe, however we also have to be cautious because of the strong dominance of countries (Denmark, Netherlands, Luxembourg, and more recently Austria), where through setting up special purpose entities Brazilian firms primarily aim at avoiding the burdensome domestic taxes and bypassing complicated Brazilian regulations.

It is worth to recall that the two main export markets for Brazilian products are traditionally United States and most recently China. Thus, the large presence of Brazilian multinational firms and their foreign direct investments in these countries might reflect their market-seeking strategies and the aim

to achieve proximity to main customers. According to Sheng and Carrera (2018: 6) even though some changes in foreign asset to total asset (FA/TA) ratio for some countries (notably for Fibria and Marcopolo) in 2016 can be observed, these changes were not due to any major new investments abroad, rather due to losses in the domestic market. Amidst a multi-dimensional economic, social, political and institutional crisis in Brazil, most firms were focusing their resources on defending their domestic activities (or having been involved in the overarching corruption scandal paying off the record-breaking fines, such as the Odebrecht or Petrobras), and often even withdrawing investments from overseas.

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

4.3 BRAZILIAN COMPANIES GOING GLOBAL: PUSH FACTORS AND PUBLIC POLICIES

Before mapping the drivers of internationalization of Brazilian MNEs, it is worth to mention the specificities of the Brazilian context: such as the role of family-owned business, and the strong, albeit changing role of state-ownership with direct and indirect state influence, as well as resource abundance and the role of the primary resources in the domestic economy. In the same vein the long historical period of the ISI policies (with a peak in the 60s and 70s) has also left important consequences on the organizational structures and on the operation of companies in Brazil.

Brazil has also followed the *usual* developmentalist economic policy strategy to promote “national champions”, and this reveals strong similarity to its Asian counterparts, including China. National champions were either state-owned, or (directly or indirectly) state-backed large, specialized domestic firms that were protected from competition and have benefitted from government (export) subsidies and became leaders in their respective industries. These were created and supported to drive the industrialization of the economy and serve as major engines for economic development (including aims such as employment creation, growth promotion and gaining access and prestige in international markets) (Casanova, 2009). After the years of liberalization and privatization during the 1990s, many of the former national champions maintained and even improved their leading positions in the Brazilian and international markets (such as Embraer, Vale and Petrobras).

According to a recent survey on the top 20 Brazilian MNEs ranked in terms of foreign assets, the primary reasons for investing abroad were the following (Sheng – Carrera, 2017: 10): 1. Access to new markets; 2. Proximity to clients; 3. Cost reduction; 4. Access to natural resources; 5. High taxes and institutional voids in Brazil (such as corruption, poor transportation system and unqualified labour force). Some companies have also cited access to new technologies, however the overall ranking and relevance of this factor, was much lower, than in the case of the above mentioned drivers.

As an important driving force to support OFDI flows in Brazil (as in some other emerging economies, such as China) we turn towards analysing the role of *public policies*, especially the role of the Brazilian National Development Bank (BNDES) to improve capital availability (via providing cheaper long-term credit in certain strategic sectors).

Until the 2000s the direct promotion of outward investment has not entered the economic

policy agenda in Brazil. The early stage (during the 60s and 70s) of internationalization of Brazilian companies was largely driven by the companies themselves (Fleury-Fleury, 2011; Ricz, 2017), and the state has not played a key (direct) role in this (early) process. Since the early 2000s some new forms of BNDES support appeared, yet these remained stand-alone programs, and there has been no comprehensive strategy to support the global expansion of Brazilian firms. This is in stark contrast with China and some other Asian countries (like Japan, or South Korea), where the „developmentalist“ governments have since the beginnings played a key role in the internationalization of firms and actively supported the global competitiveness of their strategic industries.

Outward FDI flows from Brazil and public policies to promote these, came onto the development agenda only after the economic stabilization in the mid of the 90s, however the *progressive liberalization of capital accounts*, have to be regarded as an important prerequisite for these. There is a great number of public policy areas where the state can influence the internationalization of firms, ranging from labour policies via trade policies to privatization and public utility regulatory frameworks and taxation (Finchelstein, 2017). Nevertheless the focus here is on those explicit policy interventions that directly promote the international expansion of Brazilian companies.

With the new, active industrial policies of the Workers Party (PT) governments since 2003, different types of (above described) state influence were maintained and strengthened (via golden shares, indirect state-ownership via pension funds and the national development bank), and new credit lines were put in operation, to help the internationalization of the national champions.

The first direct instrument to promote the internationalization of Brazilian companies goes back to 1998, when a separate credit line was introduced by the Brazilian Development Bank (BNDES) to help foreign governments to realize large infrastructure projects (mainly in Latin America and Africa⁶) by hiring Brazilian engineering companies. It is worth to note however that during the first five years only five projects were funded, all of them in South America, with an average disbursement of 74 million US dollars per year (Caseiro – Masiero, 2014: 242).

The second instrument aiming at directly financing Brazilian companies to invest abroad was put in place in 2002 and included both loans and subscription of securities. This credit line was first used only in 2005 (when the JBS acquired the Argentine subsidiary of its American competitor, the Swift company) (Sennes – Mendes, 2009). In the same year (2005) as an important complementary measure the Brazilian Central Bank (BCB) removed the prior authorization requirement of all OFDI projects above the 5 million US dollar threshold.

In 2007 with the adoption of the „Production Development Policy“ (PDP), the new industrial policy plan, explicit goals for OFDI support were laid down, and a more coherent policy approach (however short-lived) started. The PDP has set the *strategic goal of expanding and consolidating the international leadership* of Brazilian EMNEs in those strategic industries, in which Brazil has already possessed international competitiveness, such as aeronautics, oil and gas, petrochemical, ethanol, mining, steel, pulp and paper and meat (MDIC, 2008)⁷.

Between 2005 and 2011 the BNDES supported the internationalization of Brazilian companies by 4.9 billion US dollars, and this consisted almost exclusively of securities subscription.

⁶ BNDES loans were essential to make Brazilian companies competitive against the expanding Chinese companies, that were also supported by their government.

⁷ „Keep or position the local productive system amongst the top 5 world exporters/global players.“

In addition, the BNDES continued to finance overseas infrastructural projects with an annual average summing up to 1.1 billion US dollars between 2007 and 2012, when the total number of these projects exploded to 97 (Caseiro-Masiero, 2014: 242). Even though the international expansion of technology-intensive companies also emerged among the goals, in reality the overwhelming majority (more than 95 per cent) of the BNDES financed OFDI projects went to meat processing companies (such as JBS and Mafrig).

Furthermore the extensive financing of domestic operation of Brazilian MNEs via the development bank has freed up earnings to fund OFDI projects even for those companies that borrowed from BNDES only for domestic projects – for which the BNDES has usually set lower interest rates. BNDES disbursements were responsible for 72 per cent of long term credit for companies in Brazil in the early 2010s. In the light of the traditionally high domestic interest rates in Brazil several authors (such as Masiero et al., 2014; Musacchio – Lazzarini, 2014) emphasize, that the BNDES has taken advantage of its oligopolistic position in the industrial credit supply and increased its shareholder stake in some of the largest Brazilian MNEs⁸. In some large MNEs (Vale, Embraer) the BNDES even has golden shares, giving the bank veto power in several important decisions, but also in other cases the bank's ability to influence operational decisions has expanded.

It was not only the BNDES operations explicitly financing OFDI projects that the bank helped Brazilian MNEs to expand beyond the Brazilian market. Several domestic acquisitions were also financed, and led to intra-industry consolidation of domestic markets, while strengthening the positions of the so called „national champions“ and implicitly and indirectly harming the small and medium sized enterprises.

After heavy critics (and strengthening pressure from Brazilian business elite), and as a consequence of change in the presidency (with important discontinuities in economic policy decisions), but also in the light of worsening economic indicators a new industrial policy document was instated in 2011, the Bigger Brazil (Brasil Maior) plan. This has contained the reorientation of industrial policy priorities, while it has also foreseen to support OFDI not only in already highly competitive industries, but to promote to obtain foreign technologies and/or access to new markets. To this priority however no specific goal and no further policy instrument or action was instituted, thus no implementation followed. Caseiro and Masiero (2014:244) write about the „interruption of the global champions policy“, and cite Luciano Coutinho (the BNDES president by that time) saying that the number of those sectors, in which Brazilian companies are internationally competitive enough to be promoted as potential global champions is limited, and he cannot see other sectors, with the same potential. Thus in his opinion, the policy aiming at supporting the internationalization of large Brazilian MNEs has run its course and thus it has been concluded.

There were also other factors beyond these changes of public policies that have also contributed to the reversal of international expansion of large Brazilian companies. In the case of Petrobras for example, behind the decisions of discontinuing some overseas projects and selling

⁸ This argumentation is in line with the views of Musacchio and Lazzarini (2014) describing the transformation of state capitalism in line with changes in forms of the state-ownership, and highlighting new forms and channels of exerting state power. In this vein the Brazilian government applies the minority shareholder approach to maintain some power to protect the nationality and influence the investment decisions of main Brazilian MNEs.

foreign assets after 2011, the prioritization of domestic market, and the challenges of exploration of the „recently“ discovered pre-salt reserves have certainly played an important role. While more recently the fall in oil prices, and later on the evolving corruption scandal has forced the company to oversee its investment strategy and announce several divestment plans.

Even though we have argued that between 2007 and 2011 a relative coherent policy framework existed in Brazil to promote the internationalization of Brazilian companies, there were several barriers constraining the achievement of coherent action. As examples we might cite the lack of Bilateral Investment Treaties (BITs) and Double Taxation Treaties (DTTs) with main partner countries.

We conclude that the Brazilian „going global policy“ was part of a more defensive industrial policy strategy (compared to the Chinese one). The majority of the OFDI disbursement from BNDES has gone into traditional leading sectors of the Brazilian economy (to the core of the so called Brazilian industrial complex developed during the ISI period), with main focus on the sectors of meat processing, construction and petrochemicals. The subsidized loans provided by the BNDES between 2007 and 2011 went disproportionately to large companies, that would have been able to obtain credit on the international financial markets (Musacchio-Lazzarini, 2014, Massi, 2014), as they were the most competitive players of the Brazilian economy. Whereas the promotion of SMEs, as potential future global players or aims such as to capture dynamic comparative advantages of host markets, and/or alleviating the bottlenecks in the domestic markets were and remained out of the scope and focus of the Brazilian OFDI strategy.

5. A COMPARATIVE PERSPECTIVE AND FINAL REMARKS

The rise of emerging market multinationals is a new and dynamic process, while their approach towards their host economies are relatively unique compared to more developed MNEs. In this paper we summarized the existing theories of internationalization and foreign direct investment, presenting the mainstream theories and some of the new theoretical avenues. The analysis used a comparative approach and examined the similarities as well as differences regarding emerging outward FDI. After presenting the main features of Chinese and Brazilian outward foreign direct investment globally, we narrowed down our focus on the major driving forces – focusing mainly on push factors and especially on the role of home country governments - behind the international expansion strategies of Chinese and Brazilian MNEs.

As mentioned above, Chinese and Brazilian outward FDI in emerging or developing countries is characterized more by resource-seeking motives. Both Chinese and Brazilian companies in the developed world are rather focusing on buying themselves into global brands or distribution channels, getting acquainted with local management skills and technology, the so-called strategic assets. Regarding modes of entry, investments shifted from greenfield projects to mergers and acquisitions in both countries, which represents currently around two-thirds of all Chinese outward FDI in value. This shift is driven by the financial crisis, however it also seems to be a new trend of Chinese FDI to the developed world, while greenfield investment remains significant in the developing world. Outward FDI has also become more diversified in the past years both in China and Brazil: from mining and manufacturing it turned towards high technology, infrastructure and heavy industry, and lately to the tertiary sector, business services and finance but also health care, media and entertainment. This structural shift is however much more pronounced in China, as in Brazil there are only a handful companies active in the high-tech sector.

Asia continues to be the largest recipient, accounting for nearly three-quarters of total Chinese outward FDI, followed by the EU, Australia, the US, Russia and Japan. Numbers might be misleading though due to round-tripping (the investment is placed in offshore financial centres only to flow it back in the form of inward FDI to China to benefit from fiscal incentives designed for foreign investors). According to project-level analysis, 60 percent of Chinese outward FDI is aimed at developed economies like Australia, Hong Kong, the United States, Germany, and Canada. Similarly, Brazilian companies if investing beyond their *natural market*, are mainly active in the United States, China and the United Kingdom. In the European Union Portugal and Spain have been leading the way for hosting Brazilian MNE's, but some companies are also present in Germany, France and Italy. Brazilian OFDI to the ECE countries is characterised by very low volume and high year-to-year volatility and tends to stay mostly below any threshold of international surveys. With the strengthening of diplomatic ties and a new foreign policy friendship between Hungary and Brazil, there might be some changes in this regard in the future.

As for Chinese outward FDI to the European Union, the Eurozone crisis attracted Chinese investors due to falling prices. Whereas similarly to the Brazilian case Chinese investors have also preferred „old European“ investment destinations not only because of market size but also because of well-established, sound economic relations with these countries. Chinese investment in ECE constitutes a relatively small share in China's total FDI in Europe and is quite a new phenomenon. Nevertheless, it is on the rise and may increase further due to recent political developments between China and certain countries of the region.

By comparing the Chinese and Brazilian OFDI strategies, we can conclude, that Chinese OFDI strategy has taken a much more aggressive stance to promote Chinese companies abroad, while its Brazilian counterpart was a rather defensive one. Brazilian industrial policies were focusing on already existing dynamic comparative advantages, as they preferred to support industries, that were already highly competitive internationally, and did not promote further structural changes in the domestic economy.

In contrast, the Chinese government has promoted OFDI mainly to secure access to highly needed natural resources, while there were also examples of market-seeking and efficiency-seeking motivations, however more recently the desire to acquire new technologies and managerial experience also came to fore. We especially underline that the Chinese government has promoted and guided OFDI with the main aim to acquire assets that were scarce in the country or considered to be crucial for the further development of the domestic economy. For this aim it has mainly focused on the dynamic comparative advantages available in the host countries. In contrast, the Brazilian government has been much more relying on its own existing dynamic comparative advantages (instead of aiming at creating new ones), and promoted traditional leading companies' international expansion (which might have been successful internationally also without state intervention).

In international comparison among the emerging countries the Brazilian OFDI policies seem to be less interventionist⁹ (less relying on direct state interventions and interference), which especially stands out if compared to China. The Brazilian government is exercising direct power only over the two state-owned companies (Petrobras and Banco do Brasil), while in other cases it is „only“ a minority shareholder and exerts rather indirect influence on some strategic companies and their

⁹ While of course on the other end of the extreme lie even more liberal regimes, such as Chile or the majority of the more advanced countries.

investment decisions. As mentioned above, although Chinese state-owned enterprises account for a large majority of OFDI, there are new forms of profit-oriented and competition-driven state-controlled enterprises, while there are several private firms and public-private hybrids, that have also been able to become successful companies on the Chinese market as well as globally. These non-state - but politically supported - national firms are considered and treated as 'national champions'.

On the other hand however the Brazilian state used to be almost exclusive provider of long term (subsidized) credit via the Brazilian development bank (the BNDES), which made its influence excessively strong (if compared to other more developed economies), albeit rather via indirect channels. All in all we can state that with some exception of infrastructural projects in Latin America and Africa, the Brazilian government has not directly influenced OFDI allocation decisions, such as it was more often the case for the Chinese government.

Finally we conclude, that though looking at the numbers and tendencies both strategies seem to have been successful in the eve of the twenty-first century, however in terms of longer term economic development perspectives differences prevail. The Chinese OFDI strategy might be more promising in this regard, as it has much larger potential to promote those structural changes and positive spillovers in the domestic economy, which are highly required to escape the middle-income trap (this finding is in line with Caseiro and Masiero, 2014).

Our initial aim was to identify those push factors and public policy mechanism that influences the international expansion strategy of non-European EMNEs, by comparing Chinese and Brazilian an OFDI. Although we have found many similarities as well as differences on the macro level, but a number of gaps remained in our knowledge on the micro level. Therefore, a further possible step of our research could be company case studies - the analysis of the investment strategies of a few Chinese as well as Brazilian companies - that will allow us to investigate the topic in far more detail.

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