'International Champions' from Large Fast Growing Economies: Brazil’s corporate emergence dynamics compared to China’s and India’s.

Abstract:

For long, a large part of the literature dedicated to corporate internationalization development process has been focusing:

- *either on companies operating from major industrialized nations -like the United States or the European Union- as large industrial zones having achieved -or on the path of- economic integration*
- *or, on companies which, although founded in smaller industrialized ones -like Scandinavian countries or Switzerland- able to concentrate their international activities on several key sectors and managing to achieve a regional, continental, or, even, global domination.*

But few analyses have, until recently, been dedicated to companies which are originally from the ‘large fast growing economies’ (LFGEs). Such companies have been able to successfully expand in vast domestic markets, such as China, India or Brazil, from where some of them have already, and with surprising success, undertaken a transnational expansion - not simply in their surrounding emergent market zones-, but also in the United States, in the industrialized countries of Western Europe and in the most advanced Asiatic economic areas (Japan as well as Korea, Singapore..).

To understand, both, (a) the key characteristics of the 'international champions’ from Brazil, considered as an example of LFGE, and (b) the internationalization dynamics of Brazilian companies in general, comparative lens will be used: the parallel illustrations of the Chinese and Indian ‘international champions’ progressions, suggest a logic combining the key specificities of each economy and the rationale of international corporate development.

Introduction:

For long, a large part of the literature dedicated to corporate internationalization development process has been focusing:

- either on companies operating from the large industrialized nations, like the United States or the European Union, as industrial zones having achieved or on the path of economic integration: according to these analyses (Hymer, 1968, McManus, 1972, Buckley & Casson, 1976), such companies rely -irrespective of the economic sectors to which they belong- on the largest world markets, in order to (a) develop their competitive advantages and (b), above all, benefiting of unique economies of scale, which they enjoy by virtue of a large internal demand - be it actual or potential-;
- or, on companies which, although founded in smaller countries, are able to concentrate their international activities on several key sectors managing to achieve a regional, continental, or, even, global domination: such enterprises demonstrate a particular capacity to capitalize on specific competitive advantages and transcend the limited scope of their home country and of their local domestic markets (Johanson & Wiedersheim-Paul, 1975) in order to, both, win international market share and develop, on the strength of supply chain branches and R&D units deployed worldwide[1], a fully integrated international presence.

On the basis of cases in each of these two groupings, there has been abundant theoretical and empirical work -referring, for example, to Porter's (1986) 'Diamond'- to demonstrate that certain local environmental economic stimuli -political-regulatory, economic and social, technological (Lemaire, 2000)- have spurred the growth of these 'international champions', ranging from internal regulations, education system, .. to infrastructural and transportation networks. Indeed, also, all manner of public support, especially that which tends to

a) reinforce the technological potential of such companies
b) and favourably influence the results of negotiations abroad

[1] In this group can be included, for example, such Swiss businesses as Nestlé and Novartis, as Eriksson, Scania, and Ikea, in Sweden, and Nokia, in Finland.

could be included (Krugman, 1991), at least to the extent that such interventions facilitate the insertion and installation of domestic economic interests in the lattice of international exchange.

But few analyses have, as yet, been dedicated to companies which are originally from the large fast growing economies (LFGEs[2]) (Bartlett & Goshal, 2000). Some companies have been able to successfully expand in their respective vast domestic markets such as China (Nolan & Zhang, 2002), India (Pandit, 2005), and, Brazil (Fleury, 1999), where some companies have already, and with surprising success, undertaken in earnest a new type of transnational expansion - not simply in their surrounding emergent market zones-, but also in the United States and in the industrialized countries of Western Europe (Teece, 2006).

And then, above and beyond the problem of understanding the emergence and development of these 'international champions' from the principal LFGEs, will be considered how transnational Brazilian companies may undertake to effectively reposition themselves in an international environment characterised by a trend towards increasing ‘decompartmentalization’.

To understand, both, (a) the key characteristics of the 'international champions from Brazil and (b) the internationalization dynamics of Brazilian companies in general, comparative lens could be useful: the parallel illustrations of the Chinese and Indian ‘International champions’ progressions, suggest a logic combining the key specificities of each economy and the rationale of international corporate development.

[2] Luo, Y. & Tung,L. (2006) generalize to ‘emerging market multinational corporations’ (EM MNEs)

The international ambitions of companies from the LFGEs:

1.1. The international business dynamics of the 'billion-man markets'

- While *China* has, with its formidable market mass (1.25 billion inhabitants) and its explosive annual growth (ongoing at 10% of its total economy over the last ten years), first and foremost, been written off (Lardy Nicholas, 2002), as 'the world's factory', it has been less recognized for its successful economic policies prioritizing out-sourcing and/or joint-venture business models. In addition, the Chinese have been effective in cultivating overseas expansion so that some Chinese companies in certain key sectors have, like their Indian homologues, gone beyond the stereotyped role of subcontractors and followed the example of transnational Japanese and four 'dragons' firms which have, in recent decades, become global competitors amongst their well-established occidental counterparts and predecessors.

Like these longstanding precursors, the 'international champions' from China and India have progressively reinforced their domestic production base by getting in on the ground floor of technology transfer processes and systematically raising the level of their production patterns, methodically extending their competences and capacities upstream. Indeed this kind of case served in the past, for Japan, as the key empirical basis of Kaname Akamatsu's 'flying geese' international development pattern (Korohonen, 1994) to the point of both mastering and ameliorating the products and processes to which these areas give birth. This streamlined expansion has, in turn, permitted such organizations, not only from Japan, but also from Taiwan, South Korea, Singapore and Hong Kong, Brazil etc., as 'late movers' or 'late entrants' (Bartlett & Goshal, 2000; Child & Rodrigues, 2005), to project themselves abroad and to go beyond mere exportation practices and to progressively orient towards a wholesale policy of direct investment overseas. In the wake of this unique opening on the international scene, such companies have sought to develop their competitive strengths – technological savvy, intellectual capital, apprenticeship experience, and organizational competence (Dunning, 1994) – and to, thereafter, undertake a new transnational deployment of their production webs (Yiu, Lau & Burton, 2007; Luo & Tung, 2007).

Such has been the case of the Chinese company Haier which, in the mid 1990s, became a pioneering and emblematic figure in the household equipment sector by cultivating a potent entry strategy for penetrating the well-insulated American market, as a priority (Liu & Li, 2002; Lemaire, 2005). More recently, in 2005, its countrymen at Lenovo rejoined the laptop race, alongside world-leader IBM, even as TCL assured itself a dominant position in the portable telephone market and certain other Chinese actors in electronics, equipments, and auto-parts manufacturing. Their development have also gone headlong (most notably towards the United States, Europe, and South Korea) into strategies of overseas acquisition. And others of the most potent Chinese companies are also becoming increasingly present in their proximity zone (from India to Vietnam), albeit some difficulties (Deng, 2007), as much to

a) assure their efforts of securing new market openings
b) and bend back the persistent -though diminishing- protectionist obstacles in these areas,
c) as to redeploy their production webs and benefit from the particularly advantageous foreign labour costs.

And even if exportation remains the dominant mode of corporate internationalization, the international redeployment of other business functions, in particular those of production and R&D, represents a clear will to sustainably transcend national boundaries. At the same time, the Chinese ‘international champions’ will continue to capitalize on the already considerable economic potential and financial increasing resources from external balances, inherent to a country where such factors as its size and the support of still centralized authorities assure that Chinese businesses may fully benefit from and be comfortable in their international position[3].

- As for *India*, whose population is more dynamic, if still slightly less numerous, comparable tendencies are drawing themselves out. Even if the rapid growth in India is more recent and modest than in China, a number of key 'international champions'

[3] Hong Kong -maybe associated in the fore with Shangai- could overpass other Asia commercial/financial centres, such as Tokyo, Seoul, Mumbai and Singapore, according to S.Tucker, “Asia seeks its centre”, *Financial times*, Friday July 6, 2007.

have lately flashed on to the scene (Seeshadri & Tripathy, 2006). Examples jump out especially from those sectors in which the country has quickly made a name for itself on the world stage, for example in the information technologies -with, most notably, Infosys, Wipro, and TCS (Tata consulting services)-, the generic pharmaceuticals (e.g. Ranbaxy and Cadila), or, again, the steel industry (as illustrated by the Mittal takeover of Arcelor, in 2006, -as, more recently, Tata's on Corus- which primed the former to rise, in a few short years and on the strength of other like acquisitions, to the top position globally). Like the new Chinese 'international champions', their Indian homologues have assured for themselves a potent presence in the nearby economically maturing zones of Southeast Asia. But what the Indians have done a bit earlier than the Chinese is definitively penetrate the transitionary economies, such as Middle East, or, more and more, Africa (Goldstein et al., 2006). What is at stake, for one as for the other of these rising economic stars, is:

- access to natural resources – for which, given unforgiving patterns of national growth, the need is increasingly urgent-,
- the conquest of markets which have not yet seen the low-cost goods that China and India are capable of proposing.

1.2. The FDIs' dynamics from the large fast growing economies

This new trend toward the opening, for the two principal fast growth economies, of investment channels beyond the traditional national boundaries can best be illustrated by noting the increasingly important role that they play in the spectacular progression of FDIs from emerging countries. To wit, according to the UNCTAD 2004 numbers (UNCTAD, 2004a), between 1990 and 2003, FDIs from these countries have been multiplied by a factor of seven (their stock value ballooning from 131 to 923 billion dollars), while those of industrialized companies have only increased by a factor of 3.5 (from 1627 billion to 7268 billion). Asian growth alone accounts for 68% of this progression, with *China*, multiplying by 7: starting from 4.5 billion dollar FDI in 1990, to reach a total amount of 33 billion in 2003. *India*, on the other hand, has seen an even quicker progression, multiplying by 50 a modest 100 million dollars overseas in 1990 to reach 4.5 billion dollars at the end of the period[4].

- Next to these billion-man markets, *Brazil* maintains comparable IDE figures (UNCTAD, 2004b) insofar as its progress, while less spectacular, has come on the heels of an already impressive 41 billion dollar FDI total in 1990, with a progression of an additional 14 billion until 2003 (twice less than China, but quadruple compared to India, with a population more or less eight times inferior to the two billion-man markets). Objectively speaking, however, these numbers need to be qualified insofar as the internationalization incentives, in Brazil, are not all necessarily of the same order as those which pervade in the other two large rapid-growth economies, while because the nature and the geographical destination of these investments tend to obey a fairly singular logic of fiscal evasion[5]. But then, when compared to the predominantly industrial orientation of China and the service-sector orientation in India, Brazil, in aiming to assert itself as 'the world’s farmland', doesn’t exactly follow the same specific activity dominated pathways that have been so beneficial for its Asian counterparts. Indeed, for China and India, FDIs have tended, as already mentioned, to be naturally inscribed in the international growth logic of their respective leading businesses, while the dominant Brazilian agro-alimentary sector – to the non-exclusion of other activities – tends more towards exportation logic (Aulakh & al., 2000).

It will be precisely the analysis of the motivating forces in each of the three reference zones which will permit thereafter to isolate the specific transnational growth modalities of the Brazilian 'international champions' *vis-à-vis* their homologues in China and India.

[4] It is worth noting, as well, that such areas as Hong Kong and Taiwan, tend to have higher economic maturity and rank among the top Asian overseas investors.

[5] Of the 55 billion Brazilian FDI dollars, 34 would be invested in the Antillean fiscal paradise (source UNCTAD FDI/TNC database, informations given by the Brazilian Central Bank, cited in UNCTAD, 2004b, op. cit.).

2. Internationalization dynamics of the 'international champions' from the LFGEs:

Above and beyond the given theoretical tools, initially conceived for the analysis of both big and small industrialized countries (Dunning, 1988), for analyzing business behaviour, a more specific approach to the issue of corporate internationalization dynamics can be envisaged in order to account for, both, the size of these large fast growing economies *and* the regional characteristics of the emergent zones from which they rose (Khanna et al., 2005).

Among the elements which underpin the remarkable spread of these 'international champions', several key aspects are worth noting:

- First, *each of these large rapid-growth economies has its own particularities*, for example the degree of their extant overseas engagement, which, in turn, determine the conditions of insertion by which their business assert themselves in the global trade and investment flows.
- Then, beyond the general internationalization stimuli shared equally among all transnational firms (irrespective of their national origins), it should also account for the *specific incitations which tend to spur the growth of firms from emergent nations* -which may, in turn, allow for a first segmentation, both geographic and sectoral, of these 'international champions'-.
- Finally, it behoves to elucidate the modalities by which these 'international champions' select both their preferred international entry modes and, more generally, the international economic model and the holistic organizational scheme that they may tend to adopt, above and beyond their first experiences in these international openings, in their effort to deploy their supply and demand chains transnationally, at the local and, then, the multi-local levels, before enrooting themselves abroad and progressively delocalizing a growing proportion of their functions in order to achieve an integrated continental or intercontinental management.

2.1 The characteristics unique to the LFGEs.

Multiple factors converge to reinforce the competitive advantages of the LFGEs and to stimulate the growth of their 'international champions':

- First and foremost, among them, is the *large market effect*, from which these champions benefit significantly, and which allows them to (a) enjoy a considerable home-front client base and (b) realize significant economies of scale independent of the advantages already gained by the low cost of labour (Vernon-Wortzel & Wortzel, 1988; Prahalad & Lieberthal, 1998). With such exorbitant populations, India and China, furnish what are, from this perspective, incontestably the most advantageous 'home-base' economies in the world. Of course, one must also relativize this advantage in accounting for the low level of life and the wildly disparate repartition of revenues in order to understand its limits[6]. Next to these two behemoths, it is clear that Brazil, with 'only' a modest 180 million inhabitants cannot compare without reservation. And, yet, Brazil does enjoy a visible edge in GDP per person[7], although this effect must, once again, be moderated in light of the fact that the GDP progression is more limited and, above all, less regular, in Brazil; all of which can be seen to nuance, without fundamentally modifying, its relative inferiority in furnishing a *large market effect* for its economic forerunners.

- A second element to keep in mind for these 'international champions' is surely *the untapped market potential nested in their particular proximity zones* – an effect which owes as much to the (a) market openings that such nearby zones can provide for transnational companies from the LFGEs and (b) the natural resources to which incomers may gain access as to the (c) out-sourcing possibilities that they offer and which have permitted these 'international champions' to optimise the structure of their production chains. In this respect,

[6] The automobile market in China, as in India, and despite its remarkable progression, continues to operate at volumes inferior to those of the four large Western European nations – although both foreign and local makers seem to be operating at relative saturation levels.
[7] Source: DGTPE Statistics Brazil, www.dree.org/economie.

Brazil is more fully developed than the other two economies of reference, at least to the extent that the Mercosur zone has proven to be an area of rapid integration with open extension possibilities (Carranza, 2004) throughout the whole of Latin America[8]. So while, if it is clear that China is blessed with a powerful political and economic influence in its region of operations, it has only just recently inked a deal with the ten nation members of ASEAN. The orientation of its export flows and its FDIs is, therefore and here, not unlike that of its Indian counterparts, more isolated in their respective immediate proximity region, generally turned towards the industrialized nations of Europe and North America; in spite of which fact, it must still be said that an eventual opening towards proximity zones (Sen, R. 2006, Zhang & al., 2007), as towards disparate zones of comparable economic maturity (as Central Asia, Eastern Europe, Africa, all the way across the oceans to Latin America), is altogether ineluctable and, moreover, already well engaged (*ibid.* Goldstein et al., 2006).

– There is a third dimension, just as important in stimulating the growth of these 'international champions', which calls for exposure: namely *the relative weight and influence of foreign direct investments in and on the nation which receives them*. FDIs serve not only as a transnational financial measure, but also to stimulate certain types of internal development abroad (Meyer, 2004). To wit, they have a profound and definite 'projection effect' by which new functional know-how (for example in the domains of production, quality, and marketing, etc. …) and new technologies, including organizational models, imprinted on developing countries can, in turn, facilitate still more rapid organizational and management evolutions. This projection effect empowers its receptors to not only keep pace with the new home-market competition, but also and moreover undertaking their own transnational economic conquest ventures. From this perspective, China has known the most spectacular progression: since the late 1990s, the Chinese have welcomed -*on average*- 40 to 50 billion foreign dollars annually, while their billion market Asian challenger has had to settle for long -until 2004- only a tenth of this considerable outpouring. Turning to the

[8] Les Echos, June 23, 2003.

Brazilian case, the establishing multinationals and harvesting of steady flows of international investment have long been integral to that nation's economic *modus operandi*. Indeed, such multinational corporations, together with these international investments have long constituted an essential component of the Brazilian economic fabric and have reinforced and multiplied the global positioning efforts of Brazilian 'international champions' (Vasconcellos, 1988; Gouvea, 2004). After suffering multiple setbacks in the late 1990's, incoming FDI figures have been steady into the 12 billion dollar range over the course of this early 21st century and have been principally directed, not only to (a) the primary agro-alimentary sector, but also to (b) the service industry and, even more so, (c) the telecommunications and finance sectors (which have only just been privatized, and which have, therefore, needed a rapid modernization effort to spur a speedy rise in productivity and capital flow volume).

– And lastly *the State*, via its particular economic, financial, and monetary policies *plays a determinant role in the international positioning of the 'international champions'*. Initially, and as previously pinpointed, the State gives fundamental support by (a) reinforcing economic infrastructures and (b) lubricating negotiations (e.g. the WTO), but its role in transitionary periods is equally essential as regards *regional supranationals* to the extent that the State is able to (c) reinforce the competitive position of its companies in certain key sectors and thereby to (d) both boost their competitive chances in fending of the international competition and (e) jump-start their transnational operations development. As concerns more direct types of intervention, national authorities in the LFGEs – and, here, not unlike certain already-active local authorities –, like their homologues in so many other countries (industrialized or not), are able to invest direct financial support in the form of (a) special subsidies or (b) strategic negotiating leverage with certain international markets (*ibid.* Krugman, 1991). In these domains, the authorities from the three large rapid-growth economies have proven to be nearly hyperactive, even if their modes of intervention have been, and still are, widely varied -particularly as a function of the (a) unequal budget levels, (b) divergent sectoral interests, and (c) distinct modes of government operating among them-.

Face to face with the 'billion-man economies', Brazil has been quite original in positioning itself to respond to particular stimuli, most notably at the regional level, which tend to compensate its relative inferiority in terms of size and growth rhythm. The result is that these inferiorities fail to compromise the fortunes of Brazilian 'international champions' even if, as seen in the light of the foregoing initial analysis, their dynamics tend to be developed in a distinct -yet comparable- logical frame.

- insert chart 1 about here-

2.2. The development of direct investments out of emerging nations:

The theoretical approaches which have been applied to direct investment *oriented towards* any type of country -including emerging nations- provide an interesting analytical base if one transposes it to account for direct investment *projected from* emerging nations. Using a four-pronged explanatory model, Dunning (1993)[9] demonstrates that, especially as concerns transnational companies from the Triad, the four major types of stimulation following a sequential progression can, as well, incline businesses, among other destinations, to orient themselves *towards* emerging nations. To an extent that must be nuanced, this model is indeed transposable and should help to get a grip on the development of the 'international champions' from our three LFGEs.

- The first incitement which legitimates, according to the Dunning model, international development *towards* emerging nations is the search for resources or *'resource seeking'*, especially as concerns primary goods like energy, metal, and, also, alimentary provisions. This kind of elicitation has proven essential in the case of the LFGEs, especially insofar as their internal resources are

[9] As Behrman (1984) or Manea & Pearce (2004), quoted by Pearce, R. & Papanastassiou,M. (2006)

insufficient, if not absentee altogether, to the charge of nourishing the dizzying growth rhythm which they have undertaken and to which they are, in many ways, structurally overcommitted. These *need deficits*, in turn, translate more often than not into overbearing and desperate demands for such commodities as hydrocarbons, steel, and cement, as indeed for all manner of structural compounds necessary for the realization of massive public works – to which demographic pressure binds all three LFGEs –, and to the transformation industries, which, especially in China and India, have seen remarkable growth. It is these 'resource seeking' factors, then, which explain a good part of the lightning-quick international deployment of businesses from these countries, particularly in the petroleum and natural gas sectors. The bottom line is that their stagnating *internal resources* are far from satisfactory when compared with the soaring level of *domestic needs*: there is indeed no zone of prospection which escapes their searching gaze, and the national leaders in the energies sector – Sinopec, Petrochina, and CNOOC in China, ONGG in India – are all vying to be first in line. But numerous other sectors are also implicated in these kinds of quest for international resources. The mining, lumber, and phosphate sectors, for example, are all pushing the internationalization frontier, via burgeoning companies from these two large economies, in the hope of digging up opportunities for FDIs in certain key zones -often located, as it happens, in emerging countries where the cheap, untapped resources hide- either by (a) eliciting joint ventures with local exploitation corporations or (b) buying them outright. These kinds of techniques can just as easily spill over, for their part, to products of first transformation, in the logical frame of national provision procurement[10]. For Brazil, and in spite of its considerable cache of natural resources (especially, asobserved, in the agricultural domain), this logic has not failed to play itself out in the hydrocarbon sector, as in the case of Petrobras, -which is equally present in the North Sea and in Africa, not to mention other locales in the Latin American zone-, as in the large mineral-extraction and first-transformation companies, CVRD, CSN and Votorantim. But even so, these

[10] as illustrated, in particular, by the case of Mittal Steel in the steel working sector, for which the seeking to secure provisions is but one among many motivating factors in the recent general politic of uninterrupted international growth.

motivations are best understood here in the context of a growth which is both feebler and subject to greater fluctuation[11] than that of China or India; a modest growth which deprioritizes feeding the homeland as a motivating force. In these instances, internationalization tends to be inspired by the research of new organizational growth pathways, the diversification of geographical activity portfolios, and other motivations already mentioned at length above (Dunning, 1993).

– The second incitation corresponds to the *market seeking* phenomenon, i.e. to the pursuit of new channels of horizontal development and to the generalized desire to augment market share in the most sought after zones by acquiring the international experience necessary to effectively exploit certain competitive advantages – most notably quality and price – enjoyed by virtue of their bountiful home economies. For these 'international champions', it is, thus, a matter of diversifying their markets and broadening their spheres of competence by organizationally 'touching' the competition at home and abroad. But it is also a matter of developing, — above and beyond simple exportation habits and the establishment of international partners and overseas commercial branches, — definite investments in overseas production so as to dispense more easily of any possible local obstacles which might get in the way of sales. To this end, China and India have, in their respective sectors of excellence, embarked on a general policy of transnational dispersion, effectively using their international champions as an extension cord through which to plug themselves in abroad :

. China, in the electronic house wares sector, has gone through Haier in order to reach such widely disparate zones as North America, Europe, and numerous emergent nations as well; in electronics, Lenovo, Huawei, and TCL have served a similar end in Europe and the United States, while in industrials and auto parts SAIC has paved the way to numerous emerging nations, as well as to more advanced ones, like Korea, … ;

. For India, and as concerns the information technologies sector, it can be observed that Infosys, Wipro, and TCS have been penetrative in the Triad

[11] To wit, the Brazilian GNP has seen strong fluctuations in the new millennium: 4.3% in 2000, 1.3% in 2001, 1.9% in 2002, 0.5% in 2003, 5.1% predicted in 2004 (ibid. DGTPE 2005).

nations as well as in China, in generic goods, Ranbaxy and Cadila have effectively undercut markets not only in the Middle East and China, but also in Europe and America, and finally, in the auto parts sector, Bahrat and Eicher have made strong gains towards both Europe and the American subcontinent.

For its part, Brazil has enjoyed, even beyond the agricultural domain, a solid intercontinental expansion towards China, the United States, and Europe on the strength of Marcopolo, Taurus, Embraer, and WEG in such sectors as automotives, aeronautics, and equipment. More modest expansions have also been there attained in the energy and first transformation sectors. Another important Brazilian sector is engineering, which, thanks to such stars as Odebrecht (Schmid & McManamy, 2002), has gone profoundly international on the strength of a 20 country overseas presence. It is also worth noting that, while many FDIs correspond to market seeking in these sectors in particular, many others are going in new directions (such as, most notably, big consumption and soft drinks[12]), and have already been flowing freely for years toward the Mercosur alliance. These investment channels give Brazil, in comparison to China and India, a distinct head start in terms of orientation throughout the proximate geographical zones. Small and medium-sized enterprises have also been increasingly inscribing themselves in this kind of internationalization dynamic, particularly as regards the aforementioned zones of geographical proximity.

– A third kind of stimulus, *efficiency seeking*, motivates businesses to internationalize themselves (a) for purposes of cost reduction and (b) in order to close the geographical and cultural gap between themselves and foreign markets -to get to know them better, as it were- as well as (c) to benefit from local subsidies attached to FDI incentives. If, *a priori*, the ‘international champions' of China and India cannot help but benefit from particularly cheap labour at

[12] with such businesses as Ambev; even so it is worth noting that the fusion between that company and the Belgian brewing company Interbrew have resulted in a newer, more expansive geographical perspective that largely goes beyond the region, giving former Ambev stockholders 44% of Stitching Interbrew, the holding company of the fused entity (in Belgium) under the InBev AS name.

home as well as from the unparalleled economies of scale which allow them to be among the most competitive in terms of production cost, this fact has not translated into their being content as mere homebodies. Indeed, even within this logical perspective, certain ‘international champions’ have found advantageous conditions abroad thanks to attractively competitive production costs – the Chinese small equipment companies Haier and Yue Yuen, for example, have developed production facilities in India and Vietnam while Indian pharmaceutical companies like Matrix and Sun Pharma have planted roots abroad in such locales as Eastern Europe and Brazil. This effect is redoubled when such internationalization offers not only low cost labour but also a generally qualified work force. These motivations have, in the same vein, been associated with the encroachment of substantial accounts -already well established in the home country- according to a 'follow the customer' approach. This kind of installation has proved especially indispensable in the service sector markets associated with strong value added quotients or with the high-tech industries. And, indeed, it is just this last kind of motivation which best explains the internationalization of certain large Brazilian service companies, of which the best examples are Politec and Teka in the US and Europe, as well as the aeronautic construction company Embraer in the United States: these cases poignantly illustrate the theory that FDIs often draw their principal motivations from the search for organizational and financial streamlines, just as with the ‘horizontalization’ perspective evoked previously.

– The fourth and final bundle of incitations corresponds to what Dunning has termed *international strategic asset seeking*[13]. In this perspective, firms go abroad because (a) they hope to maximize the performance of the enterprise by (b) increasingly integrating their internal functioning in the context of an extended geographical perspective which, in turn, leads to the cultivation of such ambitious objectives as (a) stimulating innovation, (b) increasing visibility, and (c) inflating managerial competence (Zanatta & Queiroz, 2007). In China,

[13] Other authors, like Pearce, R. and Papanastassiou (2006) prefer to use the concept of *knowledge seeking* “in which MNCs respond to growing international scientific and market heterogeneity by decentralizing and networking their learning, technology-generation and creative processing” (p.155)

as in India, it is the same sector leaders, in their respective spheres of excellence, which are best understood in the context of the already identified LFGEs, for which the method is the following: (a) construct an image of a global trademark, (b) attain the highest possible standards of economic quality, and (c) respond with agility to the desires of the most exacting customers. These elements constitute the deployment logic of Haier in the US and in Europe[14], and, indeed, the principal motivating forces which largely explain the installation of the Chinese 'international champions' in electronics (now, as before, TCL, Lenovo, and Huawei) in these same two geographic zones and in large automobile equipment (here we should think of SAIC and Wanxiang) in the United Kingdom and Korea. On a similar note, such Indian companies as TCS and Ranbaxy obey, in their deployment in the US, Europe, and even in China, parallel market-based stimuli, insofar as they supremely value -above and beyond the desire to develop sales figures and get close to potential client bases- the need to obtain a veritable brand recognition in those reference markets which are, or could be, the most profitable.

- insert chart 2 about here-

At this level, and even if we account for the fact that those companies mentioned in the previous stage could be recounted here as international seekers of strategic assets, the Brazilian companies are still somewhat behind to the extent that they are simply less engaged and, therefore, less ambitious along asset-seeking lines than their Indian and Chinese homologues. (ref.).

2.3 The economic model's local rooting of the international champions from LFGE:

The preceding elements allow us to better understand some of the forces, both corporate and environmental, which have been pushing the 'international champions' from these three main LFGEs to become ever more engaged beyond their boundaries. Still, it is important that such analysis accounts for the adaptation of the international

[14] *Ibid.* Liu & Li, 2002; Lemaire, 2005.

economic model to the singular characteristics of each nation – and, moreover, of each enterprise – on a more or less case by case basis. As a matter of fact, internationalization of these businesses cannot be fully envisaged except with reference to the different dynamics (Lemaire, 2000) that have all contributed in unique ways to the structuration of their deployment:

a) first, on a global, regional, or national *macroeconomic* level,
b) and then, on an industry-, sector-, or activity-wide *mesoeconomic* level,
c) and, finally, on the corporate *microeconomic* level.

– *At the macroeconomic level*, the global-level deregulation dynamic, which has followed successive stages since its beginning, in the late 1970s, has determined a progressive economic 'decompartmentalization', and brought with it a correlative intensification of trade and investment flows which, in turn, afforded the relevant actors a novel range of inclinations towards new international openings and new logics of deployment (Lemaire, 2003). The deregulation initiated in the United States during the 'reaganomic' era and in the United Kingdom (under the Thatcher regime) quickly spread through the rest of Europe (via the liberal orientations of the European Union) and sparked a renewing diminution of protectionist obstacles to progressively stimulate, over the course of the ensuing decade, the rapid-fire movement of capital across and between the Triad nations. And then, after the fall of the Berlin wall, which led for its part to the revitalization of international commercial negotiations[15], this liberalization drove the expansive inclusionary policies of various newborn regional economic unions (for which the European Union is still the most striking example) in and among emerging nations before disseminating little by little throughout Asia and Latin America, kick starting and regenerating the integrative dynamics of Mercosur and entailing the eventual adhesion in the WTO of China, as that of India[16]. In these latter cases, decompartmentalization comes on the heels of longstanding isolationist, ideological regimes, and has, all of a sudden, found itself to be among the principal preoccupations of economic agencies in all three of our referential LFGEs. They have found in it the lion's

[15] The WTO succeeded the GATT.
[16] conversely to the more resilient of Russia (Dyker, 2004)

share of stimulation towards lavish growth, and have been driven by it to select their respective sectors of excellence, which selection has successively permitted the optimization of international growth opportunities. Indeed it is over the course of this first liberalizing phase that the pump was primed for economic flight as each country found its niche and worked it to a ‘T’ -China, with its massive industrial compounds, India with its high technology expertise, and Brazil with its lush and fertile agricultural apparatus-. It is also this phase which gave birth, in the three LFGES during 1990s, to the first ‘international champions’ as such because it was then that they began to amass a significant international experience on the strength of staunch horizontalization towards certain key target zones with a general, albeit nonuniversal, preference for those most ripe for penetration (i.e. conversely to some current theories of internationalization)[17]. Thereafter, the most ambitious and the most capable among them sought no longer simply to develop their sales or their transnational production; what they sought was a veritable integrated production machine combining all at once an (a) horizontal approach of market-share conquest in the level of certain target zones with (b) an organizational verticalization. This latter would be achieved by discretely delegating the various production processes between the different localisations so as to (a) optimize, their factors of production, (b) limit their costs, (c) improve their functional performances, (d) concretize their various development activities, and, thus, to (c) categorically limit their exposure to risks. Still, while Chinese and Indian leaders in their different sectors of excellence have become increasingly conscious of this latest developmental bridge to cross, and have begun to take strong strides in that direction, their Brazilian counterparts have had a much greater distance to cover. Still, to fully explain these expansionary outcomes, not only political-regulatory changes, including the aforementioned ‘decompartmentalization’ processes -especially as concerns the reduction of tax obstacles, the opening of new FDI channels, and privatization- which predominate in each of the three economies have to be considered, but also to the specific dynamics of each nation’s respective sector of excellence.

[17] Johanson et Vahlne, 1977.

– *At the mesoeconomic level,* there is also a crucial effect of the degree of openness at the sectoral level. To wit, some sectors are more 'globalized' or 'globalizable' than others and, this, as a function of a variety of factors (Porter 1986) which may or may not favour the spread of the 'international champions' from the LFGEs. To take a well known example, the Indian long-distance business services actors[18] operate in a sector which is naturally global insofar as it regroups (a) a number of the key characteristics which define a readily globalizable business model (e.g. low transport costs, international clientele) together with (b) certain appreciable competitive advantages (e.g. high level of technical competence, linguistic capacity, and relatively low production costs). For Chinese industrials, on the other hand, such factors as (a) product standardization, (b) low incidence of transport cost (to the extent that products realize strong value-added margins[19]), and (c) easy transferability of technology are key to corporate globalization insofar as they are accompanied, above all, by low labour costs. But local companies are limited to subcontracting as far as they are not able to find their path towards innovation and brand building. If they obtain, for instance, as is the case with Lenovo, at least partial control of the technology through privileged R&D partnerships, benefiting at the same time the prestigious image of IBM while avoiding, for a large range of products, tariffs and non-tariff obstacles that still exist in many countries; all of which serves to situate these sectors at the intermediate level on the global scale. As for the Brazilian agricultural and agro alimentary sectors, in addition to the penalties of (a) high transportation costs[20] and, for the most highly elaborated products, (c) high intermediation costs -incurred because producers are obligated to pass through intermediary agents and distributors in order to reach their target zones- there is a persistent handicap owing to the fact that the EU and the US continue to exercise a preferential policy which excludes products from 'outside the zone'; so that, from this perspective, Brazil, compared to the

[18] here defined as the totality of activities from call centres to the conception and management of software and of integrated information systems.

[19] e.g. micro computing, digital cameras.

[20] Even if, that those of telecommunication systems, maritime transportation costs have been considerably reduced by the combined effects of technological improvements and the rationalization of organizations.

other two LFGEs, is hindered to the extent that its activities of predilection tend to be concentrated in sectors where globalization is hindered.

– *At the microeconomic level*, the size of the company and the management style there employed can also become substantial obstacles for many corporations which had traditionally followed a familial type of organization or which continue to be wrapped up in the bureaucratic web of the State; these kinds of limitations do little to inspire such companies to take their place among the most dynamic and proactive ones in a rapidly evolving international context. Even with the recent support and albeit the efforts of national or regional authorities, such systems of governance tend to pervade, for private companies, toward the paternalist model and toward the administrative model, for public ones. It is also worth noting that capital markets and banking systems tend to be stuck in the embryonic stage, to the extent that access to ample financing (which is, of course, essential for encouraging international growth) continues to rely on the large international finance establishments and on the accessibility of the large stock market trading floors of the Triad. All of which leads to recognize that each of these international leaders -be it Chinese, Indian, or Brazilian- tend both (a) to be at the disposition of management teams which master all at once the political and regulatory, socioeconomic, and technological aspects of the regional environment of its home country and (b) to be able to count on a structured international network if they are to continue growing internationally. Beyond certain exceptional personalities, like the charismatic patron of Haier or the direction, weaned on the familial tradition, of Mittal or Tata, it is rare to find chiefs of staff capable of encouraging such categorical strategic development with both an indispensable global vision and a managerial competence which allows him to go beyond the limited frame of his enterprise or group to work through the substantial challenges posed by culturally diverse constituencies not only on the national level but also on the level of business cultures, especially insofar as internationalization is effectuated via direct internal growth policies. Indeed the search for this kind of leadership has driven a certain number of Chinese, Indian, and Brazilian ‘international champions’ to privilege organic growth, especially through the seeking out of ‘*greenfield*’ investments. More traditional Brazilian entrepreneurs, on the other hand, who represent a certain general image of Latin American leadership, are, though, often considered to be limited in these areas and to inhibit internationalization by their inability to decentralise the various decision-making processes[21].

In this internationalization dynamic of the 'champions' of the LFGEs, Brazil comes across as being slightly behind the times when compared to its Indian and Chinese homologues. The origins of this retardation, already observed through the proposed approach of the internationalization stimuli, can thus be traced back to each of three different levels of analysis -macro, meso, and microeconomic- and can be seen to prefigure a number of implications which could, when carried through to their logical conclusions, permit to effectively discern a range of possible orientations for Brazilian champions.

3. Implications for the Brazilian 'international champions':

In terms of size, regional anchorage, repartition of sectors of excellence, and business behaviour, the Brazilian economy cannot be inscribed, point for point, in the dynamics of the holistic analysis undertaken heretofore. Its international overture, despite interventionary efforts comparable to those of the Chinese and Indian authorities, is relatively single-sided, counting almost entirely on the success of its key sectors, and is flattened still more by the domination of exportation logics, rather than a policy of encouraging FDIs[22]. The net effect is that the Brazilian position is

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[21] "The principal obstacle to the development of multinationals in Latin America is neither the absence of opportunities nor the lack of capital and technology; it would rather be in the mindset of traditionalist business executives. It is an attitude replete with paternalism, of the centralization of authority, and of nonchalant opportunism, and it constitutes a major obstacle to the successful delegation of powers and to the decentralization of decision-making processes that are ultimately necessary for any kind of real international development," according to Cesar Souza, senior VP of Odebrecht of America, *Les Echos, L'art de l'entreprise globale, "Les nouveaux géants de l'Amérique Latine," 2005.*

[22] If one accounts for the Brazilian 'fiscal' FDIs in the Caribbean zone. It is worth noting that the minister of Commerce and Industrial Development, Luiz Fernando Furlan, made the statement on 22/02/2003 that, "The Brazilian government wants the country to promote ten really transnational companies by the end of the Lula presidency." *Ibid.*

altogether fragile vis-à-vis the exterior, which fact merits a reinterrogation of certain of its international orientations.

To wit, three evolutionary axes can be teased out of the initial analysis of the Brazilian 'international champions':

- streamlining their sectoral orientations,
- precisely segmenting the geographic target areas,
- seeking to increase the efficacy of their modes of internationalization.

- insert chart 3 about here-

3.1 Streamlining the sectoral orientations

This kind of clean-up would target, first of all, the agricultural sector and then, more generally, the sector of primary materials and the products of first transformation (*commodities*). But it would equally concern, and perhaps more importantly so, a certain number of other sectors in which certain Brazilian companies have already been able to tease out or penetrate remarkable international openings.

- While agriculture represents, as of the 2004 report of the OECD, 40% of Brazilian exports, it accounts for only 8.8% of the GNP. This means that Brazilian companies have just scratched the surface of their FDI potential. As the world leader in beef, coffee, orange juice, and with the likelihood of rising to the top, on the strength of considerable reserves, in the domains of pork, poultry, and soy, Brazilian export figures continue to rely most heavily on a small number of large international exchange corporations -Cargill, Bunge, Archer Daniels Midland, to name a few- and on the established internationalization networks of well established multinationals like Danone and Nestle. While it may be granted that Brazilian actors in the agricultural sector have already long since begun to reinforce their competitive advantages not only through research investments, product improvement, and interior redeployment, but also thanks to the development of new product lines[23], it

[23] The Economist, US ed., November 5, 2005.

must also be admitted that the liberalization processes referred to above have been a mixed blessing in this domain. For while it has been a veritable shot in the arm for Brazilian companies in the agricultural sector, as for foreign companies which continue to install themselves on Brazilian soil, these liberalization mechanisms have also forced such activities to navigate the whims of vacillating changes and fluctuating global trajectories of agricultural merchandise[24]. This in addition to the fact that Brazilian companies suffer, it must be noted, from woefully inadequate internal transportation infrastructures as well as from the limited size of most Brazilian farming, despite substantial openings from technological advances and new production methods[25]. The direct control of network branches by large local actors, with or without the partnership-style cooperation of large international actors, constitutes a vital challenge to these domains[26], especially as concerns quality control, valorisation of production, and, in the commercial realm, the problems associated with (a) cultural difference and (b) rising to the task of gaining access to target markets overseas; while these challenges are already being met in the areas of pork and poultry, thanks to such companies as Sadia and Pertigao, such success must be considered the exception rather than the rule. Even so, it is with regard to these kinds of evolutions that the results obtained by radically outgoing diplomatic policies -with the WTO, as in the realm of continental commercial negotiations- will be looked to in raising the ambitions of the country and in allowing Brazil to finance the development of other sectors for which it would like to establish a sustainable global positioning[27].

– Other primary goods and products of first transformation constitute an incontrovertible aspect of Brazil's ongoing emergence on the international

[24] After the remarkable progression in the first years of the current decade, the drop in world purchasing and the inflation of the real *vis-à-vis* the dollar provoked, in 2005, a 16% drop in agricultural export sales..
[25] Knee and Nall, *Brazil's Chicken Exports Flying High*, Air Cargo World, fall 2005 supplement, vol. 95.
[26] This kind of evolution could also be projected — and indeed is already being realized —in the fruit and sugar sectors; mad cow disease has already accelerated the process in the cattle sector.
[27] Like semiconductors, software, drugs, and capital goods, according to the wishes of the Brazilian government (in "*Directives de politique industrielle, de technologie et de commerce extérieur*", AFP, 26/11/2003)

scene. These sectors have occasioned, almost parenthetically, substantial and, in certain exceptional instances, longstanding transnational implantations, for example in the hydrocarbon domain (e.g. Petrobras), and in steel working and metallurgy (e.g. CSN and Gerdau). In the context of a global shortage of primary goods and products of first transformation, new perspectives and opportunities, most notably in and from the other two principal LFGEs, incite these enterprises to accelerate the push to penetrate of these openings, as much by increasing exportation numbers as by renewing the encouragement of FDIs. Still, this contemporary opportunistic euphoria must not make lose sight of the fact that, as with the aforementioned agricultural 'international champions,' these other sectors are subject to the whims of radical systemic changes, most notably with regard to erratic fluctuations of global price scales, to the point that their potential value-added insulation is less than in the service sector or that of the secondary sector, to the extent that, in these latter cases, more elaborate technological constitutions serve as a competitive buffer for well established production systems.

– As for other sectors, they represent definite long-term possibilities -especially taking into account the succession of priorities in the domain of international development- and many have already begun to profit from local competitive advantages, be it (a) those already discussed, and which are common to the ensemble of Brazilian actors, or (b) those which are more specifically exploited by certain Brazilian rising stars. In this latter domain, textile companies (e.g., Coteminas, Teka, Karsten, Döhler, etc…), are needing to distinguish themselves from the competition from other LFGEs by valorising their goods and by instituting a more fluid vertical alignment of production processes (Aulakh, Kotabe & Teegen, 2000). The quality and cost of available local primary goods (e.g. cotton …), together with the general rationalization of production, design, and innovation integrity, has already been responsible for a remarkable progression, at least compared to that of their Asian counterparts, on the part of Brazilian industrials in these domains towards the highly protected and highly disputed American marketplace[28], as well as towards the newly concerted European Union[29]. But it is in moving beyond the traditional 'sectors of excellence' that certain Brazilian 'international champions' have truly taken flight; take the case of electric and electronic goods manufacturers, such as WEG, which has established an export market spanning more than thirty countries, and this after having already initiated strong local production networks in Latin America and Europe, in addition to its 13 majority and minority commercial branches overseas. And again, in the engineering and the public works and construction sectors, Odebrecht (Schmid & McManamy, 2001). has relied on a network of some twenty commercial branches to multiply, over the last 25 years, their infrastructure international projects and engagements to the tune of 15 billion dollars, while in the aeronautics sector Embraer, already the fourth largest airline constructor in the world, has been increasingly able to ink important partnership deals which have affirmed its place as the global leader the short-range airplane segment. But aside from these businesses which were already well-established internationally and which now seek to accelerate their development in that direction, other actors have been forging a promising progression as well -and not without the help of Brazilian authorities[30]-, especially as concerns the software development industry (including the inherently intertwined tech-support service subindustry) on the strength of such actors as Politec, Itautec, BAI, and CPM, which have sought, in the USA first and foremost, and, here, not unlike their Indian counterparts, to valorise their capacity to propose delocalized services -to banks, most notably- by combining their mastery of IT systems with their qualified low-cost labour supply[31].

Thus begins to progressively emerge an international opening through which Brazilian companies can, by increasingly favouring commercial implantations and projects from diverse sectors -both new and traditional- which carry a growing value-

[28] Sanfilippo, *Brazil Seeks to Grow Exports After '05*, Home Textile Today, 11/7/2005, vol.26, Issue 42.
[29] Solomao, *Abit Brings European Buyers to Textile Events*, Gazeta Mercantil, 4/11/2003.
[30] Notably, in the domain of industrial policy, technologies, and development of exterior exchange (PITCE).
[31] Bank Technology News, June 2005.

added coefficient and/or a larger spectrum of associated services, move beyond the export stage and bypass the need for overbearing capital investments.

Within this context, there is still a certain sectoral distinction which merits discussion:

- First, can be mentioned the companies which operate in primary activities - agricultural cultivation and mineral extraction- and those in commodities (specialized in products of first transformation). These sectors tend both to privilege horizontalization to the point that increasing transnational commercial implantation in the first case is leading, for companies in the commodities sector, to a progressive opening towards new opportunities for local production.
- Next come the secondary activities which are oriented towards consumption goods — from agro alimentary products to small equipment —and which can, above and beyond the normal exportation pathways and commercial investments, result in the emergence of new industrial implantations that will help to overcome protectionist barriers and bring these companies closer to home for international clients. Another possibility is to adopt a verticalization strategy and to delocalize certain productive centres in an effort to capitalize on competencies and advantageous labour costs overseas.
- And finally, multiplies the cases of industrial activities with strong technological content, heavy equipment goods, and services and projects requiring a close proximity with clients. In these instances, there is a need for more systematic delocalization in order to (a) negotiate contract details, (b) precisely understand corporate needs, and (c) adapt and deliver the expected goods and services.

Now, in order to complete and maximize the precision of such segmentation, can be envisaged the international openings available to Brazilian companies and, in particular, to Brazilian 'international champions' more directly onto the geographic playing field.

3.2. A more precise segmentation of their geographic target zones:

The first problem is to distinguish three types of target countries,

- first, the proximate economies
- second, the industrialized nations
- third, and lastly, the other rapidly emerging nations,

all of which, respectively, present certain distinct advantages and disadvantages *vis-à-vis* the local environmental stimuli, like those of the sectoral incitations.

- *The proximate economies* represent, historically speaking, the oldest zones of attraction and expansion, so it is logical that Brazilian FDIs have been principally directed towards such nearby destinations, on the one hand, in conformity with the usual theories valorising geographical and cultural proximity (Johanson et Vahlne, 1977), but, on the other hand, there has been a real push in Brazil to take on the role of regional leader, both among the other four members of Mercosur and especially with Chile (with whom ties have been substantially strengthened of late), but also by growing nearer to the Andin Pact nations — individually, but also as a group[32] —, including also Mexico, and those outside of the perspectives newly freed by the FTAA[33]. For Brazilian 'international champions,' these geographic ensembles constitute a vast point of departure which reinforces the large market effect from which they would like to benefit in addition to effectively compensating for their relative size handicap *vis-à-vis* China and India. These companies are also well served by the strength of the national authorities which, together with the current regional trade and political dynamics, allow them to (a) develop robust economies of scale and (b) economies of product breadth while (c) attracting overseas multinationals; all of which lets them help local actors profit from the technological sophistication and good managerial practices of these foreign players. So, in this perspective, the principal incentives for development in the proximity zone are (a) the search for resources which complement their own -primary goods, competencies, cheap labour, etc…- and, above all, (b) the need to find new market openings

[32] Les Echos, 23/6/2003.
[33] Les Echos, 14/3/2002.

for the goods produced by the transformation industries, most notably in the consumable goods sectors.

– In their movements *towards the United States and the European Union*, Brazilian companies are stimulated by the way that local factors related to their native zones -the pull of Brazilian authorities, low production costs, and the spill over effects of FDIs by multinational European and American companies- mix with the systematic search for new market openings to overcome the obstacles associated with historical protectionism in these developed zones, all of which has been particularly profitable for products of the primary goods sector[34] and the products of transformation in the manufacturing sector. It is just this kind of dynamic force which has driven the important overseas implantation of CSN in the steel working sector as well as that of large public works enterprises like Votorantim and Gerdau and of Vicunha, in the chemicals industry. But, given these factors, it is above all (a) the search for renewed effectiveness and (b) the quest for strategic shareholders that will explain the allure of these two developed zones in the case of Brazilian companies in the elaborate goods sector and the high-tech service sector. It serves to legitimate, for example, the interest of (a) the Brazilian aeronautics leader, (b) the various companies in the software sector, and (c) the information systems companies evoked above, as they seek to penetrate the American and Western European markets.

– A new direction is, however, drawing itself out more recently as a consequence of the growing flow of FDIs that has been established *between* emerging nations, and which has come to represent a growing proportion -some 35%- of FDIs realized in these zones[35]. As a matter of fact, even if their resource bases are more limited and their technologies less advanced that those of businesses

[34] This was at the origin of a buy by two Brazilian groups of the steel factories in the United States, (ibid. Les Echos, 3/14/2002).
[35] These FDIs have already passed from the $16 billion mark in 2002, to the $40 billion mark in 2004 (including the middle income nations like Malaysia, but excluding the richest nations, such as Taiwan, Hong Kong, Singapore, and South Korea), according to Dilek Aykut and Dilip Ratha, World Bank report, Global Development Finance, 4/6/2006.

from developed countries, (a) their overhead costs are generally lower, while (b) their cultural proximity is closer and, thus, (c) their experience, with the kinds of local problems encountered overseas, is wider. Brazil itself has not been above this kind of dynamic, especially as regards its most recent liaisons with China, towards which Brazilian national companies already export large quantities of soy, steel products, skins, and paper, and with which the airline company Embraer has inked a joint venture deal in order to profit from the vast opportunities available to it on the Chinese marketplace. Nonetheless, these kinds of actions carry the concern of reciprocity, which could bring new competitive forces -especially in steel working and the auto industry, but also in the industrial sectors in general- seeking to tap into the low cost Brazilian workforce[36]. Still, in this relation between Brazil and other large fast growth economies, the heart of the problem resides, for the majority of Brazilian companies, -except, perhaps, those such as Embraer- in the strong value-added differential which exists between products imported *from* these economies and products imported *to* these economies[37], as well as in the troubles encountered when they attempt to push a positive evolution of this difference -especially to the extent that China and India have increasingly sought to develop at all costs, the value-added ratio of their products …- which could present Brazil with the menacing possibility that dialogues might deteriorate, as predicted decades ago by the economist Celso Furtado, if its companies fail to evolve in the value added department.

3.3. The search for well adapted modes of globalization

Exportation can thus be seen to constitute, even still, the privileged mode of internationalization for Brazilian companies, but in an internationalization

[36] Indeed Brazilian industrialists feared that they had fallen victim to the Mexican Syndrome, at which the *maquiladoras*, who lost a number of jobs in the labour-intensive industries to their Chinese counterparts. Le Figaro-Économie, 4/13/2004, La Tribune, 3/21/2005.

[37] For example, the average of $1585.25 per ton for Brazilian imports from China, against $86.17 for Chinese imports coming from Brazil; averages established over the first five months of 2005, see Borges, *BoostingAggregate value is export exchange*, Gazeta Mercantil, 7/4/2006.

perspective more sensitive to (a) high-risk activities[38], (b) systematic change and (c) to marked fluctuations in price, can be pinpointed, as observed in this last case, a deterioration of the terms of exchange. This, in turn, drives and engages Brazil to intensify its FDI flows, long slightly inferior to the mean level for emerging nations, particularly in Asia[39], and to develop its international openings and presence on more sustainable foundations.

Even if, in the context of increasingly open international frontiers, the key sectors of activity and the pertinent target-zone segmentations can be identified so as to effectively delineate the general spheres of activity of the Brazilian 'international champions, more has to be done, nonetheless, to explain (a) the rationale behind their modes of international presence, and, more generally, (b) the modalities of their opening towards the international scene, all the while accounting for the particularities of each situation.

- At the organizational level, certain sectoral evolutions, like the generally accelerated geographic ‘decompartmentalizations’ observed over the past ten years, drive Brazilian “international champions” (Espana, 2004) to a significant repositioning in both (a) the deployment of their production branches and (b) the reconstitution of their relationships with their clients and, even, with their competitors. The permanent transformations which could have be observed in these regards, dictated principally by (a) the quest to optimize the utilization of their primary factors of production and (b) the persistence of certain regulatory and cultural obstacles have forced, on both the regional and the multi-regional level, an increased flexibility and, thus, a permanent adjustment in the localization politics of (a) the various productive arenas and (b) the various functions of the companies. They have also compelled an evolving allocation of internal, cooperative, and outsourced processes and functions; indeed such Brazilian companies, including even the

[38] such as the non payment or the cancellation of a contract, which susceptibility can be aggravated by its inexperience in new target zones, especially among emerging countries.
[39] To wit, Brazilian FDIs amounted to just 11% of the GDP, less than the average of 12% for the totality of emergent nations and, above all, the 16% in the Asian countries (cf. UNCTAD 2004b, op.cit.)

most important among them, have not been immune to the effects of these kinds of sweeping transformations and market evolutions, and have been compelled thereby and thereafter to more systematically envision and pursue certain key partnerships and strategic alliances in areas where they once tended to privilege organic growth or, more rarely, external expansion[40]. The importance of new investment models, requisite for (a) the growing needs of an increasingly foreign clientele, in the steel sector or the lumber industry, for example, and (b) the need to accelerate technological transfers[41], tends to elicit emerging rapprochements and synergies between Brazilian actors and overseas interests.

- From there, the ‘modes of presence’ of Brazilian “international champions” have known certain evolutions centred around a substantial modification of the traditional implantation schemes that once had been ubiquitous. The most advanced among these champions -e.g. in the steel and mining sectors[42]- have long gone the route of more organic growth -to wit, the *greenfield* FDIs-, particularly in the proximate zones of Latin America but also, and to a lesser extent, in the United States and in Portuguese and Spanish speaking Europe[43], favouring, in these same zones, a politic of mergers and acquisitions. From now on, strategy perspectives are more open and, above all, require Brazilian entrepreneurs to shift, rationally, of course, into high gear.

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[40] From 2002 through June of 2004 Brazilian businesses undertook 84 greenfield projects, and yet were only able to complete 19 overseas mergers &acquisitions, according to the Locomonitor database www.locomonitor.com (cited by UNCTAD, 2004b).

[41] To wit, CVRD, the global leader in iron minerals, aligned itself with Baosteel, the Chinese global leader in steel to examine a joint a project of steel production integration in the state of Sao Luis, to which Arcelor, for its part, was invited to participate. The synergies between Embraer and Dassault, minority investor in the corporation, have, as a side note, been invited to develop both as representing the international development of the Brazilian company and as Brazilian contracts held by the French company. (cf. Solano, *Brésil le pari de la croissance*, Le MOCI, n°1647, 4/22/2004).

[42] In the late 1990's, Petrobras, CVRD, and Gerdau were, in the eyes of the UNCTAD experts, the only three non financial transnational on the list of the top 50 transnational companies from emerging countries, while Mexico, for example, has 7 .. (UNCTAD, 2004a).

[43] Among the twenty largest greenfield FDI operations realized between 2002 and 2004, 15 were in Latin America; among the twenty most important merger & acquisition operations from 1987 to 2004, 12 were in this same zone (UNCTAD, 2004b).

Conclusion:

In the comparative light drowned here, it is clear that Brazilian 'international champions', *vis-à-vis* their homologues from the other two LFGEs (and especially from China), have proven to be slightly behind the times, as a result of various internal and external factors. This tardiness, in turn, would suggest intentional evolutions that may divert the Brazilian powers from certain of their historically preferred development pathways.

– Well endowed as concerns primary resources (especially in the agricultural and mineral departments), Brazil must seek to vigorously promote these sectors on the international atlas, not only through (a) diplomatic actions developed by state authorities, but also in seeking to (b) valorise their network branches; if it is to (a) comfortably assume the role of international leadership to which it aspires and (b) encourage the favourable evolution of the terms and conditions of its commercial conduct. This kind of engagement could drive Brazilian 'international champions' to (a) prioritize the reinforcement of their presence in proximate zones, (b) establish finely tuned linkages with certain of their large-scale clientele in the other LFGEs, and (c) develop more durably sustainable implantations in the industrialized nations with a strategic eye, in all three of these zones, to the continuous enrichment of their product offerings based on calculated adaptations to the respective needs specific to each destination.

– On the strength of low production costs which continue to be highly competitive in nature, thanks to the effective translation of a favourable differential of purchasing power, on the one hand; thanks also to economies of scale, on the other (owing to the sheer size of the national and, increasingly, regional marketplace). This applies for both *secondary sector and certain service sectors*, which can, from here on out, be redeployed in a new and delocalized fashion. It is in the best interest of Brazilian “international champions” to progressively reconsider, in light of a concrete and carefully integrated (both commercially and industrially) Latin American base, an approach more directly oriented towards niche market development in the Western, as well as in emerging economies. They can also, in a more holistic geographical perspective, and with a new spread of product lines and target segments, align themselves more coherently with well established businesses in other zones. These kinds of strategic alliances would open the way to new market opportunities, (b) new technological exchanges, and (c) new occasions for discretionary financing to which they would not otherwise have had access at short notice.

– As for the *sectors which are more technologically advanced,* there are fundamental gains to be won by ameliorating certain contact points with a whole range of potential and actual partners, as much from emerging nations as from the US and industrialized Europe. These kinds of improvements would allow Brazilian companies to benefit from the advances of the industrialized nations and the developing dynamics of the emerging nations with an eventual eye to counterbalancing their present limitations and handicaps, even as it would require of them to adapt their product offerings to the specific needs of each among these different economic groupings.

Thus Brazilian 'international champions' must hereafter become engaged on multiple fronts if they would succeed in rising to the challenge of heterogeneous, but altogether rapid, international ‘decompartmentalization’. From one sector to another, and across multiple zones of activity, these companies will need to vigilantly valorise their inherited competitive advantages, all while somehow circumnavigating the perilous possibility of being permanently cornered into a role as simple exporter of low value added products. These are the gains which they could achieve by developing well-balanced relations with their various partners, irrespective of the origin of these latter, and by progressively augmenting their size and their range of competencies so as to reinforce and stabilize their position across increasingly more widespread geographic ranges.

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Chart 1.

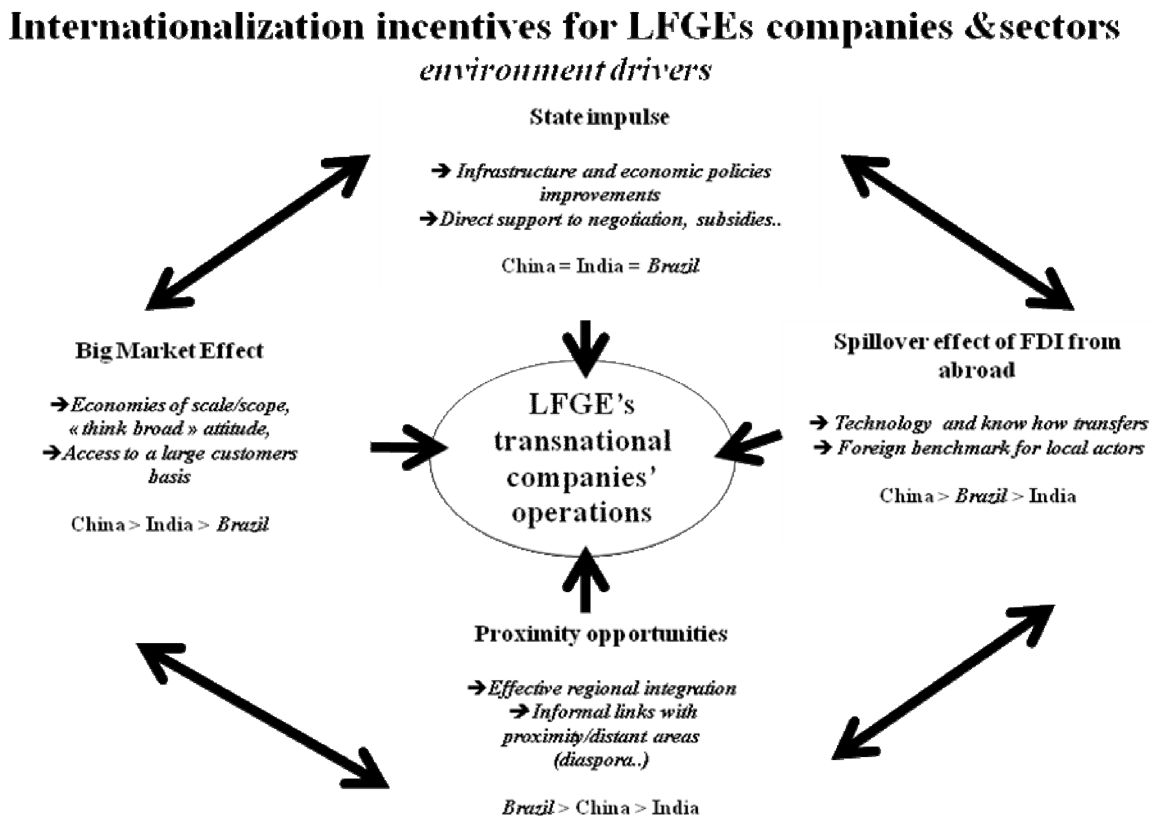

Internationalization incentives for LFGEs companies &sectors
environment drivers
State impulse
➔ Infrastructure and economic policies improvements
➔ Direct support to negotiation, subsidies..
China = India = Brazil
Big Market Effect
➔ Economies of scale/scope, « think broad » attitude,
➔ Access to a large customers basis
China > India > Brazil
LFGE's transnational companies' operations
Spillover effect of FDI from abroad
➔ Technology and know how transfers
➔ Foreign benchmark for local actors
China > Brazil > India
Proximity opportunities
➔ Effective regional integration
➔ Informal links with proximity/distant areas (diaspora..)
Brazil > China > India

Chart 2

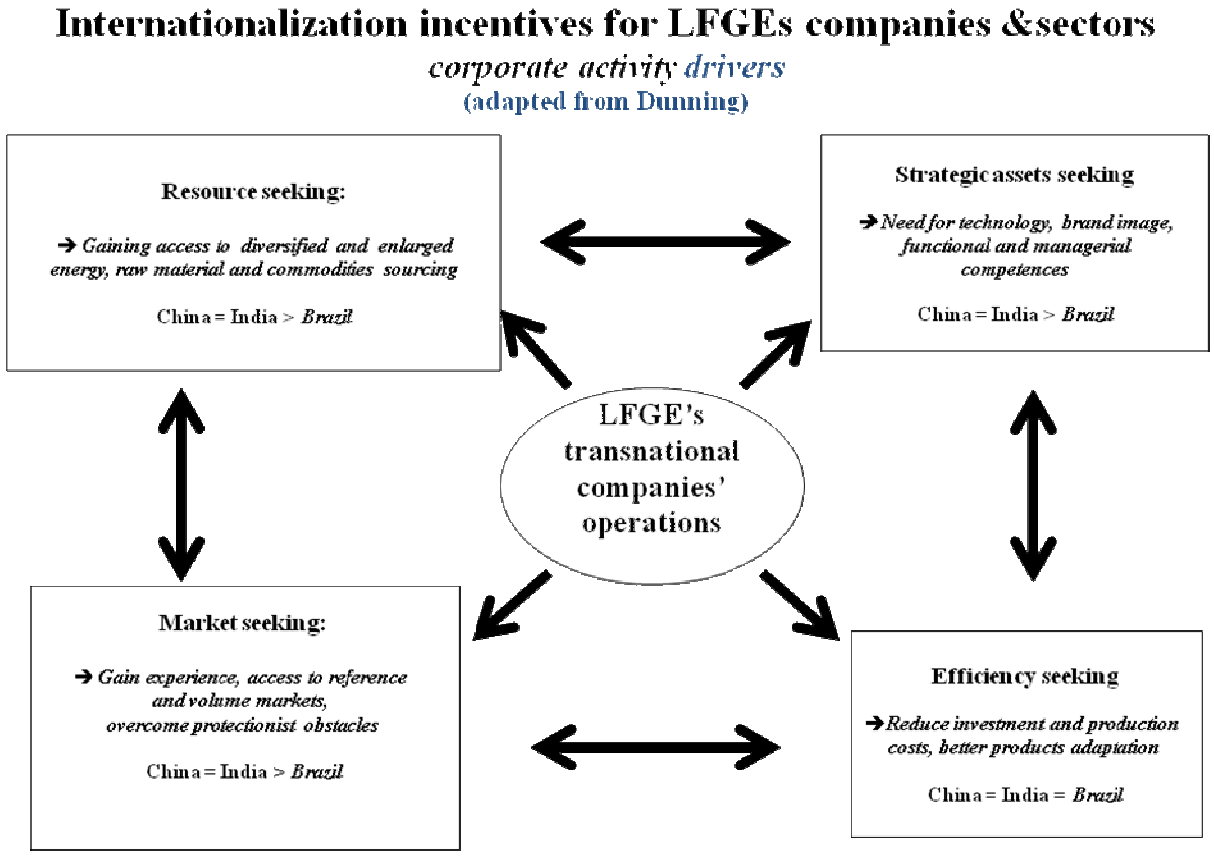
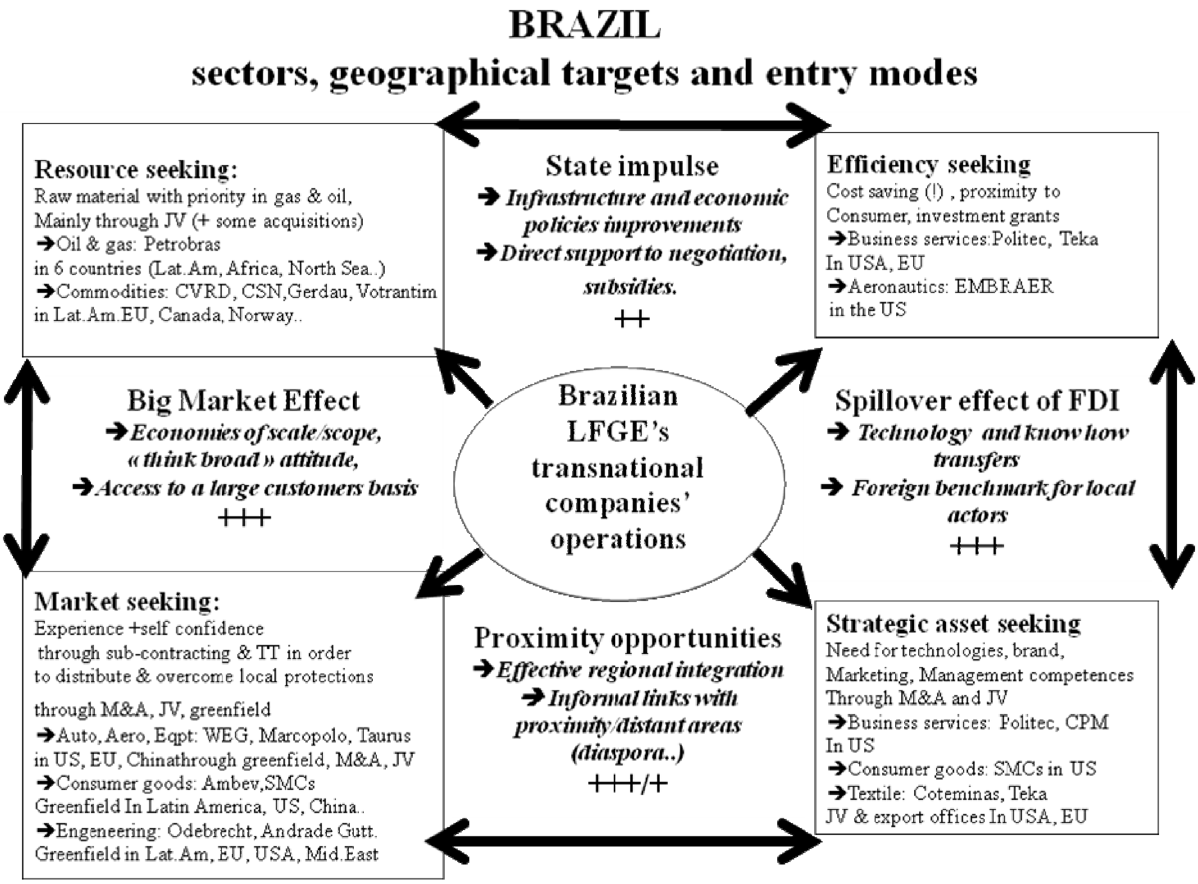

Internationalization incentives for LFGEs companies &sectors
corporate activity drivers
(adapted from Dunning)
Resource seeking:
→ Gaining access to diversified and enlarged energy, raw material and commodities sourcing
China = India > Brazil
Strategic assets seeking
→ Need for technology, brand image, functional and managerial competences
China = India > Brazil
LFGE's transnational companies' operations
Market seeking:
→ Gain experience, access to reference and volume markets, overcome protectionist obstacles
China = India > Brazil
Efficiency seeking
→ Reduce investment and production costs, better products adaptation
China = India = Brazil

Chart 3


BRAZIL
sectors, geographical targets and entry modes
Resource seeking:
Raw material with priority in gas & oil,
Mainly through JV (+ some acquisitions)
➔Oil & gas: Petrobras
in 6 countries (Lat.Am, Africa, North Sea..)
➔Commodities: CVRD, CSN,Gerdau, Votrantim
in Lat.Am.EU, Canada, Norway..
State impulse
➔ Infrastructure and economic policies improvements
➔Direct support to negotiation, subsidies.
++
Efficiency seeking
Cost saving (!) , proximity to
Consumer, investment grants
➔Business services:Politec, Teka
In USA, EU
➔Aeronautics: EMBRAER
in the US
Big Market Effect
➔Economies of scale/scope,
« think broad » attitude,
➔Access to a large customers basis
+++
Brazilian LFGE's transnational companies' operations
Spillover effect of FDI
➔ Technology and know how transfers
➔ Foreign benchmark for local actors
+++
Market seeking:
Experience +self confidence
through sub-contracting & TT in order
to distribute & overcome local protections
through M&A, JV, greenfield
➔Auto, Aero, Eqpt: WEG, Marcopolo, Taurus
in US, EU, Chinathrough greenfield, M&A, JV
➔Consumer goods: Ambev,SMCs
Greenfield In Latin America, US, China..
➔Engeneering: Odebrecht, Andrade Gutt.
Greenfield in Lat.Am, EU, USA, Mid.East
Proximity opportunities
➔Effective regional integration
➔Informal links with proximity/distant areas (diaspora..)
+++/+
Strategic asset seeking
Need for technologies, brand,
Marketing, Management competences
Through M&A and JV
➔Business services: Politec, CPM
In US
➔Consumer goods: SMCs in US
➔Textile: Coteminas, Teka
JV & export offices In USA, EU