English abstract of the doctoral dissertation

Title: **The Rise of Brazilian Multinationals**

under the Worker's Party Administration

: The influence of the State and the Exchange Rate on Advantages and Disadvantages of Three Corporations for Case Studies

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In Brazil, outward foreign direct investment (FDI) significantly increased between the mid-2000s and the early 2010s. Many local corporations went abroad through either mergers and acquisitions (M&As) or greenfield investments. This was the period when the government led by the center-left Workers' Party (PT) managed Brazilian economy. To understand this phenomenon of multinationalization, it is necessary to search the reasons why the companies intensively invested abroad then and to figure out if the PT administration had anything to do with their investment.

Some researchers, such as Schneider and Casanova, who analyzed Brazilian multinationals in the 21st century, emphasize the importance of the State involvement in the process of corporate growth. On the other hand, other researcher, such as Evans and Tsunekawa, who studied the relationship between enterprises and the State up to early 1990s, point out the tendency of their weakening relationship. Based on these prior works, this paper answers to the question: what roles the State played in developmental stages of Brazilian multinationals under various economic environments, considering the change in the relationship between those multinationals and the State.

Three multinationals are chosen for case studies. Vale, an iron ore mining company, and Embraer, a regional jet plane maker, used to be state-own companies and they are now privatized. JBS, a meat packer, is a private enterprise from the beginning. The three are all publicly listed, so that their annual reports and

announcements to the market and the media are available as sources of information. In addition, documents of corporate history, interviews to persons concerned, news reports, and literature written by researchers of those companies serve as important materials.

This paper adopts the OLI paradigm that Dunning proposed in 1977, as a framework for the analysis of multinationals. Since 2000s, many researchers have been struggling to explain why and how big corporations from emerging economies became multinationals. Some of them try to expand the existing models which were originally built in consideration of multinationals from developed countries. Following these efforts, this paper adds new viewpoints to the OLI paradigm to reflect characteristics of Brazilian economy and industries. In addition to Ownership advantages (O), Location advantages (L) and Internalization advantages (I), State (S) and Exchange rate (E) are taken in as important external factors which affect O, L and I. In this paper, not only advantages, but also disadvantages which corporations from emerging countries have to overcome are taken into account.

The OLI plus SE framework is introduced under the influence of New Developmentalism (ND), which has been evolved in the 21st century by Bresser-Pereira, a Brazilian economist, and his colleagues. ND makes much of State involvement as old developmentalism. ND insists that the State should control foreign exchange rate at the certain level where industrial sectors can maintain international competitiveness rather than focusing on direct investments or subsidies from the State. The target of ND is a middle-income country whose main exports are primary commodities, and therefore Brazil is considered as a good case for ND. The currency of such a country tends to be overvalued according to price-rise of primary commodities, and drives the country into Dutch disease.

During the time when the three corporations made big investment abroad, the PT administration revived industrial policies. The government actively supported the internationalization of local corporations. Among three major industrial policies, the second one clearly stated its intention to push up local big business to be one of top five global players. It mentioned seven sectors whose global leadership should be increased. Out of the seven, aeronautical complex, mining, and meat packing are related to the three multinationals examined in this paper.

For about ten years from the mid-2000s, Brazilian currency, the real (R$), had been appreciated in response to soaring commodity prices with strong demand from China. The strong currency enabled Brazilian companies to enter new markets of developed countries, to acquire resources held by existing multinationals, and to set up factories close to huge markets, by means of M&As and greenfield investments in the United States and European countries.

Vale has an advantage of owning mines which produce high-quality iron ore. At the same time, it has a disadvantage of high transportation cost due to a long distance from major markets such as China and Japan. The State contributed a lot to its mine development and construction of efficient transportation system. Therefore it succeeded in capitalizing on the advantage and overcoming the disadvantage to be the biggest iron ore exporting company in the world. Price rise of natural resources and subsequent appreciation of Brazilian currency encouraged Vale to engage in a number of M&As abroad in the 21st century. During this period, the management of privatized Vale was still under the strong influence of the State. After the political and economic crisis and the collapse of the PT administration, however, Valepar, a controlling shareholder, which was controlled by state-related pension funds and a state-owned bank, was dismantled in 2017 so that it could gain more credibility from international investors for its improved corporate governance.

Embraer has a technological advantage obtained with the help of the State. It could enjoy a long-term stable protection by the State under military dictatorship for more than 20 years. Globalized business environment enabled it to form international partnership and raise funds from international investors, even if it is headquatered in Brazil, where parts supply industry is immature and capital market is less developed. Responding to the demand from the US for small aircraft, it has become the top regional jet manufacturer investing abroad. Pressured by global competition, however, it had to deal with Boeing to put its regional jet section under the control of the giant aircraft maker.

The multinationalization of JBS owes a lot to BNDES, a state-owned bank, which contributed to its M&A activities abroad by funding through lending and equity investment. Funding in terms of the real was valuable when the exchange rate was high. After it restored the profitability of the acquired US companies, however, it started keeping a distance from the State, because it could attract international investors by itself. Under the plea bargaining, the top executive did not hesitate to testify that it had bribed the persons concerned in the government to receive special treatment from BNDES.

All the three companies were supported by the State to utilize their advantages and to overcome their disadvantages. Their FDI took place simultaneously when the real was appreciated. Their relationship with the State got weakened as they developed. These case studies lead to following considerations. The role of the State is important in emerging countries to develop local companies into global players in terms of funding, technological accumulation, human resource development, infrastructure improvement, etc. The timing for the State to get involved differs according to development stages. The involvement does not always bring a positive result. Globalization and growth of the company tends to weaken the influence of the State. The OLI plus SE framework works well for the analysis of the three companies and adds a viewpoint of multinationalization to New Developmentalism.