

New US Study Shows Brazil as Agressive Foreign Investor

Contributed by Newsroom
Monday, 03 December 2007

A new survey released this Monday, December 3, by the Columbia Program on International Investment (CPII) and the Brazil-based Fundação Dom Cabral (FDC) in New York reveals that Brazil's top multinational enterprises (MNEs) have made the country the second largest outward investor among developing countries in terms of foreign direct investment (FDI) outflows in 2006.

Among the survey's main findings:

- Brazil's Top 20 multinationals have US\$ 56 billion assets abroad, equivalent to over half of the country's outward FDI stock.
- The Top 20 produce and sell goods and services worth approximately US\$ 30 billion and employ 77,000 persons abroad.
- About half focus on their region, Latin America, where they are represented in the relative largest number of countries.
- The multinationalization of Brazilian firms has risen rapidly during the past few years, fueled primarily by natural resource firms; these firms account for about two-thirds of the foreign assets of the Top 20.

CVRD leads the MNE ranking list, which also includes many industrial groups, heavy construction companies and some high-tech groups like EMBRAER and Itautec.

- Despite the concentrated nature of outward FDI from Brazil, a growing number of firms, including many small and medium-sized enterprises, are becoming multinationals.

"This is an extraordinary performance by the leading Brazilian multinationals - and it raises real managerial challenges for them, namely how to manage this process and the international production networks that are the result, and at the same time contribute to a more sustainable world," says Emerson de Almeida, President of FDC.

Adds Karl P. Sauvart, Executive Director of the Columbia Program on International Investment, "Brazilian firms, led by CVRD, are becoming important players in the world FDI market."

Fundação Dom Cabral, a leading international executive and company development center, and the Columbia Program on International Investment, a joint undertaking of the Columbia Law School and The Earth Institute at Columbia University, collaborated on this ranking of Brazilian MNEs.

The exercise is part of a global effort to rank emerging market MNEs, with the results for Russia, China, Hong Kong (China) and South Africa to be released soon.

Top 20

The foreign assets held by Brazilian multinationals more than doubled between 2005 and 2006, signaling the take-off of Brazilian multinationals. This growth was due in part to CVRD's US\$ 18 billion acquisition of Inco (Canada) in 2006.

Increasingly also, the financing of foreign expansion can draw on global pools of capital, with eight of the top ten multinationals listed on both the New York Stock Exchange and the São Paulo Stock Exchange (BOVESPA).

As a percentage of total assets, the foreign assets of the Top 20 range from 1% to 46%, with only two having more than US\$ 10 billion in foreign assets. For the group as a whole, foreign assets were 20% of total assets in 2006, compared to 12% in 2005 (this increase is mostly due to CVRD's acquisition of Inco).

This compares to 33% for the 100 largest multinationals from developing countries in 2005 - indicating that Brazilian multinationals still have a considerable way to go to catch up with the average of their (especially Asian) competitors.

In line with the increase in assets, the foreign employment of the Top 20 almost doubled from 2005 to 2006. Three (led by Odebrecht) have more than 10,000 employees abroad. The average of foreign employment to total employment for the Top 20 is 19% (compared to 39% for the largest 100 MNEs from developing countries).

Some two-thirds of foreign employment is located in Latin America. All of the Top 20's CEOs are Brazilian. Five out of the 157 board members of the Top 20 are non-Brazilian (3%). Surprisingly, eight of the Top 20 say that they have Spanish and/or English as an official language, in addition to Portuguese.

The distribution by industry shows a great concentration in the natural resources sector, with two companies (CVRD and Petrobras) representing more than two-thirds of the foreign assets of the Top 20.

A second group, composed of companies manufacturing industrial products, accounts for more than 19%. Brazilian MNEs that assemble finished goods and service companies represent each around 6%, leaving less than 1% for the only company in the consumer business (Natura).

The production and hence foreign sales by foreign affiliates, at US\$ 30 billion, represent about one-sixth of their total sales. Six have production and hence sales of over US\$ 1 billion abroad, and one (Petrobras) over US\$ 10 billion. Foreign sales rose by 14% in 2006, which was half as fast as assets.

The foreign sales and hence production of the Top 20 were the equivalent of about one-fifth of the country's exports in 2006, making FDI increasingly more important for Brazil in terms of delivering goods and services to foreign markets.

If the exports of the parent firms of the Top 20 (not including Petrobras and Natura, due to lack of data) are added to the production and sales of their foreign affiliates, the total is US\$ 42 billion, for a 44% ratio of international vs. total sales. This ratio is already in line with the data reported by UNCTAD for the largest 100 MNEs from developing countries (43%).

If Brazilian multinationals were ranked according to the Transnationality Index, the list would be led by Gerdau, CVRD and Sabo. Many firms consist of course of various divisions, with each having a different degree of multinationality.

An example is Odebrecht, whose overall index is 27%; however, if its petrochemical side, Braskem, is excluded from the total and Odebrecht Construction is taken by itself, the company's Transnationality Index is 57%, the highest in the list.

The foreign affiliates of the Top 20 have a wide geographic spread. Together, the Top 20 are present in 51 countries. On average, they were present in about three host countries, led by Votorantim, Camargo Correa, Odebrecht and Weg, which each is present in 12 countries outside of Brazil.

If one calculates the number of host countries in which a Brazilian multinational is located in a given region as a percentage of all host countries in which it is located (times 100), one arrives at the Regionality Index. It shows that about half of the Top 20 have most of their activities in Latin America, with a few giving special attention to Europe and Asia. In other words, in line with firms from other outward FDI countries, most Brazilian multinationals are regional firms.

The Whole Picture

The data on the Top 20 need to be seen in the context of Brazil's total inward and outward FDI flows. For the first time since official statistics have become available, outward flows in 2006 (US\$ 28 billion) were higher than inward flows (US\$ 19 billion), although this is not likely to become a pattern in the near future.

Still, both types of flows are forecasted to stay at relatively high levels. This made Brazil the second most important outward investor among developing countries (after Hong Kong (China)) in terms of FDI outflows in 2006, and the top outward investor in Latin America.

A good part of these flows took the form of mergers and acquisitions (M&As), but greenfield investments were also quite important.

By the end of 2006, Brazil had accumulated an OFDI stock of US\$ 108, making it the third largest outward investor among developing countries (after Hong Kong (China) and Singapore). According to Brazil's Central Bank, in 2005 most of this investment was in financial services (49%), followed by professional services (36%) and petrochemicals and energy (4%). The lion's share is located in Latin America and the Caribbean (56%), followed by Europe (36%) and North America (7%).

Brazil's outward FDI is being undertaken by 885 multinationals headquartered in Brazil, showing that, apart from the firms captured in the ranking, there are many small and medium-sized Brazilian firms that are beginning their efforts to become competitive in foreign markets.

The results of this survey will be analyzed during the international seminar "Consolidação Regional e Expansão Global das Empresas Multinacionais Latino-Americanas", São Paulo to be held at the Hotel Transamérica on December 6 and 7.

Researchers from the International Business Center (FDC) and the Columbia Program on International Investment responsible for the ranking, and executives from the ranked companies, will participate as panelists during the seminar.

In a special roundtable, they will discuss the main issues and challenges related to the internationalization strategies of Brazilian MNEs.

The Project

The FDC-CPII 2007 Ranking of Brazilian Multinational Enterprises was conducted in the framework of the Emerging Markets Global Players Project, a collaborative effort led by the Columbia Program on International Investment.

It brings together researchers on FDI from leading institutions in emerging markets to generate annual ranking lists of emerging market MNEs. The next rankings will be released for Russia by SKOLKOVO Moscow School of Management; China and Hong Kong (China) by Fudan University; and South Africa by University of Pretoria.

Given the importance of the international expansion of companies from BRIC countries, CPIO, FDC, Fudan University, the Indian School of Business and SKOLKOVO Moscow School of Management will organize a series of conferences dedicated to that phenomenon. The first Five Diamond conference will take place in New York City on April 28-29, 2008.

The Involved

Fundação Dom Cabral is an international executive and company development center aligned with the most current management technologies. Receiving over 20,000 executives in its programs annually, FDC has been placed among the 20 best business schools in the world by the Financial Times executive education ranking in 2007.

The Columbia Program on International Investment (CPIO), headed by Dr. Karl P. Sauvant, is a joint undertaking of the Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to FDI in the global economy.

The CPIO focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment.

Table 1.

FDC-CPIO ranking of the top 20 Brazilian multinationals, in terms of foreign assets, 2006 (Millions of US\$)

Rank	Name	Industry
1	Companhia Vale do Rio Doce (CVRD)	Mining & metals
2	Petrobras S.A. (Petroleo Brasileiro S.A.)	Oil & gas
3	Gerdau S.A.	Steel
4	EMBRAER - Empresa Brasileira de Aeronáutica S.A.	Aviation
5	Votorantim Participações S.A.	Diversified
6	Companhia Siderurgica Nacional (CSN)	Steel
7	Camargo Corrêa S.A.	Diversified
8	Odebrecht S.A.	Construction & petrochemicals
9	Aracruz Celulose	Pulp & paper

10	Weg S.A.	Electro-mechanical
11	Marcopolo S.A.	Transport
12	Andrade Gutierrez S.A.	Diversified
13	Tigre S.A. Tubos e Conexões	Construction
14	Usinas Siderúrgicas de Minas Gerais S.A.-Usiminas	Steel
15	Natura Cosméticos S.A.	Cosmetics
16	Itautec S.A.	IT
17	America Latina Logistica S.A.	Logistics
18	Ultrapar Participações S.A.	Diversified
19	Sabó Indústria e Comércio de Autopeças Ltda.	Automobile parts
20	Lupatech S.A.	Electro-mechanical

Total foreign assets of the Top 20: 56,426

Source: FDC-CPII survey of Brazilian multinationals.

Half of the Top 20 are headquartered in Sao Paulo state. They are all privately held firms, except for Petrobras. CVRD and Petrobras, the top two (and both natural resource companies), together accounted for over two-thirds of the foreign assets of the Top 20; if the third ranking firm, Gerdau, is added, more than three-quarters of all the foreign assets of the Top 20 are accounted for.

Service

For more information see www.cpii.columbia.edu