A PRESENÇA DAS MULTINACIONAIS BRASILEIRAS EM PORTUGAL NO CONTEXTO IBÉRICO, EUROPEU E GLOBAL

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RESUMO

Este artigo trata de dois casos de companhias brasileiras, WEG S/A e Lusosider S/A, com presença em Portugal. Através de pesquisa empírica e bibliográfica, mostra-se os principais determinantes que fizeram estas companhias escolherem Portugal para investir, bem como a performance destas empresas neste país, tendo como base o atual processo de globalização e o aumento do investimentos direto estrangeiro pelos países emergentes. Concluímos que tanto a WEG S/A quanto a Lusosider S/A estão a obter sucesso no gerenciamento da sua internacionalização em Portugal no contexto ibérico, europeu e global.
Palavras-chave: Investimento Direto Estrangeiro, IED brasileiro, economias emergentes, determinantes do IED.

THE PRESENCE OF BRAZILIAN MULTINATIONALS IN PORTUGAL WITHIN THE IBERIAN, EUROPEAN AND GLOBAL CONTEXTS

ABSTRACT

This paper is about two cases of Brazilian companies, WEG S/A and Lusosider S/A, with presence in Portugal. Through empirical and bibliographical research, we show the main determinants that made such companies to choose Portugal to invest, as well as how they are developing in that country, having a basis the current process of globalization and the increase of the foreign direct investment by the emergent countries. We concluded that WEG S/A as Lusosider S/A is getting success in management of its internationalization in Portugal within European Union context.
Keywords: Foreign Direct Investment; Brazilian FDI; Emergent Economies; FDI Determinants

1 INTRODUCTION

This paper[2] is about the experiment of two Brazilian companies with presence in an Iberian country, Portugal. In first place, we will analyze the current process of

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[2] The two cases are preliminary results of the research conducted by this author with the Brazilian firms present in Portugal, as part of his PhD dissertation "The Brazilian Direct Investments in Portugal in the Context of the Links between Mercosul and European Union" in ISEG.

globalization and its influence in the expansion of foreign direct investment (FDI) by emergent economies, emphasizing the framing of Brazil; in according to place, we will focus on some of main FDI determinants developed in relevant literature to this paper; soon after, we will describe the cases of two Brazilian companies in Portugal, WEG S/A and Lusosider S/A, taking into consideration its presence in wider markets. To the end, we will draw some conclusions.

2 GLOBALIZATION AND THE INCREASE OF FOREIGN DIRECT INVESTMENT OF THE EMERGENT ECONOMIES

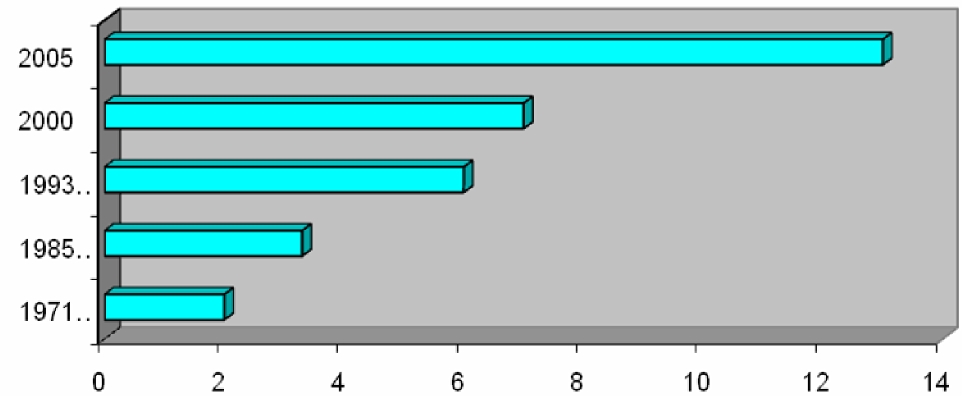
Globalization is a word that has diverse meanings. We will use the concept of economic globalization, as defined by Bhagwati (2004), which consists of the "integration of the national economies in an international economy through the commerce, foreign direct investment, short-term flows of capital, international flow of workers and people in general and flows of technology". The propeller spring of this process is, without doubt, the multinational companies. According to recent data provided by UNCTAD – United Nations Conference for Trade and Development (2006) there are 77,000 multinational companies (MNCs), corresponding to a total of 770,000 affiliates. In 2005, these foreign companies generated an estimated $4.5 trillion in value added, employed some 62 million workers and exported goods and services valued at more than $4 trillion. The sum of investments of these companies represented 22% of global GNP (Gross National Product), well above the percentage of 1980, only 5%. Also, about 1/3 of the worldwide trade is carried through multinational's affiliates of one same group, and many of these companies are supported by regional integration's mechanisms to divide their activities across countries of the same economic block.

Globalization brings deep effects on the economic development of countries. It may produce great benefits to countries and firms, particularly when they use appropriate policies. The economic distance, for example, is quickly diminishing its relevance, because of the new technologies of information. Thus, the natural protection of these countries is being reduced insofar international competition became more intense. At the same time, the globalization opens new markets and opportunities. This shortening of distances leads the exporters to reach the international market more efficiently. Also, it is possible that the importers have access to cheaper goods and services and that the consumers make use of increased information in the choice of a product or service.

The States are also very important through the good management of institutions (e.g., justice and regulatory bodies), investment in education, health, security, infrastructure, having a base of solid macroeconomic foundations that stimulate the diverse industries, and then the investments will prosper and innovations will blossom. According to Porter (1990) "macroeconomics is the result and not a primary cause of the life level. Competitiveness is constructed by diligent entrepreneurs and workers that have the capacity to innovate and to improve and by investment of the State in vital areas for the future".

With the dynamics of competition, MNCs can be lead to concentrate in their core business and to offer opportunities to external suppliers or the in location where they are in. FDI is basic for attracting international agents. In this context, we may distinguish FDI for countries that before were only its hosts, as some emergent countries. Graph 1 shows the increasing importance of the emergent markets as FDI active investors, reaching in 2005 the percentage of 13% of world total.

Graph 1- Emergent economies: FDI outflows as percentage of world total, selected periods, 1971-2005



Fonte: FMI e UNCTAD

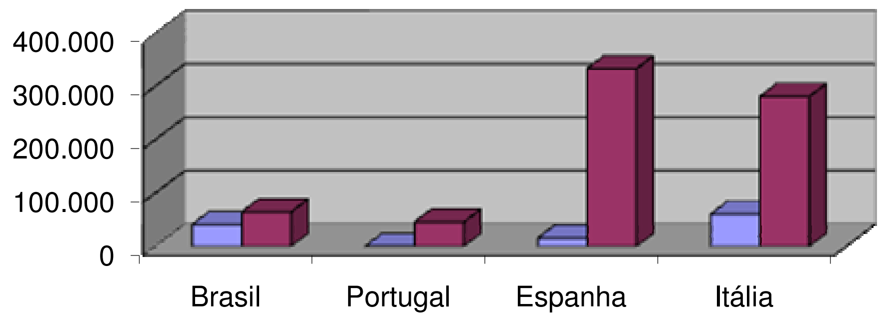
As an emerging economy, Brazil is also increasing its FDI outflows. Beyond the economic globalization, 12 years of political and economic stability were a strong basis for this process. Since the beginning of the 2000s the substantial improvement in the balance of payments, particularly of exports favored the outflow of Brazilian FDI. Presently, the country became the most important Latin America investor.

The graph 2 illustrates the outward stock of Brazil's FDI comparing in set with some southern European countries. In particular, the substantial increase of outward FDI of the

Iberian countries between 1990 and 2004 is very clear. As causes of this we refer to the European integration and its effects into these countries, the structural funds and other policies aiming at the internationalization of firms.

Graph 2- Brazil and Southern European Countries: Outward FDI Stock, 1990-2004

Millions of USD

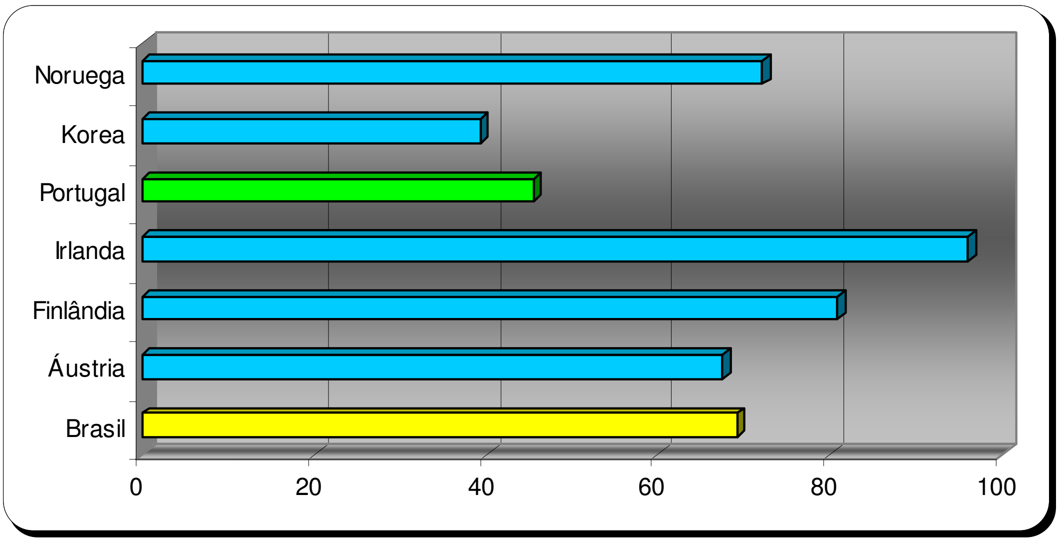


Source: UNCTAD

In Graph 3 we compare Brazil to a set of selected countries, where we verify that this country although just starting the internationalization of its firms, possesses, in absolute value, a roughly similar outward stock to some developed countries.

Graph 3 – Brazil and selected countries: outward FDI stock, 2004

Millions of USD



Source: UNCTAD

Therefore, an in-depth study of the internationalization of Brazilian firms is all the more necessary. In the remaining of the text, we begin by referring to some empirical studies that explain why companies invest in foreign countries, and, then after, we present two cases of Brazilian companies that are investing in Portugal.

3 THEORIES AND EMPIRICAL STUDIES ON THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT

In this section, we will mention some theories and papers concerning determinants of the FDI that we think to be relevant for this study. We do not intend to deplete the subject (we realize that some studies may contradict the results that we will point below), and we will take into account the determinants that we think to be more valuable for this paper.

Domestic market: this is usually measured by the gross domestic product (GDP), as well as by its rate of growth or the per capita income level. A great domestic market allows the exploration of scale economies. Empirical papers show the importance of the host country size as determinant of FDI. Trevisan, Daniels and Arbeláez (2002) looked for evaluating the impact of the three dimensions of the market reform (macroeconomic, microeconomic and institutional) on the FDI flows in seven countries of Latin America, in 1988-1999. The results showed that only the gross domestic product, the privatization's program and the inflation had been considered significant factors in the process that leads to investment decision. So, the size of the market and the degree of macroeconomic stability had strongly influenced the companies' investments in the region.

Regional Integration: in general, the integration stimulates the commercial relation between the participants countries, while the tariff protection inhibits the imports of outside countries not integrated in the block. These effects tend to increase the FDI flows into the integrated countries (Robson, 1996). Blomstrom and Kokko (1997) argue that the widening of the market is much more significant than tariffs to induce FDI, and to a large extent, FDI depends on economic, political and social changes entailed by the agreements and, consequently, the localization advantages of participant countries and companies in the process.

Bilateral trade: these flows and FDI can be complementary. The increase of the trade between countries will be great if there is FDI between the native country and host countries, thus exports and imports will also tend to encourage FDI. The report of the UNCTAD (2005) evidences the positive correlation between bilateral trade and FDI.

Ekholm, Forslid and Markusen (2004) had found evidence of this in the context of NAFTA when there was a strong FDI increase between U.S.A. and Mexico. Also, the rise of reciprocal trade between Brazil and Portugal in the last 15 years or so shows to a certain extent that trade can be a determinant of foreign direct investment.

Labor costs: The companies may reduce their costs of production through the transfer of factors between countries where labor is cheaper. Lansbury et al. (1996) examining the relative labor costs between countries, tested this trend in Eastern Europe and the results of the analysis were consistent with relation between costs of production and cheap labor. However, in the case of the FDI determinants referred to above, the relevance of labor costs is not conclusive. In this context, we can not only analyze the relevance of labor costs, but also the workers' ability. The companies will pay higher wages since the quality of this man power has importance in their results (Markusen and Venables, 1996).

Economic distance and transport costs: studies point that transport costs are positively related to FDI. Collins and Rodrik (1991) demonstrated that the proximity to the European market is an important aspect in the decision to export or to invest; Markusen (1995), and Buckley and Casson (1998) suggested an increase of FDI in relation to trade when the tariffs and the costs of transport are high.

Balance of payments: when investment is taking place in countries with great deficits, government will be able to apply restrictions to the movement of capitals. So, Lucas (1993) found a positive correlation between FDI and international reserves of the investing country.

Exchange rates and inflation: stability of the exchange and inflation rates is determinant for FDI because it provides confidence to companies towards current and future results, as much as in direction of reinvestment in the proper country. McCulloch (1989) argued that, in a framework where companies evaluate that their future will be equal to the present, movements of the exchange rates don't affect FDI. Itagaki (1981) and Cushman (1985) had argued that the previous volatility of the exchange rates reduces the FDI inflows, considering that investors are averse to the exchange risk.

Uppsala School: at this point, internationalization is seen as a process in which the companies gradually increase their international involvement, entering successively in new markets, taking into consideration the psychological distance concept which is defined through various cultural differences. These variables have information influence between the company and the market. The companies start their internationalization in markets that they can more easily understand and where they think there are lesser risks. Johanson and

Wiedersheim-Paul (1975), Johanson and Vahlne (1997), Liu et al. (1997) are some works that evidenced the importance of cultural aspects for many companies that invest abroad. In a similar vein, other authors have shown the special role of linguistic and cultural proximity in internationalization process of firms (Silva, 2002).

. The Eclectic paradigm: according to Dunning (1979), the eclectic paradigm resulted from his dissatisfaction with existing theory of international production: the Hymer-Kindleberger approach, the product-cycle theory, and internalization theory. Henceforth, he proposed an alternative line of development which tried to integrate the existing theories in a general and "eclectic" model. Dunning suggests that a firm engages in FDI if three conditions are satisfied: it possesses net ownership advantages vis-à-vis firms form other countries; it is beneficial to internalize those advantages rather than to use the market to pass them to foreign firms; and there are some location advantages in using the firm's ownership advantage in a foreign location rather than at home.

Network model: a basic assumption in the network model is that the single firm is dependant on resources that are controlled by other firms. To enter a network from de outside requires that the other actors in the network are motivated to engage in interaction. Business relations and industrial networks are phenomenon's that are difficult to observe by an out side observer that may be a potential entrant on the market. The actors within the network are tied to each other through social, administrative, legal or economic factors (Hollensen, 1998).

Porter's Diamond: Porter states the traditional factor endowment argument of standard trade theory is too simplistic. He argues that the factors most important to comparative advantage are not inherited, as Hecksher-Ohlin argue, but are created and that the broad categories of land, labour, and capital are too general. Porter argues that sustainable competitive advantage exists when a nation state possesses the factors necessary to compete in particular industry, which are both advanced and specialised. The model states factor conditions cannot be relied upon solely to generate national competitive advantage as demand conditions, related and supporting industries and firm strategy, structure and rivalry must reinforce each other.

4 THE BRAZILIAN OUTWARD FDI: TWO MANUFACTURING INVESTMENTS IN PORTUGAL

In this section, two Brazilian manufacturing investments in the Portuguese territory will be referred, taking into consideration the European context. Finally, we present a comparative scheme and the conclusions of both experiences.

4.1 Case 1 – WEG S/A

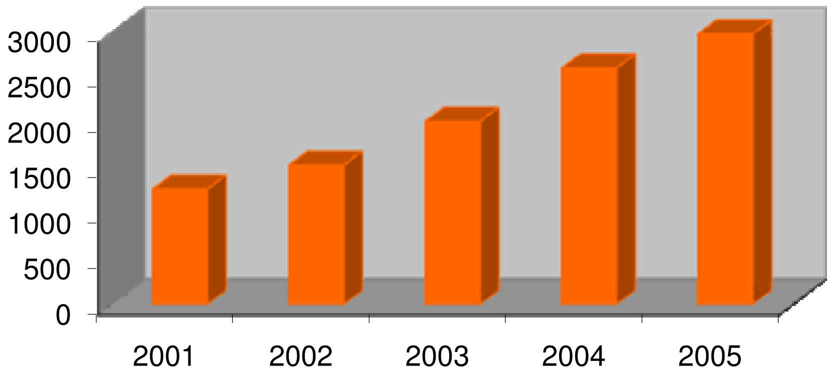
WEG S/A is a company with 100% of Brazilian capital, was created in 1961 and hosted in Jaraguá do Sul, state of Santa Catarina, that produces in the electro-electronic goods. WEG is the leading company in Latin America and second of the world in the industry of electrical engines. WEG produces engines of low and average power, with electronic variation of speed and others. The scheme below shows the WEG presence at a world level.

WEG uses the Total Quality principles and has the goal of becoming the biggest manufacturer of industrial electrical engines of the world in 2007, ranking today in the second place. As part of this objective, WEG established itself in Portugal, in the city of Maia (near to Porto), in May 2002, through the acquisition of Universal Efacec Motors, traditional Portuguese manufacturer of electrical engines, allowing to be the leader in the local market.

The internationalization and the main motivations to invest in Portugal

With the share of more than 80% electrical engines in the Brazilian market, the company started its internationalization in the Americas by Argentina (2000, acquisition), and Mexico (2000, construction), in view of the integrated market of MERCOSUR and NAFTA. Both countries had been chosen taking in account cultural similarities with Brazil. This fact provides a better technological transfer between the company affiliates. In 2002, Portugal was chosen as the first plant out of Americas, as platform for the company's internationalization in Europe. In 2006, the company possesses still two more plants one in Argentina and the other in China (2004, acquisition). The importance of the internationalization for the company is showed in graph 4, which illustrates the evolution of WEG earnings. In 2005, the foreign sector, including exports from Brazil, corresponds to 40% of the company's earnings.

Graph 4- WEG S/A - Evolution of total earnings, 2001-2005
million of reais

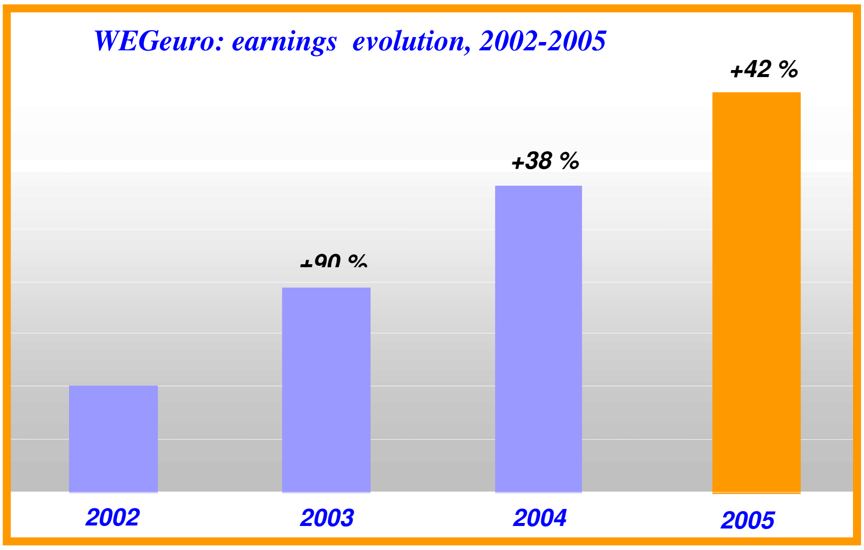


The choice of Portugal

As part of the strategic planning traced for the company, the choice of Portugal for investing abroad can be explained by the following factors: logistic, in order to diminish the delivery's lags; to complement between different lines of production; to increase the presence in European market; to contribute for the strengthening of WEG's image of the brand mark; to become a local manufacturer as its competitors in Europe; to profit of the linguistic and cultural affinity, because it facilitates the communication and the technological transfer. In accordance to WEG president, Décio da Silva, "We choose Portugal as gate for Europe, mainly, for the cultural and linguistic factors. The production of engines has important technical aspects, and a good communication is a basis for the transfer of technology and, then, for a product of quality". Thus, for this firm, Portugal was chosen as internationalization's platform in Europe, and reaps the benefits of exporting products of high technology, and the continuous research and development of new products, therefore, contributing for the qualitative improvement of the Portuguese industrial park.

The experience in the Portuguese market and its perspectives

The experience of WEG S/A is positive, as evidenced in its results. As strong points of Portugal as host country of the Brazilian direct investments, we emphasize: the good acceptance of Brazilian products by the Portuguese market; the wage level is lesser than other countries of the European Union, without considering the countries of the East. Energy doesn't have so much importance because the company produces goods with high aggregate value. Moreover, the financial cost compatible with European Union and the good logistic, although the peripheral localization in Europe, are strong points of Portugal. As points that must be improved: the labor legislation, which is onerous, bureaucratic and protectionist; the lack of technical formation staff; the labor productivity and the difficulty of obtaining visas for work. The WEG results in Portugal are highly positive. Graph 5 shows the significant evolution of WEG's earnings in this host country:



The Portuguese market absorbs only 29% of the local production in 2005. Other countries of European Union have 63% of the total and the remaining portion of world, 8%. The company had 156 workers in 2002 and augmented to 184 in 2005, so an increase of 15%.

We emphasize the influence of the main determinants analyzed in this paper, like logistic, the potential and market size (Portuguese and European Union), the low cost of money and labor, which is bigger than in Brazil, but accessible if we compare with the European Union (without counting the Eastern countries). The political and economic stability also are important factors. Finally, the relevance of Eclectic Paradigm and Uppsala theory, related to cultural and linguistic proximity between Brazil and Portugal, facilitating the market knowledge and the implantation of the management system, are basic factors for the investment decision in Portugal.

4.2 Case 2: LUSOSIDER

Lusosider, company privatized in Portugal in 1996, located in Seixal (near to Lisbon) is an affiliate of National Siderurgical Company (CSN) since 2003. Lusosider is a part of CSN's internationalization strategy, a Brazilian firm of a highly competitive sector at a world level, the iron and steel industry. The company produces ore of iron in leaf-of-

Flanders, galvanized and fine plate. CSN is a robust company, getting, in the nine first months of 2005, earnings of R$ 7.6 billion and profits of R$ 1.6 billion.

The internationalization and the main reasons to invest in Portugal

The internationalization of CSN is a basis for its survival. If the company doesn't grow, it doesn't have conditions to compete. For example, the CSN annual capacity, in tons, is 6 million, while the Mittal that recently acquired Arcelor, second in the world, is 120 million. The current trend in the sector is towards consolidation that increases the bargaining power of firms and disciplines the prices to customers. The Mittal corresponds to near 10% of the world steel market, which is still sufficiently competitive. In this context, the internationalization is important to diminish the freight costs, basic factor for competitiveness. CSN possesses one plant in the United States since 2001 (LLC) and another in Europe (Lusosider). Portugal, then, is part of a global plan of the firm's activities that takes into account the European customers inside within a strategy to acquire or to create centers of services in Latin America and Iberian Peninsula, aiming at the establishment of long term relationships. The company is investing in Lusosider's expansion. The option for Portugal in relation to other European countries, weighed, significantly, the proximity linguistic-cultural between Brazil and Portugal. In accordance to the company's president, Mr. João Audi, "What we made was to bring the CSN's culture for Lusosider, and, with the language advantage, was easy to motivate the workers. The changes had been made in a peaceful environment and today we have the rhythm of work that we want for the company".

The choice of Portugal

Portugal is a key country for the achievement of company's global objectives. At the present time, its customers are, mainly, in the Iberian Peninsula. The company glimpses this market as preferential and Portugal as a strategic center in the long view. This country is located between U.S.A., Brazil, Northern Africa and Europe.

Portuguese market has a high potential. The steel segment is liquid importer (a million and three hundred thousand tons), what it means, also, that the company does not have bargaining power in price. The production of Lusosider is three hundred and fifty thousand tons. Thus, a great part of the Portuguese market is not supplied by the company, which is the only producer of this type of steel in Portugal. The Spanish market is an importer too, in particular of galvanized plate, the main company's product.

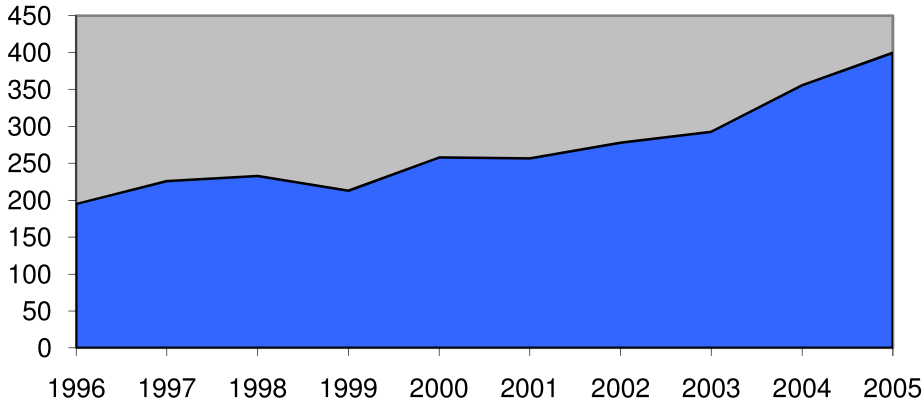
The experience in the Portuguese market and the perspectives

The company business is to refine the Brazilian rude steel. The destination markets for galvanized plates are Spain (62%), to follow Portugal (31%) and other countries, (7%). Leaf-of-Flanders is sold, predominantly, in Portugal (42%), Spain (19%) and the remaining to other countries.

As strong points of Portuguese market we refer to good acceptability of the company's products and the easy implementation of the new management system. Also, the Portuguese market size and the capital cost are relevant determinants. In 2003, the company had 206 workers and, at the present time, it has 400. Moreover, due to the nature of Lusosider business, thousands of indirect jobs are generated.

As factors that need to be improved: hierarchy and formalism, that make difficult the alliance and the work cooperation; a little existence of the changeable remuneration demonstrates the lack of culture results, which allied to the lack of urgency sense, becomes capacities to be stimulated in the Portuguese enterprise environment. But Lusosider implanted the Brazilian management and today the productivity is world-wide standard; to improve the labor code, to increase the technician capacities and the sudden changes in the EU common rules complete the competitive factors that must improve in Portugal. Spite of these points to improve and the conjuncture of the international competition for the company mother, the perspectives for the company in Portugal and Iberian countries are positive. Two factors encourage this view: the administrative experience of the company mother (steel industry in Brazil is developed and it is the most competitive of the world in costs and organization) and the demand for products in Portugal, Iberian Peninsula and other markets. Graph 6 designates the increase of the productivity since the Lusosider's privatization, in 1996 and the entrance of CSN in 2003.

Graph 6- Lusosider productivity evolution, 1996-2005
Kilo-tonels (Kt)



Source: Lusosider

We detect the following literature determinants with motivated CSN to acquire Lusosider: the size of host market and regional integration; the cultural proximity between Brazil and Portugal; of the economic and political stability and low cost of money. As factors differentiators of WEG S/A, we present the biggest importance of the transport costs and a different vision of the labor cost, in terms of the emphasis in monetary value. The Eclectic Paradigm and Porter's Diamond (Brazil possesses the natural resources and management necessary to compete in steel industry)

a. Comparative analysis of the two internationalization experiences

To systemize and summarize the two experiences, we put below a comparative scheme of the two companies in the Portuguese market:

Indicator	WEG	CSN/LUSOSIDER
Strategy	Market & strat. seeking	Market seeking
Global vision	Leadership	Competition
Entry mode	Acquisition	Joint-venture
Mother company position	Market power	Emergent
Start of internationalization	Argentina	USA
Internationalization advantages	Logistic, production linkages, brand, UE market	Win scale, low transport costs, long term relations
Host country benefits	Exports of products with high added value, investment in R&D	Exportation, direct works and many other indirect benefits
Positive factors in Portuguese market	Wages, cost of capital, logistic, product's acceptability	Cultural proximity, market potential and facilities to management
Weak factors in Portuguese market	Labor legislation, lack of technical workers, productivity and work permissions.	Host cultural factors, labor legislation, lack of technical workers and EU law changes
Importance of Portugal	Strong	Strong
Importance of Iberian markets	Medium	Strong
Market power in Portugal	Strong	Strong

5 FINAL REMARKS

The present article intends to show, using some of the main theories and determinants of FDI present in international business literature, the experience of internationalization of two Brazilian multinationals.

This new reality is deeply dived into the globalization process, which makes these companies to look more at higher levels of competitiveness, in accordance with their competitive advantages and the attractiveness of each country.

We verify the emergence of some developing countries as large investors in foreign countries, as well as the relevance of Brazil in this context. We stand out how the improvement of Brazil's macroeconomic indicators, in terms of exports and international reserves, facilitates the investment abroad of Brazilian companies. We also verify the relevance of Iberian market, for Lusosider in particular.

In relation to Portuguese market, it is perceived that WEG and CSN, through the Lusosider, possess high performance in their respective sectors. The inherent characteristics of competitiveness (for example, WEG yields greater value to R&D and the CSN to operational costs and both give importance to logistic), providing benefits to shareholders, consumers and the economies, in this case, Brazil and Portugal.

The two cases suggest, also, the importance of main theories like Upsalla, Eclectic Paradigm and Porter's Diamond and determinants of IDE present in literature accounting for this paper, as market size, labor costs and capacities of the human resources and costs of .

These two cases are part of an ongoing inquiry. The other company's analyses are part of today's inquiry work. This is an important limitation of this paper.

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