

**“BRAZIL POWER AND MULTINATIONAL CORPORATION”:
BRAZILIAN MULTINATIONAL CORPORATIONS, FOREIGN POLICY AND THE
INTERNATIONAL INSERTION OF BRAZIL.
AN ANALYSIS BASED ON THE CONTRIBUTIONS OF ROBERT GILPIN**

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Abstract

The first decade of the XXI century evidenced transformations in the international order's financial dimension due to the growth in the so-called emerging powers. An indicator of such phenomenon is the emergence of multinational corporations from the developing world - *MNC Latecomers*-, turning certain countries, as is the case of Brazil, into net issuers of Foreign Direct Investment flows. In this sense, this paper analyzes the impact that the emergence and consolidation of Brazilian multinational corporations has had since 2003 until now on the foreign policy and the international insertion of Brazil (and vice versa), taking into consideration Robert Gilpin's classical work, “*U.S. power and multinational corporation: the political economy of foreign direct investment.*” Gilpin's framework shall be useful for empirical contrast of this study case.

Keywords

Brazil; multinational corporations; Robert Gilpin; foreign policy; new international order

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Introduction:

The appearance during the second half of the XX century of the multinational corporation as an actor in the global economy and the international relations has led to several theoretical approaches that attempted to comprehend this phenomenon. In that context, in 1975, Robert Gilpin wrote, based on the studies of the International Political Economy (IPE), the famous work *"U.S. power and multinational corporation: the political economy of foreign direct investment"* with the purpose of analyzing the North American transnational corporations and their link to the international insertion of the U.S. in the framework of the post-war North American hegemony.

Beyond the multiple transformations experienced by the international system since then, and the changes in the modes of production, such theoretical framework is still useful to explain the link between the transnational corporations and the states in which the capital originates, and more specifically, the external behavior of such states. From a *realist* point of view which is different from the *Marxist and liberal* conceptions, Gilpin has verified that transnationalism can only be understood in the context of the interstate system characteristic of the Peace of Westphalia and in relation to state interests and actions. The deepening of the financial interdependence and the globalization that prevailed in the post-Cold War international system have not demolished the basis and foundations of the *Gilpinian* theory.

The first decade of the XXI century evidenced transformations in the international order's financial dimension due to the increase in the so-called emerging powers. An indicator of such phenomenon is the emergence of multinational corporations in the developing world - *MNC Latecomers* -, turning certain countries, as is the case of Brazil, into net issuers of FDI flows.

In this sense, the purpose of this paper is to analyze the Brazilian case, more precisely, the impact that the emergence and consolidation of Brazilian multinational corporations has had since 2003 until now on the foreign policy and the international insertion of Brazil, taking into consideration Robert Gilpin's classical work, which, as any other classical work, never loses validity.



The study of the Foreign Direct Investment from the IPE: Gilpin's theory

The Foreign Direct Investment (FDI) and the transnationalization of corporations may be studied from several subject areas and with different analytical goals. Analyzing them from the economy point of view leads us to ask ourselves the reasons and advantages that motivate a corporation to invest abroad, the competitiveness, the intrinsic characteristics of the corporations, the incentives offered by the market and the governments, among others (Dunning, 1981; 2001; Rugman 1981; 1986, Mathews 2006).

This type of approach visualizes the corporation as the main actor and its internationalization ability shall depend, ultimately, on its condition to compete and adapt itself in the markets. Even when these studies are necessary to understand this phenomenon, they exclude the political variable in the analyses: the importance of the State and power relations in the international system. It is precisely those approaches from the IPE that cover this gap, from understanding the complex interrelation between the political and financial activity at an international affairs level (Cohen, 2008). In accordance with Robert Gilpin (1975), the IPE may be defined as the dynamic and mutual interaction in international relations in the search for wealth and power.

In this sense, the IPE tried to overcome the 'mutual neglect', in the words of Susan Strange (1970), among those who were specialized in the study of International Relations, devoted to subjects of the so-called *high politics*, and those who investigated subjects related to *low politics* as issues of the international economy.

Precisely, Robert Gilpin was one of the first thinkers that, having entered the subject through studies related to strategic-military issues - in a framework of predominance of classical realism¹ -, started to steer his studies towards political economy, thus challenging the rigid division between strategic-military aspects – *power*- and financial aspects – *wealth* - in the RRII. His ascription to realism caused Gilpin to be considered the greatest exponent of the realist tradition² in the so-called "American School" to the interior of the IPE.

From that philosophical way of seeing politics and society, Gilpin decided to study the *political economy of the FDI*. In fact, the purpose of the work in question was to "contrast the prevailing literature on multinational corporations, challenging the emphasis of the liberal orthodoxy on the autonomous evolution of a growing interdependence in the global economy whose major current manifestation is the multinational corporation" (Gilpin, 1975: 4). According to Gilpin, from the liberal point of view, the expansion of the corporations is divorced from the global policy arena, multinational corporations are regarded as independent actors of the international

¹ As stated by Cohen (2008:32), Gilpin became the greatest supporter of the "old realist tradition." The changes in the realist trend as of the predominance of Kenneth Waltz's structural approach caused some relegation of Gilpin's work. In an issue of the magazine International Relations, William C. Wohlforth (2011) highlights how Waltz view/narrative prevailed to the interior of the realist theory at the expense of other views such as Gilpin's. The author states that if the realist interpretation in War and Change in World Politics had prevailed instead of the classic work Theory of International Relations, the history of the Theory of International Relations would have been different.

² In opposition to the liberal point of view, Gilpin states in his first works (Gilpin, 1972) that it is politics that determine the framework of the financial activity and the channels which are directed and tend to serve political goals.



system³. For Gilpin, the emergence of multinational corporations confirms that "financial activities are fundamental in the struggle for power between nations" (Gilpin, 1975: 38).

At the same time, Gilpin challenges and questions the neo-Marxist theory that states that the State –and its foreign policy- is nothing but a simple instrument to satisfy the needs of the transnational capital, where the public policies are subordinated to private interests, without any margin of autonomy whatsoever.

Now, having explained in detail the deficiencies that, according to the author, other theories have, what is Gilpin's contribution to the study of transnational corporations from the IPE? To answer that question we will sum up in six items the main lines of thinking as of his study case: internationalization of the U.S. economy since the Fifties of last century.

- 1) The conditions that enabled the U.S. to expand its corporations beyond its borders, thus constituting North American multinational corporations, were financial and technical, and they are a consequence of the evolution of the post-war U.S. economy (Gilpin, 1975: 6). However, domestic policy and public policies are important since they affect the ability and tendency to invest abroad. The importance of the domestic political order has its foundations in channeling financial forces in one direction over another one. (Gilpin, 1975: 61).
- 2) It is a mistake to think that the expansionism of corporations was planned by politicians or that the consequences of the expansion were consciously designed by the political elite. They gradually perceived that the growth of corporations abroad could serve U.S. interests. One example offered by Gilpin is the positive impact on the balance of payments.
- 3) At an international level, the expansion of U.S. corporations occurs at the same time as an increase in the influence of U.S. politics in international affairs (Gilpin, 1975: 6). The international political order created by the powers that dominate the international system provided a favorable environment for the expansion of corporations (Gilpin, 1975: 19).
- 4) U.S. politicians saw the possibility of turning multinational corporations into an instrument of the U.S. foreign policy (Gilpin, 1975: 139). Together with the international role of the dollar and the nuclear supremacy, multinational corporations served as one of the pillars of the U.S. global hegemony after the end of the Second World War. U.S. multinational corporations favored the expansion of U.S. political and financial values, the access control to natural resources, the increase in the U.S. participation in the global market, the assurance of a strong presence in third countries economies. Moreover, they assisted in consolidating the main goal of the U.S. foreign policy during those years: to expand the U.S. hegemony in the Cold War world (Gilpin, 1975: 161).

³ Even when it is true that Gilpin's critics are directed towards liberal economists, his work is also inserted in the debate to the interior of the IPE, arguing with colleagues who are closer to liberalism to the interior of the International Relations like Joseph Nye and Robert Keohane, who in 1972 published "Transnational Relations and World Politics".



- 5) Gilpin challenges the neo-Marxist point of view that states that the foreign policy reflects the interests of the capitalist class materialized in the multinational corporations (1975: 140). The author states that it is true that, in general, the interests of the transnational businessmen and the "national interest" defined by the various U.S. administrations have coincided. However, many times, the foreign policy has gone against the interests of multinational corporations causing divergences. In those cases, the interests of the foreign policy prevailed. Gilpin illustrates this statement with several examples; the most significant one was the divergence between U.S. multinational corporations and the "national interest" as regards to the policy towards Japan. The U.S. tolerated the exclusion of American investments. U.S. multinational corporations who wished to enter the Japanese market were forced to share their technologies with Japanese corporations, thus losing an asset that was paramount for competitiveness and facilitating the convergence of rival corporations. Gilpin wonders (1975: 145) how the foreign policy could go against the interests of U.S. corporations. The answer lies in the fact that the geostrategic interest in keeping Japan under the Occidental influence and thus maintaining the supremacy and stability of Pacific Asia prevailed.
- 6) The aforementioned demolishes the liberal theory that sees multinational corporations as independent actors of the international system and as divorced from the global policy arena. Gilpin's main argument (which can be seen throughout all his work) when observing the U.S. case was that multinational corporations and the U.S. government shared between the Fifties and the Seventies of the XX century a number of complementary and overlapping interests (Gilpin, 1975: 141).

The emergence of Brazilian multinational corporations and Brazil's foreign policy (2003-2012). Is Gilpin's theory still valid?

Having more than 35 years passed since Gilpin's work and with the multiple transformations and mutations suffered by the international order -political and financial-, we wonder about the validity or not of the American author's analytical scheme to explain and analyze the *new multinationalism*, no longer associated to the organizational and productive form of the multinational corporation (Gilpin, 1987) but to the changes in the FDI global system (Actis, 2011). The first decade of the XXI century showed that countries who were traditionally receivers of FDI flows, became receivers-issuers due to the internationalization of their production - third internationalization wave, in accordance with Goldstain (2008).

One of them has been the Federative Republic of Brazil. Since 2003, the South American giant has issued over 160 billion dollars (Department of Foreign Trade of Brazil, 2011). Brazilian multinational corporations such as JBS, Gerda, Constructora Odebrecht, Petrobras, Vale, Metafrío, Magnesita, OAS, Camargo Correa, AmBev, Banco do Brasil, Bradesco, Randon, Andrade Gutierrez, Tupy, Votorantim, WEG, Marcopolo, Embraer, Sabó, Cotaminas, Marfrig, Stafanini, Brazil Food, among others (Revista Valor, 2011; Fundación Dom Cabral, 2011) have presence in multiple countries in the area and around the world.

Now, going back to the aforementioned, is Gilpin's scheme still useful to understand the relationship between Brazilian multinational corporations, the State, the ruling class



and the international insertion of Brazil? To answer this question, we will use the 6 items described in the previous section.

As regards the *first and second items*, the expansion of Brazilian multinational corporations is not a consequence of a planning by Brazilian politicians but of intrinsic advantages, a determined business competitiveness and a *management in a Brazilian way* (Flury, Leme Fleury y Reis, 2010). However, the business environment is inserted in particular *development strategies*. The internationalization of Brazilian capitals through the issuance of FDI is inscribed in the passage from a development strategy whose main goal was to *nationalize the international economy* – as was the developmental model- to other strategies as the neoliberal or the “logistic” (Cervo, 2008; 2010) that, in spite of important differences, bet on *internationalizing national economy*. Since 2003, to the monetary vision for the running of macroeconomy, it was added an active state policy based on the structural premise of driving productive transformation beyond the market natural pace.

Referring back to Gilpin, it has been tangible in Brazil that *the domestic policy and the public policies have been important since they have affected the ability and tendency to invest abroad* (Flinchelstein, 2009). The most representative case of a public policy in favor of internationalization has been the directed credits from the BNDES (Brazilian Development Bank). Between 2005 and 2010, the bank has disbursed in investment operations abroad over 17 billion dollars (Revista Valor, 2011). To illustrate the importance of a state financing policy, in 2005 the company JBS became a multinational corporation after the acquisition of the Swift refrigerators in Argentina for an amount of 120 million dollars, 80 million of which were contributed by BNDES (Ochoa, 2007). Since then, in 7 years, JBS became the world leader in the production of beef, mutton and chicken, as well as the world largest leather processor. The corporation has production units in 5 countries, including the U.S., and distribution centers and business desks in all continents. With the internationalization, the corporation’s income went from 3 billion reais in 2005 to 61 million in 2011⁴.

In conclusion, the aforementioned shows us that Brazilian politicians, but in particular Lula’s administration and the government party (PT) *gradually realized that the growth of corporations abroad could serve the interests of Brazil*. This perception can be observed in the speech given by the then former president in the World Economic Forum in Davos in 2005, in which he stated that

“one thing that I have systematically pointed out to Brazilian businessmen is that they should not be afraid of becoming multinational corporations (...) in making investments in other countries, because that would be good for Brazil” (Rapoport, 2008).

Some advantages of Brazil’s current condition as issuer of FDI are already tangible, *for example in the impact on the Balance of Payments*. Brazil, as well as other countries in

⁴ Data was provided by the JBS CEO, Jerry O’Callaghan, in the Seminar “Brasil em meio às transformações do cenário internacional” organized by SOBEET, the Instituto Besc and the IPEA, which took place on August 3rd of 2012 in Sao Paulo. Available at <http://institutobesc.org/seminariosobeet/palestras/JerryOCallaghan.JBS.pdf>



the area, having a highly transnationalized economy, has suffered since 2009 a strong foreign exchange outflow due to the remission of utilities from foreign multinational corporations to their corporate offices. By that means, 25 billion dollars went out in 2011, an amount seven times higher than the one recorded in 2003. Notwithstanding, due to its condition as FDI issuer, Brazil has been able to compensate, in part, that negative aspect through the influx of foreign currency from its multinational corporations, that also behaved in a defensive manner and remitted their income. In accordance with the balance of payments data from the neighboring country⁵, in 2009 and 2011, 10 billion and 9 billion dollars entered the country on that concept, respectively.

In regards to the *third item*, the transformation of Brazil into an FDI issuer country has occurred *parallel to an increase of Brazil's political influence in international affairs*. In fact, the teaching that shows us the running of the FDI global system is the existing correlation between the rising in the international power structure –in Waltzian terms– and the emergence as FDI issuer actor. As well as the U.S. between the Fifties and Sixties and the European countries and Japan between the Seventies and the Eighties of last century, since the year 2000 we have been seen a temporal coincidence between a greater involvement of the so-called emerging powers – BRIC - in the international system and the emergence of multinational corporations from those countries⁶. Undoubtedly, the mutation in the international financial order which started with a relative loss of power by the developed countries *has provided a favorable environment to the expansion of Brazilian corporations*.

For example, the worsening of the European financial crisis has signified an access door for Brazilian investments. The financial problems (high indebtedness) of many European corporations and the sale of assets by state-owned corporations to private capital⁷ have enabled the inflow of Brazilian capital in the old continent.

The acquisition by Grupo Camargo Correa of 32% of the stocks of the Portuguese cement group Cimpor, added to the 21% that Votorantim has, allowed the corporation to be in the hands of Brazilian capitals now; the purchase by the company Magnesita (mining company) – by the end of 2008 - of LWB Refractory from the hands of the German group Rhone, for an amount higher than 900 million dollars; the disbursement in 2009 of 200 million dollars by the group Votorantim to obtain 50% of the stocks of Cementera de Avellaneda (Argentina) and Cementos Artigas (Uruguay) belonging to the Spanish group Uniland, and the execution of the joint venture between *Banco do Brasil* and the Spanish insurance company Mapfre (year 2010) and between the Spanish company M. Torres Olvega and the Brazilian WEG (year 2011), verify the aforementioned.

⁵ Data from balance of payments of Brazil. Available at <http://www.bcb.gov.br/?SERIEBALPAG>

⁶ The ranking performed by the Financial Time (FT Global 500- world's largest corporations) shows that in all sectors, the emerging multinational corporations are displacing those of countries from the Organization for Economic Co-operation and Development (OECD). Out of the 500 main corporations, 125 correspond to emerging countries, thirty of which are Chinese, fourteen Indian and eleven Russian and Brazilian, respectively. In the ranking for the year 2000, there were only three corporations from Brazil, one from India, and there were no Chinese or Russian corporations. Furthermore, in the year 2000, there were 236 North American corporations, 60 Japanese and 15 Italian. Ten years later, the number was reduced to 156, 35 and 8 respectively.

⁷ The state-owned company Eletrobras was interested and bargained the purchase of the total amount (20%) of the public position of the Portuguese company Energia de Portugal (EDP) for an amount higher than 2 billion dollars. However, in 2012, those stocks fell in the hands of the Chinese, Three Gorges.



As to *item four*, Lula's administration and Dilma's current administration – and most politicians - have understood *that Brazilian multinational corporations may have an instrumental role for the international insertion of Brazil*. The expansion of Brazilian corporations represents one of the main material attributes of power that Brazil has and it is functional to the predominance of Brazil as a power in the future, to the access of natural resources, to an increase in Brazilian capitals in the global market, to propel/consolidate political relations with non-traditional areas and countries for the design of foreign policy. Together with active international relations, the search for a larger presence in multilateral and regional institutions/forums, the bet on cooperation South-South and diversification of foreign relations, the internationalization of Brazilian capitals through FDI have cooperated towards the consolidation of one of Brazil's main external goals since 2003 to now which has been to increase the influence of Brazil in the international policy.

We agree with Sennes and Camargo Mendes (2010: 171) that the support of Brazilian corporations abroad generally coincided with the Brazilian foreign policy strategy of links diversification. Lula's administration attempted to bring closer the relations with South Hemisphere countries, especially Latin America and Africa and so the opening of diplomatic representations abroad followed, in most cases, the logic of the investments made by Brazilian corporations. In November of 2005, the embassy of Brazil was inaugurated in Equatorial Guinea. Several months before, the African country had opened its embassy in Brasilia; the only embassy of that country in all Latin America. A year later, Obiang's administration, approved the acquisition by Petrobras of 50% of the agreement in the participation of an oil exploration block⁸.

The fact that Brazilian capitals have been invested in the five continents, with a strong presence in the so-called Northern Countries is a clear sample that the motto "*democratize globalization*" sustained by Lula and his followers in detriment of the concept of *globalizing democracy* that prevailed after the end of the Cold War starts to show some signs of reality. Such idea has its basis in ensuring a key role for countries known as peripheral until not long ago, in the financial/commercial as well as in the diplomatic and strategic.

Now, stating that the Brazilian government foresaw that Brazilian multinational corporations would be an instrument of the foreign policy is far from sustaining the opposite theory that the foreign policy is an instrument in favor of private expansionism, as stated by neo-Marxist theories (*fifth item*). In general, the problem of the Marxists way of thinking lies in attributing none autonomy whatsoever to the State since this will always be functional to the reproduction of capital. As we will explain in the next item, *the interests of transnational businessmen and the "national interest" defined since 2003 by the government of Brazil coincided. However, Brazil's foreign policy has gone, in certain occasions, against the interests of multinational corporations and some divergences occurred.*

Some examples of what has being said are, in the first place, the bet on the policy of regional solidarity with respect to Bolivia regarding the stability of Evo Morales' administration in 2006 as regards to the nationalization of hydrocarbon, an action that was taken in detriment of the interests of the oil corporation, Petrobras, and, in the second place, Brazil's reluctance to foster new Bilateral Investment Treaties (BIT) or

⁸ For more information, see http://www.acionista.com.br/home/petrobras/guine_contrato.pdf



foster the ratification of those already signed as claimed by the business sector. The reluctance to relinquish sovereignty continues to be a neuralgic point for the Brazilian foreign policy, as or more important than capital internationalization.

As well as the Marxist theory does not make the relation between transnational capital and the State understandable in the cases of the U.S. and Brazil, the liberal view in the RRII –as we have seen in the first paragraphs- also shows problems when serving as conceptual framework due to the fact that it understands multinational corporations as independent actors in the international system (*sixth item*). Explaining the phenomenon of internationalization of Brazilian capital disregarding its association with the State and with the changes in the international system would constitute a shortsighted view. Many times, business “efficiency” is not enough to achieve the goal. Political ties with the regions/countries, power attributes and their exercise and strategies of international insertion are fundamental to channel and execute businesses. Thus the importance of the foreign policy as public policy.

Between 2003 and 2012, we observe that the government of Brazil and the multinational corporations have *shared an overlapping of interests*. For transnationalized Brazilian capitals as well as for the foreign policy, the “other one” was functional to their interests, forming, in fact, a kind of condominium, in accordance with Underhill (2003). The African example makes the aforementioned tangible. The expansion of Brazilian corporations in Africa (Vilas-Bôas, 2011) is also a consequence of the active *African policy* that Brazil has been developing since 2003. The opening of diplomatic missions, the presidential tours with businessmen and the presidential lobby⁹ show that the political dimension accompanies and strengthens the financial dimension. In accordance with the Ministry of Foreign Relations of Brazil

“president Lula’s trip to the African continent and those of the ministers... the strengthening and opening of new embassies... are measures that have a strong political component, and, moreover, can strengthen the financial ties... an example of the direct result of those trips has been the creation of the Brazil-Ghana Chamber of Commerce” (Itamaraty, 2011).

At the same time, millions of dollars that corporations such as Odebrecht and Vale have spent in “social infrastructure” in Africa, are a consequence, in part, of the need of the Brazilian diplomacy to avoid associating the investments to a purely capitalist practice, associated to the relations of the type North-South, thus showing a “caring” and “human” aspect¹⁰ of Brazil towards the development of African countries. In the case of

⁹ Wikileaks leaks regarding the wires of the U.S. international relations showed the surprise of a U.S. diplomat when talking about the active lobby that the presidents of Brazil and China performed before the government of Gabón to make sure that the corporations of their nationalities obtained a millionaire bidding for a mining development. *“Como os chineses venceram a Vale no Gabão,”* Diário Valor econômico, Del 8/9/2011. Available at http://www.valor.com.br/empresas/1000546/como-os-chineses-venceram-vale-no-gabao?utm_source=newsletter_manha&utm_medium=08092011&utm_term=Como%20os%20chineses%20venceram%20a%20Vale%20no%20Gabão&utm_campaign=informativo

¹⁰ With the purpose of stating the difference between the business behavior of Brazilian corporations and their Chinese competitors, in the framework of a visit of Lula to Tanzania, he stated “I don’t hold any



the construction company, it develops in Angola multiple plans in the areas of health and education¹¹. The business world has known, from a pragmatic point of view, how to cooperate with the needs of the foreign policy, even at times being opposite to a purely capitalist logic.

Conclusions

The purpose of this paper has been to compare, from an empirical case - which we called the *Brazilian case* -, Robert Gilpin's thinking and theoretical framework in relation to his classical work "U.S. Power and Multinational Corporations," in which the author analyzed the relationship between the North American multinational corporations and the power of the U.S. between the Fifties and the Seventies of the previous century.

If we were to apply Gilpin's theoretical corpus to the Brazilian case, we could ascertain that the role of the State and the government policies, the foreign policy, the international insertion of Brazil and the functioning of the international system cannot be underestimated when explaining and analyzing the expansion and dynamism of the set of Brazilian multinational corporations as of the year 2003.

The use of such framework to understand the internationalization of Brazilian capitals from the International Political Economy point of view shows the validity of the Gilpinian way of thinking despite the decontextualization of his work since more than 35 years have passed since its publishing. The same as in the U.S. case, the internationalization of Brazilian capitals through FDI is a consequence, in the first place, of business competitive advantages. However, the inclusion of other variables as the changes in the international order, the role of public policies in special foreign policy and, closely associated, Brazil's search for power and influence in the international scenario enrich and make the analysis more complex.

In short, as it was attempted to explain, without the different initiatives taken by Brazil's domestic and foreign policy, its international insertion strategy and a determined international environment/situation, the issuance of Brazilian FDI would not have acquired the magnitude and imprint observed in the last years. At the same time, without the thousands of millions of dollars invested in the whole planet by Brazilian capitals, different goals of Brazil's foreign policy, such as the relationship South-South, the diversification of external ties, the search for prestige, among others, as well as its clear strategy to become a global player in international affairs wouldn't have had the magnitude and imprint they have today. Paraphrasing and updating the title of Gilpin's work: "*Brazil power and Multinational Corporation.*"

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grudges against my Chinese friends, but it is true that when they win a bidding for a mine, they bring Chinese workers, without giving opportunities to the local workers".

¹¹ For more information, see: <http://www.odebrechtonline.com.br/materias/01701-01800/1756/>



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