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OCCASIONAL NOTE

Outward FDI from Brazil: poised to take off?

Foreign direct investment (FDI) outflows from Brazil are expected to be a record US$9.5 billion in 2004, UNCTAD is predicting.[1] Since the 1990s, those outflows have been rising in spurts, with heavy fluctuations in recent years. Brazil was the most important source country for FDI from the Latin American region in 2002, with outflows of US$2.5 billion. Outflows fell sharply in 2003, reflecting the overall poor FDI performance of the region. In 2004, however, they rebounded sharply (figure 1), placing Brazil among the top five outward investors in the developing world.

Brazil's outward FDI stock – roughly equivalent to cumulative FDI flows – is likely to reach US$66 billion in 2004, according to UNCTAD projections. In 2003 it was the largest outward stock held by any country in the region, and the fourth largest in the developing world (after Hong Kong, China; Singapore; and Taiwan Province of China).

Most of the country's FDI stock is located in tax-haven economies, suggesting that financial motivations have played a major role in its outward FDI. It is possible that a good part of these investments is being redirected to other countries. Other Latin American countries, as well as the United States, are the most prominent locations of Brazil's outward FDI.

"It is time for Brazilian businessmen to abandon their fear of becoming multinational businessmen", urged President Luiz Inacio Lula da Silva last year.[2] Luiz Fernando Furlan, Trade and Industry Development Minister, added that "the Brazilian Government expects the country to have 10 really transnational companies by the end of President Lula's term of office".[3]

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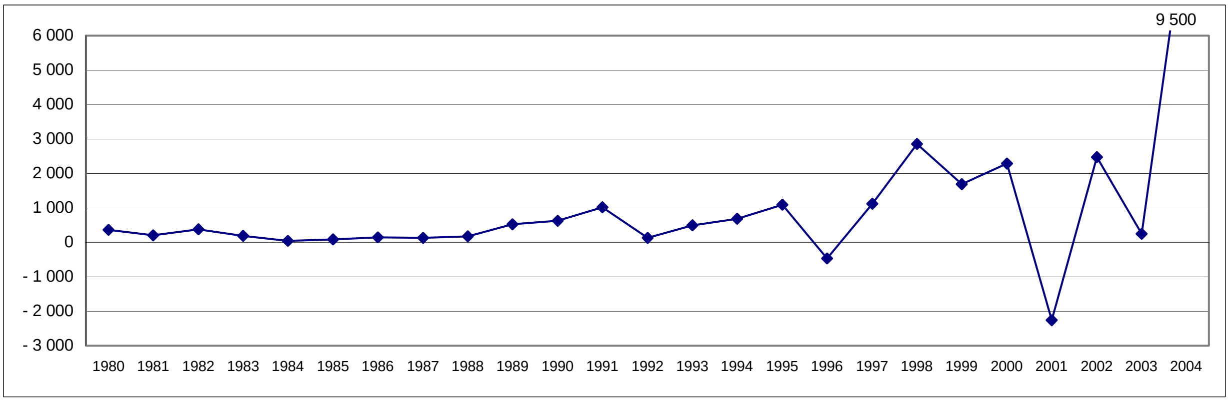
[1] Most of the increase in FDI outflows in 2004 reflects two factors: the merger between Ambev (a Brazilian drinks group) and Interbrew (a Belgium-based brewer) and increased intra-company loans. In the former case, this merger created a new group InBev AS ("InterbrewAmbev") in Belgium. The amount of this deal was around US$5 billion. The former shareholders of Ambev ("former BRACO Control Group") were paid with shares of the new group, now holding 44% of Stichting Interbrew, the holding company of InBev. This amount was reported both as inward and outward FDI flows in the balance of payments of Brazil in August 2004. In the same month, intra-company loans of Brazilian companies to their affiliates abroad amounted to US$2.1 billion. These two transactions alone accounted for more than US$7 billion in 2004.

[2] President Lula address at the Portuguese Industrial Association, Lisbon, 11 July 2003.

[3] Lecture given by the Trade and Industry Development Minister, Luiz Fernando Furlan, at Fundação Dom Cabral, 22 March 2003.

Indeed, "while Brazil has succeeded in attracting sizeable amounts of FDI in the past, it's only now that investment abroad by Brazilian TNCs appears poised to take off", says Karl P. Sauvant, Director of UNCTAD's Investment Division.

Figure 1. FDI outflows from Brazil, 1980-2004[a]
(Millions of US dollars)



Source : UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD estimates.
a Figure for 2004 is preliminary, based on data for January to September, from the Central Bank of Brazil.

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
367	207	376	188	42	81	144	138	176	523	625	1 015	137	492	690	1 096	- 469	1 116	2 854	1 690	2 282	- 2 258	2 482	249	9 500

TNCs from Brazil

There were altogether more than 1,000 Brazilian firms that had invested abroad (TNCs) in the late 1990s (a number of them foreign affiliates) (UNCTAD, 2004a, p. 273). Among them, only three Brazilian TNCs (Petrobrás, CVRD, Gerdau) figured on the list of the top 50 non-financial transnational corporations (TNCs) – ranked by foreign assets – from developing countries compiled by UNCTAD (UNCTAD, 2004a, pp. 22-23), while there were seven Mexican TNCs and one Argentine one. The home market dominates most of the assets and sales of the three largest Brazilian TNCs, which still have a long way to go in their path to transnationalization.

Petrobrás (the State-owned oil company), Companhia Vale Do Rio Doce (CVRD) (a mining company privatized in 1997), some engineering services firms (Odebrecht ─ box 1) and a few Brazilian banks were the first Brazilian companies to invest in neighbouring countries in the 1970s. At the end of the 1980s, there was a wave of outward FDI from Brazil, concentrated in Argentina, in the auto-parts and electrical appliances industries (e.g. Metal Leve, COFAP), in the context of a bilateral economic integration agreement signed at that time.[4]

[4] Some of these Brazilian firms sold their assets in Argentina (as well as those in Brazil) to large foreign TNCs later on.

Box 1. Odebrecht Engineering and Construction

The transnationalization process of Odebrecht Engineering and Construction began in 1979, through simultaneous investments in Angola, Chile and Peru. Today, Odebrecht is present in 14 additional countries: Argentina, Bolivia, Colombia, Djibouti, Dominican Republic, Ecuador, Mexico, Panama, Portugal, Venezuela, United Arab Emirates, Uruguay and the United States. During 25 years of international presence, Odebrecht has had cumulative international sales of over US$15 billion.

Apart from engineering and construction, Odebrecht controls Latin America´s leading petrochemical company Braskem; it exports thermoplastics to more than 50 countries.

Due to its transnationalization, the reduction in infrastructure investment in Brazil in recent years has not affected Odebrecht as much as other Brazilian engineering and construction companies. Today, Odebrecht employs over 20,000 people, 8,000 in its foreign affiliates.

Engineering and construction is a service industry, and therefore does not require large immediate capital investments. The investments required are relate to establishing and maintaining a network of foreign affiliates to have the capacity to understand clients' needs, and the forces shaping the market (local supply chains, technology available, local and international competitors, regulatory environment, etc.). This FDI strategy has allowed Odebrecht to provide its clients in foreign markets a differentiated engineering and construction service.

Source: Information provided by Odebrecht.

During the 1990s, while Brazil was experiencing an inward FDI boom, some Brazilian firms in industries ranging from food and beverage producers (e.g. AMBEV) to transport equipment producers (e.g. EMBRAER, IBF) invested abroad. Petrobras is the largest of Brazil's non-financial TNCs in terms of sales (table 1).

Table 1. The largest Brazilian TNCs in the manufacturing and non-financial sectors, 2003
(Millions of US dollars and number)

TNC	Industry	Sales	Affiliates [a] Total	Number of foreign affiliates	Number of host countries	Host economies
Petróleo Brasileiro-PETROBRAS	Petroleum	24 958	77	14	6	Angola, Argentina, Bolivia, Cayman Islands, Netherlands, United Kingdom
Odebrecht	Engineering and construction	5 634	35	14	14	Angola, Argentina, Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Peru, Portugal, United Arab Emirat, United States, Urugay, Venezuela
Companhia Vale Do Rio Doce-CVRD	Mining and quarrying	2 360	36	6	4	Belgium, Bermuda, Netherlands, Portugal
Empresa Brasilera de Aeronautica-EMBRAER	Transport and storage	2 043	4	1	1	United States
Companhia Siderurgica Nacional-CSN	Steel producer	2 003	11	2	2	Cayman Island, Panama
Gerdau Acominas S/A	Metals	857	15	2	2	Chile, Uruguay
WEG	Electrical and electronic equipment	484	10	6	5	Belgium, Portugal, Spain, United Kingdom, United States
Tupy Fundicoes Ltda.	Machinery and equipment	354	6	3	3	Argentina, Germany, United States
Marcopolo	Motor vehicles	303	7	1	1	Portugal
Tigre Tubos E Conexoes	Chemicals	257	5	2	2	Argentina, Bolivia
Sao Paulo Alpargatas	Textiles	242	20	2	2	Argentina, United States
Construtora Andrade Gutierrez	Construction	225	16	3	3	Peru, Portugal, United States
Politec Ltda.	Other business services	104	2	1	1	United States
Teka Tecelagem Kuehnrich	Other business services	70	2	1	1	Germany
IBF - Industria Brasileira de Filmes	Precision equipment	61	3	2	1	United States
Soletur Sol Agencia de Viagens E Turismo	Lesiure	53	2	1	1	United States
Forjas Taurus	Machinery and equipment	38	6	2	1	United States
Tomra Latasa Reciclagem S/A	Metals	23	15	13	7	Canada, Denmark, Finland, Germany, Netherlands, Norway, United States
Renner Herrmann	Chemicals	19	3	1	1	Argentina
Sisalana - Industria E Comercio	Textiles	11	2	1	1	United States
Seisa Clerman Empreendimentos Imobiliarios	Construction	2	2	1	1	Uruguay
Embratel Participaçoes	Telecommunications	..	5	1	1	United States
Companhia de Bebidas Das Americas - Ambev [b]	Beverages	..	12	3	3	Dominican Republic, Ecuador, Uruguay
Altus Participaçoes	Other business services	..	5	3	3	Argentina, Germany, United States

Source : UNCTAD, based on UNCTAD 2004b and company annual reports.

a Majority-owned affiliates only.

b See footnote 1 in the text.

A preference for greenfield projects

When investing abroad, Brazilian firms prefer greenfield projects as a mode of entry. During 2002-2004 (until June), Brazilian firms invested in 84 greenfield FDI projects, but only carried out 19 cross-border M&A deals.[5] During the first nine months of 2004 alone, 36 outward new greenfield projects were announced, close to the total (40) during 2003 and twice the number of 2002 (20) – most by domestic Brazilian firms (table 2). While Brazil's outward FDI stock was about four times as large as that of Mexico (US$14 billion) in 2003, the value of cross-border M&As by Brazilian firms over the past decade (US$17 billion during 1994-2003) was lower than that of Mexican firms (US$24 billion).[6] Most cross-border M&As were undertaken by foreign affiliates in Brazil.[7] However, many of most of the *largest* cross-border M&As during 1987-2004 were undertaken by domestic Brazilian firms (table 3).

Table 2. The 20 largest greenfield FDI projects[a] by Brazilian firms, 2002-2004[b]

(Millions of US dollars)

Rank	Name of company	Investment value	Year	Destination country	Industry
1	Petrobras	1 300.0	2003	Venezuela	Energy
2	Sondotecnica	1 000.0	2003	Portugal	Chemicals
3	Petrobras	600.0	2002	Bolivia	Energy
4	Petrobras	400.0	2002	Bolivia	Energy
5	Companhia Siderurgica Nacional	375.0	2004	Portugal	Metals/mining
6	Sigma Pharma	358.8	2004	Portugal	Pharma
7	Odebrecht	320.0	2003	Ecuador	Energy
8	Petrobras	285.0	2004	Argentina	Energy
9	Petrobras	200.0	2004	Argentina	Energy
10	Mister Sheik	175.0	2002	Argentina	Hotels, tourism and leisure
11	Petrobras	60.0	2004	Peru	Energy
12	Ambev [c]	50.0	2003	Guatemala	Food and drink
13	Petrobras	50.0	2002	Bolivia	Energy
14	Rima Industrial	45.0	2002	Uruguay	Metals/mining
15	Ambev [c]	40.0	2003	Peru	Food and drink
16	Ambev [c]	40.0	2004	Peru	Food and drink
17	Maritima	40.0	2002	Colombia	Energy
18	CVRD	36.0	2003	Norway	Metals/mining
19	Petrobras	35.0	2003	Argentina	Energy
20	Petrobras	34.0	2004	Iran	Energy

Source: UNCTAD, based on information from OCO Consulting, LOCOmonitor website (www.locomonitor.com).
a Based on the projects for which the investment value is known.
b Until September 2004.
c See footnote 1 in the text.

5 Based on the data from UNCTAD cross-border M&A database and from OCO Consulting, LOCOmonitor website (www.locomonitor.com). As the data for cross-border M&As are available only until June, the comparision between these two modes was made until that period.

6 Even if one considers it in relation only to Brazilian FDI in locations other than offshore financial centres, the relative value of cross-border M&As by Brazilian TNCs is lower.

7 About three quarters of some 300 cross-border M&A purchases during 1987-2004 by companies from Brazil were undertaken by affiliates of foreign-based TNCs (such as Unilever, Telefónica, Citigroup) (UNCTAD cross-border M&A database).

Table 3. The 20 largest cross-border M&As by Brazilian companies, 1987-2004[a]

(Millions of US dollars)

Rank	Transaction value	Acquiring company	Industry of the acquiring company	Acquired company	Host (target economy)	Industry of the acquired company	Year
1	1 028	Petrobras	Crude petroleum and natural gas	Perez Companc SA	Argentina	Crude petroleum and natural gas	2003
2	722	Grupo Votorantim	Cement, hydraulic	Blue Circle Industries PLC-US	Canada	Adhesives and sealants	2001
3	500	Petrobras	Crude petroleum and natural gas	EG3(Astra Cia Argentina)	Argentina	Crude petroleum and natural gas	2001
4	346	Ambev [b]	Malt beverages	Quinsa(Quilmes International)	Argentina	Malt beverages	2003
5	225	Banco Itau SA	Banks, non-US chartered	Banco del Buen Ayre SA	Argentina	National commercial banks	1998
6	151	Petrobras	Crude petroleum and natural gas	LASMO Oil(Colombia) Ltd(LASMO)	Colombia	Crude petroleum and natural gas	1998
7	120	Investor group	Investors, nec	Portucel Empresa de Celulose	Portugal	Pulp mills	2001
8	111	CVRD	Iron ores	Ferrovia Centro Atlantica SA	Argentina	Railroads, line-haul operating	
9	111	Grupo Gerdau	Steel works, blast furnaces, and rolling mills	MRM Steel Ltd(Canam Manac Grp)	Canada	Steel works, blast furnaces, and rolling mills	1999
10	106	Consul SA	Household refrigerators and home and farm freezers	Compressori Italia SpA	Italy	Household refrigerators and home and farm freezers	1993
11	106	Embraco SA(Brasmotor SA)	Refrigeration and heating equipment	Whirlpool-Italian Refrigerator	Italy	Refrigeration and heating equipment	1994
12	102	Investor group	Investors, nec	Santa Cruz Refinery,Cochabamba	Bolivia	Petroleum refining	1999
13	90	Petrobras	Crude petroleum and natural gas	Petrolera Santa Fe	Argentina	Petroleum refining	2002
14	83	Paulista de Trens Metro	Railroad equipment	RENFE-Trains(48)	Spain	Railroad equipment	1998
15	80	Petrobras	Crude petroleum and natural gas	Santos Europe	United Kingdom	Crude petroleum and natural gas	1998
16	69	Cia Siderurgica Nacional	Steel works, blast furnaces, and rolling mills	Heartland Steel-Machinery,IN	United States	Steel works, blast furnaces, and rolling mills	2001
17	50	Grupo Gerdau	Steel works, blast furnaces, and rolling mills	Sipar Laminacion de Aceros	Argentina	Cold-rolled steel sheet, strip and bars	1998
18	50	Petrobras	Crude petroleum and natural gas	Petrolera Perez Companc SA	Argentina	Gasoline service stations	2002
19	48	VASP	Air transportation, scheduled	Lloyd Aereo Boliviano SAM	Bolivia	Arrangement of passenger transportation, nec	1995
20	45	Acos Villares SA	Steel investment foundries	Larrondo	Spain	Stee l foundries, nec	1993

Source: UNCTAD, cross-border M&A database.
a Until June 2004.
b See footnote 1 in the text.

Tax havens draw most FDI

Some Brazilian firms have invested abroad seeking access to natural resources (Petrobrás, CVRD). Others have sought to avoid trade barriers or to improve the logistics infrastructure for their exports (Gerdau, CUTRALE). Again others have sought to follow, or to be close, to their large clients to meet their needs (Marcopolo, EMBRAER). And some others have invested abroad in order to serve local markets, because their products are not easily tradable (service companies, e.g. Itausa).

According to a 2001 survey by the Central Bank of Brazil on Brazilian investment abroad,[8] however, a large part of outward capital movement from Brazil has taken place for financial motives rather than for international production (Iglesias and Veiga, 2002). In other words, a good part of outward FDI from Brazil appears to involve capital flows seeking shelter from taxation or undertaking currency transactions rather than establishing production affiliates in manufacturing or services. In fact, in 2003, the Cayman Islands headed the list of host countries for Brazil's outward FDI stock (table 4). Tax shelter countries, such as Bahamas, Bermuda and the British Virgin Islands, accounted for about 70% of Brazil's total FDI outward stock in 2003 (table 4).

[8] It was conducted for the first time in 2002, with information for 2001, by the Central Bank of Brazil to obtain reliable information on the value and the forms of stock of capital abroad by Brazil. The survey is made on an annual basis and information is available from 2001 to 2003. For further information, see "Capitais Brasileiros no exterior", Departamento de Capitais Estrangeiros e Câmbio, Banco Central do Brasil (2004) (http://www.bcb.gov.br/?CBE). The data are based on the residents' declarations on capital abroad.

Table 4. Outward FDI stock of Brazil, by major destination, 2003
(Millions of dollars)

Economy	Equity	Inter-company loans	Total
World	44 769	10 123	54 892
Cayman Islands	15 097	7 151	22 248
Bahamas	6 565	360	6 925
British Virgin Islands	6 314	396	6 710
Uruguay	2 810	831	3 641
United States	2 100	193	2 293
Luxembourg	2 055	7	2 062
Spain	1 775	19	1 794
Argentina	1 549	100	1 650
Portugal	1 066	13	1 079
Panama	478	301	779
Netherlands	599	143	742
Madeira Island	716	-	716
Bermuda	593	7	600
Netherlands Antilles	294	225	520
Gibraltar	458	-	458
United Kingdom	420	19	439
Austria	324	-	324
Chile	203	12	216
France	85	101	186
Germany	124	8	132
Others	1 143	235	1 378

Source: UNCTAD FDI/TNC database, based on information from the Central Bank of Brazil.

There are also sizeable stocks of Brazilian FDI in Luxembourg, Portugal, Spain and the United States, as well as Argentina and Uruguay, both of which are MERCOSUR member countries.

Services dominate

FDI from Brazil is concentrated in service activities (table 5). That reflects the large investments in offshore financial centres in the Caribbean, as well as FDI in trade-related and transport services. FDI in primary activities is negligible. FDI in manufacturing is relatively low, accounting for under 3% of total outward stock in 2003, and was concentrated in food, beverages and tobacco, petroleum and other fuel products, and metals (table 5).

Table 5. Outward FDI stock[a] of Brazil, by sector and industry, 2003
(Millions of dollars)

Sector/industry	Value
Total	**44 769**
Primary	**259**
Agriculture, hunting, forestry and fishing	59
Mining, quarrying and petroleum	200
Secondary	**1 190**
Food, beverages and tobacco	230
Textiles, clothing and leather	41
Wood and wood products	39
Publishing, printing and reproduction of recorded media	0.1
Coke, petroleum products and nuclear fuel	205
Chemicals and chemical products	30
Rubber and plastic products	143
Non-metallic mineral products	23
Metal and metal products	158
Machinery and equipment	104
Electrical and electronic equipment	134
Precision instruments	0.1
Motor vehicles and other transport equipment	83
Other manufacturing	0.3
Tertiary	**43 319**
Electricity, gas and water	20
Construction	695
Trade	1 908
Hotels and restaurants	14
Transport, storage and communications	207
Finance	22 355
Business activities	17 982
Education	1
Community, social and personal service activities	138

Source: UNCTAD FDI/TNC database, based on information from the Central Bank of Brazil.
a Data refer to equity only.

Outward FDI low in relation to Brazil's economy

FDI outflows from Brazil as a percentage of gross fixed capital formation (0.2%) were only one fifteenth of the average for the region as well as developing countries during 2001-2003.

Brazil’s outward FDI stock as a percentage of GDP (11% in 2003) is also lower than the developing country average (12%), and much lower than that of South, East and South-East Asia (16%) (table 6), partly reflecting characteristics of an economy with a large internal market.

So far, Brazilian firms have been cautious in expanding abroad. Many have internationalized a significant share of their output through exports, not through investment. This is not surprising given that outward FDI does not come in the early stages of a company's internationalization, even in the case of seasoned Brazilian exporters.

In 2004, however, these transnationalization ratios will rise, due to the significant growth in FDI outflows.

Table 6. Outward FDI as a percentage of gross fixed capital formation (GFCF) and GDP for Brazil and selected countries and regions, 2001-2003
(Percentage)

Region/economy	Outflows as percentage of GFCF Average 2001-2003	Outward stock as a percentage of GDP 2003
Argentina	0.4	16.4
Brazil	**0.2**	**11.0**
China	0.8	2.6
Korea, Republic of	1.8	5.7
Mexico	1.8	2.2
South, East and South-East Asia	3.6	15.9
Latin America and the Caribbean	2.9	10.7
Developing countries	3.0	12.2
World	9.4	23.0

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

From exports to FDI

A recent survey published by BNDES shows that few Brazilian exporters believe that they have reached the stage at which investing abroad is necessary and/or feasible (Iglesias and Veiga, 2002).[9] Only 17% of the firms surveyed had undertaken FDI. However, in the sub-group of large firms that share was higher (35%). Firms with FDI had been exporting for a longer time and have had higher export coefficients than the others. These firms had invested mainly in the United States and in Argentina (73% of total FDI firms), predominantly to establish distribution networks (85% of total FDI firms), which accounted for 85% their total foreign assets. Large Brazilian firms have undertaken FDI mainly in distribution activities. Production facilities accounted for 12% of total assets and were concentrated in textiles, chemicals, metal and metal products and auto-vehicles. The case of WEG illustrates the progression from exports to FDI (box 2).

[9] The survey analyzed Brazilian firms that regularly exported from 1994 to 2000. It excludes companies from the services sectors, a major part of Brazilian FDI abroad.

Box 2. WEG: the largest electric motor TNC from Latin America

Within ten years of its establishment in 1961, the Brazilian electric motor manufacturer WEG started to export. By 1975, the company was exporting to 32 countries.

WEG's success in exporting led to a new stage of internationalization: in 1978, the company started to invest abroad. WEG acquired manufacturing plants in Argentina and Mexico in 2000, and one in Portugal in 2002. It also established 13 sales and warehousing affiliates abroad. The company has some 1,050 employees in these 16 foreign affiliates,[a] and a total of 11,300 people working in the entire WEG group. Moreover, there are more than 850 technical assistance points located abroad for foreign clients, and another 250 in Brazil.

The global sales of the company in 2003 were US$900 million, of which US$260 million came from its foreign operations. The company invests abroad in order to expand its market and income, to ensure product quality, to improve its productivity and competitiveness, and to diversify its assets. Today, WEG is the largest Latin American electric motor manufacturer, and it is present in over 60 countries in five continents.

Source: http://www.weg.com.br

a The number of affiliates include minority-owned affiliates. The data differ therefore from those in table 1.

For Brazilian firms – large and small – looking to invest abroad, the most important obstacle is access to information about markets and FDI regulations in host countries. Financing is also a problem for some firms (Iglesias and Veiga, 2002). Investment of less than US$5 million per economic group and per year does not require approval from the Government.

Given that more firms are investing (more) abroad, Fundação Dom Cabral (FDC) has established a study group as part of its Global Players Programme to allow for an exchange of experiences and to examine ways to deal with common problems (box 3). The survey conducted by FDC in 2001 for a sample of 109 out of the 1,000 largest Brazilian companies assessing their behaviour towards transnationalization found that Brazilian companies adopt a gradualist approach regarding their transnationalization processes due to a shortage of financing lines to support outward FDI (Cyrino and de Oliveira Júnior 2003). UNCTAD and FDC are planning to hold a workshop in the first half of 2005 to discuss issues related to outward FDI from Brazil.

Box 3. The Global Players Programme of Fundação Dom Cabral

While Brazilian companies are starting the process of transnationalization, there is no place where they could go and simply "learn" it. Fundação Dom Cabral, a business school, established the Global Players Programme to help firms accumulate knowledge about the transnationalization process.

The objectives of this programme are:

- to exchange experiences on the transnationalization of the participating firms;
- to increase the understanding of issues relating to the transnationalization of Brazilian firms;
- to create a network for evaluating the business opportunities and possibilities of partnership; and
- to develop an international mindset among participants in the programme.

The basis for the programme is experience sharing, education and knowledge development. This is done through training, seminars, workshops, case studies and research projects, discussed and defined by a Coordination Committee. The companies in the Committee include Ambev, CVRD, Embraco, Multibras, Natura, Petrobrás, Sadia, Tupy, Votorantim and WEG.

Source: http://www.domcabral.org.br

The future

The pressures of global competition are likely to lead Brazilian firms increasingly to invest abroad: they face competition at home through imports and inward FDI, and they face competition in international markets due to the broad-based liberalization of trade and investment regimes. To survive and prosper in such a competitive environment requires that Brazilian firms develop a portfolio of locational assets in the key markets of interest to them. Given the low level of FDI from Brazil relative to the size of its economy in comparison with other developing countries, there is indeed considerable potential for increased outward FDI by Brazilian firms. In fact, to quote José Augusto de Castro, Vice-President of the Brazilian Foreign Trade Association (AEB), "Each firms dreams of becoming a multinational".[10]

In fact, 29% of the exporting firms in the survey published by BNDES (Iglesias and Veiga, 2002) have plans to invest abroad. The main markets targeted are Western European countries, the United States and Mexico. Chile and Venezuela are also mentioned as possible destinations. Argentina is not targeted, as most interested firms have already invested there. Firms from the shoe and metal products industries are the most interested in increasing their investments abroad (table 7).

[10] Quoted in "Brasilianische Multis in der EU", *Brasil-Alemanha*, October 2004, pp. 10-18.

Table 7. Principal location targets of Brazilian firms planning to invest abroad, 2001
(Percentage)

Economy	Share
Europe	21.6
United States	20.4
Mexico	10.0
MERCOSUR	9.3
Chile	6.2
Venezuela	3.7
Equador	2.5
China	2.0
Bolivia	2.0
Colombia	2.0
India	2.0
Panama	2.0

Source : Brazil, Development Bank (BNDES), as cited in Iglesias and Veiga 2002.

The economic recovery on both sides of the Atlantic could reverse the cyclical part of the recent decline of FDI from Brazil. This – together with a growing awareness of the importance of outward FDI for the international competitiveness of firms and the desire of the Government to foster global players – suggests that Brazilian FDI outward flows are poised to take off in the years ahead.

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