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# Mini Review

## Changes in Foreign Direct Investment in Brazil in the Twenty-First Century

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### Abstract

The insertion role of Brazil in the international scenario, in particular, the change regarding the foreign direct investment (FDI) in the country, is the main subject of this paper that seeks to demonstrate what occurred in the twenty-first century. The first 15 years of the new century saw an increase in the participation of Brazil in the multipolar scenario with China's growing approach. After the coup d'état of 2016, the country changed that trend and began to review its foreign partnerships, positioning itself as a representative of US interests in Latin America and seeking to distance itself from the group of former BRICS (Brazil, Russia, India, China, and South Africa) partners.

**Keywords:** Foreign direct investment; Brazil-China; Brazil-USA.

### 1. INTRODUCTION

In the current context of the trade war between the United States and China, Brazil emerges as one of the main actors in Latin America to change its approach with the two powers. The relevance of Brazil to the world map and the board of international affairs is perennial. Brazil is one of the largest territories on the planet and one of the largest (in diversity, the largest) in natural resource endowments with a large and diverse population, with capacity for work and consumption, as well as a wealthy and cultural diversity that attracts the interest of the whole world. So, we can understand how the country is a protagonist and an obligatory object of analysis in any international scenario.

Since the beginning of the twenty-first century, Brazil—whose competence in diplomacy has been recognized since the League of Nations in the nineteenth century—made a skillful move in its insertion strategy. Historically dependent on the United States since the mid-twentieth century, in intermittent and irregular cycles linked to the external interests of the northern power, Brazil, at the same time, through its diplomacy, sought the regional integration of the South American cone in institutional projects and development and has tightened relations with the great economic power of this century, China.

The success of these policies would make Brazil an important destination for direct investments in Latin America, as a result of participation in the BRICS, leadership among emerging countries in the international community, and an active participant in the G20. Thus, until 2016, Brazil presented itself to the world as a growing nation, with a peaceful proposal of prosperity and social inclusion.

The main reason for the success of this strategy was, admittedly, the rise to power of a progressive project in the country, developed at the beginning of the century. This project, represented by the governments Lula da Silva (2003-2010) and Dilma Rousseff (2011-2016), had not only in its proposals for government but also in deliberate actions, a central role in coordinating this international insertion line of Brazil in

that leading position that lasted for 15 years, until a recent turnaround, with dramatic consequences so far, surpassed only by its prognostics of medium- and long-term consequences.

Since the coup d'état in 2016, the country has gradually reversed the previous trends of increasing rapprochement with China to get closer to the United States. Such a change can be observed both in the diplomatic documents between the country and the two powers as well as in the data relating to such relations.

The Brazilian president, who took power in 2019, verbally attacked the country's participation in the Southern Common Market (MERCOSUR) and stated that it would cease to participate in the BRICS (acronym for the group of emerging countries: Brazil, Russia, India, China, and South Africa). Such a statement threatens to affect Brazilian agreements with China, Brazil's main trading partner, as well as a major investor in the country. As a result, the next meeting of the G20 in Osaka, Japan, will see the meeting of the heads of state of Russia, China, India, and South Africa but without the Brazilian participation.

Thus, there is a change in the strategy adopted, since the beginning of the century, for the international insertion of Brazil. It is a change that is based on returning to a subaltern and auxiliary position of the United States in the uncontested leadership of the American continent, abdicating a multipolar project of autonomous development. The argumentative support of this change seems too weak to give up the alternative of a cessation of political debate in society, which has negatively impressed the entire international community.

Since 2016, with its realignment to the United States and the progressive abandonment of the international insertion strategy adopted in 2003, Brazil has lost markets, volume, space, technological diversity, and even the complexity of its internal productive structure that attracted foreign direct investment (FDI) in its economy without any consideration for the constitution of a long-term development strategy.

This paper proposes an analysis of FDI in the country during the twenty-first century and, for that, is organized in three parts beyond this introduction. In the next section, we present some information related to the FDI. The next section looks at some data from the FDI, and finally the last part presents some considerations as a conclusion.

The data and documents used were obtained from the COMEXSTAT databases of the Brazilian Ministry of Foreign Affairs (<http://comexstat.mdic.gov.br/en/home>) of the Ministry of Economy, Industry, Foreign Trade and Services of Brazil (<http://www.itamaraty.gov.br/en/>) and the Central Bank of Brazil (<https://www.bcb.gov.br/>).

## 2. FOREIGN DIRECT INVESTMENT

According to the Organization for Economic Cooperation and Development (OECD), FDI can be classified into four ways: (1) creation of productive assets by foreigners, (2) acquisition of existing assets (mergers and acquisitions), (3) (expansion of investment), and (4) financial restructuring.

The first type, called FDI greenfield, consists of the amount of investment received by the country whose destination is exclusively the creation or expansion of the productive capacity of foreign companies in the national territory. This option does not therefore include capital flows intended for investment in various assets (portfolio), mergers, and acquisitions or cash inflows of companies. According to the Central Bank of Brazil (BCB, 2019), this is the type of direct investment historically most used by foreign capital in the country.

According to Carlos (2017), the attraction of investments and the installation of multinational companies in Brazil in the twenty-first century associated the search for the potential consumer market with the availability of resources and advantages of location as well as proximity to the consumer market and suppliers of materials with the cheap labor of the country. However, the author indicates that the entry of FDI into Brazil does not take place homogeneously, with a large concentration of investments in the hands of few countries, such as the Netherlands, the United States, and Luxembourg. Even so, the country ranked eighth among the top FDI countries in the world in 2015. To have a comparative parameter, in the BRICS group scenario, according to the UNCTAD WTI (2017) report, these countries are home to 24% of the 500 largest companies in the world (Cintra, 2005).

However, according to the UNCTAD report (2016), different from the other countries in the BRICS group, the flow of Brazilian FDI, as of 2000, showed a very volatile behavior. Although, in the other countries of the group, the flow of FDI grew practically continuously, between 2000 and 2008, in Brazil, the same suffered

oscillations. After a fall in 2001, in 2004, the exit of FDI grows and reaches US\$ 9.8 billion, but in 2005 falls again. In 2006, it reached its peak, with US\$ 28.2 billion. In 2009, the investment fell sharply due to the crisis of 2008, but closes 2010 at US\$ 22 billion, recovering from the fall. Beginning in 2015, it accentuates a downward trajectory ending the year 2016 negative by US\$ 12.4 billion.

This fluctuating behavior assumed by the Brazilian FDI flow from 2004 onward is explained by Carlos (2017) as not only due to the greater sensitivity to the variations of the economy in the internal and external context but also by the expressive concentration of FDI in few operations, such as investment of US\$ 4.5 billion in 2004 from the merger between Ambev and the Belgian group Interbrew or the purchase by Vale of Canada's Inco and Canico totaling approximately US\$ 17.4 billion in 2006. In addition, it may be justified also by the reduction of economic growth and the political instabilities of recent years.

According to information from the Ministry of Foreign Affairs of Brazil, in 2003, the National Investment Committee (CONINV), linked to the Foreign Trade Chamber (CAMEX) under the Presidency of the Republic, was created to deal with FDI in Brazil and as a result, a model of an Investment Cooperation and Facilitation Agreement (ACFI) was implemented in 2012 to speed up the FDI entry process in the country ([www.itamaraty.gov.br/](http://www.itamaraty.gov.br/)).

One of the destinations of foreign capital identified by the Brazilian authorities is the acquisition of land. According to data from the National Institute for Colonization and Agrarian Reform (INCRA), published by the press (*Gazeta do Povo*, 2019), there were 28,323 land properties on behalf of foreigners in 2018, totaling 3,617 million hectares. The international presence occurs in 3,205 municipalities; that is, the foreign investor is already present in 60% of the municipalities of Brazil. Of this total, 20% of the properties belong to Japanese, with 10% of the hectares. Countries such as Portugal, Spain, Germany, Holland, United States, Argentina, and Lebanon lead the acquisition of land in Brazil.

However, as stated previously, the predominance of the FDI destined for Brazil occurs in the productive area, by means of the so-called FDI greenfield. This is a type of FDI where a parent company creates a subsidiary in a different country, building its operations from the ground up. In addition to the construction of new production facilities, these projects can include the building of new distribution hubs, offices, and living quarters.

One factor that has the determining factor for the arrival of FDI greenfield for a country is its political, social, and economic stability. In view of the upheaval that Brazil faces since the coup d'état of 2016, it is important to study the data related to this variable that in some way helps to understand the vision that the foreign capitals have of the country (i.e., what will be done next).

### 3. DATA ANALYSIS

Next, we will analyze some relevant data to understand the changes that have occurred in the FDI flows in the country in the twenty-first century. We indicate that these data were taken from the official databases of the Central Bank of Brazil, the Institute of Applied Economic Research—IPEA, and the UNCTAD reports.

Table 1 and Figure 1 show the FDI aggregated in the country between 2002 and 2018. There is a growth of the volume of foreign investments from 2004 on, with significant increases in inflows and outflows. Such growth indicates the feasibility of return on investment justified by the improvement in Brazilian economy between 2004 and 2015.

In terms of balances, the flow of FDI in Brazil shows a rupture in trend as a result of the international crisis that began in the middle of the first decade of the twenty-first century. Between 2005 and 2008, the quarterly volume of FDI received by the country oscillated around an average value of around US\$ 7 billion, and its upward trend since 2006 was reversed by the outflow of capital in the face of the deepening crisis in 2009. After this year, however, the volume of investments received from abroad increased rapidly, having since been established in amounts substantially higher than those of the previous period.

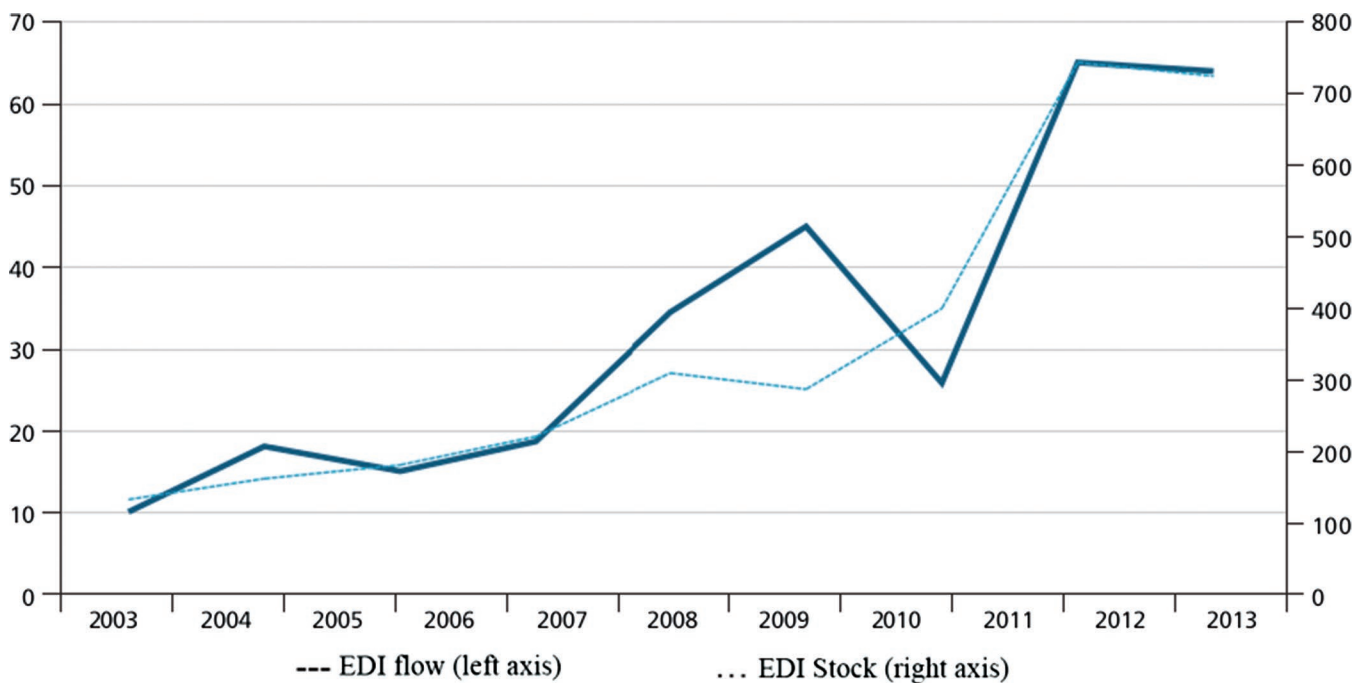
Thus, it is possible to say that the presence of foreign capital in the form of direct investments, in general, brought relative mutual benefits to the investors and to the Brazilian economy during the years from 2003 to 2014. From 2015 onward, a detachment in favor of the outflows, which become linear and increasing, is a clear change of the trend that was presented in two-year cycles and corroborates the hypothesis of a drop in the interest of investors in assets of the Brazilian economy.

**Table 1. Brazil, External Direct Investment, US\$ Millions, 2002-2018.**

Year	Balance	Input	Output
2002	2,478.50	586.65	3,065.15
2003	228.79	1,766.59	1,995.38
2004	9,822.48	1,275.05	11,097.54
2005	2,910.39	1,368.32	4,278.71
2006	28,798.37	1,343.61	30,141.98
2007	17,061.25	14,342.38	31,403.63
2008	26,115.31	9,360.58	35,475.89
2009	-4,551.87	20,547.55	15,995.67
2010	26,763.01	17,938.97	44,701.98
2011	16,067.12	21,981.23	38,048.35
2012	2,083.26	11,504.52	13,587.79
2013	15,643.50	11,487.41	27,130.91
2014	20,606.85	7,417.93	28,024.78
2015	3,133.98	13,067.10	16,201.07
2016	14,693.48	9,366.75	24,060.24
2017	19,352.39	8,490.26	27,842.64
2018	14,060.36	21,133.00	35,193.37

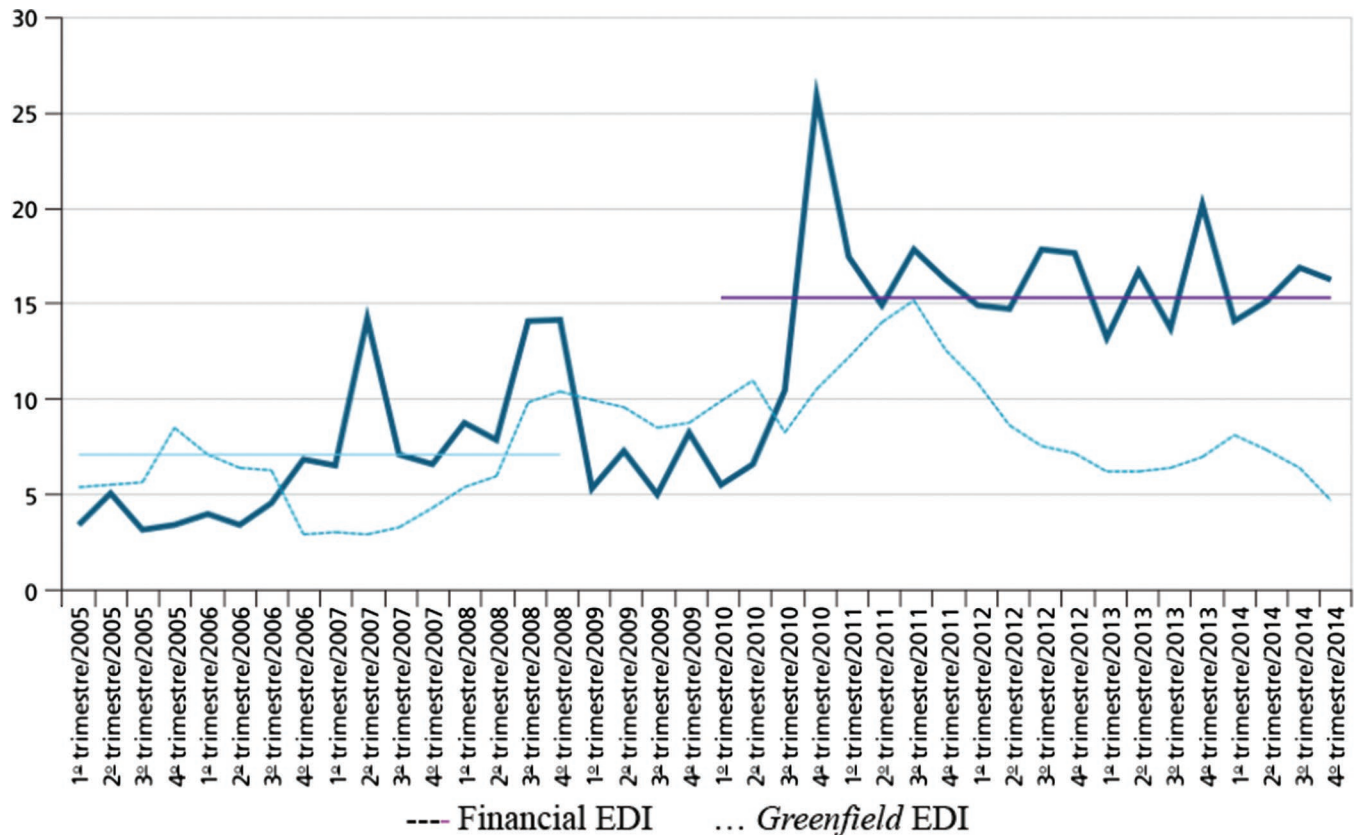
Source: Prepared by the authors with data from the IPEADATA database.

**Figure 1. Brazil, External Direct Investment, Flow and Stock, 2003-2013, US\$ Billions.**



Source: Prepared by the authors with data from the UNCTAD reports.

Figure 2: Brazil, External Direct Investment, Quarterly Flow, Financial and Greenfield, 2005-2014, US\$ Billions.



Source: Silva Filho (2015, p. 10) and UNCTAD (2017).

Observed in terms of flow and inventory, the FDI seems to have consistently stabilized at a level of more than US\$ 60 billion, with the entry of US\$ 67 billion in 2011, US\$ 65 billion in 2012, US\$ 64 billion in 2013, and US\$ 62.5 billion in 2014 (data from IPEADATA database). In that year, the stock of foreign investments in the country already surpassed the mark of US\$ 700 billion, evidencing a rapid growth during the decade from the amount of US\$ 132 billion computed in 2003 (Silva Filho, 2015).

The FDI greenfield remark casts nuances on this aggregate behavior. Until the first half of 2011, this type of direct investment seems to closely follow the trend of total FDI received by the country (Figure 2). As of the end of that year, there was a sharp drop in the inflow of foreign capital to the installation and expansion of industrial plants in the country. After a brief recovery in 2013, the volume of FDI greenfield in Brazil declined again, showing a drop in the trajectory of the FDI greenfield in relation to the total volume of direct investment received by the Brazil.

As of 2011, an increasing share of these funds appears to be directed to mergers and acquisitions, financial investments, and cash recomposition of branches of foreign companies located in Brazil contrary to the previous period when foreign capital favored productive capacity expansion projects. It is therefore the realization of consolidated investment results, without the counterpart of reinvestment.

Thus, starting in 2014, there are elements characterizing a trend of reversal of the growth of FDI in Brazil in the midst of the international crisis, which when observed in hindsight may be mostly credited to the political and institutional crisis that would result in the 2016 coup d’etat and a drastic change in the international community’s perception of Brazil.

A quantitative exercise of the sensitivity of the attraction of foreign investment to gross capital formation throws further light on the issue. The annual percentage changes in FDI balances, inflows, and outflows, in correlation with the annual percentage change in gross capital formation (in IPEADATA data), obtained very low elasticity between variables (11.37%, 19.41%, and 41.60%, respectively).



This indicates a reduced sensitivity of the movements of external capital in direct investments due to a possible dynamism of the Brazilian economy. When this manifests itself, it seems to occur in the sense of realizing results (outputs have the highest coefficient of correlation with capital formation, but it is still low, in explanatory power). Thus, FDIs in Brazil seem to follow a logic of interests given by the conditions of the external scenario or eventual factors not immediately related to the economy, such as the local political conjuncture and social stability.

#### 4. CONCLUSION

FDI is often presented as an availability of capital that can become stock, promoting the economic growth of a country. Different from gross fixed capital formation, not every direct foreign investment is automatically transformed into capital stock to be employed in a subsequent round of accumulation.

Much of direct foreign investment takes two destinations in the dynamics of an economy. The first most visible and highly criticized is financial capital. This capital does not get enough circulation inside the economy to generate increase of the national product. Besides, even capital destined to crystallize into more solid assets, such as land or natural resources, for example, can be linked to speculative interests at a given juncture, thus failing to fulfill the supposed function of gross formation.

The small relationship between direct external investment greenfield and gross fixed capital formation seems to follow the latter purpose. Given the highly unfavorable context of Brazil's image in the international community, uncertainty is implicit in the economic environment, and investors in inputs, natural resources, and infrastructure creation prefer, in the jargon of the financial market, to "maintain position," passing from investment for financial speculation and ending by not performing the transformation of capital stock into an effective product.

Thus, this may be an explanation for the low adherence of direct external investment to gross capital formation in the recent years of Brazilian economy. A drastic change not only in the country's economic environment but also in its image in the international community becomes necessary, in terms of development strategy. It is necessary to recover and rebuild not only the space lost since the crisis of 2015 and the coup d'état of 2016 but also the economic environment that attracts investments in productive capacity and infrastructure.

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#### Conflict of Interest

None.

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