PIETRO CARLOS DE SOUZA RODRIGUES

Firms, institutions and foreign policy:
The political economy of Brazilian multinationals

São Paulo
2018

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Tese apresentada para a obtenção do título de doutor (duplo diploma) pelo Instituto de Relações Internacionais da Universidade de São Paulo e pelo King's College London.

Orientador: Prof. Dr. Amâncio Jorge Silva Nunes de Oliveira (USP)

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Versão corrigida

A versão original se encontra disponível na Biblioteca do Instituto de Relações Internacionais.

São Paulo
2018

Catalogação na Publicação

Instituto de Relações Internacionais da Universidade de São Paulo

Rodrigues, Pietro Carlos de Souza
Firm, Institutions and foreign policy : The political economy of Brazilian multinationals / Pietro Carlos de Souza Rodrigues. -- Orientador: Amâncio Jorge Silva Nunes de Oliveira. São Paulo : 2018.
166p., il.

Tese (doutorado). Universidade de São Paulo. Instituto de Relações Internacionais.

1. Foreign Policy. 2. Internationalization. 3. Business groups. 4. Foreign direct investments. 5. Institutions.
I. Oliveira, Amâncio Jorge Silva Nunes de.
II. Título

CDD 327.81

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To my father, José Carlos Rodrigues

(Para meu pai, José Carlos Rodrigues)

Agradecimentos

À CAPES e ao governo Brasileiro, que viabilizaram toda a pesquisa.

Ao Instituto de Relações Internacionais da USP e ao Brazil Institute do King's College London, que se transformaram em casas e me deram a oportunidade de crescer, pessoal e academicamente.

Aos meus orientadores Amâncio Oliveira e Sonia Delindro Gonçalves, pelo apoio, pelas oportunidades e por acreditarem em mim e no potencial do trabalho.

À Janina Onuki pela grandeza da liderança, pelo exemplo, por toda ajuda emocional e profissional e, acima de tudo, por estar sempre presente e gentilmente disposta a ajudar. E a Anthony Pereira, pela confiança, sugestões e comentários.

Aos companheiros de CAENI, Pedro Feliú, Matheus Hardt, Gabriela Ferreira, Rafael Nunes Magalhães, Murilo Zacarelli, Leonardo Jamel Falabella e demais pesquisadores, com os quais compartilhei os dias, as angústias, as dúvidas e o aprendizado.

Aos meus amigos, Francisco Urdinez e Fernando Mourón, pela presença e pelas boas lembranças que tenho da estadia em Londres. Por todas as noites de conversa sobre a vida e impressões sobre o mundo. E aos amigos Danilo Freire, Chris Guldberg e Daniel Adler, que fizeram o tempo nas bibliotecas, nas salas de estudo e nos pubs mais agradáveis.

Ao Alberto Pfeifer, pela confiança e amizade nos trabalhos da Secretaria de Assuntos Estratégicos da Presidência. E ao Flávio Leão Pinheiro, companheiro de vida profissional, intelectual e pessoal, pela amizade e por fazer da vida em Brasília menos árida e burocrática.

Aos amigos sociólogos, com quem sempre aprendo um pouco, Rafael de Souza e Leonardo Mello Lins.

Aos amigos que criei na faculdade e me acompanham na vida, pelo afeto, pela dedicação à amizade e pela cumplicidade, André Sollero, Luis Felipe Serrao, Luiz Zalaf, Samuel Moura e Osmany Porto.

À Verônica Devià e Marcos Paulo Lucca-Silveira, com quem posso compartilhar toda e qualquer dúvida sobre o que ser quando crescer.

Aos amigos do peito, Guilherme Marques, André Navarro Sonsin, Caio Marques, Alex Rezende, Cesar Rezende, Murillo Graciano e José Marcos Oliveira, por estarem sempre por perto, não importa onde eu estiver.

Aos meus pais, José Carlos Rodrigues e Izabel Rodrigues, e meus incríveis irmãos, Ramon Rodrigues e Diego Rodrigues, com quem divido as dores, os sonhos e a esperança. E à nossa guardiã, que nos reúne e encaminha, Eunice Pinheiro Dantas.

E, especialmente, à minha companheira e amada, Gabriela Rodrigues da Guia Rosa.

A todos você, meu muito obrigado.

Acknowledgements

To the CAPES Foundation and to the Brazilian government.

To the Institute of International Relations of the University of São Paulo and to the Brazil's Institute at King's College London.

To my supervisors Amâncio Oliveira (USP) and Sonia Delindro Gonçalves (KCL), for the support and all the opportunities, and for believing in me and in the potential of this research.

To Janina Onuki for the greatness of leadership, for being an example, for all emotional and professional support and, above all, for being always present and kindly willing to help. And to Anthony Pereira, for the trust and commentaries.

To the CAENI researchers, Pedro Feliú, Matheus Hardt, Gabriela Ferreira, Rafael Nunes Magalhães, Murilo Zacarelli and Leonardo Jamel Falabella, with whom I shared the days and the joy of learning.

To my friends Francisco Urdinez and Fernando Mourón with whom I shared the life and impressions about the world in London. And to Danilo Freire, Chris Guldberg and Daniel Adler, who made libraries, study rooms and pubs memorable experiences.

To Alberto Pfeifer, for his trust at the Secretariat for Strategic Affairs of the Brazilian Presidency. And to Flávio Leão Pinheiro, for the friendship and for making the life in Brasília less arid and bureaucratic.

To the sociologists' friends, with whom I always learn a little, Rafael de Souza and Leonardo Mello Lins.

To my dear friends, for our complicity, André Sollero, Luis Felipe Serrao, Luiz Zalaf, Samuel Moura and Osmany Porto.

To Verônica Devià and Marcos Paulo Lucca-Silveira, with whom I always can share my life plans.

To my friends, Guilherme Marques, André Navarro Sonsin, Caio Marques, Alex Rezende, Cesar Rezende, Murillo Graciano and José Marcos Oliveira, for being always near, no matter where.

To my parents, José Carlos Rodrigues and Izabel Rodrigues, and my incredible brothers, Ramon Rodrigues and Diego Rodrigues, with whom I share the life, the dreams and the hope. And to our guardian, who brings us together, Eunice Pinheiro Dantas.

And, especially, to my beloved Gabriela Rodrigues da Guia Rosa.

To all of you, my thank you.

Resumo

Rodrigues, Pietro C.S. (2018). *Empresas, instituições e política externa: a economia política das multinacionais brasileiras* (Tese de Doutorado). Instituto de Relações Internacionais da Universidade de São Paulo e King's College London

Esta tese explora as relações entre a política externa e a internacionalização de empresas brasileiras. O principal argumento é que, desde os anos 2000, o Brasil tem se beneficiado das atividades de suas empresas no estrangeiro para se projetar internacionalmente. Além disso, a política externa tem sido instrumento intermediador de oportunidades de negócios e que protege multinacionais brasileiras contra riscos políticos. Nossa argumentação começa recuperando o percurso das relações entre Estado e empresariado no Brasil e o modo como as empresas foram consideradas, tanto em contato com as instituições governamentais quanto como parte das políticas de desenvolvimento a partir da década de 1930. Analisamos como as multinacionais brasileiras se tornaram um agente central da estratégia política internacional do Brasil e quais foram as consequências sobre seu padrão de internacionalização. Para medir o envolvimento internacional dos países, desenvolvemos o Índice de Política Externa, uma ferramenta que nos permite avaliar algumas das mais importantes interpretações sobre as mudanças na política externa do Brasil entre 1998 e 2014. Este índice é composto por informações sobre convergência em posições diplomáticas, participação em projetos de cooperação internacional, entre outras. Com isso, é possível demonstrar a contribuição de fatores políticos, domésticos e sistêmicos, para mudanças na orientação da política externa. Finalmente, sugerimos que a política externa deve ser levada em consideração na literatura de negócios internacionais para entender melhor as decisões das empresas quando se internacionalizam. Explorando o caso brasileiro, encontramos evidências de que a política externa desempenhou um papel importante nas decisões de localização dos investimentos brasileiros no exterior.

Palavras-chave: política externa, internacionalização de empresas, empresariado, investimento externo direto, instituições

Abstract

Rodrigues, Pietro C.S. (2018). *Firms, institutions and foreign policy: The political economy of Brazilian multinationals* (PhD Thesis). International Relations Institute of the University of São Paulo and King's College London

This thesis explores the relations between foreign policy and the internationalization of Brazilian firms. The main argument is that, since the 2000s, Brazil has benefited from the activities of national companies abroad to project itself internationally. In addition, foreign policy has been an intermediary instrument to foster business opportunities and to protect Brazilian multinationals against political risks. Our argument begins by recovering the relationship between state and business in Brazil and the way companies were considered not only on their connections with governmental institutions, but also as part of the development policies since the 1930s. We analyze how Brazilian multinationals became a central agent of Brazil's international political strategy and what are the consequences on the internationalization strategies. To measure the international involvement of countries, we developed the Foreign Policy Index, a tool that allowed us to evaluate some of the most important interpretations of changes in Brazil's foreign policy between 1998 and 2014. This index consists of information about the convergence in diplomatic positions, participation in international cooperation projects, among other data depicting countries' foreign policy activities. With this, it was possible to demonstrate the relevance of domestic and systemic political factors to changes in the orientation of foreign policy. Finally, we argue that foreign policy should be considered in the international business literature in order to better understand business decisions while internationalizing. Exploring the Brazilian case, we found evidence that foreign policy played an important role in locational decisions of Brazilian outward direct investments.

Keywords: foreign policy, internationalization, business groups, foreign direct investments, institutions

Summary

Chapter 1. Introduction

The modernization trajectory of Brazilian society is marked by a strong connection between business and state agents, which was essential to understand social, political and economic transformations throughout the 20th century. This connection has been crucial to the country's economy growth strategy and imprinted changes in the national development model. While eyes have been turned to the domestic effects of this relationship, little is known about the business' repercussions beyond national borders. Considering the political dimension as fundamental to the organization and actions of Brazilian companies, this thesis proposes an analysis of the foreign policy effects on business decisions companies take abroad.

This research assumes the political dimension as an essential incentive for Brazilian business dynamics. So, we argue that business is far from being isolated from Brazil's social and political dynamics. Firms are subjected to political stimuli and, to a large extent, business performance influences and is influenced by politics. This means Brazilian businesses respond to the dynamics of Brazilian National Congress, for example, and internationalization decisions take into consideration the relations firms establish with the government and political parties, and how Brazil manages its international affairs. The role of foreign policy on business decisions is explored in this thesis assuming the importance of expanding the areas and traditions of knowledge which satisfactorily deal with inquiries about how the political world is related to business in the international arena.

1. Research objectives

The growing number of emerging market multinationals (EMNEs) has challenged traditional knowledge about the internationalization processes of companies since the 1990's (A. Cuervo-Cazurra & Ramamurti, 2014). Because they are embedded both in the economy and the international projection of countries, EMMs caught the attention of governments and academia. Brazil isn't different from other developing countries that promoted business expansion as a strategy for international insertion in the recent past. Considering that, we argue that *there is complementarity and simultaneity between the actions of the*

Brazilian government and the internationalization strategies of national firms. This thesis comprises the idea that companies are a crucial part of Brazilian foreign policy strategies and their decisions are largely explained by the dynamics of Brazilian domestic and international policies.

We are aware of the role of business activities in foreign contexts as a driver of home state interests abroad. In this sense, the establishment of subsidiaries in foreign countries would be perceived by governments as an indicator of economic and political opportunities. Consequently, it is reasonable to expect the increase of foreign policy activities when specific markets become attractive to home business interests. Although considering this aspect, we focus on how international political affairs affect business for two main reasons. Firstly, our main concern is how foreign policy influences business decisions. This also means to choose to dialogue with a consistent literature, as exposed in Chapter 4. Secondly, although the perspective is consistent and many examples are available in literature, we do not have reliable evidences to explain the mechanism through which business activities abroad are perceived and processed in domestic bureaucracy when states choose to operate in foreign policy terms in the way they do. Deeper research is required in this field, and this necessity figures in our own research agenda.

Considering the presented perspective, our research investigates three open questions in the literature: [1] what social and political changes allowed the emergence of business as a relevant actor to Brazilian foreign policy; [2] how foreign policy can be operationalized and which are the implications of this to the understanding of the choices, actions and changes in Brazilian foreign policy; [3] what is the role of foreign policy in the allocation of Brazilian outward foreign direct investments.

Despite the intuition that leads us to believe that politics and political institutions are relevant to understand business actions, answering our questions is not a trivial task. The formalization of the research problems depends on a conceptual and empirical effort. Conceptually, the questions require us to situate our object within a comprehensive and interdisciplinary literature, what helps us to understand why this is still a matter of concern and disputes among researchers at least on international business (IB) and international relations (IR) fields. Empirically, the answers require creativity and care to elaborate and use foreign policy indicators related to political institutions. The proxies must be conceptually meaningful and must objectively represent the political dimensions under

discussion. Hence, theory and empiricism must be balanced for a broad and accurate understanding of how foreign policy is connected to firms' internationalization strategies.

At the same time, this thesis aims to produce meaningful knowledge to an academic and a practitioner audience. In academic terms, it seeks to strengthen a relevant debate to international relations, because it deals with interactions among politics and business focusing on its international dimension. From a practitioners' point of view, it enlarges the comprehension of Brazilian foreign policy's conditions and instruments affecting business along with the possible outcomes (i.e. business opportunities or political hazards) of the interactions between Brazil's government and governments from countries that host national investments.

To advance in the referred purposes, we start by discussing the evolution of relations between business and state in contemporary Brazil (Chapter 2) and by explaining how the internationalization of Brazilian companies became strategic in the country's foreign policy. In the Chapter 3, we want to join the efforts of researchers and international policy analysts who seek to define and construct quantitative indicators of foreign policy engagement. We also expect to demonstrate how the indicator created to evaluate the intensity of the relations among countries can bring analytical innovations about the causes of changes in Brazilian foreign policy since 1998. Our thesis is devoted to the theoretical and empirical effort of inserting foreign policy in the international business debate, as well as to present a new approach that can contribute to improve the interpretations on the internationalization of Brazilian companies. Finally, a lot of energy was dedicated to the collection and systematization of data on investments and political institutions that can now be used in many different analyses of international political economy. Two research products, our databases and the foreign policy indicator used in chapters 3 and 4 (*Foreign Policy Index*), will be made available to the interested public.

Both the role of politics on Brazilian multinationals and the importance of new actors - such as EMNEs - in international relations are relevant themes for Brazilian government's strategic debate, for the companies' international agenda and for the consolidation of this research agenda in academia. From the perspective of Brazilian government agents, the knowledge about the impact of political variables on business decisions can guide public policies that favor the international success of Brazilian companies. From the companies' point of view, it helps to clarify and strengthen business

groups positions regarding the effects of Brazilian foreign policy orientation and actions. Understanding the impacts of political interactions on the international performance of Brazilian companies also highlights that bilateral relations, positions taken by Brazil in international organizations and even domestic political changes in host countries can affect the international competitiveness of Brazilian companies. Calling attention to these themes reinforces business concern with Brazilian foreign policy and international politics. Furthermore, the thesis also aims to better understand the political role of Brazilian multinationals when investing abroad and the effects of this presence on Brazilian grand strategy.

2. Thesis's organization

The thesis is organized in 5 chapters. After the introduction, we follow the path of the traditional studies in the Brazilian social sciences and recall the origins and consequences of the relations between business and state in Brazil. We find it necessary since this debate offers the main clues about the international effects of this relationship from the mid-1930s to 2016. The Chapter reconstructs the trajectory of Brazilian *developmentalist strategy* and the historical economic and political significance of national companies. It is from this reconstitution that we apprehend the effective role of business in Brazilian state's international engagement, as well as the main policies and incentives for the international projection of Brazilian companies after the 2000s.

Based on well-known explanations of the patterns and changes of courses in Brazil's international affairs, Chapter 3 evaluates the key indicators used by researchers to describe the periods and changes in foreign policy orientation. The analysis made possible the development of an indicator that measures Brazil's international engagement with 192 countries from 1998 to 2015. The indicator was further explored in tests to evaluate the validity of theoretical claims with respect to Brazil's international political behavior. Also, it allowed to advance in the understanding about the contribution of systemic and domestic factors on changes in foreign policy.

Finally, Chapter 4 assesses how political institutions can be incorporated into interpretations about the political and institutional determinants of foreign direct investments. The debate with the specialized literature in international business and

international political economy coupled with the conceptual innovations provided in previous chapters enabled the proposition of hypotheses that relate home and host domestic institutions and foreign policy to Brazilian outward investments. The theoretical framework and the statistical findings favor our fundamental argument about the relevance of foreign policy as an explanatory factor of the locational determinants of foreign investments. We conclude the thesis explaining what we have learnt and presenting an understanding about research agenda enabled and fostered by the study.

Chapter 2. Business-state relations in Brazilian foreign policy

1. Introduction

From the 2000's, Brazilian foreign policy incorporated the multinationals' international operations within the set of means and agents responsible for the outgrowth of national interests abroad. Since the beginning of Luís Inácio Lula da Silva's government (2003-2010) national firms appeared as pivots not only for the domestic growth, but also as instruments of Brazil's foreign policy and benefiting from it.

The general understanding regarding state and business groups relations pinpoints the national firms' ups and downs in terms of centrality in the country's economic development policies throughout the years (Toledo 2005). These same studies highlight how the relationship evolved over time: the emergence of coordinated business lobby in the National Congress (Mancuso, 2007b; A. J. S. N. Oliveira & Onuki, 2007), the creation of forums and firms' coalitions to advise commercial policy decisions (Doctor, 2007; A. J. de Oliveira & Pfeifer, 2006), and the consequences of ties amongst firms and government on the formulation and implementation of public policies (Diniz & Boschi, 2003). However, the role of Brazilian business groups in relation to the goals and actions of foreign policy is a dimension still little explored. The changes and continuities of state and business relations in Brazil from the 1930's to 2000's and its explanations ate the main concern of our work.

The following sections are structured as such: we begin underlining the rudiments of the relations between state and business groups in Brazil, emphasizing the developmentalist perspective (predominant from 1930's to 1990's). After that, we demonstrate how economic and political changes transformed the role of companies on the Brazilian public policy especially with the evolution of government agencies and institutions subsidizing the growth of Brazilian multinationals. Finally, we show the connection amongst domestic institutions that support firms and a different perspective on the role of firms to conquer Brazilian foreign policy objectives of promoting national interest internationally.

2. The firms from Brazilian developmental's perspective

The history of Brazilian economic development is marked by a lot of progress and setbacks on the state's leadership of the national economy. Nonetheless, the discussions about the role of firms and businessman on development strategies remained, especially given the evolving relationship among firms and state accompanied by transformations of the Brazilian society.

The period from the 1930's until the last years of the 1980's was conventionally called the developmental period. It was from the efforts of Getúlio Vargas (in the 1930's) to promote and develop Brazilian industry through the financing of investments and the coordination of national industries and foreign capital within the economic structure. This long lasting model was responsible to relocate the state's bureaucracy in the gravity center of a great transformation on Brazilian society along the 20th century (Toledo, 2005).

The international oil crisis and the state's intervention on productive activities in Brazil encouraged debates about national development in the 1970's, especially after the downturn of Brazilian economy by the end of the decade. State's influences over economy and its movements caught the attention of all strains of experts who looked at empirical data to better understand the role of public investments on the current economic model, the profile of the interactions among state and private sector, and the business elites' position regarding Brazilian state (Martins, 1977, p. 2). This was the time when the ties between state politics and business activities were reorganized and tightened.

It was also during the 1970's that the debates on the relationship amongst state and business became important. At that moment, it was relevant to understand the emergence of firms as a political actor capable to organize themselves collectively and influence national politics. This fact was evident in the coordinated appeal for the reduction of state's participation in the economy in a crucial moment for the consolidation of Brazilian institutions: the economic and political crisis derived from the exhaustion of the import substitution industrialization (ISI) policy (S. C. V. Cruz, 1995). This was the scenario for the institutional opening of the military regime started in Geisel's government (1974) and for the role definition of business groups in the political structure behind the national development model. Business groups were finally contesting government's positions and

organizing their interests to face the government's economic decisions (S. C. V. Cruz, 1995, p. 11).

2.1. Institutions and developmentalism (1950 -1990)

Following up on the transformations occurred from the 1950's to the 1980's, many government institutions were created to promote national industrialization. Among them there was the National Bank for Economic Development (BNDE), created in 1952. During the military government (1964-1985) some programs to direct industry development arouse, with FINAME (Special Agency for Industry Financing) calling up attention as the first BNDE's subsidiary. The agency's purpose was to finance the purchase of equipment in Brazil to push the national machinery and equipment industry.

If during 1960 and 1970's decades BNDE was at the focus of Brazilian industrial development financing policy, the 1980's marked a change in the orientation on what the development bank should do. In this period the bank started buying market shares and directly investing in private companies through the BNDESPAR, BNDE's equity arm. Years after, in the 1990's, the investments on market shares became the Bank's main financing instrument and eventually overcame even its loans - that historically represented money loss (S. C. V. Cruz, 1995, p. 46).

An effort to prioritize national capital industry was made by Geisel's government (1974-1979), when the government decided its strategy was to use BNDE's resources (originated from PIS and PASEP, two mandatory savings funds) as the most important financial instrument to do corporate investments (S. G. Lazzarini, 2011). All public banks, but especially BNDE, were authorized to participate in private companies through the purchase of preferential market shares. This modality of investment was incorporated among other instruments and state incentives such as tax exemptions, these last motives of great political and media dispute[1]. Those were crucial years to Brazilian politics and society when state's intervention and the role of private companies in national development prompted intense debates. Also, this put forward a collective movement of business owners to defend economic policies that could stimulate industrial activity.

[1] Because state incentives have redistributive effects (less state's capacity to invest in public goods), they can generate incentives for social counter mobilization.

The military regime's years of direct intervention on industrial activities, be it through equity interest or tax exemptions, enabled the emergence of a group of national firms that enjoyed the government's help and privileged treatment (Musacchio & Lazzarini, 2014a). The national champions - capitalized firms with connection to the government - came out as leaders in the advance of Brazilian developmentalist capitalism. They set the stone for a new role of business groups in the political scenario. Until the 1980's most people understood business groups as passive, heterogenous and subordinated to other players and the Brazilian state (Diniz & Boschi, 1978). This view was strongly questioned after the 1990's due to the strengthening of domestic groups and liberal political and economic transformations initiated in Brazil after democratization (Bresser-Pereira & Diniz, 2009).

2.2. The arrival of neoliberal ideas (1990's)

By the end of the 1980's macroeconomic and political conditions were substantially transformed in Brazil. In the economic realm, successive failures of the stabilization's economic policies (the Cruzado Plan, for example) led to the deterioration of the national firms' financial situation. In that moment, the political sphere was characterized by the transition from an authoritarian government to a representative democracy, opening space for the consolidation of a new political elite with an economic wing mastered by financial agents and multinationals (Bresser-Pereira & Diniz, 2009). In this context of Brazilian industry loss of power, Brazil distanced itself from the previous developmentalist strategy. As a consequence, the national firms found weakened their capacity of articulating interests to influence the economy and politics.

When Brazilian firms were exposed to international competition in the 1990's, the verdict of Brazil's business groups inability for establishing political connections was challenged. According to Mancuso (Mancuso, 2007b), despite heterogeneous in competitive terms, the industrial business groups united around a "custo Brasil" agenda[2]. The industry's common goal was to acquire competitiveness, and "custo Brasil" appeared

[2] Custo Brasil means "excess and poor quality of regulation of economic activity, inadequate labor legislation, tax system that taxes production, high cost of financing productive activity, insufficient infrastructure and lack of social infrastructure" (CNI, 1996; 1998 *apud* Mancuso, p.28).

as the most important obstacle. These shared worries encouraged a unified and collective action of business groups that was never seen before. And amongst the proposed innovations, stood out the systematic monitoring of legislative work which could possibly impact the firms' competitiveness (Mancuso, 2007b).

So, the 1990's represented an advance on the collective attitude of Brazilian business groups. In spite of advances and setbacks of the economic liberalization process, Brazilian economy grew into a relatively open market throughout the decade (Diniz & Boschi, 2003). At the same time, firms had to adapt to diverse (and adverse) situations, like the rise of internal market competition.

But the 1990's were also marked by the growth of fusions and acquisitions practices pushed by national and international firms. This sort of adjustments promoted the verticalization and rationalization of firms' processes, also boosting outsourcing, modernization of management practices, renovation of equipment, convergence of competences, and so on (Mancuso, 2007b; Musacchio & Lazzarini, 2012)[3].

Beyond internal marked transformations, Brazilian firms also changed their posture and exposed themselves to international market competition. Also, the industrial increase of productivity in the 1990's and better domestic production conditions enabled an expansion of Brazilian exports – especially manufactured products. This new reality led the competitiveness issue to the top industrial policy agenda, producing a fruitful context to the reorganization of business groups collective action – a fundamental unity throughout the democratic transition (Mancuso, 2007b; Toledo, 2005).

2.3. What changed in the state-business relations after the 1990's

Political, economic and social transformations in the 1990's brought up important differences in the relationship between business and the government in Brazil (Mancuso, 2007a; B. R. Schneider, 2004). We are especially interested in the enlargement of investment financing public instruments and the state's participation as shareholder in open and mixed capital companies (Bresser-Pereira & Diniz, 2009; Diniz & Boschi, 2003). These new

[3] All these adjustments are seen in the literature as responsible for the new industrial productivity rates experienced in the period.

interaction channels broadened the scope of corporatist relationships (union cohesion, monopoly of union representation, mandatory contribution), and incorporated new option of private interests' representation in face of the state (Doctor, 2007)[4]. In this context, the forms of business acting expanded and business groups started to intermediate interests through sectorial lobby, ad hoc business networks (A. J. de Oliveira & Pfeifer, 2006) and interactions with public decision makers[5].

If the 1990's represented an upturn on the collective organization of business groups, bringing up new forms of interaction with the state, the decade also signaled a new mode of state interference in the economy. The growing economic difficulties experienced by the government due to the maintenance of state-owned enterprises in a context of inflation and high interest rates resulted in difficulties for these same companies. One of the government's alternatives to deal with the crisis devastating state-owned enterprises was to reduce public deficit and raise money from the market by means of privatization. This meant the relocation of some corporate activity to the private initiative. The privatization process, however, didn't mean the dumping of the state from every business activities. Actually, the decade's economic openness and privatizations resulted in a greater embeddedness of the state in national firms (S. G. Lazzarini, 2011).

Among the mechanisms that connect governments and firms after the liberalizing reforms that ended in privatizations, we call attention to the densification of property ties in which the state is a relevant agent [6]. Through the pension funds, the BNDES and a few domestic groups the Brazilian state acquired centrality by participating as shareholder of many companies that opened its capital at the time. These connections enabled: (I) the state to increase its capacity to influence the firms' internal dynamics and (ii) the companies to reinforce its relevance for public policy decisions (S. G. Lazzarini, 2011).

During Cardoso's mandate (1995-2002), the pension funds of state owned enterprises such as PREVI (Banco do Brasil), FUNCEF (Caixa Econômica Federal) and PETROS (Petrobras) started to acquire market shares of the companies that were opening their capital. Even after (partial or total) privatizations, the government kept for itself a

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[4] These new modes of relationship are characterized by Doctor (2007) as neo-corporatism.
[5] These circumstances can open space for corrupt practices (Doctor, 2016). The concern got prominence in Brazil's politics since 2008 and figures amongst the main public debates and judicial queries in the country.
[6] However, as Lazzarini (2011) argues, when government is embedded in property relations, firms can be protected in risk scenarios and, under some occasions, business-state relationship channels can affect the performance of public policies.

significant portion of previously completely public firms (Musacchio & Lazzarini, 2014b, p. 124). Also, domestic groups with strong political connections became central. That was the case of Camargo Corrêa, Unibanco, Itaú, Votorantim, among other groups that actively engaged in the privatization process, either individually or partnered with public firms. They even became shareholders of mixed capital public companies, with cross-shareholding (S. G. Lazzarini, 2011).

The selling of public owned enterprises did not mean the withdrawal of the state from the main decisions of the privatized (or semi-privatized) companies' executive board. The government was competent enough to use its minority position and ally with other shareholders to influence the executive boards of firms it participated in[7]. Also, the maintenance of golden shares - shares that assure the government exclusive rights such as the ability to exert control over the company, as happens with EMBRAER - enabled a leading position within the corporate structure of companies with mixed capital (Arbix, Salerno, & Negri, 2005).

The connections between companies and government are beyond property ties. As many works already demonstrated, the business groups' positions and forms of collective actions were established to reach the heart of Brazilian democracy: its political institutions (Iglécias, 2007; Mancuso & Oliveira, 2006). The need for a political support structure and constant activity were fundamental conditions to guarantee public policies oriented to the promotion of national firms' interests, since the 1980's developmentalist state until today (Boschi & Gaitán, 2016).

3. Firms and Brazilian foreign policy

In face of Brazilian state capitalism and its history, sided by the growing interlacing of state and national companies' activities after the 1990's, we aim to investigate how these changes are related to the presence of national firms abroad. Be the property ties or the role of companies in the state development model, our argument is that after the 2000's the Brazilian government promoted and protected corporate interests abroad and this relationship was crucial to Brazil's strategies of international political insertion. Firms'

[7] Mainly through the appointment of names through coordinated action within executive boards.

international activities also benefited the government's foreign policies and influenced especially investment related decisions.

We have already seen how the success of national firms was during many years interpreted by the government as an essential part of a national development project. (B. R. Schneider, 2015). The international character of the developmentalist project launched Brazil to central positions in international politics through its firms. The incentives to the internationalization of Brazilian companies located the state as an active and mediator agent, especially during Lula's government. Actually, during Lula's two terms the national diplomatic strategy advanced the idea that investments coming from Brazilian firms could result in the enlargement of Brazil's international presence (Actis, 2013; Cervo, 2006; Luce, 2007; Marques, 2011; Pinho, 2013; Puerari, 2016).

The consolidation of business groups' representation in political discussions after the 1990's was the necessary condition for the inclusion of firms in the national foreign policy strategies. The national corporate sector (industrial, mainly), once described as weak and politically fragmented (Mancuso, 2007b), encountered conditions and means to reorganize and influence government decisions after democratization. Mancuso (2007b) analyzed the political activity of national industrial groups related to legislative production and found that, between 1996 and 2003, they had a 66,6%[8] rate of success in advancing their agenda in the National Congress, fundamentally by virtue of the National Confederation of Industries' lobby[9]. The reasons for the industrial agenda unification and the success of industrial lobby are due to a strong consensus about the importance of national industry's competitiveness. Firms representatives worked together to identify laws and projects which could impact the "custo Brasil" and push national industries' competitiveness.

After the redemocratization, the legislative arena appeared as the central locus pressure groups' activities aiming to impact public policies (M. M. de O. Lima, 2012; A. J. S. N. Oliveira & Onuki, 2007; A. J. S. N. Oliveira, Onuki, Mancuso, & Mancuso, 2011). But it wasn't the only one. Since the 1990's negotiations on trade agreements were influenced by this business coalitions. Brazilian Business Coalition (CEB), for example, was decisive

[8] The success rate varies accordingly to the legislated matter (Mancuso, 2007b). It is higher in social infrastructure (77.8%) and lower in tax matters (57.9%).
[9] The national confederation of industries is also known by its acronym, CNI.

in the definition of Brazilian positions in discussions around the creation of the Free Trade Area of the Americas (FTAA) (A. J. S. N. Oliveira, 2003). In the 1990's and 2000's the success of the coalition models to represent interests made CEB and others important instruments to mediate between private interests and Brazilian positions in economic negotiations, connecting private and political sectors (A. J. de Oliveira & Pfeifer, 2006). These experiences of cooperating with the government in trade negotiations helped the consolidation of a political space for business groups in diplomatic and economic issues.

Lula's government represented the resurgence of developmentalist perspective in Brazilian national development strategy (B. R. Schneider, 2015). From this point of view, firms were important to the country's international projection. This means that if they were better situated in the international context, they could lift Brazil to more central positions in the international economic geography and promote domestic economic development. This approach to state and business relations gave new breath to old developmentalist strategies, domestic and internationally.

This new profile of developmental ideas – the neo-developmentalism – can be seen especially after 2003, when corporate representations changed from sectors to be done individually by the firms. A good example is the business groups' representation at the *Conselho de Desenvolvimento Econômico e Social* (CDES), a board with the purpose of supporting presidential decisions related to economic development. Different from previous experiences, the representation at CDES is individual – each firm has its own representative (Doctor, 2007; A. J. de Oliveira & Pfeifer, 2006)[10].

3.1. Public policies and institutions in the internationalization of Brazilian firms after the 2000's

Throughout the 2000's, the competitiveness and the internationalization of Brazilian firms became a public concern. Public opinion understood the rise of Brazilian multinationals as positive to the consolidation of the country's position in the world, and this perspective got prominence within the Brazilian government (Coelho & Oliveira, 2016; Finchelstein, 2017; Sennes & Mendes, 2009). This was the context of the creation of mechanisms to support internationalization, and then the flowing of Brazilian firms abroad

[10] The same is true for bilateral business forums such as the US-Brazil CEO Forum.

(Finchelstein, 2017). Beyond property ties among state and national business, there was a new orientation of Brazilian state, more concerned with the internationalization of the national investment.

Although there were doubts about the social and economic returns from the increase of Brazilian foreign direct investments (Saggioro Garcia, 2012), throughout the 2000's, and especially during Lula da Silva's administration, a major understanding about the positive aspects of internationalization of national firms was consolidated in Brazil. On one hand, governmental incentives to internationalization could represent the loss of jobs in domestic market as well the distortion of investments in national production. On the other hand, the views that considered internationalization as positive, argued that the promotion of OFDI would boost the competitiveness of national firms by pushing companies to modernize and to innovate, consequences of international competition (Arbix et al., 2005). Therefore, it would allow Brazilian economy to be more integrated, competitive and politically relevant. Despite the concurrency of these perspectives throughout the first decade of the Century, the view in which Brazilian multinationals could foster domestic development was reinforced during Lula's terms as a result of the prevalence of ideas that set multinationals as instruments of development.

Many were the incentive mechanisms intensified along the 2000's, noting especially the public policies to finance internationalization and stimulate the creation of national champions with capital and structure necessary conditions to compete in the international market. Amongst the incentives, there were financial resources for mergers and acquisitions (Arbix & Caseiro, 2012; Finchelstein, 2017; Fleury & Fleury, 2011). The actions of BNDES were very important in this respect, and the incentives for the creation of large business conglomerates crucially affected the evolution of Brazilian FDI. When the internationalization agenda reached development policies, BNDES became a key element to the intensification of firms' internationalization (Alem & Cavalcanti, 2005; Barral, 2011; Coelho & Oliveira, 2016; Santos, 2015).

First, BNDES was important for the expansion of the availability of capital to foreign investments, even setting up lines of credit to the export of engineering services and for acquisitions abroad (Finchelstein, 2017; Rego & Figueira, 2017). Other innovation was the financing of mergers and acquisitions of domestic and international firms to enable the building of national champions, usually demanding the interference of the Brazilian

Antitrust Authority (CADE) for the development of property structures that didn't contradict the national competition rules (Santos, 2015). Likewise, through BNDESPar the BNDES magnified its investments as shareholder, broadening the capitalization mechanisms and its own role in the international management of these enterprises (Arbix & Caseiro, 2012).

The insertion of national capital in firms enhanced the government's capacity to affect business decisions. At the same time, the internationalization decisions after the 2000's could be related to the expansion of the state's international interests. Government actions to foster internationalization have been very relevant in strategic areas for national development or in areas with a higher degree of technological density. For instance, highly specialized firms in technological areas with great innovation potential, such as Embraer, Marcopolo, Weg and Braskem (FDC, 2014)[11] were backed by government institutions to obtain knowledge and new technology abroad along with reassuring the national competitive presence overseas. These companies' international presence facilitates Brazilian participation in strategic global markets like security, defense, transport, energy and others [12].

3.1.1. Foreign policy and the engineering national champions

Aiming to strengthen the Brazilian presence in strategic regions, such as Latin America and Asia, Luís Inácio Lula da Silva's government looked with special attention to the activities of Brazilian engineering companies from the perspective of the financing of large projects (Puerari, 2016; Rego & Figueira, 2017). Private infrastructure companies such as Odebrecht, Camargo Correa, Andrade e Gutierrez e Queiroz Galvão, just to mention a few, grew into important agents for regional construction projects of energy, infrastructure, logistics and transportation in many continents (Rego & Figueira, 2017).

Literature gives a lot of suggestions as to the way the countries' political choices affect trade and investment dispositions of national firms (Glen Biglaiser & DeRouen, 2007; Duanmu, 2014; Gupta & Yu, 2007). If we look at the behavior of some Brazilian firms in

[11] Case studies on the internationalization trajectory of these companies can be seen in Parent et al. (2013)
[12] In 2013, the creation of Embrapii (Brazilian Company for Research and Industrial Innovation) has organized the efforts of insertion of Brazilian companies in global high technology production value chains.

African and Latin America these connections are even more evident. Descriptive data about BNDES export assistance of engineering services show that between 2007 and 2014 the bank spent over 8 billion *Reais* in financing companies' operations abroad. Among the main destinations there are countries which received special attention from Brazilian foreign policy within the period.

Table 2.1. BNDES disbursement to exports assistance of engineering services (2007 – 2014), in Brazilian Reais (R$)

	Andrade Gutierrez	Camargo Correa	EMSA	Mello Junior	OAS	Odebrecht	Odebrecht (COI)	Prado Valladares	Queiroz Galvão	TRPO/ Pharmaster	Total
Angola											
2007	110.79	55.73	19.11			396.59		2.84	111.60		696.65
2008	73.34					457.53			76.78		607.65
2009		93.71		15.01		255.56					364.28
2011	57.39					626.85			72.69		756.92
2012	20.57	63.68				345.88			55.89		486.01
2013	14.76					379.00					393.76
2014						183.44					183.44
Total	**276.85**	**213.12**	**19.11**	**15.01**		**2644.84**		**2.84**	**316.95**		**3488.72**
Argentina											
2007						298.89					298.89
2008						255.74					255.74
2009						320.65					320.65
2010						167.58					167.58
2011		9.45			165.02	347.65					522.12
2012		14.29				210.24					224.53
2013		21.91				48.24					70.15
2014						7.63					7.63
2015						4.39					4.39
Total		**45.66**			**165.02**	**1661.00**					**1871.68**
Cuba											
2009							43.44				43.44
2010							108.72			14.88	123.59
2011							150.00				150.00
2012							150.00				150.00
2013							229.91				229.91
2014							150.00				150.00
Total							**832.06**			**14.88**	**846.94**
Venezuela											
2009						747.19					747.19
2010	865.42										865.42
2011	637.89										637.89
Total	**1503.32**					**747.19**					**2250.51**
Total	**1780.17**	**258.78**	**19.11**	**15.01**	**165.02**	**5053.03**	**832.06**	**2.84**	**316.95**	**14.88**	**8457.84**

Source: The author. Data from BNDES (2015)

The financing of engineering national champions activities overseas was a part of the Brazilian foreign policy strategy to reach important positions in the Global South countries (Vasconcellos, 2014). However, the connection between the financed firms and the state is also suggested in the national electoral dynamics and the political parties. As argued by Rego e Figueira (2017, p. 11), there has been a rise in the contributions for political campaigns made by engineering companies since 2008[13]. Nevertheless, the mediating character prevalent in the state investment policies, the property ties, the political connections and the political movements of engineering firms resulted in a foreign policy as an instrument for the insertion of these firms in developing countries' markets, at least during Lula and Dilma's terms.

3.1.2. Brazilian multinationals and International Cooperation projects

The literature offers some insights to confirm the hypothesis that the distinctive characteristic of the foreign policy reorientation was a robust South-South cooperation, especially after the 1990's and the end of the Cold War (Vigevani & Cepaluni, 2007a). From Lula's mandate this perspective remained at the center of national foreign policy. The change in the orientation can be seen as efforts to reduce Brazilian dependence in relation to Global North countries (developed) and enlarge its autonomy to set its own international agenda (Milani & Carvalho, 2013, p. 13). As presented by Milani and Carvalho, from 1987 with the creation of the Brazilian Cooperation Agency (ABC), many initiatives emerged to prompt South-South cooperation. But it was in Lula's mandate that the agency operations were expanded - by means of bilateral actions and international institutions - (Milhorance, 2013).

One of the most important actions of the Brazilian government in the context of South-South cooperation was the Brazilian Cooperation for International Development initiative[14]. The official discourse considers the initiative as horizontal in relation to the donor and the partner countries, which also means that the autonomy of the receiving

[13] Despite it being an interesting topic, this discussion will not be covered in this chapter since data on this regard are just beginning to become public.

[14] For the Brazilian Cooperation Agency (ABC), International Technical Cooperation (the term used by the Agency) includes "financial assistance, technical support, training of human resources (i.e. people), processes of technology transfer, donation of equipment and materials, among other mechanisms"(ABC *apud* Souza 2012).

country is preserved and that conditionalities are absent. These are the reasons why this type of cooperation was seen as an important development promotion mechanism and as an instrument to narrow the relationships among countries (ABC, 2015). The force of these principles orienting cooperation actions have in fact enhanced confidence among Brazil and South Hemisphere countries - especially Portuguese-Speaking African Countries (PALOPS). However, cooperation programs also culminated in economic benefits for firms and the Brazilian state (Duarte, 2014; Pinho, 2013).

If the changes in Brazilian foreign policies can justify cooperating with African countries, this same cooperation has been challenged as a way of insulating initiatives in relation to national private interests (Pinho, 2013; Souza, 2012). According to Souza (2012), cooperation projects for international development established with developing countries like Brazil is similar to the OCDE countries[15]: "both are used as a political-diplomatic instrument to promote economic interests, and don't aim exclusively or primarily to the development of 'partners' or receiving countries" (Souza, 2012, p. 91). A similar understanding is found in Apolinário Junior's work (2015), which shows that Brazilian cooperation can be related to the support Brazil acquired within international financial institutions like the IMF and the World Bank.

Usually, the public incentives to internationalization are tied to cooperation and development programs in regions where the countries wish to increase its influence[16]. The internationalization of companies like Embrapa, Caixa Econômica Federal e Sabesp[17], is strongly fostered through incentives coming from the Brazilian Cooperation Agency's cooperation programs. Generally, these programs try to replicate national expertise in areas like sanitation, agricultural development, housing and others. This is the kind of knowledge from which a lot of developing countries could benefit looking at the experiences from Brazilian firms. A good example is the ProSAVANA program: through the Brazilian Cooperation Agency partnered with Embrapa, the Brazilian government seeks to provide technical assistance to develop agroindustrial initiatives in savannah areas at the African continent that are similar to the successful adaptation of Brazilian cerrado cultures (being both areas being comparable in terms of their natural conditions).

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[15] This vision is shared by Milani (2012)
[16] See (Guimarães, 2001; Sennes & Mendes, 2009)
[17] Some of these are mixed capital companies, as such is the case of Embraer and Sabesp.

Fingermann (2015) looked at the impact of trilateral Brazilian cooperation in the countries receiving aid – that is the case of Mozambique's ProSAVANA and ProALIMENTOS programs. She finds that Brazilian Technical Cooperation for Development in the country is a likely alternative to traditional donors' practices as it is rooted in principles of solidarity, follows the demands of receiving countries and preserves the non-interference principles. Nevertheless, her findings point out that at least in the ProSAVANA case there is plenty of room for contestation. And she is not the only author to emphasize the overlapping of public and private interests in cooperation projects (Castro, 2012; Couto, 2008; Duarte, 2014; Pinho, 2013; Vasconcellos, 2014; Vilas-Bôas, 2011). In all these examples, the assertion seems to correspond to the argument presented.

4. Discussion

"A Brazilian firm abroad means having our national flag inside another country"[18]. Lula's answer in an interview synthesizes his government's perspective about the role of national firms in Brazil's international projection. At that time, government used foreign policy to prompt Brazilian investments sent to countries with which it sought to deepen political connections.

There were many transformations in Brazilian society to establish this kind of relationship. From the 1930's up until the 2000's relations between government and business were crucial to understand the economic decisions taken by Brazilian officials. We argue that the Brazilian state's developmentalist project situated national firms, especially from the industrial sector, at the center of political decisions. This new vision allowed private agents to hold decisive positions in the building of public policies. After the 1990's the firms-state relationship evolved to a revisited neoliberal pattern in which business groups could suggest on the trade agenda issues regarding the property of state owned enterprises. At the same time, the connections between public and private interests made government shareholder in private or recently privatized firms. Through pension funds' investments and investments financed by public agencies like BNDES the state became central in the network of national capitalism property ties, what meant business interests

[18] Lula's interview is found in Época Negócios magazine. The note is titled "Por que estamos atrás deles", from (18/02/2009).

emerged connected to Brazilian strategy to expand its interests abroad.

It is from the relationship profile and Brazilian government axial position in the economy that political incentives transmitted through its foreign policies affected national firms – especially national champions, which then internationalized. This context altered internationalization stimuli, and Brazilian firms overseas could incorporate public incentives within their investment decisions.

During the whole of the 20th century national firms consolidated as fundamental political actors in domestic politics. Yet, the importance in matters of domestic policy would take longer to appear. It only showed after the 1990's, with Fernando Henrique Cardoso's government and matured over Lula's terms. Particular space was given to engineering and agribusiness firms, which acted as supporting actors in the conduct of cooperation activities and Brazilian bilateral relations with many countries. These connections also meant to help Brazilian firms to overcome barriers of entry and provided opportunities in foreign markets.

Chapter 3. Measuring International Engagement: Systemic and Domestic Factors in Brazilian Foreign Policy from 1998 to 2014

1. Introduction

The relative importance of domestic and systemic factors in the explanation of foreign policy of Latin American countries remains ununderstood and a source of disagreement. Many scholars believe that theories formulated for the comprehension of American and European realities are inadequate for the interpretation of policies in Latin America, and the lack of consensus on the appropriate levels of analysis and the variables by which foreign policy should be measured has led scholars to use "a variety of variables spanning the levels of analysis spectrum (individual, state, international, global)" (Below 2010, 12) in order to explain the behavior of Latin American states.

While there is no consensus on what the main determinants of foreign policy preferences actually are, a large portion of the literature has relied excessively on episodic evidence, sometimes taken from politicians' declarations to the media and interviews with diplomats. This phenomenon, however, is not exclusive to Latin American countries, but rather a trend in the study of foreign policy worldwide (Fearon, 1998; Hey, 1997, p. 631; Hudson, 2005, 2014). With regard to the Latin American region, some authors have raised concerns about the necessity of more theoretical rigor to better understand foreign policy-making (Giacalone, 2012; Hey, 1997; Thies, 2014), and claims for more empirical rigor (Hey, 1997).

Departing from this gap in the literature, we aim at exploring a broader literature on foreign policy analysis to shed light on empirical ways of measuring the elusive concept of foreign policy (Fearon, 1998; Giacalone, 2012; M. G. Hermann, 2001; M. G. Hermann & Hermann, 1989; Jørgensen, 2000; Signorino & Ritter, 1999; Thies, 2014; Young & Schafer, 1998) using Brazil as a case study. This paper pursues two main objectives. First, it aims to explain how we combine the policy outcomes of several governmental agencies to proxy the complex process of foreign policy making, as previously recommended (Milani & Pinheiro, 2013, 2016). We have compiled a wide range of data on the activities of embassies

and governmental agencies, and applied the rationale to the Brazilian case –one of the countries with the most intertwined bureaucracy– to compose a reliable measure of foreign policy engagement with the world that we name Foreign Policy Index (FPI).

Second, after we evaluate the suitability of FPI *vis-à-vis* the existing literature on Brazilian foreign policy during three presidencies (1998-2014), and describing general patterns of the country's foreign policy, we put the FPI to the test analyzing questions that –to the best of our knowledge– no one has yet answered: (a) did Brazil's pivot towards the Global South imply a detachment from its links with the Global North? (b) How much of the Brazilian shift toward the Global South was driven by domestic factors, and how much by systemic factors? And finally, (c) to what extent was party ideology an important driver of foreign policy changes during the period 1998 to 2014?

We find compelling evidence to believe that FPI is a useful methodological tool to explore unanswered questions in Latin American Foreign Policy Analysis (FPA). Our analysis supports that Brazil expanded its links with the Global South when Lula da Silva assumed his first presidency, and did so without compromising the country's engagement with the Global North. Furthermore, we confirm that the foreign policy shift initiated by the Worker's Party towards the Global South was primarily determined by domestic variables. Rather than pragmatically accommodating to a favorable international scenario (Gardini 2011) we find evidence that there were ideological motivations inherent in the Worker's Party that shaped Brazil's foreign policy, particularly during Lula da Silva's second mandate and Dilma Rousseff's first.

The paper is structured as follows. Firstly, it reviews the literature in which we discuss the general literature on FPA that serves to identify gaps in the Latin American scholarship to which we can contribute. Secondly, we frame our objectives to the Brazilian case in the last three presidential terms, for which we provide a description of the foreign policy contours of each administration we are covering. The following sections describe in detail the components of the FPI and then proceed to define and test two empirical hypotheses derived from the literature.

2. Literature review

Departing from the FPA literature that addresses the question of foreign policy change, one particular aspect of our interest in this debate is the distinction between the levels of analysis by which scholars can study the behavior of states and political changes (Chaudoin, Milner, & Pang, 2015). In this regard, the review of the general literature (not subject to a specific geographical region), the literature concerned with FPA in Latin America, and finally, the literature on Brazilian FPA, are crucial to lay the basis of our arguments.

Creating theoretical frameworks to study foreign policy change over time has been a concern in the literature for many years. This is not a localized geographical issue, but rather an omnipresent theme of the FPA literature. Among a variety of approaches, there are references to agency-structure dichotomies (Carlsnaes, 1992), the role of leaders and bureaucracy in the policy-making process (C. Hermann, 1990; M. G. Hermann & Hermann, 1989; Hudson & Vore, 1995), the role of ideas (Goldstein & Keohane, 1993), international norms (Finnemore & Sikkink, 1998), and systemic incentives over outcomes of a country's foreign policy (Rose, 1998), among others.

This wide range of explanatory approaches has given rise to a long debate about the importance of domestic and systemic factors in explaining foreign policy outcomes and changes (Chaudoin et al., 2015; Fearon, 1998). By organizing some of the abovementioned explanatory perspectives, Gustavsson (1999) proposes to group the factors mobilized in the approaches into domestic (political and economic) and structural factors[19]. According to the author, factors located at the international level (structural) are those that refer to power relations between countries and cross-border economic transactions as well the "institutional conditions governing such transactions" (1999, p. 83). On the other hand, domestic political factors are those that involve "the support needed from voters, political parties, and societal actors to uphold a certain foreign policy" (1999, p. 83).

Oppositions between systemic and domestic factors similar to Gustavsson's have become common in the literature. Moreover, there is a domestic interplay of actors involved in foreign policy making, adding complexity to the study of influential factors in

[19] in this article structural and systemic are considered synonyms.

foreign policy. In this sense, bureaucratic political models deserve a special note for the purposes of our article. This model, in brief, proposes that foreign policy is the result of a complex array of governmental actors bargaining with each other. Building on previous seminal research (Graham Tillett Allison, 1971; Neustadt, 1960), Allison and Halperin (1972) first questioned the basic assumptions that were being made until that date on the decision making process of foreign policy in United States, criticizing the analogy between governmental behavior and individual rational human beings. This reductionism of policymaking as the result of a unified rational actor contrasts with the idea of complex bargaining in the intra-national arena in which organizations play a critical role. This process of "pulling and hauling" (1972, p. 43) is only captured when a multiple set of actors are considered as units of analysis, acting independently from each other. As the authors put it, the unit of analysis is actions of a government, which sometimes all go in a similar direction (in terms of policy outputs), but sometimes they pull in opposite directions.

While this paradigm has been criticized from early years (Art, 1973; Krasner, 1972), the ideas proposed by Allison have had an enormous impact on the study of bureaucracy and foreign policy and are of great value, once allow identify those competing agencies that are responsible for foreign policy. While over the decades this model has been improved and tested empirically through case studies, mostly in the American case (Bendor & Hammond, 1992; Halperin & Clapp, 2007; Rosati, 1981), Latin American literature aggregate little to this debate.

In Latin America, scholars have historically avoided theoretically-guided approaches to studying FPA, and studies of foreign policy based on this geographical region are particularly affected by a lack of consensus on what drives its shifts (Giacalone, 2012; Hey, 1997; Thies, 2014). According to Giacalone (2012), the Latin American FPA field was highly influenced by developments in the American and European academies, which had emphasized the importance of systemic variables in explaining the behavior of the countries of the region. However, the systemic approach was frequently seen as insufficient for explaining foreign policy in Latin America, which led to the development of new theoretical insights and the development of regional social theories, such as dependency theory, prominent during the 1970s (Giacalone, 2012; Hey, 1997; Lopes, Faria, & Santos, 2016).

Despite these limitations, Latin American studies have demonstrated a considerable expansion in terms of approaches used to explain foreign policy choices and changes since

the 1990s (Below 2010). The US influence, poor economic resources, leaders and regime ideology and the global distribution of power and wealth, have all been used and continue to be commonly used as explanatory variables (Hey, 1997, p. 631). Regularly, these variables are combined with pluralist approaches, which gained relevance in the regional literature in the 1990s (Giacalone, 2012) and assess the central role of ideas, values and ideology influencing political decisions and strategies, including the way a country presents itself to the world (Chatin, 2016; Thies, 2014).

2.1. Brazil's foreign policy in three periods

By the end of the 20th century, Brazil had experienced great change, not only in terms of its economy and the welfare of the population, but also in its politics. After two decades of dictatorship (1964 –1985), the country's re-democratization at the end of the 1980s raised the possibility of partisan disputes in domestic politics. This scenario prompted significant changes in the conduct of Brazil's international affairs, inaugurating a new period of its foreign policy.

The literature has used a wide variety of proxies to analyze the changes and priorities of Brazilian foreign policy after the beginning of the democratization period. Among these proxies are: the behavior in the United Nations General Assembly (Amorim Neto, 2011; Amorim Neto & Malamud, 2015; Mourón & Urdinez, 2014), official international presidential trips (Malamud, 2011; Schenoni, 2012; Vigevani & Cepaluni, 2007b; Visentini, 2014), the cooperation programs conducted by the Brazilian government (Milani & Carvalho, 2013; Pinheiro & Gaio, 2014), the ideological proximity of governments (Burges, 2005; Cason & Power, 2009; Mendonça Jr. & Faria, 2015), joint participation in coalitions and bilateral agreements (Cervo 2010; Oliveira, Onuki, and Mancuso 2011; Rios and Motta Veiga 2013; Seabra 2014) and participation in international trade (Galantucci, 2014; Vieira, 2014)[20] have all been used.

In seeking to interpret Brazilian foreign policy choices during the last decades, the above-mentioned literature has addressed, among others, four topics of interest: (a) the changes in foreign policy brought about by Fernando Henrique Cardoso (1995 to 2003);

[20] A summary of these different proxies can be found in the *Atlas of the Brazilian Foreign Policy*, proposed by Milani et al. (2014).

(b) the efforts made during Lula's presidency to expand Brazil's international influence; (c) the perceived retraction in Brazil's international involvement since 2010 and (d) the determinants of foreign policy shifts, whether domestic or systemic. These topics summarize some of the most relevant general characterizations of Brazilian foreign policy and the FPA production about the country over the period, and are important references to the understanding of Brazil's international movements since the 1990's.

2.1.1. Changes to foreign policy brought about by Cardoso (1995 to 2003)

The years of the Fernando Henrique Cardoso presidencies (1995 – 2002), a member of the Brazilian Social Democracy Party, are considered a crucial period in which Brazil expanded its international engagement in global affairs. The inauguration of a new age of Brazilian foreign policy came with a strategy of "autonomy through integration" (Lampreia, 1998). This policy aimed at promoting national interests through participation in international regimes, as opposed to the former autonomy "through isolationism" of past decades, a change attributed to Cardoso. This alteration in foreign policy during Cardoso's years had the notable effect of creating momentum for the increased participation of Brazil in international affairs.

In the course of Cardoso´s years as a president, the diversification of Brazil's foreign relations was part of this strategy of the government, which pursued the promotion of Brazilian interests without giving up the general principles that historically oriented the country's foreign policy – pacifism, respect for international law, defense of self-determination, the principle of non-intervention and pragmatism (Cardoso, 2001; Vigevani, Oliveira, & Cintra, 2003). Throughout this period, Brazil favored relations with the Global North, mainly European countries and the United States. At the time, the U.S. was at the top of the Brazilian foreign policy agenda due to the central role it played in Brazilian external affairs, mainly because of the influence of the Washington Consensus on Brazilian domestic politics, the Free Trade Area of the Americas (FTAA) negotiations and the U.S. position in important multilateral financial institutions, such as the IMF and the WTO. The U.S. was at that time Brazil's most important trading partner and the volume of economic relations between the countries had been increasing since the beginning of the process of opening up the Brazilian economy initiated in the 1990s (Carvalho, Parente, Lerda, &

Miyata, 1999, p. 16). The importance of the U.S. for Brazilian exports was a sensitive issue, and U.S. protectionism toward Brazilian products was a constant concern (Carvalho et al., 1999).

To counterbalance the influence of more powerful countries, Brazil engaged proactively in different international forums. The country found a balance between maintaining good relations with the Global North and the autonomy needed to expand its capacity to influence multilateral agendas and promote itself as a global player (Vigevani et al., 2003, p. 44). South America, and Mercosur in particular, were important political grounds for the aforementioned strategy, as the country leveraged these to project itself as a consensual leader (Burges, 2006).

2.1.2. The efforts made during Lula's presidency to expand Brazil's international influence

In 2002, the Workers Party won the presidential elections for the first time in Brazilian history. Lula da Silva (president from 2003 to 2010) is frequently cited as the most proactive Brazilian leader in foreign policy terms and is considered a milestone of a pro-left and pro-developing world agenda (Burges, 2009). Throughout this period, Brazil increased its diplomatic presence by opening 40 embassies worldwide, mostly in Africa; established cooperation partnerships in Latin American and African countries; engaged in South-South multilateral initiatives, such as the IBAS Dialogue Forum, the BRICs, the Summit of South American-Arab Countries, the Africa-South America Summit, and the Community of Portuguese-Language Countries (CPLP); promoted the creation of UNASUR; and built coalitions inside financial organizations such as the IMF, the World Bank and the WTO.

The shift in the orientation of Brazilian foreign policy during Lula's presidency, in a strategy conventionally referred to as "autonomy through diversification" (Amorim, 2010; Vigevani & Cepaluni, 2007b), left a deep mark on Brazilian foreign policy behavior in foreign affairs. As has been well documented by previous studies, the country sought to cooperate with, and focus on, the Global South, which became a pillar in the strategy of expansion of Brazilian influence in multilateral arenas (Burges, 2005; M. R. S. De Lima & Hirst, 2006).

During the eight years of the Lula administrations, Brazil utilized development cooperation as an instrument of soft-power in Latin America and Africa (Hirst, Lima, & Pinheiro, 2010; Milani & Carvalho, 2013; Valença & Carvalho, 2014), also gaining substantial benefits when markets were created for exports and investments for large Brazilian multinational enterprises (Duarte, 2014; Seabra, 2014; Souza, 2012). In Lula's second term, the foreign policy of the Worker's Party had a strong ideological component that led to a detachment from the U.S. and the halting of the advancement of a post-Washington Consensus regionalist agenda (Riggirozzi, 2012; Tussie, 2009). Regional politics expanded Mercosur's core to a broader group, UNASUR (Saraiva, 2010), which aimed at improving ties among regional partners beyond the Southern Cone to counterbalance U.S. and Mexican influence in the region and to co-opt Bolivarian initiatives headed by the former Venezuelan president, Hugo Chavez (Valença & Carvalho, 2014).

A large portion of the changes implemented by the Worker's Party government occurred during Lula's second mandate. In this regard, the institutionalization of the BRICS came to play a crucial role in Brazilian foreign policy, especially because of the country's increased capacity to influence multilateral governance institutions (Hopewell, 2015). Furthermore, a partnership with South Africa and India established the IBSA Dialogue Forum in 2003. Together, the BRICS and IBSA rapidly became political instruments for Brazil to project itself as a regional and emerging power, allowing the country to strengthen its position as a voice for the developing world (Besharati & Esteves, 2015).

During the Lula years, Brazil tried to push forward reforms in global financial organizations, the World Bank, the WTO and the IMF, and to make their decision-making more multilateral. The reform of these institutions was an old Brazilian desire dating back to the Cardoso government (Cardoso, 2001). However, part of this long-standing demand had been modified during the Workers' Party's government. Brazilian diplomacy attempted to influence these organizations by supporting the creation of working groups – such as those inside WTO as the G20, NAMA-11, W52, among others. These were examples of active mobilization, joining countries in lobbying for fundamental changes inside the organizations that were considered beneficial to developing countries, and Brazil in particular (Badin & Morosini, 2014; Hopewell, 2015).

The upward trajectory of Brazil in international politics during the Lula administrations is particularly notable with regard to its role in multilateral arenas, a role

that unveiled the possibility of a rising power. This was evident in its performance in the UN MINUSTAH mission in Haiti (Braga, 2010) and the offer to mediate in the Iranian nuclear crisis of 2010 (Mesquita & Medeiros, 2016).

2.1.3. The perceived retraction in Brazil's international involvement after 2010

In 2010, Dilma Rousseff, Lula's former Chief of Staff, won the presidential elections by defeating José Serra of the Brazilian Social Democracy Party. With her victory, Africa and South America gained even more prominence and came to be decisive in shaping the new Brazilian role in the world, and the same was true for the BRICS countries. Overall, Lula left a legacy of an intense agenda of bilateral and multilateral initiatives to Dilma Rousseff.

However, unlike the previous four presidential terms, Rousseff's Brazil went through a downsizing of its foreign policy agenda (Cervo and Lessa 2014; Cornetet 2014; Jesus 2014; Saraiva 2014; Oliveira 2015; Saraiva and Gomes 2016; Lehmann 2017). Scholars describing the 2011 – 2014 period agree that the main features of Lula's foreign policy – a South-South orientation, and a focus on regionalism and multilateralism – were continued by Rousseff. They diverge, however, on the reasons for the diminishing activity of Brazilian diplomacy.

Clearly, the global economic conditions faced by Dilma from the beginning of her mandate were worse than those faced by Lula. In this sense, the slowdown of China's growth changed the structural conditions that favored Brazilian engagement in the world in previous years (Saraiva & Gomes, 2016, p. 83; Urdinez & Rodrigues, 2017). The changes in the international economy combined with the reduction in Brazilian competitiveness were underscored by Cervo and Lessa as a reason for this downsizing (2014, p. 134). According to the authors, "the lack of clear strategies to foster Brazilian investments in innovation and competitiveness and a poor dialogue with business elites ruined the chances to overcome a decrease of commodities prices on which Brazil is highly dependent" (Cervo & Lessa, 2014, p. 145). This idea is corroborated by Doctor (2017), for whom the combination of the progressive loss of influence by domestic private sectorial interest groups in the formulation of foreign policy since 2008, combined with the change in the economic matrix adopted by Rousseff and the politicization of the policy, made Brazilian

foreign policy less responsive to interest groups. In the author's point of view, this combination of factors consequently damaged the international status of the country.

Dilma Rousseff's hesitation to participate actively in foreign policy was reflected in Brazilian diplomacy activities (Cornetet, 2014; Saraiva & Gomes, 2016). Moreover, the personal characteristics of the president were noted as a cause of the winding down of an intensive period of Brazilian foreign policy (Burges & Chagas Bastos, 2017). The need to form coalitions in order to govern and the politicization of foreign affairs as an ideological instrument of the government are some of the domestic features that explain the decline (Cervo & Lessa, 2014; Saraiva & Gomes, 2016).

Because of these reasons, international affairs during the first mandate of Dilma Rousseff were tagged as a "benign multipolarity" (Jesus, 2014), a "contention on the continuity" (Cornetet, 2014), a "reactive" foreign policy (Saraiva, 2014) and a "foreign policy fall" (Cervo & Lessa, 2014).

2.1.4. The need for well-defined levels of analysis

Since the 2010's, the literature calling attention to the relative importance of domestic and systemic factors in explaining foreign policy has gained important advocates in Latin America. Lopes, Faria and Santos (2016), for example, propose the adoption of approaches that address the specific constraints that countries are subject to, avoiding the so-called 'systemic determinism' in the FPA of Latin American democracies. To do so, the authors advocate for an approach of foreign policy *cycles* by which domestic and international sources of foreign policy are identified and merged. This approach to the domestic and systemic factors influencing the behaviour of Latin American countries is also found in the studies that are more closely related to the Brazilian case. For instance, Amorim Neto and Malamud (2015) find that both systemic and domestic factors play a role in explaining Brazilian foreign policy. In their view, it is not only domestic factors – such as the president's ideology and the party in power – but also the material capabilities of the country. They also find that trade surpluses and deficits within each country are important.

Amorim and Malamud's argument about the complex blend of factors in Brazilian foreign policy choices is further explored by Doctor (2017), for whom the Brazilian democratization in the late 1980s opened an opportunity for a more diverse set of interest

groups to influence foreign policy, weakening the autonomy of the governments in staking out policy positions (2017, p. 645). Domestic private and group interests were, in Doctors' view, important aspects for shaping international policy decisions.

The question of how partisan ideology affects Brazilian international behaviour is also frequently found in research made on the strategies and changes in Brazilian foreign policy. Burges and Chagas Bastos (2017), for example, argue that the main changes in Brazilian foreign policy since the beginning of the 1990s have to do with decisions of the executive branch. The president, consequently, has important power in the definition of Brazilian foreign policy. The opinion of the authors is that individual leaders have decisive strength in the conduct of foreign policy and, therefore, that the drivers of FP change are domestic.

From Lula's government to the end of Dilma's first mandate, Brazilian foreign policy witnessed some advances and retreats from its engagement with the world. The sources of these changes are still in dispute in the literature, although new nuances have been emerged. To address these ambivalences, Milani, Pinheiro, and Lima (2017) explore the idea of *graduation dilemmas*, which argues that during the period, the ability of Brazil to advance its interests was not homogeneous across all policy fields. In the view of these authors, Brazilian foreign policy positions and the strategies for pursuing national objectives in the international arena were constrained simultaneously by the domestic context and resources while also contained by factors from the international system.

Without agreement on how to describe foreign policy, which are the main actors involved in the policy-making process, the importance of worldviews and ideology, and the weight of domestic and systemic dimensions on policy change, scholars can reach very different answers to the same questions (Chaudoin et al., 2015). The literature on the Brazilian case is a good example of this wider issue, one that can be extended to other developing countries such as India and China, and in particular, other Latin American countries (Hey, 1997; Hey & Mora, 2003).

3. Hypotheses definition

It is common among foreign policy analysts, both in academia and in the media, to ascribe the sources of the foreign policy mainly to a single agency. From the literature we

have reviewed on the evolution of Brazilian foreign policy since the end of the 1990s, we observe that for most authors the main responsibility for making foreign policy is generally attributed to either an individual (generally, the President, and in second place the Foreign Minister) or an institution (Itamaraty) (Milani & Pinheiro, 2016, p. 1). We, instead, depart from the central assumption that foreign policy *is* a public policy with special features and therefore subject to a bargaining process and power struggle (Milani & Pinheiro, 2013). Because a public policy can be understood as a combination of actions, ideas and interests and a result of the social relations between individuals, institutions and – in the case of the foreign policy – countries, we consider a complex array of actors and actions of Brazilian international relations with the intention centered to formulate a comprehensive way to look to the foreign policy.

The FPI created by us describes the relations of a reference country –Brazil in our case—with respect to its international peers. The FPI index can be defined as a measure of political engagement with a certain country at a certain time, both in the multilateral and bilateral arena, expressing the relative degree of the interaction between a reference country and its peer compared to other peers in time t, and also to that peer in other years. Insofar, the pattern of interactions with a country "x" can be looked relatively to the interactions observed with other countries (i.e. "y", "z"), and can be used in empirical research as a proxy of the foreign policy agenda-priorities of the reference country.

Since it is an inherently complex concept, which accounts for the overlapping of actions and internal competition among agencies, the empirical codification of the FPI is undeniably subject to reductionisms. Accepting the risks associated with the construction of a composite index, we are convinced that an effort for more empirical rigor is needed in the field of FPA, particularly as it is currently carried out in Latin American countries (Giacalone, 2012; Medeiros, Barnabé, Albuquerque, & Lima, 2016). However, we are not the first to present such an idea. The use of composite indexes that express political distance between countries has been common in Political Science and International Relations, Economics, Management and Law (Berry, Guillén, & Zhou, 2010; Ghemawat, 2001; Newman, 2012) and common to every index lies the problem of the justification of the choice of indicators that compose it and the methodological procedures to build it.

To proceed to the construction of the FPI, we organized and systematized data available since 1998. Table 3.1 summarizes the measures and sources of the variables composing the index.

Table 3.1. Variables in the index

Variable	Description	Source
Annual Exports	Annual Brazilian exports (U.S.$) to each country	United Nations Comtrade.
Bilateral treaties	Quartile in which the number of bilateral agreements each year is. Values 0, 0.3, 0.6 and 1. 1998-2014.	Ministry of Foreign Affairs website.
Common markets	Participation as full member in MERCOSUR per year. Values 0 or 1. 1998-2014.	MERCOSUR and the Ministry of Development, Industry and Trade (MDIC) websites.
Convergence in International Financial Institutions	Measure for the support of Brazilian representation on the executive boards of the IMF, World Bank and co-participation in coalitions to which Brazil belongs within the WTO. It ranges from 0 to 1. 1998-2014.	Official webpages of the International Monetary Fund, the World Bank and the World Trade Organization.
Cooperation programs	If the country is host of a cooperation mission or a bilateral cooperation project in a given year. Values 0 or 1. 1998-2014.	Ministry of Foreign Affairs and Brazilian Cooperation Agency
Embassies	Embassies of existence in a given year. Values 0 or 1. 1998-2014.	Ministry of Foreign Affairs and Official Journal.
International trips	Official visit of the President of the Brazilian Republic. Values 0 or 1. 1998-2014.	Presidency website.
Inter-regional arrangements	Quartile in which the number of co-participation in the inter-regional mechanisms each year is (BRICS, CPLP, IBAS, Africa-South America Summit, Summit of South American-Arab Countries). It ranges from 0 to 1. 1998-2014.	Ministry of Foreign Affairs. Official websites of the organizations.
Programs led by the Foreign Affairs Ministry	Quartile in which the monetary value of cooperation programs led by the Foreign Affairs Ministry each year is. Values 0, 0.3, 0.6 and 1. 1998-2014.	Transparency Portal (Brazilian Government).

Regional integration initiatives	Quartile in which the number of co-participation in forums and regional integration organizations each year is (UNASUR, CELAC, ACTO, LAIA). It ranges from 0 to 1. 1998-2014.	Ministry of Foreign Affairs. Official websites of Unasur, ACTO, LAIA and ECLAC.
UNGA votes	Similarity in the pattern of votes, ranging from 0 to 1. 1998-2014.	Voeten, Strezhnev, and Bailey v.16 (Voeten, Strezhnev, & Bailey, 2016).

Source: Elaborated by the author.

As the index ranges from 0 to 1, the larger the value, the larger the priority Brazil gives to a certain country. Factorial analysis was employed as the statistical methodology used to combine all the indicators into single variable (Jackman, 2008).[21] The results are available for 192 countries for each of the years between 1998 and 2014, totaling 3264 observations.

A further step was followed to improve the explanatory capacity of FPI inspired in the reviewed literature in the previous section. Based on the criteria formulated by Gustavsson (1999), we classified each of the variables as either (a) *systemic* if the weight of power-relations between states are determinant to the variable definition and its value hardly changes due to unilateral decisions from Brazil from one year to another, or (b) *domestic* if the variable is highly dependent on the bargaining between social actors within the State and could be instantly modified through an internal process (see Table 3.2).

Table 3.2. Systemic-domestic classification

Variable	Class	Explanation
Annual Exports	Systemic	Brazilian exports are strongly affected by international commodity prices, and these are determined exogenously. How much and at what price a country buys from Brazil is not something that the government has much control over, and export promotion initiatives such as those promoted by APEX are only worthy when international prices and demand are high enough.
Bilateral treaties	Domestic	While treaties are affected by international politics (which is why they are *bi*-lateral), the final decision for signing or terminating them relies on the

[21] The step-by-step transformation of the variables and the in-depth description of the method for the construction of the indicator is offered in the online appendix. An interactive map of the index is offered at https://tinyurl.com/yd22opdw.

		Ministry of Foreign Affairs, the President and Congressional Decisions.
Common markets	Systemic	Common markets are not easily terminated, nor are they created on a yearly basis, and they depend on long-term political negotiations among its country members. They assume the free movement of production factors so they are also affected by the activities of multinational corporations and diasporas.
Convergence in International Financial Institutions	Systemic	This variable includes WB, IMF and WTO coalitions, which are the result of long years of negotiations and vote together, defending the interests of (in the case of Brazil) the least developed countries with a strong dependence on commodity prices and low access to international credits.
Cooperation programs	Domestic	Strongly dependent on budgetary decisions, these programs allocate resources from the Ministry of Foreign Affairs and need congressional support. Very often, they are terminated when presidents change or when crises hit the economy.
Embassies	Domestic	Relies mostly on a decision taken at the level of the Ministry of Foreign Affairs, backed by Presidential and Congressional support. It is affected by budgetary policies.
International trips	Domestic	Relies highly on the President's decision and the ultimate decision on whether or not to visit a certain country is taken domestically even though the invitation can be made by a foreign country.
Inter-regional arrangements	Systemic	The least institutionalized of the three interregional initiatives we considered, these emerged as international arrangements aimed at building international bargaining power (think of BRICS or IBSA) to counterbalance western influence.
Programs led by the Foreign Affairs Ministry	Domestic	Strongly dependent on budgetary decisions, these programs allocate resources from the Ministry of Foreign Affairs and need congressional support. Very often, they are terminated when presidents change or when crises hit the economy.
Regional integration initiatives	Systemic	While they do not suppose the free movement of production factors and are institutionally much weaker than common markets, they are also not easily terminated nor created on a yearly basis, and depend on long-term political negotiations among country members.

UNGA votes	Systemic	Its outcome is dyadic, as the common share votes Brazil has with other countries also depend on what other countries vote (yes, no, abstain). The delegations representing each country are based in New York and vote in blocks or coalitions, which are quite stable. This variable changes very slowly on a yearly basis.

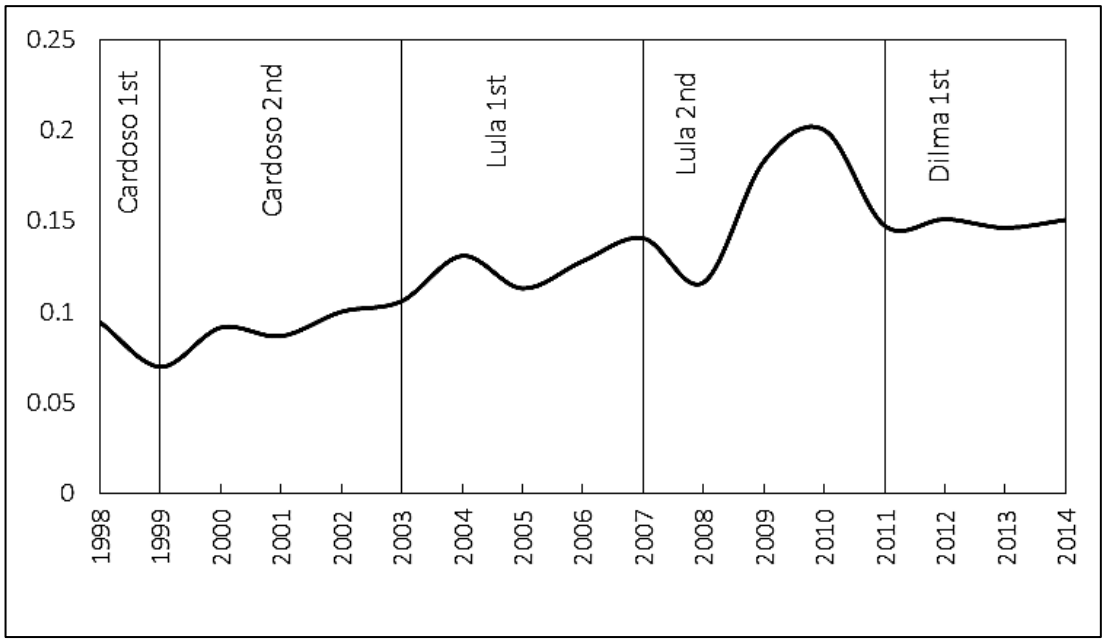
Source: Elaborated by the author.

Discerning variables as domestic or systemic allowed us to create two sub-indexes, one for international and one for domestic variables, both standardized to have the same scale. After calculating the annual change towards each country, we transformed the results into shares of the sum of the two, which can be interpreted as the percentage of yearly variation explained by each dimension.

In a way, FPI makes a contribution to gaps in the research of Latin American foreign policy making that have been pointed out by other authors (Amorim Neto & Malamud, 2015; Doctor, 2017; Giacalone, 2012; Hey, 1997; Lopes et al., 2016; Thies, 2014). Through the description of the main trends shown by FPI we derive testable hypotheses that fill gaps in the literature. Figure 1 plots the average FPI of Brazilian foreign policy during the period from 1998 and 2014 for the 192 countries. Among the ideas we can draw from the figure, we observe that within the entire period, Lula's second mandate was the most engaged in world affairs and that the slope is positive since 1999. This verified trend is consistent with it is largely argued by the literature. Between 1998 and 2014, Brazil enlarged and diversified its foreign policies by 50%, from 0.1 to 0.15 units of the index, which can be confirm by looking at table A in the appendix.

This trajectory of Brazil's integration into the international scene can be traced back to Fernando Henrique Cardoso's second mandate. As we discussed in more detailed in the previous section, the literature attributes to Cardoso changes in foreign policy orientation at least towards a wider set of partners and an active participation in international arenas that were later capitalized by Lula (Cason & Power, 2009).

Figure 1. Average engagement of foreign policy through the years in the FPI



Source: Elaborated by the author.

As seen, Brazil presented an increasing tendency of international political engagement in the evaluated period. In section 2 (b) we discussed how Brazil's turn to the Global South following Lula's first mandate has received quite substantial academic attention (Badin & Morosini, 2014; Besharati & Esteves, 2015; Hopewell, 2015; Milani & Carvalho, 2013). Through an extensive analysis of this literature, we observe that, although much has been said about Brazil's turn to the Global South, an unanswered question remains intriguing: in explaining the Brazilian foreign policy shift, how was the interplay between the Workers Party's political views of the world and the changes that occurred in the structure of the international system? Is there a factor that prevailed?

If one follows the statement of former foreign affairs minister Celso Amorim, who once declared "South–South cooperation is a diplomatic strategy […] that originates from an authentic desire to exercise solidarity toward poorer countries. At the same time, it helps expand Brazil's participation in world affairs" (Dauvergne & Farias, 2012, p. 909), we are led to believe that Brazil's approach was mostly pragmatic. However, the literature seems to have two viewpoints: those who speak about a strong ideological component within the development of the Worker's Party foreign policy (Cason & Power, 2009) and others who, while recognizing this ideology, think this decision was mostly a pragmatic one that

followed from Geisel's Responsible Pragmatism during the military period (Vigevani & Cepaluni, 2007b).

Despite these divergences, most scholars agree that a shift to the South was made clear during Lula's first mandate. One example of this is the pattern of relations between Brazil and the U.S. From a strong engagement with the U.S. at the height of Washington Consensus to a break that materialized at Mar del Plata's Summit to negotiate the FTAA, Brazil made it clear to the world that there had been a change in the way it related to the U.S. As depicted in Figure 2, we observe how Brazil lost interest in the U.S., going from the highest score among the 192 countries in 1998 to scoring very low in 2014.

Figure 2. Foreign policy engagement with the U.S. in the FPI

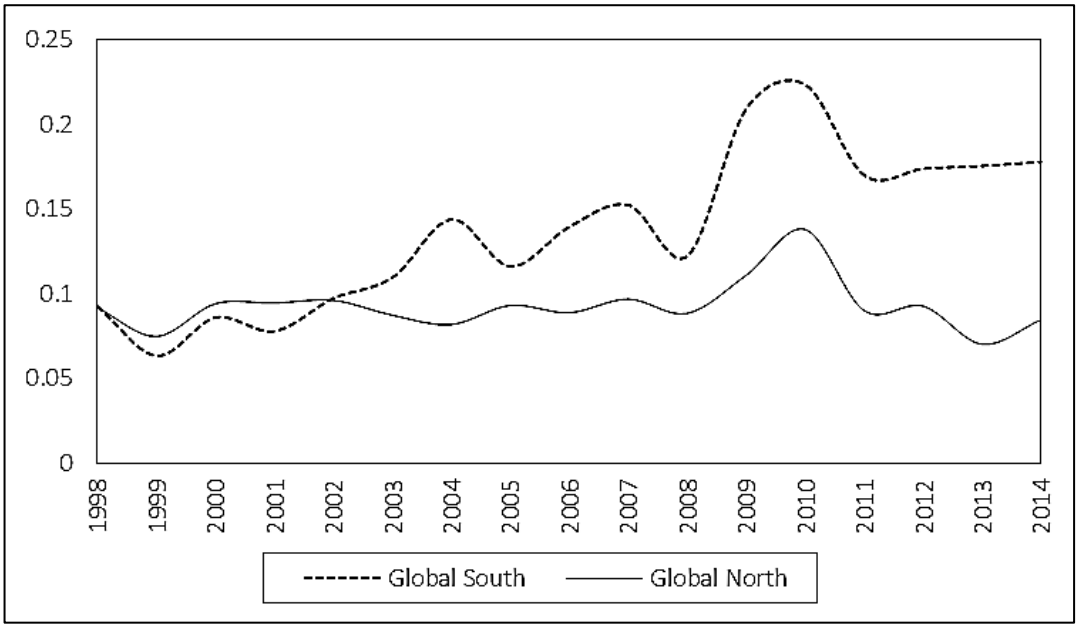
Source: Elaborated by the author.

The dynamic of bilateral relations between Brazil and the U.S. is a particular case within a broader process. Figure 3 compares the engagement with countries from the Global South to countries from the Global North.[22] When Lula's first mandate started, Brazil registered a shift in the engagement with the two groups that only widened with time, making South-South relations a priority. The gap between the two groups of countries

[22] The criterion used to divide both groups is the Brandt Line, first proposed in 1980 in the Brandt Report.

expanded with time, which shows that the South-South cooperation strategy was deepened over the years, particularly since 2008.

Figure 3. Engagement with Global South vs Global North in the FPI



Source: Elaborated by the authors.

Although the figure corroborates the claim of the turn to the South, we can use the data to test if this movement came at the expense of the relations with the Global North. Our first hypothesis is

Hypothesis 1*: Brazil managed to expand its links with the Global South without compromising its foreign policy towards the central economies.*

Since the description of the period gives us clues about the dynamics of Brazilian relations with the Global North and the Global South, we can use FPI to explore the sources of the changes of foreign policy for each group of countries and shed light on the role of ideology during the Worker´s Party period. We have mentioned that the interest in understanding domestic, systemic, international and individual factors as drivers of policy shifts instigated a fruitful debate (Carlsnaes 1992; Fearon 1998; Gustavsson 1999; Hermann 1990, among others), which later influenced academic work on the transformation of Brazilian foreign policy (Amorim Neto & Malamud, 2015; Cason & Power, 2009; i.e. A. J. S. N. Oliveira, Onuki, & Oliveira, 2006; Vigevani & Cepaluni, 2007b).

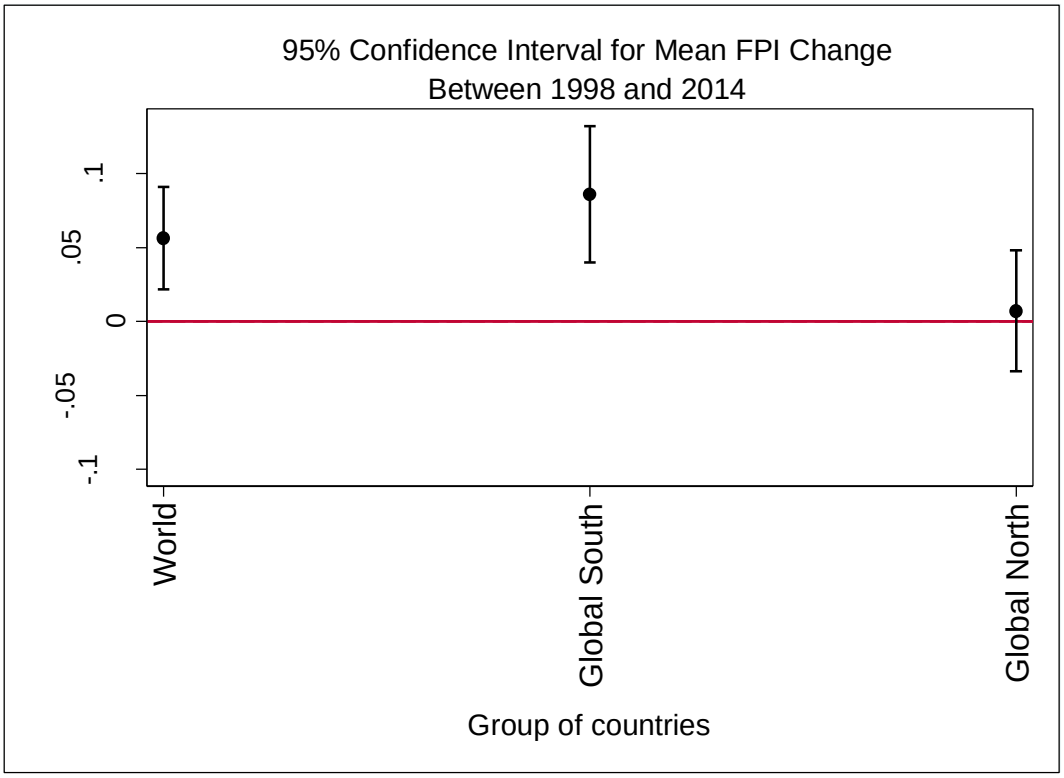
Most recently, Amorim Neto and Malamud (2015) evaluate whether systemic or domestic factors are more influential in shaping foreign policy in Latin America. The result for the Brazilian case is that –differently from Argentina and Mexico—its foreign policy is influenced by a blend of domestic and systemic factors, the latter being most important. However, if we disaggregate the analysis per country with which Brazil engages, we can test if

Hypothesis 2a: *During the period of analysis (1998-2014), domestic politics were more determinant at explaining foreign policy engagement towards Global South than towards Global North countries.* Which, if confirmed, would explain the shift observed in Figure 3. In this regard, we can also explore the role of ideology in shaping the shift in foreign policy led by the Worker´s Party, which has been a matter of discussions among authors (Amorim Neto & Malamud, 2015; Cason & Power, 2009; Dauvergne & Farias, 2012; Vigevani & Cepaluni, 2007b). Then, a hypothesis 2b holds that: *during the period, partisan ideology had a major impact in the foreign policy making of Brazil.*

4. Empirical Findings

To address Hypothesis 1, we test whether the different priorities given to the two groups of countries was a zero-sum game –in the sense that Brazil switched affinities and replaced one group for the other– or not. To do so, we first compare mean changes between 1998 and 2014 with a simple T-test. The result is shown in Figure 4, confirming that relations with Global south grew stronger without a significant retraction towards the Global North, which supports the idea that there was no zero-sum logic, but rather that Brazil increased its engagement with the entire world, allocating more resources to its relations with the South without compromising its engagement with the North.

Figure 4: Mean differences in the engagement toward North vs South



Source: Elaborated by the author.

Table 3 summarizes our findings in comparing terms. The changes in the relationships with countries of the Global South were between 59 percent and 86 percent smaller during Cardoso's governments, compared to different periods of the Worker's Party governments. The Worker's Party did not increase Brazilian interactions with the Global North compared to Cardoso, and Rousseff's term witnessed a reduction both in interactions with the North and the South when compared to the second mandate of Lula da Silva, although only the retraction with Global North is statistically significant. Overall, the table shows that when changes in Global South were positive, they were not at the expense of relations with the Global North.

Table 3.3. Comparison foreign policy among government's terms

	Δ Global North	T-test	Δ Global South	T-test
Cardoso (2nd term) vs Lula and Rousseff	-5.6%	0.55	-85%	9.27***
Cardoso (2nd term) vs Lula (two terms)	-4.4%	0.36	-69%	7.17***
Cardoso (2nd term) vs Lula (first term)	2.2%	0.14	-52%	4.74***
Rousseff vs Lula (two terms) and Cardoso (2nd term)	-12.7%	1.21	25.5%	4.61***
Rousseff vs Lula (two terms)	16.3%	1.63	9.4%	1.49
Rousseff vs Lula (last term)	-33%	3.08**	-9.14%	1.13

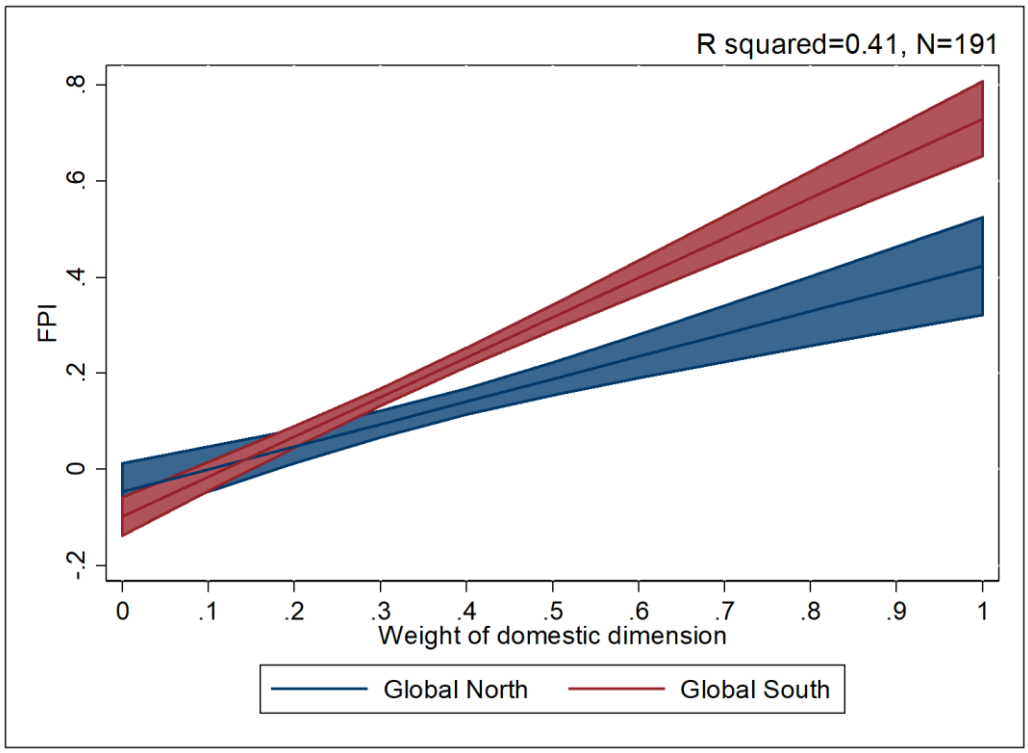
Note: statistical significance expressed as * p<0.05, ** p<0.01, *** p<0.001.

Moving to our second hypothesis, we define two linear regression models to explore the role of domestic politics and ideology in explaining Brazilian foreign policy engagement toward the countries of the Global South and North. The first model tests hypothesis 2(a) by utilizing as the dependent variable the FPI average of the country in the period of study in order to investigate: (a) the weight of domestic matters in the index towards that country, and (b) if the fact that the country belongs to the Global South affects the average score of the index. The model can be defined as

$$\text{FPI average}_i = \beta_0 + \beta_1 \text{Domestic weight}_i + \beta_2 \text{global south}_i + \beta_3 \text{Domestic weight} \times \text{global south}_i + \varepsilon_i \quad (1)$$

The results of the model are expressed as margins of the fitted model (see figure 5). The findings show that the larger the weight of domestic variables in the definition of the foreign policy towards a certain country, the larger the overall FPI index, and this is even more accentuated for countries of the Global South.

Figure 5: Estimated marginal effects of the domestic dimension´s weight on the overall foreign policy engagement



Source: Elaborated by the author.

As we have we confirmed that engagement with the countries of the Global South was not at the expense of links with the Global North, and that the shift towards the former was driven by domestic variables in the index, we now explore the role of partisan ideology of the Worker's party in explaining this shift. To do so, we retrieved information on the partisan ideology of each of the 192 countries in the data from the Database of Political Institutions, compiled by the Inter-American Development Bank (Cruz, Keefer and Scartascini 2016) and created a dummy variable that proxies for partisan ideology convergence which assumes the value of "1" if a country's governing party shares a common ideology with the Brazilian government with respect to economic policy in a certain year.

To explore the role of the ideology during the Worker's Party time in government (hypothesis 2b), we define the following model:

$$\begin{aligned} FPI_{i,t} = \beta_0 &+ \beta_1 \text{Shared ideology}_{i,t} + \beta_2 \text{Lula da Silva's 1st term}_{i,t} + \beta_3 \text{Lula da Silva's 2nd term}_{i,t} \\ &+ \beta_4 \text{Dilma Rousseff's 1st term}_{i,t} \\ &+ \beta_5 \text{Shared ideology} \times \text{Lula da Silva's 1st term}_{i,t} \\ &+ \beta_6 \text{Shared ideology} \times \text{Lula da Silva's 2nd term}_{i,t} \\ &+ \beta_7 \text{Shared ideology} \times \text{Dilma Rousseff's 1st term}_{i,t} + \beta_8 \text{global South}_i \\ &+ \beta_9 \text{Domestic weight}_i + \beta_{10} \text{Political alignment with USA}_{i,t} \\ &+ \beta_{11\ldots18} \text{Regional fixed effects}_r + \beta_{19\ldots36} \text{Yearly fixed effects}_t + \varepsilon_{i,t} \end{aligned} \quad (2)$$

Table 3.4 shows the results of the model specification (2) using a random effects panel OLS with robust standard errors, and defines five different versions of the model, which gradually incorporate controls and fixed effects which serve as robustness checks[23]. The dependent variable is the FPI score of each country each year. We are interested in the interactive terms between each presidential term and our variable measuring shared partisan ideology.

The model uses Cardoso's mandate as a reference (constant term), and shows robust findings confirming that during Lula da Silva's second mandate and Dilma Rousseff's first, the FPI was larger in countries with a shared partisan ideology, even after controlling for countries of the Global South, yearly and regional fixed effects. The fact that this effect is not found for Lula da Silva's first mandate, and that the magnitude of the effect is almost twice as large during Dilma's term compared to Lula's second presidency suggests an incremental process by which partisan ideology became increasingly influential in shaping foreign policy decisions. Furthermore, versions 4 and 5 of this model include a variable for the yearly convergence of each country with U.S. in the UNGA, what we term "Political alignment with USA". The objective of including this variable is to control for structural shifts in the international arena, and aims at ruling out the possibility that Brazilian foreign policy kept the pragmatic strategy that followed from Geisel's Responsible Pragmatism during the military period (Vigevani & Cepaluni, 2007b) contrary to our suspicious that there was a strong ideological component within the development of the Worker's Party foreign policy that prevailed (Cason & Power, 2009).

Our findings put into question the assertion made by those who claim that Brazilian Foreign Policy remained pragmatic in the last two decades. For instance, Gardini argues that

[23] To choose between fixed and random effects we used a Hausman test, and also controlled for multicollinearity in our right-hand side variables.

> "…evidence suggests that a country whose aim is to gain greater respectability and prominence within an established club will tend to adopt more pragmatic positions, essentially designed to please or appeal to the members of the club, while emphasizing its own agenda within it. Such is the case, for example, of the rise of Brazil to a Global power status. Brazilian foreign policy has consistently sought a more prominent role for the country in both regional and global arenas, and hence the purpose has not been to radically change those arenas or their principles, but rather to gain status within them in order to advance the Brazilian agenda." (2011, 18).

We find evidence to believe that Brazil´s Foreign Policy, far from being purely pragmatic, was strongly embedded in ideology during PT's years.

Table 3.4: The effect of partisan ideology on foreign policy engagement

	(1)	(2)	(3)	(4)	(5)
Lula's first term	0.0293***	0.0292***	0.0322***	0.0272***	0.0266***
	(4.92)	(4.90)	(5.30)	(3.48)	(3.44)
Lula's second term	0.0310***	0.0325***	0.0330***	0.0350***	0.0978***
	(4.17)	(5.08)	(5.19)	(5.95)	(7.49)
Dilma Rousseff's first term	0.0517***	0.0517***	0.0517***	0.0497***	0.0497***
	(5.26)	(5.25)	(4.71)	(3.97)	(3.95)
Shared Ideology	0.00594	0.00308	0.00419	0.00414	0.00390
	(0.45)	(0.23)	(0.30)	(0.30)	(0.28)
Lula da Silva's first term × shared ideology	0.00839	0.00842	0.00930	0.00846	0.00804
	(0.69)	(0.69)	(0.74)	(0.67)	(0.63)
Lula da Silva's second term × shared ideology	0.0345*	0.0346*	0.0350*	0.0318*	0.0316*
	(2.32)	(2.32)	(2.26)	(2.03)	(2.00)
Dilma Rousseff's × shared ideology	0.0477*	0.0477*	0.0476*	0.0458*	0.0454*
	(2.24)	(2.24)	(2.18)	(2.09)	(2.08)
Domestic weight		0.489***	0.494***	0.498***	0.357***
		(9.99)	(9.56)	(9.77)	(9.82)
Global South		0.0340*	0.0393*	0.0246	0.0299
		(1.97)	(2.42)	(1.55)	(1.68)
Political alignment with USA			0.0211	-0.0338	-0.0377
			(0.96)	(-0.93)	(-1.19)
Constant	0.0869***	-0.112***	-0.123***	-0.0893***	-0.0877**
	(8.49)	(-4.68)	(-5.25)	(-3.58)	(-3.01)
Yearly fixed effects	No	No	No	No	Yes
Regional fixed effects	No	No	No	Yes	Yes
Observations	3245	3245	3088	3088	3088
R-Squared	0.039	0.277	0.285	0.430	0.456

Note: T statistics in parentheses; Statistical significance: * p<0.05, ** p<0.01, *** p<0.001.

5. Conclusions

The literature on FPA is starting to acknowledge that only focusing on the president's actions, and/or those of the Foreign Ministry Affairs, is not enough to understand this multifaceted policy, which is subject to bureaucratic overlaps, international constraints and domestic power struggles. Studying the new dynamics of Brazilian foreign policy in a world in transformation requires new paths of investigation (Milani & Pinheiro, 2016, p. 2). To be fair, this is not a phenomenon exclusive to Brazil, but one that can be extended to other countries, in particular those of Latin America. Authors seeking more empirical rigor in Latin American FPA could benefit from replicating FPI methodology on other countries. As part of a common effort to assimilate new dynamics and purpose new paths for conducting research, we question the way the literature addresses the proxies used to raise questions, support arguments and draw conclusions about general aspects of Brazilian international affairs.

The FPI captures the engagement of Brazil with its foreign counterparts in a detailed manner. Brazil's trajectory of opening to the world is seen here in an innovative way. Although this is a well-studied theme in the literature, we offer new insights about the country's international behavior. The Brazilian shift to the Global South has been given special attention. In agreement with the literature, empirical tests using the FPI provide evidence that, in fact, Brazil increased the intensity of its relations to Southern countries. Nonetheless, our results indicate that the turn to the South did not occur to the detriment of established links with the Global North. In fact, in spite of the relatively superior growth in engagement with countries of the South, there was no zero-sum-game logic present. This means that Brazil managed its relationships with countries in each of the groups in different ways, managing to strike a good balance between the two.

When analyzing whether domestic or systemic variables are more important in explaining Brazilian international behavior, we provide important insights on the various sources of the country's foreign policy choices. In a comprehensive way, the FPI allows us to measure how much of the changes in foreign policy are driven by domestic or systemic factors in each of the two groups, and draw conclusions on the determinants of foreign policy outcomes. Furthermore, we claim that the country's movement towards the Global South can be understood as a result of a strategy in which domestic factors are more

important than systemic factors. They are, however, counterbalanced by the weight of systemic variables when the country deals with the developed world. The challenge now is to understand which circumstances are decisive for triggering each dimension.

We address questions related to changes in foreign policy. Proposing a division of our group of variables between domestic and systemic factors, we suggest diverse uses for the FPI that may provide clues about the main drivers of the changes in Brazilian foreign policy. Our work addresses important questions about the effects of systemic constraints and domestic concerns on the definition of foreign policy in developing countries, and as we look to collaborate in the efforts of analysts seeking to understand the determinants of foreign policy, we see opportunities for our proposed method to be used in cases other than Brazil. Accordingly, our research agenda will look to replicate studies for other countries at the same time that we endorse initiatives that contribute to the development of the debate, such as the extension of the index. Consequently, we believe that it can be used to advance the debate on how non-central countries develop their foreign policies, susceptible as they are to both domestic and systemic factors.

Finally, we give empirical evidence for a statement that has caused much discussion among the literature: the extent the Worker´s Party exerted an ideology-driven foreign policy. We give support to those authors arguing that, breaking with a tradition of technocratic isolation in foreign policy-making, ideology played a major role in defining an agenda to deepen the linkages with those countries closer ideologically to Brazil (Amorim Neto & Malamud, 2015; Cason & Power, 2009), which is coherent with Worker's Party efforts to promote Brazil as a legitimate voice in the Global-South's multilateral agenda.

Chapter 4. Foreign Policy and institutional determinants of FDI

1. Introduction

Good bilateral relations between origin and host country reduce the liabilities of being a foreigner, prevent harmful discretionary actions from governments and may represent opportunities for investors. Discriminatory taxes, harmful firm-specific regulations and pressures of indigenous firms for stricter market competition and risks of expropriation may also be considerably reduced by an active foreign policy involvement.

Throughout this study we argue that foreign policy may be an essential intermediary asset to make feasible operations in places with low levels of institutional stability and higher political risks to foreign investments. But there are also negative aspects, as the deterioration of bilateral relations can endanger foreign firms (Wang et al., 2012). Retaliations motivated by political disagreement between host and home countries in the international level can jeopardize the survival and success of multinationals.

Existing literature is attentive to the way the institutional environment influences multinationals' strategy, meaning how dissimilarities of contexts explain difficulties and opportunities for adaptation, as well how the firms internalize external incentives while taking actions towards internationalization (K. E. Meyer & Peng, 2016). However, there is much more to say about how political interactions between governments and foreign policy can shape, mediate and influence decisions regarding international investments.

The varieties of capitalism literature has explored the social and economic effects of the historical relation between governments and private agents (Hall & Soskice, 2001; M. H. Li, Cui, & Lu, 2014). This perspective highlights how national states are differently organized and the effects these organizational arrangements represent in terms of business organization and performance (Musacchio & Lazzarini, 2012). From this approach we have learnt that, in developing country contexts, it is essential to understand how government policies are determinant of the competitiveness conditions of national and foreign firms. Besides that, we still don't know much about how foreign policy shapes business decisions, and if foreign policy can be understood as an instrument of internationalization.

Recently, State-Owned-Enterprises (SOEs) and multinational enterprises from emerging countries (EMNEs) have captured the attention of scholars as relevant economic agents in international business (C. Cuervo-Cazurra et al., 2014; Estrin, Meyer, Nielsen, & Nielsen, 2016; Gammeltoft, Barnard, & Madhok, 2010; Verbeke & Kano, 2015). This relevance shifted its focus to the perspective that institutions should be an important explanatory dimension of firms' strategies. If until now this dimension could be ignored in the understanding of developed countries' internationalization strategies, it is hardly possible to by-pass it if we want to explain the same phenomena for multinationals from emerging countries (K. E. Meyer & Peng, 2016).

How the institutional dimension has been considered in the international business (IB) literature prevented a closer interaction between the discipline and other social sciences. It is important to stress that the IB literature has looked, primarily, to firms' strategies. The common group of strategies studied are the entry mode, the locational choice, the relations between headquarters and subsidiary, the development of R&D and firm-specific advantages, the amplitude of the scope (global vs country-specific strategies), and so on (Aguilera-Caracuel, Aragón-Correa, Hurtado-Torres, & Rugman, 2012; Corredoira & McDermott, 2014; K. E. K. Meyer, Ding, Li, Zhang, & Meyer, 2014; Peng, Wang, & Jiang, 2008; Salomon & Wu, 2012). At the same time, international political economists have been concerned with both the role of political institutions as a driver of capital and trade flows and the effects of these flows on political institutions (Büthe & Milner, 2012; Garland & Biglaiser, 2008; Jensen, 2008). With little exceptions, there aren't many works connecting these two literatures although they both constitute fruitful debates inside their fields (Duanmu, 2014; Jandhyala & Weiner, 2014; Ring, Bigley, D'Aunno, & Khanna, 2005; Wang et al., 2012).

Despite all progress in research about institutions and investments in international business and political economy literature, little is said about how foreign policy can affect firms' strategies. Our argument is that bilateral relations between the home and the host governments can provide different incentives to the firms in foreign environments. Governments can intermediate the relations amongst internationalized firm and the host government through foreign policy. Nevertheless, IB discussions treat institutions as localized and little not very interactive. From this perspective, home and host institutions do not interact. This means the institutions of the host country only constrain the behavior

of foreign firms and are responsible for producing the conditions of domestic competition – conditions that eventually become a liability for newcomers (Zaheer, 1995). We, on the other hand, want exactly to highlight the interactive dimension of institutions providing a systematic attention to the role of foreign policy in the induction of outward foreign direct investments.

Our intention is to promote a dialogue between the international business and international political economy literatures. We aim to contribute to the debate looking at the role of foreign policy in international business and presenting a new way of operationalizing one of the institutions' international dimensions – the foreign policy. What comes forward is a dense articulation of ideas and literature, combined with statistical models describing each of our propositions about the interaction of firms and governments' foreign policies.

We start the study organizing the literature of IB which tries to answer three main questions: a) how the literature explains the relevance of institutions to the internationalization of firms; b) the incentives and institutions considered in the main explanations and; c) what are the explanations for the successful strategies of internationalization. After, we consider the level of analysis and how institutions were commonly understood in the IB literature. In the fourth section, we provide explanations about what foreign policy is, together with some general propositions about how foreign policy interacts with firm's decisions. We assess our propositions by presenting a case study exploring the recent pattern of Brazilian FDI and its relations to the evolution of Brazil's foreign policy. In the final sections we explain how institutions can be operationalized by showing our panel data models, results and robustness checks. We conclude our study with some general contributions and propose a research agenda that can bring international relations to the core of institutional-based IB discussions.

2. Institutions in International Business Literature

From the 2000's institutions became a concern for international business literature, and since then many questions have been raised about its role as major constraints to multinational decisions and strategies (K. E. Meyer & Peng, 2016; Ring et al., 2005). Also,

the rise of EMNEs and SOEs as international competitors against developed countries traditional multinationals drew special attention to the importance of home and host political institutions as essential factors explaining success, failure and competition in international markets.

Understood as the "the rules of the game" (North, 1990), institutions highlight how the formal rules created in formal and informal instances (rooted in social and cultural practices) affect the behavior of economic agents (P. J. Buckley, Clegg, Cross, Liu, Voss, Zheng, & Clegg, 2007). Translating into the international business jargon, discussions regarding the concept of institutions focus on how "the rules of the game" can change companies' actions.

Broadly used in the IB literature, one of the most important characterizations of institutions is provided by Scott (2001), to whom institutions have three pillars, meaning three normative constructs which help us capture the formal and informal forces affecting agents. The regulative pillar refers to the setting, monitoring and enforcement of formal rules. The cognitive one restores cultural aspects, while the normative pillar designates the desirable goals and means to achieve them. Together with Scott, there are other important attempts to give form and substance to the concept of institutions (DiMaggio & Powell, 1983; Kostova & Zaheer, 1999; Zaheer, 1995). We want to focus on three main questions raised by this debate: 1) why institutions are important; 2) which institutions are important and 3) how institutions can shape firm strategies.

International business phenomena are usually explained by a combination of the three above questions. For example, from the statement that international companies face (1) liabilities when going abroad, there are works exploring how (2) the differences amongst the countries' institutions influence (3) strategic choices of the companies' management and its model of corporate governance. This broad understanding of what are the important problems is what enables an investigation into the relation amongst firms and institutions with our eyes facing the countries' foreign affairs[24].

[24] The recent emergence of State Owned Enterprises (SOEs) like the Chinese giant or multinationals from other emerging countries (EMNEs) gave fresh breath to the discussions calling attention to their broad connections with governments of origin (Kostova & Hult, 2015; K. E. Meyer & Peng, 2016).

2.1. Why and how institutions affect firm behavior

There is a long-lasting worry in the IB literature pointing to difficulties firms face when going abroad. Specifically, there are challenges due to the unfamiliarity of firms with the institutional environment, and concerns regarding cultural, social and political affairs that pressure the development of firm specific advantages in order to reduce the risks of foreignness (Zaheer, 1995). As Nielsen, Asmussen and Weatherhall (2017) suggest, "institutions shape the nature of business by providing the opportunities and constraints within which economic activity takes place." (2017, p. 66). Institutional forces exert pressure over the behavior of firms when dealing with FDI decisions, and the description of these forces has contributed to the maturation of the IB debate (Francis, Zheng, & Mukherji, 2009).

Firms face conflicting demands from the environment and they select the information and incentives to guide their behavior. In the firm level, institutions work as incentive structures. These incentives can either be motivated by uncertainty about the economy, for example, or by the very shape of the institutions. This is how institutions affect the efficiency of markets and embody the set of competition rules to which the firms are submitted (K. E. Meyer & Peng, 2016). As there are institutional influences in various stages of the firm adaptation and operation (entry mode, management organization, decisions about subsequent investments and so on) the responses and the pace of business actions differ according to the perceived pressure (Francis et al., 2009, p. 568). When investing, the firm is concerned with its organizational management to fit demands from the host country institutional environment. In most cases, the choices will be conditioned by the targets of the firms' decision makers.

The idea of the costs of doing business abroad (CDBA) elaborated by Hymer (1976) was one of the first mentions to the costs and risks associated to the internationalization of firms (Eden & Miller, 2004). Commonly understood by the subsequent literature as the "advantages national firms have in their home markets relative to foreign-owned firms" (Eden & Miller, 2004), Hymer's CDBA identified that MNEs faced barriers of entry, and for that reason they should develop competitive advantages to overcome them[25]. The very

[25] The mechanisms behind those barriers include protecting home firms through the use of information asymmetry and differential treatment (Eden & Miller, 2004).

central idea of CDBA has been further refined to substantiate the Liability of Foreignness (LOF) concept, developed by Zaheer (1995).

CDBA and LOF emphasize how domestic and host institutions are sources of competitiveness or weaknesses whenever a firm goes abroad. In this perspective, international firms wouldn't perform so well as in home institutional environment because there are implicit costs related to geographic distance, the lack of legitimacy (in face to the host government), restrictions from the host or home country (i.e. technology transference), unfamiliarity and adaptation costs, among others (Kostova & Zaheer, 1999; Zaheer, 1995).

Eden and Miller (2004) contrast the differences and consequences of these two important concepts in IB. According to them, while CDBA stresses the economic and market costs of operating business abroad, LOF emphasizes the social costs related to business operations. Furthermore, LOF can be better comprehended as a component of CDBA. The main distinction between the concepts according to the authors is that LOF highlights institutional distance (cognitive, normative and regulatory) and it is high sociological-based, while CDBA could include other components as geographic and economic matters. Both concepts embody hazards to firms' international operations. Be they related to the unfamiliarity of the foreigner environment, to the possibility of discriminatory treatment (taxes, regulations and others), cultural differences or related to the costs of monitoring and enforcing property rights, they surely constitute a set of threats that justify the centrality of institutions as incentive mechanisms.

A special consideration has been given to a type of hazard faced by a foreign firm: legitimacy, an objective and necessity of firms in foreign contexts (Kostova & Zaheer, 1999). Broadly, legitimacy can be understood as the acceptance of firms by local business environment (Kostova & Zaheer, 1999). As the Institutional environment mediates the organizational characteristics of entrants (subunits, sector, business group), it also mediates *the legitimation process* through which the environment builds its perceptions about the organization (visibility of the firm, social construction and symbolic interactionism perspectives) (Kostova & Zaheer, 1999). In their seminal work, Kostova and Zaheer (1999) explore the capacity of different firms to manage the task of negotiating with governments and bargaining for deals given their different legitimacy. Because the bounded rationality,

the legitimacy of one firm is affected and affects the legitimacy of all other firms that share the same structural position.

Discrimination, unfamiliarity, costs of adaptation and legitimacy matters set the tone of the concerns about the institutions' relevance in international business. Changes during the 1990's in developing countries also contributed to broaden the concerns with institutional circumstances and features (Ring et al., 2005). For instance, Khanna and Palepu (2000) discuss how institutions became a prominent issue in IB. According to them, IB community was concerned with the possible effects of institutional context on the relative value of different organizational forms (2000, p. 268). One rising topic was the existence of *institutional voids* in the liberalization process in recently-democratized countries since the 1990's. *Institutional voids are* the gaps left by the replacement of old institutions with new political structures in the presence of market failures. As the Chilean case illustrates, after the liberalization period and with the withdrawal of the state from the economy in the 1990's, there was a vacuum in intermediary functions, creating conditions for the fulfillment of policy spaces by business interest groups (Khanna & Palepu, 2000, p. 273).

As seen, structural and conjectural institutional conditions determine a complex environment which firms must deal with. This perspective is particularly true in the context of emerging markets, and even more prominent in the case of state-led economies. The same is true for countries that transited from authoritarian to more democratic regimes (K. E. Meyer & Peng, 2016; Peng et al., 2008). On these occasions, the centrality of institutional matters is more pronounced and constitutes a distinctive characteristic of emerging economy business studies (Aharoni & Ramamurti, 2011; P. J. Buckley, Clegg, Cross, Liu, Voss, Zheng, & Clegg, 2007; Kostova & Hult, 2015).

2.2. Which institutions are considered?

A second query corresponds to the works trying to identify which are the institutions that affect the firms' behavior and express local concerns. If we agree that institutions matter for different reasons, it is interesting to know which institutions are most commonly described as fundamental. We are far from a consensus on the definition and operationalization of institutions. While some argue that firms' strategies are mainly defined

by the set of meaningful incentives from the origin country, as home-related specific advantages (access to knowledge or specific assets/resources) (Geleilate, Magnusson, Parente, & Alvarado-Vargas, 2016; Witt & Lewin, 2007), others express concerns about the characteristics of the host institutions as a primary source of incentives - for instance, the effects of tax regulations, competition rules and property rights in host countries (Casson, Porter, & Wadeson, 2015; Delios & Henisz, 2003; Dunning, 1980a; Eden & Miller, 2011). To locate the institutions, a series of conceptual innovations have been proposed. Among them, the spatial idea of context (Kostova & Hult, 2015; K. E. Meyer & Peng, 2016) and institutional distance are the commonest.

The consideration of the *context* became interesting while providing a *locus* to observe institutional effects (Rugman, 1981). From this perspective, Rugman developed the concepts of firm specific advantages (FSA) and Country Specific Advantages (CSA), from which he could highlight the importance of the location choice of foreign investments. This made possible for us to see the conditions (advantages) that improve the likelihood of firm's success and gives information about the ability of MNEs to overcome market barriers (P. J. Buckley, 2016).

Since Alan Rugman's work was popularized, countries' characteristics and home institutions were combined to the firm's specificities. From this combination, the international success or failure of a firm could be considered within a framework that put together advantages related to two main dimensions. The ideas of *Firm Specific Advantages (FSA)* – unique competences of a firm such as patented R&D knowledge, brand names, process, human capabilities and so on - and *Country Specific Advantages (CSA)* – country endowments as labor force, natural resources, culture, public policies and others – conformed to the understanding that the competitiveness of firms was, to some extent, dependent on how these advantages were entangled[26] (Rugman & Verbeke, 1993). Host and home countries' contexts, in this sense, were important aspects to locate the advantages that made possible the multinational's venture abroad.

According to Buckley (2016), one of the main contributions of Rugman's work is the fact that it brought to the center of *internalization theory* factors that determine~~s~~ firm's behavior and the power relations between MNEs and national states. In Rugman's work,

[26] The 2x2 matrix (CSA vs FSA) created by Rugman and Verbeke (1993) allows to understand movements were a firms with strong FSA can make a movement and strength the country's specific advantages (moving from 2 to 4).

CSA factors improved the abilities of firms to develop FSAs (Rugman & Li, 2007). In contrast to Buckley and Casson (1998), to whom the internalization was seen as a cost and benefit calculus considering the internalization of procedures and assets, Rugman's theory explained why the firms developed specific advantages (FSAs). In his view, CSA's contextual conditions (i.e. resources availability) comprised the settings needed to firms internalize and explore foreign markets (Casson, 2016). The determinant here is the connection between the firm and its origin country, and this was combined to the local characteristics of the target markets (Jing Li & Oh, 2016; Rugman, 2005). If it was possible to study multinationals from developed countries without the idea of context, this was no longer encouraged. Particularly, there was a flaw in this literature regarding "how business engage with potentially conflicting institutions at different levels (such as national vs local) and in different geographies (such as headquarters country vs subsidiary countries)" (K. E. Meyer & Peng, 2016, p. 4).

Of course, there are possible conflicting incentives between host and home institutions which cannot be solved only by the idea of context. The idea of *institutional distance* is a useful way to locate and combine the set of relevant institutions a firm must deal with when making decisions. Usually, this idea is defined by the similarity and dissimilarity of institutional patterns between the regulatory, cognitive and normative institutions of two countries (Kostova & Zaheer, 1999). The concept of institutional distance tries to capture how differences and similarities in education, political and legal system, level of industrialization, laws, regulatory framework and local business-state relations affect behavior and often determine the business success. (Berry et al., 2010; Eden & Miller, 2004; Ghemawat, 2001; Xu & Shenkar, 2002). This approach has been intensively reviewed and used to explain many other institutional effects, besides related to location choice (Holburn & Zelner, 2010; Xu & Shenkar, 2002), entry mode (Xu & Shenkar, 2002; Yiu & Makino, 2002) and performance (Gaur & Lu, 2007).

The idea of institutional distance contrasts with the preceding literature, which was mostly based on considerations about the locational advantages (i.e. Dunning's OLI). Also, it challenges internalization theorists to whom internationalization was a part of many adjustments inside firms and its environment (Xu & Shenkar, 2002), and provides an alternative way to look to the firm behavior and its links host institutional profile and its own capabilities. However, it still misses the interactive dimension of institutional relations.

2.3. Which are the strategic responses of firms to institutional incentives?

Looking towards the same direction, the literature's third general concern is to better perceive which are the firms' strategic responses to institutional incentives. We are referring here to works dealing with isomorphism strategies in institutional environments, legitimacy strategies and internalization decisions (P. J. Buckley & Casson, 1998; DiMaggio & Powell, 1983; Kostova & Zaheer, 1999). So, if institutions are incentives that shape firms' behavior, we need to analyze how IB authors have been exploring the firms' strategic responses to those incentives. We chose three main topics, as they still influence the debate when talking about the decisions of whether to internationalize: location choice, entry mode and adaptation.

Why does a firm go abroad? It was from Coase's (1937) idea of reducing transaction costs that internalization theory flourished. This is an account on how firms go abroad to overcome imperfections of the origin market by choosing to make or buy overseas (P. J. Buckley & Casson, 2009). This idea motivated the creation of models that could point out to the role of many factors (technology, characteristics of the products, geography, culture, property rights and political risks) governing multinationals' behavior (Casson et al., 2015, p. 1224). A major development in this general theory was further explored by Dunning (1973) and his eclectic paradigm, a successful presentation of a whole conceptualization of the main motivations for internationalization (market-seeking, efficiency-seeking, resource seeking and strategic-asset-seeking motives) (P. J. Buckley, Clegg, Cross, Liu, Voss, Zheng, & Clegg, 2007, p. 501).

Without any doubt, Dunning's work had a long-lasting influence over the IB field of study. His work stablished some of the broadest and most influential explanations about the main drivers of international production. Founded on the theory of transaction cost[27], the eclectic paradigm (OLI model) (Dunning, 1980b) emphasizes that the internationalization decision considers more than the firms' organizational structure. It also depends on the existence of property advantages (i.e. brand and firms' competences), location advantages (access to resources, work, low taxes and regulatory quality), and internalization advantages (verticalizing production instead of outsourcing or buying from

[27] See Coase(1937) and Williamson (1973).

the market)[28]. For Dunning, trade does not always solve problems related to the existence of uncertainties, hidden costs, expenses of enforcing property rights and related to domestic public interventions. That is why the decision to internationalize could be rational and maximize business's efficiency.

Once the decision of going abroad is taken, the problem becomes the definition of an entry mode strategy (whether a joint venture, a greenfield investment and so on) and the organizational structure to be adopted. To these strategic choices, Powell and DiMaggio (1983) point out that it is on the firms' best interest to observe, adapt and converge to the best practices used by rivals or related firms. This is the idea behind the concept of *isomorphism* (Zaheer, 1995).

DiMaggio and Powell (1983) study the reasons why, trying to change, institutions are becoming more similar in form and practices. Different from other studies in social sciences, the sociologists want to explain the pattern of similarities (isomorphism) and not the variation among institutions. The authors consider three main mechanisms of isomorphism. The first are coercive forces related to formal and informal pressures to adopt a specific kind of organization and deal with political influence (DiMaggio & Powell, 1983, p. 151). Second, the mimetic isomorphism occurs when the uncertainty levels are high and the organizations tend to mimic others because their practices have already been tested. Another possibility is the existence of normative pressure, associated with professionalization and organizational dispute for influence and prestige, and generating a contest to attract the best workers who can make the organization similar to their best competitors (1983, p. 154)[29].

Institutions, thus, surely shape firms' decisions about (1) whether to internationalize or not, (2) how to internationalize, (3) and how the firms should be organized to be successful in foreign contexts. By exploring the effects of contextual and home and host incentives on firms' behavior, the literature has been effective in pointing out some of the main ways institutions matter to internationalization studies. There are, however, important institutional dimensions absent in many of most important approaches, dimensions that

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[28] OLI Model is an acronym from "O" of Ownership, "L" of localization and "I" of Internalization.

[29] This brief description of some of the main lines of questions and answers about institutional incentives and strategic responses is not exhaustive. Many other questions have been raised, as the effect of host institutions' quality in the likelihood of further (foreign direct) investments (Nielsen et al., 2017) or internationalization choice as an escape response strategy to the misalignment between home institutional context and firm's business strategy (Witt & Lewin, 2007).

can illuminate some hazy aspects of the internationalization phenomena, as the investments made by emerging market multinationals in countries with high levels of political risks and very dissimilar institutional profile.

2.4. The international Political Economy of the International Business

We have been arguing that important political institutions are commonly out of the main discussions about IB and internationalization of firms. Specially, contributions of foreign policy analysis and international relations are understudied, although important works addressed the discussion (Duanmu, 2014; Gupta & Yu, 2007; Wang et al., 2012) and the perspective is present in the research agenda of important scholars (K. E. Meyer & Peng, 2016; Ring et al., 2005). The relevance of institutions goes beyond national borders. As we have seen, investment decisions are influenced by institutions' differences and similarities at home and host countries. However, there are significant aspects of international institutions that are still not part of the main IB debate.

An intriguing question in IB institutional literature has been the role of governments as vectors of emerging markets multinationals' internationalization (A. Cuervo-Cazurra, 2012; Jian Li, Strange, Ning, & Sutherland, 2016; Verbeke & Kano, 2015), especially the state-owned enterprises (SOEs) (C. Cuervo-Cazurra et al., 2014; Estrin et al., 2016; M. H. Li et al., 2014; Liang, Ren, & Sun, 2015). Still, little is said about the policy space that places home and host countries in interaction. For instance, bilateral relations formalized in agreements frequently anchor the rule of the game. So, they may be central to understand the main explanations of location decision, entry mode, expropriation risks and general strategies firms take. In contexts where the relations between the host and home governments are central to the survival and success of the investments, the matter is even more crucial.

Research in the Political Science field, especially those in International Political Economy (IPE) area, can provide an interesting stream of dialogue. Slightly different from IB's focus on the effects of institutions on firm's behavior, IPE researchers usually focus on the functioning of international political institutions and the broad incentives generated from them, including the effects of institutions over FDI flows (G. Biglaiser & Staats, 2010; Glen Biglaiser & DeRouen, 2007; Büthe & Milner, 2014; Jensen, 2008; Q. Li & Resnick,

2003). The dialogue between these two fields may put aside the differences in favor of an approach that considers the effects of international institutions on the decisions of firms. If we better combine what the two fields have to offer, those and other questions can be further explored.

3. Domestic institutions, international institutions: the international political economy of the foreign direct investments

From the Political Economy perspective, international investments are attached to politics. Even if the decisions made by a firm about investing in specific places are not based on political considerations, the pattern of investment flows situate host and home countries in an international distribution of capital and relative power influence over the world economy (Gilpin, 2016). Furthermore, there is a general understanding according to which economic systems are based on different socio-political orders, influencing the firms' nature and, consequently, the relation between businesses and the state (Hall & Soskice, 2001). Money often follows the flag (Gupta & Yu, 2007).

Thus, the central point in IPE literature is to comprehend the way political aspects, as domestic and international institutions, generate effects that influence the investment flows. Hence, rather than look to the way firm's behavior are influenced by institutional matters, a critical question is to understand in which ways institutions affect the ability of nations to attract FDI (Busse & Hefeker, 2007; Buthe & Milner, 2008; Coan & Kugler, 2008).

One of the main explanations for how institutions affect investments is the idea of institutions as a source of *credibility*, the credible commitments that attenuate the odds – the *political risks* – of discretionary behavior by the host government (W. J. Henisz & Zelner, 2005; Jensen, 2013). As political risks and credibility influence the decisions of firms and capital flows, we can focus on the extent to which political risks are important and what are the main institutions responsible to guarantee credibility and reduce the odds (Busse & Hefeker, 2007).

These questions are even more important for developing countries (F. Schneider & Frey, 1985). Emerging countries are regarded as politically risky. According to Henisz and

Zelner (2005) the reason is that these countries are more susceptible to institutional changes pressured by the local governments. These changes, in turn, may affect the firms' investment cycles at such institutional contexts. Thus, emerging countries institutions can generate non-legitimate outcomes, as they haven't been agreed an internalized by the public sphere (W. J. Henisz & Zelner, 2005; Holburn & Zelner, 2010).

Central to grasp the risks, the political domain can be an important source of guarantees to investment decisions. In the domestic dimension, democratic institutions, the democratization processes, the political orientation of governments, regulatory practices, decision-making processes, political instability, coups d'état, political crises and many other topics are triggered as explanations of the foreign investment locations and trade preferences (Busse & Hefeker, 2007; Delios & Henisz, 2003; W. Henisz, 2000; Jensen, 2008; Xu & Shenkar, 2002). In the international dimension, free trade, preferential agreements and coalitions of interests in international organizations are examples of issues commonly highlighted in discussions about the dynamics of international economic relations and its possible effects to the course of international investments (Asiedu, 2002; Büthe & Milner, 2014; Buthe & Milner, 2008; Ghemawat, 2001).

3.1. Do domestic and international institutions matter? Which institutions? How?

Investments mediate the relation between the MNE and the host government (Q. Li & Resnick, 2003). Because their interaction is affected by investments flows, the democratic institutions can "encourage or deter foreign direct investors" (2003, p. 178). Depending on the characteristics of political institutions that support a democratic or autocratic state, governments have more or less capacity to suppress or encourage the establishment of MNEs in the host country.

What are the characteristics of institutions that affect the attraction or represent risks for investments? There is a long debate on which political regime is more favorable to foreign capital. The general reasoning is that institutions from democratic regimes have greater capacity to influence the attraction of direct investments. (Dorsch, McCann, & McGuirk, 2011; Nieman & Thies, 2012). Because there are checks and balances and power is continually challenged by elections, the risk of suppressing property rights

(expropriation), changing policies and imposing discriminatory costs are lower and, by consequence, the ability of democracies to attract FDI is bigger (Jensen, 2003, p. 592).

It is commonly argued that the more developed democratic institutions are, the more the property rights are protected and the lower are the political risks to investments (Jensen, 2008; Jensen, Li, & Rahman, 2010). Inter-agency state control, the existence of competitive elections, the large number of veto players over public policies and the diversity of interests are incentives that favor the success of the implementation of the right policies to guarantee competition, reduce the likelihood of sectorial protection and the emergence of monopolies. However, given the nature of democracies – i.e. more permissive to diffuse influences - the chance of pressure by organized sectors is higher in democratic than in autocratic states, where business groups are more prone to collude with MNEs to benefit the government leader (Q. Li & Resnick, 2003, p. 182).

When analyzing the conditions for a democracy or an autocracy to expropriate foreign investment, Li et al. (2009) demonstrate that chances of expropriation are higher if the executive chief has few barriers to his actions and many institutional capacities – checks and balances are not perfect. Democracy is not a panacea. But its characteristics mean something to the conclusions about the importance of executive power institutional controls: the greater the constraints, the lower the risk of expropriation.

Whether democracy or autocracy, some researchers claim that looking at political institutions, rather than to the level of democracy itself, is a better way to understand the effect of political institutions over FDI (G. Biglaiser & Staats, 2010). Since institutions are not always attached to regime type, investments were found to be more vulnerable to political risks than to other institutional factors. By reasons like this, more studies started to enquire about the effects of political institutions characteristics on international investments, such as regulatory quality (De Beule & Duanmu, 2012), property rights protection (Nieman & Thies, 2012), and even ideological affinities (Pinto & Pinto, 2008).

As well domestic ones, international politics and institutions are often associated with their potential to enhance credibility of states and influence the orientation of the investment flows around the world. For instance, Buthe and Milner (2014) demonstrate the effect of international agreements as Bilateral Investment Treaties (BITs) and Preferential Trade Agreements (PTAs) on the direction of international FDI flows; Biglaiser and DeRouen (2007) demonstrate how the North-American investments take advantage of US

foreign policy relations in multilateral political arenas as the UN General Assembly; Gupta and Yu (2007) show how bilateral agreements could guide the allocation of international investment (2007) and; Schneider and Frey (1985) draw attention to how foreign aid is intertwined to FDI.

The proximity of states can affect the behavior of investors by facilitating interactions between economic agents and thereby reducing information asymmetries and reducing risks of expropriation, thus favoring investments (Gupta & Yu, 2007). In the case of US investments abroad, there is evidence that the political proximity of the host countries with the US reduces asymmetries and information costs for businesses and, consequently, reduce entry barriers (2007, p. 5). Similarly, the proximity may also reduce risks. While evaluating Chinese investments, Duanmu (2014) argues that the magnitude of the risk to which Chinese companies are submitted is associated with the strength of political relations between the Chinese government and the recipient countries.

Bilateral and multilateral interactions may influence the decisions of investments by signaling the credibility of a country on compliance to property rights and international norms. Similarly, countries foreign policy relations and strategy might point out to opportunities and protection against political risks to investments. Analyzing political affinities through the voting pattern at the United Nations General Assembly and public opinion pools about the US, Gupta and Yu found results that "suggest that capital flows between the United States and the world respond significantly to a shift in political relations" (2007, p. 16). Works like these, however, are scarce.

Domestic institutions and politics are important to set the credibility conditions and to determine the political risks. As argued here, foreign policy and other international interactions, on the other hand, may influence the credibility of the commitments and may provide different incentives to investments, including those associated to states' national interests.

Some interesting studies have proposed insightful paths to understand how international agreements influence investments (Büthe & Milner, 2014; Jandhyala & Weiner, 2014). Although bringing new perspectives, only few researches look specifically to foreign policy. This is the case of the Li and Vashchilko's study (2010a) about the relevance of interstate military conflicts over FDI flows. Wang et al (2012), in their turn, analyze how the degree of state ownership and the level of government affiliation of firms

determine the level of state's influence on firms' internationalization. These researchers provide a good understanding about how ownership connections between state and firms can enhance the governments' capacity to drive investments for political reasons, but do not provide arguments to link this capacity to countries' foreign affairs. Fortunately, previous works advanced in this agenda and settled the avenues to go deeper in which foreign policies mechanisms that influence internationalization can be further understood. We follow this path.

4. Foreign Policy as an intermediary institutional incentive

As argued, there is plenty of room to further explore how the international dimension can relate to foreign direct investments, especially in its government-to-government political relations. A distinguished way to look at bilateral relations is observing foreign policy. We understand foreign policy as a set of objectives, actions and instruments that intermediate the relations between two national states. Countries have at their disposal formal and informal political instruments which can be mobilized to mediate international actions or to pursue defined objectives aligned with their idea of national interests. In this sense, foreign policy directs the attention to political acts and tools located in a space in between the borders of national states and in international arenas, whether multilateral or bilateral. For the purposes here presented, foreign policy denotes a series of a country's political assets with capacity to influence the flows of capital all around the world.

Firstly, foreign policy can improve the reliability of credible commitments made by a country and reduce political risks. Countries' institutional features are relevant on the definition of the liabilities of foreignness (LOF) that firms are submitted while venturing abroad, but bilateral relations of home and host countries are also very important external sources of property rights guarantees and can be a way to avoid discretionary behavior of host governments against country-specific MNEs.

Political instability, for example, can affect less some firms than others. This can be seen in situations when the good relation between countries works as protection to a group of firms in a discriminatory way. For instance, even though the institutional environment of a country is conflictual, as the case of Venezuela, the Bolivarian state is less prone to

expropriate Russian or Chinese firms than US MNEs. More than economic dependence, ideological affinities and political relations established internationally possibly reduce the liabilities of Chinese and Russian firms (in comparison to American firms), although not completely mitigating the general political hazards and instabilities of the Venezuelan state. Given this argument, we have,

Proposition 1: *Foreign Policy affinities between home and host governments reduce political risks to home firms and positively induce the FDI flows.*

Secondly, once good relations between countries increase the credibility of commitments made by host countries, foreign policy may generate opportunities for specific home firms. A concern in the literature has been the protection of domestic markets by the adoption of policies that constraint the competitiveness of foreign firms (Eden & Miller, 2011). As argued, this kind of politics is often the result of internal pressures of native business groups or selective incentives to benefit specific elites (W. J. Henisz & Zelner, 2005). Even in markets open to foreign competition, special treatment of specific foreign firms can differentiate the conditions MNEs compete. The use of strategic political instruments as bilateral agreements and smart soft power may work as promotion tools to boost opportunities of a set of foreign firms by signalizing domestic preferences related to *legitimacy* dependent of mutual consent. In sum, foreign policy can enhance the legitimacy of foreign firms in strange contexts, determining the level of the liabilities of foreignness a firm will face. This, however, makes the competition environment more complex to foreign firms from distinct origins.

Examples of these circumstances are abundant. Promotional and official trips, formal mutual understanding and a myriad of other foreign policy instruments of soft power have been used by the US to legitimize the diffusion of its firms and brands in Latin American countries (Nye, 2004). Hence,

Proposition 2: *Foreign Policy affinities between home and host governments increase the home firms' chance of success by reducing the barriers to legitimacy and positively inducing the FDI flows.*

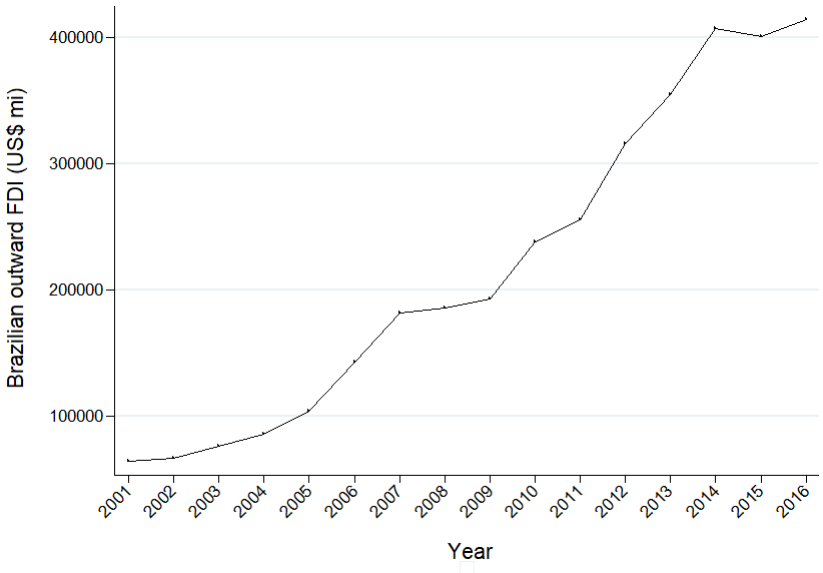
All these elements constitute an approach that highlights how foreign policy can modify the costs and incentives foreign firms face when going abroad. It is argued that bilateral political affinities can attenuate imbalances motivated by institutional instabilities, market protections or political risks. Differently from other perspectives, it takes into account both the structural-institutional, macroeconomic conditions and a set of political variables that intermediate the relations between the foreign multinationals and the host business and institutional environment.

The challenge now is to understand how these ideas can be operationalized.

5. Foreign Policy and Brazilian OFDI

To further explore the influence of foreign policy over foreign investments, we will present a case study from which our empirical analysis departs. Brazil is a traditional receiver of foreign investment and only in the beginning of the 21st century became a significant foreigner investor in comparison to developed countries (Fleury, Fleury, & Borini, 2013; Motta Veiga & Rios, 2014). Up to 2017, Brazil was ranked as the 13th stock receiver and the 28th FDI sender in the world (UNCTADstat 2017). These facts place the country relatively well in the radar of the international capital flows.

Figure 1. Evolution of Brazilian Foreign Direct Investments (2001 – 2016)



Source: the author. Data: Banco Central do Brazil (Brazilian Central Bank)

Behind the increase of Brazilian investment outflows[30] in the period, there is a major change in the way the stocks have been distributed globally. The first natural destinations of Brazilian investments since the beginning of the 2000´s were Latin American countries. The basic explanation to the series' opening pattern is associated to the cultural proximity and similar socioeconomic characteristics shared between the countries in the region (Fleury et al., 2013). However, the pattern changed over time, especially during the Lula da Silva's government (2003-2010). During this period, Brazilian companies began to surpass the boundaries of its neighbors and reach other regions, reaching most countries. Between 2001 and 2016, regions such as Europe, Central and East Asia and the Pacific witnessed a raise in its participation on the allocation of Brazilian investments (see Table 4.1). As the same time, Latin and North American countries, the previous commonest destinations, lost their share despite the absolute increase of investments directed to these regions.

Table 4.1. Regional distribution of Brazilian FDI.

Region	2001	2010	2016	Δ participation (2016-2001)
East Asia & Pacific	0.47%	0.34%	0.74%	0.27%
Europe & Central Asia	12.15%	35.89%	37.25%	25.11%
Fiscal Heaven	13.65%	6.88%	10.25%	-3.40%
Latin America & Caribbean	54.71%	35.22%	37.45%	-17.25%
Middle East & North Africa	0.02%	0.03%	0.11%	0.09%
North America	18.32%	21.60%	13.66%	-4.67%
South Asia	0.00%	0.01%	0.02%	0.02%
Sub-Saharan Africa	0.68%	0.03%	0.40%	-0.28%

Source: the author. Data: Banco Central do Brasil (Brazilian Central Bank)

Traditional explanations of the determinants of locational decisions were used to describe the distribution of Brazilian FDI in the period (2001 onwards). The most common interpretation tried to apprehend the OFDI as a natural step following the increase of

[30] Here and elsewhere, we present the evolution of stocks of Brazilian investments abroad.

specialized exports. In situations where specific markets have a high share in a company exports, the opening of subsidiaries and/or representative or technical assistance offices in the target market are seen as an expected consequence (CNI, 2013, p. 45)[31]. Other frequent explanations see the process as a diversification-strategy to minimize economic cycle risks (Hiratuka & Sarti, 2011), to access new technologies (Arbix et al., 2005) or to reduce learning costs dealing with international competition (Cyrino & Tanure, 2009); as a consequence of the economic and institutional improvement of the domestic environment (Casanova & Kassum, 2013), and as a result of the state's financing incentives (Caseiro & Masiero, 2014). Furthermore, the need to meet foreign client demands, currency revenues and domestic market saturation are also among the reasons raised to explain why Brazilian firms internationalized since 2001 (Fleury & Fleury, 2011, p. 206).

From 2001 to 2016, Brazil experienced four different presidencies and great socio-economic transformations, which also resulted in critical consequences to Brazilian firms. The literature points out that the changes implemented under Fernando Henrique Cardoso's presidential mandate (1995-2002) provided the macroeconomic stability needed so national firms could acquire expertise to compete in the international market (Hiratuka & Sarti, 2011). The establishment of the Plano Real and the privatizations of strategic firms (i.e. former communication services) allowed not only the development of firm specific advantages, but also capital availability and changes in governance structures of important business sectors.

The literature about the main determinants of Brazilian OFDI has deeply investigated the connections between investment decisions and political and economic domestic changes that happened in the country during the period. However, major shifts in Brazilian foreign policy had also taken place. For instance, the foreign policy strategy called by theorists "autonomy through integration" (Vigevani et al., 2003), taking place during the Fernando Henrique Cardoso's mandate, inserted Brazil in the international arena favoring the country's adherence to international norms and the compliance to acknowledged business practices. This and other movements in foreign policy may also have influenced investment decisions and locational choices.

[31] See report from Confederation of Industry (CNI, 2013), in which these ideas are explored.

Lula da Silva government (2003- 2010) is a special chapter in Brazilian recent history, and the connections of its foreign policy actions and the boost of Brazilian OFDI may be even more significant. Driven by successful social policies and by the growth of commodities exports, Brazil enlarged its middle class and expanded its domestic consume in those years (Pochmann, 2011). In the international realm, this situation allowed Brazil to present itself as an emergent power, affirming its role as a regional leader (Pinheiro & Gaio, 2014). At the same time, domestic policies combined state incentives with market conditions, giving chance to the rise of giant national firms (Finchelstein, 2017). In the external affairs domain, Lula's "autonomy through diversification" foreign policy strategy (Vigevani & Cepaluni, 2007b) enlarged political and ideological influence over developing countries and other rising powers (i.e. BRICS creation in 2008), laying the country as a voice of emergent economies.

This situation has dramatically changed during the mandate of Dilma Rousseff (2011 -2016). The rearrangement in international market conditions drove Brazil to an economic recession (2014-2016 period), and mismanaged macroeconomic policies deteriorated the president's political support[32]. Internationally, the lack of activism and individual enthusiasm with foreign affairs pulled Brazil from international scene and brought the country back to domestic and regional matters. The combination of these circumstances led to the impeachment of the president in 2016 and represented a stagnation period for the internationalization of national firms (Figure 1). Rousseff's position has been followed by Michel Temer, who imprinted both a public spending austerity and market liberalizing agenda, reinserting market incentives to the growth of economy and rehearsing a new competitive environment to national firms[33]. Internationally, Temer reoriented Brazil's foreign policy to developed countries and established groups, such as the OECD (Fox, 2017).

The role of Brazilian public agencies in the promotion of the conditions to OFDI has been so far well documented (Bazuchi, Zacharias, Broering, Arreola, & Bandeira-de-Mello, 2013; S. Lazzarini, Musacchio, Mello, & Marcon, 2015). Since 2003, Brazil advanced with emphasis to the Brazilian National Development Bank, BNDES, which became a

[32] "Dilma Makes Amends With the Markets", retrieved from Foreign Policy, June 1, 2015.
[33] "Temer stays tough on Brazil economic reforms", Financial Times, from February 2, 2017.

pivot to the creation of some of the biggest Brazilian multinationals (Alem & Cavalcanti, 2005; Além & Giambiagi, 2010; S. Lazzarini et al., 2015; Musacchio & Lazzarini, 2012).

The creation of national champions[34] wasn't only an instrument for the development of Brazilian economy. Since the beginning of Lula's era, investments have also been understood as a way to project Brazil to the world (Rego & Figueira, 2017; Sennes & Mendes, 2009; Vieira, 2017). This emphasis has been more prominent during Lula da Silva's government (2003 -2010), characterized as highly proactive and supportive of the internationalization of Brazilian FDI (Musacchio & Lazzarini, 2014b). The creation of the Brazilian Trade and Investment Promotion Agency (APEX-Brasil) in 2003 is an expression of how international investments were connected to Brazilian foreign policy during Lula's mandate. With representation offices in the USA, United Arab Emirates, Poland, Cuba, China, Russia, Angola and Belgium, APEX has served as a market intelligence unit, promoting Brazilian business abroad and connecting firms to local embassies and business partners.

Not only promotion agencies, but also cooperation for international development (aid and technical projects) in Latin American and African countries, bilateral agreements and ideological affinities were considered as drivers for the investments of Brazilian firms (Milani, 2012; Souza, 2012). During Lula da Silva's period, the leftist ideology of the president strengthened political ties with other similar leaders (Burges & Chagas Bastos, 2017), opening space for opportunities to Brazilian firms in contexts many times seen as unpredictable for international investments. Examples include the stimulus for the internationalization of engineering construction conglomerates as Odebrecht, Camargo Correa and Queiroz Galvão in countries such as Venezuela, Angola, Argentina, Cuba and Ecuador (Rego & Figueira, 2017) and the opportunities opened to agribusiness firms through trilateral cooperation headed by Brazilian (EMBRAPA) in African Savanna (Vaz, 2015).

As argued, foreign policy may mitigate the risks for international investments. Although in Brazilian case this seems to be true, ups and downs in foreign policy intensity and changes in foreign policy orientation throughout distinct presidential mandates may represent differences in the incentives affecting firm's choices and strategies of

[34] When talking about national champions, we are considering all the big Brazilian multinationals highly financed by the Brazilian government.

internationalization. Reflections of the Lula da Silva's international hyperactivity and attachment to Global South countries through bilateral policies and by the action in non-hegemonic groups and coalitions, such as the BRICS and UNASUR, may be internalized by national firms in a distinguished way compared to the incentives given by Cardoso's (1993 -2002) and Rousseff's (2011-2016) international engagement profile. Markedly, Cardoso's foreign policy contrasts Lula's by the orientation to developed countries and Dilma Rousseff's by its retraction, frequently portrayed as a simply fall (Cervo & Lessa, 2014).

Even despite all these concerns, the political dimension of the phenomena is still underrepresented in the literature. Besides any other motives behind the decision to internationalize, there is still place to one question that remains important: how the locational investment decisions are made (Nielsen et al., 2017)? In other words, why do Brazil's firms choose to go to the places they go? Therefore, did the shifts in foreign policy and Brazilian international relations affect the orientation of Brazilian Firms throughout these years?

6. Variables, hypothesis and Research Design

If we want to untangle how the political dimension is related to firms and Brazilian foreign capital movement we have first to define what we understand by the so called political dimension. We chose two groups of political factors to be evaluated: domestic political institutions and foreign policy. To each group we associate a number of observable and measurable variables, selected from suggestions found in the literature.

Next, we show the variables used in our hypothesis tests. We present our hypothesis at the same time we describe each of the variables used for the models. This set of variables draws up a database structured in time-series cross section panel and corresponds to the period from 2001 and 2016, with general information from different countries and Brazil's relation to 192 different economies. According to the purposes of our argumentation, the chosen period contemplates most of the recent transformations in the international activities of Brazilian firms and also the changes in Brazil's foreign policies.

Through models as Ordinary Least Square Panel Correct Standard Errors (Beck and Katz, 1995, 2014) and Generalized Methods of Moments, GMM Arellano-Bond (Roodman, 2006), we evaluate our propositions. Finally, we assess the adequacy of our models looking at their variations, applying robustness checks and re-running the models with imputed data to reduce the number of missing observations.

6.1. Dependent Variable

Here we want to evaluate the effect of political variables on the allocation of Brazilian capital abroad. Direct foreign investment is the most used indicator to infer about the international presence of a given economy (Pandya, 2010). Considered as an alternative to the measures of annual flow of investments, this research broadly employs investment stocks as a dependent variable. Once investment stocks are less susceptible to annual abrupt variations, they are the most utilized measure on international investments studies (Cezar & Escobar, 2015; Prasad, Rajan, & Subramanian, 2007). The gathering of Brazilian investment data relied on information from Brazilian Central Bank[35] (BCB), the local institution responsible by the accounting of national and international capital flows in Brazil. As in many developing countries, this accounting was only institutionalized at the beginning of the 2000's - when the growing internationalization of national companies generated this need. The information used was made available by the Brazilian government for each of the analyzed periods (2001-2016).

There is an important observation regarding the availability of data for each country of the sample. Due to legal restrictions, only investments superior to US$10 million and with more than 3 investors were reported. So, there are not public data accessible on Brazilian investments in many countries, but especially the smaller or least developed ones (with little concentration of investments). Luckily, we can find some of the countries that received investments, although with no precision of volume. In our database, we attribute 0 to the value of investments every time this was the information reported from BCB and considered missing cases when there wasn't available information. Finally, we followed the literature recommendations to deal with high sample variance, extreme values and

[35] See http://www4.bcb.gov.br/rex/cbe/port/cbe.asp

concentration of low values, using the natural log of stock investments as dependent variable (Q. Li & Vashchilko, 2010b) and facilitating the interpretation of the models.

6.2. Independent Variables

6.2.1. International dimension as foreign policy engagement

If the concern about the Brazilian positions on foreign policy motivates the scrutiny of its possible effects over the direction of Brazilian OFDI, it is important to understand how foreign policy is perceived and described. The search for indicators in international politics, so to speak, is an open and fertile ground for research.

Usually, the literature attributes to a single or few international agencies the explanatory power of foreign policy. For instance, using the similarity of voting pattern at the United Nations General Assembly, Duanmu (2014) argues that the degree of congruence with the US vote in the UNGA is predictive of US OFDI in the country. Even the commonly used proxies of Ghemawat's CAGE framework (2001), such as the colonial common ties and shared monetary political association, can be more problematic than those exclusively paying attention to the UNGA votes since there is no attention to dynamics in bilateral relations. By attributing values as 0 and 1 to the presence/absence of common ties and co-participation, it does not account to a wide range of other agencies and ways that characterize the relations between two countries.

Being such a multifaced matter with many levels of interaction, foreign policy can hardly be captured by anecdotal events. They can lead to reductionism and often provide a distorted picture of the political relations strength. Even though voting similarly at UNGA, countries can express ties and friendship by signing agreements (i.e. PTA or BIT agreements) or promoting a joint international coalition of interest within a major International Organization, as the WTO (Jandhyala & Weiner, 2014). The possibilities are many and only a larger picture makes it possible to comprehend the level of engagement of two or more countries.

To overcome these problems, we use as proxy for the international institutional political connections the index proposed by Rodrigues, Urdinez and Oliveira (2018). The Foreign Policy Index (FPI) attempts to combine efforts and literature suggestions to create an indicator that seeks to be intuitive of foreign policy actions and international positions

occupied by Brazil between 2001 and 2015. Assimilating the efforts of several researchers to codify and organize political data that could mean affinities and differences between countries, groups and regions in relation to Brazil, the FPI gathers many of the indicators used in the Foreign Policy Analysis literature into a new index measuring the intensity of the engagement of Brazilian Foreign Policy.

The index was constructed from the organization and systematization of data taking into account information on: (a) the presidential international trips; (b) the similarity of the voting pattern between Brazil and the country of reference in the United Nations General Assembly; (c) the existence of a Brazilian embassy in the country; (d) the number of signed and existing bilateral agreements, by country and year; (e) the conventions signed by the Ministry of Foreign Affairs; (f) the country's participation in regional integration mechanisms (MERCOSUR, UNASUR, CELAC, ACTO, LAIA); (h) the country's participation in inter-regional mechanisms (BRICS, CPLP, IBAS, Africa-South America Summit, Summit of South American-Arab Countries); and (i) the degree of congruence between the country and Brazil's positions in international financial institutions, including the International Monetary Fund, the World Bank and the World Trade Organization (Rodrigues, Urdinez & Oliveira, 2018)[36]. So, we have,

H1: The greater the engagement of Brazilian foreign policy with a country, he bigger the amount of Brazilian foreign investment stock.

6.2.2. Domestic dimension

As the literature suggests, domestic political institutions may influence the attraction and success of foreign investments by providing incentives to the establishment of firms from different origins. Being so, we test such arguments by recollecting and including a set of variables that comprises a large range of characteristics of domestic political institutions.

To our purpose we test in our model the effects of the level of democracy over Brazilian OFDI using the *Electoral democracy index* from the Varieties of Democracy Project

[36] All the mentioned variables have been linear-transformed and combined through factorial analysis. To further understanding the index construction procedure and possible usages, see (Rodrigues, Urdinez and Oliveira, 2018)

(Coppedge et al., 2016). Ranging from 0 to 1, Electoral democracy index takes into account the presence of fair and free elections, if officials are elected and the extension of suffrage. The combination of these indicators seeks to inform to which extent the government is responsive to the population and if there are democratic controls to power. Our intention is evaluate the possible effects of states' democratic characteristics over OFDI direction, as suggested by Berry, Guillén and Hendi (2014). The literature also argues that the level of uncertainty about *political stability*[37] *(from World Bank Governance Indicators)*, independently of the regime type, has positive effects over OFDI (Q. Li & Vashchilko, 2010b; Liou, Chao, & Yang, 2016). That's why we included political stability in our model. The variable ranges from -2.5 to +2.5 and, as has been log-transformed to be meaningful to our purposes.

H2: The greater the level of democracy, the bigger the amount of Brazilian foreign investment stock.

H3: The greater the level of political stability, the bigger the amount of Brazilian foreign investment stock.

Combined to regime type, other aspect frequently brought into consideration by the varieties of capitalism literature is how state and private actors are related and how these interactions produce a healthy environment for business (Hall & Soskice, 2001). Authors from this field claim that liberal democracies are more open and friendly to FDI, and countries with more *liberal characteristics* may consistently attract more international investments, noted the liberty to contract and invest, and the assured competitiveness. We include this idea testing for the index of *liberal principle of democracy*, from the Varieties of Democracy Project (Coppedge et al., 2016), which incorporates ideas about the limits of central government interference over particulars, among others. As other variables from V-Dem Project, liberal democracy index ranges from 0 to 1 and has been log-transformed to facilitate the interpretation of our models.

H4: The greater the liberal characteristics of a country, the bigger the amount of Brazilian foreign investment stock.

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[37] It is measured by the "combination of indicators which measures the perception of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism" (Coppedge et al., 2016, pp. 334–335)

Studies in IB field suggest a positive relation between the quality of institutions and the increase of FDI (Nielsen et al., 2017). For instance, Buckley et al.(2007) evaluate the relevance of institutions looking for correlations between changes in Chinese domestic institutions and the behavior of Chinese firms abroad (P. J. Buckley, Clegg, Cross, Liu, Voss, Zheng, & Clegg, 2007). Using data from the World Bank Governance Indicators, we assess if *regulatory quality* and *government effectiveness* are positively related to Brazilian FDI. Both variables originally range from -2.5 to +2.5 and have been log-transformed after we add +2.5 to each observation (to avoid 0's and missings).

H5: The greater the quality of regulatory institutions in a country, the bigger the amount of Brazilian foreign investment stock.

H6: The greater the effectiveness of government policies and administration bureaucracy in a country, the bigger the amount of Brazilian foreign investment stock.

Corruption levels (from V-Dem project), *the rule of the law* (World Bank Governance Indicators), and *property rights protection* (V-Dem project) are some of the most highlighted institutional elements if we want to consider the transparency and political risks to foreign investors (G. Biglaiser & Staats, 2010; A. Cuervo-Cazurra, 2016; Godinez & Liu, 2015; Knutsen, Hveem, & Rygh, 2011; Q. Li, Bernhard, Cohen, Eisenstein, Gartzke, Henisz, Jensen, Krieckhaus, Lamoriello, Pinto, Rickard, Scheve, Tomz, & Winters, 2009). To cope with that, we include in our analysis some variables associated to risks for Brazilian investments.

H7: The lower the level of corruption in a country, the bigger the amount of Brazilian foreign investment stock.

H8: The greater the level of the rule of law in a country, the bigger the amount of Brazilian foreign investment stock.

H9: The greater the level of property rights protection in a country, the bigger the amount of Brazilian foreign investment stock.

Finally, Pinto & Weymouth (2014) bring important elements to the discussion of the effects of political variables when demonstrating that partner countries' political-ideological orientations can affect trade and firms' investment decisions. Their central claim is that governments' political orientation alters volatile costs, and these costs may be different depending on the political orientation of the coalitions which form the government of partner countries[38]. In this scenario, firms that choose to allocate stages of their productive process abroad seek opportunities to reduce costs by finding less expensive resources (such as lower wages). Besides affecting FDI decisions through changes in variable costs, according to Schneider and Frey (1985) ideological orientation affinities between firms' home and host countries can enhance the flow on investments as long as promoting the opening of communication channels and cooperation, besides reducing information asymmetries. To evaluate this dimension we will use the Database of Political Institutions (C. Cruz et al., 2016), that classifies countries as right (1), center (2) or left (3), according to the ideological orientation of the Executive's party. Our analysis tries to understand the effect of Brazilian government ideological agreement to each country with data that were available, year by year. Countries had attributed the value of 1 if the Executive power ideology was right in 2001 and 2002, left between 2003 and 2015, and right in 2016.

H10: Countries with ideological congruence with Brazilian government in a given year will see a bigger increase in the Brazilian foreign investment stock than those with different ideological orientation.

6.2.3. Control Variables

Most of the reference studies in international Business attribute to a set of variables important roles in explaining FDI flows. We included some of the most usual ones based on the assumption that they may represent explanations alternative to ours.

- *Economic conditions and trade relations*. They are commonly placed among the main FDI incentives and are considered at most theoretical formulations about the FDI determinants, such as the Dunning's *Location* - the "L" of the acronym OLI model

[38] This vision is based on Heckscher–Ohlin model (Morrow, 2010).

(Dunning, 1980a). That is why our model considers the income level of the population (*GDPpc*) and the *GDP* size to control for market incentives driving Brazilian OFDI. Following this idea, we included the trade openness level (*tradeopeness*), measured by the amount of imports divided by the amount of exports in each year, and based on the assumption that trade openness may represent motivations for the establishment of firms in foreign countries.

- *Populational characteristics*. The size of the population (*lpop*) may represent opportunities to investors looking for market opportunities (bigger markets) and greater chances of acquiring labor through competitive wages.
- *Geographic distance*. The variable addresses the explanations according to which investments are likely to flow to neighbor countries given the contiguity of borders. Also, proximity to headquarters may represent advantages and easiness to adapt, communicate and internalize foreign activities of multinationals (Mayer & Zignago, 2011). It is measured by *Distw*, a weighted measure of distance which accounts for populational agglomeration (2011).

6.3. Model

Based on the arguments presented, we test our main hypotheses following the model:

$$LFDI_{it} = \alpha + \beta_1 L_{FDI_{it-1}} + \beta_1 L_{Foreign\,Policy_{it-2}} + \beta_1 L_{Institutional\,dimension_{it-1}} + \beta_1 L_{Exports_{it-2}} + \beta_1 L_{Controls_{it}} + \varepsilon_{it} \quad (1)$$

6.4. Results

To assess the given hypotheses, data from Brazilian foreign investments was organized in a panel (*Time Series Cross-Section,* or TSCS) and corresponds to the period from 2001 to 2016, and a sample of 192 countries from which 130 received Brazilian OFDI at some point in time. As it happens with many of the internationalization's studies, it is hard to gather reliable information from the years before the 2000, when not only Brazilian FDI expanded but also most countries increased its FDI. To deal with the restrictions imposed

by the limited number of years, frequent spatial self-correlation and heteroskedasticity errors, we accepted the recommendations of Beck and Katz (1995, 2011) and: a) gathered data of different countries from a same database, applying Ordinary Least Square (OLS) method; b) adjusted the self-correlation by adding the model's lagged dependent variable (AR1) and; c) calculated the panel-corrected standard errors (PCSEs) (Wilson & Butler, 2007).

As many other works seeking to explain the effect of political variables on investments, we ran models based on PCSE to each of our research hypotheses (Archer, Biglaiser, & DeRouen, 2007; Buthe & Milner, 2008; Knutsen et al., 2011; Q. Li & Reuveny, 2003). In every case, the models used the lag of the dependent variable to control for temporal correlations and also use the variables natural log due to the skewed nature of the dependent variable and to facilitate the results' interpretation (P. Buckley et al., 2007; Knutsen et al., 2011, p. 18). For *trade openness* (a percentage of the total imports divided by total exports) and *distance* (measured in kilometers), we kept the variable in their non-logged forms. As theoretically expected, the possible effects of foreign policy actions and exports over FDI might appear after some time. Time is necessary to plan and organize investments given the political circumstances and prospective market conditions, and that is why we use the variables in their lagged form. In the table below, we report our PCSE results for each of the hypothesis tested.

Table 4.2. Panel Correct Standard Errors Models (Standard errors in parentheses)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model Complete
L.FDI	0.805***	0.824***	0.836***	0.825***	0.836***	0.837***	0.817***	0.837***	0.824***	0.803***
	(0.035)	(0.043)	(0.038)	(0.043)	(0.037)	(0.038)	(0.041)	(0.038)	(0.043)	(0.039)
L2.Foreign Policy	0.221***									0.235***
	(0.037)									(0.062)
L.Electoral Democracy		0.116								0.185
		(0.148)								(0.164)
L.Political Stability			-0.135							-0.265**
			(0.114)							(0.131)
L.Liberal Democracy				0.035						0.082
				(0.101)						(0.248)
L.Regulatory Quality					-0.064					0.140
					(0.171)					(0.354)
L.Gov. Effectiveness						-0.037				0.053
						(0.159)				(0.443)
L.Corruption							-0.114**			-0.215**
							(0.048)			(0.090)
L.Rule of Law								-0.107		-0.433
								(0.115)		(0.649)
L.Property Rights									-0.514**	-0.745***
									(0.220)	(0.200)
L2.BRA exports	0.041	0.093	0.088	0.091	0.082	0.083	0.117*	0.079	0.081	0.026
	(0.072)	(0.084)	(0.066)	(0.086)	(0.069)	(0.067)	(0.070)	(0.067)	(0.081)	(0.087)
L.GDPpc (Curr US)	-11.107***	-5.867***	-7.299***	-5.883***	-7.129***	-7.093***	-5.464***	-7.209***	-6.404***	-5.683***
	(3.580)	(1.534)	(1.998)	(1.511)	(1.898)	(1.870)	(1.477)	(1.962)	(1.410)	(1.562)
L.GDP (Curr US)	11.339***	6.094***	7.542***	6.120***	7.364***	7.321***	5.622***	7.456***	6.701***	5.958***
	(3.594)	(1.518)	(2.023)	(1.496)	(1.894)	(1.866)	(1.458)	(1.980)	(1.399)	(1.530)
L.Trade openness	0.000	0.001	0.000	0.001	0.000	0.000	0.000	0.000	0.001	0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Lpop	-11.335***	-5.972***	-7.503***	-5.999***	-7.310***	-7.268***	-5.498***	-7.404***	-6.582***	-5.824***
	(3.569)	(1.522)	(2.009)	(1.501)	(1.881)	(1.855)	(1.473)	(1.966)	(1.406)	(1.568)
Distance	-0.000	-0.000*	-0.000*	-0.000*	-0.000**	-0.000*	-0.000**	-0.000*	-0.000**	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	-1.337	-4.559***	-3.172***	-4.619***	-3.244***	-3.208***	-4.629***	-3.224***	-5.031***	-3.657***
	(0.821)	(1.610)	(1.093)	(1.660)	(1.068)	(1.054)	(1.611)	(1.064)	(1.629)	(1.377)
Observations	791	776	873	776	874	874	776	874	776	776
R-squared	0.912531	0.913428	0.900385	0.912868	0.900884	0.900744	0.913040	0.900803	0.913206	0.915601

* p<0.1, ** p<0.05, *** p<0.01

* Given the nature of our panel data, the first model (1) included the specification of running only for year after 2003. Otherwise, the coefficients would be omitted. For all other models, all the set of years were included. PCSE were calculated with pairwise and model specification of first order autocorrelation (AR1) for each of the panels.

As expected, we found evidence of the positive association between the level of political engagement between Brazil and host countries and Brazilian OFDI. This result leads us to the understanding that foreign policy is an important driver of FDI, at least in the Brazilian case. By opening opportunities to investors and by stablishing connections between governments, foreign policy acts as an intermediary between private agents and host domestic actors, catalyzing opportunities for investments.

Contrarily to our prediction, the countries *democracy level* seems to have no effect over Brazilian FDI. This result has some interesting implications. The literature on Latin American foreign policy and international business frequently embodies the vision that *multilatinas* (as well as multinationals from other developing countries) have some firm specific advantages that make them competitive in developing countries (Aharoni & Ramamurti, 2011, p. 123) - meaning countries with low levels of democracy and higher political risks. As they are not associated with democracy, we argue that Brazilian foreign relations alleviate the risks related to the lack of institutional controls in host countries by supplying the investor with political assets that enable the success of the operations.

The same results are repeated for *democracy*, *political stability*, *liberal characteristic*, *regulatory institutions*, *effectiveness of government* and *rule of law*. They were not found as factors affecting overall Brazilian OFDI. An exception is political stability, which became statistically significant when included in the model that considers all variables of interest.

Other exceptions are *property rights protection* and *corruption levels*. Surprisingly, Brazilian OFDI goes to countries that are not good providers of property rights protection. The significance and effects increase in the presence of greater levels of political ties, denoting that higher levels of political influence may attenuate political risks to investors and represent market opportunities in riskier institutional environments.

Table 4.3. Partisanship (Standard errors in parentheses)

	Different ideology	Shared Ideology
L. FDI	**0.804*** **	**0.814*** **
	(0.050)	(0.036)
L2. Foreign Policy	**0.158*** **	**0.386*** **
	(0.055)	**(0.101)**
L2. BRA exports	-0.002	0.001
	(0.095)	(0.083)
L. GDPpc (Curr US)	-10.879***	-12.767
	(3.483)	(10.248)
L.GDP (Curr US)	11.235***	13.094
	(3.549)	(10.290)
L. Trade openness	-0.000	0.009***
	(0.001)	(0.003)
Lpop	-11.185***	-12.891
	(3.514)	(10.251)
Distance	-0.000**	-0.000*
	(0.000)	(0.000)
Constant	-2.141**	-4.965***
	(0.946)	(1.043)
Observations	476	241
R-squared	0.911397	0.952993

* p<0.1, ** p<0.05, *** p<0.01
* PCSE were calculated with pairwise and model specification of first order autocorrelation (AR1) for each of the panels. We ran the model twice: the first turn only for countries with the same ideology in each year and secondly to countries with different ideologies.

Out last hypothesis dealt with the possible effects of Brazilian Executive ideological congruence and party orientation of any other given country. Testing for the proposition that ideological connections could represent convergence of interests, strength the ties among executive leaders (Pinto & Pinto, 2011) and enhance capital mobility opportunities, Table 4.3. shows that when there is ideological congruence among Brazil and host countries, the magnitude of the foreign policy effects is twice as bigger than in cases where ideological synchrony is absent. This finding is interesting for foreign policy analysts, who frequently point out to the possible effects of the orientation of Brazilian foreign policy during Lula da Silva's government (2003 – 2010) (Burges, 2009; White, 2010). Being a leftist, Lula da Silva engaged and consolidated a wide network of Global South leaders with a similar political view of the world. This was partially conducted by actions in Brazilian foreign policy. The foreign policy's turn towards Global South (developing countries),

specially to ideologically similar countries, increased the returning rates of investments opportunities brought by foreign policy actions.

These findings do not contradict the argument in which the internationalization of national firms may contribute to the direction of foreign policy efforts. Despite of that, the results corroborate our main hypothesis that Brazilian multinationals enjoy opportunities created by political engagement of Brazil's government. This engagement provides additional protection, despite the level of any other institutional characteristic, including quality of regulatory policy or property rights protection. As we argued, political ties attenuate political risks once they stablish government-government credible commitments that prevent discretionary political behavior, anti-competition law, exceptionalities and dispute routines over settlements.

6.5. Robustness Checks

To check our model's robustness, we verified if the results are sensitive to other specifications. We chose two main strategies for that: the first, re-estimate our main model using other possible techniques but maintaining the variables' shape of the presented PCSE models. The second considered the replication of the same routines to a dataset with imputed data for missing values.

To alternative estimations, we begin running our model using two OLS estimators, the Fixed (and Random) effects and the pooled OLS with Driscoll-Kraay standard errors. With the OLS-FE (with Fixed Effects) all our coefficients were found less significant than those in other estimation techniques. After, we used Driscoll-Kraay estimator, a common alternative to PCSE (Hoechle, 2007). The estimator uses a nonparametric covariance matrix to control for heteroskedasticity and autocorrelation, and reports standard errors that are robust to general forms of spatial and temporal dependence (Hoechle, 2007). For both variants, the results were statistically significant only for *foreign policy* (not for GDP per capita, GDP and population), denoting the consistency of our main hypothesis and model specification.

To be conservative and check for endogeneity problems frequently raised through the analysis of possible effects of FDI over foreign policy, a linear Generalized Method of Moments (GMM) panel was also tested using Arellano-Bond linear dynamic panel-data

estimation (Busse & Hefeker, 2007; Büthe & Milner, 2014; Camyar, 2014; Jian Li et al., 2016; Q. Li & Vashchilko, 2010a). The model deals with not strictly exogenous variables by performing two equations, firstly differentiating the variables to remove time-invariant fixed effects of our exogenous variables (i.e. distance) and then using the lagged values of the other independent variables as instruments for the endogenous variables. In our case, we used the lag 5 of the endogenous independent variables. We followed Roodman's (2006) advices of applying Arellano-Bond tests and: a) specified the model adding a time dummy (cons) to make stronger the assumption of no autocorrelation across individuals (countries) in the idiosyncratic disturbances; b) used the orthogonal deviation because of the gaps in the panel (unbalanced panel) to maximize the sample size; c) included all the variables into the instrument matrix[39], Z. We tested the suitability of our instruments through Sargan and Hansen tests, all of them statistically insignificant, allowing us to reject the (null) hypothesis the instruments were endogenous (Roodman, 2006). Arellano-Bond AR(1) and AR(2) tests for serial correlation were also performed. The results were consistent to PCSE estimation, corroborating our main hypothesis.

[39] The variables lpop distw cons l.lgdppccurr l.lgdpcurr l.tradeopeness were included in the column of the exogenous variables and l.lfdi_total l2.lfpi_fa2 l2.lexportBRA took part of the possibly endogenous set of variables which have been used to instrument transformation.

Table 4.4. Alternative Model estimations (Standard errors in parentheses)

	PCSE 1	Fixed Effects*	Driscoll-Kraay	Arellano-Bond
L.FDI	0.805***	0.455***	0.843***	0.726***
	(0.035)	(0.032)	(0.028)	(0.115)
L2.Foreign Policy	0.221***	0.099*	0.130**	0.390**
	(0.037)	(0.060)	(0.044)	(0.158)
L2.BRA exports	0.041	-0.065	0.057	0.113
	(0.072)	(0.112)	(0.035)	(0.174)
L.GDPpc (Curr US)	-11.107***	-8.198	-4.451	-5.276*
	(3.580)	(6.687)	(4.450)	(3.084)
L.GDP (Curr US)	11.339***	9.129	4.692	5.646*
	(3.594)	(6.726)	(4.488)	(3.107)
L.Trade openness	0.000	-0.003	0.001	0.001
	(0.001)	(0.003)	(0.001)	(0.002)
Lpop	-11.335***	-4.408	-4.685	-5.734*
	(3.569)	(7.099)	(4.457)	(3.196)
Distance	-0.000	0.000	-0.000	-0.000
	(0.000)	-	(0.000)	(0.000)
Cons				0.029*
				(0.017)
Constant	-1.337	-81.391***	-2.122**	-59.725*
	(0.821)	(13.905)	(0.797)	(35.424)
Observations	791	791	874	874
R-squared	0.912531	0.518070	0.871066	
AR (1)				0.007
AR (2)				0.032
Hansen Test				0.439
Difference-in-Hansen				0.312

* p<0.1, ** p<0.05, *** p<0.01
** Given the nature of our panel data, the FE model included the specification of running only for year 2003 onwards.

Our second strategy aimed to reduce possible effects of the high number of missings and zeros on the dependent variable. Based on empirical experience and replications, researchers have demonstrated the utility of imputation methods to the correct estimation of coefficients in regressions (Honaker, King, & Blackwell, 2011). This is particularly relevant for social sciences, in which missings are frequent, leading often to the overestimation (or underestimation) of the statistical significance of effects by the use of listwise deletion (Lall, 2016).

To avoid this kind of concern and supplement the robustness of our estimations, we reestimated the models using imputation methods. To do so, we imputed values for missing observations using AMELIA II (Beck & Katz, 2011; Honaker et al., 2011). AMELIA II is a program designed to process multiple imputation, that uses bootstrapping approach and generates values for missing data without changing the distribution characteristics of the existing data. While the parameters can be specified, we ran AMELIA II performing the imputation only to those countries where we knew (from the Brazilian Central Bank reports) there were Brazilian investments, but they were not reported by restriction rules of transparency (investments under 10 million or less than 3 investors). By those characteristics, we bounded the limits of the imputed values to a range from 0 to US$10 million. As AMELIA II generates values from existing observations of other known variables, we included Brazilian Exports in each year as second proxy to Brazilian OFDI. Also, as we know that there is autocorrelation between the values in t-1 and t, we included the country variable as a cross-section identification variable and year as the time-series identification variable. This made the outcomes for missing values more similar to the pattern seen in the existing data. After combining the outputs in our panel data, we re-ran the models using the previous model specifications. As can be noticed, the results are consistent with the ones found before. The main difference now is that with multiple imputation on FDI, the *electoral democracy* turns positive and statistically significant to PCSE complete model.

Table 4.5. Alternative Model specifications with imputed values (Standard errors in parentheses)

	PCSE 1	PCSE 2	Fixed Effects	Driscoll-Kraay	Arellano-Bond
L.FDI	0.800***	0.762***	0.535***	0.829***	0.483***
	(0.045)	(0.045)	(0.018)	(0.061)	(0.070)
L2.Foreign Policy	0.058***	0.057**	0.007	0.053**	0.095*
	(0.019)	(0.022)	(0.027)	(0.018)	(0.057)
L.Electoral Democracy		0.144**			
		(0.069)			
L.Liberal Democracy		-0.039			
		(0.079)			
L.Corruption		-0.236***			
		(0.056)			
L.Property Rights		-0.150***			
		(0.051)			
L.Political Stability		0.063*			
		(0.036)			
L.Regulatory Quality		0.049			
		(0.091)			
L.Gov. Effectiveness		-0.127			
		(0.117)			
L.Rule of Law		-0.105			
		(0.155)			
L2.BRA exports	-0.008	-0.000	0.017	-0.001	0.068
	(0.011)	(0.013)	(0.030)	(0.015)	(0.081)
L.GDPpc (Curr US)	-1.823**	-1.253*	-3.671	-1.702	-4.077**
	(0.710)	(0.699)	(2.464)	(1.320)	(1.674)
L.GDP (Curr US)	1.974***	1.341*	4.313*	1.866	4.433***
	(0.715)	(0.698)	(2.469)	(1.338)	(1.656)
L. Trade openness	-0.000	0.000	0.005***	0.001	0.001
	(0.001)	(0.001)	(0.002)	(0.000)	(0.002)
Lpop	-1.908***	-1.237*	-3.711	-1.799	-4.334**
	(0.712)	(0.701)	(2.565)	(1.330)	(1.677)
Distance	-0.000***	-0.000***	-0.000	-0.000**	-0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cons					0.033***
					(0.011)
Constant	-1.191***	-1.527***	-13.394**	-1.465***	-70.110***
	(0.362)	(0.428)	(5.481)	(0.304)	(22.051)
Observations	2082	1837	2082	2082	2082
R-squared	0.812222	0.820368	0.461275	0.836085	

* p<0.1, ** p<0.05, *** p<0.01
* After the imputation, the FDI variables has been log-transformed.

Following the same reasoning, we tested the robustness of our last hypothesis with multiple imputation, which deals with the effects of partisanship.

Table 4.6. Partisanship effects with imputed values (Standard errors in parentheses)

	Different ideology	Shared ideology
L.FDI	0.813***	0.789***
	(0.047)	(0.044)
L2. Foreign Policy	**0.046****	**0.065***
	(0.019)	**(0.037)**
L2.BRA exports	-0.007	-0.001
	(0.012)	(0.015)
L.GDPpc (Curr US)	-3.275***	-0.460
	(1.071)	(0.594)
L.GDP (Curr US)	3.417***	0.609
	(1.079)	(0.614)
L.Trade openness	-0.000	0.001
	(0.001)	(0.001)
Lpop	-3.370***	-0.488
	(1.074)	(0.613)
Distance	-0.000**	-0.000**
	(0.000)	(0.000)
Constant	-0.854***	-2.127***
	(0.321)	(0.655)
Observations	1467	479
R-squared	0.810313	0.875314

* p<0.1, ** p<0.05, *** p<0.01

As before, the results show that countries with the same ideology of Brazil's experience greater impacts of foreign policy actions. In all cases, the alternative specifications indicate the validity of our models.

Table 6. Correlation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) Ln FDI	1															
(2) Ln FPI	0.3279	1														
(3) Ln Democracy	0.4019	0.0201	1													
(4) Ln Liberal	0.3847	-0.0536	0.913	1												
(5) Ln Corruption	-0.433	0.1941	-0.527	-0.621	1											
(6) Ln Property rights	0.2657	-0.065	0.6761	0.7317	-0.46	1										
(7) Ln Stability	0.2413	-0.1715	0.3673	0.4592	-0.6323	0.37	1									
(8) Ln Regulatory	0.3118	-0.2615	0.5933	0.7116	-0.7469	0.577	0.5994	1								
(9) Ln gov effectiveness	0.3505	-0.2627	0.5413	0.6426	-0.8318	0.5036	0.6703	0.9081	1							
(10) Ln Rule of Law	0.3119	-0.3038	0.549	0.6876	-0.8323	0.5165	0.6965	0.9228	0.9495	1						
(11) Ln exports	0.3993	0.2312	0.1428	0.132	-0.1779	0.1361	0.0359	0.1537	0.1931	0.1278	1					
(12) Ln GDPpc	0.5622	-0.1104	0.5027	0.5689	-0.7812	0.5075	0.6007	0.7417	0.8108	0.7688	0.2887	1				
(13) Ln GDP	0.5147	0.0707	0.2576	0.2545	-0.4276	0.1987	0.2009	0.4571	0.5253	0.4567	0.5524	0.6214	1			
(14) Ln Trade	-0.06	-0.2088	-0.07	-0.0173	-0.1585	0.1256	0.247	0.1788	0.1829	0.1731	-0.1203	0.118	-0.2403	1		
(15) Ln population	0.1447	0.1883	-0.1264	-0.19	0.1631	-0.2054	-0.2873	-0.0891	-0.0651	-0.1141	0.4404	-0.1142	0.7073	-0.4112	1	
(16) Distance	-0.223	-0.4625	-0.1358	-0.1124	-0.1786	-0.0522	0.1458	0.2908	0.3517	0.3385	0.0131	0.1859	0.4096	0.1803	0.3523	1

7. Discussion

In this study we tried to bridge the gap of disciplines by bringing foreign policy to the core discussion of institutional-based views of international business. With few exceptions (Duanmu, 2014; Jandhyala & Weiner, 2014), political interactions among countries are still underexplored in international business literature. Pointing out the role of international relations we highlighted the way political risks for of investments can be attenuated by the intermediary role of government-government relations. We also explained how firms can obtain legitimacy and create conditions to succeed taking advantage of the level of affinities between home and host governments.

Analysis about why firms internationalize, how this occurs and the reasons behind the target destinations frequently disregard the proper political dimension of the institutional reasons influencing FDI flows. There is a large avenue to explore the role of governments in facilitating and protecting international investments despite the institutional-profile of host countries.

The Brazilian case is interesting to explore this argument. There we can see that the mechanism through which foreign policy affects OFDI is twofold. First, there is frequent complementarity between foreign policy and investments of home firms abroad. In the Brazilian case, since the 2000's national firms started going abroad stimulated by a change in domestic vision towards the need to engage in global dynamics. This was particularly important during Lula's mandates, with governmental stimulus to the creation of national champions. By providing encouraging financing conditions, opening embassies and approximating with Global South countries, Brazil explored the connections to the developing countries as a way to facilitate both the expansion of Brazilian's image and soft power to the world, and the reach of its economy. The gains were not only political, but have also been captured by national firms, private and SOE's ones.

Second, foreign policy makes commitments more reliable. It reduces uncertainties by allowing the creation of government-government communication channels and alternative rules/arenas to settle disputes, reduces (or increases) liabilities of foreignness according to the status of the relations between the origin and host countries, increases (or decreases) the legitimacy of foreign firms and alters the chances of success by diminishing specific discriminatory market or regulatory behavior. We found that in the Brazilian case,

the protection provided by national government's foreign relations helped the national firms to establish operations in countries with low levels of property rights protection, democratic and regulatory institutional settings quality.

While arguing in favor of the relevance of political interactions to explain the locational choices of FDI, we reinforce the point made by van Hoorn and Maseland (2016), to whom it is important to distinguish between the (institutional) country's profile and the dissimilarities of institutions among countries. We go further to that argument adding the perspective that the relations between home and host governments are another institutional aspect to which researchers must pay attention. Exploring the interactive political dimension, we contribute to the literature by including country-profile variables (i.e. property rights protection), similarity-related ones (i.e. partisanship) and the interaction among countries (foreign policy) as elements of analysis.

Exploring Brazil's example, we were also able to advance the understanding about the main drivers of Brazilian OFDI, bringing reasons other than the market conditions and institutional performance of the destinations (Alcântara, Nogueira, Bruhn, Carvalho, & Calegario, 2016; Amal & Tomio, 2015). After highlighting the mechanisms through which foreign policy influences business decisions, we hope this study can open space for further investigations about the entry mode of Brazilian multinationals (Chueke, MacLennan, & Borini, 2014), as well as contribute to a better comprehension the of domestic incentives to internationalize (Bazuchi et al., 2013; S. Lazzarini et al., 2015; Stal & Cuervo-Cazurra, 2011).

There is much more to advance in this research agenda. The next steps would include to understand the relation between foreign policy engagement and firms' internationalization strategies when the state is a shareholder. Once foreign policy is related to business's decisions, it is interesting to understand if the effects of foreign policy are different accordingly to the level of state's ownership (C. Cuervo-Cazurra et al., 2014; Estrin et al., 2016; Knutsen et al., 2011; M. H. Li et al., 2014; Liang et al., 2015; Wang et al., 2012). We took the first step in that direction.

Chapter 5. Conclusion

This thesis sought to understand how and to what extent foreign policy is related to the internationalization of Brazilian companies in the period between 2000 and 2016. For this purpose, we [1] depicted the foundations of business-state relationship in Brazil, [2] developed an innovative way to capture the direction of Brazilian foreign policy and, finally, [3] evaluated the effects of this interaction on international investment decisions.

We began our second chapter highlighting the evolution of the relationship between Brazilian government and business, focusing in the way national firms acquired a central position in the Brazilian development strategy throughout the 20th century. We argued this centrality was taken to a new level in the administrations of Luís Inácio Lula da Silva (2003-2010). During this period, the government instruments to finance and stimulate national companies, mainly directed to the national champions, were expanded and deepened. The state, which had acquired shares of national companies through the BNDES, also attained greater influence on firms' executive boards. These links combined policies to support business growth with a voice for the government in business decisions. As a consequence, some national companies became relevant political and economic actors within Brazil's development and foreign policies.

The effects of the political connections between state and business on the decisions of internationalization of Brazilian companies were demonstrated in Chapter 4. Between 2000 and 2016, Brazilian investment flows were associated with the country's foreign policy. Countries with which Brazil had a greater affinity in international affairs saw increased the stock of Brazilian investments in a greater proportion than those with less interaction in the foreign domain. Because the Foreign Policy Index (FPI) used to measure international engagement captures annual variations, the tests' results we provided have also demonstrated themselves consistent to explain a lower increase on FDI when the political affinities cooled down. In these circumstances, the pace of growth of investment stocks were often reduced in response to negative variations in the level of involvement among countries.

Another topic of interest in this research was the possibility of operationalizing and measuring the effects of foreign policy, and the theoretical and empirical implications of

quantifying the international engagement of countries. We examined how Brazilian foreign policy has been perceived and empirically defined in the Brazilian and international literature and spotted some flaws. The literature forcedly depicted foreign policy positions and changes based on anecdotical events or by observing single agents or agencies. To overcome such limits, we proposed an indicator of international engagement, the Foreign Policy Index (FPI). Composed by a series of domestic and international (systemic) variables related to the political interactions between Brazil and 192 other countries between 2000 and 2014, the FPI provides measurements at the level of foreign policy activities undertaken by the Brazilian government, as well as it allows to assess how these activities were distributed among the countries. The index composition made possible to quantify and evaluate the changes in the priorities of Brazilian external agenda, and how the relationship with each country changed as the years went by.

Based on the FPI, it was possible to analyze the changes and continuities of Brazilian foreign policy from the second term of Fernando Henrique Cardoso until 2014, the last year of Dilma Rousseff's first term. The results presented in the tests have brought evidence supporting that: 1. it is possible to demonstrate empirically that there was a significant change of orientation in Brazilian foreign policy towards the Global-South countries from the mandate of Fernando Henrique Cardoso to Lula's; 2. the priority countries in foreign policy during Lula's mandates correspond, to a large extent, to those with which Brazil presented congruence in terms of government's partisan ideology; 3. there was a significant drop in the level of foreign policy activities undertaken by Brazilian government during Dilma Rousseff's first administration; 4. domestic factors are more relevant to understand the shift in foreign policy orientation to Global-South countries than to understand Brazilian interactions with Global-North (developed) ones; 5. From 1998 to 2014, Brazil expanded its relations with developing countries without it representing a retraction of its relations with developed countries (there was no zero-sum outcome).

The empirical investigation based on our FPI brings methodological and analytical innovations to the literature in foreign policy analysis. Among the contributions, we highlight the possibility to assess how much systemic and domestic factors were responsible for explaining changes in foreign policy. Given this open debate in the literature, the FPI allowed us to capture how much each of the factors contributed to explain the annual variations of Brazil's bilateral relationship with all the countries in the sample. This

information allowed us to better evaluate the main interpretations about the changes in Brazilian foreign policy, as well as to put new ideas and arguments on the table. In addition, as our FPI aimed to bring contributions to the Brazilian and international literature, we step-by-step reported how researchers can replicate the indicator and adapt it to evaluate the foreign engagement of other countries, insofar there are available data.

Finally, the analysis presented in Chapter 4 sought to understand why and how foreign policy can be addressed as an important element for internationalization strategies analysis. To formulate the argument, we explored how institutions were understood in international business literature and which were foreign policy's links with locational decisions and firms' strategies in host countries. We put in dialogue the international business institutional-based approach with international political economy literature in order to contrast and explore relations between political institutions and investments. From the systematization of this debate, we stated a few propositions regarding how foreign policy can be related to investment flows. In various ways, it has been argued that foreign policy can intermediate the relations between foreign companies and host countries, reducing risks related to discretionary actions of governments as well as creating business opportunities. This perspective is innovative in bringing to the center of the IB discussions a little studied institutional dimension: relationship between governments and its possible effects on decisions regarding internalization.

The theoretical contributions presented in Chapter 4 surely open a cross-fertilization channel between the IB and IPE areas. And that was what we had in mind when willing to present the most frequent views about the role of policy on business strategies in both areas. Departing from this perspective, a case study that deals with the locational pattern of Brazilian investments abroad since the 2000s helps making our point. The Brazilian case was analyzed considering recent changes in the country's foreign policy and, using the FPI–as a proxy for foreign policy engagement, obtaining statistical results consistent with the elaborated propositions.

The effects of foreign policy (and other political-institutional variables) on Brazilian investments bring insights for the literature on the determinants of Brazilian investments. Among the most significant contributions is a possible explanation for investments located in countries with low levels of democracy and bureaucratic-institutional characteristics that are not attractive to international investments. It was verified that between the years 2000

and 2016 Brazilian companies benefited from Brazil's foreign policy choices, regardless of the institutional profile of the recipient countries. This finding favors the argument that the foreign engagement of the Brazilian government can be positively related to Brazilian foreign investment and, under certain conditions, is protective against political risks in adverse institutional contexts. The results give new light to the understanding of the economic and institutional forces that guide the strategies of Brazilian firms, and from emerging countries in general.

To be developed, this thesis has benefited from many original research in distinct areas of knowledge. From the beginning we aimed to connect disciplines to build a bridge between international business and international political economy approaches. It is because we believe in the analytical benefits of transposing the gaps between the areas that place the companies at the center of their research and those that pay more attention to the effects of the politics on economy, that we argue both rationalities must be present in studies on international investments and trade.

The results and discussion presented in this thesis are the beginning of a research agenda. It is still to be explored, for example, the possible effects of the state as shareholder on the strategic decisions on firms' internationalization and evaluations on the impact of international investments on home and host countries' economy and political institutions.

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Appendix

Chapter 3

1. Data collection

For the elaboration of the FPI index, we started with the intention of creating an index of political distance. We collected and coded – for a period of more than a year with the help of research assistants – a wide set of variables often cited in the literature as indicators of changes in the pattern of Brazilian foreign policy. The variables composing the index are:

A. Data on the similarity in voting patterns with Brazil at the UN General Assembly on a yearly basis. These data were taken from Bailey, Strezhnev and Voeten ["United Nations General Assembly Voting Data", hdl:1902.1/12379, Harvard Dataverse, V16]. We opted for the use of the similarity index, which ranges from 0 to 1 and assigns values to the agreement of the vote (1) and abstentions (0.5). This variable is continuous and ranges from 0 to 1 with 1 being absolute agreement.

B. To evaluate political affinity with respect to Brazil's positions in international financial organizations, we created a financial congruence indicator. This was accomplished by taking into account information about the coalitions in which Brazil took part in the three major international financial institutions, namely, the World Bank, the International Monetary Fund and the World Trade Organization. As a first step, we coded a binary variable to identify countries that supported Brazil's positions on the executive board of the World Bank. Thus, the value 1 was assigned to countries that, in a given year, officially supported Brazil's position and 0 otherwise. The information was collected from the annual reports of the World Bank (2001-2014).

   Second, the same procedure was followed to classify countries in terms of their support for Brazil's leadership on the executive board of the International Monetary Fund. Countries were classified on a yearly basis as supporting Brazil's leadership on the executive board of the IMF or not. Additionally, from 1999 onwards we included the financial G20 into consideration. The final IMF coalition score is

composed of the ratio of the support on the executive board of the IMF (weight 2) and the participation in the G20 (weight 1).

Third, we used the information on the coalitions in which Brazil participated within the World Trade Organization. We calculated the ratio of joint participation in interest groups in which Brazil was a member according to the number of groups of which Brazil was a part per year (2 in 1998; 4 in 2003; 5 for the period 2004-2007, and 6 from 2008 onwards).

The final financial congruence variable was calculated as $(WB\ coalition + IMF\ coalition + WTO\ congruence)/3$.

C. We classified countries as having or lacking a Brazilian embassy in a given year. Between 2003 and 2010, 40 new embassies were opened by the government. If the embassy was opened between 2001 and 2014, the country was coded as 0 before and 1 after the embassy was opened. Data were extracted from the Official Gazette website and the website of the Brazilian Ministry of Foreign Affairs. In some cases, books on the history of foreign relations were sought to discover the date of the creation of a certain embassy.

D. Based on official documents of the Presidency, we cataloged all international trips between 2001 and 2014. The coding criteria were 1 for official visits of state or business meetings and 0 for international participation in events in the country or simply no official visit took place that year.

E. Countries were classified with a binary variable depending on whether they did or did not receive assistance in the form of Brazilian International Cooperation for Development (ICD) on a yearly basis. Data were retrieved from Aid Data 3.0 and the Brazilian Cooperation Agency (ABC).

F. Joint participation in international coalitions was coded using a binary variable for MERCOSUR, the only regional mechanism of which Brazil is part and in which it attempts to create supranational institutions and sovereignty cession (at least in the content of the agreements), and two continuous variables for regional and interregional groups that are less ambitious in their goals.

For the first, we attributed 0 in the case of non-participation in MERCOSUR and 1 for full-members of the block on a yearly basis, resulting in Venezuela only being coded as 1 after 2011.

The values assumed by the countries in the regional variable depend on the frequency of their participation in regional integration organizations, such as Unasur, CELAC, ACTO and LAIA. The first stage of construction of the variable was the classification of countries as belonging to these organizations or not from the year of its creation. The result is the ratio of the sum of the belonging to all organizations in each year.

The variable that represents the co-participation in inter-regional mechanisms was built similarly to the regional integration variable. After classifying the participation in inter-regional mechanisms (BRICS, CPLP, IBAS, Africa-South America Summit and the Summit of South American-Arab Countries), the final value of each country varied depending on the ratio between the shares and the weight given to each mechanism, namely, a weight of 2 to CPLP and BRICS and 1 for the others. Because not all engines have regular meetings, with the exception of CPLP, which functioned throughout the period, and the BRICS from 2008 onwards, the amounts assumed by the countries that are part of each mechanism vary according to meetings in each year.

G. The agreements made by the Brazilian Ministry of Foreign Affairs were recorded and weighted by the total expenditure (measured in thousand Reais) made by the Brazilian government. The amounts were disclosed by the Government Transparency Portal, which aims at transparency of the development and collaborative activities of financed events and the dissemination of the Brazilian brand abroad. The construction of the variable was performed in three steps. First, we classified countries based on whether they did or did not have cooperative programs with the Ministry in each year. Second, we transformed the amounts spent by the Ministry into quartiles. Finally, we assigned values to countries according to the quartile in which the spent amount went to them in a given year. The result is the assignment of 0 for the absence of an agreement with the Ministry in a specific year, 0.3 if the amount spent was in the first quartile, 0.6 if the amount spent was in the second quartile and 1 if the value was in the third quartile. The decision of dividing amounts in four quartiles was taken after observing that the amounts had a very large variance and the distribution of the variable has a strong positive skew.

H. We collected data on all bilateral international agreements performed by Brazil between 2001 and 2014 that were accessible on the webpage of the Ministry of Foreign Affairs. The annual number of signed agreements between countries is used for creating interquartile ranges. These quartiles allowed the separation of countries into four main groups for each of the years. Countries were classified following this rule: 0 if there was no bilateral act between Brazil and the country that year; 0.3 if the number of acts between Brazil and the country that year is in the first quartile of the annual distribution; 0.6 if the number of acts between Brazil and the country that year is in the second quartile of the annual distribution; and 1 if the number of acts between Brazil and the country that year is in the third quartile of the annual distribution. The transformation of the total number of acts of a country with respect to Brazil in a given year in the values represented by the interquartile range was thought to reduce the heterogeneity of the number of acts between countries.

I. We used the UN Comtrade database to collect data on Brazilian annual export to each partner. The variable is measured in million US$.

2. Factor Analysis

The notion of distance embraces the spatial location of two countries taking into account a reference point, which does not necessarily represent a geographical location. An index has the quality of simplifying this measure while keeping information about the variance of the data among units. To proceed to the actual creation of the political distance index, we used factorial analysis to reduce all the components into one. This method is used in almost every applied field of study, from the natural sciences to the social sciences. In the latter, it is widely used as a way to capture, combine and express latent abstract concepts (democracy, freedom, political affinity) into a meaningful and unique variable, allowing for comparability between units and its use in multivariate method analysis (Abeyasekera 2005, 3). Unlike Principal Component Analysis, factorial analysis assumes that the data variance can be decomposed by a common and unique factor (Joint Research Centre-European Commission 2008, 69).

We kept the first two components of the decomposition. This means that we assume that the two first components generated by the factor analysis are adequate to measure and simplify the information present in the data. To generate the factors, we ran the analysis for each of the years. The process of constructing an indicator frequently involves the rotation of the components to improve the interpretability of the results (OECD 2008, 70). In this sense, we used the most common rotation method, varimax, which consists of arranging the components to more clearly express the information.

After generating the factors and rotating the resultant matrix, we proceeded to predict the contribution of each factor in explaining the data variation per annum. The values predicted were used to combine the yearly factors into one single variable. Finally, to clearly present the meaning of the composed value, we normalized the result. In this way, the final output is one single index that varies from 0 to 1.

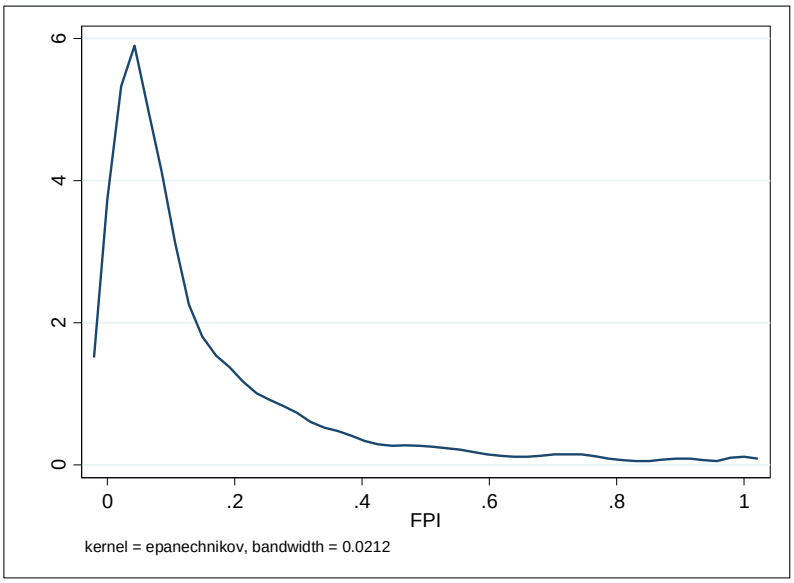
3. Descriptive Statistics

When we look for descriptive statistics of the index, some aspects suggest interesting features in the results. First, when observing the basic statistics, we found that its distribution is highly right-skewed (see Figure A). It is expected that for any resource-limited country, some countries are more relevant than others. Once we analyzed 192 countries, for many of them, only a few indicators composing our index were present. This does not mean that null values in these countries are not relevant. Otherwise, we think they contain important information about the relations Brazil establishes with all countries in the world.

The mean of the index for all years is 0.126. This value, per se, could be considered low, given that it goes from 0 to 1. However, for the mean to be closer to 1, it would have to have the maximum possible values for each of the variables described for every country, which is impossible in practice. Being realistic, it is plausible to think that Brazil – or any country – can make agreements, establish cooperation projects, have presidential visits, open embassies and so on with just a few countries in the world in a given year. The standard deviation of the sample is remarkably high (0.175), showing us that despite the

low mean, there is a great variance between the countries in the sample. This is exactly what we were expecting.

Figure A. Kernel density of FPI Index



In the table below, we display the descriptive statistics for each of the years. As shown in Figure 1 in the paper, it captures the increase in the means throughout the years, peaking in 2010 (see Table A).

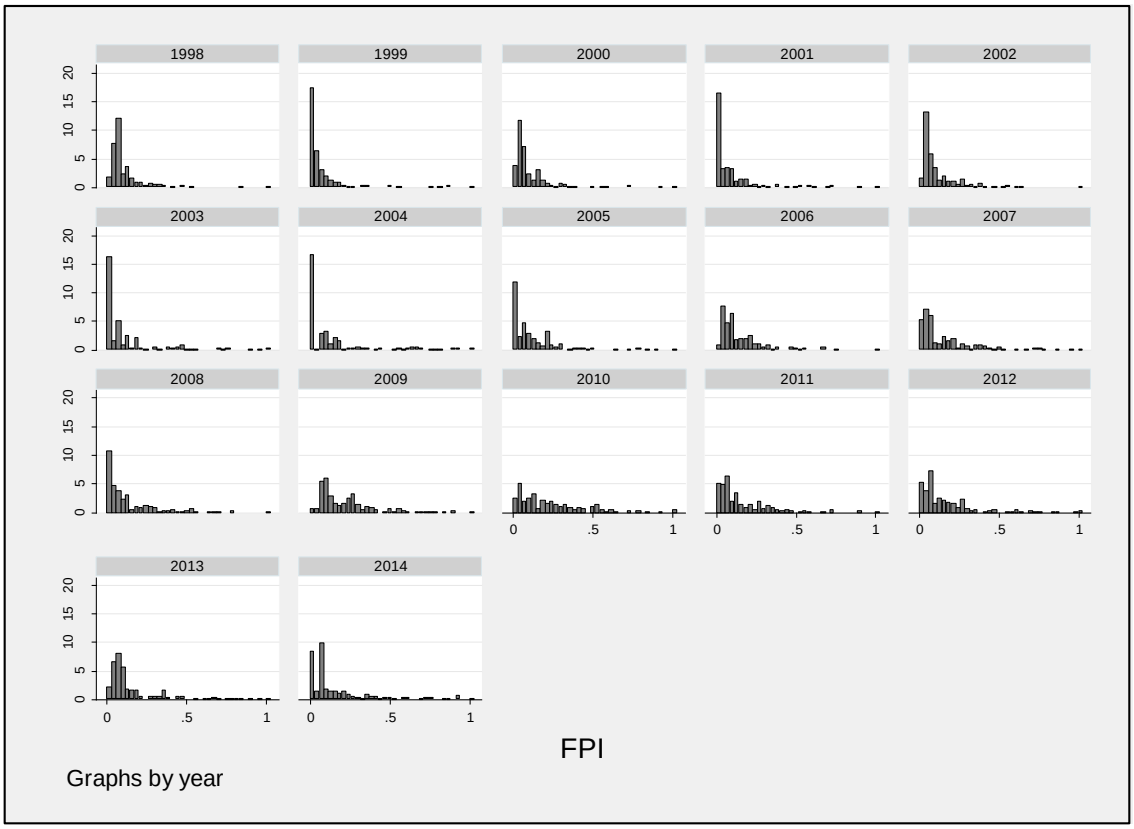
Table A. Descriptive statistics of FPI per year

Year	Mean	SD	Min.	Max.
1998	0.09	0.12	0.00	1.00
1999	0.07	0.15	0.00	1.00
2000	0.09	0.14	0.00	1.00
2001	0.09	0.16	0.00	1.00
2002	0.10	0.13	0.00	1.00
2003	0.11	0.18	0.00	1.00
2004	0.13	0.22	0.00	1.00
2005	0.11	0.16	0.00	1.00
2006	0.13	0.15	0.00	1.00
2007	0.14	0.18	0.00	1.00
2008	0.12	0.16	0.00	1.00
2009	0.18	0.17	0.00	1.00
2010	0.20	0.20	0.00	1.00
2011	0.15	0.18	0.00	1.00
2012	0.15	0.19	0.00	1.00

2013	0.14	0.19	0.00	1.00
2014	0.15	0.21	0.00	1.00

The figure below reveals the distribution of the index on a yearly basis, confirming the right skew for all the years with 2010 being the least skewed (see Figure B).

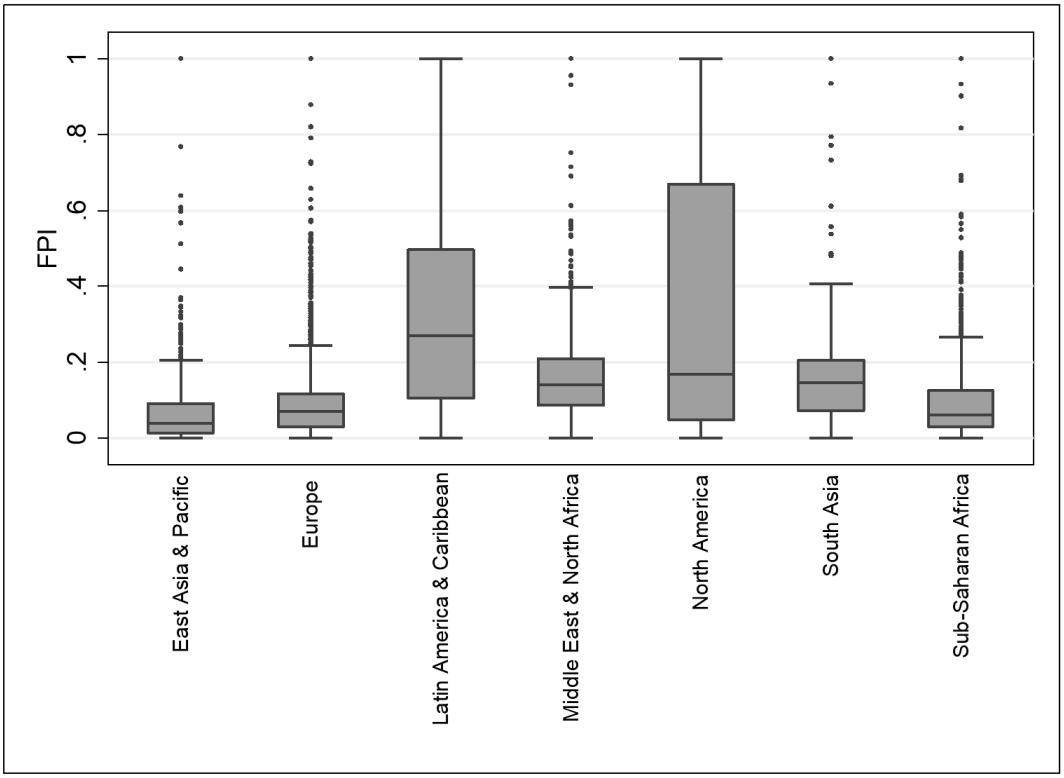
Figure B. Histogram of FPI index per year



The distribution of annual observations demonstrates the behavior in foreign policy captured by the FPI index. As we can see, the concentration on the left during the first years progressively moves towards the right side during the whole sample. This is particularly clear from 2005 to 2010 when it is possible to see a greater distribution in the central zone of the yearly histograms. Again, this is exactly what we were expecting. Considering the intensity in the growth of partners in Brazilian foreign policy during the second mandate of Lula, a group of countries with low levels of foreign policy relations with Brazil during Cardoso's term increasingly grew closer to Brazil. This is the reason they occupy the central portion of the graphs. This trend reverted during Dilma's tenure. Again, we can see the retraction by the movement to the left.

3.1. List of all countries

Figure C. Box plots for each region



In the table below, we display the descriptive statistics for each country in FPI (see Table B).

Table B. Descriptive statistics of FPI per country

Country	Mean	SD	Min	Max
Afghanistan	0.101	0.105	0.000	0.390
Albania	0.062	0.064	0.008	0.222
Algeria	0.265	0.177	0.078	0.563
Andorra	0.024	0.016	0.003	0.059
Angola	0.316	0.178	0.114	0.681
Antigua and Barb.	0.102	0.072	0.032	0.281
Argentina	0.947	0.093	0.650	1.000
Armenia	0.077	0.067	0.001	0.219
Australia	0.077	0.037	0.049	0.209
Austria	0.083	0.033	0.014	0.153
Azerbaijan	0.056	0.041	0.001	0.134
Bahamas	0.090	0.080	0.003	0.275
Bahrain	0.076	0.054	0.003	0.217
Bangladesh	0.162	0.044	0.085	0.269
Barbados	0.088	0.072	0.003	0.288

Country	Mean	SD	Min	Max
Belarus	0.048	0.027	0.006	0.092
Belgium	0.171	0.074	0.079	0.318
Belize	0.152	0.145	0.000	0.420
Benin	0.109	0.100	0.001	0.322
Bhutan	0.061	0.042	0.001	0.168
Bolivia	0.524	0.175	0.271	0.879
Bosnia and Her.	0.040	0.030	0.003	0.111
Botswana	0.101	0.106	0.000	0.350
Brunei	0.025	0.018	0.001	0.068
Bulgaria	0.115	0.082	0.041	0.385
Burkina Faso	0.114	0.119	0.000	0.454
Burundi	0.036	0.028	0.001	0.106
Cambodia	0.031	0.026	0.000	0.085
Cameroon	0.119	0.095	0.034	0.393
Canada	0.057	0.029	0.000	0.106
Cape Verde	0.285	0.213	0.048	1.000
Central African	0.039	0.035	0.000	0.107
Chad	0.044	0.038	0.001	0.125
Chile	0.433	0.209	0.141	0.844
China	0.371	0.249	0.127	1.000
Colombia	0.721	0.161	0.466	0.987
Comoros	0.036	0.031	0.001	0.127
Congo	0.089	0.098	0.000	0.330
Congo, Democ.	0.105	0.076	0.026	0.319
Costa Rica	0.262	0.098	0.099	0.401
Cote d'Ivoire	0.101	0.066	0.035	0.236
Croatia	0.077	0.042	0.012	0.196
Cuba	0.383	0.132	0.175	0.610
Cyprus	0.051	0.045	0.003	0.194
Czech Republic	0.089	0.032	0.061	0.178
Denmark	0.102	0.056	0.046	0.268
Djibouti	0.085	0.068	0.001	0.285
Dominica	0.077	0.079	0.000	0.220
Dominican Rep.	0.277	0.133	0.106	0.513
Ecuador	0.743	0.194	0.410	1.000
Egypt	0.310	0.192	0.098	0.752
El Salvador	0.211	0.140	0.042	0.538
Equatorial Guinea	0.085	0.099	0.001	0.373
Eritrea	0.032	0.026	0.000	0.101
Estonia	0.043	0.030	0.003	0.106
Ethiopia	0.105	0.074	0.034	0.324
Fiji	0.045	0.045	0.001	0.158
Finland	0.094	0.049	0.046	0.272
France	0.279	0.135	0.098	0.574
Gabon	0.181	0.201	0.067	0.933
Gambia	0.044	0.043	0.001	0.173
Georgia	0.060	0.070	0.004	0.284

Country	Mean	SD	Min	Max
Germany	0.495	0.230	0.095	1.000
Ghana	0.167	0.137	0.036	0.589
Greece	0.094	0.036	0.047	0.189
Grenada	0.088	0.089	0.002	0.264
Guatemala	0.186	0.110	0.046	0.401
Guinea	0.082	0.081	0.000	0.275
Guinea-Bissau	0.239	0.155	0.047	0.677
Guyana	0.392	0.186	0.152	0.731
Haiti	0.323	0.222	0.093	0.933
Honduras	0.163	0.135	0.034	0.420
Hungary	0.094	0.034	0.059	0.194
Iceland	0.028	0.016	0.003	0.065
India	0.474	0.282	0.130	1.000
Indonesia	0.126	0.057	0.062	0.299
Iran	0.228	0.210	0.114	1.000
Iraq	0.078	0.065	0.003	0.215
Ireland	0.084	0.020	0.045	0.127
Israel	0.167	0.099	0.000	0.437
Italy	0.475	0.227	0.106	0.878
Jamaica	0.182	0.139	0.034	0.490
Japan	0.174	0.070	0.091	0.296
Jordan	0.190	0.123	0.076	0.613
Kazakhstan	0.082	0.078	0.002	0.253
Kenya	0.116	0.101	0.035	0.446
Kiribati	0.023	0.020	0.000	0.085
Korea, North	0.054	0.052	0.002	0.195
Korea, South	0.130	0.067	0.066	0.334
Kuwait	0.167	0.068	0.074	0.333
Kyrgyzstan	0.037	0.023	0.001	0.095
Laos	0.031	0.029	0.000	0.120
Latvia	0.035	0.028	0.003	0.116
Lebanon	0.267	0.216	0.074	0.956
Lesotho	0.039	0.030	0.000	0.107
Liberia	0.091	0.104	0.001	0.289
Libya	0.154	0.142	0.004	0.550
Liechtenstein	0.028	0.016	0.003	0.065
Lithuania	0.038	0.031	0.003	0.117
Luxembourg	0.028	0.015	0.003	0.064
Macedonia	0.028	0.015	0.003	0.062
Madagascar	0.034	0.027	0.000	0.107
Malawi	0.057	0.058	0.001	0.200
Malaysia	0.081	0.018	0.050	0.114
Maldives	0.064	0.045	0.001	0.170
Mali	0.064	0.068	0.000	0.246
Malta	0.051	0.031	0.005	0.114
Marshall Islands	0.009	0.009	0.000	0.029
Mauritania	0.086	0.093	0.001	0.284

Country	Mean	SD	Min	Max
Mauritius	0.034	0.026	0.001	0.106
Mexico	0.373	0.121	0.219	0.586
Micronesia, Fed.	0.006	0.006	0.000	0.024
Moldova	0.028	0.016	0.003	0.063
Monaco	0.028	0.025	0.003	0.108
Mongolia	0.030	0.024	0.000	0.091
Montenegro	0.021	0.013	0.003	0.057
Morocco	0.241	0.126	0.106	0.570
Mozambique	0.355	0.213	0.047	0.817
Myanmar	0.038	0.027	0.001	0.085
Namibia	0.142	0.107	0.035	0.452
Nauru	0.014	0.014	0.000	0.039
Nepal	0.175	0.075	0.081	0.376
Netherlands	0.278	0.122	0.095	0.521
New Zealand	0.083	0.038	0.056	0.191
Nicaragua	0.192	0.158	0.033	0.507
Niger	0.034	0.028	0.001	0.107
Nigeria	0.157	0.105	0.045	0.369
Norway	0.110	0.053	0.049	0.285
Oman	0.111	0.079	0.002	0.290
Pakistan	0.217	0.097	0.106	0.558
Palau	0.004	0.006	0.000	0.021
Panama	0.363	0.128	0.175	0.594
Papua New Guinea	0.026	0.017	0.002	0.066
Paraguay	0.565	0.211	0.209	0.906
Peru	0.537	0.167	0.307	0.780
Philippines	0.144	0.046	0.077	0.268
Poland	0.086	0.016	0.064	0.118
Portugal	0.307	0.141	0.084	0.536
Qatar	0.170	0.220	0.002	0.931
Romania	0.100	0.036	0.066	0.190
Russia	0.276	0.120	0.130	0.500
Rwanda	0.042	0.038	0.001	0.123
Samoa	0.024	0.016	0.002	0.060
San Marino	0.025	0.017	0.003	0.062
Sao Tome and Pri.	0.287	0.207	0.015	0.902
Saudi Arabia	0.225	0.115	0.126	0.532
Senegal	0.140	0.089	0.036	0.306
Serbia	0.085	0.044	0.032	0.189
Seychelles	0.035	0.031	0.000	0.105
Sierra Leone	0.053	0.058	0.000	0.236
Singapore	0.086	0.023	0.040	0.122
Slovakia	0.061	0.037	0.003	0.131
Slovenia	0.060	0.040	0.005	0.159
Solomon Islands	0.028	0.018	0.001	0.072
Somalia	0.034	0.031	0.001	0.127
South Africa	0.227	0.130	0.069	0.488

Country	Mean	SD	Min	Max
South Sudan	0.038	0.013	0.010	0.045
Spain	0.238	0.123	0.086	0.527
Sri Lanka	0.195	0.182	0.001	0.612
St Kitts and Nev.	0.089	0.100	0.002	0.278
St Lucia	0.107	0.106	0.000	0.327
St Vincent and t.	0.085	0.099	0.000	0.314
Sudan	0.074	0.063	0.001	0.237
Suriname	0.418	0.198	0.174	0.753
Swaziland	0.034	0.026	0.000	0.106
Sweden	0.109	0.048	0.053	0.238
Switzerland	0.137	0.080	0.044	0.347
Syria	0.196	0.149	0.073	0.691
Tajikistan	0.034	0.021	0.001	0.091
Tanzania	0.096	0.110	0.004	0.452
Thailand	0.122	0.061	0.050	0.259
Timor-Leste	0.341	0.126	0.213	0.639
Togo	0.072	0.075	0.000	0.306
Tonga	0.023	0.014	0.001	0.059
Trinidad and Tob.	0.190	0.066	0.096	0.317
Tunisia	0.253	0.141	0.077	0.572
Turkey	0.142	0.076	0.065	0.318
Turkmenistan	0.034	0.024	0.001	0.093
Tuvalu	0.022	0.014	0.001	0.063
Uganda	0.038	0.034	0.001	0.123
Ukraine	0.144	0.124	0.055	0.471
United Arab Emir.	0.216	0.093	0.089	0.405
United Kingdom	0.231	0.081	0.080	0.343
United States	0.657	0.262	0.234	1.000
Uruguay	0.650	0.191	0.277	0.902
Uzbekistan	0.039	0.053	0.003	0.236
Vanuatu	0.021	0.014	0.002	0.057
Venezuela	0.645	0.221	0.289	1.000
Vietnam	0.096	0.063	0.000	0.288
Yemen	0.076	0.055	0.003	0.220
Zambia	0.101	0.130	0.000	0.529
Zimbabwe	0.098	0.073	0.035	0.317

4. Systemic – domestic division

To calculate the weight of domestic and international variables in the change of the value of the FPI between 1998 and 2014 we proceeded as follows. Firstly, we created two separate indexes using factorial analysis. Then we measured the percentage change of each

of them between 1998 and 2014 for each country. The percentage change was rescaled so the sum of both dimensions sum to 100%.

Table C. Descriptive statistics of FPI per country

Country	Domestic	Systemic
Afghanistan	0.14	0.86
Albania	0.38	0.62
Algeria	0.44	0.56
Andorra	0.13	0.87
Angola	0.58	0.42
Antigua and Barb.	0.30	0.70
Argentina	0.60	0.40
Armenia	0.29	0.71
Australia	0.45	0.55
Austria	0.36	0.64
Azerbaijan	0.25	0.75
Bahamas	0.26	0.74
Bahrain	0.10	0.90
Bangladesh	0.28	0.72
Barbados	0.21	0.79
Belarus	0.23	0.77
Belgium	0.45	0.55
Belize	0.39	0.61
Benin	0.40	0.60
Bhutan	0.10	0.90
Bolivia	0.52	0.48
Bosnia and Herz.	0.29	0.71
Botswana	0.39	0.61
Brunei	0.10	0.90
Bulgaria	0.47	0.53
Burkina Faso	0.35	0.65
Burundi	0.13	0.87
Cambodia	0.13	0.87
Cameroon	0.43	0.57
Canada	0.50	0.50
Cape Verde	0.56	0.44
Central African	0.19	0.81
Chad	0.10	0.90
Chile	0.53	0.47
China	0.38	0.62
Colombia	0.57	0.43
Comoros	0.10	0.90
Congo	0.37	0.63
Congo, Dem.	0.37	0.63
Costa Rica	0.55	0.45

Country	Domestic	Systemic
Cote d'Ivoire	0.38	0.62
Croatia	0.36	0.64
Cuba	0.63	0.37
Cyprus	0.28	0.72
Czech Republic	0.40	0.60
Denmark	0.49	0.51
Djibouti	0.10	0.90
Dominica	0.21	0.79
Dominican Rep.	0.44	0.56
Ecuador	0.57	0.43
Egypt	0.38	0.62
El Salvador	0.58	0.42
Equatorial Guinea	0.34	0.66
Eritrea	0.10	0.90
Estonia	0.30	0.70
Ethiopia	0.32	0.68
Fiji	0.16	0.84
Finland	0.41	0.59
France	0.66	0.34
Gabon	0.29	0.71
Gambia	0.12	0.88
Georgia	0.31	0.69
Germany	0.64	0.36
Ghana	0.46	0.54
Greece	0.36	0.64
Grenada	0.26	0.74
Guatemala	0.49	0.51
Guinea	0.29	0.71
Guinea-Bissau	0.53	0.47
Guyana	0.48	0.52
Haiti	0.55	0.45
Honduras	0.43	0.57
Hungary	0.42	0.58
Iceland	0.13	0.87
India	0.58	0.42
Indonesia	0.38	0.62
Iran	0.36	0.64
Iraq	0.20	0.80
Ireland	0.36	0.64
Israel	0.86	0.14
Italy	0.59	0.41
Jamaica	0.45	0.55
Japan	0.34	0.66
Jordan	0.36	0.64
Kazakhstan	0.36	0.64
Kenya	0.41	0.59
Kiribati	0.15	0.85

Country	Domestic	Systemic
Korea, North	0.24	0.76
Korea, South	0.43	0.57
Kuwait	0.32	0.68
Kyrgyzstan	0.10	0.90
Laos	0.08	0.92
Latvia	0.20	0.80
Lebanon	0.39	0.61
Lesotho	0.10	0.90
Liberia	0.36	0.64
Libya	0.34	0.66
Liechtenstein	0.13	0.87
Lithuania	0.24	0.76
Luxembourg	0.13	0.87
Macedonia	0.13	0.87
Madagascar	0.10	0.90
Malawi	0.22	0.78
Malaysia	0.28	0.72
Maldives	0.10	0.90
Mali	0.25	0.75
Malta	0.12	0.88
Marshall Islands	0.23	0.77
Mauritania	0.27	0.73
Mauritius	0.10	0.90
Mexico	0.40	0.60
Micronesia, Fed.	0.27	0.73
Moldova	0.13	0.87
Monaco	0.17	0.83
Mongolia	0.11	0.89
Montenegro	0.14	0.86
Morocco	0.38	0.62
Mozambique	0.64	0.36
Myanmar	0.21	0.79
Namibia	0.38	0.62
Nauru	0.18	0.82
Nepal	0.31	0.69
Netherlands	0.35	0.65
New Zealand	0.39	0.61
Nicaragua	0.52	0.48
Niger	0.13	0.87
Nigeria	0.43	0.57
Norway	0.44	0.56
Oman	0.26	0.74
Pakistan	0.31	0.69
Palau	0.29	0.71
Panama	0.47	0.53
Papua New Guinea	0.11	0.89
Paraguay	0.64	0.36

Country	Domestic	Systemic
Peru	0.53	0.47
Philippines	0.36	0.64
Poland	0.36	0.64
Portugal	0.71	0.29
Qatar	0.43	0.57
Romania	0.38	0.62
Russia	0.61	0.39
Rwanda	0.15	0.85
Samoa	0.10	0.90
San Marino	0.13	0.87
Sao Tome and Pri.	0.52	0.48
Saudi Arabia	0.33	0.67
Senegal	0.41	0.59
Serbia	0.35	0.65
Seychelles	0.14	0.86
Sierra Leone	0.22	0.78
Singapore	0.31	0.69
Slovakia	0.28	0.72
Slovenia	0.36	0.64
Solomon Islands	0.10	0.90
Somalia	0.11	0.89
South Africa	0.53	0.47
South Sudan	0.15	0.85
Spain	0.60	0.40
Sri Lanka	0.33	0.67
St Kitts and Nevis	0.22	0.78
St Lucia	0.25	0.75
St Vincent and t	0.26	0.74
Sudan	0.35	0.65
Suriname	0.45	0.55
Swaziland	0.10	0.90
Sweden	0.46	0.54
Switzerland	0.49	0.51
Syria	0.36	0.64
Tajikistan	0.10	0.90
Tanzania	0.39	0.61
Thailand	0.28	0.72
Timor-Leste	0.62	0.38
Togo	0.28	0.72
Tonga	0.11	0.89
Trinidad and Tob.	0.37	0.63
Tunisia	0.38	0.62
Turkey	0.46	0.54
Turkmenistan	0.10	0.90
Tuvalu	0.11	0.89
Uganda	0.11	0.89
Ukraine	0.45	0.55

Country	Domestic	Systemic
United Arab Emir	0.36	0.64
United Kingdom	0.62	0.38
United States	0.53	0.47
Uruguay	0.65	0.35
Uzbekistan	0.12	0.88
Vanuatu	0.12	0.88
Venezuela	0.58	0.42
Vietnam	0.37	0.63
Yemen	0.10	0.90
Zambia	0.37	0.63
Zimbabwe	0.37	0.63

4.1. Index Components

Table D. Annual average of FPI indicators, per country

*values are un their units, refer to 1.Data Collection

	Cooperation programs	Bilateral treaties	Annual Exports	Regional integration initiatives	Inter-regional arrangements	UNGA votes	Convergence in International Financial Institutions	Embassies	International trips	Common markets	Programs led by the Foreign Affairs Ministry
Afghanistan	0.1176	0.0000	4483406	0.0000	0.0000	0.9371	0.0000	0.0000	0.0000	0.00	0.0529
Albania	0.0000	0.0000	27617132	0.0000	0.0000	0.7183	0.0229	0.2941	0.0000	0.00	0.1118
Algeria	0.0000	0.0000	548232472	0.0000	0.0504	0.9298	0.0000	1.0000	0.0588	0.00	0.1706
Andorra	0.0000	0.0000	53714	0.0000	0.0000	0.7590	0.0000	0.0000	0.0000	0.00	0.0000
Angola	0.5882	0.0000	753105594	0.0000	0.2958	0.9399	0.0229	1.0000	0.1765	0.00	0.3706
Antigua and Ba.	0.0588	0.0000	3951103	0.0735	0.0000	0.9510	0.0229	1.0000	0.0000	0.00	0.0176
Argentina	0.5294	0.9412	11599100000	0.4265	0.0504	0.9267	0.2670	1.0000	0.7059	1.00	0.7412
Armenia	0.0588	0.0588	17228061	0.0000	0.0000	0.8802	0.0000	0.5294	0.0000	0.00	0.0353
Australia	0.0000	0.0000	472839189	0.0000	0.0000	0.6759	0.0925	1.0000	0.0000	0.00	0.0529
Austria	0.0000	0.0000	162911773	0.0000	0.0000	0.7751	0.0229	0.8235	0.0588	0.00	0.0176
Azerbaijan	0.0000	0.0000	24996887	0.0000	0.0000	0.9215	0.0000	0.3529	0.0000	0.00	0.0353
Bahamas	0.0588	0.0000	327165567	0.0735	0.0000	0.9463	0.0000	0.5882	0.0000	0.00	0.0176
Bahrain	0.0000	0.0000	224330519	0.0000	0.0252	0.9313	0.0000	0.0000	0.0000	0.00	0.0000
Bangladesh	0.0000	0.0000	347104284	0.0000	0.0000	0.9352	0.0000	1.0000	0.0000	0.00	0.0000
Barbados	0.1176	0.0000	17694793	0.0735	0.0000	0.9527	0.0229	0.0000	0.0000	0.00	0.1235
Belarus	0.0000	0.0000	18146657	0.0000	0.0000	0.8987	0.0000	0.2353	0.0000	0.00	0.0529
Belgium	0.0000	0.0000	2716580129	0.0000	0.0000	0.7424	0.0229	1.0000	0.1765	0.00	0.0706
Belize	0.4118	0.0000	3362450	0.0735	0.0000	0.9534	0.0229	0.5882	0.0000	0.00	0.1118
Benin	0.1765	0.0000	66185812	0.0000	0.0252	0.9471	0.0229	0.5294	0.0588	0.00	0.2647
Bhutan	0.0000	0.0000	12572	0.0000	0.0000	0.9254	0.0000	0.0000	0.0000	0.00	0.0000
Bolivia	0.2353	0.0000	848060346	0.6765	0.0504	0.9463	0.0435	1.0000	0.5294	0.00	0.5000
Bosnia and Her.	0.0000	0.0000	7073853	0.0000	0.0000	0.7560	0.0000	0.2500	0.0000	0.00	0.0188
Botswana	0.1176	0.0000	1341213	0.0000	0.0252	0.9390	0.0229	0.5294	0.0588	0.00	0.1706
Brunei	0.0000	0.0000	620686	0.0000	0.0000	0.9325	0.0000	0.0000	0.0000	0.00	0.0000
Bulgaria	0.0000	0.0000	150911401	0.0000	0.0000	0.7477	0.0229	1.0000	0.0588	0.00	0.1235
Burkina Faso	0.2353	0.0000	9487631	0.0000	0.0252	0.9518	0.0229	0.4706	0.0588	0.00	0.1471
Burundi	0.0000	0.0000	189521	0.0000	0.0000	0.9235	0.0229	0.0000	0.0000	0.00	0.0765
Cambodia	0.0000	0.0000	3415218	0.0000	0.0000	0.9351	0.0000	0.0000	0.0000	0.00	0.0706
Cameroon	0.1176	0.0000	51634991	0.0000	0.0252	0.8623	0.0229	1.0000	0.0588	0.00	0.1471
Canada	0.0000	0.0000	1697067053	0.0000	0.0000	0.6295	0.0925	1.0000	0.0000	0.00	0.1471
Cape Verde	0.5294	0.0000	42971144	0.0000	0.2958	0.9478	0.0621	1.0000	0.1176	0.00	0.4294
Central African	0.0000	0.0000	2411331	0.0000	0.0252	0.8605	0.0229	0.0000	0.0000	0.00	0.0529

	Cooperation programs	Bilateral treaties	Annual Exports	Regional integration initiatives	Inter-regional arrangements	UNGA votes	Convergence in International Financial Institutions	Embassies	International trips	Common markets	Programs led by the Foreign Affairs Ministry
Chad	0.1176	0.0000	2577554	0.0000	0.0252	0.9337	0.0229	0.0000	0.0000	0.00	0.0000
Chile	0.2353	0.0000	3140480749	0.4265	0.0504	0.9524	0.1794	1.0000	0.5294	0.00	0.4059
China	0.0588	0.0000	16622400000	0.0000	0.1176	0.9030	0.1098	1.0000	0.2353	0.00	0.5176
Colombia	0.4118	0.9412	1593052563	0.6765	0.0504	0.9299	0.7863	1.0000	0.2941	0.00	0.4353
Comoros	0.0000	0.0000	1201324	0.0000	0.0504	0.9270	0.0000	0.0000	0.0000	0.00	0.0000
Congo	0.0588	0.0000	67373656	0.0000	0.0252	0.9493	0.0229	0.4118	0.0588	0.00	0.1294
Congo, Dem.	0.1176	0.0000	29545236	0.0000	0.0252	0.8919	0.0229	1.0000	0.0000	0.00	0.0765
Costa Rica	0.5294	0.7647	288886362	0.0735	0.0000	0.9398	0.1359	1.0000	0.1176	0.00	0.2824
Cote d'Ivoire	0.0588	0.0000	57815779	0.0000	0.0252	0.9135	0.0229	1.0000	0.0000	0.00	0.0588
Croatia	0.0000	0.0000	110083260	0.0000	0.0000	0.7585	0.0229	0.5294	0.0000	0.00	0.1059
Cuba	0.5294	0.0000	287929946	0.3235	0.0000	0.9065	0.0663	1.0000	0.3529	0.00	0.7235
Cyprus	0.0000	0.0000	60889295	0.0000	0.0000	0.7926	0.0229	0.2941	0.0000	0.00	0.0176
Czech Republic	0.0000	0.0000	51619825	0.0000	0.0000	0.7385	0.0229	1.0000	0.0588	0.00	0.0353
Denmark	0.0000	0.0000	253569776	0.0000	0.0000	0.7443	0.0229	1.0000	0.1176	0.00	0.0529
Djibouti	0.0000	0.0000	14053268	0.0000	0.0504	0.9403	0.0229	0.0000	0.0000	0.00	0.0000
Dominica	0.0588	0.0000	2153271	0.0735	0.0000	0.9370	0.0229	0.3529	0.0000	0.00	0.0000
Dominican Rep.	0.1176	0.0000	306336426	0.0735	0.0000	0.9487	0.6895	1.0000	0.1176	0.00	0.3235
Ecuador	0.5294	0.9412	590644920	0.6765	0.0504	0.9492	0.7330	1.0000	0.3529	0.00	0.4765
Egypt	0.1765	0.0000	1231664972	0.0000	0.0504	0.9150	0.1049	1.0000	0.0588	0.00	0.1471
El Salvador	0.2941	0.0000	132940761	0.0735	0.0000	0.9376	0.0000	1.0000	0.1765	0.00	0.4706
Equatorial Gui.	0.0588	0.0000	27864317	0.0000	0.0420	0.9379	0.0000	0.5294	0.0588	0.00	0.0529
Eritrea	0.0000	0.0000	7145959	0.0000	0.0252	0.9507	0.0000	0.0000	0.0000	0.00	0.0000
Estonia	0.0000	0.0000	27802177	0.0000	0.0000	0.7426	0.0229	0.2353	0.0000	0.00	0.0353
Ethiopia	0.0588	0.0000	29749475	0.0000	0.0252	0.9302	0.0000	1.0000	0.0588	0.00	0.0765
Fiji	0.0000	0.0000	1098449	0.0000	0.0000	0.9046	0.0229	0.0000	0.0000	0.00	0.0353
Finland	0.0000	0.0000	341313060	0.0000	0.0000	0.7559	0.0229	1.0000	0.0588	0.00	0.0176
France	0.0588	0.0000	2701862976	0.0000	0.0000	0.6763	0.0229	1.0000	0.4118	0.00	0.4529
Gabon	0.0588	0.0000	2701862976	0.0000	0.0252	0.9514	0.0229	1.0000	0.0588	0.00	0.0941
Gambia	0.0000	0.0000	49715579	0.0000	0.0252	0.9330	0.0229	0.0000	0.0000	0.00	0.0176
Georgia	0.0000	0.0000	97928826	0.0000	0.0000	0.7627	0.0229	0.2353	0.0000	0.00	0.1059
Germany	0.0000	0.7059	5343825017	0.0000	0.0000	0.7399	0.0229	1.0000	0.3529	0.00	0.6235
Ghana	0.1176	0.0000	200146709	0.0000	0.0252	0.9536	0.0229	1.0000	0.1176	0.00	0.1588
Greece	0.0000	0.0000	188854378	0.0000	0.0000	0.7673	0.0229	1.0000	0.0000	0.00	0.0529
Grenada	0.1176	0.0000	4781898	0.0735	0.0000	0.9234	0.0229	0.4118	0.0000	0.00	0.0353
Guatemala	0.2353	0.0000	201467628	0.0735	0.0000	0.9434	0.1359	1.0000	0.1765	0.00	0.2294
Guinea	0.0588	0.0000	32998393	0.0000	0.0252	0.9466	0.0229	0.5294	0.0000	0.00	0.0353
Guinea-Bissau	0.3529	0.0000	4171882	0.0000	0.2958	0.9055	0.0229	1.0000	0.0588	0.00	0.2412

	Cooperation programs	Bilateral treaties	Annual Exports	Regional integration initiatives	Inter-regional arrangements	UNGA votes	Convergence in International Financial Institutions	Embassies	International trips	Common markets	Programs led by the Foreign Affairs Ministry
Guyana	0.3529	0.0000	17607735	0.4265	0.0504	0.9537	0.3562	1.0000	0.1765	0.00	0.3647
Haiti	0.6471	0.0000	41198888	0.0735	0.0000	0.9413	0.6895	1.0000	0.2353	0.00	0.3118
Honduras	0.2941	0.0000	84433412	0.0735	0.0000	0.9180	0.0000	0.8824	0.0588	0.00	0.2118
Hungary	0.0000	0.0000	102099987	0.0000	0.0000	0.7360	0.0229	1.0000	0.0000	0.00	0.1059
Iceland	0.0000	0.0000	93099078	0.0000	0.0000	0.7527	0.0229	0.0000	0.0000	0.00	0.0000
India	0.0000	0.0000	1797130481	0.0000	0.1597	0.8605	0.1049	1.0000	0.2353	0.00	0.3765
Indonesia	0.0000	0.0000	908986368	0.0000	0.0000	0.9320	0.1974	1.0000	0.1176	0.00	0.1294
Iran	0.0000	0.0000	1213119543	0.0000	0.0000	0.9029	0.0000	1.0000	0.0588	0.00	0.0941
Iraq	0.0000	0.0000	139351849	0.0000	0.0252	0.8422	0.0000	0.1765	0.0000	0.00	0.0000
Ireland	0.0000	0.0000	257775649	0.0000	0.0000	0.7813	0.0229	1.0000	0.0000	0.00	0.0176
Israel	0.0000	0.0000	264293991	0.0000	0.0000	0.3327	0.0435	1.0000	0.0588	0.00	0.2118
Italy	0.0000	0.8235	3313797197	0.0000	0.0000	0.7509	0.0229	1.0000	0.3529	0.00	0.1824
Jamaica	0.4706	0.0000	131742187	0.0735	0.0000	0.9544	0.0229	1.0000	0.0588	0.00	0.1412
Japan	0.0588	0.0000	4551095466	0.0000	0.0000	0.7892	0.0435	1.0000	0.1176	0.00	0.1412
Jordan	0.0000	0.0000	147408820	0.0000	0.0252	0.9393	0.0000	1.0000	0.0588	0.00	0.0529
Kazakhstan	0.0588	0.0000	39081285	0.0000	0.0000	0.9104	0.0000	0.5294	0.0588	0.00	0.0941
Kenya	0.1765	0.0000	83279352	0.0000	0.0252	0.9391	0.0229	1.0000	0.0588	0.00	0.1235
Kiribati	0.0000	0.0000	91108	0.0000	0.0000	0.7943	0.0000	0.0000	0.0000	0.00	0.0176
Korea, North	0.0588	0.0000	89224348	0.0000	0.0000	0.8730	0.0000	0.3529	0.0588	0.00	0.0176
Korea, South	0.0000	0.0000	2297971007	0.0000	0.0000	0.7838	0.0435	1.0000	0.1176	0.00	0.1765
Kuwait	0.0000	0.0000	206170266	0.0000	0.0252	0.9329	0.0000	1.0000	0.0000	0.00	0.0353
Kyrgyzstan	0.0000	0.0000	2702904	0.0000	0.0000	0.8888	0.0229	0.0000	0.0000	0.00	0.0000
Laos	0.0000	0.0000	143015	0.0000	0.0000	0.9380	0.0000	0.0000	0.0000	0.00	0.0588
Latvia	0.0000	0.0000	16690499	0.0000	0.0000	0.7370	0.0229	0.0000	0.0000	0.00	0.0353
Lebanon	0.0000	0.0000	177949427	0.0000	0.0252	0.9223	0.0000	1.0000	0.0588	0.00	0.1471
Lesotho	0.0588	0.0000	131532	0.0000	0.0252	0.9515	0.0229	0.0000	0.0000	0.00	0.0000
Liberia	0.0588	0.0000	14269714	0.0000	0.0252	0.8383	0.0000	0.2353	0.0000	0.00	0.0706
Libya	0.1176	0.0000	206590881	0.0000	0.0504	0.9117	0.0000	0.1765	0.1176	0.00	0.0529
Liechtenstein	0.0000	0.0000	0	0.0000	0.0000	0.7705	0.0229	0.0000	0.0000	0.00	0.0000
Lithuania	0.0000	0.0000	46259196	0.0000	0.0000	0.7415	0.0229	0.0000	0.0000	0.00	0.0706
Luxembourg	0.0000	0.0000	46966574	0.0000	0.0000	0.7483	0.0229	0.0000	0.0000	0.00	0.0000
Macedonia	0.0000	0.0000	17811164	0.0000	0.0000	0.7596	0.0229	0.0000	0.0000	0.00	0.0000
Madagascar	0.0000	0.0000	13919161	0.0000	0.0252	0.9482	0.0229	0.0000	0.0000	0.00	0.0000
Malawi	0.1176	0.0000	2702962	0.0000	0.0252	0.9249	0.0229	0.1176	0.0000	0.00	0.0000
Malaysia	0.0000	0.0000	717360288	0.0000	0.0000	0.9301	0.0925	1.0000	0.0000	0.00	0.0000
Maldives	0.0000	0.0000	5754918	0.0000	0.0000	0.9455	0.0000	0.0000	0.0000	0.00	0.0000
Mali	0.0588	0.0000	6888756	0.0000	0.0252	0.9506	0.0229	0.4118	0.0000	0.00	0.0529

	Cooperation programs	Bilateral treaties	Annual Exports	Regional integration initiatives	Inter-regional arrangements	UNGA votes	Convergence in International Financial Institutions	Embassies	International trips	Common markets	Programs led by the Foreign Affairs Ministry
Malta	0.0000	0.0000	19441729	0.0000	0.0000	0.8002	0.0229	0.0000	0.0000	0.00	0.0000
Marshall Isl.	0.0000	0.0000	2159883	0.0000	0.0000	0.5133	0.0000	0.0000	0.0000	0.00	0.0000
Mauritania	0.0000	0.0000	72862043	0.0000	0.0504	0.9181	0.0229	0.2941	0.0000	0.00	0.0353
Mauritius	0.0000	0.0000	11643276	0.0000	0.0252	0.9482	0.0229	0.0000	0.0000	0.00	0.0000
Mexico	0.4118	0.0000	3175238565	0.3235	0.0000	0.9414	0.0869	1.0000	0.2941	0.00	0.2765
Micronesia, Fed	0.0000	0.0000	143863	0.0000	0.0000	0.4719	0.0000	0.0000	0.0000	0.00	0.0000
Moldova	0.0000	0.0000	24515049	0.0000	0.0000	0.7601	0.0229	0.0000	0.0000	0.00	0.0000
Monaco	0.0000	0.0000	205	0.0000	0.0000	0.7390	0.0000	0.0000	0.0000	0.00	0.0176
Mongolia	0.0000	0.0000	1773885	0.0000	0.0000	0.9572	0.0000	0.0000	0.0000	0.00	0.0176
Montenegro	0.0000	0.0000	19493843	0.0000	0.0000	0.6972	0.0000	0.0000	0.0000	0.00	0.0000
Morocco	0.1765	0.0000	434790016	0.0000	0.0504	0.9339	0.0229	1.0000	0.0000	0.00	0.1118
Mozambique	0.7059	0.0000	43238543	0.0000	0.2958	0.9498	0.0229	1.0000	0.2353	0.00	0.5765
Myanmar	0.0000	0.0000	8239945	0.0000	0.0000	0.9133	0.0000	0.2941	0.0000	0.00	0.0176
Namibia	0.2353	0.0000	15717103	0.0000	0.0252	0.9451	0.0614	1.0000	0.0588	0.00	0.1294
Nauru	0.0000	0.0000	56186	0.0000	0.0000	0.5983	0.0000	0.0000	0.0000	0.00	0.0000
Nepal	0.0588	0.0000	310309	0.0000	0.0000	0.9462	0.0000	1.0000	0.0000	0.00	0.0353
Netherlands	0.0000	0.2353	7771747319	0.0000	0.0000	0.7392	0.0229	1.0000	0.1176	0.00	0.1588
New Zealand	0.0000	0.0588	50779364	0.0000	0.0000	0.7942	0.0925	1.0000	0.0000	0.00	0.0882
Nicaragua	0.4706	0.0000	52284353	0.0735	0.0000	0.9244	0.0392	1.0000	0.0588	0.00	0.3000
Niger	0.0000	0.0000	1379942	0.0000	0.0252	0.8987	0.0229	0.0000	0.0000	0.00	0.0353
Nigeria	0.1176	0.0000	828750618	0.0000	0.0252	0.9459	0.0663	1.0000	0.1765	0.00	0.1824
Norway	0.0000	0.0000	511957535	0.0000	0.0000	0.7558	0.0435	1.0000	0.0588	0.00	0.0706
Oman	0.0000	0.0000	277520838	0.0000	0.0252	0.9282	0.0000	0.4118	0.0000	0.00	0.0588
Pakistan	0.0000	0.0000	148195384	0.0000	0.0000	0.8914	0.1588	1.0000	0.0000	0.00	0.0588
Palau	0.0000	0.0000	8766	0.0000	0.0000	0.4536	0.0000	0.0000	0.0000	0.00	0.0000
Panama	0.4118	0.0000	497295399	0.3235	0.0000	0.9128	0.6667	1.0000	0.0588	0.00	0.2882
Papua New Guin.	0.0000	0.0000	3990080	0.0000	0.0000	0.8882	0.0229	0.0000	0.0000	0.00	0.0000
Paraguay	0.5882	0.0588	1648372279	0.4265	0.0504	0.9526	0.2284	1.0000	0.5882	0.82	0.5824
Peru	0.3529	0.0000	1257099512	0.6765	0.0504	0.9392	0.1588	1.0000	0.5882	0.00	0.5000
Philippines	0.0588	0.0000	356082906	0.0000	0.0000	0.9522	0.5078	1.0000	0.0000	0.00	0.1059
Poland	0.0000	0.0000	277797681	0.0000	0.0000	0.7391	0.0229	1.0000	0.0000	0.00	0.0353
Portugal	0.0000	0.0000	1069910965	0.0000	0.2706	0.7554	0.0229	1.0000	0.5882	0.00	0.3706
Qatar	0.0000	0.0000	158669457	0.0000	0.0252	0.9276	0.0000	0.5882	0.1765	0.00	0.0588
Romania	0.0000	0.0000	269235566	0.0000	0.0000	0.7480	0.0229	1.0000	0.0000	0.00	0.1059
Russia	0.0000	0.0000	2544682807	0.0000	0.1176	0.8175	0.0000	1.0000	0.3529	0.00	0.4529
Rwanda	0.0588	0.0000	460681	0.0000	0.0252	0.9078	0.0229	0.0000	0.0000	0.00	0.0353
Samoa	0.0000	0.0000	748931	0.0000	0.0000	0.8895	0.0000	0.0000	0.0000	0.00	0.0000

	Cooperation programs	Bilateral treaties	Annual Exports	Regional integration initiatives	Inter-regional arrangements	UNGA votes	Convergence in International Financial Institutions	Embassies	International trips	Common markets	Programs led by the Foreign Affairs Ministry
San Marino	0.0000	0.0000	46269	0.0000	0.0000	0.7778	0.0000	0.0000	0.0000	0.00	0.0000
Sao Tome and P.	0.6471	0.0000	949732	0.0000	0.2958	0.9089	0.0000	0.7059	0.1176	0.00	0.3529
Saudi Arabia	0.0588	0.0000	1617149136	0.0000	0.0252	0.9257	0.0000	1.0000	0.0588	0.00	0.0176
Senegal	0.2353	0.0000	94841688	0.0000	0.0252	0.9510	0.0229	1.0000	0.0588	0.00	0.1294
Serbia	0.0000	0.0000	15066075	0.0000	0.0000	0.7753	0.0000	1.0000	0.0000	0.00	0.0353
Seychelles	0.0000	0.0000	8074458	0.0000	0.0252	0.9479	0.0000	0.0000	0.0000	0.00	0.0353
Sierra Leone	0.0588	0.0000	17859193	0.0000	0.0252	0.9341	0.0229	0.1765	0.0000	0.00	0.0176
Singapore	0.0000	0.0000	1238695399	0.0000	0.0000	0.9449	0.0435	1.0000	0.0000	0.00	0.0765
Slovakia	0.0000	0.0000	27571650	0.0000	0.0000	0.7488	0.0229	0.4118	0.0000	0.00	0.0353
Slovenia	0.0000	0.0000	214477515	0.0000	0.0000	0.7524	0.0229	0.5882	0.0000	0.00	0.0529
Solomon Islands	0.0000	0.0000	158503	0.0000	0.0000	0.9356	0.0229	0.0000	0.0000	0.00	0.0000
Somalia	0.0000	0.0000	30721621	0.0000	0.0504	0.8680	0.0000	0.0000	0.0000	0.00	0.0000
South Africa	0.1176	0.0000	1173502399	0.0000	0.1849	0.9439	0.1974	1.0000	0.3529	0.00	0.1765
South Sudan	0.0000	0.0000	2661663	0.0000	0.0357	0.8152	0.0000	0.0000	0.0000	0.00	0.0000
Spain	0.0000	0.0588	2517513937	0.0000	0.0000	0.7543	0.0229	1.0000	0.5882	0.00	0.2529
Sri Lanka	0.0000	0.0000	54006192	0.0000	0.0000	0.9394	0.0229	0.5882	0.0000	0.00	0.0529
St Kitts and N.	0.0588	0.0000	1267686	0.0735	0.0000	0.9189	0.0229	0.3529	0.0000	0.00	0.0000
St Lucia	0.1176	0.0000	923290445	0.0735	0.0000	0.9423	0.0229	0.4118	0.0000	0.00	0.0176
St Vincent	0.0588	0.0000	2014704	0.0735	0.0000	0.9495	0.0229	0.3529	0.0000	0.00	0.0529
Sudan	0.0588	0.0000	10396874	0.0000	0.0504	0.9141	0.0000	0.5294	0.0000	0.00	0.1235
Suriname	0.5294	0.0000	34432460	0.4265	0.0504	0.9466	0.6895	1.0000	0.0588	0.00	0.2765
Swaziland	0.0000	0.0000	880366	0.0000	0.0252	0.9454	0.0229	0.0000	0.0000	0.00	0.0000
Sweden	0.0000	0.0000	397419025	0.0000	0.0000	0.7713	0.0229	1.0000	0.1176	0.00	0.0706
Switzerland	0.0000	0.0000	1052212206	0.0000	0.0000	0.7362	0.0663	1.0000	0.2353	0.00	0.0882
Syria	0.0000	0.0000	165750480	0.0000	0.0252	0.8885	0.0000	1.0000	0.0588	0.00	0.0706
Tajikistan	0.0000	0.0000	4911496	0.0000	0.0000	0.8995	0.0000	0.0000	0.0000	0.00	0.0000
Tanzania	0.1176	0.0000	22031931	0.0000	0.0252	0.9402	0.0663	0.5882	0.0588	0.00	0.1059
Thailand	0.0000	0.0000	960204118	0.0000	0.0000	0.9462	0.2023	1.0000	0.0000	0.00	0.0941
Timor-Leste	1.0000	0.0000	1455778	0.0000	0.2857	0.9263	0.0476	0.9286	0.1429	0.00	0.5429
Togo	0.0588	0.0000	39212220	0.0000	0.0252	0.9402	0.0229	0.5882	0.0000	0.00	0.0353
Tonga	0.0000	0.0000	278970	0.0000	0.0000	0.8459	0.0229	0.0000	0.0000	0.00	0.0000
Trinidad and T.	0.0588	0.0000	419676919	0.0735	0.0000	0.9509	0.6895	1.0000	0.0588	0.00	0.0353
Tunisia	0.0588	0.0000	156768691	0.0000	0.0504	0.9416	0.0614	1.0000	0.0000	0.00	0.1059
Turkey	0.0000	0.0000	658228665	0.0000	0.0000	0.7851	0.0663	1.0000	0.1176	0.00	0.0882
Turkmenistan	0.0000	0.0000	4701938	0.0000	0.0000	0.9305	0.0000	0.0000	0.0000	0.00	0.0000
Tuvalu	0.0000	0.0000	13596	0.0000	0.0000	0.8508	0.0000	0.0000	0.0000	0.00	0.0000
Uganda	0.0588	0.0000	3193839	0.0000	0.0252	0.9100	0.0229	0.0000	0.0000	0.00	0.0000

	Cooperation programs	Bilateral treaties	Annual Exports	Regional integration initiatives	Inter-regional arrangements	UNGA votes	Convergence in International Financial Institutions	Embassies	International trips	Common markets	Programs led by the Foreign Affairs Ministry
Ukraine	0.0000	0.0000	233610082	0.0000	0.0000	0.7914	0.0000	1.0000	0.1765	0.00	0.1882
UAE	0.0000	0.0000	1229569748	0.0000	0.0252	0.9379	0.0000	1.0000	0.0588	0.00	0.0706
United Kingdom	0.0000	0.0000	2959795827	0.0000	0.0000	0.6497	0.0229	1.0000	0.2941	0.00	0.3471
United States	0.0000	0.7647	20111000000	0.0000	0.0000	0.2749	0.0000	1.0000	0.6471	0.00	0.4176
Uruguay	0.5882	0.8235	1259217489	0.4265	0.0504	0.9577	0.2284	1.0000	0.2941	0.82	0.5882
Uzbekistan	0.0000	0.0000	11323017	0.0000	0.0000	0.8465	0.0000	0.0000	0.0000	0.00	0.0588
Vanuatu	0.0000	0.0000	67076	0.0000	0.0000	0.8318	0.0000	0.0000	0.0000	0.00	0.0000
Venezuela	0.3529	0.8824	2835735109	0.6765	0.0504	0.9250	0.0820	1.0000	0.6471	0.18	0.3882
Vietnam	0.0588	0.0000	358438826	0.0000	0.0000	0.9197	0.0925	1.0000	0.1176	0.00	0.1059
Yemen	0.0000	0.0000	227479242	0.0000	0.0252	0.9373	0.0000	0.0000	0.0000	0.00	0.0000
Zambia	0.1765	0.0000	6937832	0.0000	0.0252	0.9467	0.0229	0.4706	0.0588	0.00	0.1118
Zimbabwe	0.0588	0.0000	8452107	0.0000	0.0252	0.9247	0.0663	1.0000	0.0000	0.00	0.0529

Anexe

Chapter 4 – Stata 14 (Do File)

```
*******************************************************************************
***THESIS- CHAPTER 4
*******************************************************************************
> *

******
use "C:\Users\pietr\OneDrive\Thesis\Model_IV.dta", clear
drop if country =="Brazil"
drop if country =="American Pacific Ocean Islands"
drop if tax_heaven==1


***************************************
***Log of Variables - transformation***
***************************************
gen lfdi_total = ln(fdi_total)
gen lfdi_total01 = ln(fdi_total01)
gen lfdi_total010 = ln(fdi_total010)
gen lfdi_total015 = ln(fdi_total015)

gen lfpi_fax2 = ln(fpi_fax2)
gen lfpi_fax = ln(fpi_fax)
gen lfpi_fa2 = ln(fpi_fa2)
gen lfpi_fa = ln(fpi_fa)
*Controls
gen lexportBRA = ln(exportBRA)
gen lgdpcurr = ln(gdpcurr)
gen lgdppccurr = ln(gdppccurr)
gen lculture = ln(hofstede_cultdist)
gen ldistw = ln(distw)
gen lpop = ln(population)
gen lpop1664 = ln(sp_pop_1564_to)
gen limportstotal = ln(bm_gsr_gnfs_cd)
gen lexportstotal = ln(bx_gsr_gnfs_cd)
gen ldoingbusiness = ln(doingbusiness)
****Independent variables
gen lautoc = ln(autoc)
gen ldemoc = ln(democ)
gen lpolityiv = ln(polity2)
gen lruleoflaw_fh = ln(fh_rol)
gen lvdem_polyarchy = ln(v2x_polyarchy)
gen lv2x_libdem = ln(v2x_libdem)
gen lv2x_corr = ln(v2x_corr)
gen lv2xcl_prpty = ln(v2xcl_prpty)


* WBGI Independent variables - 2 different transformed variables
foreach v of var rle rqe gee pve cce {
	su `v', meanonly
	gen norm_`v' = (`v' - r(min))/(r(max) - r(min))
}

gen ln_ruleoflaw = ln(norm_rle)
gen ln_regquality = ln(norm_rqe)
gen ln_goveffectiveness = ln(norm_gee)
gen ln_stability = ln(norm_pve)
*Only WBGI positive (added + 2.5)
gen lruleoflaw = ln(rle + 2.5)
gen lregquality = ln(rqe + 2.5)
gen lgoveffectiveness = ln(gee + 2.5)
gen lstability = ln(pve + 2.5)
**log of DV
gen lfdi_direto = ln(fdi_direto)
gen lfdi_carteira = ln(fdi_carteira)
gen lfdi_outros = ln(fdi_outros)
gen lfdi_agricultura = ln(fdi_agricultura)
gen lfdi_extracao = ln(fdi_extracao)
gen lfdi_transformacao = ln(fdi_transformacao)
gen lfdi_construcao = ln(fdi_construcao)
gen lfdi_comercio = ln(fdi_comercio)
gen lfdi_financaseseguros = ln(fdi_financaseseguros)
```

```
gen lfdi_ciencia = ln(fdi_ciencia)
gen lfdi_outrosetores = ln(fdi_outrosetores)
gen lfdi_participacao = ln(fdi_participacao)
gen lfdi_emprestimo = ln(fdi_emprestimo)
gen lfdi_moedas = ln(fdi_moedas)
gen lfdi_imoveis = ln(fdi_imoveis)
gen lfdi_outros_ate2006 = ln(fdi_outros_ate2006)
gen lfdi_carteiraate2006 = ln(fdi_carteiraate2006)
gen lfdi_curto = ln(fdi_curto)
gen lfdi_longo = ln(fdi_longo)
gen lfdi_stockex = ln(fdi_stockex)


*****************
*VARIABLE LIST
***************

*****************************************
*Variables List
*****************************************
***Dependent
	fdi_total lfdi_total fdi_direto fdi_carteira fdi_outros fdi_agricultura
> fdi_extracao ///
	fdi_transformacao fdi_construcao fdi_comercio fdi_financaseseguros ///
	fdi_ciencia fdi_outrosetores fdi_participacao fdi_emprestimo fdi_moedas
> ///
	fdi_imoveis fdi_outros_ate2006 fdi_carteiraate2006 fdi_curto fdi_longo f
> di_stockex///
	lfdi_direto lfdi_carteira lfdi_outros lfdi_agricultura lfdi_extracao ///
	lfdi_transformacao lfdi_construcao lfdi_comercio lfdi_financaseseguros /
> //
	lfdi_ciencia lfdi_outrosetores lfdi_participacao lfdi_emprestimo lfdi_mo
> edas ///
	lfdi_imoveis lfdi_outros_ate2006 lfdi_carteiraate2006 lfdi_curto lfdi_lo
> ngo lfdi_stockex

*Independent variables
*Foreign Policy Distance
	fpi_fax2 fpi_fa2 fpi_fax fpi_fa lfpi_fax2 lfpi_fa2 lfpi_fax lfpi_fa
*Polity IV or VDEM_polyarchy
	autoc democ polity2 v2x_polyarchy / lautoc ldemoc lpolityiv lvdem_polyar
> chy
* Political Stability
	pve lstability
* Liberal characteristics (v2x_liberal or v2x_libdem)
	v2x_libdem lv2x_libdem
* Regulatory Quality (rqe)
	rqe lregquality
* Government effectiveness (gee)
	gee lgoveffectiveness
* Corruption Level (v2x_corr)
	v2x_corr lv2x_corr
*  Rule of Law
	rle lruleoflaw fh_rol lruleoflaw_fh
* Property rights protection (v2xcl_prpty)
	v2xcl_prpty lv2xcl_prpty
* Partisanship congruence (values 0, 0.5 and 1)
	execrlc ideology_congruence lideology

* Doing business Indicator (db_overall_dtf)
	doingbusiness ldoingbusiness

***Controls
* GDP per capita (gdppc) ***prefer cd/current
	gdppccurr lgdppccurr
*GDP ***prefer cd/current
	gdpcurr lgdpcurr
*growth
	ny_gdp_mktp_kd_zg
* Cultural distance (hofstede)
	hofstede_cultdist lculture
* Geographic Distance (geo_dist)
	distw distwces dist distcap
* Trade
	export lexportBRA
	tradeopeness ltradeopeness
	bx_gsr_gnfs_cd lexportstotal
```

```
        bm_gsr_gnfs_cd limportstotal
*Population
        population lpop sp_pop_1564_to lpop1664



*****************************************************************************
********************************** MODELS ******************************
*17-01-2018*************** OLS - XTREG - PCSE - DKSE*********************
*****************************************************************************



***********************************************
* CORRELATION
***********************************************
corr lfdi_total lfpi_fa2 lvdem_polyarchy  lv2x_libdem lv2x_corr lv2xcl_prpty lst
> ability lregquality lgoveffectiveness lruleoflaw lexportBRA   lgdppccurr lgdpc
> urr tradeopeness lpop distw


*************************************************************
*** 1. OLS Model ******************************************
*************************************************************

sort country year

reg lfdi_total lfpi_fa2 lvdem_polyarchy lv2x_libdem lv2x_corr lv2xcl_prpty lstab
> ility lregquality lgoveffectiveness lruleoflaw lexportBRA lgdppccurr lgdpcurr
> tradeopeness lpop distw


**Heteroskedasticity test
rvfplot
estat hettest


*Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
        *Ho: Constant variance
        *Variables: fitted values of lfdi_total

        *chi2(1)      =   160.92
        *Prob > chi2  =   0.0000

*We cannot reject the null hyphotesis (there is no heterokedasticity

**2.test for linear correlation
sort country year
egen cnum=group(country)
tsset cnum year, yearly

xtserial lfdi_total lfpi_fa2  ///
                lvdem_polyarchy ///
                lv2x_libdem lv2x_corr lv2xcl_prpty ///
                lstability lregquality lgoveffectiveness lruleoflaw ///
                lexportBRA ///
                lgdppccurr lgdpcurr tradeopeness lpop distw

*Wooldridge test for autocorrelation in panel data
Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
   F(  1,      78) =      9.237
         Prob > F =      0.0032

**there is serial correlation. We cannot reject the null H0


**3. test 2
```

```
*****************************************************************************
********************************** MODELS ******************************
*17-01-2018*************** OLS - XTREG - PCSE - DKSE*********************
*****************************************************************************

**So, we are dealing with a panel where there are autocorrelation and heterosked
> asticiy


*************************************************************
* Panel Corrected Standard Errors Model
*************************************************************
use "C:\Users\pietr\OneDrive\Thesis\Model_I.dta", clear

sort country year
drop cnum
egen cnum=group(country)
xtset cnum year

sort cnum year
by year: summarize (fdi_total)

xtdescribe



*1 FPI
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l2.lfpi_fa2 ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            if year>2003 ///
            , pairwise correlation(psar1)

estimates store m1, title(Model 1)


*2 Vdem_polyarchy
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lvdem_polyarchy ///
            l2.lexportBRA ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store m2, title(Model 2)



*3 Liberal democracy
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lv2x_libdem ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store m3, title(Model 3)
```

```
*4 Corruption
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lv2x_corr ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store m4, title(Model 4)


*5 Property Rights
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lv2xcl_prpty ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store m5, title(Model 5)


*6 Stability
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lstability ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store m6, title(Model 6)


*7 Regulatory Quality
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lregquality ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)


estimates store m7, title(Model 7)


*8 Government Effectiveness
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lgoveffectiveness ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)
```

```
estimates store m8, title(Model 8)


*9 Rule of Law
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l.lruleoflaw ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store m9, title(Model 9)


*V1.Complete

******
eststo: ///
xtpcse  lfdi_total ///
            l.lfdi_total ///
            l2.lfpi_fa2  ///
            l.lvdem_polyarchy ///
            l.lv2x_libdem ///
            l.lv2x_corr ///
            l.lv2xcl_prpty ///
            l.lstability ///
            l.lregquality ///
            l.lgoveffectiveness ///
            l.lruleoflaw ///
            l2.lexportBRA ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store mcomplete, title(Model Complete)



************************************************************
* Common Panel - because there is no evidence of serial correlation
************************************************************
clear all

use "C:\Users\pietr\OneDrive\Thesis\Model_IV.dta", clear

sort country year
drop cnum
egen cnum=group(country)
tsset cnum year

sort cnum year
by year: summarize (fdi_total)

xtdescribe


*fe
eststo: ///
xtreg   lfdi_total l.lfdi_total l2.lfpi_fa2  ///
            l.l.lexportBRA  ///
            l.lgdppccurr l.lgdpcurr l.tradeopeness lpop distw ///
            , fe

estimates store fixed, title(Fixed Effects)


*re
```

```
eststo: ///
xtreg   lfdi_total l.lfdi_total l2.lfpi_fa2  ///
            l.l.lexportBRA  ///
            l.lgdppccurr l.lgdpcurr l.tradeopeness lpop distw ///
            , re

estimates store random, title(Random Effects)


** I ran to re and made the Hausman test - statistic significant - so, FE
* I ran again fe model and tested for time-fixed effect

*Hausman test
hausman fixed random

testparm i.year




*******************************************************************************
**12 XTABOND - Arellano–Bond linear dynamic panel-data estimation
*******************************************************************************
>


*GMM - lists the endogenous variables, which are instrumented with GMM-style ins
> truments, i.e. lagged values of the variables
            *in levels
*IV -  list of exogenous explanatory variables
*include time dummies
xtset cnum year
gen cons=year

 mata: mata set matafavor speed, perm

 *xtabond
 eststo: ///
 xtabond2      lfdi_total ///
                l.lfdi_total ///
                l2.lfpi_fa2  ///
                l2.lexportBRA  ///
                l.lgdppccurr ///
                l.lgdpcurr ///
                l.tradeopeness ///
                lpop ///
                distw ///
                cons ///
                , gmm (l.lfdi_total l2.lfpi_fa2 l2.lexportBRA, lag(5 5))
>  ///
                iv(lpop distw cons l.lgdppccurr l.lgdpcurr l.tradeopenes
> s) ///
                small robust orthogonal artests(4)

estimates store mxtabond, title(Arellano-Bond)


*************************************************************
* Driscoll & Kraay Model - DKSE
*************************************************************

eststo: ///
xtscc   lfdi_total ///
            l.lfdi_total ///
            l2.lfpi_fa2 ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , fe

estimates store mDK, title(Driscoll-Kraay)

*******************************************************************************
*IMPUTATION MODELS
```

```
*******************************************************************************

*******************************************************************************
* AMELIA
*******************************************************************************


*******************************************************************************
*Amelia - 0 to 10 million - BCE restriction
*******************************************************************************

amelia(x = getAmelia("amelia.data"), m = 5, idvars = NULL, ts = "year",
      cs = "country", priors = NULL, lags = c("exportBRA", "bx_klt_dinv_cd_wd"
      ), empri = 0, intercs = FALSE, leads = NULL, splinetime = NULL,
      logs = "bx_klt_dinv_cd_wd", sqrts = NULL, lgstc = NULL, ords = NULL,
      noms = NULL, bounds = c(3, 0, 1), max.resample = 1000, tolerance = 1e-04)

Warning: There are observations in the data that are completely missing.
        These observations will remain unimputed in the final datasets.
-- Imputation 1 --

  1  2  3  4  5  6  7  8  9 10 11 12 13 14 15 16 17 18 19 20
 21 22 23 24 25 26

-- Imputation 2 --

  1  2  3  4  5  6  7  8  9 10 11 12 13

-- Imputation 3 --

  1  2  3  4  5  6  7  8  9 10 11 12

-- Imputation 4 --

  1  2  3  4  5  6  7  8  9 10 11 12

-- Imputation 5 --

  1  2  3  4  5  6  7  8  9 10 11 12 13 14 15 16

Amelia has run successfully.




*******************************************************************************
*       PCSE with Imputation
*******************************************************************************
>
drop cnum
sort countr year
egen cnum=group(country)
xtset cnum year


* PCSE fpi

eststo: ///
xtpcse  lfdi_total010 ///
            l.lfdi_total010 ///
            l2.lfpi_fa2 ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store mpcse_fpi_imput, title(PCSE Imput)


* PCSE Complete

******
eststo: ///
```

```
xtpcse  lfdi_total010 ///
            l.lfdi_total010 ///
            l2.lfpi_fa2  ///
            l.lvdem_polyarchy ///
            l.lv2x_libdem ///
            l.lv2x_corr ///
            l.lv2xcl_prpty ///
            l.lstability ///
            l.lregquality ///
            l.lgoveffectiveness ///
            l.lruleoflaw ///
            l2.lexportBRA ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , pairwise correlation(psar1)

estimates store mpcse_complete_imput, title(PCSE Complete Imput)


*****************************************************************************
*DKSE with imputation
*****************************************************************************


eststo: ///
xtscc   lfdi_total010 ///
            l.lfdi_total010 ///
            l2.lfpi_fa2 ///
            l2.lexportBRA  ///
            l.lgdppccurr ///
            l.lgdpcurr ///
            l.tradeopeness ///
            lpop ///
            distw ///
            , fe

estimates store mDK_imput, title(Driscoll-Kraay)


*****************************************************************************
*Arellano-Bond with imputation
*****************************************************************************


gen cons=year

 mata: mata set matafavor speed, perm

 *xtabond
 eststo: ///
 xtabond2      lfdi_total010 ///
                l.lfdi_total010 ///
                l2.lfpi_fa2  ///
                l2.lexportBRA  ///
                l.lgdppccurr ///
                l.lgdpcurr ///
                l.tradeopeness ///
                lpop ///
                distw ///
                cons ///
                , gmm (l.lfdi_total010 l2.lfpi_fa2 l2.lexportBRA, lag(5
> 5)) ///
                iv(lpop distw cons l.lgdppccurr l.lgdpcurr l.tradeopenes
> s) ///
                small robust orthogonal artests(4)

estimates store mxtabond_imput, title(Arellano-Bond)


*************************************************************
* Common Panel - because there is no evidence of serial correlation
```

```
*************************************************************
clear all

use "C:\Users\pietr\OneDrive\Thesis\Model_I.dta", clear

sort country year
drop cnum
egen cnum=group(country)
tsset cnum year

sort cnum year
by year: summarize (fdi_total)

xtdescribe


*fe
eststo: ///
xtreg   lfdi_total010 l.lfdi_total010 l2.lfpi_fa2  ///
            l.l.lexportBRA  ///
            l.lgdppccurr l.lgdpcurr l.tradeopeness lpop distw ///
            , fe

estimates store fixed_imput, title(Fixed Effects)


*re
eststo: ///
xtreg   lfdi_total010 l.lfdi_total010 l2.lfpi_fa2  ///
            l.l.lexportBRA  ///
            l.lgdppccurr l.lgdpcurr l.tradeopeness lpop distw ///
            , re

estimates store random_imput, title(Random Effects)



** I ran to re and made the Hausman test - statistic significant - so, FE
* I ran again fe model and tested for time-fixed effect

*Hausman test
hausman fixed_imput random_imput



*******************************************************************************
*TABLES - esttab/stout
*******************************************************************************
*eststo: ///
*estimates store m8, title(Model 8)

label variable lfdi_total "FDI"
label variable lfdi_total01 "FDI"
label variable lfdi_total010 "FDI"
label variable lfdi_total015 "FDI"
label variable lfpi_fa2 "Foreign Policy"
label variable lexportBRA "BRA exports"
label variable lgdpcurr "GDP (Curr US)"
label variable lgdppccurr "GDPpc (Curr US)"
label variable ldistw "Ln Distance"
label variable distw "Distance"
label variable lruleoflaw "Rule of Law"
label variable lregquality "Regulatory Quality"
label variable lgoveffectiveness "Gov. Effectiveness"
label variable lstability "Political Stability"
label variable lvdem_polyarchy "Electoral Democracy"
label variable lv2x_libdem "Liberal Democracy"
label variable lv2x_corr "Corruption"
label variable lv2xcl_prpty "Property Rights"
label variable tradeopeness "Openess to Trade"

* Table I
*PCSE Models
esttab m1 m2 m3 m4 m5 m6 m7 m8 m9 mcomplete, label nonumber title("PCSE Models")
>  mtitle("Model 1" "Model 2" "Model 3" "Model 4" "Model 5" "Model 6" "Model 7"
> "Model 8" "Model 9" "Model Complete" ) se b(%9.3f) t(%9.1f) r2(%9.6f) starleve
```

```
> ls(* 0.1 ** 0.05 *** 0.01)

esttab m1 m2 m3 m4 m5 m6 m7 m8 m9 mcomplete using PCSEtables.csv, replace label
> nonumber title("PCSE Models") mtitle("Model 1" "Model 2" "Model 3" "Model 4" "
> Model 5" "Model 6" "Model 7" "Model 8" "Model 9" "Model Complete" ) se b(%9.3f
> ) t(%9.1f) r2(%9.6f) starlevels(* 0.1 ** 0.05 *** 0.01)


*Table II
esttab m1 mcomplete fixed random mDK mxtabond, label nonumber title("Models") mt
> itle("PCSE 1" "PCSE 2" "Fixed Effects" "Random Effects" "Driscoll Kraay" "Arel
> lano-Bond") se b(%9.3f) t(%9.1f) r2(%9.6f) starlevels(* 0.1 ** 0.05 *** 0.01)

esttab m1 mcomplete fixed random mDK mxtabond using models_tables.csv, replace l
> abel nonumber title("Models") mtitle("PCSE 1" "PCSE 2" "Fixed Effects" "Random
>  Effects" "Driscoll-Kraay" "Arellano-Bond") se b(%9.3f) t(%9.1f) r2(%9.6f) sta
> rlevels(* 0.1 ** 0.05 *** 0.01)


*Table III
esttab mpcse_fpi_imput mpcse_complete_imput fixed_imput random_imput mDK_imput m
> xtabond_imput, label nonumber title("Imput Models") mtitle("PCSE 1" "PCSE 2" "
> Fixed Effects" "Random Effects" "Dryscoll Kraay" "Arellano-Bond") se b(%9.3f)
> t(%9.1f) r2(%9.6f) starlevels(* 0.1 ** 0.05 *** 0.01)

esttab mpcse_fpi_imput mpcse_complete_imput fixed_imput random_imput mDK_imput m
> xtabond_imput using imput_models.csv, replace label nonumber title("Imput Mode
> ls") mtitle("PCSE 1" "PCSE 2" "Fixed Effects" "Random Effects" "Driscoll-Kraay
> " "Arellano-Bond") se b(%9.3f) t(%9.1f) r2(%9.6f) starlevels(* 0.1 ** 0.05 ***
>  0.01)
```