# Foreign Policy and institutional determinants of FDI

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**Abstract**

This work sought to understand why and how foreign policy can be addressed as an important element for internationalization strategies. 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 to contrast and explore relations between political institutions and investments. From this debate, we stated a few propositions regarding how foreign policy can be related to investment flows. 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. Departing from this perspective, the Brazilian case was analyzed considering recent changes in the country's foreign policy. Using an innovative proxy for foreign policy engagement, we obtained 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. 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.

**Keywords:** foreign policy; institutions; Brazil; internationalization

## 1. Introduction

Good bilateral relations between origin and host country reduce the liabilities of being 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.

Existing literature is attentive to the way institutional environment influences multinational's 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 and 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 and Soskice 2001; M. H. Li, Cui, and Lu 2014). This perspective highlights how national states are differently organized and the effects these organizational arrangements represent in terms business organization and performance (Musacchio and Lazzarini 2012). From this approach we have learnt that, in developing countries contexts, it is essential to understand how government policies are determinant to 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[1].

The way the institutional dimension has been considered in 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 firm's 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 (K. E. K. Meyer et al. 2014; Salomon and Wu 2012; Aguilera-Caracuel et al. 2012; Corredoira and McDermott 2014; Peng, Wang, and Jiang 2008). 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 over political institutions (Büthe and Milner 2012; Garland and Biglaiser 2008; Jensen 2008). With little exceptions, there aren't many works connecting these two literatures although they both

[1] 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 (Verbeke and Kano 2015; Estrin et al. 2016; C. Cuervo-Cazurra et al. 2014; Gammeltoft, Barnard, and Madhok 2010). 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 and Peng 2016).

conform fruitful debates inside their fields (Duanmu 2014; Jandhyala and Weiner 2014; Ring et al. 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. But there are also negative aspects, as the deterioration of bilateral relations can endanger foreign firms (Wang et al. 2012). Nevertheless, IB discussions treat institutions as localized and little 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 international business and international political economy literature. 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 statistic 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 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 sessions 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 and 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 by 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, and 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 IB literature, one of the most important characterizations of institutions is provided by Scott (2001), to whom institutions have three pillars, meaning normative constructs which help us capture the formal and informal forces affecting agents.[i]. 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 on the companies' management and its model of corporate governance. This broad understanding of what are the important problems-is what enables an investigation on the relation amongst firms and institutions with our eyes facing the countries' foreign affairs[ii].

## 2.1. Why and how institutions affect firm behavior

There is a long-lasting worry in IB literature pointing out 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, 66). Institutional forces exert pressure over the behavior of firms mainly when dealing with FDI decisions, and many and its description has contributed to the maturation of the IB debate (Francis, Zheng, and 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 and 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, Zheng, and Mukherji 2009, 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.

Eden and Miller (2004) contrast the differences and consequences of two important concepts in IB. According to them, while the Costs of Doing Business Abroad - CDBA - stresses the economic and market costs of operating business abroad, the Liability of Foreigness – LOF – emphasizes the social costs related to business operations (Hymer 1976; Zaheer 1995). 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 foreigner firm: legitimacy, an objective and necessity of firms in foreign contexts (Kostova and Zaheer 1999). Broadly, legitimacy can be understood as environment's acceptance of firms (Kostova and 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 and Zaheer 1999).

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, 268). One rising topic was the existence of *institutional voids* in throughout the liberalization process in recent-democratized countries since the 1990's. They called *institutional voids* 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 to the fulfillment of policy spaces by (interest) business groups (Khanna and Palepu 2000, 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 and for countries that transited from authoritarian to more democratic regimes (Peng, Wang, and Jiang 2008; K. E. Meyer and Peng 2016). In these occasions, the centrality of institutional matters is more pronounced and constitutes a distinctive characteristic of emerging economy business studies (Aharoni and Ramamurti 2011; Kostova and Hult 2015; P. J. Buckley, Clegg, Cross, Liu, Voss, Zheng, and Clegg 2007).

## 2.2. Which institutions are considered?

If we agree that institutions matter for different reasons, it is interesting to know which institutions are most commonly ascribed as fundamentals. 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) (Witt and Lewin 2007; Geleilate et al. 2016), 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 (Dunning 1980; Eden and Miller 2011; Casson, Porter, and Wadeson 2015; Delios and Henisz 2003). To locate the institutions, a series of conceptual innovations have been proposed. Among them, the spatial idea of context (Kostova and Hult 2015; K. E. Meyer and Peng 2016) and institutional distance are the commonest.

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 the understanding that the competitiveness of firms was, to some extent, dependent of how these advantages were entangled[iii] (Rugman and 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[iv].

On the other hand, 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 and Zaheer 1999). The concept 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. (Ghemawat 2001; Xu and Shenkar 2002; Eden and Miller 2004; Berry, Guillén, and Zhou 2010). This approach has been intensively reviewed and used to explain many other institutional effects, besides related to location choice (Holburn and Zelner 2010; Xu and Shenkar 2002), entry mode (Xu and Shenkar 2002; Yiu and Makino 2002) and performance (Gaur and Lu 2007). The idea of institutional distance provides an alternative way to look to the firm behavior and its links host institutional profile and its own capabilities. However, still misses the interactive dimension of institutional relations.

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

The third general concern in the literature is to better perceive which are the firms' strategic responses to institutional incentives. Here, we refer to works dealing with isomorphism strategies in institutional environments, legitimacy strategies and internalization decisions (DiMaggio and Powell 1983; Kostova and Zaheer 1999; P. J. Buckley and Casson 1998). 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 in terms of location choice, entry mode and adaptation (K. E. Meyer and Peng 2016).

Institutions, thus, surely shape firms' decisions about (1) 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 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 and Yu 2007; Wang et al. 2012) and the perspective is present in the research agenda of important scholars (K. E. Meyer and Peng 2016; Ring et al. 2005). 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 (Verbeke and Kano 2015; J. Li et al. 2016; A. Cuervo-Cazurra 2012), especially the state-owned enterprises (SOEs) (Liang, Ren, and Sun 2015; Estrin et al. 2016; M. H. Li, Cui, and Lu 2014; C. Cuervo-Cazurra et al. 2014). 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 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 (Q. Li and Resnick 2003; Jensen 2008; Büthe and Milner 2014; Glen Biglaiser and DeRouen 2007; G. Biglaiser and Staats 2010). 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 International Political Economy (IPE) 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 and Soskice 2001). Money often follows the flag (Gupta and 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. However, 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 (Buthe and Milner 2008; Busse and Hefeker 2007; Coan and 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 and 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 and Hefeker 2007). These questions seem to be even more important for developing countries (Schneider and Frey 1985), since emerging countries are likely to be politically risky. According to Henisz and Zelner (2005) the main reason relies on these countries are more susceptible to institutional changes, pressured by the local governments. In turn, these changes may affect the firms' investment cycles. Thus, emerging countries institutions can generate non-legitimate outcomes, as they haven't been agreed an internalized by the public sphere (W. J. Henisz and Zelner 2005; Holburn and 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 to the foreign investment locations and trade preferences (Busse and Hefeker 2007; Jensen 2008; W. Henisz 2000; Delios and Henisz 2003; Xu and 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 (Büthe and Milner 2014; Buthe and Milner 2008; Asiedu 2002; 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 and Resnick 2003). Because their interaction is affected by investments flows, the democratic institutions can "encourage or deter foreign direct investors" (2003, 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. (Nieman and Thies 2012; Dorsch, McCann, and McGuirk 2011). Because there are checks and balances and power is continually challenged by elections, the risk of surpassing 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, 592).

It is commonly argued that the more developed democratic institutions are, the greater is the property rights protection and the lower are the political risks to investments (Jensen, Li, and Rahman 2010; Jensen 2008). 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, may 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 and Resnick 2003, 182).

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 and Duanmu 2012), property rights protection (Nieman and Thies 2012), and even ideological affinities (Pinto and Pinto 2008).

As well domestic ones, international politics and institutions are often associated to 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 (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 and Yu 2007; Duanmu 2014). 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[v].

Some interesting studies have proposed insightful paths to understand how international agreements influence investments (Jandhyala and Weiner 2014; Büthe and Milner 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

There is plenty of room to further explore how the international dimension can relate to OFDI especially in its government-to-government political relations. A distinguished way to look to 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 persecute 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[vi].

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 problems, 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 stablished 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 to 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 and Miller 2011). As argued, this kind of politics is often result of internal pressures of native business groups or selective incentives to beneficiate specific elites (W. J. Henisz and Zelner 2005). Even in markets open to foreign competition, special treatment to 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[vii].

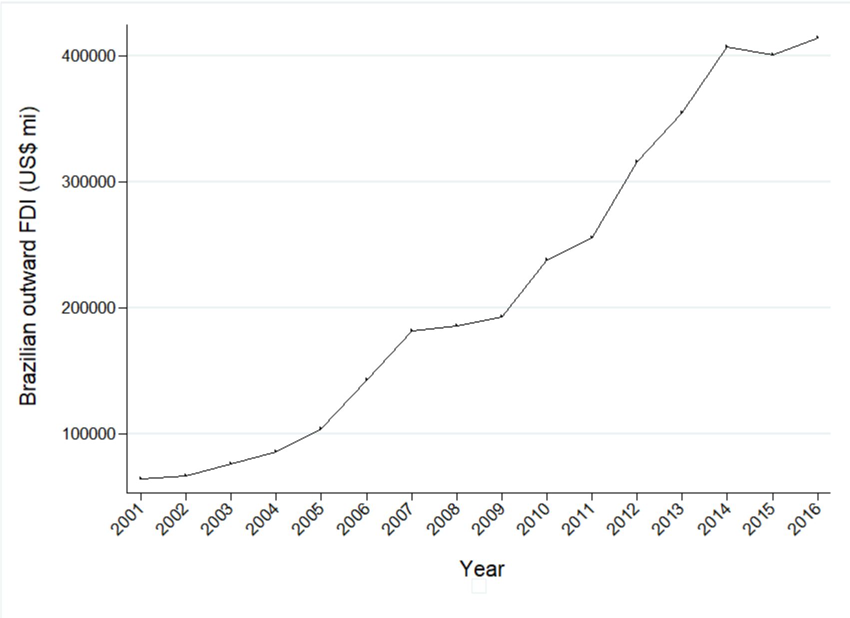
Proposition 2: *Foreign Policy affinities between home and host governments increase the home firms' chance of success by reducing the barriers to legitimacy and positively inducing the FDI flows.*

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.

## 5. Case Study

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 (Motta Veiga and Rios 2014; Fleury, Fleury, and Borini 2013). Up to 2017, Brazil was ranked as the 13th stock receiver and the 28th FDI sender in the world (UNCTADstat 2017).

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




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

Behind the increase of Brazilian investment outflows[viii] 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 considered the cultural proximity and similar socioeconomic characteristics shared between the countries in the region (Fleury, Fleury, and Borini 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 lost their share despite the absolute increase of investments.

**Table 1. Regional distribution of Brazilian FDI.**

| Region | 2001 | 2010 | 2016 | Δ% |
|---|---|---|---|---|
| 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 to 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 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, 45)[ix]. Other frequent explanations see the process as a diversification-strategy to minimize economic cycle risks (Hiratuka and Sarti 2011), to access new technologies (Arbix, Salerno, and Negri 2005) or to reduce learning costs dealing with international competition (Cyrino and Tanure 2009); as a consequence of the economic and institutional improvement of the domestic environment (Casanova and Kassum 2013), and as a result of state's financing incentives (Caseiro and 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 and Fleury 2011, 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 and 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, Oliveira, and Cintra 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.

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 emerging power, affirming its role as a regional leader (Pinheiro and 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 and Cepaluni 2007) 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 political support[x]. 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[xi]. 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 (Lazzarini et al. 2015; Bazuchi et al. 2013). Since 2003, Brazil advanced with emphasis to the Brazilian National Development Bank, BNDES, which became a pivot to the creation of some of the biggest Brazilian multinationals (Alem and Cavalcanti 2005; Além and Giambiagi 2010; Lazzarini et al. 2015; Musacchio and Lazzarini 2012).

The creation of national champions[xii] 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 (Sennes and Mendes 2009; Rego and Figueira 2017; 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 and Lazzarini 2014). 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.

Cooperation for international development' programs (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 (Souza 2012; Milani 2012). During Lula da Silva's period, the leftist ideology of the president strengthened political ties with other similar leaders (Burges and 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 and Figueira 2017) and the opportunities opened to agribusiness firms through trilateral cooperation headed by Brazilian (EMBRAPA) in African Savanna (Vaz 2015).

The ups and downs in Brazilian 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 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 and 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, Asmussen, and Weatherall 2017)? In other words, 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 flows 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 several observable and measurable variables, selected from suggestions found in the literature[2].

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

[2] 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 the changes in Brazil's foreign policies.

susceptible to annual abrupt variations, they are the most utilized measure on international investments studies (Prasad, Rajan, and Subramanian 2007; Cezar and Escobar 2015). The gathering on Brazilian investment data relied on information from Brazilian Central Bank[xiii] (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 concentration of low values, using the natural log of stock investments as dependent variable (Q. Li and 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 and 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)[3] 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.[xiv]. 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.

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 (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* (from World Bank Governance Indicators), independently of the regime type, has positive effects over OFDI (Liou, Chao, and Yang 2016; Q. Li and Vashchilko 2010b). 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 and 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.

[3] 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)

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.*

Studies in IB field suggest a positive relation between the quality of institutions and the increase of FDI (Nielsen, Asmussen, and Weatherall 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, and 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[4].

*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 (Godinez and Liu 2015; A. Cuervo-Cazurra 2016; G. Biglaiser and Staats 2010; Knutsen, Hveem, and Rygh 2011; Q. Li et al. 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 variable costs, and these costs may be different depending on the political orientation of the coalitions which form the government of partner countries[xv]. 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 (Cruz, Keefer, and Scartascini 2016), that classifies countries as right (1), center (2) or left (3), according to the ideological orientation of the

[4] To avoid 0's and missing.

Executive's party. 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. Controls

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 (Dunning 1980). 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.
- *Populational characteristics*. The size of the population (*lpop*) may represent opportunities to investors looking for market opportunities 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 and Zignago 2011). It is measured by *Distw*, a weighted measure of distance which accounts for populational agglomeration (2011).

## 6.3. 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 and 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 (Q. Li and Reuveny 2003; Archer, Biglaiser, and DeRouen 2007; Buthe and Milner 2008; Knutsen, Hveem, and Rygh 2011). 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 (Knutsen, Hveem, and Rygh 2011, 18; P. Buckley et al. 2007). 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 2 here]**

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 and Ramamurti 2011, 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 3 here]**

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 and 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) (White 2010; Burges 2009). 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.

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.

## 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 and 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.

With a case study, 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 et al. 2016; Amal and 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, and Borini 2014), as well as contribute to a better comprehension the of domestic incentives to internationalize (Stal and Cuervo-Cazurra 2011; Bazuchi et al. 2013; Lazzarini et al. 2015).

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 (Liang, Ren, and Sun 2015; M. H. Li, Cui, and Lu 2014; Estrin et al. 2016; C. Cuervo-Cazurra et al. 2014; Knutsen, Hveem, and Rygh 2011; Wang et al. 2012). We took the first step in that direction.

## Table 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.

## Table 3. Partisanship (Standard errors in parentheses)

| | Different ideology | Same 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.

## Table 7. 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 |

### 7.1. 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 and Hefeker 2007; Camyar 2014; Q. Li and Vashchilko 2010a; Büthe and Milner 2014; J. Li et al. 2016). 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[xvi], 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.

## Table 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, and 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 (Honaker, King, and Blackwell 2011; Beck and Katz 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 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 6. Partisanship effects with imputed values (Standard errors in parentheses)

| | **Different ideology** | **Same 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.

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## Notes

[i]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 (Zaheer 1995; Kostova and Zaheer 1999; DiMaggio and Powell 1983)

[ii] 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 and Hult 2015; K. E. Meyer and Peng 2016).

[iii] 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).

[iv] 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 (Rugman 2005; Jing Li and Oh 2016). 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 and Peng 2016, 4).

[v] 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, 16). Works like these, however, are scarce.

[vi] For the purposes here presented, foreign policy denotes a series of a country's political assets that influence the flows of capital all around the world.

[vii] 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).

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

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

[x] "Dilma Makes Amends With the Markets", Foreign Policy, from June 1, 2015.

[xi] "Temer stays tough on Brazil economic reforms", Financial Times, from February 2, 2017.

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

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

[xiv] 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)

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

[xvi] 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.