

Comparative Capitalist Development: A Study of the Foreign Direct Investment Patterns of Brazil and South Korea

Desenvolvimento Capitalista Comparado: um estudo do padrão de Investimento Direto no Exterior do Brasil e Coreia do Sul

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Abstract: This paper aims to characterize how was the treatment for the outward Foreign Direct Investment (FDI) within the Brazilian and South Korean development standards. In this regard, at first, we discuss the main characteristics of the Brazilian and South Korean economic development from a historical perspective, which points out to significant State intervention through conducting and planning the industrialization processes. Brazilian policies to support internationalization are not as intensive as in South Korea. The comparative study of the two countries demonstrated that the outcome of the performance of international integration is a result of driving the industrialization process in each country. The outward FDI from South Korea indicates more consistent performance outcomes in quantitative terms, more geographic diversity, and a specific focus on the most technologically sophisticated sectors. Meanwhile, the Brazilian outward FDI has grown significantly in recent years; however it presents insufficient institutional support and is controlled by less sophisticated sectors.

Keywords: Brazil. Korea. Industrialization process. Outward foreign direct investment.

Resumo: O presente trabalho tem por objetivo explicar e caracterizar como a emissão de investimento direto estrangeiro (IDE) é tratada dentro dos padrões de desenvolvimento brasileiro e sul-coreano. Para tanto, primeiro faz-se um resgate, por meio de uma perspectiva histórica, das principais características dos processos de industrialização brasileiro e sul-coreano, os quais contaram com a forte atuação do Estado. As políticas de apoio à internacionalização brasileira não tiveram uma ação tão propositiva como a sul-coreana. O estudo comparativo entre os dois países mostra que o desempenho da inserção internacional é consequência da forma como foi conduzido o processo de industrialização. A emissão de IDE pela Coreia do Sul mostra um desempenho mais consistente em termos quantitativos, é mais diversificado geograficamente e direcionado aos setores mais sofisticados tecnologicamente, enquanto que a emissão de IDE pelo Brasil cresceu expressivamente nos últimos anos, porém conta com uma assistência institucional insuficiente e é comandada pelos setores menos sofisticados.

Palavras-chave: Brasil. Coreia do Sul. Processo de industrialização. Emissão de investimento direto estrangeiro.

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1 Introdução

The discussion on the economic development of late capitalist industrialized countries is broad and relevant. The comparison between the economies of these groups became recurrent in the literature, which evidence that some countries have had better performances than others. In this economic group, Brazil and South Korea are analyzed as to their industrialization processes, more specifically, the strategies selected as well as the role of the State in the process. Recently, anchored in the processes of productive and financial globalization, the insertion of these countries in the international market also .

This paper aims to carry out a comparative study of the Brazilian and South Korean economies in order to characterize how was the treatment for the Outward Foreign Direct Investments (OFDI) within each country's development patterns. The role of the OFDI throughout the industrial structure construction, the actors involved, and the institutional framework are considered in the analysis.

The international insertion of these two countries has begun later than in developed countries. While the companies of the latter have started their internationalization process with the objective of explore their competitive advantages, companies located in developing countries sought opportunities to improve their technological advantages and capabilities in the foreign market (DUNNING; KIM; PARK, 2008, MATTHEWS, 2006).

The institutional context, specifically public policies, plays a vital role in the decision to enter the international business. According to Dunning (2006), the incentive structure and its instruments for the development of the company are key factors that affect the learning capacity and the formation of the company's networks. In this sense, the institutions of a country can either represent an obstacle or an incentive to the companies' internationalization process.

According to the Investment Development Path (IDP), a concept developed by Narula and Dunning (2010), as a country develops, the inward and outward FDI by this country change. At the beginning of a country's industrialization process, as its legal, commercial, and business-training infrastructure is still in formation, location advantages draw transnational corporations (TNCs) to the nascent industry. With the consolidation of industrialization and the establishment of incentive policies, local companies begin to build competitive advantages that enable their insertion into the international market. In the more advanced stage of industrial development, the formation of TNCs with permanent OFDI takes place.

Based on the IDP framework, the hypothesis that this paper brings about is that the patterns of industrial development set in Brazil and South Korea are different; therefore, they condition different performances of OFDI in these countries.

Nevertheless, these processes do not constitute isolated effects, considering that internationalization manifests itself in a context in which production expansion beyond frontiers becomes a peculiarity of a new industrial paradigm.

The methodology selected for the present paper is descriptive. We use the deductive scientific method and develop a qualitative research to analyze the problem. We also carry out a quantitative research using common elements (variables) to measure the performance outcomes in each country. The time frame used on the sections of qualitative analysis goes from the 1950s, when both countries reached the most advanced stage of industrialization, until the first decade of the 2000s. Quantitative analyses start in the 1980s, at the beginning of the internationalization process, and going until the most recent data available.

Since Korea is often used as an instance of a country that has surpassed the middle-income trap (LEE, 2013; IM, ROSENBLATT, 2015; AGÉNOR, 2017), the objective of comparing the trajectory of the two countries is to elucidate how these latecomer economies – with relatively similar starting points – have constructed such different strategies of economic development, which in turn have had different performance outcomes in their current industrial structures.

For this purpose, the paper has five sections besides this introduction; on the first section the pattern of economic development in Brazil and in South Korea is discussed; on the second section the policies to support the insertion of these countries into the international market are presented; the third section presents the main data on the performance of the Brazilian and South Korean OFDI; finally, on the fourth section a parallel between the Brazilian and South Korean trajectory is drawn as a conclusion which focuses mainly on the similarities and peculiarities observed.

2 Two Distinct Patterns of Economic Development

The objective of the present section is to describe the pattern of industrial development identified in Brazil and in South Korea, with a special focus on the role of external capital in these processes.

2.1 Foreign Capital in the Brazilian Industrialization Process

During the Brazilian economic development, the agro-export model was replaced by the import substitution industrialization (ISI), responsible for transferring the economy's dynamic center from the external sector, to focus on the internal market driven by both private and public investments. The economy then focused on inward development, and the export base remained unaltered and lacking dynamism. The new industrialization model contemplated the internal market inter-

nationalization in a way that ended up intensifying the country's dependence on external resources and technology (TAVARES, 1977; FONSECA, 2003).

Until the 1950s, the Brazilian industry intensified the use of its installed capacity and deepened the process of import substitution. The development of the capital goods industry began with the government's "Plano de Metas" (1956-1961), which -due to the absence of domestic resources and the loss of revenue from the exports of primary goods- was financed by the incorporation of foreign savings, international loans, and policies of attraction of TNCs (LESSA, 1983).

The consolidation of the Brazilian industrial structure occurred in the "II Plano Nacional de Desenvolvimento" (II PND) (1975-1979), which aimed to strengthen the heavy industry, and to deepen external economic relations with diversification of the export agenda, investments in technological capacitation, and demands for technology transfer to TNCs. However, few of these goals were achieved, and contradictorily, the entry of FDI increased, as well as privileged access to the market, granting profitability to the TNCs (LESSA, 1988).

Brazil's external debt grew with foreign loans. The intensification of the debt came with the oil shocks of the 1970s that culminated in the debt crisis of the 1980s. The debt crisis resulted in the disorganization of public finances, which led to inflationary instability and the distancing from the FDI input. Foreign capital began to reformulate its insertion in the periphery and started to look for other regions, such as Southeast Asia. Therefore, the Brazilian economy lost dynamism, failing to adapt to the emerging technological paradigms (CARNEIRO, 2002; COUTINHO, 1999).

During 1955-1980, the country managed to start a catching-up process with the international production standard. However, due to the economy's severe instability after 1980, international capital was discontinued for the industrialization function, and the dynamic core of the Brazilian production structure came across technological barriers to its productivity, starting a falling behind the process that extends to the present days (AREND, 2009).

Therefore, during the Brazilian industrial structure formation, the greatest presence of foreign affiliates occurred in the more dynamic sectors of economic activity – transport materials, nonmetallic minerals, pharmaceuticals, machinery and equipment, and electrical material – and denser in terms of technology use and skilled workforce (HIRATUKA, 2002; CURADO; CRUZ, 2008). The growth of domestic competition reflected positively on the exports of Brazilian companies, which were compensated by the increased imports from subsidiaries.

The 1990s marked the intensification of economic liberalization, which in Brazil coincided with the adoption of orthodox macroeconomic policies that resulted in the loss of links in the productive chain, and in the reduction of technological capacity. Even after the modernization and restructuring of industrial production stimulated by the foreign competitive pressure due to the aforementioned liberal-

ization, and even after significant improvement in macroeconomic conditions and expansion of investments and exports, Brazil fell short on the possibility of catching up due to its weak technological base and international insertion.

In the 2000s, the Brazilian government resumed the insertion of industrial policies in its agenda: “Política Industrial, Tecnológica e de Comércio Exterior” (PI-TCE) (2003), “Política de Desenvolvimento Produtivo” (PDP) (2008) and “Plano Brasil Maior” (PBM) (2011). Although several actions and programs were implemented to promote the strengthening of the national industry in the period, a structural change did not take place, meaning that foreign technological dependence was remnant (CARNEIRO, 2002; CANO; SILVA, 2010). The orientation of the macroeconomic stability policy - short term – surpassed the structuring industrial policy – long term.

In all development plans, the inflow of foreign capital was based on a stimulus policy, which did not require counterparts from investors to the detriment of privileged access to the Brazilian market. With the economic opening, changes in the regulatory framework that facilitated the entrance of foreign capital were even more intense¹. Due to these changes, foreign investment entry had consistent growth as of the 1990s. The studies of Carneiro (2002) and Laplane *et al.* (2001) list some features of the FDI newcomer to the Brazilian economy, showing that the growing volume of investment was followed by an absolute and relative expansion of the remittance of profits and dividends. It is worth mentioning that the inflow of investment occurs through mergers and acquisitions (M&A) in greater proportion than in greenfield projects. Inbound investments have focused on services and non-currencies activities, such as energy, gas and water, postal services, telecommunications and financial intermediation, to the detriment of investments in industry and agriculture that were limited to a lesser extent.

2.2 Foreign Capital in the South Korean Industrialization Process

South Korea presented an economy strongly dependent on the agricultural sector and controlled by the Japanese landowners elite until the year of its independence, 1947. In the first democratic government that lasted until 1960, the first non-durable goods industries were formed, and important institutional reforms were implemented. Under the United States (US) pressure, a broad agrarian and educational reform for basic education development was implemented (COUTINHO, 1999).² It is noteworthy that agrarian reform was the first step

1 Stimulating financial market applications, eliminating restrictions on remittances of profits (the minimum incidence of 25% on the amount sent to the sole aliquot of 15%) and reducing income tax on them, giving access to sectors of economic activity and credit in official agencies (LAPLANE *et al.*, 2001).

2 The US had a major influence on South Korea's industrialization process, so the term “invited

towards building the foundation of a fairly egalitarian income distribution, which has characterized South Korea's socioeconomic development. Similarly, the educational reform and South Korean commitment to improve the professional qualification of workers throughout their development trajectory are perceived as important contributions to the country's technological progress.

As of the 1960 decade, South Korea adopted a state-orchestrated industrial development trajectory through five-year social and economic growth plans. Among the objectives of these plans are the strong government intervention in pricing, and the development of large business conglomerates, called *chaebol*.³ The selectivity of ISI remained in the early years of the decade; however, over time, the main strategy became the export-oriented industrialization (EOI).

In the early stage of South Korea's economic development during the 1960s and 1970s, the *chaebol* had the government's exclusive support and protection that enabled economic growth through monopolistic access to resources. Through its access to capital, the State was in a position to orchestrate *chaebol* activities. At the same time, the government was dependent on the *chaebol* to attain transformation and industrial development (NICOLAS; THOMSEN; BANG, 2013).

A striking feature of the South Korean industrialization process has been the strong management and planning the state carried out through uninterrupted development plans. The first Five-Year Economic Development Plan (FYEDP) (1962-1966) laid the foundations for South Korea's industrial structure. In the second FYEDP (1967-1971) not only did the government include the EOI strategy, but it also established economic institutions to assist political and economic coordination (DALL'ACQUA, 1991). Thus, outward industrialization begins to materialize, based on the indispensability of planning the expansion of exports to mitigate external imbalance.

In the third FYEDP (1972-1976) the government changed the direction of its economic policy and introduced in 1973 the Heavy and Chemical Industries Plan. The fourth FYEDP (1977-1981) maintained its policies to foster the transformation of the industrial structure with the increase of investments in the heavy and chemical industries, and with the development of Science and Technology (S&T). In the early 1980s, South Korea's macroeconomic context was marked by low growth,

industrialization" is used in the literature. This term was first mentioned by Wallerstein (1979) to describe a post-war formation of East Asian capitalism through the deployment of the US power in the aftermath of the Japanese surrender in 1945, in order to rebuild a regional economy. In the case of South Korea and other countries such as Taiwan and Vietnam, the construction of a new capitalist state was carried out through military occupations, interventions and, fundamentally, through the provision of massive levels of financial aid.

3 According to Coutinho (1999), *chaebol* constitutes a replica of the old *zaibatsu* (Japanese business conglomerates). They are characterized by family control, centralized management of entrepreneurs and, above all, the interest of maintaining cooperative relations with the government to obtain the incumbency of new businesses, benefiting from the corresponding incentives.

external debt increase and inflation. Thus, the fifth FYEDP (1982-1986) brought a series of policies to encourage exports as a strategy to leverage economic growth and expand reserves (MASIERO, 2000; LEE, 2011).

The sixth FYEDP (1987-1991) had as focus international efficiency and competitiveness through market liberalization. The following political reforms were liberally oriented, since they included the reduction of State regulation, the liberalization of the financial market and imports, among other measures (MASIERO, 2000; LEE, 2011). Nevertheless, financial liberalization did not remove the character of lender of last resort from the State, according to Canuto (1994a).

As of 1990, in the context of the seventh FYEDP (1992-1996), a reorientation of S&T policy took place in order to support the expansion of spending on Research and Development (R&D), that would enable the country to operate on the technological frontier, and also to adopt an innovation policy that emphasized an approach oriented to program diffusion (LEE, 2005; LEE; YOON, 2010).

In 1997, Asian countries, especially those in the Southeast region, were affected by a severe economic crisis. To overcome it as quickly as possible, the government adopted policies to promote FDI inflows, such as the Foreign Investment Promotion Act in 1998 (KIM; HWANG, 2000). Lee (2011) describes that overcoming the crisis was only possible with the help of the International Monetary Fund (IMF) that made drastic recommendations to the country, such as the adoption of higher interest rates, tax increase and reduction of public spending. In the period of 1998-2003, the government also conducted a business reform, through which the exchange of the weakened *chaebol* with stronger companies occurred. In the period of 2008-2013, economic recovery policies were included in the Five Year Green Growth Plan (UNEP, 2010).

An important feature of South Korea's economic development process was the way through which the State raised the funds needed to implement the actions of the Plans, in which the low participation of foreign capital in the consolidation of its industrial complex is noteworthy. During the light industrialization phases, most investments were generated internally; however, when the process advanced to heavy industry, external capital took over. In the 1970s, sources of external financing accounted for approximately 70% of the total, according to Canuto (1994a). Until the 1980s, the government approved the entry of FDI to even out the Balance of Payments and to provide the necessary technology and expertise; thus, external resources were welcome in the export sectors of light industries. However, inward FDI continued to be discouraged in sectors still protected by import substitution, as the South Korean government feared that the economy would be dominated by foreign firms (KIM; HWANG, 2000).

Considering that the State was the main borrower and distributor of external capital, it was able to channel loans to the infrastructure and other state-owned

enterprises. The industrial distribution of public loans implies that the State had autonomy in the decision to allocate such resources. Otherwise, public lending could have been invested in sectors in which private initiative has been most active; for example, in the industrial and service sectors.

2.3 Differences between the Industrialization Processes in Brazil and South Korea

The strategies adopted in Brazil and South Korea throughout their industrialization processes have resulted in different economic performances. In South Korea, ISI was combined with EOI, for companies to have the protection of the domestic market while receiving export subsidies. In Brazil, ISI was not accompanied by EOI, nor by measures to enhance domestic production efficiency. By adopting the EOI strategy, South Korea has gradually been exposed to foreign competition and, consequently, the country followed technological changes. Meanwhile, the country helped to overcome the foreign exchange constraint without over-reliance on external funds. South Korean exports, comprised mostly of manufactured goods, have evolved in technological intensity with the consolidation of the industrial process, resulting in a reduction of the trade deficit. In Brazil's ISI strategy, production employed lagged technologies with no private pressure to update due to a protectionist regulatory framework. As the ISI process became more intense, the dependence on the external sector when it comes to capital goods did too. Brazil is currently a traditional exporter of primary goods, given its abundance of natural resources, which, combined with the ISI, leads to the deterioration of the terms of trade (CANUTO, 1994a, 1994b).

In South Korea, subsidies were granted to *chaebol* under government control, so that inefficient firms with poor export performances lost the benefit. In this sense, the strategy of technological catching up and capitalist development followed specific management measures that did not result in political destabilization. The action of the State could not be contested, since there was no social intermediate class with capacity for reaction. This homogeneity is probably due to the agrarian reform carried out at the beginning of the industrialization process. In Brazil, incentives were received by companies without being subject to performance controls, for the implementation of industrial policies was not compatible with the configuration of political power. The divergent interests of the powerful rural oligarchies, the industrial elite and the population have prevented the advance of more effective industrial and social policies.

It is important to note that by the end of the 1970s both countries had more economic similarities than differences. Both Brazil and South Korea came from a fast-growing trajectory and were in the process of consolidation of their industrial complex. As Carneiro (2002) explains, the Brazilian industry was more complex

and structured than the South Korean, aside from the superiority of the latter in technical-scientific personnel employed by companies, and the predominance of domestic companies with restrictive foreign collaboration. These characteristics were crucial in determining the countries' economic trajectories during the following years.

The emergence of a new organizational paradigm, the diffusion of information technologies based on microelectronics, and financial globalization marked the evolution of capitalism in the 1980s. Thus, Coutinho (1999) states that the way each country has gone through the 1980s was the great turning point for these economies. In the Brazilian case, the abusive interest rate charged by the FED between 1979 and 1982 culminated in a debt crisis, which resulted in the disorganization of public finances, which in turn led to inflationary instability and to a IFDI drift. Due to the decrease in investments and the difficult access of Brazilian exports to developed markets, the Brazilian economy lost dynamism by not adapting to technological and organizational changes. In addition, Brazil stayed away from the trade relations that were formed with the constitution of regional trade blocs, especially with the intensification of intra-industry trade and intra-firm trade. Considering all these obstacles, the Brazilian government was unable to coordinate and elaborate policies for the emergence of a microelectronic complex.

In the Korean case, the strategic alliance with Japan helped overcome the economic crisis through Korean access to resources from Japanese banks, and through the partnering with Japanese microelectronics companies to qualify the Korean workforce. In search of having privileged relations with the US, Korean trade policy focused on the American market, obtaining a growing trade surplus. The IFDI intensified its entry into the advanced technology sectors in response to the market liberalization measures and rapid economic recovery (CANUTO, 1994a; COUTINHO, 1999).

Therefore, Korea's industrial proximity to Japan, especially during the shift in the technology paradigm during the 1980s can be seen as an element of a gradual catching-up stage, according Lee and Malerba (2017). This path-following strategy in which the latecomer moves along the same technical trajectories as the incumbent but at lower costs, has demonstrated beneficial outcomes. This way, South Korean companies were able to respond to a window of opportunity that emerged with the new technological paradigm, thus reaching the forging-ahead stage of catching-up cycles.

These events were important for South Korea to overcome the middle-income trap: South Korean GDP per capita, which was USD 284 in 1970, reached USD 6,293 in 1990, while the Brazilian GDP increased from USD 367 in 1970, to USD 2,687 in 1990 (UNCTAD, [2016]). Therefore it is possible to say that the two countries entered the 1990s going on opposite directions. South Korea's quick recovery

provided the capacity to maintain its industrial development plans, while Brazil abandoned its plans and directed efforts towards economic stabilization plans. Thus, the former succeeded in terms of catching-up, and the latter started to go on a falling behind process.

Considering the context of the evolution of the productive structure in Brazil and in South Korea, the next section describes how the development of specific support policies to the insertion into the external market took place in both countries.

3 Policies to Support the Insertion into the International Market

In this section, we described the Brazilian and Korean policies to support their insertions into the international market by OFDI. Over the industrialization process, the government of both countries sets fiscal and credit incentives, foreign capital control, financial and non-financial instruments related to foreign investments.

3.1 Policies to Support the Brazilian Insertion into the International Market

The internationalization process of Brazilian companies can be understood with the distinction of two moments: the first occurs in the period prior to the economic liberalization concomitant to the industrialization process. In this case, the State's action in favor to the Brazilian OFDI was less proactive. Consequently, the second moment occurs after liberalization. During this period, occur the implementation of active policies to encourage Brazilian OFDI.

In the late 1960s, the Brazilian government adopted an export promotion policy consisting of fiscal and credit incentives aiming to counteract price distortions derived from a lagging industry; such incentives had direct impact on price formation. This policy resulted in an increase in industrial exports, which was followed by an increase in the participation of Brazilian companies in international investments. According to Guimarães (1986), during the period that goes from 1977 to 1982, 123 industrial companies invested abroad, but only 63 of them invested significant amounts (over US \$ 100 thousand).

Oil shocks and the debt crisis in the 1980s imposed the need to adjust the economy's external sector, and the government changed its incentive policy for foreign fund management. This change of instruments could not stimulate the evolution and maturation of Brazilian companies' internationalization; rather it generated foreign currencies to meet the international commitments expressed in the payment of the external debt (GOULART; BRASIL; ARRUDA, 1996).

Through economic liberalization early in the 1990s, Brazilian companies demonstrated more consistent internationalization processes, motivated by the remo-

val of tariff and non-tariff barriers and monetary stabilization. The more significant involvement with the international market took place as a strategy of protection against the competition of foreign products in the domestic market, which was also a way of increasing competition in the international market (GOULART; BRASIL; ARRUDA, 1996).

In the context of the industrial policy of the Collor/Itamar Franco period from 1990 to 1994, the *Política Industrial e de Comércio Exterior* (PICE) proposed a policy of trade liberalization and the encouragement of domestic competition, eliminating state intervention in industrial development, contrary to the ISI. The government of Fernando Henrique Cardoso (FHC) (1995-2002) remained with the same liberal orientation of previous years when the absence of industrial policies was placed at the core of the regulatory state.

The first movements related to the governmental incentive to the internationalization of Brazilian companies were seen in the second FHC government. Ricupero and Barreto (2007) point out that, in the early 2000s, studies were carried out to examine the need for the creation of a Brazilian OFDI promotion agency, which did not succeed, and of the National Bank for Economic and Social Development (BNDES, in Portuguese, *Banco Nacional do Desenvolvimento Econômico e Social*) which executes government programs.

BNDES' support for Brazilian companies' internationalization via OFDI was restricted until 2002; before that year, it is possible to identify support for export companies. Through the Decree law No. 4.418/2002, for the first time in the BNDES statute were included the guidelines for the creation of a line capable of stimulating the insertion and strengthening of Brazilian companies in the foreign market through investment and project support in target countries. As Alem and Cavalcanti (2005) point out, the support for the internationalization of domestic companies should also favor the competitive integration of Brazilian companies into the process of Productive Globalization, and it may represent an opportunity for strategic investments to be made in regional integration projects.

In Lula's governments (2003-2006 and 2007-2010), Brazil had already achieved stability and resumed its economic growth, and the international environment was also more favorable. Regarding foreign policies, the government aimed to diversify economic partnerships and expand multilateral spaces. In addition, South America was identified as important for international insertion. In this sense, the internationalization of companies was part of the country's external strategy, in which the Brazilian Agency for the Promotion of Exports and Investments (Apex-Brasil or *Agência Brasileira de Promoção de Exportações e Investimentos*) and BNDES have been its instruments of stimulation (MENEZES, 2012).

In 2004, in the light of the PITCE, the government sought to expand the Brazilian industrial base by improving the innovative capacity of companies. It was

understood as indispensable to a country that desires greater prominence in the international scenario to have its TNCs, considering the commercial, technological and political advantages related to them (SALERNO; DAHER, 2006).

Since then, support for internationalization has been a recurring theme in the BNDES annual reports. In 2005, BNDES approved the first financing within its internationalization line, which released US\$ 80 million to Friboi company for the purchase of 85% of the Argentinian company Swift Armor SA. In 2007, the commitment to export stopped being required of companies that receive financial assistance from the BNDES. As of that year, the companies were obliged to contribute to the economic and social development of the country, according to Decree law No. 6.322/2007.

The PDP policy integrated the implementation of Brazilian multinational companies in beef, poultry, pulp and paper, and petrochemicals. The largest companies representing these sectors – Friboi/JBS, Perdigão/Sadia, Aracruz, Votorantim, Braskem/Quattor – were considered “national champions” and received special attention from BNDES because of their internationalization processes (CANO; SILVA, 2010).

In the same year, BNDES created its International Area (AINT), which is responsible for attracting foreign funds and for structuring the funds directed to the Brazilian internationalization. With the purpose of coordinating internationalization activities of Brazilian companies, an office was opened in Montevideo, Uruguay, to assist Mercosul-related businesses, and a subsidiary office was opened in London, England, as a non-financial holding company (investment holding company) (BNDES, 2008). BNDES also supported internationalization in 2009, through the creation of BNDESPar, which aims to support the capitalization, development, the consolidation and the internationalization processes of Brazilian companies (BNDES, 2011).

The PBM policy also included support to the internationalization. Among their proposals, national and multinational companies would be the objective of an industrial development policy, with special sectoral regimes to support production and technological development, the elaboration of a professional qualification program, export promotion, and defense of the domestic market.

Table 1 lists BNDES' funds directed to internationalization operations and the Brazilian OFDI flow. It was observed that there was an evolution in BNDES' participation, which in 2005 financed 3% of the total of investments, and 15% in 2010. However, negative flows prevent BNDES' participation in future years. In absolute terms, BNDES' funds decreased significantly in 2011, 2012 and 2013 when compared to other years. According to the Bank's annual reports, disbursements for foreign trade and internationalization have not reached the expectations in recent years, what is explained by the unfavorable international economic environment.

Table 1 – Financial support by BNDES to Brazilian TNCs, 2005-2013, in US \$ million

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Financial support by BNDES ¹ (A)	79	446	628	2,028	395	1,735	4	7	383
Flow of Brazilian OFDI (B)	2,517	28,202	7,067	20,457	-10,084	11,588	-1,029	-2,821	-3,496
(A)/(B) ²	3%	2%	9%	10%	-	15%	-	-	-

Source: BNDES (2014) and Banco Central do Brasil (2016).

Note: ¹ Converted from Real to US Dollar by the average annual exchange rate provided by the Central Bank of Brazil. ² Negative flows prevent calculation of participation.

Of the R\$ 10.8 billion total disbursed by BNDES between 2005 and 2013, 81.4% went to companies in the agroindustrial sector, and the mining, chemical and petrochemical industries each received 7.7% of the resources. North America (42.7%), Latin America (11.1%) and Europe (6.7%). Regarding the nature of the operations, 91% had the acquisition operations and 9% greenfield, according to BNDES Internationalization Operations Report (2014).

3.2 Policies to Support the South Korean Insertion into the International Market

During the process of state-led industrial development, the dominant paradigm was an ideological dichotomy in which capital inflows, exports, and national ownership were favored in detriment of the OFDI, imports, and foreign ownership. The former were stimulated, while the latter were largely restrained. Meanwhile, the South Korean government's export-led growth strategy paved the way for the Korean OFDI.

Kwak (2007) argues that the Korean OFDI can be characterized in five phases. In the first phase (1968-1985) in accordance with the overseas-oriented development strategy, the government allowed domestic firms to invest overseas. However, the Korean OFDI levels remained insignificant until 1980. For that reason, until the middle of 1980, 400 cases involving the Korean OFDI to the amount of US\$ 274 million were requested and 352 cases representing US\$ 145 million were recorded.

Despite the institutionalization aid to internationalization, there was still the fear that investments abroad would worsen the Balance of Payments' deficit as well as divert domestic investments. The branches could not have amounts over US\$ 10,000 abroad, and were required prior authorization from the Bank of Korea. Therefore, the permits to make investments in foreign markets were

authorized and executed only for activities that could contribute to the policy of promoting exports and obtaining raw materials, since domestic production was hampered by the increasing lack of resources (LEE, 2011).

In 1978, the Foreign Investment Committee (FIC) was created, starting its operation only in 1981, which simplified the regulation of OFDI, relaxed the prerequisites for foreign investment (allowed accumulation of profits from US\$ 10,000 up to US\$ 50,000), and encouraged some industrial subsectors (PATTNAIK; KWON, 2006). During the period of 1980-1985, Korean OFDI income those returned to the country was 44% of these investments and, in the later stage (1986-1989) came to 14%, which reflects the policy adopted, according to the Bank of Korea ([2015]).

The second phase of the Korean OFDI was triggered by a change in national and international environments in the late 1980s. On the one hand, developed economies were moving towards market liberalization; on the other hand, at the domestic level the economy showed rapid increases in wages as inputs diminished competitive advantages in addition to the appreciation of Won. These factors pressured the greater mobility of the South Korean investments. According to Pattnaik and Kwon (2006), during 1986-1990, some processes required to access the Korean OFDI were even more simplified. This phase also marks a change in the investment pattern. Firstly, the Korean OFDI industry started to have greater participation that came to be even higher than the investment in the primary sector and services in some years; the country also increased participation in the most intensive technological activities. Secondly, North America was the main destination of the Korean OFDI flows, both in relation to the total of investments, and to industrial investments' total, according to Korea Eximbank (2014).

The search for equilibrium in the Balance of Payments was the government's main focus between 1990 and 1997, which concurrently also promoted economic liberalization. In the beginning of the period, the OFDI was used as an instrument of the economic policy for the technological improvement of the country's industries, and to generate foreign exchange. Thus, the role of government was gradually moving from regulator to supporter of the Korean OFDI, emphasizing both direct and in the portfolio investments abroad to ensure currency reserves for the country (LEE, 2005; LEE, 2011).

Kwak (2007) describes that during the 1990s the globalization strategy of South Korean companies accelerated the exit from investments, which characterizes the third phase of the Korean OFDI (1990-1997). In accordance with the government's industrial policy, the major domestic conglomerates embarked on ambitious globalization strategies to increase their share of production and sales abroad. The *chaebol* tried to catch up with the global leaders through their access to high technology from abroad and through the establishment of extensive international production systems.

During the six-year period starting in 1991, the South Korean government adopted three policies directed to the OFDI: i) using the Korean OFDI as an industrial policy and as a tool to control currency management; ii) becoming less regulatory of foreign investment in order to establish support mechanisms to expand the internationalization of companies; and, iii) reviewing parts of the investment regulatory system in order to overcome the deficit of the balance of payments and restrict domestic deindustrialization (PATTNAIK; KWON, 2006).

The fourth phase of the Korean OFDI pointed out by Kwak (2007) took place after the Asian financial crisis of 1997, the year in which investments decreased significantly. South Korean companies have gone through an extensive process of post-crisis restructuring, which included measures such as closing foreign subsidiaries and the cancellation or postponement of investment plans due to liquidity problems. Regarding regulations, Pattnaik and Kwon (2006) indicate that Korean OFDI liberalization policies signaled a simplification of required investments and also permitted banks to issue currency for FDI. As a result, many creditor banks affiliated with *chaebol* and holdings were designated as currency manipulation banks.

In 1999, the government increased its incentive to Korean TNCs and the Korea Eximbank began to support funding for foreign investment with funds established for domestic currency. A larger amount and extent of financial aids from banks and financial institutions for overseas subsidiaries were granted in 2001. Although financial support for TNCs has migrated to the private sector during the 1990s -which encouraged conglomerates to create their own banks-, the government kept monitoring the activities of oversea subsidiaries.

The fifth stage of the Korean OFDI is evident as of 2003, according to Kwak (2007), when the economy recovered from the crisis and investments started to increase. According to Lee (2011), more deregulation in international financial transactions took place in 2005.

In 2007, the Policy Support for Korean companies was adopted to boost investments abroad in order to transform South Korea into one of the strongest foreign investors in the world. To attain this goal, the Committee for Operations in Global Business was established (NICOLAS; THOMSEN; BANG, 2013). Current Korean OFDI support policies have three ways of execution: i) lending programs: a line funded by Korea Eximbank covering up to 80% of the operation, and a line financed by the Economic Development Cooperating Fund applied to developing countries with long-term returns; ii) provision of information: featuring agencies such as Korea Eximbank and the Investment Promotion Agency and Foreign Trade; and, iii) non-commercial risk reduction programs: offered by the Korea Export Insurance Corporation, and Investment Protection Agreements signed by the

government with over 80 countries, and taxation agreements signed with over 70 countries (KIM; RHE, 2009 *apud* RUPPERT; BERTELLA, 2010).

Table 2 – Financial support by Korea Eximbank for Korean TNCs, 2000-2010, US\$ million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Financial support by Korea Eximbank ¹ (A)	34	116	336	661	877	1,334	2,251	3,179	4,206	3,409	6,630
Korean OFDI flow (B)	4,233	2,029	2,920	3,971	5,643	6,359	11,175	19,720	20,251	17,197	19,230
(A)/(B)	1%	6%	11%	17%	16%	21%	20%	16%	21%	20%	34%

Source: Ribeiro and Ruppert (2011).

Note: ¹ Converted from *Won* to US Dollar by the annual rate provided by Bank of Korea.

The Korea Eximbank is mainly responsible for financing the Korean OFDI. As shown in Table 2, this support has gained importance in the post-2000 years, and in 2000 the Bank's lending amounted to only 1% of Korean OFDI flows, increasing to 34% in 2010.

Considering the institutional frameworks of Brazil and South Korea and the policies to encourage the internationalization of these countries, the next section presents data on the performance of Brazilian and South Korean OFDI.

4 The Performance of Outward Foreign Direct Investments

In this section, we select a variety of secondary data to show the evolution of Brazilian and Korean OFDI. The data are released by official institutions in both countries and relate to OFDI's share of GDP, countries and industries destination of the OFDI.

4.1 Brazilian Outward Foreign Direct Investment Performance

Until 1980, as Guimarães (1986) affirms, there was no movement towards the internationalization of Brazilian companies. The main investments abroad were from the financial sector, engineering companies or the state-owned Petrobras. At this stage, several companies had already set up representation, storage, distribution and/or technical assistance offices in the countries that were their main export destinations (BNDES, 1995; DIAS, 1994). Among the few cases of produc-

tive investment, most were motivated by the proprietary advantages appropriate to developing markets. As in the cases of Caloi, Gradiente, Villares, and Ferraz de Andrade, companies that operated in Latin American countries to exploit their advantages of owning technologies adapted to the needs of these markets and were favored by cultural similarities (LOPEZ, 1999).

Dias (1994), Goulart, Brasil and Arruda (1996), BNDES (1995), Lopez (1999) indicate that as of the mid-1980s an internationalization process could already be evidenced. The international insertion became one of the strategic guidelines for Brazilian companies, influenced by sector specificities. In the resource-intensive sectors, investments focused on the opening of commercial offices, since the availability of raw materials in Brazil explains the highly internationalized behavior of the sector from the point of view of exports. Some instances are the food and beverage industries (Sadia, Perdigão, Copersucar and Brahma) and paper mills, and their relationship with the Latin American market (LOPEZ, 1999; DIAS, 1994).

Regarding the capital goods sector, the installation of new production plants was reduced to a minimum; exporting companies in the area (Villares, Weg Motores, Fupresa, Nardini) resorted to the installation of after-sales service offices, including testing plants and equipment recovering. The textile and clothing industries have sought to expand oversea business to better customer contact and enlarge trading margins. Some companies (Artex, Hering, São Paulo Alpargatas, Staroup) installed small-scale production plants in Europe, mainly in Spain and Portugal, and in the US (DIAS, 1994).

Lopez (1999) points out that the sector whose internationalization process has progressed to a greater extent both quantitatively and qualitatively was the auto parts sector. Since the 1980s, some companies (Cofap, Freios Vargas, Metal Leve, Sabó) have opened offices to handle their sales in the US and Europe, which enabled the quick delivery of parts and increased the purchase orders. The transformations in the logic of the automotive industry with the introduction of *toyotist* methods and other technological and organizational innovations, besides the intention to avoid any protectionist barriers -added to the high cost of transportation in relation to the unit value of the product-, influenced the decision to internationalize the production of auto parts. The internationalization of Brazilian auto parts companies culminated in the absorption of these by TNCs in developed countries. In a later period, the creation of Mercosul also influenced the internationalization's intensification of the sector, as it introduced a process of specialization and commercial exchange of the productive units in Brazil and in Argentina.

The steel sector was also one of the most significant instances of the Brazilian OFDI in the beginning of the country's internationalization process. The companies Gerdau and Usiminas acquired plants abroad with the objective of establishing

competitive advantages in regional markets (DIAS, 1994). The mining company Vale was also one of the Brazilian OFDI great participants. Its internationalization began even before the company's transition from state-owned to private, with the purchase of plants in the US and France. After the company's privatization this process intensified (LOPEZ, 1999).

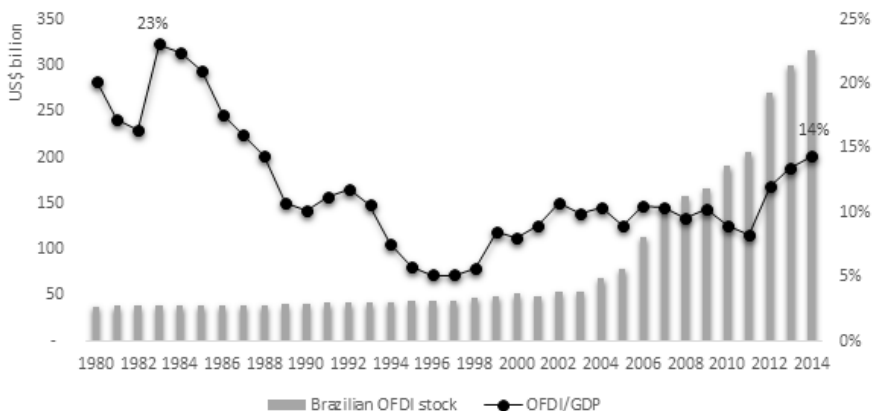
During the 1990s, two opposing forces influenced foreign investment. On the one hand, as a result of macroeconomic stability was the expansion of the internal market accompanied by an exchange rate that was in a recovery process and the hard currency shortage. On the other hand, the economic opening narrowed competition and encouraged the internationalization process of some companies. Thus, if in 1990 internationalization was a response to the events of the moment, in the post-2000 period an active interest is noted in consolidating this process, when the expansion of the geographic distribution of the Brazilian OFDI took place, changing motivations and strategies.

Comparing the Brazilian OFDI previous and post the economic opening a significant advance is observed in the internationalization process. According to Coutinho, Hiratuka and Sabatini (2008), the new international insertion strategies facilitate the expansion of the market by leveraging competitive capabilities, and also by providing access to the resources needed for local companies to face global competition. Similarly, companies have adopted the international expansion as a condition of long-term ability to compete. Macroeconomic conditions were also a contributing factor, since the facilitated access to credit, inflation control and the equilibrium in the balance of payments would allow the maintenance of domestic profitability and the provision of funding.

In the 1990s the initial outward investments were concentrated in the Mercosul countries, as a result of the opening of the economy during the integration process. These investments were led by the steel industry, by the intermediate goods, and by the transport equipment sectors. Regarding the last sector, companies identified internationalization as the way to take part in global production networks, especially in the auto parts industry. Demanding markets such as the US also pressured the growth of manufactured products exports, encouraging oversea production (IGLESIAS; VEIGA, 2002).

The stock of the Brazilian OFDI did not exceed US\$ 50 billion in 2000; from then on, significant increases over the years took place. In 2004 the investments increased 26% and 44% in 2006, comparing to the year before. However, the ratio between the stock investment and the Brazilian GDP had a downward trajectory, showing that even with a significant growth of the Brazilian OFDI, its growth was lower than expected, considering the domestic economic growth, as illustrated in Figure 1.

Figure 1 – The Brazilian OFDI stock and its GDP share, Brazil, 1980-2014



Source: UNCTAD ([2016]).

Investments made after the 2000s were directed to Europe, North America and Latin America, in addition to tax havens. In Table 3 are listed the main countries receiving the Brazilian OFDI since 2001. Major resources in recent years are responsible for putting Austria as the main destination of the Brazilian OFDI. This refers to the investments in the mining industry led by a subsidiary of Vale installed in that country in 2007, which conducts research in the area. The Netherlands received significant amounts of Brazilian investments since 2004, mainly related to Petrobras, however that country is also a tax haven. However, in the last three years the country stood out in the manufacturing industry, besides receiving Braskem investments. Spain, Argentina and the US can be considered traditional destinations for Brazilian investments due to constant flows. Correa and Lima (2008) point out that since 2002 Brazil has become the biggest international investor in Argentina. Investments in Spain have reached 3.8% of the total received by the country in 2001, and investments in the US represent 1.5% of the total received by the country.

Table 3 – The Brazilian OFDI¹ stock main destination countries, Brazil, average of 2001-2003, 2004-2006, 2007-2009, 2010-2012, 2013-2014, US\$ million

Rank	País	2001-2003		2004-2006		2007-2009		2010-2012		2013-2014	
		US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%
1	Austria	151	0	1,625	2	32,905	21	47,693	22	59,584	20
2	Netherlands	565	1	2,496	3	2,806	2	20,504	9	32,826	11
3	Luxemburgo	1,019	2	3,578	4	4,535	3	8,546	4	19,401	7
4	Spain	2,144	4	3,522	4	4,905	3	12,182	6	17,892	6
5	Argentina	1,688	3	2,035	2	3,488	2	5,853	3	6,105	2
6	Peru	52	0	278	0	517	0	2,404	1	3,149	1
7	Canada	253	0	38	0	449	0	1,896	1	745	0
8	Mexico	85	0	160	0	630	0	909	0	1,416	0
9	Venezuela	32	0	106	0	442	0	967	0	2,356	1
10	Chile	182	0	748	1	481	0	866	0	1,763	1
11	USA	1,980	4	3,794	4	9,494	6	16,840	8	15,143	5
12	Colombia	68	0	51	0	374	0	981	0	890	0
13	Uruguay	3,161	6	2,188	2	2,429	2	2,793	1	3,724	1
14	France	154	0	178	0	411	0	1,171	1	1,148	0
15	Italy	147	0	129	0	295	0	416	0	434	0
16	Paraguay	54	0	115	0	164	0	419	0	799	0
17	Germany	132	0	206	0	187	0	293	0	483	0
18	India	0.02	0	0	0	-	-	-	-	39	0
19	United Kingdom	300	1	758	1	1,089	1	1,352	1	2,898	1
20	Portugal	1,005	2	942	1	1,689	1	2,841	1	3,735	1
21	Switzerland	40	0	54	0	312	0	479	0	1,265	0
	Subtotal	13,210	25	23,002	26	67,602	44	129,404	59	161,023	55
	Others	39,791	75	64,541	74	85,898	56	89,755	41	133,692	45
	Total	53,001	100	87,544	100	153,500	100	219,159	100	294,715	100

Source: Banco Central do Brasil (2006, 2014).

Note: ¹ Including participation in capital (over 10%) and intercompany loans.

While Asian countries had not been in the history of Brazilian investments, the resources allocated to countries such as China, Hong Kong, Singapore, South Korea, India and Japan, have grown at an average rate of 48% per annum over the years 2007 and 2014.

As a result of two decades without proactive industrial policy, the internationalization of Latin American faced great difficulty in entering developed markets. At this point, the largest corporations in Latin America, including the high-technology-intensity industries, had not been able to accumulate technological capability to become innovative, while Asian companies succeeded in this aspect. Major investments abroad were directed to other developing countries in the tertiary sector, natural resources-based and low-technology-intensity industries. In the context of globalization, these companies were also confronted by tougher competition from TNCs from other regions, suggesting that in order to survive, Brazilian companies would be forced to expand their activities to benefit from scale economies and so enhancing their competitiveness.

The data in Table 4 presents the Brazilian OFDI per industry ranked by their technology intensity. It is possible to observe that the Brazilian OFDI for the manufacturing industry is increasing its share total: in the 2001-2003 triennium the industry represented 4% of total resources and increased to 17% in the 2010-2012 period. In the manufacturing industry, the medium-low-technology intensity – metallurgy, non-metallic mineral products – had the highest growth rates, since greater proximity to the Mercosul countries affected positively this performance. Similarly, but limited to a lesser extent, are the rubber and plastic products and metal products industries.

Table 4 – Brazilian OFDI¹ position by industry, Brazil, average of 2001-2003, 2004-2006, 2007-2009, 2010-2012, 2013-2014, US\$ million

Industry	2001-2003		2004-2006		2007-2009		2010-2012		2013-2014		Technology intensity
	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	
Agricultural, fishing, mining	683	2	2,285	3	38,365	32	58,813	29	62,466	23	
Manufacturing	1,698	4	2,074	3	16,581	14	34,322	17	47,069	17	
Food and Beverage	152	0	398	1	9,233	8	10,538	5	17,866	7	Low
Metal-lurgical	6	0	68	0	3,314	3	12,798	6	14,121	5	Medium-low

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Industry	2001-2003		2004-2006		2007-2009		2010-2012		2013-2014		Technology intensity
	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	
Non-metallic mineral products	244	1	22	0	1,348	1	6,692	3	9,741	4	Medium-low
Chemical products	24	0	55	0	198	0	618	0	870	0	Medium-high
Motor vehicles	116	0	60	0	490	0	616	0	602	0	Medium-high
Rubber and plastic products	247	1	402	1	343	0	533	0	539	0	Medium-low
Textiles	32	0	176	0	237	0	336	0	352	0	Low
Metal products	138	0	538	1	162	0	195	0	287	0	Medium-low
Machinery and equipment	105	0	178	0	183	0	300	0	376	0	Medium-high
Miscellaneous product	0	0	0	0	82	0	155	0	211	0	-
Leather products and footwear	2	0	6	0	21	0	59	0	134	0	Low
Others	630	1	172	0	971	1	1,483	1	1,970	1	
Services	41,202	95	68,027	94	64,223	54	109,921	54	161,841	60	
Total	43,583	100	72,386	100	119,169	100	203,057	100	271,377	100	

Source: Banco Central do Brasil (2006, 2014).

Note: ¹ Including the participation in capital (over 10%) and intercompany loans.

In the medium-high-technology industries, the motor vehicles industry has invested more in the last two terms of three years driven by the auto parts industry. The automotive agreement between Brazil and Argentina, and Brazil and Mexico also contributed to the growth of investments. The chemical industry also had an impressive growth rate. However, the machinery and equipment industry received low levels of Brazilian investments abroad.

The group of low-technology-intensity industries showed more modest growth, such as the textiles and leather goods, and footwear industries. Such industries

have suffered from foreign competition in the domestic environment and the benefits of internationalization are most often insufficient. However, it is not the case of the food and beverage industry, in which foreign investment grew significantly. In addition to having the government's financial support, this industry has a solid structure within the country and has ownership advantages to internationalize.

The Brazilian OFDI in high-technology-intensity industries was very small and it was ranked in "others". The importance of this group is unique for any economy because it dictates the pace of increase of economic productivity, and it is responsible for the dissemination of technical progress. Also, the internationalization of high-technology-intensity industries could enable a catching-up process for developing economies.

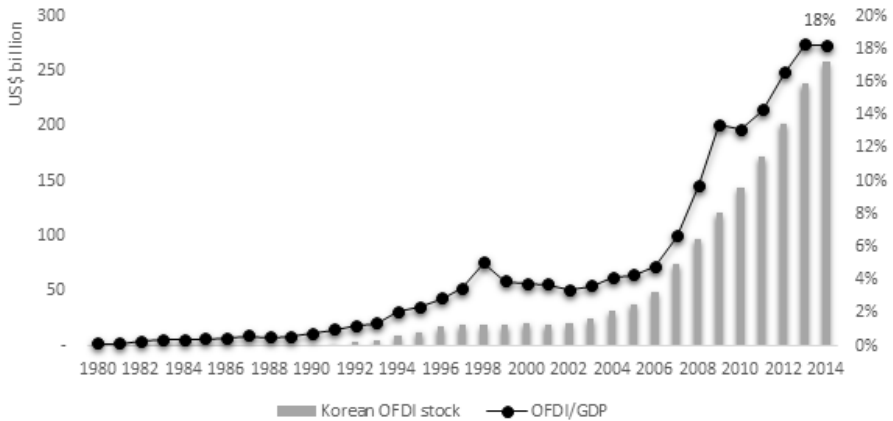
4.2 South Korean Foreign Direct Investment Performance

In general, the South Korean experience suggests that foreign investment is determined by several factors, both domestic and global. Considering the macroeconomic context, the factors that stand out are: a) high domestic wages in the course of industrialization encouraged labor intensive industries to seek for markets with lower wages; b) the domestic interest rate was used by the government as an instrument to promote investment in the domestic market; c) the exchange rate that on the one hand spurred investors to seek hard currency reserves, on the other hand the devaluation of the national currency made investing overseas more difficult; and d) the small domestic market had limited the growth of the *chaebol*, highlighting the need for external expansion. At the same time, the global pull factors refer to: a) the need for natural resources, as the country was in need of the same due to their small size; b) geographical proximity to export markets; iii) access to technology, as the country had a late industrialization process (KWAK, 2007).

Until 1985, due the restriction of government, investments were made in the primary industry for the development and import of raw materials in the form of natural resources. The Korean OFDI strategies focused on resource seeking and market seeking, and the main destination activities were mining and forestry and construction (LEE, 2011).

The OFDI Korean stock did not exceed US\$ 1 billion in 1987; from then on, there have been significant increases over the years. In 1990, the amount invested was of US\$ 2.3 billion and reached US\$ 196.4 billion in 2012. The Korean OFDI expansion followed the GDP growth, as shown in Figure 2.

Figure 2 – The Korean OFDI stock and its share of GDP, South Korea, 1980-2014



Source: UNCTAD ([2016]).

Traditional destinations for the Korean OFDI are the countries of their region. Investments in Asia correspond, on average, to over 40% of the total. As Rugman and Doh (2008) observe, the *chaebol* have advantages in guiding the Southeast Asian region arising from the business relationship between governments, local knowledge and benefits related to such groups. From 2004, the government opened Service Center offices for South Korean investors abroad in Beijing, Indonesia, Vietnam and the Netherlands (NICOLAS; THOMSEN; BANG, 2013). This initiative stimulated investment in these countries, as can be noted in Table 5.

Table 5 – Korean OFDI flow by main destination countries, South Korea, average of 1990-1997; 1998-2002; 2003-2007; 2008-2013, US\$ million

Rank	Country	1990-1997		1998-2002		2003-2007		2008-2013	
		US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%
1	USA	636	26	1,185	26	1,848	18	4,312	18
2	China	461	19	709	16	3,179	30	3,672	15
3	Hong Kong	99	4	269	6	691	7	1,579	7
4	Vietnam	75	3	84	2	514	5	995	4
5	United Kingdom	91	4	189	4	143	1	1,167	5
6	Netherlands	33	1	392	9	165	2	992	4
7	Indonesia	157	7	115	3	130	1	739	3
8	Brazil	15	1	33	1	115	1	748	3
9	Singapore	17	1	106	2	271	3	524	2
10	Malaysia	43	2	36	1	77	1	593	2
11	Germany	72	3	66	1	144	1	395	2
12	India	45	2	82	2	109	1	322	1
13	Philippines	37	2	81	2	50	0	356	1
14	Mexico	17	1	28	1	58	1	297	1
15	Russia	15	1	14	0	87	1	242	1
16	Thailand	48	2	45	1	70	1	167	1
17	Poland	27	1	82	2	95	1	42	0
18	Slovak	2	0	0	0	146	1	75	0
19	Czech Republic	1	0	6	0	133	1	79	0
20	Turkey	6	0	10	0	36	0	122	1
	Subtotal	1,897	79	3,533	77	8,061	77	17,418	72
	Others	507	21	1,028	23	2,467	23	6,845	28
	Total	2,404	100	4,561	100	10,529	100	24,263	100

Source: Korea Eximbank ([2014]).

The US also received much of South Korean operations due to the long period of political and trade agreements between the countries. The flows received by the US have intensified in the 1990s, especially after-2000, driven by companies seeking for technological improvement. These companies were located in the Silicon Valley region, and received government support to improve the generation of innovation. According to Kotra ([2014]), since 2008 the number of South

Korean companies located in Silicon Valley has doubled from 80 to over 160 in 2013; among these companies are Samsung, LG and Hyundai. The reasons for this include the search for partners for technological improvement and the search for a consumer market with high per capita income, since the US domestic market is saturated. Moreover, some Latin American countries such as Brazil and Mexico, have received more South Korean resources in recent years, which are mainly linked to the automotive industry.

Regarding the industry distribution of the Korean OFDI, it is observed that most of the resources are allocated in the manufacturing industry, coming to represent almost half of the OFDI total. In the last observed period (2008-2012), the manufacturing industry loses share at the expense of investment in the primary sector. They had steady growth in mining activity, according to Table 6. In the 1990s, the industrial activities that have received investments are the metalworking, chemical products, plastic products, rubber, textiles, and clothing industries. In the post-2000 years, the industries with greater technological intensity are the output of the OFDI. In this way, the largest investments were seen in the motor vehicles industry, metal products industry and communications equipment, radio and TV industry. Unlike in Brazil, the Korean TNCs have had greater investment abroad in high-technology-intensity industries.

Table 6 – The Korean OFDI distribution per industry, South Korea, average of 1990-1997; 1998-2002; 2003-2007; 2008-2012, US\$ million

Industry	1990-1997		1998-2002		2003-2007		2008-2012		Technology intensity
	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	
Agricultural, fishing, mining	896	11	1,581	7	3,769	7	33,122	17	
Manufacturing	4,505	56	12,939	53	25,942	51	83,608	42	
Motor vehicles	313	4	1,542	6	3,598	7	16,241	8	Medium-high
Metal products	1,114	14	1,496	6	3,020	6	12,174	6	Medium-low
Radio, TV and communications equipment	818	10	4,082	17	4,448	9	5,572	3	High
Textile and apparel	625	8	1,592	7	2,925	6	5,000	2	Low
Chemical products	221	3	429	2	2,333	5	6,557	3	Medium-high
Machinery and equipment	122	2	190	1	2,036	4	3,598	2	Medium-high

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Industry	1990-1997		1998-2002		2003-2007		2008-2012		Technology intensity
	US\$ mi	%	US\$ mi	%	US\$ mi	%	US\$ mi	%	
Office, accounting and computing machinery	108	1	750	3	942	2	3,960	2	High
Rubber and plastic products	228	3	652	3	1,222	2	2,976	1	Medium-low
Food products	197	2	474	2	983	2	2,756	1	Low
Transport equipment	11	0	172	1	365	1	2,989	1	Medium-high
Refined petroleum products	5	0	7	0	157	0	1,247	1	Medium-low
Wood, pulp and paper products, printing	200	2	443	2	455	1	287	0	Low
Medical, precision and optical instrument	-	-	-	-	310	1	1,001	0	High
Pharmaceuticals products	-	-	-	-	124	0	339	0	High
Aircraft and spacecraft	-	-	-	-	4	0	8	0	High
Other	545	7	1,109	5	3,019	6	18,904	9	
Services	2,629	33	9,748	40	20,947	41	83,735	42	
Total	8,031	100	24,268	100	50,658	100	200,465	100	

Source: OECD ([2014]).

Kim and Rhe (2009) list the four main strategies of Korean TNCs. Firstly were the factors that aimed to reduce costs (efficiency seeking) and technological learning (strategy asset seeking). In the case of cost reduction, China is the major chosen site of the Korean OFDI because of its low cost of labor, which is, according to the Korea Eximbank ([2014]), about one tenth compared to the cost in South Korea. The second motivational factor refers to demand conditions that include the search market, local presence requirements, and the production of learning market (market seeking). Many companies seek for a foreign market to diversify the risk of focusing on the domestic market. As the third motivation, Korean TNCs used the strategy of following customers/suppliers already acquired (market seeking), as is the case of Hyundai Motors, which has approximately 10% of its overseas sup-

pliers, but the TNCs also seek for a favorable infrastructure and regulation (strategy asset seeking).

The fourth motivation relates to the strategic competitive advantages and the location. Taekwang Corporation invested in production facilities in Vietnam and hired over 10,000 Vietnamese workers, since the country is known as a place where labor issues are easier to manage. In terms of catching-up, Korean companies invest abroad to imitate or to compensate for the advantages of its domestic competitors that made previous investments abroad. For example, Samsung Electronics and LG Electronics are the two biggest competitors of the South Korean electronics industry and both compete internationally (KIM; RHE, 2009).

5 General Evaluation and Conclusion

The development paths followed by Brazil and South Korea have a key feature, the strong presence of the State as planner and coordinator of the industrial process. In contrast with this similarity, there is a central difference that stems from the process of internationalization in the two countries: industrial training in South Korea combined the State to the national capital; in Brazil, the national capital was supporting the internalization process.

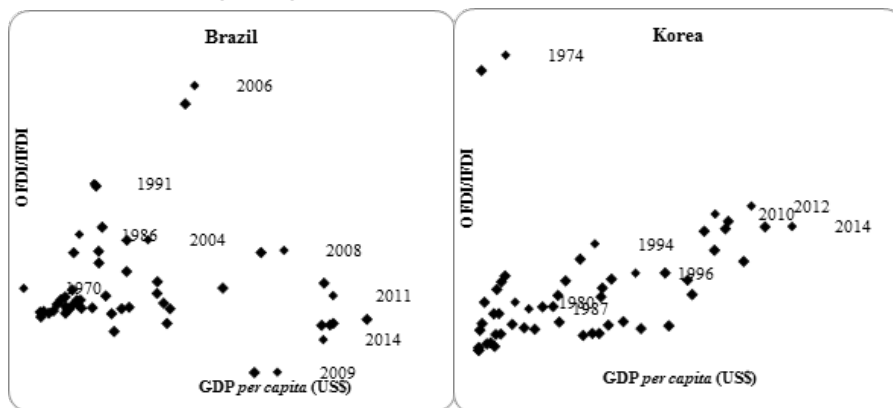
It is considered that many factors influenced the formation of this scenario. One is the difference between an industrialization “invited”, such as South Korea, and an exploratory industrialization as was the process that took place in Brazil, in the sense that the TNCs that settled in Brazil throughout its industrialization process were interested in exploiting the consumer market and did not bring their more sophisticated production structures and R&D for the local development. Moreover, South Korea has benefited from the extension of Japanese production in its territory, so that their companies gained access to the most modern forms of production, while in Brazil forms with no private obligation of update were used.

The way through which South Korea raised the necessary funds for the consolidation of its industrial complex is one of the most important factors of its development process and it is one of the main differences from the Brazilian experience. The lack of dynamism in the export sector combined with low domestic savings and the lack of national funding sources for the Brazilian government programs did not leave many alternatives to the State but to promote and attract foreign capital. South Korea had its privileged relationship with the US as well as foreign loans that could be administrated by the government in development plans.

Figure 3 shows the correlation of the ratio between the OFDI and inward FDI (IFDI) with the Brazilian and South Korean GDP *per capita*. It appears that the IFDI flows were higher than the OFDI flows over the years, except in 2006, in Brazil. However, it is possible to note that during the first year, while the *per capita*

GDP is less than US\$ 2,000 per year, this ratio was close to zero, and it has oscillatory features *pari passu* to the growth of the GDP per capita. Due to the way the Brazilian industrialization was conducted, in which FDI inflows had major role in some of the most dynamic industries, is the reason the OFDI/IFDI relation is far from being greater than 1 (one). Contrary to this experience is the situation in South Korea, in which the IFDI had a supporting role and was only released as the industrial process was consolidated. In addition, other reasons, such as the formation of large industrial conglomerates, investment in technology and innovation, limited internal market and the ordinary US aid also contributed to the reason the OFDI/IFDI relation was increasing at the same intensity than the evolution as the GDP *per capita* in South Korea.

Figure 3 – The Relationship between the flow of Outward and Inward FDI and GNP per capita* of Brazil and South Korea, 1970-2014



Source: UNCTAD ([2016]).

Note: Based on Dunning, Kim and Park (2008).

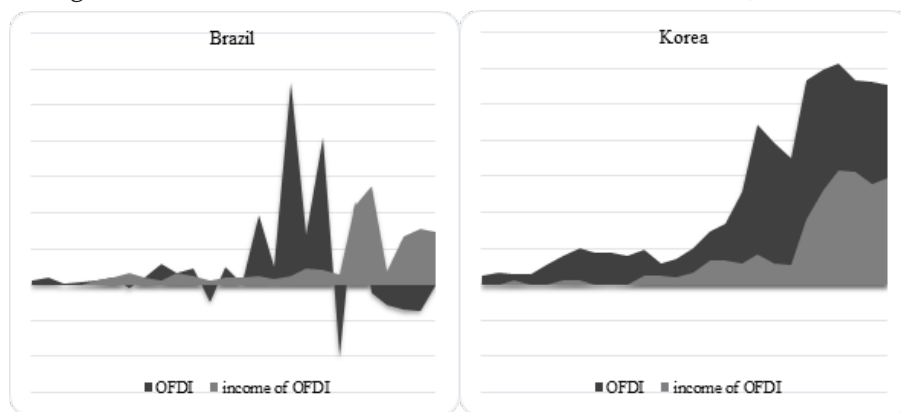
Regarding the internationalization process, it was observed that the international experience of South Korea was carried out in parallel with its industrial development. It is possible to notice an increase in the internationalization as the ownership advantages of national industries consolidated. In addition, the process created an institutional structure set with the national strategies and corporate motivations. Thus, the Korean OFDI shows a more consistent performance in quantitative terms, it is more geographically diverse, and directed to the most sophisticated technology industries. In Brazil, the two decades were affected by internal instability, economic liberalization and industrial restructuring, which were not favorable to the evolution of the Brazilian OFDI. When they evolved, the persecuted trend was reversed in industries with less technological content. The outcomes of the internationalization performances are also seen among the 500 largest global companies, according to the Fortune ranking, in which thirteen were South Kore-

an, and four were Brazilian in 2015. Among the 100 largest non-financial TNCs in developing countries, six were South Korean, one of which is also present in the largest of the developed countries, and five were Brazilian in 2016. (UNCTAD, 2018).

Consequently, the income from the Korean OFDI was larger than the one from the Brazilian OFDI, as seen in Figure 4. In the South Korean case, according to the Bank of Korea ([2015]) the income from Korean OFDI that returned to the country is more consistent, which arrived at any given time, representing 44% of these investments (1980-1985). Unlike in Korea, the Brazilian OFDI income was reduced when compared to Korean investments over time, reflecting the main type of investment for the financial sector.

In the Brazilian case, it is noteworthy that the OFDI flows, after the 2008 crisis became negative and revenues show significant growth. This behavior is typical of the financial sector investments that are more volatile, usually contracted in the short term, and destined to tax havens with high risk of contagion⁴. Such behavior demonstrates the instability of the financial markets, where short-term phenomena are compounded by contagion effects in the medium term and affect access to long-term financing. Since the Korean OFDI is mostly for the industrial sector, the country does not have the same problem of rent loss.

Figure 4 – OFDI flows and its income¹ – Brazil and South Korea, 1990-2015



Source: Banco Central do Brasil (2016) and Bank of Korea ([2015]).

Note: ¹Direct investment income includes Profits and dividends related to equity investments and Interest on intercompany loans in the form of direct loans and securities of any term. They do not include capital gains, classified as direct investment in the financial account.

4 In a scenery with imperfect information, the risk of contagion increases concomitantly with the expansion of financial-productive integration. Through contagion, the effects of a financial crisis extend beyond national borders, reaching economies that do not go through instability in the productive sector. In the current context of financialization, the determinants of capitalist accumulation are governed by the preponderant role of finance, which is intrinsic to instability and uncertainty (LACERDA, 2003).

Accordingly, the construction of this study reveals that the State's role has unique importance in the external performance of the two countries, Brazil and South Korea. In the domestic environment, the State maintained an active and consecutive industrial policy, particularly with long-term goals, in order to identify hurdles to domestic industries' development in the international context. It is necessary, considering the South Korean history, to identify the most competitive sectors, and focus on their technological improvement; this means to improve the specific advantages of the industry. Regarding the external environment, it is worth investing in exclusive policies for the insertion into the international market, since it is understood that only through internationalization can an industry establish its long-term competitiveness. In this regard, the policy of promoting exports of manufactured goods and assistance to foreign investment is necessary. It is also essential to the formation of specialized agencies to assist in legal proceedings, in order to provide a network of information about the host country, and also provide insurance instruments for the invested resources.

In this context, the present paper presents lessons can be drawn for developing active industrial and technological policy in the future. Policy formulation that draws on IFDI that carry the technical progress is important to bring upstream and downstream spillovers. As well as, develop policies that create conditions for the promotion of technological learning processes, since TNCs, for the most part, outline virtuous technological trajectories. It's necessary to establish policies that choose criteria for the performance of foreign companies – export and productivity – in the face of facilitating conditions – credit and taxation – for the realization of their investments. Adding to this scenario, developing a structuring policy that stimulates national and multinational private investments in line with macroeconomic stability policy – control of inflation, public deficit and balance of payments. In addition, the development of industrial and technological policy in line with the creation of systemic conditions of competitiveness, in particular the social – education, health and housing – and the infrastructural – transport, energy and communication.

The present paper exposed the importance of industrial and technological policies for the strengthening of local companies in terms of improving technological capabilities and international insertion. Especially for middle-income countries, international insertion can represent a way for companies to keep up-to-date on the changes in the world's production, as well as being a way of learning about ongoing innovative sectoral processes, thus being prepared for possible windows of opportunity which will better industrial performance as a whole.

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