Strange Moves Beyond the Core: To the Rescue of the State -Market Nexus for the Emerging World

Diana Tussie

Latin American School of Social Sciences, FLACSO, Argentina

Draft paper prepared for the workshop ‘A Retrospective on the Work of Susan Strange’ (Princeton University, 10-11 January 2014)
It is really not striking that so many of Susan’s insights still speak to us with great freshness and immediacy. Yet oddly, despite the profound changes in the global political economy, the application of Strange’s work to the non-core countries has never taken off. Various factors have operated for this to happen. In the developing world, on one hand, the clout of economists as the authorized spin doctors and commanding fixers has set a tight lid on the field of International Political Economy per se. The highly economist recipes for all ills means that in Latin America, to take an example, despite the long tradition of political economy and economic sociology, IPE as we know it, treads awkwardly from Sociology to International Relations to Economics. Of course the discipline itself is at fault for its introspection and the demeaning of “other” scholarship with different concerns even if they are global or systemic. Altogether these have been left to specialized Area Studies where political economy has thrived in ever more fruitful directions, rather than “general” IR or for that matter, IPE. Arlene Tickner (2003) argues that the hub-spoke version that currently prevails in the field serves to perpetuate intellectual hegemony and hence results in over-introspection. (Tickner and Wæver 2008)

On the other hand, from Strange’s own side, she made a strong point that the appropriate focus of attention of IPE was not the parts but the ‘whole system’. She claimed for the sake of the intellectual assault she was interested in taking on, even overstating her case in the light of her own work,

“ We are and should be, she says, ‘more interested in the webs of structural power operating throughout the world system than in comparative analysis of discrete parts of it, bounded by territorial frontiers dividing states’ ((1997: 182-3)

Phillips (2005) claims that in the IPE project the ‘trees’ are implicitly considered to be “only developing” countries and regions, while the ‘whole system’ approach is entirely consistent with, and indeed requires, a theoretical and empirical focus on the advanced industrialized powers.

“In other words, it is not that trees are ignored per se, but rather that only certain trees are deemed to be of interest, namely, those which are seen to determine the nature and form of the wood” (2005: 17).

But Susan’s own eclecticism and commitment to being an all time iconoclast never allowed her to turn her own call into a gospel. She was not driven to establish a catechism. In fact she wrote a non textbook to make her point. But the system mattered. It mattered because it gave way to unequal distribution of benefits. There was, in other words, a strong normative strand to her work. (Palan, 1999) True, nonetheless, her insistence on the “woods” has
meant that her work remained compartmentalized and was not given full currency beyond the non-core.

A recalibration of Strange’s work is timely as some countries seem to be “emerging” and branching out as higher trees. The understanding of their interests acquires new value as they struggle to acquire the status of special “trees” or as players keen to pull some ropes, be it in the regional or global scene. Paradoxically, while political economy has thrived in area studies, and has been especially fruitful in fleshing the particular political economy of adjustment and neoliberal reforms, it still remains neglected in the analysis of the international relations of these countries. The Southern character of their foreign policy has attracted a great deal of attention: the growth of both South-South trade and economic ties, but also Southern coalitions such as the trade G20 within the WTO or groupings such as the BRICs (especially after South Africa joined in April 2011) or the IBSA Trilateral Forum of India, Brazil, and South Africa created in 2003. While a host of studies on the new assertiveness of their foreign policies have sprung up, they inspect the economic roots of foreign policy rather incompletely and even fail to unpack the fluid relationships between state policy and private interests.

This tier of countries has an impressive number of globally competitive companies. Big business is no longer merely foreign, but increasingly domestic in origin. Hence, both business and the state face new imperatives. Have they become mutually acceptable companions? Is the state an adversary of the new internationalized private interests? Is it an ally in a shared arena? What are the new coalitions? As “national economies” are more global there is a need to recalibrate how the state-market partnership now operates and extends globally. Is there indeed a partnership? Is it able to maintain a common vision and sustained political action abroad?

The argument, in other words, is that it is necessary to rescue the Strange tradition of IPE at a time when businesses from emerging countries come into their own, become politically active, search for global niches and rely on specific state policies to support their expansion abroad. As economies become more internationalized, governments see firms as potential allies abroad and firms require state capacities to manage their international interests. What emerges from this consideration is a recognition that new patterns of decision making are carved out from established ones. From regional/transregional trade agreements to the projects for new development banks, such as the Bank of the South or the BRICs Bank, we are witnessing the emergence of regional/multilateral institutions and sources of authority. They increasingly influence the operations of transnational corporations and also express their preferences and interests. Concurrent with this economic regionalization, though less noted in the literature, is the growth of governance structures at regional levels. (Riggirozzi and Tussie, 2012) Domestic politics and institutions, in particular the state, were for long
thought to be a hindrance for regional integration (Milner and Mansfield 1997). At times regional agreements were thought to ‘lock-in’ structural reforms overcoming the limits of domestic politicization. In this view, regionalism and globalization were inherently intertwined in a causality where regionalism was often seen as subordinate to the dictates and constraints of globalization, or at best as a supplementary layer of governance (Hettne and Söderbaum 2005).

I argue that the precise operation of the state market dialectic at this level still requires more exposition. But in contrast to Strange I do not see a "retreat of the state" at present but a reconfiguration and even a strengthening of the state in of the so-called emerging powers as new partnerships with business are forged. The case of Brazil in South America is a case in point, and a case where very little has been made of its business interests as part of its new claim to economic leadership. What role has business played in the country’s rise to prominence? What does this mean for the restructuring of patterns of cooperation and conflict? On these issues, it is worthwhile to return to the work of Susan Strange, for she offers at the very least a way of unpacking some of the questions thrown up by these changes which actually appear more evident in the regional than the global landscape. The incorporation of the regional level of analysis is in itself a level that Strange never had much in mind. Regional forms of cooperation have flourished over the past decade and have received increasing attention as a source of change for global order. While the New Regionalism literature has captured these shifts more accurately and generated important insights into why different forms of institutionalization exist in different parts of the world the approach stills fails to pick up the new imperatives of internationalized/regionalized business. As in Susan’s time there remains an “intellectual apartheid” (1992:2) between these fields of study in the case of these new game players.

The paper will argue the case that some of Strange-ist insights hold heuristic value that remain underused both in the literature that is emerging from the regions, on the regions and in the wider IPE field. In a nutshell, a closer examination of the regions “out there” can reveal important scope conditions for understanding the structural re-organization of the global political economy which may otherwise be missed. The paper has a twofold purpose: to unpack some of Susan’s insights and apply them to the present transition and to take the IPE view beyond the core.

1. Internationalized Firms on the State Market See-Saw

Much has been said about the foundational value of Susan Strange’s volume on International Economic Relations of the Western World. (Brown 1999; Tooze, 2000) But less has been made about her work on the transnational shipping industry (Strange, 1976; Strange and Holland, 1976) and on surplus capacity (1979). Both either directly or
indirectly remained a continuing thread for a lot of her subsequent work and her endeavor to understand the incidence of firms in foreign policy and “global governance”-although to be sure this is a concept that she would not have used.

Those sets of work were also important for understanding the role of transnational corporations (TNCS) in global economic governance and the preferences for protection or for free trade. As Germain (2012) shows, the key question for Strange was the control exerted by American corporations, state managers and policy makers over global markets. Her work on transnational shipping showed the interest of business to expand market opportunities whereas the surplus capacity project showed how firms sought to enhance governments’ capacities to establish stringent protection. If they happened to be American or European they were over mighty enough to shape and dictate international regulations. Taken in tandem both strands shed light on the causes of protection (rather than shrill crying about the consequences) and ability of TNCS to tinker with the type of regime they desire. International trade was shaped by a particular combination of market enhancing and market limiting components. Sectors have different needs and move at different paces. The GATT and later the WTO both enshrined degrees of liberalization and degrees of protection for different sectors, be they textiles, steel, cars or agriculture, depending on the way production is organized globally. (Underhill, 2000; 2003; Tussie, 1988) Strange believed that development prospects, as well as internal institutions and ‘state capacity’, are largely shaped by firms and that firms therefore have to be at the heart of any serious analysis and explanation of world politics and economic development. The literature on privatization of authority built on those building blocks. (Cutler et, 1999, Sell, 2002)

That line of enquiry was quite omnipresent; it became her framework for unpacking the importance of private firms and internationalized production on state policies and later led her to collaboration with International Business Professor John Stopford. She again saw this venture as path breaking:

“Four stops on the London Underground will take you from the London Business School in Regent's Park to the London School of Economics off the Strand. Yet for 30 years the two institutions might have been separated by a Berlin Wall, so minimal was the communication between them, so divergent the matters that interested their professors, so diverse the discourses of their students. Each was openly dismissive, but secretly jealous, of the other”. (Strange 1992:1).

Although Strange did not cultivate strong links with existing literature on developing countries she was widely read and perfectly aware of those debates. (Strange and Holland 1976; Strange and Stopford, 1991). Studying structure was the *raison d’être* of IPE. Consciously or unconsciously her emphasis on structural power and structural change
echoes the structuralist tradition of development thought before the neoliberal tsunami swept the world (Ocampo and Ros 2010; Currie-Alder, Kanbur et al 2013). The effort to break down the walls between the ‘international’ and the ‘domestic’; to argue that state and society had to be viewed together, is also akin to the political economy tradition in development studies. The issue of how international structures interact with national ones is prominent in much work on developing countries, ranging from liberal economists to the modern heirs of materialist/structuralist scholars, passing by the work of constructivists. Her forceful challenging of the ‘declinist’ debate over the relative loss (or not, as Strange argued) of US power that occupied US academia and policy circles for much of the 1980s, was much admired because deprived of all emotional radicalism and flagging her usual nonsense attitude at large, it challenged the self pitying explanations that could hardly go down at a time when the US, US business and Reaganomics still called the shots pretty well for all intents and purposes. Most significantly, one of her fundamental passions in true “whodunit” fashion was to flash a torch and always follow the money trail. Cui bono? Who benefits? In answering it, she invariably referred to developing countries. The rules of the game impose costs and bestow benefits; they empower specific actors as opposed to others. They make it possible for some governments, but not for others, to pursue the ‘national’ economic policies they want, set the agenda in international institutions, and largely ignore the effects their policies have on others. (Leander, 2000)

But the situation has fundamentally changed. With a good part of the core prostrate, the rise to prominence of a first tier of developing countries to the status of emerging economies places them in an objectively different analytical category from the group of other developing countries. As a result, both the international political system and the structure of global capitalism are now in a state of flux. In the field of finance the build up of reserves, especially in the case of fast rising China has led to tugs of war over rates of exchange, reflation and the like. In many other respects the protracted process of transition may be more evident at the regional than global level where these emerging powers are engaging in promoting their champions in their own way and on their own terms. The burgeoning trend in terms of the internationalization of their own big business and the growing influence of these countries raise an altogether new set of questions. What do these firms require from the state for their growth abroad? How do they contribute to raise the international profile of their respective home countries? What are the specific interests being promoted? What are the instruments displayed by the state to ensure strategic decisions? What role are they taking on as aspiring leaders or “would be” powers? (Hurrell, 2006)
2. Power and leadership

Two classical templates have managed to frame the debate on economic power and leadership. In his historical analyses Charles Kindleberger provides a contrast between British and US leadership and connects money/finances with public goods. Leaders provide public goods available in order to secure stability. “International public goods are produced, if at all, by the leading power, a so-called ‘hegemon’”. (Kindleberger 1987: 13).\(^1\) The hegemon is, simultaneously, a “stabilizer.” The stabilizer provides a market for distressed goods, a steady flow of capital, and a rediscount mechanism for providing liquidity in times of panic. Kindleberger’s contribution on economic power pivots on the notion of *public goods*. Smaller countries cannot aspire to the vanguard; they have no economic power and they also have no responsibility for the overall system. They are merely free riders. This self-sacrificing view of the leader was a pillar of much theorizing about the role of the US and its responsibility in world affairs. All other countries and would-be leaders were always found wanting in relation to their delivery of public goods and how they ought to lead.

Strange in contrast did not bother much with leadership but made a careful distinction between relational and structural power. Relational power was above all about being able to lead and extract particular courses of action from allies and competitors. But structural power matters more, and this argument was very much the axis of what Cohen (2007) labeled the transatlantic divide. Structural power operates at four levels in the state-market “see-saw (1988: p 22) (knowledge, security, finance and trade) She assumes the power of states and the role of transnational business. According to her concept, economic power is exercised in a spilling manner (Strange, 1975):

- Governments exercise economic power through regulations and non-regulation of markets
- Rich countries and their governments influence the structure of the global economy through the pattern of their investments, production, trade, and consumption. mic power
- They establish the framework for minimum standards for the maintenance of stability, order, and law in the global market economy.
- The government with the biggest domestic market and the largest number of multinational businesses (important in driving global production) possesses the greatest economic power.

---

\(^1\) This aspect of hegemonic stability theory has held enormous sway in and beyond the discipline, especially in the United States. For a critique as it applied to the GATT, see Tussie (1991), Jarrod Wiener (1995)
Rival States, Rival Firms (1991) became one of her major books. It deals mainly with structural change brought about by the internationalization of production and its implications for developing countries. The book draws attention to country-specific political economy structures and influences. The question on how internationalized production changed policies and the processes of bargaining between host governments and foreign firms was taken further and at country level. The book is based on case studies of Kenya, Malaysia and Brazil. In other words, although Strange was no doubt most interested in overall international structural change, it is not necessary to dig out the odd piece here and there to find ideas about the world today, the “emerging developing” countries and their new international projections on the global/regional scene. (Underhill, 2003)

As she went on to look at Brazil, Kenya and Malaysia Strange (1992) presents her case about the implications of taking part in the international market and the pressure that globalization puts on countries to compete with each other. These new structures bring more actors in to the market, since both states and companies will be forced to take part. Though states and markets remain on the see-saw they will now compete together in world markets. Both countries and firms are forced to seek markets abroad, to be able to regain and uphold their profits and investments. Diplomacy has changed since states have to negotiate with companies to place their production in their countries while they also persuade national companies to take advantage of world markets. The international market is no longer the tight preserve of American TNCs.

Strange would hasten to add that the nature of effective state intervention has changed, too: it is no longer about governing business (or markets) and bargaining, it is about offering business collaboration, stability and favorable conditions. As countries improve their position in the global market they also internationalize their purview as a by-product their structural power. The regional level of analysis adds an exciting dimension to the study of international political economy for long over-focused upon Western states and societies. Governments’ view of the world and their policies reflect geography as much as anything else. While European empires on one hand enshrined at one time the balance of power and later supranationalism, the United States on the other, the Monroe doctrine and the Free Trade Area of the Americas (FTAA), most other countries also come up with ways of dealing with neighbours perhaps less doctrinaire, and mostly understudied. How the business-power nexus interacts would be a distinctively Strange question, a nexus that I will try to unpack and deconstruct for the case of Brazil. China’s appetite for raw material, India’s support for information technology and services are on record, but studies of Brazil remain consumed by realism and shy to uncover that business-power nexus. This coming together remains to be done; it is of particular relevance for comparing emerging powers.
and to show what cracks there may be making and what holes the may be poking in entrenched hierarchies, issue by issue or region by region.

3. Brazil: a regional power under the Strange template

The Southern character of Brazil’s foreign policy has attracted some attention. An influential literature addresses state capacity in the Brazilian case, coming to somewhat contradictory conclusions. Some draw attention to the Brazilian state’s difficulty in advancing industrial or trade policies (Evans 1995; Cason and White 1998), especially as compared with Asian nations, while others point to its policy success as a developmental state, relative to its Latin neighbors (Sikkink 1991). The state bureaucracy at the federal level does quite well in regional rankings, outscoring all other Latin American nations in a variety of studies (Zuvanic, Iacoviello and Rodriguez Gusta 2010). However, the failure to unpack the business-state nexus leads to a blind spot in the microfoundations of foreign policy and political action writ large. While the state has been active in building and holding together the relationship with local firms, such tight micro-level relationships have changed the nature of the state and its interests abroad. Brazil’s local firms are concentrated in natural resource based sectors and in services, especially finance and construction.

Yet the most striking trend is the internationalization of big business. Outward FDI increased every year since 2002 to a record US$ 45 billion in 2007 before the Great Recession. In 2006, Brazil ranked sixth among developing countries in terms of outward FDI stock. In the same year, outward FDI flows were greater than inward FDI for the first time ever. By 2005 Brazil had some 165 TNCs; this number grew to 226 by 2008. (Doktor, 2010). While there were thirty four greenfield projects undertaken in 2005, these had more than doubled by 2008. High levels of FDI were maintained through to 2008 and later slowed down in the context of the global financial crisis. These firms also participated in cross-border mergers and acquisitions in both advanced and developing countries. In 2007, Brazilian firms spent a record US $1.37 billion on M&A abroad.

Most of Brazil’s largest firms operate in natural resource based sectors (mining, energy and agricultural commodities) or in services (mainly engineering and construction, with an incipient role for financial services). The big names included mining giant Vale (with investments in 33 countries) ranked 12th among developing country based TNCs in terms of foreign assets; energy sector state-owned enterprise PETROBRAS ranked 14th; and the steel manufacturer Gerdau ranked 28th. Other big business names with an international presence include meat processors JBS Friboi and Sadia-Perdigão, drinks company AMBEV, engineering and construction firms Odebrecht and Camargo Corrêa. The

---

2 In stark contrast in other parts of the world, Frieden (1991), Strange and Stopford (1991) place interest groups at the centre of policy. Frieden admits, "I simply assume that in order to maximize their political survival politicians and policymakers must respond to politically powerful groups in society" (1991: 27, check pp. 39-40)
largest Brazilian TNCs earn 25% of their revenues abroad, hold 28% of their assets abroad, and 27% of their employees abroad. (Doktor, 2010) Vale is the second largest mining company in the world; it produces 15% of global iron ore and is the leading global exporter. JBS Friboi is the world’s largest firm in the beef sector. These firms are powerful actors in global affairs, but in particular in regional politics where most of their interests are deployed and where they exert their influence in different fields, in different manners and with different outcomes. An estimated 80% of Brazil’s foreign direct investment (FDI) is concentrated in South America.

The expansion abroad is a consequence of the shrewd management of the state-firm relationship: it is cemented by the critical role of the state in providing the right incentives, export financing and the long term credit policies of the Brazilian National Development Bank (BNDES) able to handpick sectors for internationalization, as will be fleshed out in more detail in the following section of this paper. But foreign economic policy and geopolitics cannot be fused together in simple manners; business interests do not translate easily, neatly or completely into state preferences. Brazil has indeed been most assertive in establishing international political and economic credibility in regional issues and very particularly in the WTO, today headed by a Brazilian diplomat. Hurell and Narlikar (2006) argue that consultations with interest groups have, at most, played a reinforcing role. Yet, closer to the Strange template, there were historical market positions and readymade institutions, i.e. structural capabilities that became part of state actions all feeding into strategic calculations.

When the US strove to dictate new rules of engagement via the Free Trade Area of the Americas (FTAA), the government reorganized Foreign Affairs and created a special channel, Secao Nacional del ALCA (SENALCA) for dialogue with the main chambers of commerce and parts of civil society. Foreign Affairs is renowned as a structure of excellence at home and abroad. The structure was emulated for the negotiations with the EU under the name of SENEUROPA. As pointed out by Schneider (2004), executives tend to be especially interested in support and aggregation when they are in the midst of risky initiatives to change overall development strategies and call on business associations for various types of assistance, from very simple and discrete tasks, like getting more information on the sector of the economy that is the object of policy making, Gradually the economic area of Foreign Affairs gained relevance, both in terms of numbers and influence.

A second step to nest business interests in foreign economic policy led to the reconfiguration of regional governance in a South America. South America was meant to be set apart from the wider ‘Latin’ America. In the case of Brazilian involvement in its region, this is a major turning. Indeed, for a good part of its history Brazilian identity was not based on the idea of “Latin America” an idea in which it did not seem to belong. (Quijada, 1998) To stop the advance of US corporate drive via the FTAA, in 2000 former President Cardoso (1995-2002) invited all South American heads of state to the first-ever summit of its kind and later sponsored a fusion between Mercosur and the Andean Community of Nations to launch a South American Community of Nations. The South American Presidential Declaration that came out of this meeting led to the creation of Initiative for the Integration of Regional Infrastructure (IIRSA). The operation had a
twofold rationale: first, to categorically bury the U.S.-led FTAA by substituting it with a more manageable process for the safeguarding of Brazilian interests in South America, a region which as such has weaker economic ties to the U.S. than the northern part of the continent; second, to exclude Mexico from a potential competition for leadership.

Closely tied to the all the above was the idea to create and preserve the platform of burgeoning Brazilian business in regional infrastructure and avoid the opening of the public procurement marker to American bidders. The IIRSA initiative became a key tool of Brazil's set of foreign policies for South-America. President Lula, Cardoso's successor, despite the fact that his social base came from the Workers Party and not Brazilian business as in the case of Cardoso, then stepped up the strategy, leading to the creation of the South American Community at the Cuzco presidential summit of December 2004. The name later became the Union of South American Nations (UNASUR), the constitutive treaty of which was signed in Brasilia in May 2008. The regional redefinition has been a major feature in the hemispheric political economy over the last decade thus leaving contending Mexico out- or with reach only to Central American and the Caribbean.

5. Internationalization: With the Help of a Spending Agency

Although it is common to credit former President Chavez with the shredding apart the FTAA in 2005, the ground had been solidly laid by Brazilian business interests and former President Cardoso. In the run up to the final collapse of the FTAA, the Belo Horizonte Summit of the Americas in 1997 hosted by Cardoso was a foretaste of things to come. Not only did President Cardoso then make crystal clear that the FTAA would not be allowed to step over subregional agreements, but the event was also a turning point for the influence of Brazilian business. The summit of governmental leaders was held with a parallel meeting of a Business Forum, which brought together heads of state with business leaders. The summit helped to trigger the creation of an official partnership between Brazil’s industrial and agricultural sectors under a new all-encompassing Coalizão Empresarial Brasileira. The Coalizão was an institutional novelty not only because it put together different sectors, breaking with Brazil's sectoral tradition for interest articulation, but also because it focused on a single all encompassing issue to do so: trade negotiations. The Coalition assembled around 166 business associations and enterprises under a single umbrella, including the Confederation of Industries, the Confederation of Agriculture, the Confederation of Commerce, federations of industries of different states such as the State of Sao Paulo Federation of Industry, unions such as Forca Sindical, and sector-specific associations. The Confederation of Industries assumed the leadership within the Coalition; at the subsequent ministerial meeting in Buenos Aires in 2001, the Brazilian delegation rejected upfront the U.S. proposal to bring forward the deadline for concluding an FTAA.
Business rose to become a privileged interlocutor during the mandate of President Fernando Henrique Cardoso. Under President Lula´s administration that came into power in 2002, ideology changed but the drive remained. The new administration built on the trend facilitating and even improving access through both formal and informal means of consultation. But it was redirected to South America. Celso Amorim, the foreign minister, was clear time and again, “Our first and foremost priority is South America”.3

In trying to face the realpolitik dilemmas of avoiding open confrontation with powerful, established commercial interests, the institutional channels such as SENALCA or SENUROPA were faded out, the two negotiations gradually shelved, and privileged and informal access was opened instead. While think tanks such as ICONE (representing global agribusiness) or CEBRI (strongly supported by large exporters) tried to promote a cosmopolitan view within Brazil, in the absence of privileged intermediation through associations, there were strong incentives for individual lobbying. The ever closer contacts with energy and construction firms with strong regional interests were favoured over others. As one prominent industrialist put it, “I don't need FIESP [the Confederation of Industries and the State of Sao Paulo], I call whomever I please” in the government” (quoted by Schneider 1998: 11 ) Shaffer, Rosenberg and Ratton Sanchez (2008) also show how government-business partnerships were central for trade policy formation and trade dispute settlement in the WTO. The program was started in 2003 and starting in 2005, it was expanded to include interns from Brazil's largest industry associations, such as FIESP and CNI. The authors also point out that university departments and course offerings have changed significantly in the last decade in response to the phenomenon of globalization, the opening of the Brazilian economy, and the increased focus of Brazilian policy on trade-related matters as a strategic concern.

In the new political climate the government extended links to Kirchner, Chavez, Morales and made overtures to civil society networks and trade unions. But the business constituency retained pride of place. At the time of Argentina’s default in 2001 Brazilian investors were encouraged to take the leap and purchase a string of Argentinean assets. In May 2002, AmBev, a leading beer and beverage producer, unveiled plans to purchase a one-third share of Argentina’s top beer-maker, Quilmes, a deal valued at US$700m. That was the first major foreign investment going into Argentina after the 2001 default. That same year, Petrobras, the Brazilian oil company, bought a controlling stake in Perez Companc for some US$1.1 billion.

The Banco Nacional de Desarrollo (BNDES), created a special credit line in 2002 to support outward FDI, which is granted on condition that within six years the beneficiary increase exports by an amount equal to the credit. This instrument was first used by Friboi in 2005 to buy the Swift meat plant in Argentina. Friboi became the leading world exporter of meat. Some of the projects under the IIRSA umbrella as well as the projects under the Fondo para la Convergencia Estructural del Mercosur (FOCEM) came under the

---

responsibility of the BNDES. BNDES portfolio adds up to a total of 55 bn in loans, larger than the World Bank’s (WB). The value of BNDES’s disbursements is considerably larger than those of the WB. In 2010, for example, the value of loans was more than three times the total amount provided by the WB.

Between 2003 and 2009 the BNDES approved about 100 projects totaling about US$ 15.6 billion, mostly to build infrastructure supporting the internationalization of major national contractors and engineering services such as Odebrecht, Camargo Corrêa and Andrade Gutierrez. Internationalization receives significant interest rate subsidies. The Treasury raises funds at an interest rate of 11.7% and BNDES lends on at 6%. While three quarters of the bank’s disbursements go to large companies, the bank receives a hefty US$10 billion subsidy a year from the Brazilian government. In the words of Alcides Costa Vaz (2007: 34),

“Brazilian protagonism […] is interpreted politically as an expression of economic expansionism, above all when the involvement of the National Bank of Economic and Social Development and […] the performance of the large civil construction companies and Petrobras are at stake.” (my own translation)

In addition one of the measures of the Política Industrial Tecnológica e de Comércio Exterior launched in March 2004 is the creation of 38 multi-dimensional external trade units within the Banco do Brasil to support the internationalization of national firms (Goldstein, 2009). Although South America was the pet region at a time when regional public investment reached record levels thanks to the commodity boom, other opportunities were not neglected. In November 2005, the Programa de Incentivo aos Investimentos Brasileiros na América Central e no Caribe was launched to stimulate Brazilian investment in Central America and benefit from the free trade agreement between Central America and the United States (CAFTA-DR).

With the relentless push abroad, the face of South America and the content of regionalism veered from trade to investment and capturing government contracts, especially in the construction and energy sector. The construction firm Odebrecht is a leading participant in most of the Bank’s projects in South America, being the main beneficiary in the IIRSA contracts so far. The Odebrecht holding one of the three major industrial firms represents the prime example of a multinational favoured by recent administrations. It ranks 16th among leading Latin American firms, it operates in 18 countries from where it exports to a total of 60 countries. Almost three quarters of its income (in the engineering arm of the firm) come from abroad and 50% of its workforce resides abroad, making it the most

---

4 The interest rate on export credits offered by BNDES to EMBRAER, a leading aircraft maker, was the subject of a protracted trade dispute between Brazil and Canada (in defense of Bombardier) For the importance of export credits as a strategic trade policy, see Goldstein and McGuire (2004).

5 In early 2012 President Dilma Roussef stepped up the trend in the Caribbean and announced port investments in Cuba was valued at US $800 m in a visit to that country. The port is meant to be a hub to take advantage of the enlargement of the Panama Canal and the growth of Atlantic trade with China.
internationalized of Brazilian firms. A significant part of its expansion abroad has gone to Venezuela, where it participates in five major contracts, such as bridges, the Caracas metro, hydroelectric power plants, etc.

Successes cannot be expected to continue smoothly into 21st century without traumatic institutional transformation. Relations abroad are not necessarily sweet and tender. In September 2008, President Rafael Correa expelled the managers of Odebrecht from Ecuador, accusing the company of bribery and of constructing a flawed power plant. Not only did Correa declare that Ecuador would not compensate the company for what it had already built, but he also refused to repay the US$ 243 million loan that Brazil’s national development bank, the BNDES, had lent for that propose. A similar conflict is simmering between the Argentine government and Vale’s interruption of investment in the country in 2013.

6. The Rise of Big Business— but not the Retreat of the State

In the line of the above discussion, clearly both state and business have been intimately engaged with the process of internationalization. In a linked step strategy, naturally not devoid of conflict, government and private business have reciprocal and overlapping, albeit not identical, interests in carving out a space to internationalize. The mission of the BRICS Bank and the Bank of the South follows in the same direction conscious of the value of long term credit as a power resource and towards seizing infrastructure expenditures abroad. It is thus been the argument of this paper, that we need to see how firms fit, how they are involved in policy and how emerging country governments rely on corporate interests to stretch and reach abroad. Beyond this exercise at establishing both specificity and material bases the question of who is in the driver’s seat at specific conjunctures, is quite another one: whether it is government trying to regulate and direct the market in pursuit of government defined objectives or the expansion of business opportunities having an impact on state objectives. The perspective that I present here is not one of triumphalism but of the need for IPE to move on and speak to the new global landscape. This narrative is certainly consistent with the “institutional turn” in development theory, which emphasizes that functioning markets require a complex of underlying institutional arrangements in which the state is likely to be central. But development theory concentrates mostly in the domestic state-society complex. This is a powerful argument for deepening this initiative in IPE and expanding it to other contexts in order to generate a discipline-wide research program. With a little digging and prodding, a rich research agenda could be developed that is not only broad-brush and cross-national, but also deep, rich, and context-specific.

In any case the dense networks of ties connecting the state to industrial elites for the strong projection abroad supports many elements of the Strange template; it needs much wider reconsideration before discounting its value beyond the core. The approach proposed here argues that there are rich kernels that can be taken up in the present
transition when a leading tier of developing countries are making silent leaps into specific global niches.

Internationalization marks a new stage in development. Fiscal solvency has changed the character of the state enabling it to provide centrally mandated subsidized credit. We are not witnessing a powerless state any longer in this tier of countries but one bouncing back and reaching out. Further research should be able to explore how other local champions change, guide or condition state preferences. On the back of such an approach we would not only be taking Strange insights to this tier of countries but also opening up the field of IPE beyond the core to shed light on the emerging holes and cracks in parts of the system and the fresh imperatives that might have long term impact.
Bibliography


Cutler, Claire, Haufler, Virginia and Porter, Tony (1999), (eds), Private Authority and International Affairs, Albany, State University of New York


Goldstein, Andrea (2009), Multinational Companies from Emerging Economies: Composition, Conceptualization and Direction in the Global Economy, Palgrave Macmillan.


