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Multilevel Governance and Paradiplomacy: Lessons Learned from the Experience of InvestSP

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Abstract

Motivated by the growing phenomenon of Local Investment Promotion Agencies (IPA) and their paradiplomatic involvement in international negotiations, this paper aims to analyze the role that these agencies have been playing in Brazil and the governance model they adopt. Through the case of InvestSP, the most mature Brazilian IPA, this study examines the topic based on primary documentation and the perspective of various government representatives. As main results, a theoretical framework was proposed to help map the logic of operation of a subnational IPA, its structure, and motivators. Additionally, it was evidenced that paradiplomatic actions have advanced independently by local powers, without effective coordination from the federal government, characterizing a process of (dis) diplomatic governance and institutional inertia.

Keywords: Investment Promotion Agencies (IPAs), Paradiplomacy, Multilevel Governance, InvestSP, Diplomatic Governance.

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Introduction

The State plays a crucial role in inducing economic growth, generating employment, income, and fostering the development of new markets and products. Through public policies, it can mobilize and direct investments, foster technological innovations, and act as an entrepreneur, establishing a symbiotic relationship with the business sector (Mazzucato 2014). One of the state mechanisms to mobilize investments is incentives of various kinds, such as tax reductions, fiscal subsidies, special credit lines, and regulatory and informational measures. Such strategies aim to reduce normative barriers and informational asymmetries (United Nations Conference on Trade and Development 2018). In this

context, the diplomatic body plays a crucial role, utilizing these tools as powerful instruments to facilitate international trade negotiations and attract foreign direct investment.

Historically in Brazil, the responsibility for attracting and promoting investments has fallen primarily on the federal government, especially through the Brazilian Trade and Investment Promotion Agency (Apex Brasil), which has been active since 1997. However, in recent years, provinces and municipalities have begun to create their own structures to fill gaps left by the federal government in this agenda. This model, already widely tested and approved by foreign subnational entities around the world, was put into practice in Brazil starting in 2008 with the creation of the São Paulo State Agency for Investment Promotion and Competitiveness, an entity established by the State Government of São Paulo through Decree 53.766 in 2008.

Currently known as InvestSP, by 2024 the agency had over 100 employees and 4 international offices located in Shanghai, Dubai, Munich, and New York, serving as regional hubs for attracting investment and promoting the international trade of São Paulo businesses. Through market intelligence activities and business assistance, InvestSP services aim to simplify processes, reduce bureaucracy, and create incentives to attract investments and promote sustainable regional economic development.

The results presented by InvestSP over the years have drawn attention from other provinces and municipalities regarding the importance of institutionalizing the agenda of investment attraction and trade promotion, making them permanent within governments. Consequently, in the years that followed, several other Brazilian subnational agencies were created, such as Invest Minas, Invest Paraná, Bahia Invest, Invest Piauí, Invest Rondônia, Invest Amazonas, Invest Mato Grosso, Invest Recife, São Paulo Negócios, Invest Curitiba, Invest Rio, among others. Nevertheless, the challenges for InvestSP and other Brazilian subnational Investment Promotion Agencies (IPAs) are significant, mainly because most of these agencies still have immature structures and are highly linked to government secretariats, thus being susceptible to the impacts of regional political fluctuations (Talan and Sharma 2019).

In this context, this work aims to analyze the role of Brazilian provincial and municipal IPAs in the exercise of paradiplomacy in international trade negotiations. Through a case study focused on InvestSP, the goal is to understand the adopted governance model and the forms of interaction with other local and national agents, evaluating whether such interactions are conflictive or cooperative. In order to allow the triangulation of data and comparison with different models adopted by other IPAs, the research involved the perspective of representatives from the province and the city governments of São Paulo, as well as contributions from subnational, federal, and international entities, totaling 34 in-depth interviews. The results highlight that, although InvestSP is a mature and successful example within the national territory, there is still a long way to go in terms of the institutional maturity model adopted, especially when compared to international examples studied like Invest Lisboa, Koln Business, Business France, KOTRA and Swiss Next. Thus, this study contributes to the improvement of empirical knowledge about subnational IPAs in the exercise of paradiplomacy,

identifying existing challenges and dissonances, which could support public managers in planning their activities and improving their management model, as well policymakers in developing public policies that better support the activity of subnational IPAs, especially from emerging regions.

In addition to this introduction, the article is divided into a section dedicated to the theoretical background, divided into two subparts. While the first is dedicated to exploring foreign policy in the context of public policies, the second conveys to better understanding the subnational IPA model. Subsequently, in the methods section, the research design, data collection instruments, and analysis are detailed. Then, the research results are presented and discussed, focusing on the case study of the São Paulo province IPA, which has been used as a benchmark by other Brazilian provinces and cities by playing a prominent role in recent years, especially in the context of the COVID-19 pandemic, leading international negotiations for vaccines. Finally, the main challenges identified in the field of governance are highlighted, showing that paradiplomatic actions have advanced most of the time independently by local authorities, without effective coordination from the federal government, characterizing a process of (dis) diplomatic governance and institutional inertia.

Literature Review

Paradiplomacy

After the end of the Cold War in the 1990s, the dominance of nation-states in the international system began to weaken, and “new actors” were incorporated into global governance structures, assuming more relevant roles. These actors include multinational companies, non-governmental organizations, multilateral organizations, and subnational governments, breaking away from the state-centric logic and dispersing power relations as they were known until then. This process aligned with the growing relevance of social, economic, and environmental issues on the international agenda, blurring the distinction between internal and external matters. Agendas became cross-cutting, produced from symbiotic interactions between domestic and international arenas, involving actors from different spheres and operating logics (Putnam 1988).

In this context, several authors (Milani and Pinheiro 2013; Tavares 2016) have pointed to the convergence of foreign and public policy areas. This convergence occurs not only in the analytical field, combining tools and theoretical-methodological constructs, but also in the practical field, involving shared prerogatives related to the *modus operandi* in formulation, decision-making stages, and management mechanisms such as participation, accountability, and governance. Thus, understanding diplomacy from its multiple layers becomes a major challenge because it is the way politics is operationalized across different instances and spheres of power. It is in this context that paradiplomacy emerges as a new field of research (Kuznetsov 2014).

The first studies concerned with understanding the influence of subnational entities in international relations were observed in the 1970s, such as the work of Keohane and Nye (1974). The authors inaugurated what came to be understood as the first phase of paradiplomacy, stimulated primarily by the phenomenon of the new federalism present in the United States and Canada at the time, where power sharing among various entities within the same territory was foreseen. This discussion, prominent in the North American case, serves as a basis for discussion to understand, from a North American perspective, how subnational governments could begin to assume international competences, a logic that would soon be replicated in Europe as well (Lyon and Atkey 1970).

From the 1980s onwards, however, studies in the field began to focus on conducting empirical work capable of making a theoretical contribution to the refinement of the term. Until that moment, paradiplomacy was thought of as a construct derived from “parallel diplomacy” (Soldatos and Michelmann 1990). Thus, a possible interpretation of the term lies in the international actions of subnational governments that take a position parallel to the interests of a national government, acting independently to achieve their own objectives and seize opportunities (Keating, 1999).

However, other authors, like Hocking (1993), criticize the idea that actions of paradiplomacy by subnational agents necessarily need to go against the official position of national institutions. Although acknowledging that at times diverse objectives can be a source of conflict between the national and regional levels, for the author, this does not always have to be true. Since subnational governments can assume different roles in negotiations, often serving as allies in the pursuit of national objectives, Hocking (1993) proposes another interpretation of the term, which he calls “multilayer diplomacy”. An alternative term for paradiplomacy was coined by Cornago (2010) as “microdiplomacy”. Within the context of microdiplomacy, one of the main reasons why subnational entities become involved with international partners is because central authorities have failed to promote local interests externally.

This second phase of paradiplomacy is marked by focus shift from North America to the European continent, precisely because of the importance that the external agenda of subnational governments gained following the dismantling of the Soviet Union (Makarychev and Perovic 2000). The political changes that would follow in Eastern Europe and the rest of the world inaugurated a third phase for paradiplomacy from the 2000s onwards. This new phase is characterized by a context where an increasing number of non-Western and emerging countries started to contribute to global politics and economics. At this point, it was possible to observe a growing number of cases in Africa (Nganje 2014), Asia (Mattoo and Jacob 2009), the Middle East (Kuznetsov 2014), and South America (Senhoras et al. 2008), which began to be studied due to the advancement of globalization processes worldwide and the connections of these peripheral agents with the center of the system.

Further delving into the realm of paradiplomacy as both a foreign policy and a facet of public policy unveils the interplay between subnational entities and the global stage. Authors like Milani and Pinheiro (2013), have shed light on the evolving dynamics of paradiplomacy, emphasizing

its significance in reshaping traditional notions of diplomacy and governance. More recently, the paradiplomacy understood as the international engagements of subnational governments continues to be a focal point of scholarly inquiry due to the shifts it has been promoting in the global governance structures (Soldatos and Michelmann 1990). While earlier studies laid the theoretical groundwork and examined the historical antecedents of paradiplomacy, contemporary research endeavors to enrich our understanding through empirical analyses and case studies.

In the current phase, competition between different subnational entities in international agendas became evident, even if they came from the same country (Kuznetsov 2014). The increasing complexity of these relations once again opened space for discussions about how paradiplomacy could advance, while structures of international relations in the major cities and states of countries around the world were being created. Within this context, new concepts such as multiscale paradiplomacy (Jackson 2017) are presented as a way to represent the presence of international intercity networks or “city diplomacy”. One such practical example can be seen in the C40 group of the world’s 40 most important cities, where their leaders periodically meet to discuss the role of major cities in global climate transformation (Acuto and Ghojeh 2019), for example. Thus, city diplomacy is interpreted as a valuable tool in solving collective problems that would originally be the responsibility of states, but whose negotiations struggle to advance due to diverse interests (Chan 2016).

As cities, provinces, and other subnational players increasingly assert themselves as key actors in international relations, the evolving dynamics of the 21st-century global landscape have led to a renaissance in urban governance worldwide (Acuto and Ghojeh 2019). Thus, the reinvention of cities in the current century signifies one more paradigm shift in international relations, highlighting the increasing significance of subnational actors in shaping the global agenda. The evolving complexity of the discussions over paradiplomacy still poses challenges in arriving at clear-cut definitions for the term, opening space for continued theoretical refinement and empirical investigation of the field (Tavares 2016).

Subnational IPAs

The rise of subnational entities on international debate agendas has transformed the way that governments, businesses, and societies relate, especially in a context where traditional diplomatic mechanisms are no longer sufficient to address how international political and commercial negotiations are conducted. Similarly, the way of thinking about and attracting foreign direct investment (FDI) has changed, being no longer solely the responsibility of national-level institutions to consider this agenda (Lewis and Whyte 2022). Within this context, it becomes increasingly essential to attract international investments to local economies to create jobs, promote businesses, develop technologies, and overcome economic challenges in interdependent markets (Choe 2003). A key driver of these transformations are the Investment Promotion Agencies,

a phenomenon that gained importance from the 1990s onwards with the work of Wells and Wint (1990), who analyzed the actions implemented by countries in attracting foreign investment to their markets.

Over the years, the concern with institutionalizing this agenda has advanced, and according to a survey by the World Association of Investment Promotion Agencies (2019), it is estimated that at least 80% of countries worldwide have some type of IPA in their territory. Nevertheless, most examples of IPAs today still focus on fostering actions at the national level, leaving room for contributions when it comes to subnational IPAs (Ni et al. 2017). In Brazil, the phenomenon of subnational IPAs is still recent, with the first example only appearing in 2008 with InvestSP, more than a decade after Apex Brazil (1997).

Although emerging markets have a lot to evolve in terms of investment promotion agenda when compared with developed countries, IPAs remain essential to these regions due to their ability to lower transaction costs simply by disseminating information and offering services that were not previously available to foreign firms, with direct impacts on entry costs into foreign markets and the so-called liability of foreignness (Zaheer and Venkatraman 1995), understood as the additional cost of doing business in a particular market simply for being a foreign company. Since most international investment still flow from the center to the periphery, and the differences between the markets of these regions in terms of culture, politics, and economics are considerable, it is interesting to observe IPAs as facilitators of this process, as they reduce both the liability of foreignness and other associated terms, such as the observed psychic distance (O'Grady and Lane 1996), also concerned with reducing the different market distances between two countries or regions.

However, IPAs are not always successful, since the challenges for their operation are distinct. A common problem we observe is that many of them come from emerging countries trying to copy strategies adopted by IPAs from developed countries (Anderson and Sutherland 2015). Due to the vastly different contexts between these regions, if an identical playbook is followed, the chances of failure can be significant. Both InvestSP and the majority of other subnational IPAs residing in Brazil that participated in this research were mirrored in international benchmarks, which in turn, in addition to living in a different socioeconomic context, have already reached a certain type of institutional maturity that allows them to operate with greater autonomy, detached from changes in government cycles. In most studied international subnational IPAs, such as Invest Lisbon, Klón Business, and Swiss Next, despite having emerged from the public sector, over the years they managed to attract new sources of revenue from associate private companies and industries, which in turn, share the agency's strategic decisions with public bodies, in a type of hybrid governance model. This type of hybrid management present in the most mature models, although partially observed at InvestSP, is still an achievement to be conquered by most other Brazilian examples.

In addition to the factors already highlighted, another challenge that many IPAs have faced recently lies in regional competition. Even if an investor has chosen a specific country, different

regions may offer distinct advantages for companies looking to establish their businesses, whether in terms of taxes, infrastructure, or logistics (Lewis and Whyte 2022). However, this sub-regional competitiveness does not necessarily have to be seen as inherently bad, as it forces different regions within the same country to become more competitive and attractive to foreign capital, with positive impacts on the general national productivity (Fernández et al. 2021).

Method

The research aimed to analyze the role played by Brazilian provincial and municipal IPAs in the exercise of paradiplomacy in international trade negotiations and the promotion of FDI. As complementary objectives, the study sought to understand the governance model adopted and the forms of interaction with local and national agents, evaluating whether such interactions are conflictive or cooperative, coordinated or not. The underlying theoretical debate throughout the study concerns the treatment of foreign policy within public policies, that is, how the policy resulting from actions of multiple actors operating at different levels of power and at federal levels, breaks away from the illusory centrality of foreign policy – a product of coordinated and concentrated action by the diplomatic corps that responds to the aspirations of the head of state.

Thus, for empirical analysis, managers of 20 Brazilian IPAs operating at the province, city, and national levels were interviewed (Table 1) with the purpose of observing the points of coordination and conflict between these agencies. However, for analytical detailing, we chose to delve into the case study of InvestSP, as it was identified through testimonies as a national benchmark case. Additionally, to ensure triangulation of empirical data, annual reports from InvestSP, Management Agreements, as well as previous scientific production on the exercise of paradiplomacy by the city and province of São Paulo were also analyzed. Another important source for data collection was the World Association of Investment Promotion Agencies, a global reference point for cooperation among IPAs worldwide, aiming to stimulate the exchange of experiences and best practices in investment promotion. WAIPA is the main organization producing documents and studies aiming at community interested in FDI, including a toolbox to support the construction and development of IPAs in different locations around the world. However, this organization focuses on generating data and reports regarding IPAs operating at the national level in various countries, but has little scientific material produced on IPAs operating at the local level, as proposed by this research.

Table 1 – Interviews

No.	Position	Agency	Time (min)
1	Institutional Affairs Executive Manager	SPNegócios	52
2	Chief Operating Officer for the Middle East and North Africa	InvestSP Dubai	62
3	Chief Operating Officer for the United States	InvestSP New York	62
4	Chief Operating Officer for the Middle East Office	ApexBrasil Dubai	34
5	Chief Operating Officer for the European Office	InvestSP Munich	55
6	Director of Investments and New Business	SPNegócios	68
7	Chief Operating Officer for the European Office	ApexBrasil Brussels	54
8	International Operations Manager	InvestSP	46
9	CEO	Invest Paraná	42
10	Advisor for Strategic Affairs	City Hall of Rio de Janeiro	25
11	Director	Invest Recife	63
12	Director of Projects	Invest Lisbon	47
13	Director of Investment Attraction	Invest Minas	42
14	Superintendent	Secretariat of Economic Development of the State of Bahia	48
15	Director of Territorial and Sectoral Development	Secretariat of Economic Development and Labor of São Paulo	59
16	Public Policy and Government Management Analyst	Secretariat of Economic Development and Labor of São Paulo	59
17	Trade Officer	InvestSP Shanghai	42
18	Head of Innovation	Sebrae	49
19	Coordinator of Competitiveness	Secretariat of Economic Development of the State of São Paulo	57
20	International Relations Advisor	State Superintendence of International Relations of Rio de Janeiro	20
21	Head of Business Development and Innovation	Invest Piauí	41
22	CEO	Invest Rio	50
23	Deputy Secretary of Economic Development and Innovation	Secretariat of Economic Development, Innovation, and Simplification of Rio de Janeiro City	50
24	Communication Analyst of the International Cooperation Division	Sebrae	60
25	Communication Analyst of the International Cooperation Division	Sebrae	60
26	Director of Economic Development	Invest Salvador	44

Continue

Continuation			
27	Economist of the Municipal Secretariat of Development, Employment and Income	Invest Salvador	44
28	Coordinator of International Relations	Invest Rondônia	45
29	Special Advisor	State Secretariat of International Business of São Paulo	34
30	Investment Manager	ApexBrasil Brasília	30
31	Commercial Representative	KolnBusiness	57
32	Coordinator of the Digital Commission of the France-Brazil Chamber of Commerce	Business France	44
33	Market Analyst	KOTRA	47
34	Manager of the Innovation and Startups Program	Swiss Nexx	26
Total			1,618

Source: prepared by the authors

The interviews were conducted online, live, using the Zoom video conferencing platform, always with a semi-structured questionnaire with open questions applied by a senior investigator. The interviews were recorded with the consent of the interviewees, whose names were not disclosed for confidentiality reasons. Subsequently, the recordings underwent a transcription process for further analysis and data coding. For the analysis and coding, the data were distributed into the following categories: 1) organizational structure; 2) scope of action; 3) governance model; 4) paradiplomatic activities; 5) actions to promote the Sustainable Development Goals. This last category, in particular, was inserted retrospectively into the study, considering the trend identified in global debates on IPAs. The databases provided by the World Bank and UNCTAD were also used, as these are institutions that produce global reports aiming to understand international investment flows and develop business environment analyses. Within these entities, programs and debates on the main global trends in the area are available, with emphasis on the newly created UNCTAD platform “Investing in the Sustainable Development Goals”, which aims to support professionals through specific tools and content by promoting and facilitating investments to meet the Sustainable Development Goals (sustainablefdi.org).

Results

Organizational Structure, Scope of Activities, and Strategic Mission

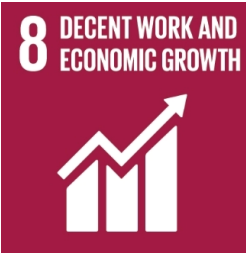
Established by Decree No. 53,766, dated December 5th, 2008, the São Paulo Agency for Investment Promotion and Competitiveness (Invest São Paulo) was created as an Autonomous Social Service, i.e., a non-profit legal entity inspired by its national-level counterpart, ApexBrasil. Through

management agreements with the São Paulo State Secretariat of Economic Development, the agency has a set of goals aiming to promote economic development, job creation, and enhancing the state’s competitiveness through innovation and sustainability.

Thus, InvestSP’s role is to prospect new businesses for the province, either by attracting investments to the region or promoting exports from companies located in São Paulo. Among its activities are the provision of free training capable of promoting the internationalization of companies, market intelligence, investment attraction activities, promotion of project portfolios, urban marketing of the province abroad, organization of missions, and commercial agreements. Additionally, the Agency also engages in policy advocacy actions with different government structures to identify possible obstacles affecting companies’ competitiveness and create alternative paths to mitigate or solve these barriers, making the business environment more attractive (Agência Paulista de Promoção de Investimentos e Competitividade 2023a).

Regarding the themes addressed by InvestSP, the main focus is on promoting investments in an economic environment geared towards green economy, technological innovation, business training, internationalization, and development of areas with low productivity rates (Agência Paulista de Promoção de Investimentos e Competitividade 2023b). Many of these policies have a specific orientation towards startups and the creative economy, with an emphasis on the formation of Smart Cities (Thornbush et al. 2013; Nam and Pardo 2011). In the 2023 Report (Objective 10 - Goals and Results of the Management Contract), InvestSP highlights its role in stimulating the promotion of the ESG (Environmental, Social, and Governance) agenda within companies’ investment portfolios. This approach is aligned with the transversal and strategic objectives established by the São Paulo State Commission for the Sustainable Development Goals. Other objectives also aligned with the UN SDGs can be seen in Table 2.

Table 2 - InvestSP Objectives vis-à-vis UN 2030 SDGs

InvestSP Management Contract Objectives	Sustainable Development Goals Agenda 2030	Referential Image
Objective 1. Attract new investments, national or foreign, as well as retain and stimulate the expansion of already established companies.	Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.	
Objective 2. Prospect opportunities for investments in Brazil and abroad.		
Objective 4. Promote the image of the state as an investment destination in Brazil and abroad.		
Objective 5. Support the exportation of São Paulo’s products.		

Continue

Continuation

Objective 3. Assist São Paulo municipalities in serving investors and developing the business environment, especially in less favored regions and those farther from the capital.

Reduce inequality within and among countries.



Objective 6. Promote investments in research, development, and innovation and generate new technology-based businesses in São Paulo.

Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation.



Objective 9. Implement a sectoral competitiveness strategy in São Paulo's economy to attract investments in the 5th-generation information and communication technology segment.

Make cities and communities more inclusive, safe, resilient, and sustainable.



Objective 10. Implement ESG strategies and actions in attracting investments and enhancing competitiveness in São Paulo's economy.

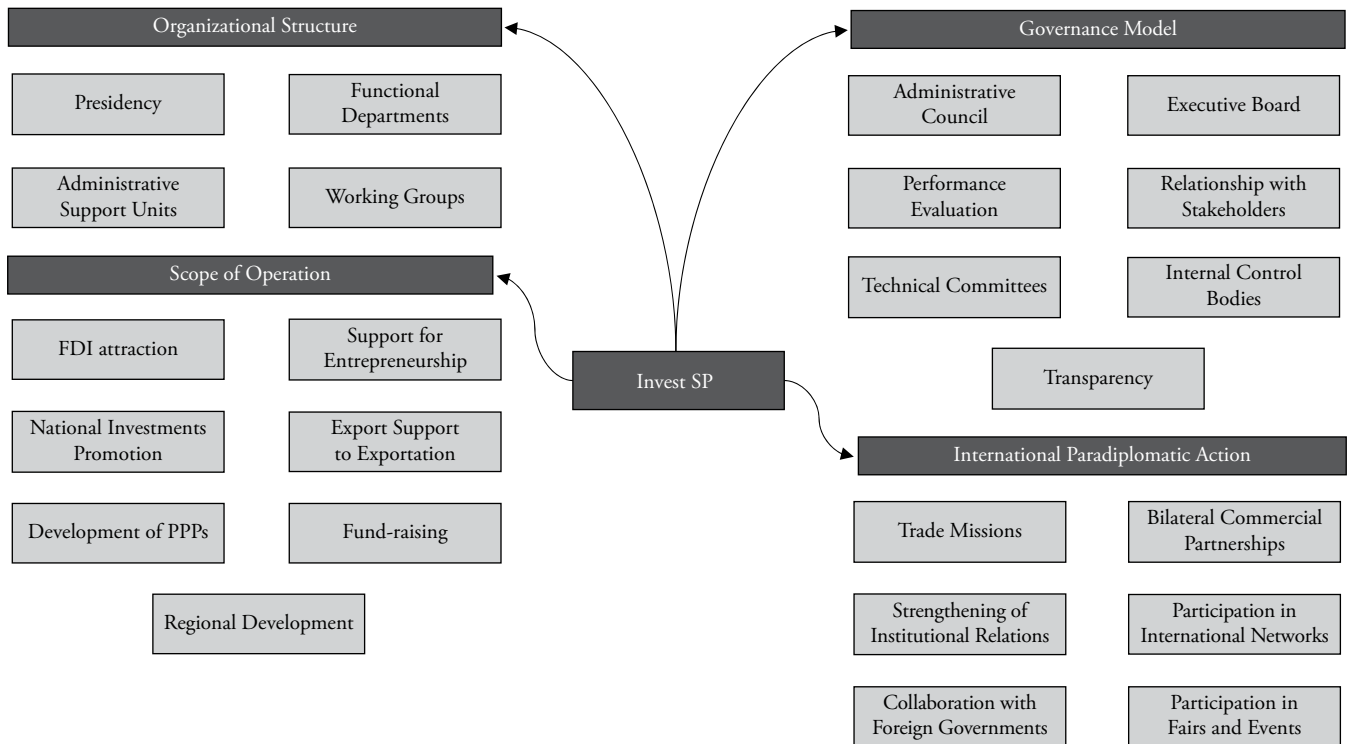
Adopt urgent measures to combat climate change and its impacts.



Source: developed by the authors

Regarding the structures adopted by InvestSP in pursuit of achieving such objectives, the agency's organizational structure is composed of the presidency, responsible for the overall leadership of the agency, establishing its vision, mission, and strategies. Functional departments led by their own executive directors are responsible for managing specific agendas of the agency, which are divided into Foreign Investments, National Investments, Institutional and Governmental Relations, Marketing and Communications, Economic Analysis and Market Research, and Legal and Compliance. Finally, administrative support units such as human resources, finance and accounting, information technology, and procurement and logistics support the agency's daily operations, as presented in Figure 1.

Figure 1 - Framework of structure and motivators of Subnational IPAs



Source: developed by the authors

In the quadrant addressing governance models, InvestSP operates with a Board of Directors comprising members appointed by the provincial government, representatives from the private sector, academia, and other pertinent segments of the industry. They convene regularly to endorse policies, strategic plans, budgets, and monitor agency performance. The executive board, in turn, assumes the responsibility of leading the body and executing the policies and directives set forth by the Board of Directors. Technical committees may be established to provide specialized expertise and guidance in specific areas of agency activity. Furthermore, InvestSP maintains close relationships with its stakeholders, including investors, businesspeople, government entities, financial institutions, civil society, and other strategic partners, ensuring transparency, participation, and alignment of interests. Finally, internal control bodies, such as audit and compliance departments, are responsible for ensuring compliance with established policies, procedures, and regulations.

In the final quadrant, which examines the paradiplomatic endeavors of subnational IPAs, it becomes evident that InvestSP has consistently engaged in active participation in various fairs, events, and international trade missions over the years. These efforts are not only aimed at promoting investment opportunities within the state of São Paulo, but also facilitating the exposure of products from local companies to foreign markets. To achieve these objectives, significant internal work is done to strengthen institutional ties with foreign diplomatic representations in Brazil, such as embassies and consulates. This approach, not only by the business community but also by the agency with foreign governments and other IPAs, ends up creating engagement in international networks and contributing to the promotion of investment and sustainable economic development.

Since establishing its international offices in Shanghai, Dubai, Munich, and New York in 2020, the agency has been able to provide more information about export opportunities through access to international network channels. In the geopolitical analysis conducted to select the best locations for opening its international structures, InvestSP and the São Paulo government joined forces to conduct research on countries that maintained significant trade agreements with Brazil and were highly relevant in the trade balance, as explained by Interviewee 17. In 2022, China and the United States emerged as the main exporters and importers of São Paulo products. Meanwhile, Germany, followed by other European countries, ranked fourth in terms of total participation in current transactions with São Paulo, according to data from the Ministry of Development, Industry, and Foreign Trade (Ministério do Desenvolvimento, Indústria, Comércio e Serviços do Brasil 2023). Dubai stood out as an important importing market and gateway to the Middle East. The office established in this region adopted a strategy less focused on attracting greenfield investments. However, sovereign wealth funds showed interest in participating in Public-Private Partnerships, concessions, and investments in companies from São Paulo. During the pandemic, there were some changes in the strategic position of the office in Dubai, with the governments of the United Arab Emirates and Saudi Arabia contacting the offices to seek the continuation of contracts for the export of food and beverages, as reported by Interviewee 2.

(Dis) Diplomatic Governance and Institutional Inertia

Despite São Paulo's prominence as an economic leader in Brazil, the attraction of Foreign Direct Investment is not limited to InvestSP's activities. A complementary network contributes to creating a favorable environment for investors. At the provincial level, public agencies such as Desenvolve São Paulo play a significant role. This agency provides credit to municipalities for projects related to road networks, industrial parks, commercial centers, agricultural distribution, and the construction of public arenas linked to culture, economy, and social issues. For the private sector, Desenvolve SP focuses on providing credit to companies with annual revenues ranging from BRL 81 million to 300 million, offering services based on competitive credit with low bureaucracy and guarantee funds. Its scope of investment ranges from working capital, expansion, export, and project implementation to business modernization (Secretaria de Desenvolvimento Econômico do Estado de São Paulo 2023a). Additionally, the state government maintains the Banco do Povo Paulista, which provides microcredit in partnership with municipalities to individuals and legal entities, aiming to strengthen and generate opportunities in the business environment. Its promotional activities align with the agendas of the State Department of Economic Development through capacity-building partnerships with Sebrae SP (Secretaria de Desenvolvimento Econômico do Estado de São Paulo 2023b).

At the municipal level, the city of São Paulo stands out with its own local Investment Promotion Agency (IPA), São Paulo Negócios (SPN), created in 2017 during João Dória's administration as mayor (Agência de Promoção de Investimentos e Exportações do Município de

São Paulo 2023). SPN's activities aim to develop the business environment and attract investments to the municipality, with an emphasis on presenting the portfolio of the privatization program and creating an environment of innovation and technology. Additionally, SPN directs its efforts towards investment retention, addressing challenges such as bureaucracy and hostile regulatory environments that have contributed to the loss of business activities in the city. In collaboration with InvestSP and other agencies in the province capital, SPN seeks to promote community interests and strengthen efficient projects that build trust among investors, as detailed by Interviewee 6.

Still, the city government also maintains the São Paulo Development Agency, known as Adesampa. With the main objective of promoting the economic, social, and sustainable development of the city, Adesampa's activities span various areas, including entrepreneurship support, investment attraction, innovation promotion, urban development, and the creation of public policies focusing on micro and small entrepreneurs.

Thus, in addition to the structure with a more commercial approach, such as InvestSP, both the province and several municipalities have specific structures (secretariats, coordinations, or advisory bodies) focused on International Relations. The coordination between these agents at the province and national levels gained new configurations with the establishment of the National Forum of Secretaries and City Managers of International Relations (FONARI)¹ in 2005, and with the creation of the RI 27 Forum in 2015, a structure that aggregates the secretaries of international relations at the provinces and district levels.

Given the multitude of entities seeking effective avenues for promoting local investment support services, there is a concern in São Paulo regarding the potential for overlapping institutional efforts, as noted by Haftel and Lenz (2022). There is a clear imperative to avoid redundancies, there needing comparisons of current work plans to prevent duplication of efforts and strain on public budgets, as highlighted by Interviewee 15. Consequently, collaborative working groups and service provision agreements among governmental entities have become commonplace. A notable illustration of such collaboration is the recent AI4HealthyCities initiative. This initiative, which involved InvestSP, the Secretariat of International Relations, the Secretariat of Economic Development, and the province of Quebec, aimed to cultivate an artificial intelligence ecosystem for the healthcare sector. Another instance of collaborative effort is the working group formed between InvestSP, the Secretariat of Supply and Agriculture, and the Secretariat of International Relations to promote investments in agribusiness in São Paulo.

Regarding relations with other IPAs representing other Brazilian provinces and cities, interviewees generally point to a situation where technical cooperation occurs frequently:

Our role as an agency is to always facilitate this exchange of experiences and benchmarks among agencies. The competition lies more in the realm of which state offers the best benefits and conditions for the company that wants to come to Brazil, but our role as agencies is truly to promote Brazil as a whole (interviewee 17).

¹ II International City Diplomacy Week is marked by the relaunch and reactivation of Fonari - ABM

The other subnational investment promotion agencies also highlight São Paulo as a model to be followed:

I wanted to have the structure of InvestSP, who wouldn't want to have it? We work with a limited number of people, by our choice, but focused on our strengths. Our strengths are not necessarily the same as those of SP. For example, the Web Summit came here because we are creative, we possess soft power, we are the face of technology and innovation, akin to California. If it were an event for the glass industry or cars, it would be in SP, I have no doubt (interviewee 22).

On the other hand, agencies also recognize the existence of natural disputes to attract investments to their respective regions. One interviewee highlights:

I think that, because Brazil is so large and heterogeneous, often provinces have interests in different sectors. Perhaps SP and MG are the ones that have the largest context of competition, and that's okay, it's part of the game. The strength of Minas Gerais helps São Paulo's strength, so I see that very positively.

Competition usually focuses on which province offers the best benefits and conditions for companies wishing to invest in Brazil, but the role of the agencies is to promote Brazil as a whole. In another testimony, an emblematic situation of conflicting interests was reported:

We knew that there was a company negotiating with other capitals here in Brazil. So, we took São Paulo Negócio and went on to design an investment attraction proposal to show how São Paulo is 'the best destination'. This is the part where we have muscle for it, I think it's important to emphasize. Having this competition is healthy.

Regarding possible overlaps with federal entities, the province agency's effort to maintain a dialogue to identify ApexBrasil's main projects is highlighted. The intention is to find common points that can add value to activities. Apex has regional management with a focal point in each region of the country, seeking to coordinate not only commercial promotion but also investment attraction. When a company expresses interest in coming to the country but is not sure about the location, Apex's role is to reduce information asymmetry, presenting labor costs, infrastructure, and various macro comparative information to assist in the manager's decision. Additionally, Apex acts as an intermediary between the public and private sectors of the region, facilitating conversations and connecting the foreign company with the local partner to assist in decision-making. "From there, the final decision is really up to the foreign company, and it's the one that can communicate its opportunity better," emphasizes Interviewee 10.

Another significant aspect highlighted in the statement is the collaborative efforts with provincial entities, exemplified by initiatives like the Extension Industrial Export Project (PEIEX),

stemming from the agreement between Apex Brasil and InvestSP. This underscores the division of roles, with the national agency focusing on promoting opportunities and subnational agencies concentrating on facilitation providing practical and tailored assistance to investors. However, in practice, this division faces challenges due to Brazil's federated structure, granting autonomy to its units to attract investments, thereby complicating coordination, as noted by the interviewee. Consequently, the exchange of information and experiences between provincial and federal bodies remains largely individualized rather than institutionalized, as highlighted by Interviewee 17 and Interviewee 3. The relationship between federative entities is characterized by technical and cooperative approaches, particularly concerning defending interests, accessing markets, and resolving customs barriers, as mentioned by Interviewee 4.

Therefore, as already highlighted, the strategic actions of subnational IPAs have sought coordination with the federal structure, either through embassies and consulates or through Apex's decentralized offices. However, the coordination between political agents is not always aligned, which has the potential to cause a serious crisis. One such emblematic case occurred during the COVID-19 pandemic, starting in early 2020, bringing additional complications for Brazilian provinces and municipalities, many of which had disagreed with then-President Jair Bolsonaro about the best economic development model to be adopted for the period, which had direct impacts on regulations regarding social distancing and vaccination.

The paralysis and delay of the Brazilian Ministry of Health in seeking a joint and orderly solution to combat the pandemic at the national level made room for the phenomenon that would later be known as vaccine paradiplomacy (Pereira et al. 2023). In this context, independent subnational entities used their internal structures of international relations to seek their own regional solutions. Among the main examples observed were provinces, municipalities, and even large companies starting to promote their own initiatives to meet the needs of their populations.

Among the main examples was the state of São Paulo, one of the main opponents to the federal government at the time regarding pandemic management. São Paulo, under the leadership of then-governor and 2022 presidential candidate João Doria, was one of the first to negotiate directly with foreign governments for its own vaccination alternatives. As a result, the technological partnership between the Butantan Institute and the Chinese laboratory Sinovac enabled the creation of the first COVID-19 vaccine produced and distributed in national territory (Instituto do Butantan 2021).

At the center of these discussions was InvestSP. The Shanghai office, the first to open in 2019, ends up being one of the main coordinators of the aforementioned "Vaccine Paradiplomacy," filling a vacuum left by federal entities at the time (Martins et al. 2021). The period of federal turmoil in 2021 regarding the search for vaccines, made clear to the São Paulo government the increasing importance of the external environment to meet the state's demands. During an official visit to Sinovac in China, Butantan's general director, Dr. Dimas Covas, initiated a relationship between the two institutions. This approach was driven by the perception of potential technical

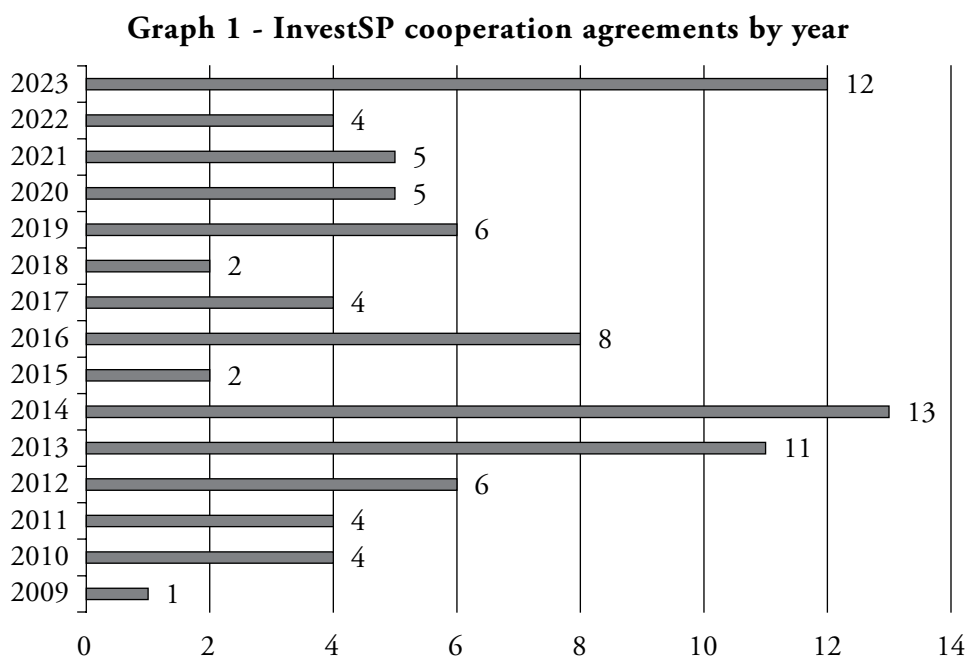
cooperation, with Butantan producing certain vaccines and Sinovac others, enabling significant scientific exchanges, as mentioned by interviewee 5.

Representatives of InvestSP highlight a practical example of the use of the Shanghai office in the context of the first COVID-19 vaccines arriving in Brazil. This office contributed to the negotiations so that the vaccines could be produced more quickly, highlighting the importance of having a physical presence of São Paulo in times of urgency. This aspect became even more crucial during the pandemic, an unexpected situation that underscored the need for the office's presence, although it was not initially opened for this purpose, as explained by interviewee 3. These reports illustrate how international presence and strategic action in InvestSP offices were essential not only to boost technical cooperation, but also to respond quickly and effectively in emergency situations, such as those related to the COVID-19 pandemic.

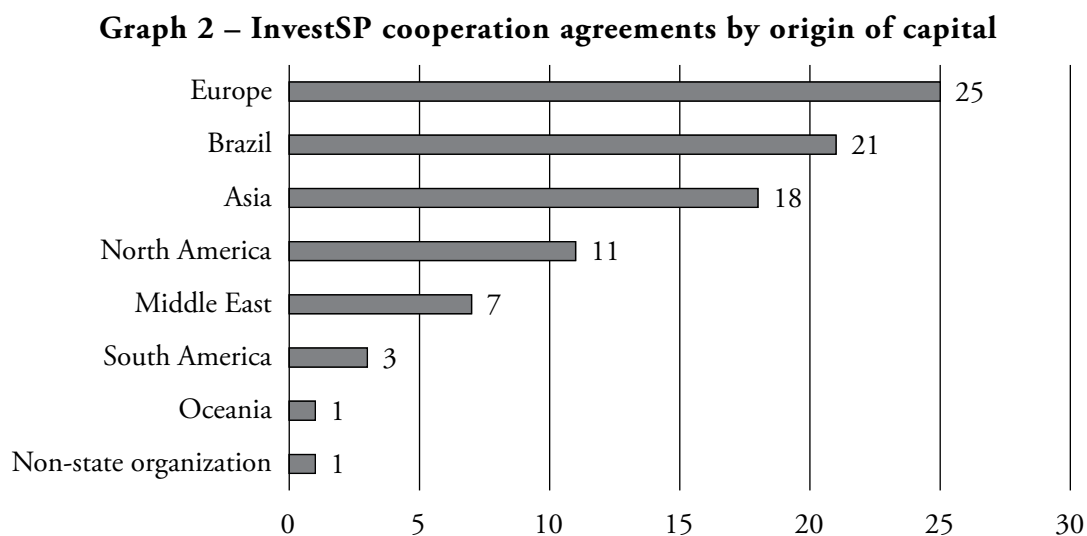
Subnational Diplomacy Involving International Trade Agreements and Investment Promotion

Diplomacy exercised by provinces and municipalities lacks legal support in Brazil. The 1988 constitution expressly declares as the exclusive competence of the Union (Art. 21.) "I - maintain relations with foreign States and participate in international organizations." Additionally, it emphasizes (Art. 84): "It is the exclusive competence of the President of the Republic: VII - maintain relations with foreign States and accredit their diplomatic representatives; VIII - conclude treaties, conventions, and international acts, subject to the referendum of the National Congress." However, in practical terms, what is observed is that, since the late 1980s, provinces and municipalities have progressively engaged in international affairs, creating their own structures for negotiations, developing partnerships abroad, and cooperation agreements, actively participating in multilateral forums, and playing a fundamental role in implementing global agendas (Vigevani 2006, 130).

São Paulo has stood out in this international role. Particularly in the field of trade negotiations and attracting investments, InvestSP has made progress in various agreements with international partners, as highlighted in the graphs below:



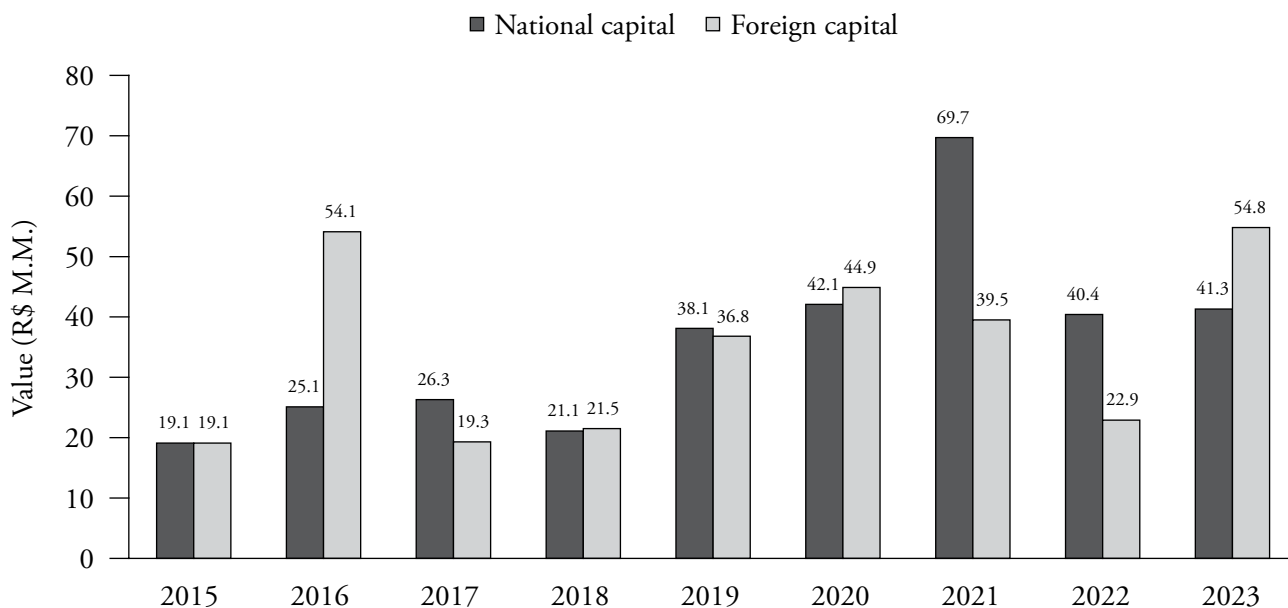
Source: Organized by the authors, based on data from InvestSP Management Reports



Source: Organized by the authors, based on data from InvestSP Management Reports

In attracting foreign investments to the province, there have also been advancements. Furthermore, the captured projects have been progressively directed towards areas of Bioeconomy, Innovation, Circular Economy, Semiconductors, and Energy Transition, demonstrating the strategic direction given by the state in mobilizing investments to meet the UN Sustainable Development Goals.

Graph 3 - Domestic and foreign capital invested per year by projects attracted by InvestSP



Source: Organized by the authors, based on data from InvestSP Management Reports

Data compiled from InvestSP management reports between 2014-2023 reveals that there were 283 investment projects announced by companies operating in different segments. Among these projects, 175 were initiated by foreign companies. This represents a significant investment volume of R\$ 116 billion, with the potential to generate 192,000 jobs in the state. These data reinforce the results arising from the Agency’s paradiplomatic activity, illustrating the intersection where foreign policy actions evolve into public policies and vice versa. Thus, as Milani and Ribeiro (2011) reinforce “municipal paradiplomatic strategies are virtually re-territorializing public actions through a territorial *continuum* running from local to national then to global, thereby contributing to the emergence of a transnational social space”.

Conclusion

With the advancements and increasing intensity of global trade exchanges, as well as the increasingly relevant role of multinational corporations in the dynamics of the international system and the proliferation of power structures and more dynamic transversal links, structures incentivizing investment mobilization are becoming more prevalent. Thus, the role played by IPAs becomes crucial, as they are structures established to articulate the relationship between the state and businesses. Generally, these entities play a fundamental role in gathering information to assist in transforming demands into policies to attract FDI, improve the business environment, and/or propel local companies into the international market. Additionally, in the current context, these agencies also have the capacity to mobilize direct investments directed to achieve the goals of the UN 2030 Agenda.

This exchange of experiences has been occurring internationally through organizations such as UNCTAD and WAIPA. In Brazil, structures of this nature at the subnational level are more recent, with many of these agencies still in the process of formation and maturation. São Paulo has taken the lead, and with over a decade of experience, it has served as a benchmark for other provinces in the federation. However, in Brazil, these Local Investment Promotion Agencies did not emerge in an orchestrated manner, and governance relations between these entities and other national and subnational structures are not aligned. In some instances, including the aforementioned case of vaccine diplomacy undertaken by São Paulo, these are actions that generate constraints and contradictions to the activities of the national diplomatic corps.

This (dis)articulation in the diplomatic field opens up possibilities for debates and reflections on the current governance model adopted in Brazil, particularly regarding foreign policy actions involving actors with different logics and federative entities. Although an Office for Federative and Parliamentary Affairs was created at the Ministry of Foreign Affairs (AFEPA), aimed at orchestrating actions on the external front and monitoring international activities conducted by subnational entities, this structure does not appear to have successfully established multi-level, multi-actor, and multi-thematic governance arrangements operating in a coordinated manner. Empirically, it has been observed that cooperative arrangements are typically established in an ad hoc format when a specific issue enters the local agenda and there is political alignment on the matter. However, in instances of conflicting understanding between items on the diplomatic agenda and political-partisan misalignment among government representatives at different levels, there are no existing institutional mechanisms for the diplomatic corps to protect or prevent the state of São Paulo from negotiating its interests internationally, as observed in the emblematic case of the vaccine. Therefore, it is imperative to generate further debates involving diplomatic governance, a subject that is currently nonexistent in academic circles and distant from the political agenda.

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