# “An innovative approach for planning international investments”


| | |
|---|---|
| **AUTHORS** | Marcos Fava Neves |
| **ARTICLE INFO** | Marcos Fava Neves (2011). An innovative approach for planning international investments. *Innovative Marketing* , *7*(1) |
| **RELEASED ON** | Friday, 25 March 2011 |
| **JOURNAL** | "Innovative Marketing " |
| **FOUNDER** | LLC “Consulting Publishing Company “Business Perspectives” |

NUMBER OF REFERENCES
**0**

NUMBER OF FIGURES
**0**

NUMBER OF TABLES
**0**

Marcos Fava Neves (Brazil)

# An innovative approach for planning international investments


## Abstract

This article raises an innovative approach to attract international investments. It raises "good and bad" points of international investments, addresses the need of a country/region to have a strategy, the need of companies to seek the world for opportunities, the role of governments, how to regulate this investments and how to attract them. Finally, a case study of government's marketing and attraction of international investments is shown.


**Keywords:** international investments, regulation, institutions, food and agribusiness.

## Introduction

The world is facing a large amount of international investments. This is coming from companies of developed nations making investments in developing nations, and also the opposite which is growing fast. Several countries are receiving foreign direct investments (FDI) even in land acquisition.

This article is based on meetings done in UNCTAD/ONU (Geneva) by the author and experiences in supporting companies and governments in projects of international investments. The objectives are to raise these "good and bad" points of international investments, to address the need of a country/region to have a strategy, the need of companies to seek the world for opportunities of international expansion, the role of governments, how to regulate this investments and how to attract them. Finally, a case study of government's attraction of international investments is shown.

## 1. A strategy for international investments

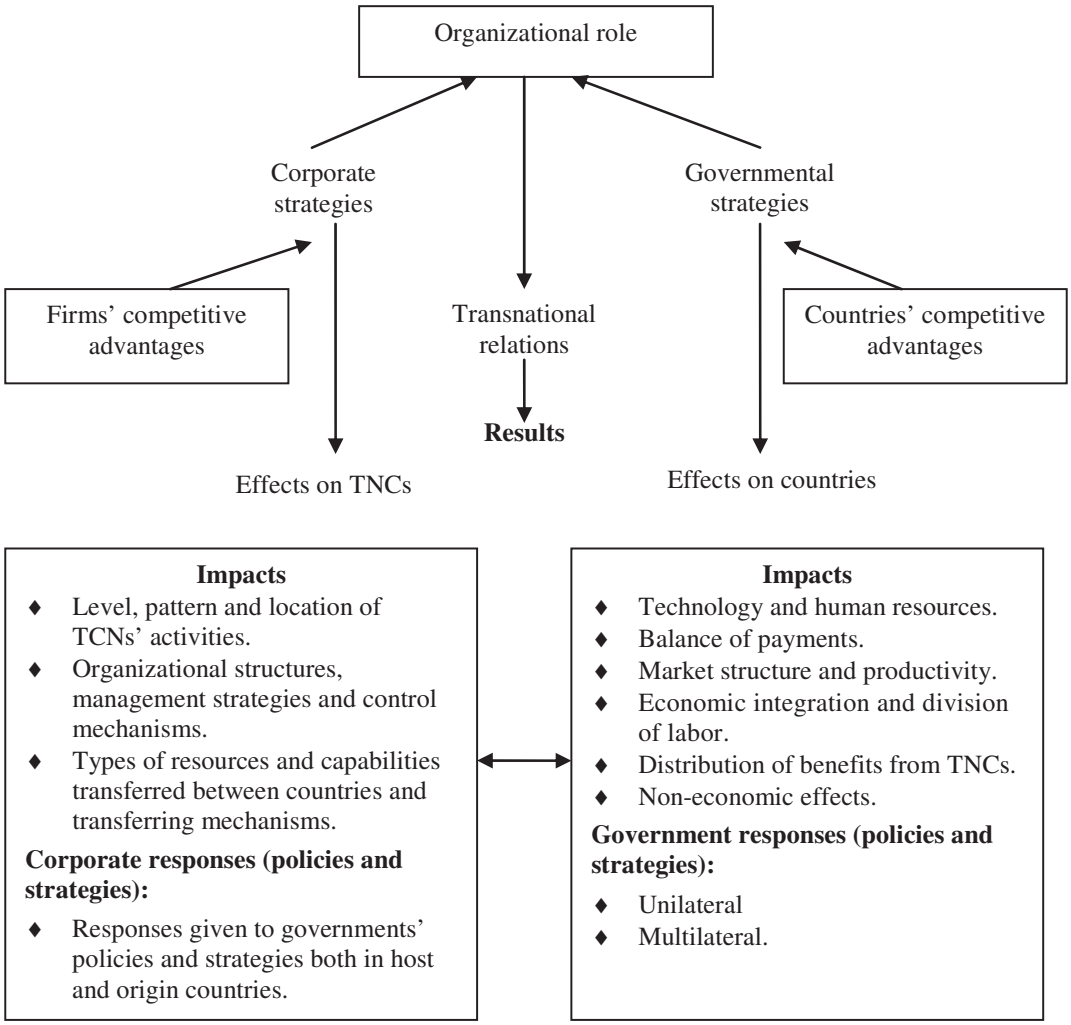
There is still a debate if receiving international investments is good or not for a particular country or region. For instance, since the 1960s researchers have tried to determine whether the impact of FDI in developing countries, that receive them, is good or bad, without having arrived until today, a verdict free from ambiguous answers. We should not advocate in one side or the other, but get all the points and then make the analysis. International investments have good points, discussed in previous articles, if they promote development by bringing access to international markets and expanding the country capacity of exports, creating jobs and generating taxes for governments, bringing knowledge to a country, bringing credit and giving confidence, among other topics, to a country. If a country receives an international investment of a world class company, it is an endorsement for development and other investors.

The major topics of advocates against international investments are linked to expatriation of resources from countries, exploitation of these resources till the end, and excluding the possibilities of future generations of that country to use them in the future, sending profits away from local economies and bringing cultural shocks and cultural changes to local communities. Others fear the damage to competition in a country, due to the global capacity of a transnational company (TNC) that can even promote dumping on local markets, compensated by good results on other countries, in order to destroy local competition. This may bring exclusion of local companies in the long term. There are also some nationalist feelings that only products, produced in a local country with local company, may be good for the local society. These points should be considered.

Apart from being good or bad, Dunning (1995) states that the intensity of the impacts on various aspects of the host country's production capacity is directly related to the differences between the resources and capabilities of the foreign companies and those of local companies. According to the author, those impacts are also linked to the responsiveness of local government and its capacity of efficiently, using the resources and capabilities that enter its territory.

The presence of foreign firms can raise the levels of productivity of local enterprises in three ways, according to Caves (1974). First, their entry may reduce any monopolistic distortions and inefficiencies in industries with high barriers to entry and, thus, lead to an improvement in resource allocation in the industry as a whole. Second, local firms can be induced to achieve greater technical efficiency in response to the competitiveness of foreign competitors. Third, the presence of foreign firms can reduce the cost and/or accelerate the process of technology transfer.

Liu et al. (2000) analyzed the effects of spillover on the productivity of 48 industries in the UK during the period from 1991 to 1995, and concluded that the presence of FDI in these industries had a positive effect on productivity of local companies. The same authors in a later study (Liu et al., 2009), analyzing the effects of FDI on productivity in Chinese manufacturing firms, found that while these effects were positive in vertical relationships (suppliers and buyers), in the horizontal relationships




Source: Dunning (1995).

**Fig. 1. Analytical structure of the impacts of FDI on host countries and on TNCS**

positive effects on local businesses were very limited. Further, they've concluded that the spillover effects on productivity depend heavily on the technological capabilities of domestic firms.

The following Figure illustrates how the relations, arising from the interaction between the strategies of foreign companies and the strategies of governments, impact on the welfare of firms and countries.

With a good strategy and a good regulation system, a country can try to avoid them, maximizing the benefits of these investments. The first point for any country and government would be a good strategy, a country strategic plan, looking 10-20 years ahead, which I see as a not so common thinking of governments. With a good strategy, it is possible to attract to a country or a region, companies linked to the potentialities of the region with expertise, with guaranteed demand (international contracts), clean production systems, high technology (biotech/nanotech), and also to guarantee that units of research, development and part of the headquarters of this companies would be done at the country that is receiving this investment.

Let me at this point give the example of Brazil, a country that is having huge flows of international investments, major economic growth and income distribution, putting pressure on infrastructure and booming internal markets. Brazil will also have two major events that companies could be taking advantage of: World Soccer Cup in 2014 and Olympics in 2016. A good strategy would be to attract international investment and companies immediately fitting with conditions of the country and opportunities.

Just some ideas... these would be Spanish, American, Asian and other chains (like Melia, Hilton, Sheraton, Shangri-La) bringing and expanding their networks of hotels (business), investments on entertainment (arenas, parks, museums), Chinese wanting to produce energy and infrastructure logistics (roads, trains, airports and dutes), airline companies participation (now allowed to make part of 49% of local companies' shares) since it is one of the fastest growing markets, construction investors, in order to build 2nd home for retired European people in all time summer north-east beaches of Brazil (6 hour flight from Europe), and in

universities, a booming sector due to demand on education. There is also room for investments in food, like New Zealand milk farmers wanting to expand globally, Belgium chocolate companies, Australian/Uruguay sheep farmers and slaughterhouses. Just to point out some areas, where a strategy would fit...

But all countries and respective governments, when going to international markets to attract investments, should do their homework, or the basics of the basics. These points would be to have the economy working well (growth, low inflation, interest rates, internal demand), good human resources and talents, reasonable infrastructure to be competitive, offer security have a reasonable taxes and financial systems, trying to bring simplicity in order to facilitate management (get rid of burocracy, which is most of the times associated with corruption). A country also has to offer basic resources (energy, land, sun, water), good suppliers, distributors and institutions (judiciary system) that are trustworthy and are fast to solve problems and disputes. This homework, together with a good strategy, good regulation systems and simplicity, will make the environment for international investments coming in and promoting sustainable development.

## 2. How to promote and regulate international investments?

There is plenty of knowledge about possible benefits of international investments in an economy. For a country, wanting to receive these investments, an institutional arrangement must be built, since these international investments may have positive and negative impacts. Considering this, some regulations are important to try to avoid negative impacts from transnational companies' investments, and to enhance the positive effects of these foreign direct investments.

There are 8 major topics that should be studied and covered by public policies. The objective here is to facilitate local, state or even federal governments and agencies in setting a framework, where international investments can be attracted to promote development and avoid possible negative externalities.

The first one relates to *governance structure of the investments*. In this arena, we may take care of the wide arrange of possibility of investments (joint-ventures, vertical integration, franchisees...), money entrance conditions, the promotion policies to receive these investments, safeguards for risk protection (invasion, expropriation, fees, etc.) and others. How direct investment will take place and sorts of assets ownership (land, industry and others) must be considered and planned, and also how the stimulus package for these investments (like energy supply, logistics and other related to infrastructure) will be built, and even how to remove the existing obstacles to attract investments.

The second topic relates to *environmental protection*, focusing on policies of water usage, agricultural practices (soil preservation, harvest, among others), policies on pollution control, sanitary measures, international standards and certifications that will be required and, finally, policies regarding the preservation and rights over the biodiversity. Some companies are accused of not having the same environmental practices they have in the home base, and this should be avoided by suitable policies.

The third topic deals with *regulation of human resources*. These regulations may include salaries, labor and wages, benefits, working conditions, corporate social responsibility, ethics and codes of conduct and community relations. This is one of the most important topics, since most problems on international investments done in the past, happened in the field of bad management of human resources.

*Taxation policies (taxes)* come as a fourth topic that must be defined for transnational investments. Questions, regarding the structure of taxes and tax policies, export tax policies, purchase and compensation taxes and possible government temporary tax incentives for the investment to be done, to be stimulated, are focus of the analysis here.

As fifth we have *research and development (R&D) policies*. At this point, the most relevant would be a kind of stimulus to improve development of local knowledge and R&D. Property rights, licensing contracts and royalties must be discussed. Stimulus for linkages with local research organizations and institutions can be an important incentive to integrate and promote development.

The sixth topic is more related to agricultural or agribusiness investments, and deals with *joint actions for farmers and industry*. It is important to have policies stimulating linkage of the international investments to local organizations, an incentive for cooperatives, association's formation and sustainability, previous preparation of farmers, coops or organizations for the relationships with the international investments and incentives for building sustainable supply contracts. It could be important also to establish a framework for dispute mechanisms and even private arbitration.

The seventh topic regards to *financing and credit*. Discuss and implement policies on how an international investor can have access to public sources of financing, state banks and public credit lines. This offer of credit, linked to the technology of the international investor, gives a nice possibility of growth.

Finally, the last topic relates to policies *regarding market access*. In each of these policies, there are suggestions of incentives to international investments. These can consider government purchasing of products, generated by the investment and facilitating local access to investors, international agreements for market access to improve export channels of this new entrant and general competition policies. In food investments, it is also important to evaluate and promote food safety policies, to facilitate international market access.

The relevance of studies of international investments to produce food is of fundamental importance. It is well known that food production needs to be enhanced, and in order to accomplish these needs, international investments are of fundamental importance. In a moment, where countries are establishing policies towards food security, with governmental and private funds being allocated to buy land abroad, and secure food supply the role of these investments increase in importance. This article, provided for government, agencies and companies, involved with international investments, a list of 8 major topics that must be considered for regulation of these investments, in order to try to bring as much as possible sustainable economic development.

Table 1. A framework for public policies regarding foreigner investments

| 8 major topics | Suggestions of public policies, incentives to international investments |
|---|---|
| Governance structure | ♦ How direct investment will take place and sorts of assets ownership (land, industry and others)<br>♦ Entrance conditions of resources (money flows)<br>♦ How promotion policies for the international investments will be<br>♦ How the safeguards for the protection against risks (invasion, expropriation, fees, etc) will be<br>♦ How the stimulus package for investments (energy, logistics and other related to infrastructure) will be<br>♦ How to remove the obstacles to attract investments |
| Environmental protection | ♦ Policies on water use<br>♦ Policies on agricultural practices (soil preservation, harvest, among others)<br>♦ International standards and certifications that will be required<br>♦ Policies on pollution control<br>♦ Sanitary policies<br>♦ Policies the preservation and rights over the biodiversity |
| Human resources (people and labor) | ♦ Rural labor and wages<br>♦ Working conditions<br>♦ Benefits<br>♦ Community relations<br>♦ Child labor<br>♦ Corporate social responsibility<br>♦ Ethics and codes of conduct<br>♦ International labor |
| Taxation | ♦ Structure and tax policies<br>♦ Export and tax policies<br>♦ Purchase and compensation taxes<br>♦ Temporary tax incentives |
| R&D (science and technology) | ♦ Development of local knowledge and incentives for local development of R&D<br>♦ Property rights and other protection forms, licensing contracts and royalties<br>♦ Linkages with local organizations/institutions as an incentive |
| Joint actions for suppliers (e.g.,farmers) under contract (commitment) | ♦ Linkages to local organizations<br>♦ Incentive for coops/associations formation and sustainability<br>♦ Prepare farmers/coops/organizations for the relationships<br>♦ Sustainable supply contracts<br>♦ Dispute mechanisms and private arbitration |
| Financing and public resources | ♦ Access to public sources of financing<br>♦ Access to state banks and credit lines |
| Policies on market access | ♦ Government purchasing policies and access to investors<br>♦ International agreements for market access<br>♦ General competition policies<br>♦ Food safety policies for market access |

Source: Prof. Marcos Fava Neves.

## 3. How to evaluate international investments on capacity to promote economic development?

Local or federal governments and other institutions sometimes have difficulties to evaluate the capacity of an international investment, to promote economic development. This difficulty to evaluate the capacity can even make difficult for governments to define a specific benefit or support to this international investor company, and even to convince the local community of these benefits on developing the region, moving forward the economy, generating jobs, exports and other benefits.

When a TNC comes to a country, normally it comes with several types of resources, not only financial. These resources are our basic list to be analyzed. I want to categorize these resources on a list of 6 points, in order to facilitate governments on evaluation of international investments in the country. These investments are better if the investor can perform well on this list of resources. This is based on several discussions I had in 2009 at Geneva, on a UNCTAD/ONU project. This list is different, since it looks also to the local supply chain of this company. If a company can build a nice and integrated supply chain, better the possibility of more economic development. Let's move to the 6 topics with its own sub-topics. It will help you to understand if you imagine an international food industry investing on a new country.

1. *Financial investments and expertise*. Here we may consider the amount of money that will be invested and linked to this point, if this company can provide capital, can open credit lines giving the needed guar-

antees for suppliers (for instance, local farmers), can have access to government official credit, has knowledge of credit operations and burocracy, has access to international credit and generates a good reputation for the region and the country. We should also look at the capacity of generating the benefits of foreign currency through the increase of exports and, finally, the amount of employment generation.

2. *Capacity to provide technical assistance*. Normally, a TNC has a "how to do package" for its suppliers, helping on farm support, support on sustainability policies and sustainable practices, participate on activities of research and development, support to achieve standards (ISO, etc.) and transferring of skills that will promote economic development.

3. *Sourcing of input supplies to farmers*. This TNC food company can help providing them with up-to-date seeds, machinery, genetics, fertilizers and chemicals, helping them to produce with the most recent technology.

4. *Management assistance and service provisions*. Here we should evaluate the capacity of assistance on economical/financial controls for farmers and suppliers, training and farming management, transportation and storage, communication skills and certification. To help local communities on support to demands on public investments in logistics and infrastructure for that country or region should also be a point.

5. *Capacity to provide market access*. This is one of the most important points. A TNC can arrange international sales contracts, providing access to marketing channels, access to niche markets (organic/fair trade/others), providing information on market trends, helping farmers decide what to grow, and enabling reduction on price volatility through long-term contracts.

6. *Farmers and suppliers organization*. This is the last point, not usually done or evaluated. I think a TNC should also be evaluated by its capacity of helping farmers or suppliers in building, what is called "countervailing power", to reduce power imbalances in modern food production chains, although it may appear as non-sense. This can be done by stimulating the establishment of local organizations, stimulating the arrangement of cooperatives, building network of local producers and incentives to cooperation. It is not easy, but I consider inclusion one of the most important words for the next 10 years.

Finally, the relevance of studies in TNC involvement in food, agribusiness and agriculture is of fundamental importance. Food production needs to be enhanced and in order to accomplish these needs. In a moment, where countries are establishing policies towards food security with governmental and private funds being allocated to buy land abroad and secure food supply, the role of TNC increases in importance. There are several lessons to be learned for developing nations trying to attract international investments, either in agriculture, industry and other. Here we brought a 6 point list to evaluate investments. I will come back on another important list for government: in which areas and what are the policies/regulations needed to face this international investments?

Table 2. Framework to analyze the impact of TNCs on local community

| Resources of TNCS | Impacts on local community |
|---|---|
| Financial investments and expertise | ♦ Providing investments (capital)<br>♦ Opening credit lines for suppliers (offering the guarantees)<br>♦ Have access to government official credit<br>♦ Knowledge of credit operations and burocracy<br>♦ Access to international credit lines<br>♦ Inward investments contribute to a good reputation for the region and the country<br>♦ Foreign currency generation through the increase of exports<br>♦ Employment generation |
| Supplying inputs to producers (e.g., farmers) | ♦ Supplying seeds<br>♦ Supplying machinery<br>♦ Supplying genetics<br>♦ Fertilizers and chemicals<br>♦ Other inputs |
| Technical assistance | ♦ Offer a "how to do package"<br>♦ Give technical support<br>♦ Support on sustainability policies and sustainable practices<br>♦ Execution of research and development<br>♦ Support on standards (ISO, etc.)<br>♦ Transferring of skills |
| Management assistance and service provisions | ♦ Assistance on economical/financial controls<br>♦ Training and farming management<br>♦ Transportation and storage<br>♦ Communication<br>♦ Certification<br>♦ Results/profit of the suppliers<br>♦ Help on pressure for public investments in logistics and infrastructure |
| Market access | ♦ Arranging sale contracts<br>♦ Providing access to marketing channels<br>♦ Access to niche markets (organic/fair trade/others)<br>♦ Providing information on market trends, (helping farmers decide what to grow and enabling reduction on price volatility) |
| Farmers organization | ♦ Helping the establishment of local organizations<br>♦ Stimulating the arrangement of cooperatives<br>♦ Network of local producers<br>♦ Incentives to cooperation among suppliers |

Source: Prof. Marcos Fava Neves.

## 4. A case of innovative public policies: Codevasf in Brazil

It is well-known need to increase food production, to face the incredible development of emerging markets and new consumers, and the scarce amount of land and natural resources available in the world to face this challenge. I want to comment on one of the most impressive ideas for regional development, showed at 2010 Harvard business seminar. This is the case of

Codevasf, a company owned by Brazilian government, and dedicated to the development of the semi-arid Sao Francisco and Parnaiba river valleys, at north-east of Brazil. This company came with a different concepts of land occupation and regional development.

First, let me introduce the reader these two valleys. They have around 960.000 $km^2$, an irrigated land potential of 360.000 ha, only in Sao Francisco valley. In 2010, 120.000 ha are implemented by Codevasf, with 50% being used by 100 companies, mostly on fruit production and some processing (dried fruit, juices and wine). This area is responsible for U.S. $300 million exports per year (40% of total Brazilian fresh fruit exports, and 100% of Brazilian mango and grapes export). It has around 2.800 hours of sunshine, what allows a year round crop production, with enough fresh water for irrigation and good transportation and connections. The average temperature is 25-30 Celsius, with a much defined rainfall. These specific conditions allow producers to take advantage of market windows for fruit exports.

Over 40 years, Codevasf built 28 irrigation projects. In the past, Codevasf purchased the non-improved land, built infrastructure (roads, energy, administration) and irrigation system (canals and pumps), divided land in areas from 5 to 200 ha lots for investors, attracted farmers, made water and energy available. Codevasf also charged fees based on lot size, fees to cover operation and maintenance, and the producer paid energy fees to the energy supplier. After the land was occupied, project was ready, than Codevasf transferred responsibility of operation and maintenance to an association of producers, named district.

Why this old model failed, bringing more than 50% of idle land? Mostly because it was production driven, and not market oriented or demand driven. Problems of lack of marketing, excess of production, low prices, lack of coordination, lack of innovation, products only directed for local consumption, subsistence farming in some producers, opportunistic intermediaries paying low prices to farmers, lack of scale, bad selection of producers, complicated proprietary issues. As a consequence, there are no taxes, no payments, no economic development and no return for all the investment done by government in the region.

In 2010, after 5 years working together with World Bank and University of Sao Paulo, Codevasf is proposing a new concept. This concept already has an invitation to bid approved, and the auction will be in 2010 (for more information, see www.pontal.org). Brazilian government wants a consortium company (can be an engineering company plus a food processor) that will occupy the area. This consortium will receive the land for free, and has to, within 6 years, finish constructing the common irrigation infrastructure (U.S. $50 million, which will be reimbursed by Government). It has 6 years to establish agricultural operations in all 8.000 ha, will be responsible for Pontal water supply, operation and management (estimated costs of U.S. $3,8 million/year, also reimbursed), install one or more anchor companies (food producers), and the new idea: this anchor food company should have a minimum of 25% of the land (2.000 ha) occupied by local farmers (suppliers), selected among 1500 farmers listed by Codevasf, with a maximum area of 20 ha each.

This food anchor company should be demand driven and have coordination capacity. Government expects it to do training of the farmers and have financial capacity. Company should also be able to face market risks, capacity for diversification of fruits and processed foods. The Pontal project has 30.000 ha of total area, being 8.000 ha irrigable. Has a huge impact since it will be the first (PPP) public-private partnership of Lula government and will settle the framework for another 500.000 hectares. The objective is sustainable agricultural production facilitating regional economic development. Land will be used for 25 years, plus preference for other 25 years. The higher the amount of integrated farmers (suppliers) offered by the consortium and the anchor companies, the higher the chance to win the bid and get this 8.000 ha irrigated land for free.

It is a new concept, where government is paying for land occupation in a modern and integrated way. Represents and can represent an outstanding opportunity for food companies wanting to expand production outside, to complement and diversify its offer, without having to buy this land. This new concept of integrating smallholders to modern food chains was what impressed more than 200 executives that discussed this opportunity in Harvard, and is a possibility also for governments to develop economically some areas of countries, with inclusion, which in my view, is one of the most important words for the new decade.

## Conclusion

This article brought some discussions about international investments. It is just a small contribution to discussions on this topic, trying to put in a simple language, possibilities for governments, organizations, institutions, to cooperate and build public policies towards an improvement in the capacity of bringing more benefits and inclusion with international investments.

## References


1. Brouthers, L.E., Werner, S., Wilkinson, T.J. The aggregate impact of firms' FDI strategies on the trade balances of host countries // *Journal of International Business Studies*, 1996. − №27, Vol. 2. − pp. 359-373.
2. Caves, R. Multinational firms, competition and productivity in host-country markets // *Economica*, 1974. − №41 (162). − pp. 176-193.
3. Christiansen, H., Omand, C., Charlton, A. Incentives-based competition for FDI: the case of Brazil, Organization for Economic Co-operation and Development – OECD, Directorate for Financial, Fiscal and Enterprise Affairs, March, 2003.
4. Driffield, N., Munday, M. Industrial performance, agglomeration, and foreign manufacturing investment in the UK // *Journal of International Business Studies*, 2000. − №31, Vol. 1. − pp. 21-37.
5. Dunning, J.H. Location and the multinational enterprise: a neglected factor? // *Journal of International Business Studies*, 1998. − №29, Vol. 1. − pp. 45-66.
6. Dunning, J.H. Multinational enterprises and the global economy. − New York: Addison Wesley, 1995.
7. Liu, X., Siler, P., Wang, C., Wei, Y. Do local manufacturing firms benefit from transactional linkages with multinational enterprises in China? // *Journal of International Business Studies*, 2009. − №40. − pp. 113-130.
8. Liu, X., Siler, P., Wang, C., Wei, Y. Productivity spillover from foreign direct investment: evidence from UK industry level panel data // *Journal of International Business Studies*, 2000. − №31. − pp. 407-425.
9. UNCTAD, DTCI. World investment report 2010: transnational corporations, agricultural production and development. − New York: United Nations Publications, 2010.
10. Wells, L.T., Jr. Multinationals and the developing countries // *Journal of International Business Studies*, 1998. − №29. − pp. 1001-1114.