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CHALLENGES AND OPPORTUNITIES BROUGHT BY FOREIGN DIRECT INVESTMENTS IN BRAZIL

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ABSTRACT

This paper analyzes the challenges and opportunities brought by foreign direct investment in general and in Brazil particularly. The study is based on literature review and statistical data show that foreign direct investments have important effects on the business environment of the host country as they bring productivity improvement, formal employment and income generation, increase on the export level, establishment of firms with high innovation standards and the capacity to improve the quality of national products, with some degree of technology diffusion, increases in the network of suppliers and possible buyers, and the introduction of new strategies of business management, logistics as well as other ways of modernizing industrial structures. It concludes that the major benefits from foreign direct investments are the change on local companies strategies. The study also shows that investments are concentrated on most developed areas and that there is no specific strategy for investment attraction to the less economically favored areas of Brazil.

1 INTRODUCTION

Only very few countries in today’s world, namely Japan and Korea, have developed without the massive aid of foreign direct investment. Among the nations that have been presenting the most expressive growth rates during the past few years such as China, India, United Kingdom, Ireland, and others, foreign direct investment has been playing a prominent role, based on appropriate policies.

However foreign direct investments have important effects on the business environment of the host country as they induce positive externalities increasing the competition level among local companies. That is why some authors consider the arrival of those enterprises a threat to local industry, especially because they affect micro, small and medium sized firms.

The objective of the present paper is to present the challenges and opportunities brought by foreign direct investments in general according to empirical and theoretical literature on foreign direct investments on a globalized world and specifically the contribution of foreign direct investment in Brazil’s business environment as well as its impacts in Brazil’s less developed regions.

A literature review on the determinants for the location of Foreign Direct Investments followed by a literature review on the impacts of foreign direct investments in the business environment of the host area. The Brazilian case is specified on part four.

2 LITERATURE REVIEW ON THE DETERMINANTS FOR THE LOCATION OF FOREIGN DIRECT INVESTMENT

Foreign direct investment, from now on called FDI, can be classified into four categories: resource seeking, market seeking, efficiency seeking and strategic asset seeking, being in general the first two related to initial investments and the latter two related to
sequential investments accomplished by foreign companies already locally established (Dunning 1988 and 1994).

Resource seeking investments are those related to the exploration of natural resources, cheap and less qualified labor, whose supply is, obviously, the main advantage offered by the host country. According to Chudnovsky and Lopez (2000), investments of this type are usually export-oriented and usually work as enclaves in guest countries. According to Laplane et al (2000), the explanation for that type of investment follows the neoclassical model of factor endowments, although it considers capital mobility among countries. In general, resource-seeking investments are found in sectors that are labor and natural resources intensive and present large economies of scale, so that investors will take advantage of lower production costs than the ones that could be obtained in their home country.

The investments classified as market seeking aim at exploiting the domestic market of the host country (and eventually of neighboring areas). In this case, the investment is determined by the market size and growth rate of the destiny country and by the existence of tariff and non-tariff barriers for local market protection. In addition, transportation costs and the need of knowing about local market characteristics, culture and preferences, also promote that investment type. According to Chudnovsky and Lopez (2000), this strategy was predominant in Latin America during the import substitution period.

Efficiency seeking investments focus on specialization, distribution and production rationalization. This type of investment is based on market seeking investments, in order to take advantage of economies of scale and scope resulted from a process of managing production of geographically disperse areas altogether. Such process suggests important insights about the constant changes on the behavior and performances of transnational companies and consequently, in the location of FDI.

Given the decisive role of the internal markets as main factor of investment attraction in the countries of MERCOSUR, especially in Argentina, Brazil and Paraguay, Chudnovsky and Lopez (2000) found a wide prevalence of market seeking investments among the transnational companies that operate in those countries. In Uruguay, however, although the predominance of investments (in numbers of companies or concerning the participation in the total volume of sales) have come to branches that are market seeking, during the 1995-1999 period, companies with a resource seeking profile were more active with regards to FDI than the market seeking ones.
In addition to the typology mentioned above, especially with regards to resource seeking investments, which is considered by several authors as the most common type of investment in developing countries, given the recent changes in the world’s economic structures and particularly in the ways transnational companies behave, it must be highlighted that economies of agglomeration, other determinant of FDI, that are not just limited to production costs and cheap labor supply.

According to Mucchielli et al (2001), for being a cumulative phenomenon, FDI location is a result of two forces: forward and backward linkages. The first reflects companies’ intentions to enter in other markets. The latter reflects their aim on the market for intermediate goods and competition. Therefore, the geographical location of a company can be explained by the generation of positive externalities, originated from a cumulative agglomeration process.

The use of the concept of positive externalities to justify the geographical location of companies is not new. A return to A. Marshall (1919 and 1982) is clearly present in the citations of Krugman (1991), and of Mucchielli et al (2001). They consider three factors of the Marshallian externalities that shall be used to explain the phenomenon of FDI location: job market concentration, intermediate inputs and technological externalities. According to Krugman & Obstfeld (2000) these same factors continue valid nowadays. An accurate example of industries that seems to have attained powerful positive externalities is the semiconductor industry, in the Silicon Valley (California).

According to Mucchielli et al (2001), many of the commonly mentioned examples, however, were products of a "historical" accident, although they also presented a combination of those three factors. Those historical accidents should be taken into consideration, especially when they are combined with elements such as peoples’ faiths, religion, habits and culture. Historical coincidences such as the presence of ancestors', for instance, produce a familiarity climate between the company and the area, what can be the lacking differential for the materialization of an investment.

However, in Krugman (1991), it stands out that what is important is not the matter of the initial historical accident in itself, but the nature of the cumulative process of the three above-mentioned factors. In those cases, historical registrations show that two elements had an important role in these process: first, the cumulative process and second, the labor market concentration and specialized input supply.
3 LITERATURE REVIEW ON THE IMPACTS OF FDI IN THE BUSINESS ENVIRONMENT OF THE HOST AREA

In the specific case of developing countries and areas, it is common to think of FDI as the most stable source of long term financing, because, in addition to the fact that the savings rates of these countries and areas are usually very low to finance large amounts of investment, credit access is also restricted for local companies.

FDI, however, results into something more than mere long term financing. Given that the attraction of companies that are serious and committed to the development of a certain area demands a proper business environment, the practice of good governance in the host country may be stimulated by FDI.

According to Christiansen et al (2002), Smarzynska (2002), Klein et al (2000), the main effects of FDI on the business environment of the host country are: productivity improvement, formal employment and income generation; increase on the export level; establishment of firms with high innovation standards and the capacity to improve the quality of national products, with some degree of technology diffusion.

With respect to productivity spillovers FDI improves the productivity level of local companies, horizontally and vertically (Smarzynska, 2002). The first case happens when the presence of a foreign company increases the productivity level of a specific sector. That happens, for instance, when domestic companies copy the technology of their foreign competitors or they recruit specialists from those companies. The vertical benefits as a result of FDI refer to an increase in of productivity in several sectors of the company.

In addition to the introduction of new technologies and improvement of national product quality, for Christiansen et al (2002), Smarzynska (2002), Klein et al (2000), Chudnovsky (1999) and other authors, FDI also increases the network of suppliers and possible buyers, and the introduction of new strategies of business management, logistics as well as other ways of modernizing industrial structures.

This happens from the moment that FDI induces technical qualification and capacity building of suppliers through the direct knowledge transfer, promotes the establishment of stricter requirements for quality control and logistics, transfers know-how through skilled labor movement, increases the demand for intermediate products, generating
economies of scale for interlinked sectors of a production chain and accomplishes operational and organizational restructurings of production processes with substantial productivity gains.

Such initiatives result into positive externalities for other companies, taking the local industry to a new technological landing, and even to the establishment of a parallel chain of services to assist the new demands of this other industrial reality.

The fear that transnational companies will increase the competition level among local companies of a certain economic sector, crashing local competition is very common. Authors such as Stiglitz (2002), Carvalho and Silva (2001), consider the arrival of those enterprises a threat to local industry, especially because they affect micro, small and medium sized firms, the main inducers of economic development in several regions.

Given that the arrival of a transnational company leads a particular industry to a modernization process, it is natural that some non-competitive companies leave the market. These situations can be softened through agreements such as joint ventures, but the most important to keep in mind is the fact that, while some companies are leaving the market, others are being established to meet the new market demands.

Besides, with the expansion of the entire network created among suppliers and buyers, the technology transfer and other benefits resulted from those companies, is very likely that the number of firms that benefit from those investments is larger than the one that are harmed by them.

However, according to Smarzynska (2002) policymakers should be aware that in markets with high levels of competition, the entrance of foreign companies, especially through incentives, is not advisable when the goal is to boost horizontal productivity, mainly because it can result into the creation of unfair competition or the establishment of a monopoly. In situations like that, the author suggests that competitiveness should be increased through import liberalization and anti-trust policies.

With regards to job creation and the preservation of labor regulations, FDI results on immediate employment generation in several economic sectors, as well as it increases the level of trade. In the case of companies like Nike and Levis Strauss in countries as China, Indonesia and Vietnam, for example, Jacobson (1998) shows that even if poverty reduction is not a company’s main goal, there would be no employment generation in areas like those without it.
Some authors like Krugman and Obstfeld (2000) and Carvalho and Silva (2001) disagree. They argue that the arrival of a transnational company does not result into an increase the income level because they tend to settle down in areas with large supplies of cheap labor and low environmental and labor regulations. However, for other authors, such as Klein et al (2002), the first positive effect of FDI is employment and, consequently, income generation. In the long run, FDI tends to raise the income level and labor skills, and as productivity increases and is diffused into the sector, other people also benefit from these changes.

It is important to point out that FDI flows go to areas of high net profitability, what justifies the fact that most of the world’s FDI flows go to developed countries. In Canada and in Switzerland, for instance, where there is free capital and labor mobility, and in spite of the different regional tax systems, FDI location depends on factors such as infrastructure, safety etc.

Concerning labor regulations, it must be highlighted that TNCs tend to respect those rules because they are committed to preserving a suitable image in the international market thus not incurring into the risk of labor sanctions (Martin and Keith, 1999). In that sense, Jacobson (1998) points out the importance of Non Governmental Organizations (NGOs) as regulatory agents, reinforcing the preservation of those rights.

When compared with other forms of promoting private investment, FDI also helps to improve corporate governance. When investments happen in areas with high corporate corruption levels, they do not generate positive returns. They become very costly given the bribes that have to be paid to government officials, for example.

According to Klein et al (2002) FDI also contributes to tax generation through the creation of backward and forward linkages. Many international investors also invest substantially on development projects regarding infrastructure, social affairs and research, among others.

For Potter (2002), some of the main benefits of FDI, are the basic features of that investment type. As previously discussed, since FDI demands a better performance of local companies through the introduction of new products and business strategies it contributes to the establishment of a more solid and competitive business environment.

However, the greatest changes on host economies will not only depend on the investment selection process, and the type of company being attracted, but on the monitoring
of their actions, once they are already established. Governments must develop a strategy, such as the construction of research and capacity building centers in order to assure technology transfer to other community members.

4 FDI AND THE TRADE LIBERALIZATION PROCESS AND REGULATION IN BRAZIL

Beginning in 1991, Brazil’s first major reform was the elimination of non-tariff barriers and lower of average import duties which, in 1990, were above 30%. Meanwhile, the country also joined Argentina, Paraguay and Uruguay to the creation of the MERCOSUR Free-Trade Area. Since then, Brazil has been acting in the international arena either alone, or through MERCOSUR. After that, import tariffs no longer exist for products made within the MERCOSUR scope (with some exceptions) and for products made up outside MERCOSUR’s boundaries, the average import tariff is of 11.8%.

Brazil’s trade liberalization process lead Brazilian government to search for new management strategies in order to deal with the country’s new economic context. According to Moraes (2003), meanwhile trade protectionism of the 1950’s allowed to start industrialization process in Brazil through a “jump beyond the tariff barriers”, isolating the country from international competition, the trade liberalization of the 1990’s, on the other hand, made possible the modernization of those firms already established in Brazil, submitting them to the international competition.

The second major reform was the privatization and opening of key sectors to worldwide competition. Such sectors were telecommunications, railroads, power distribution, steel and petroleum prospecting, among others. The strong flows of national and international investments towards those sectors have been a great incentive for the economy as a whole, and their modernization allows for opportunities of increasing the productivity levels of the other sectors.

According to Dunnign’s (1988) FDI classification, the investments that came to Brazil during that period were market-seeking since they were mostly motivated by the
dimensions of the country and of a healthy Mercosur. However, economic, political and social stability created an attractive political environment for FDI in Brazil.

The Real Plan brought back price stabilization into the country’s economy, which allowed companies long term planning. According to Moraes (2003) the fixed exchange rate regime which became known as "exchange rate anchor", and its "exchange rate bands" would give firms important hints about exchange rate movements, based on the domestic and international prices (purchase power parity). Thus, the relative stability of prices as a result of a relatively stable exchange rate policy allowed companies to better plan their long-term strategies.

Inner-ring policies, in other words, the policies that have a direct effect on FDI, are basically made of rules and regulations about the FDI arrival and operations on a host economy. They consist on standards for dealing with investors and the establishment of market regulations. Quite a number of states within the Brazilian Federation made use of tax incentives as a tool to attract FDI, and put together a whole package of financial incentives for infrastructure building. The "income effect", created by the reduction of the inflation rate during "Real Plan", increased the demand for products, specially durable consumption goods.

For a better understanding of FDI patterns in Brazil, the impacts of privatization in the Brazilian economy cannot be disregarded. Launched in 1990, the National Privatization Program has led to the sale of more than 90 federal and state companies, reversing the situation of the 1970s when almost 70% of GDP was controlled by the government.

During the 1990s, federal and state governments left control of key sectors such as the steel, petrochemicals, fertilizers, railroads and telecommunications, to the hands of private sector.

They also sold majority and minority holdings of many companies, from hotels to textile industries. Parts of government control of the energy and gas sectors were also transferred to private management, as it happened with most government banks. Several government banks were auctioned and public services such as telecommunications and hydroelectric supply were rendered to the private sector through concessions.

In that sense, the sectors that were mostly affected by the privatization process were: telecommunications, energy, mining and steel, petroleum and gas, financial, petrochemical, sewage, among others. The Brazilian privatization process resulted in a total inflow of US$ 105.3 billion, by 2001, concerning sales of federal assets (including debt
transfers), being 62% of this total from the sales and concessions of telecommunications and
electric power companies and 16% from the sale of mining and steel companies.
Consequently, the largest privatized companies were: Cia Vale do Rio Doce, for US$ 6.9
billion (including debt transfers), Telebrás, CVRD, Banespa, Light etc. Most of the
investments came from countries such as USA, Spain and Portugal.

The Brazilian privatization process happened through public auctions. In many
cases, the auctions were decided among consortiums, many of which combined national and
international companies. Foreign companies had an important role in the privatization
process, investing heavily to modernize their acquisitions. Federal privatizations were
managed by BNDES – Brazilian Development Bank, which also managed this process in
several states.

The privatization program was accelerated in 1994 and became one of the most
important elements of State reform. National Congress changed the Constitution and
abolished state monopolies in the petroleum, telecommunications and electric power
(generation and distribution) sectors. To follow the performance of those companies that were
privatized, the Brazilian government created special agencies, with the duty of regulating their
respective markets and to balance common interests of investors, consumers, social and
economic development. The managers of these institutions are nominated by the Executive,
whose nominations are ratified by the Congress through fixed terms. The main regulatory
agencies are: Petroleum National Agency; Electric Power National Agency;
Telecommunications National Agency; Water Resources National Agency; Terrestrial
Transport National Agency; and the Aquatic Transport National Agency.

The duties of these agencies can be delegated to state agencies. For instance, in
the State of São Paulo, Electric Power Public Service Commission regulates electric power
services and gas channeled through agreements with Petroleum National Agency and the
Electric Power National Agency. At the same time, the Economic Defense Management
Council has been accomplishing an important role as a mediator for mergers and acquisitions,
aiming at the establishment of a modern anti-trust legislation system within the context of a
globalized economy.
5 METHODOLOGY AND DISCUSSION OF RESULTS

This study is based on theoretical as well as empirical literature review considering twenty international references and on statistical data from the Foreign Capital Census of the Brazilian Central Bank covering the period from 1999 to 2004.

Since the beginning of Brazilian industrialization process, transnational companies (TNCs) occupy a prominent place, starting particularly, from mid 1950s, when the TNC inflow in the Brazilian economy accomplished fundamental dimension. During that period, while the great North-American companies, and soon after the Europeans, began to look after expanding their operations and internationalizing production, Brazilian domestic economic policies began to promote FDI inflow and TNC operations setting as basis for the country's industrialization. For that reason, multinational branches established and took up leadership roles in many industries, especially durable consumption goods (POSSAS, 1982).

In the early 1980s, foreign owned companies represented 38% of the total revenue in the manufacturing sector (Bielschowsky, 1992). With the negative effects of the Brazilian economic instability during the late 1980s, in 1990, their participation fell to 32.6%, since the ones that were already established in the country had to gradually implement strategies to reduce the volume of their operations. Such strategies, whose objective was to preserve the profitability of the companies, were characterized by a decrease on investment flows and by the adoption of defensive measures, with regards to financial and productive aspects of their operations, which resulted into a low level of involvement in the local economy.

The undertaking of investment inflows during the 1990s was an important aspect of strategic internationalization. According to Laplane et al (2000), from an annual investment inflow close to one billion dollars, in the beginning of the decade, and of less than US$ 500 million, in the 1980s, from 1994-5 onwards, investment inflows were intensified as the process of economic stability began along with a recovery of domestic demand. By the year 2000, FDI inflows to the country were up to US$ 32,5 billion.

Even with the international financial crisis of Asia (1997), Russia and Brazil itself (1998), FDI flows to Brazil grew at high rates: 51% in 1998, and 10% in 1999, unlike what was happening with other developing economies, especially the ones of Latin America.
FDI inflows to Brazil during that period was quite superior to world’s rate with respect to other countries, which resulted into an increase of Brazilian participation in the global FDI flows. In the 1987-92 period, for example, Brazil represented 0.9% of the world’s total FDI flows. In 1998, that index went up to 4.5%, whereas the Brazilian participation in international trade flows is much lower, not surpassing 1%, and has been kept practically for years. According to Laplane et al (2000), in 1997, Brazil represented about 2.8% of the world’s GDP. In 2001, Brazil occupied the third place in the ranking of developing countries, and the tenth position in the general ranking of FDI host countries during that period.

The United States is Brazil’s major investor, being responsible for about 26% of the total of investments. In other words, approximately US$ 1 in each US$ 4 dollars invested in Brazil come from that country. Spain, is the second largest direct investor in Brazil, being responsible for 32.11% of the total FDI in the country. Another country whose operations in the Brazilian economy are worth mentioning is Portugal, whose participation in the Brazilian market increased from 0.3%, in 1995, to 5.4%, in 2004. Spanish and Portuguese investments in the Brazilian market are attributed to the Brazilian privatization process, mainly in the section of telecommunications.

Although investment was spurred by privatization and public service concessions, the greater share of revenues came from mergers and acquisitions and green-field investments. Despite of the fact that there are several specific factors that influenced foreign investors' decisions for choosing Brazil, according to Laplane et al (2000), the country’s dimensions and local market dynamics seem to be the most common factors of attraction, which characterizes FDI in Brazil as being market seeking.

There are not doubts that the structural economic changes (deregulation, opening and privatizations) the country went through played an important role especially in the service sector. Although these changes have removed obstacles to FDI inflow (and in that sense they might have been a necessary condition for such), the real factors of FDI attraction were the dimensions and the dynamism of the Brazilian domestic market.

Although Brazil has a strong tradition of conceding federal incentives according to the sector or regional location to promote the industrial development, the innovation of investment policies during the 1990s consists on the outstanding role of the incentives granted, through the influence of state governments, directly to specific projects. Independently of its potential return, the coordination of these incentives by several
governmental levels resulted into the concession of redundant incentives characterizing, according to the above-mentioned source, an unnecessary transfer of public resources to the private investors.

Today the main barriers to the FDI inflow in Brazil are justified by the country’s investment rate, its excessive tax burden, Cost Brazil (Custo Brasil), corruption, the uncertainties of regulation effectiveness, high violence indexes and criminality, lack of long-term financial programs and the government market interventions. In addition, there is a sense that Brazil’s investment incentives and regulations are not reliable in the long run, since they last according to political mandates.

In spite of the fact that Foreign Capital Census of the Brazilian Central Bank confirms the country’s outstanding performance as FDI attraction pole since 1995, one cannot disregard the regional centralization aspects this type of investment. In the year 2004, the Southeast region was responsible for 86.7% of the total share of foreign investment in Brazil. Whatever was left was distributed around the country in the following way: 1.5% are located in the North, 3.1% in the Northeast, 1.3% in the Center-west and 7.3% in the South. When comparing this distribution in the year 2000, with this same situation in 1995 (one year after the opening of the Brazilian economy), we conclude that the concentration of those investments has basically the same profile.

Concerning the distribution in the sub-unities of the Brazilian Federation, the 2001 Foreign Capital Census shows that in the year 2000, the State of São Paulo continued to host most of the country’s FDI (66%), given its market size, economy and infrastructure, which are in much better conditions than other Brazilian states.

The State of Rio de Janeiro (15.8%) comes as the second host area of the country. Although there is no joint action between the State Government, the Federation of the Industries and city halls, there is a natural investment flow to that state as there is in São Paulo, for basically the same reasons. The other States of the Southeast and South regions of the country, such as Minas Gerais (4.2%), Rio Grande do Sul (4%) and Paraná (2.7%) still get higher rates of investment than any other states in the other areas of the country. Among the North and Northeast regions, stand out the State of Amazonas (0.9%), Bahia and Pernambuco (both with 0.8%) and Ceará, 0.5%.

São Paulo’s leading role of FDI centralizing state has been practically unaffected in the 1995 – 2000 timeframe, although FDI distribution during the 1995-2004 period shows...
that while states as Minas Gerais, Bahia and Pará, have been loosing their share of FDI attraction, states like Rio de Janeiro, Rio Grande do Sul, Pernambuco and Paraná had expressive increases. Rio Grande do Sul, for instance, in 1995 hosted 2,6% of Brazil’s FDI. In the year 2000, the state almost doubled its share, hosting 4% of FDI inflows to the country. On another hand, Minas Gerais, that was responsible for attracting 6,4% of Brazil’s FDI in 1995, was the destination of only 4,2% of that investment type in 2004.

In the Northeast, although Bahia and Maranhão are the two major FDI regional hosts, in the period in focus, their share fell from 1,5% and 1,3%, respectively, in 1995, to 0,8% and 0,7%, in 2000. On the other hand, Pernambuco and Ceará increased in their participation as FDI destination. In 1995, those states hosted, respectively, 0,1% and 0,3% of those type of investments. In 2004, their share increased to 1,8% and 1,5%, respectively.

In general terms, there are several reasons to explain FDI geographic concentration in Brazil during the 1990s. First, due to the existence of economies of agglomeration in the Brazilian Southeast and South regions which privilege FDI strategic location with regards to the domestic markets and the Mercosur. Second, because the area holds the largest share of the domestic market and is granted with the country’s best infrastructure for logistics and distribution. The area also accounts for the greatest share of Brazilian exports. In addition, the region holds the country’s major research centers and national universities and, consequently, skilled labor, being the center of Latin America’s largest financial centers.

However, it must be said that FDI’s concentration in the Southeast part of Brazil is a limiting aspect of industrial growth in other areas in the country. FDI decentralization would allow for value added in national production by increasing the supply networks, which integrated to other local realities, would pressure federal, state and municipal governments to improve infrastructure conditions in those areas. This new reality could turn several products internationally competitive, opening these regions to international markets.

As stated by Rodrigues (2003b), by 1998, there was a solid institutional understanding that Brazil had a favorable environment for attracting new investment opportunities. However, given the lack of specific Federal government programs to decentralize FDI from the Southeast into less developed areas of the country, state governments began to take a proactive role in the process FDI attraction.
A state’s capacity to organize public and private institutions to establish a favorable business environment has been a crucial factor for FDI attraction, also allowing for settlements that are less dependent upon federal government's incentives. Aware of Brazil’s new economic context when stability came along after the Real Plan, some Brazilian states, especially Ceará, were organized to change their traditional advantages, starting to attain attractive investment opportunities.

6 FINAL CONSIDERATIONS

Direct foreign investments are considered important tools for enhancing local business environment, for the following reasons: (1) modernization of industrial structures; (2) the transfer of technology and new business practices; (3) maximization of export capacity; (4) employment and income generation, assuring the enforcement of labor and environment regulations; and (5) promotion of the practice of good governance.

However, the major benefit attributed to FDI as a regional development tool it is the change they produce in the essence of local companies, resulting on more competitive firms.

The literature on the determinants of the location of transnational companies is still very incipient and the theories about this issue (theory of the comparative advantages, agglomerations, and the option approach), although complementary and useful, are not still definitive.

The major determinants of FDI are: (1) size and market features; (2) economic growth potential, (3) business environment; (4) high trade barriers; (5) strategic location with relation to other markets; (6) economies of scale; (7) infrastructure availability, (8) favorable regulatory system; (9) fiscal incentives; and (10) transparency.

Although there is not a single theory that defines the degree of relevance of each one of those factors, the government of a host region can be very influential on a company’s decision-making process inner-ring and outer-ring policies. As international experience shows, a region’s differential relies on its investment promotion policies and facilities to companies operations.
Most of the researched authors argue that fiscal incentives are not the major determinant of FDI when the potential host area holds the above mentioned determinants however, in practice these instruments are, a lot of times, crucial for FDI location.

The experience of several countries such as Spain, Mexico, Turkey and China shows that FDI concentration in most developed areas of a country, is not only a characteristic attributed to the Brazilian context. In fact, it is a worldwide feature once developed countries are the world’s major FDI hosts. The difference is that in spite of Brazil’s vast historical records of regional development programs, there is no record of a specific a strategy for FDI attraction to the poorer areas of the country. In addition, its economic development programs and federal agencies created to take care of this matter have a limited duration, since their lives last according to the duration of political mandates.

Given the lack of a national strategy for FDI decentralization from the South and Southeast regions of Brazil to less economically favored areas, the creation a distinct policy for FDI attraction in the state and federal levels would be a very interesting innovation in the current economic context if the country. This is because strategy of FDI attraction requires a different approach from what is established by national investment policies, beginning by the need of recruiting bilingual professionals, who are aware of the local economy opportunities and features, and understand local investment regulations and incentives.

An understanding of the missing links of the region’s strategic productive chains and the promotion of studies about FDI features is also crucial. It would be very helpful to know, for instance: (i) how foreign investments in an area are motivated by reasons other than fiscal incentives; (ii) what kind of investments would fulfill the missing links of a region’s main production; (iii) which types of FDI would result into higher employment levels, among others. Actions such as those would indeed contribute to the improvement of economic development not only in the less favored areas of Brazil, but of any other nation.

7 REFERENCES


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