FINANCIAL GLOBALIZATION AND DOMESTIC POLICIES – WHAT IS THE NEW AGENDA?
Leane Cornet Naidin
Research Coordinator – BRICS Policy Center

Brics Economic Research Forum Conference – New Delhi, India (27 February, 2012)
Thematic Research Group of Development, Trade, Finance and Investment

**RESEARCH ASSISTANTS:**

<table>
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<tr>
<th>Name</th>
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<tr>
<td>Manuela Trindade Viana¹</td>
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<tr>
<td>Thauan Santos²</td>
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**INTERNS³:**

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<tr>
<td>Eike Nogueira Lhamas de Siqueira</td>
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<tr>
<td>Fernana de Castro Brandão</td>
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<tr>
<td>Julia Froimtchuk do Carmo</td>
</tr>
<tr>
<td>Mayara Louzada Alarcão Sobral</td>
</tr>
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</table>

¹ PhD Student at IRI/PUC-Rio; ² Master Student at IRI/PUC-Rio; ³ Undergraduate Students at IRI/PUC-Rio
The **BRICS Policy Center (BPC)** is a joint initiative of the Municipal City of Rio de Janeiro and the Pontifical Catholic University of Rio de Janeiro (PUC–Rio)

### THEMATIC RESEARCH GROUPS¹

1. International Politics and Multilateral Agenda
2. Development, Trade, Finance and Investments
3. Urban Development and Sustainability
4. Technical Cooperation and Science and Technology
5. Economic and Political Analysis
6. Innovation Systems and Development Governance

### MAIN GOALS

- To produce knowledge on the BRICS (research and analysis)
- To analyze the cooperative agenda of the BRICS, in order to contribute to the discussion of public policies
- Actions aimed at strengthening cooperation and exchange of information between research institutions from the BRICS countries

*¹ bricspolicycenter.org
The Debate

This presentation aims to discuss some elements for the debate of a common domestic agenda among the BRICS countries

• Issues for research and elements for discussion among BRICS countries
  – The study of the effective linkages between financial capital flows and structural transformation¹
  – The discussion of the relevant policies for promotion of foreign investment and the necessary economic domestic policies
  – The “policy space” debate.

¹ UNCTAD (2012)
BRAZIL – A brief overview of some domestic policies
Brazil’s macro economic performance has become a reference by harmonizing economic stability and growth.

During 2005–2010, the increase in industrial production growth rate was 15%, the increase of Brazilian formal employment growth rate was 22%, and the increase of GDP at current prices was 143% (reaching US$ 2,144 trillions).

- In recent years, the trade balance has been positive, but the share of imports has increased markedly – focus on policies directed to trade defense measures.

- In 2011, the BNDES’ disbursements reached almost US$ 472,500 millions (manufacturing industry; trade and services; agriculture; and quarrying – focus on public financing) – focus on policies directed to public financing.

- Since 1994, focus on the inflation stabilization program.

- The last over-Selic target year (01/18/2012) is 10,5% a year.
An overall view of the Brazilian MNEs

The stabilization of the economy since 1994 and the trade regime reform drove the Brazilian industry from a protected and subsidized environment to an open and liberalized one.

- The lessons learned with the 1980s failures laid the groundwork for radical restructuring of Brazilian domestic macro economic and commercial policies in the 1990s.

- Note the main role of the privatization process in the internationalization of Brazilian firms.

- During the 1990s, the location pattern of the Brazilian enterprises subsidiaries was mainly in Latin American countries (Mercosur).

- After the turn of the 21st century it changed, by entering the international arena via the establishment of subsidiaries in developed countries.

- The Brazilian MNEs had to deal with instability, lack of continuity, and the unpredictable nature of government actions, lack of investment in infrastructure, education and heavy domestic taxes that affect investment ("the Brazil Cost").
The Importance of Infrastructure Sector in the Internationalization of Domestic Enterprises

The largest Brazilian companies with organizational units abroad

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Size (sales US$ m)</th>
<th>First export</th>
<th>First plant abroad</th>
<th>Units abroad</th>
<th>Countries (sequence)</th>
<th>Mode of Entry (sequence)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrobras</td>
<td>oil</td>
<td>79,120</td>
<td>–</td>
<td>1972</td>
<td>100</td>
<td>LA, Africa, USA</td>
<td>Acq</td>
</tr>
<tr>
<td>Vale</td>
<td>mining</td>
<td>23,350</td>
<td>1949</td>
<td>1984</td>
<td>52</td>
<td>USA, EU, China</td>
<td>Acq, GF</td>
</tr>
<tr>
<td>Gerdau</td>
<td>steel</td>
<td>14,000</td>
<td>1980</td>
<td>1980</td>
<td>63</td>
<td>LA, USA, EU, India</td>
<td>Acq, GF</td>
</tr>
<tr>
<td>Ambev</td>
<td>beverage</td>
<td>14,400</td>
<td>1979</td>
<td>1993</td>
<td>35</td>
<td>LA, USA, EU</td>
<td>Acq, JV</td>
</tr>
<tr>
<td>Votorantim</td>
<td>cement</td>
<td>11,500</td>
<td>1997</td>
<td>2001</td>
<td>29</td>
<td>Canada, USA</td>
<td>Acq/JV</td>
</tr>
</tbody>
</table>

Notes: LA = Latin America; ME = Middle East; Acq = acquisition; GF = greenfield plant

Source: Ramamurti & Singh (2010)
Lately, Brazil has been increasing its share in the FDI inflows, net cross-border M&A’s and Greenfield Investments

<table>
<thead>
<tr>
<th>Host region / economy</th>
<th>FDI inflows</th>
<th>Net cross-border M&amp;As</th>
<th>Greenfield investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010¹</td>
<td>2011²</td>
<td>Growth rate (%)</td>
</tr>
<tr>
<td>World</td>
<td>1289,7</td>
<td>1508,6</td>
<td>17</td>
</tr>
<tr>
<td>Brazil</td>
<td>48,4</td>
<td>65,5</td>
<td>35,3</td>
</tr>
<tr>
<td>Brazil/World (%)</td>
<td>3,8%</td>
<td>4,3%</td>
<td>-</td>
</tr>
</tbody>
</table>


1 Revised.
2 Preliminary estimates by UNCTAD.
3 Net cross-border M&As are sales of companies in the host economy to foreign TNCs excluding sales of foreign affiliates in the host economy.
Since 2010 the “Competitiveness Plan”: stimulating investment, innovation, and foreign trade, but with an emphasis on trade defense

- The declared objective of the Plan is to increase the competitiveness of the domestic industry by encouraging technological innovation with increase in domestic production added value.

- New rules for Government Procurement – preferential margin of up to 25% in the bidding process for local manufactured goods and

- Domestic tax reduction for certain sectors conditioned to local content (automobile)

- Export incentives – reimbursement of export taxes

General Perspective: protect the national industry and increase in the “local content”

Discussion of the trade off between the protection of domestic industry and attraction of foreign investment – costs and benefits
As regards capital flows and FDI promotion, Brazil recently reduced to zero the tax on financial transactions of certain forms of capital inflows, aimed at the inflow of capital directed to long term investment, including, inter alia:

(1) transfers of funds from abroad to be held in equities on the stock exchange and;

(2) inflow of resources to acquire shares in initial public offering, provided that in both cases, the issuing companies are registered for trading of shares on stock exchanges. (Decree 7632/2011, Official Gazette, 1 December 2011.)

The relevance of policies tailored at aiming short term versus long term capital inflows
Now let’s start with an overview of the BRICS
Evolution of the FDI* from the BRICS

Increasing participation of FDI outflows from the BRICS in the past twenty years

- In 1990, the outward FDI flows from the BRICS represented only 0.6% of the world total amount. The scenario has been changing completely – the same ratio in 2010 reached 11.1%.

- This shows the importance for the BRICS of spreading their investments.

- Most of these investments are directed to developing countries, regional and related to each country’s zone of influence. Fewer flow of investment between the BRICS countries.

Source: BPC based on UNCTADstat; * FDI (Foreign Direct Investment)
Evolution of the FDI* inflows to the BRICS

Importance of inflows to the BRICS

- In 1990, the inward FDI flows into the BRICS represented only 2.2% of the world total. In 2010, this share represented 17.8%.

This shows how highly regarded in the international policy scenario the BRICS group is being seen.

- Each country should seize the momentum to keep growing and investing through concerted domestic policies.

Source: UNCTADstat; * FDI (Foreign Direct Investment)
How the BRICS are performing

**BRICS increase their share in the FDI inflows, net cross-border M&A’s and Greenfield Investments**

<table>
<thead>
<tr>
<th>Host region / economy</th>
<th>FDI inflows 2010¹</th>
<th>FDI inflows 2011²</th>
<th>Growth rate (%)</th>
<th>Net cross-border M&amp;As³ 2010¹</th>
<th>Net cross-border M&amp;As³ 2011²</th>
<th>Growth rate (%)</th>
<th>Greenfield investments 2010¹</th>
<th>Greenfield investments 2011²</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>48.4</td>
<td>65.5</td>
<td>35.3</td>
<td>8.9</td>
<td>15.1</td>
<td>70.5</td>
<td>43.2</td>
<td>59.7</td>
<td>38.2</td>
</tr>
<tr>
<td>Russia</td>
<td>41.2</td>
<td>50.8</td>
<td>23.4</td>
<td>2.9</td>
<td>29.0</td>
<td>895.9</td>
<td>33.4</td>
<td>19.5</td>
<td>- 41.4</td>
</tr>
<tr>
<td>China</td>
<td>114.7</td>
<td>124.0</td>
<td>8.1</td>
<td>6.0</td>
<td>9.0</td>
<td>50.8</td>
<td>84.6</td>
<td>81.9</td>
<td>- 3.2</td>
</tr>
<tr>
<td>India</td>
<td>24.6</td>
<td>34.0</td>
<td>37.9</td>
<td>5.5</td>
<td>12.5</td>
<td>125.2</td>
<td>45.4</td>
<td>51.5</td>
<td>13.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.2</td>
<td>4.5</td>
<td>269.2</td>
<td>3.9</td>
<td>4.4</td>
<td>10.6</td>
<td>5.9</td>
<td>9.1</td>
<td>55.0</td>
</tr>
</tbody>
</table>


¹ Revised.
² Preliminary estimates by UNCTAD.
³ Net cross-border M&As are sales of companies in the host economy to foreign TNCs excluding sales of foreign affiliates in the host economy.
## Main data regarding international enterprises of the BRICS

<table>
<thead>
<tr>
<th>Country</th>
<th>Sectors</th>
<th>Region of Destination</th>
<th>Main enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>Oil &amp; gas, mining, steel, mobile</td>
<td>Commonwealth of Independent States and Europe</td>
<td>Lukoil (oil and derivatives), Norilsk Nickel (mining), MTS (mobile), Gazprom (natural gas)</td>
</tr>
<tr>
<td>India</td>
<td>Chemical &amp; petrochemical, automobiles and auto parts, metals, oilseeds, processed food products, petroleum exploration and refining, precious stones</td>
<td>Asia and Africa, Europe, and Latin America</td>
<td>Tata Steel (steel), Oil and Natural Gas Corporation (oil &amp; gas), Bharti Airtel (mobile)</td>
</tr>
<tr>
<td>China</td>
<td>Banking &amp; insurance, mobile, natural resources</td>
<td>Asia and Europe</td>
<td>China Life Insurance (banking &amp; insurance), China Mobile Telecommunications (mobile), Sinopec (natural resource), Agricultural Bank of China (agriculture)</td>
</tr>
<tr>
<td>South Africa</td>
<td>Raw materials (30%), finance (25%), communications (13%), diversified (12%)</td>
<td>Europe, Asia and Oceania, Africa</td>
<td>MTN Group Limited (telecommunications), Sasol Limited (chemical), Sappi Limited Netcare (pulp and paper), Gold Fields (metal and its derivatives)</td>
</tr>
</tbody>
</table>

Source: BPC based on Ipea (2011) and Ramamurti & Singh (2010)
There are still **restrictions to foreign investment** in domestic investment policies

<table>
<thead>
<tr>
<th>Country</th>
<th>Inward</th>
<th>Restriction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>The Federal Government’s actions aimed at fostering investment in infrastructure and technology-intensive sectors <strong>have no specific incentives to foreign investors</strong></td>
<td>Brazil’s regulations do not allow foreign participation in <strong>nuclear energy</strong>, nor <strong>hydraulic power generation</strong>. <strong>Purchase of property by foreigners in border areas</strong> requires specific authorization and the <strong>private participation in the prospecting and extraction of mineral resources</strong> are subject to specific requirements. <strong>Local content requirement in government procurement bids</strong></td>
</tr>
<tr>
<td>China</td>
<td><strong>Amendment in the Catalogue of Priority Industries for Foreign Investment in the Central-Western Region</strong> (opening the scope and coverage of sectors for FDI) New guidelines encourage FDI in certain strategic emerging industries, such as energy-saving, environmental protection and high-tech industries - high-value added production</td>
<td>Updated foreign investment guidelines and the list of restricted and prohibited items has been reduced. China prohibited foreign-funded investment firms from using loans obtained inside China to finance their expansion. At the same time, automobile manufacturing has been deleted from the list of encouraged industries. <strong>Foreign investment restrictions focus on local regulations</strong></td>
</tr>
</tbody>
</table>

There are still restrictions to foreign investment in domestic investment policies

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<tr>
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<tr>
<td>India</td>
<td>Updated circular further liberalizing FDI in a certain industries, R&amp;D on bio-technology pharmaceutical sciences/life sciences. Allowed foreign investment in singlebrand retail trading – from a previous 51 percent foreign ownership limit to 100 percent. However, for FDI exceeding 51 percent, at least 30 percent of the total value of the products sold will have to be sourced from domestic suppliers</td>
<td>FDI investment is prohibited in certain sectors: real estate business (except development of townships, housing, built up infrastructure, and construction development projects); business of chit fund; Nidhi company; trading in transferable development rights; and activities reserved for the public sector. India decided that FDI proposals for mergers and acquisitions in the pharmaceutical sector will be permitted only under the government approval route – and no longer under the “automatic” route.</td>
</tr>
<tr>
<td>South Africa</td>
<td>The requirement that national companies had to obtain a majority (i.e. over 50%) shareholding in foreign entities and/or projects outside of Africa was replaced by a minimum requirement of 25%</td>
<td>Sector specific legislation; existence of local minimum equity requirements for banks and insurance companies; businesses with non-resident ownership or control equal to or greater than 75% are restricted as to the amount they may borrow from local financial markets</td>
</tr>
</tbody>
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The present agenda

International coordination towards the design of new re-regulations to mitigate the effects of financial globalization do not deal with the domestic sphere of investment policy promotion.

BRICS countries have all gone through greater trade and investment liberalization processes and have become more integrated with the world supply chains of goods and services, but with diverse results.

The pressure for protectionism has increased as restrictive investment and trade administrative measures have accumulated over recent years but avoiding protectionism is a key as well as international coordination.

FDI policies interact with industrial policies, at the national level as well as internationally.

The challenge: to manage the linkage of these levels of policies so to lead to the attraction of long term capital inflows to promote infrastructure investment.
The present agenda

As is being proposed by UNCTAD (2012), as the “Paradox of Finance Driven Globalization” what are the linkages that need to be developed between financial driven globalization and structural domestic reforms that promote overall increase in productivity and investment?

Tailored made policies shall be designed to each country case, but finally, is this a “new old” agenda, is it in fact a “false paradox”?

Domestic reforms imply a trade off between domestic production protection and FDI.

The BRICS Policy center research agenda is focused on prospective issues, areas of convergence of interests in which further coordination is possible among BRICS countries.

Exploring opportunities in the present international scenario may place countries which adopt offensive rather than defensive strategies in a better of position in the future.
Thank you very much

Leane Cornet Naidin
lnaidin@gmail.com

BRICS Policy Center (BPC)
www.bricspolicycenter.org