

Impact case study (REF3b)

<p>Institution: University of Bradford</p>
<p>Unit of Assessment: C19</p>
<p>Title of case study: The Foreign Direct Investment Effects Model: Developing Policy Tools for Transnational Organisations</p>
<p>1. Summary of the impact:</p> <p>Bradford research led to the development of the Foreign Direct Investment (FDI) model which fed into the formulation of international policy tools: namely the Principles for Responsible Agricultural Investment (PRAI) and the Indicators for Measuring and Maximizing Economic Value Added and Job Creation from Private Investment in Specific Value Chains (IMMEV). PRAI was adopted by the Group of 20 (G20) Finance Ministers and Central Bank Governors in 2010 and is currently in use to determine relevant national policies aiming to attract investment in agriculture, in Africa and South East Asia. IMMEV is used to support the Development Pillar of G20 and its use is currently implemented in six countries (Bangladesh, Cambodia, Dominican Republic, Laos, Mongolia and Mozambique).</p>
<p>2. Underpinning research:</p> <p>The impact case study is based on the research activity of three members of the Bradford Centre for International Business: Hafiz Mirza (Professor 1995-present), Dr Mehmet Demirbag (Research Associate 1995-2003) and Dr Axele Giroud (Lecturer 1997-2006). The research was carried out during their period of employment at the University of Bradford: the data collection took place between 1995 and 2003 with publication between 2000 and 2006. It involved two primary streams of research: the first exploring partner relationships in the context of joint ventures (1); and the second investigating supply linkages between transnational corporations and local suppliers (2,3,4) and focusing particularly on issues surrounding technology transfer (5).</p> <p>The findings of the first research stream identified and confirmed the importance of clarity of expectations, long-term commitment and trust building by foreign enterprises, which combined with pursuit of technology transfer and the transmission of business culture augers well for success. This was developed further by Giroud (5) who advanced a framework for deciphering the process of technology transfer from transnational corporations through backward linkages (i.e. through engagement with local enterprises further down the value chain). The results of the second stream of research demonstrated empirically that nurturing strong relations with foreign affiliates through targeted capacity building, training and dedicated policies, (particularly with those affiliates with considerable autonomy from the parent economy), can augment linkages with local suppliers and boost spillovers to the local economy, especially in specific contexts. Indeed, the findings illustrate that outcomes may be influenced by the following factors: sector, market orientation, size, source country, government, and education and human resource development policies.</p> <p>The research led to the development of the Foreign Direct Investment (FDI) model that captured the complexity of direct, multiplier and spillover effects of foreign investment for development. “Direct” effects – e.g. employment creation, dedicated investment in skills development and re-investment – are short-term impacts; multiplier effects – e.g. tax yields leading to infrastructure initiatives and the positive effects on consumption of increased employment and wages – begin to gather pace in the middle-term; and spillover effects – e.g. skills and knowledge being indigenised in the wider economy are long-term impacts, but the automaticity of this transfer should not be assumed. Evidence from Association of South East Asian Nations (ASEAN) countries was used to underpin the model. The research showed that host country governments must balance policies carefully with regard to foreign investments, in the short-, medium- and long-terms.</p> <p>The research and the FDI model have directly influenced policy design in developing countries and regions (and the work of international organisations). Researchers from Bradford worked directly with international organisations: the Organisation for Economic Co-operation and Development</p>

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(OECD) (2003), Asian Development Bank (ADB) (2003), United Nations Commission for Trade and Development (UNCTAD) (1996-to date), and ASEAN (1997-to date). The ASEAN project underpinned the framework agreement on the ASEAN Investment Area (AIA) signed in Manila in October 1998 and the AIA was formally launched in 1999. Today the AIA is one of the foundation stones of burgeoning cross-regional agreements across ASEAN and east Asia. Thus impact since 2008 builds on research and engagement with international policy organisations over two decades. Other members of the Bradford Centre for International Business continue to build on this research and work closely with policy makers in the UK and overseas.

3. References to the research

1. Demirbag M, Mirza H. (2000) Factors affecting international joint venture success: an empirical analysis of foreign local partner relationships and performance in joint ventures in Turkey. *International Business Review* 9: 1-35.
2. Giroud A, Mirza H. (2006) Factors determining supply linkages between transnational corporations and local suppliers in ASEAN. *Transnational Corporations* 15(3): 1-32.
3. Mirza H, Giroud A. (2004) An analysis of benefits from FDI in ASEAN economies with special reference to Vietnam. *Asian Development Review* 21(1): 66-98.
4. Mirza H, Giroud A, Weiss J, Jalilian H, Freeman N, Mya T. (2003) *Regionalisation, Foreign Direct Investment and Poverty Reduction: The Case of ASEAN*. London: Department for International Development.
5. Giroud A. (2003) *Transnational Corporations, Technology and Economic Development. Backward Linkages and Knowledge Transfer in South East Asia*. Cheltenham: Edward Elgar.

The Journals above are double-blind peer reviewed publications of international standing. *Transnational Corporations* is published by UNCTAD, *Asian Development Review* is published by the Asian Development Bank, whilst the *International Business Review* is the official Journal of the European International Business Academy.

Further evidence of the quality of the research is evidenced by the following research grants:

Mirza H, Giroud A, Weiss J, Jalilian H. *Regionalisation, FDI and Poverty Reduction: The Case of ASEAN*, funded by the UK Department for International Development (DfiD) - £196,000 (2000-2003).

Mirza H, Giroud A, Koster K. *Foreign Companies and the Upgrading of Technological Competencies in Asian Economies*, funded by the Japan Bank for International Cooperation (JBIC) - £44,000 (1999-2001)

Mirza H, Bartels F, Hiley M, Giroud A. *The promotion of foreign direct investment into and within ASEAN: Towards the establishment of the ASEAN Investment Area*, funded by the ASEAN Secretariat/UNDP (United Nations Development Programme) - £75,000 (1995-1997)

4. Details of the impact :

The research has influenced the development and international adoption of tools in two areas of foreign investment policy: agriculture and value chain. Mirza's appointment as Chief of Investment Issues Research at UNCTAD, on secondment from the School of Management, constituted the culmination of a long process of engagement between Bradford researchers and trans-national policy organisations. In this capacity he is responsible for work on economic development impact and the thematic (research) section of the annual World Investment Report. This role links to related work

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throughout the UN system and sister organisations such as the International Monetary Fund (IMF) and the World Bank. In addition, Mirza continues as advisor to the ASEAN Secretariat (since 1997) (a) on investment matters, including co-authorship of the ASEAN Investment Report.

The findings of the DFID-funded Bradford study (2,3), underpinned the development of a number of principles (on economic, social and environmental impact) formulated within PRAI in recognition of the various types of impact and with the notion of testability in mind. PRAI has been conceived as a policy tool that when applied to agricultural investments enables policy makers to analyse the potential impacts of a proposed policy and identify unintended consequences that may have negative impact. It significantly reduces the chances of generating negative externalities (for example through competitive pressures on local producers, capital repatriation and loss of control), resulting in positive impacts (on employment creation, economic growth etc). Mirza was directly involved in the development of PRAI (in his UNCTAD capacity) alongside the Food and Agriculture Organisation (FAO) (b), International Fund for Agricultural Development (IFAD), and the World Bank in 2009. The PRAI was subsequently adopted as a key policy tool by the G20 in its 2010 Summit. The World Bank testimonial (c) states that “*your model delineating the routes of FDI impact on developing host countries ... is proving very useful in our work with governments*”.

From the outset the PRAI was viewed as a living policy tool that would evolve with better knowledge and information from further research and use in practice. In order to generate information that would assist the enhancement of PRAI as a policy tool, UNCTAD and the World Bank (under the leadership of Mirza) conducted an international study of 50 agricultural investment projects in Africa and Asia, using the study design and survey instruments that Mirza, Giroud and others had developed previously for the DFID study. As stated in the testimonial provided by the Ministry of Foreign Affairs of Japan to Mirza (d) ‘*the Bradford FDI impact framework that you deployed ... was ... important in helping to formulate and elaborate policies for international investment in developing country agriculture.*’ The results were recently presented in the Inter-Agency Working Group (UNCTAD, FAO, IFAD, & World Bank) Workshop at the Tokyo International Conference on African Development (TICAD V, 2013) (e). This led to support being given to PRAI at TICAD V by 47 African Heads of State and the Japanese Government. The latter is funding its implementation; first to operationalise the principles for use by governments and investors; and second to demonstrate their effective application for wider take-up. This work is a major component of the G8 “New Alliance Framework”, a partnership which includes all G8 countries and 10 African Development Partner countries.

A set of *Indicators for Measuring and Maximizing Economic Value Added and Job Creation from Private Investment in Specific Value Chains* (f), directly influenced by the FDI model, were developed by the UNCTAD and the OECD, with support from the International Labour Office (ILO), the UNDP and United Nations Industrial Development Organisation (UNIDO). More specifically, the 10 indicators developed build on the direct, multiplier and spillover effects identified in the model. They centre particularly around job creation in affiliates and joint venture partners/suppliers, wider value added through multiplier effects, and longer-term impacts on sustainable development (e.g. technology indigenisation, skills transfer and environmental impact). Conceived for the G20 Development Pillar, the indicators developed build on the value chain approach adopted in the original research. Indeed, as suggested in the testimonial of the Malaysian Investment Development Agency to Mirza (g) “*the Bradford model [showed] ... how linkages and spillovers work ... it is therefore important for MIDA ... to be able to translate the understanding of such new realities*”. In 2013, IMMEV are being implemented in low-income countries, through (i) benchmark studies of specific value chains, such as garments, tourism and logistics; and (ii) six country case studies: Bangladesh, Cambodia, Dominican Republic, Laos, Mongolia and Mozambique.

Impact case study (REF3b)**5. Sources to corroborate the impact:**

- a. Letter of support from the Deputy Secretary General of ASEAN
- b. Letter of support from the Director, Trades and Markets Division, FAO
- c. Letter of support from the Agribusiness Advisor, Sustainable Development Network, World Bank
- d. Letter of support from the Deputy Director, European Policy Division, European Affairs Bureau, Ministry of Foreign Affairs of Japan
- e. Presentation by Mirza on behalf of the Inter-Agency Working Group on PRAI to TICAD V – programme for the session is at
http://www.fao.org/fileadmin/templates/est/IAWG_side_event_at_TICAD_V.pdf
The presentation is at:
http://www.fao.org/fileadmin/templates/est/meetings/cfs39_rai/Field_testing_PRAI.pdf
- f. http://unctad.org/sections/dite_dir/docs/diae_G20_Indicators_Report_en.pdf
- g. Letter of support from the Executive Director of Strategic Planning, Malaysian Investment Development Agency