



NEGÓCIOS INTERNACIONAIS NA PERSPECTIVA DOS PAÍSES EMERGENTES

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Brian Silverman

Hello, it is very good to see you all again and some new faces as well. Once again, I will say thank you very much for having me here. It has been a wonderful experience for me, both to be with people at this conference on Wednesday and today, and also to meet with folks at various schools in São Paulo for the last several days. And my wife and daughter are still having a lovely time as well at various sites. So today – some of you who were here on Wednesday, you know that I spoke about cutting-edge issues in International business research and that was a fairly academic discussion, it didn't have a huge amount to say about implications for policy or for managers today.

What I'd like to talk about today is at least my best sense, my best guess of what international business research can say to policy makers and to managers. But I'll focus primarily today on the policy makers. (You know what, I'm going to take off the jacket right now – those of you who were here on Wednesday you know that I thought about this a lot.)

So, okay, let's see what I'm going to talk about. What you will see that I'm going to do today is the following. I'm going to try to suggest, at least from my point of view, that if you look at what researchers can tell policy makers, in many cases researchers can help policy makers make good decisions and help to say “this would be a good thing to do,” “this might have a good

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benefit,” and so on. There are also a lot of cases where what researchers can do is help policy makers recognize that what looks like a good decision may not be a good decision. In some sense, some of the best things that researchers can do is point out cases where we have to recognize that there are limits to what policy makers can do or what managers can do. And so policy makers have to be sort of careful, almost even humble in the degree to which they think they can take actions that will really change the world, which may not be the most optimistic lesson but it is a good one to have if it leads to an avoidance of bad decisions.

So here we go. I’m going to do it primarily through a few examples, but let me start off with a big picture -- oh, I’m sorry, let me start off with why we even have the right to talk about this subject. Why is it that IB scholars or scholars in any field might be able to come up with some insights that are useful to policy makers or to managers? Well, my sense is: this goes back to the beauty of Adam Smith and the division of labor. There are a lot of people out there working really hard dealing with issues that come up day after day, putting out fires. If you are a policy maker you’ve got to deal with things that come up day after day. If you’re a manager you’re dealing with things coming at you day after day. If you’re a journalist you’re mostly focusing on current issues and you’re working on a tight deadline. Those of us who are academics in some sense have the luxury of time. We have the luxury to sit back – well not sit back and relax – but sit back and think hard for a long period of time to understand what is really going on underneath the current events, underneath this tornado of issues that hit the managers and the policy makers everyday. So we have the time, and hopefully the training, to try to think about the underlying causes of what’s going on and thus identify patterns that wouldn’t be clear to someone who has to deal has to act everyday. We also have the incentive to question conventional wisdom. In many areas of research, the papers that are the most popular among other academics are the ones that flout conventional wisdom. If you come out with a paper that says, “gee, everyone thought this but it turns out that the world is really like that,” you get a lot of praise from other academics. And that’s good because that is a good incentive for people that are trying to look at the underlying causes of what’s going on. So that’s why I think that we as scholars have a real luxury to be able to take the time to think about these issues deeply. And in some sense we owe it to society to then try to help policy makers or managers to get some use out of this knowledge that we come up with.



So now to what I take, for me, are the big lessons when I sat down to think about this issue. The big lessons for scholars thinking about trying to add insight to policy are the following: Number 1: correlation is not causation. This is something that is crucial for folks who make decisions to really get at a general level, and I'm going to have a couple of specific examples to get at this, but just because two things happen to occur together doesn't mean that one is causing the other. And if we make policies while incorrectly assuming that one causes the other, that can be a waste of resources.

Number two: you can't change human nature and people don't stand still. They respond to whatever actions you take. So what this means to me is that people find ways to optimize their personal positions, given whatever the rules of the game are. And I don't see this as meaning that people are evil or bad in any way, this is just the way people seem to work. We have incentives we try to... We perform in ways that the incentives push us to perform, so we perform, we do things that will yield us the best utility or best profits or whatever it is that we are trying to maximize given whatever the rules of the game are. And because people do that and because incentives matter, the more that we can understand how these incentives are going to affect people the more that we can help policy makers or managers understand how their actions will affect others' incentives. The better we and they can predict what is really going to happen after a policy change. And finally, number 3: the status quo is very hard to change. That's the final big lesson when I think about this. And that just means that whatever the world looks like today, some people benefit from it, and those people are likely to fight very hard to keep this status quo rather than lose those benefits. And again, I don't think of that in terms of being evil or greedy or anything. That is the way it is and I'll have some examples about that. What this means is that this puts a lot of constraints on policy making because on the one hand it may be challenging to even know what the right policy ought to be, what lever can we push that will yield the results we want, and then it's hard to take into account how do we this when people are going to change their behavior in response to what we do and are going to fight against what we do? How can we actually push through policies that make sense so they will help will benefit the nation and the world. Let me, the way I'd like to go through with this is with a few examples that for me have been very exciting examples to think about.

The first one is about exports and productivity, and let me just say that I made these rankings up. The slides are going to stay with you and I don't want, I made these rankings up so I don't



want this to go out somewhere and people will say “Wait a minute Silverman doesn’t know what he is talking about because these numbers are all wrong.” But what I have here is: If you went to Canada and you took all the major firms and the medium-sized ones too and you put them in order from the most productive, the most efficient, down to the least efficient – in this case, the least efficient is Silverman Motors – and if you put them in that ranking and then you say “which of these firms exports and which of these firms does not export,” you get something that looks like this. So the order is made up but this is the pattern you get. So you see that all the high-productive, all the really productive firms, are exporting, or almost all of them. And all or almost all of the firms that don’t export are not that efficient, they are not that productive. Well, this may yield a policy implication. A minister or a lobbyist may come in and say “I’ve got a great idea. Look at that chart, the exporting firms are efficient. If we can use tax revenue to encourage the firms that don’t export to start exporting, they will hone their skills. They will get sharper in the crucible of global competition, and they will become more productive and that means better jobs for us. So it is worth taking tax revenue and putting it towards subsidizing non-exporting firms to become exporters.”

So as policy maker, do you support that policy or not? And as a scholar, what kind of advice can you give to a policy maker? Any thoughts? OK, I’ll, sorry, maybe the next one, fair enough, fair enough. Here is what some scholars said because this very debate took place in parts of Canada and what some scholars said is: “Wait, we have to remember: correlation does not mean causation”. Just because we see that high-productivity firms are exporting doesn’t mean that it is the exporting that causes the high productivity. It could be, there is a very good story why that might be the case. But there’s an equally good story that the firms in a country – in Canada – that are the most productive are the ones that then choose to start exporting, because they are the ones that can compete globally. And until we know the answer, until we know which of those things is creating this correlation, we don’t know what causes what and making a policy decision can waste a lot of money, because that tax revenue could go to other uses that would be better. Well there’s been a big debate in the academic literature in International business. One great paper is by Bernard and Jensen [Journal of International Economics, 1999] and the bottom line is: if you just look at a snapshot, it is really hard to tell what is going on, but if you look at firms over time and you identify the relationship between productivity and the decision to begin exporting, then you can determine what causes what.



So when a firm chooses to start exporting, at that point how does its productivity look compared to other firms that don't choose to export? And if you do this carefully you can also identify changes – you can see whether it is the high-productivity firms that choose to export or not, and there are also ways when you look over time to identify whether after I start exporting, does my productivity go up or not? And at the end of the day, the bottom line from this research suggests that high-productivity firms begin to export. There is much less evidence that firms that export dramatically improve their productivity by exporting. So this suggests if you're a policy maker a very, very different approach. It says something about “we need to work on policies that improve the productivity of our firms and then once they get that up, improve in the domestic market and once that comes, then they can start going abroad.” If we just try to pay them money to encourage them to go export now, it will probably be money that is wasted. Now this is still an unsettled area in the literature. There are still many professors who are debating this further. One of my colleagues, a guy named Dan Trefler, who is a brilliant macro economist, international trade economist, doesn't really, he is convinced that there's got to be some improvement after you start exporting that people haven't been able to measure yet. So, given time, he'll, maybe the next time I'm here the slide will look different, but for now this is an example of a policy, of advice that scholars can give to policy makers that is based on the idea that correlation is not causation, does that make sense? [Question from audience about data to study these issues.] Okay, great, you're going to see... my last slide by the way is going to say “how can policy makers help scholars to help policy makers?” and the main thing is give us data, right, because the more data we have the more accurately we can come up with description and prediction. So I'll come back I'll ask about that at the end.

Example 2 – this is a slide encouraging clustering of FDI. So there is a very hot topic these days which is geographic agglomeration, also called clustering or location. The basic point being... and this is by the way a slide that Michael Porter uses to talk about clusters. If you look at where stuff gets done, a lot of stuff gets done in clusters, so in the U.S we have the most famous one, Silicon Valley is the cluster, the geographical area, where a huge amount of computing and that kind of technology is done. But there are other clusters in -- if you believe Michael Porter, and I do believe Michael Porter – in North Carolina there is a cluster around household furniture and in his book [Michael E. Porter, *Competitive Advantage of Nations*, Free Press, 1990] he talks a bit about why that might be. A lot of folks in academia and in policy



making now believe that encouraging cluster development – doing things to help build a cluster – may be particularly useful in building up your country’s economic competitiveness. So you can imagine given this, clusters appear to be crucial to developing globally competitive industries, it may well be desirable to attract foreign firms to participate in these clusters. Get a strong household furniture company from some other country to set up a plant in your cluster and that might create some benefits, local spillovers for your guys. This might create some challenges for your domestic firms, but generally the sense is “the more the merrier” in these situations. So you can imagine a policy proposal: what if we provide something like a tax-free zone or another favorable policy to encourage foreign firms to set up plants not just anywhere in our country but in the cluster where we are already building something, as a policy maker do you support it or not? As a scholar, how can you help the policy maker decide?

[Nobody volunteers to answer.] Just like my MBA class I tell you. But I know these are unfair questions for me to ask you, you know I have a trick up in my sleeve in each case, It seems tricky right? I actually have two slides and whatever answer you give me I’ll put up a slide that says: “No, you are wrong.” But here is one take on it, and this is a bit of a stretch to use this term but I am going to do it anyway, this comes back to the: “You can’t change human nature” or the part that means incentives matter. What I mean by that is here is a story that will suggest that if we offer these attractions, then the very best foreign firms will locate in our cluster which is where we want them because we get the most spillovers to our local firms then. But if you think – and there are some scholars who thought – in sort of game- theoretic terms about “what really are the incentives of foreign firms to locate in a cluster in our country or to locate in our country, but away from the cluster?” the bottom line of some of this thinking is: If I’m this foreign company I want to locate in a cluster, in your cluster, only if being in that cluster enables me to get more than I give. I want to be there to benefit from your spillovers, and I don’t want to spill over a lot of stuff to you. Well the problem is, which of these foreign firms are more likely to be attracted to the cluster? If you believe these models, this way of thinking, then it is possible that it is the lower-quality foreign firms that will want to come to the cluster, because they have less good stuff to spill over to your local firms and they are more likely to benefit from whatever you’re doing in your local firms. The really high-quality firms, they kind of say: “Well, we’ll show up and everyone will benefit from what we’ll spill over, and we can’t really learn that much from the cluster. So we would rather locate away from the cluster”. So



this means that you might not get the firms you want inside the cluster. the best firms come to your country but go away from the cluster. In fact, there's been some recent research by Myles Shaver and Fredrick Flyer [*Strategic Management Journal*, 2000] among others. There is also a great paper by Wilbur Chung and Juan Alcacer [*Management Science*, 2002] about precisely this issue. And if you look at what they do is: they look at the location of foreign plants in a country. Do these plants go into a cluster or go somewhere else away from the cluster? Then they identify measures of how good is the foreign firm and also how well did that plant perform once it arrived and what they find is some fairly persuasive evidence, at least to me, that the higher-quality foreign firms really prefer to locate their plants away from the cluster, while the lower-quality firms will locate in the cluster. So this may not be bad, you may still want to encourage foreign firms to come in and they may still bring you all sorts of benefits, but if you are a policy maker and you are thinking that by providing these subsidies we may get the very best to come in, you may not get exactly the firms you want. So you should at least recognize this before making a policy decision about what kind of things to offer to attract these foreign firms to come in. Now this is very crude we could actually talk about all sorts of subtle things, this may suggest that the policies that you want to put in place should be tailored specifically to try to make it attractive for the high quality firms to come in, so you wouldn't offer blanket offers but you would try to get the right guys in. That's very challenging. But the general lesson is the more we think about how incentives matter and how the other people are likely to react, the better we can make policy. And for scholars, the more we can sit back and think about that for the individual situation we are facing, or our country is facing, the better advice we can give to policy makers. Does that sound ok? So far, this is a little dismal . I've given you two examples where the end result is: boy there may not be that much to do or at least the results are less beneficial than we expected. So let me be a little more optimistic for a second. The scholar who is widely read in the international business literature might say, "oh, but you know, policy maker or manager, there may be another way to capture spillovers. If the goal is to get benefits from the knowledge of the foreign firms there may be another way because there is some literature out there that says – and this is by Garrick Blalock who is at Cornell – he has found that if you look at multinational firms that put plants in particular countries what happens to the productivity of the local suppliers that end up supplying that multinational plant? And what he finds is that the local suppliers actually seem to get huge spillovers, at least in some cases, a lot of his work I think is in Indonesia. I don't remember what other countries he's looked at, but the



story he tells, and more importantly the research that he provides to test it rigorously, suggests that when a multinational firm sets up in Indonesia and starts working with the local suppliers, the supplier firms... the multinational tends to be very demanding, “you’ve got to reach some performance targets in terms of quality and in terms of price and we sometimes will help you do that it is in our interest to help you do that” and so the suppliers to the multinational firm tend to get big improvements in their productivity and sometimes reach the point where they can then go... they become the high-productive firms that can then export. So maybe we shouldn’t worry so much about getting these foreign firms to locate in the heart of our cluster. Maybe we should let them go where they want in our country and then encourage our local suppliers to set up a shop nearby, and maybe encourage the foreign firm to use our local suppliers at least for some of the inputs, and get benefits that way. So as scholars we might be able to point out other ways of achieving the same goal that a policy maker might have. So everyone comfortable with that? Great. I’m not keeping time, I have no idea of how we are doing but someone will hold up things at some point right?

Okay, example three and this one I’m feeling is an example that will be very familiar to folks so maybe I’ll go somewhat quickly through it but there are many cases where a minister or a lobbyist will propose a policy that is: “Look, if we weakened our property rights regime, right, if we made it easier for companies in our country to copy innovations that others have brought in or somehow... If we do this it should help our companies in our country because they won’t be prevented by the monopoly rights from doing the kind of best things on the technological frontier.” So again, as a policy maker do you support that or not? As a scholar, what kind of advice do you give? And it turns out there is a large literature on this that is old as well as recent so I’m guessing this isn’t a huge surprise, but this gets to the point that People Don’t Stand Still. You can’t expect that if you make a change in policy the world will stand still except for your policy kind of being overlaid on top of the world as it exists. What tends to happen is when you change a policy the people that are affected by the policy change their behavior. And what we’ve seen is that multinationals will systematically change their behavior in response to changes in policy. In particular, Joanne Oxley, one of my colleagues from the Rotman school, among others has looked at what happens when property rights are weakened or when property rights vary across countries and what we see is that multinationals typically will try to change where they locate things to actually locate less knowledge in the country that has weakened



property rights because they don't want as much leaking out. And they also tend to change the way they organize their subsidiary, the way they work with local partners and local suppliers, to reduce the risk that their knowledge leaks out. And one unfortunate downside of that is a couple of slides ago I said "Look there are these great spillovers when the foreign firm works with the local suppliers," but if the foreign firm isn't willing to work openly with the local suppliers and trade lots of knowledge because of this fear about knowledge leakage, then those spillovers can go away. So the bottom line is that there are a lot of policies that may have a short-term benefit in terms of a short-term boost for the innovation of our local firms or short-term boost in tax revenues if we change the policy, but the long-term consequences can be quite the other direction. I'm guessing that that's pretty conventional wisdom here.

And finally, this is my last example and after my example here I'm going to give three cases where I think that we can really add a lot of value on specific issues, but the last example, here is again, the Status Quo is Powerful. A minister or a lobbyist comes up with almost any proposal at all. It could be related to tax policy, to regulation, it could be related to labor law changes, anything. I'm going to give an example that has to do with child care legislation. The bottom line is, let's assume that this is a good policy. Let's assume that the policy maker and the scholar recognize that this would really be a good thing to do if we can make it happen. The problem is, someone is benefiting from the existing status quo, and people who are benefiting from the existing status quo like the existing status quo and will probably work hard to keep it the way it is. So a key challenge is, "even if I know that this is a good policy,,how do I actually get it passed? How do I get it intact in the face of opposition and for scholars? Is there any way we can help a policy maker figure out how to do this?" This also can be true for managers that want to pass certain things or influence certain legislation that are also facing opposition, and so this also plays out there. What the scholar can add is the fact that the status quo is powerful. Nations and smaller groups tend to get stuck in equilibrium. Stuck normally isn't a bad thing – an equilibrium just basically means that, given what everyone else is doing, I have no incentive to change what I'm doing – so we kind of all end up doing whatever we are doing and no coalition of folks has enough incentive to change things given the resistance that will come from those who would like to keep it the way it is. And those who benefit from the status quo tend to fight to protect their "rights." Let me... "rights" I have in quotes here because things that don't necessarily start as rights often end up becoming "rights."



Let me just get right to the example here. There are some recent advances not in IB per say, but political economy literature that is related to international business. This simply says you ought to have respect for how hard it is to change the status quo and also as you think about the new policy, think about what the status quo will look like after it's in place because odds are it will be very hard to change once you get it set up.

Question: would the situation in China where the communist party holds a lot of power and perhaps won't be willing to give it up to the new managerial class and other people that are coming up be an example of it?

Brian Silverman (cont.)

Absolutely, that is an example and that's an example from the top down because the policy makers are very much the people who also don't really want to have the change, other examples and building on that I'll give you an example...

Question: I read recently that the difficulty of the court in China becoming more powerful is that in order that the judiciary system to become more powerful that means that the communist party would have to recognize the power of the judiciary system which they don't want to do so.

Brian Silverman (cont.)

This is a classic problem that is very hard to unravel in the world. If you are an actual dictator you tend not to want to give up your power and set up institutions that can challenge you. There are very few enlightened dictators that have moved in that direction.

Question: Here in Brazil and in several other countries, social security, state security normally is something that grows a continuum and no one really wants to change the way things work or seems to want to change the way things work and everybody just sits around complaining, that is why nothing changes. Sometime is going to explode, that doesn't seem to be political will to change.

Brian Silverman (cont.)

Yes and this is certainly a problem in the U.S and in Canada and in just about every country that I know and these are very challenging issues. Here we are talking about top leaders of the country, we are talking about something that affects a great amount of people. So an example I'll give you is a bit different. In Canada for various reasons liquor sales are run by the state, is



that true for here too? No? So you are a civilized country, but in Canada, at least in Ontario and some other provinces, it is the province that runs the liquor stores. And this was done for various reasons which may or may not have made sense 50 or 60 years ago. The problem is that whenever privatization of liquor stores comes up for discussion, there is now an incredibly well organized group of workers who have very good jobs working at these liquor stores and they are very well organized and very vociferous in explaining why you should never privatize. And it has nothing to do with protecting their jobs of course, it is always public safety, and you know: "We do a better job of keeping alcohol out of the hands of kids and no drunk driving." but the point is: this is a group that believes that this job is now a "right." We've created an entrenched group that is not very large, but they care a lot about this issue and so it's basically impossible in Ontario right now to get out of the status quo, it's impossible to privatize. So what does this mean? It means you've got to think about these things along the way.

The example I want to give here... There is a professor at Stanford named Avner Greif who has done amazing work applying game theory to understanding institutions in a country, to understanding how the rules of the game are rules in the first place, and why they persist. And, most importantly, what would it take to change them? And by applying game theory to this question, what Grief and others have shown is: because you are in an equilibrium, you need a kind of "shock" to break that equilibrium and open the world up so that people can arrive at a new institution. Without that shock you're stuck. More importantly we can help anticipate which groups will oppose the change, which of these groups really have power and what type of shocks might be sufficient to break out of the equilibrium. Now this is still early-stage stuff, but I think we are getting to the point where we can help policy makers identify these.

I've got a bunch of slides here that are just pictures and I'm going to go through them very quickly to give you a flavor for what Greif is doing, Oh I'm sorry, the examples were down there on the bottom all the time. My family, that's actually codeword for my wife's family but I didn't want to say "my in-laws" on the slide. My in-laws are farmers in the U.S. U.S. farmers are a group that receives a lot of agriculture subsidies and farmers are really lovely people but they do seem to believe that it is a God-given right to live in a farm forever. I think it is great to live on a farm, but I'm not sure that taking my tax money to pay for them to enjoy farm life is the best thing to do. But this is a group that believes this is a right, and the subsidies are not



going away quickly, and we just have seen that with the collapse of Doha round of the WTO negotiations.

So that is my family. Child care in Canada, we just had a large debate, one proposed policy was: let's set up government-run child care at relatively low rates for people to send their kids, another proposal was: let's provide essentially a tax credit to people, so they can use that money to pay for child care for their kids. And the policy that ultimately was passed because of the government that is in power was the second of those two, we will give a tax credit. And there are arguments that are good on both sides about which should be the right policy, but to me when I think in these terms, and as a scholar if I have been advising the government although I wasn't in this case, one thing that would concern me is: the status quo after these policies are enacted are very different. In one you give money. While you can't easily take back the credit, you can let inflation make it smaller and smaller over time if you decide that is not a great thing to do, so you have a little flexibility to try to pull back that status quo. In the other case, just like with the liquor retailers, you create a group of child-care providers on the government payroll – people who are committed to keeping this child care around and expanding it every year. And while that may be a good thing, I'm not sure that to create a group that sees this as a..., our jobs are on the line so we've got to go out and fight for more funding every year, and grow it, and grow it, that is my personal view but that can give you a sense as to how thinking about what the status quo will look like is worth thinking about when you think about the policies in the first place.

The example I will talk about in a little more detail, which is the one about the “shock,” which is the key thing out of here... Let's see, let me tell you the story first and show you the pictures quickly. So this is a story from the U.S., In the U.S there was something called the Interstate Commerce Commission and its job was to regulate railroads and later trucking to make sure they operated in the public interest. For a long time there was state-by-state regulation and there was a big push by some groups to try to get this national interstate regulation. But there was big push back from the entrenched interests to keep that off the table, and in some sense the status quo of a little state regulation and no federal regulation was very appealing to a lot of the folks who were able to fight against any change. And the world could have stayed that way except that the U.S does have an independent judiciary, and the Supreme Court in 1884 or 1885 ruled that state regulation of railroads was not constitutional because only



Congress has the authority to regulate Interstate commerce. And so the States couldn't say anything to the railroads. That actually changed the status quo to the point that it was objectionable to enough people – that now a lot of people were not happy – that shock was enough to get people to break open their blinders, come back to the table, and arrive at what ultimately was the Interstate Commerce Commission. Now, whether the ultimate result was good or bad, I think it was good but that is not the point, the point is it that it was the shock from the Supreme Court's decision that pushed everything out of equilibrium and allowed a new equilibrium to be achieved. And if you are interested in that sort of stuff there are ways to think very systematically about the policy makers in your country, this obviously is the U.S. and in Brazil it would be a different set of policy makers, and what their interests are on whatever issue we are talking about. And think essentially in picture terms about game theory of what points could possibly become winning points, new equilibria. You can read Avner Greif's work, or I'll have other cites if you'd like to know more about this, but basically in the Interstate Commerce case, the situation is something like this [referring to picture on slide] and because of the way the U.S. works you need two out of three groups basically to make any change, not enough were interested in moving it, suddenly the status quo gets pushed to the side because of the Supreme Court decision and that opens up all sorts of things and ultimately the position gets pulled much closer to the middle. Bottom line, in general, when you apply game theory to policy making it is possible to think about in different curves for policy makers. If this is the status quo then this policy maker will be happy with anything on that line and even happier with anything that is closer, here you can do the same thing for the Senate or the other policy maker and the third policy maker and you can essentially find areas what we call the "win-set" areas, where it is feasible to move to a new equilibrium and you can also figure out how far you would have to shock the system out of the current equilibrium to then be able to move to a certain new equilibrium, now again, this is in early stages but I have very high hopes that ultimately this can be useful for researchers and for policy makers for thinking about making changes. The one other thing that I would say here this is a replication of my other slide – the big issue is, since each country's equilibrium is different we can't be sure that copying another country's policies will yield the same results for us.

And finally I wanted to end on a slightly more positive note with three quick thoughts about examples where IB scholars can really help policy makers take action. There you go:



“How can we encourage foreign investment into our capital markets?” Encourage transparency and good governance in our public firms. There is now a body of research – we’ve looked at a bunch of the factors that will lead foreign investors to invest in our stock markets, to invest in our public firms, and one of the biggest factors is: if our firms adhere to standards of good governance – essentially international standards here -- then foreigners are here to invest. If our firms don’t, then the foreigners are going to stay away and keep their money away. So if we can adopt these types of transparent governance institutions, that’s great.

“How do we encourage foreign investment in high-value plants”? Again, encourage transparency and good governance in government itself. Multinational firms are attracted to countries with stable, transparent institutions the way that moths are attracted to flame. And invest in human capital education and training, because again we now have a large body of research that says these are perhaps the biggest factors that will lead multinationals not only to come to your country and invest but also invest in high-value jobs instead of lower-value jobs.

And finally. “how to take advantage of the success of emigrants?” I think there is some evidence that we should be encouraging emigrants to visit the home country and perhaps return to the home country to set up ventures or to manage things that already exist here. There is this research that says that emigrants really serve as links. We worry about the brain drain but this is almost like a reverse brain drain, we lend the brains to the U.S. or Canada or Europe for a while and we bring them back along with all of the relationships that have been built up and these folks are in a great position to build ventures here that will have very close linkages, very successful connections, to other countries.

And the big lessons: 1) correlation is not causation, 2) you can’t change human nature and people do not stand still, and 3) the status quo is hard to change – that means to me that as a policy maker it is very good to be cautious, because it is easier to make bad decisions than good decisions and it is hard to unravel them after they start.

And how can policy makers help IB scholars to help policy makers? We need data! Please give us access to the data. This is a big discussion in Canada right now. The U.S. government is very good about giving access to all sorts of data, there is the problem that for some of the sensitive data you have to be an American citizen, but for a lot of it you don’t. But the key point is: one benefit of the U.S providing this data so freely is that there are a lot of great studies



about the U.S. and we know more about how policies work in the U.S. context, and we can give better advice to policy makers in the U.S., than anywhere else. The more access we have to data from Brazil the greater value we can add to supporting Brazil's specific policy makers and managers.

One question about using incentives to design policies for FDI, when you look at attracting FDI you have various frameworks like those you pointed out you can search for the better quality firms. What would be the good incentives for Brazilian companies going abroad, what would be the good incentives that we should think of for designing policies for DI overseas- Fredrik from ESPM São Paulo.

Brian Silverman

This reflects my biases as much as anything else, but I'm a big fan of getting the background rules right and getting the playing field right and then letting firms compete and do what they can. And they will be motivated hopefully in the right ways by search for profits and by national pride. For me, whatever you can do to encourage improvements on the productivity of your local firms in the local market would lead them, as they become more productive, would lead them to be more confident about competing internationally. There may also be policies to encourage them to go abroad at the right time, with subsidies or whatever. Then, depending on what multilateral agreements you are in, there could be problems with that, but the big thing is getting the companies to where they can run with the global firms. Getting them that productive so they will take from that, so policies that enhance training of the work force so that there are great people to hire that local companies can use to produce great things, possibly policies that bring in this foreign plants that then spillover to the local suppliers good knowledge, those are the kind of things that I typically think of that are a bit more hands-off then really getting in and trying to guide a firm to a particular country but that just portrays the caution that I feel in my personal perspective.

Question Alfonso Fleury from USP There is kind of a neutrality principle behind your thoughts, that science is neutral in a certain sense. So if you have an approach or technique or method that works with the States they will work for every other country in the world how do you work



with this there are developed countries and undeveloped countries they are different the ideological aspect would require a difference if you put in your picture.

Brian Silverman

That is a very fair point. I don't want to leave the impression that I'm an Imperialist who believes that whatever has worked in the States can work elsewhere, a couple of days ago I think I mentioned in the talk one of my biggest personal embarrassments was after the fall of the Berlin wall and after the breakdown of the Soviet Union, I believed that all that we needed was take the U.S. constitution, U.S. banking law and U.S. security law and stick them on Poland and the Czech Republic and everything would be fine. That clearly has not worked well, so I am much more humble and respectful of the idea that the context matters and what works in the States will not work anywhere else the same way, what I really like about Avner Greif's work is that when he talks about being in an equilibrium, and when he tries to model it, he is talking about country-specific or even region-specific-within-a-country institutions with their own history and their own logic and their own interdependences. And he even tries to think about beliefs and norms and ideology and fit those in these models more precisely. I hope that ultimately we reach a point when we apply this to Brazil or a particular region in Brazil with its history, and we will have some predictive power to this particular area. My sense is that the folks in this room are actually in a great position to add this part of the literature, in particular to understanding the idiosyncrasies of countries and so on and I encourage you to do it because I'd love to learn from you about that.