United Nations

FDI Policy Choices for Latin America & the Caribbean

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FDI Inflows and TNC Operations in Latin America & the Caribbean (LAC)

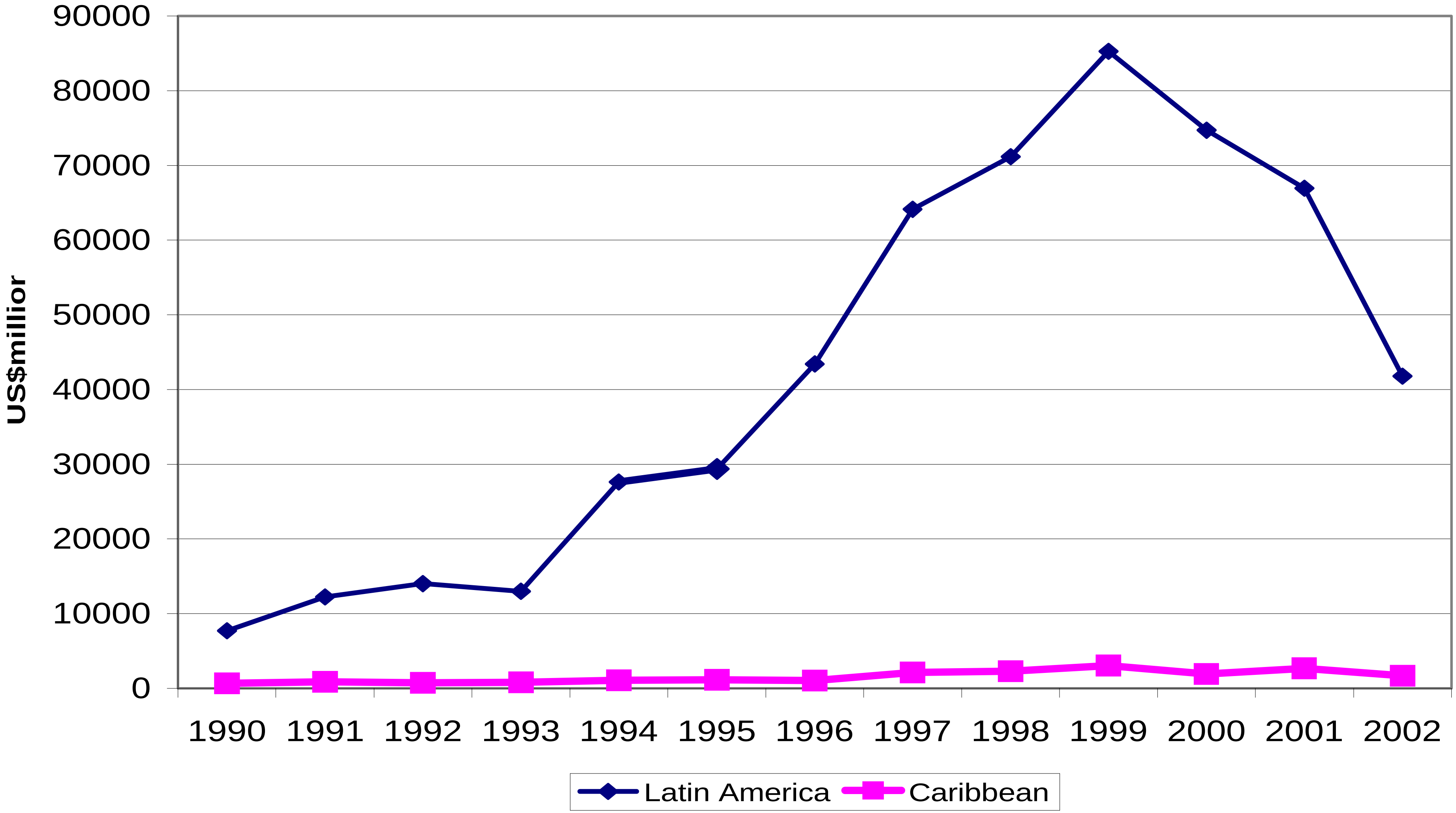
LAC: Net Inflows of FDI, by Subregions, 1990-2002 a/

(millions of dollars)

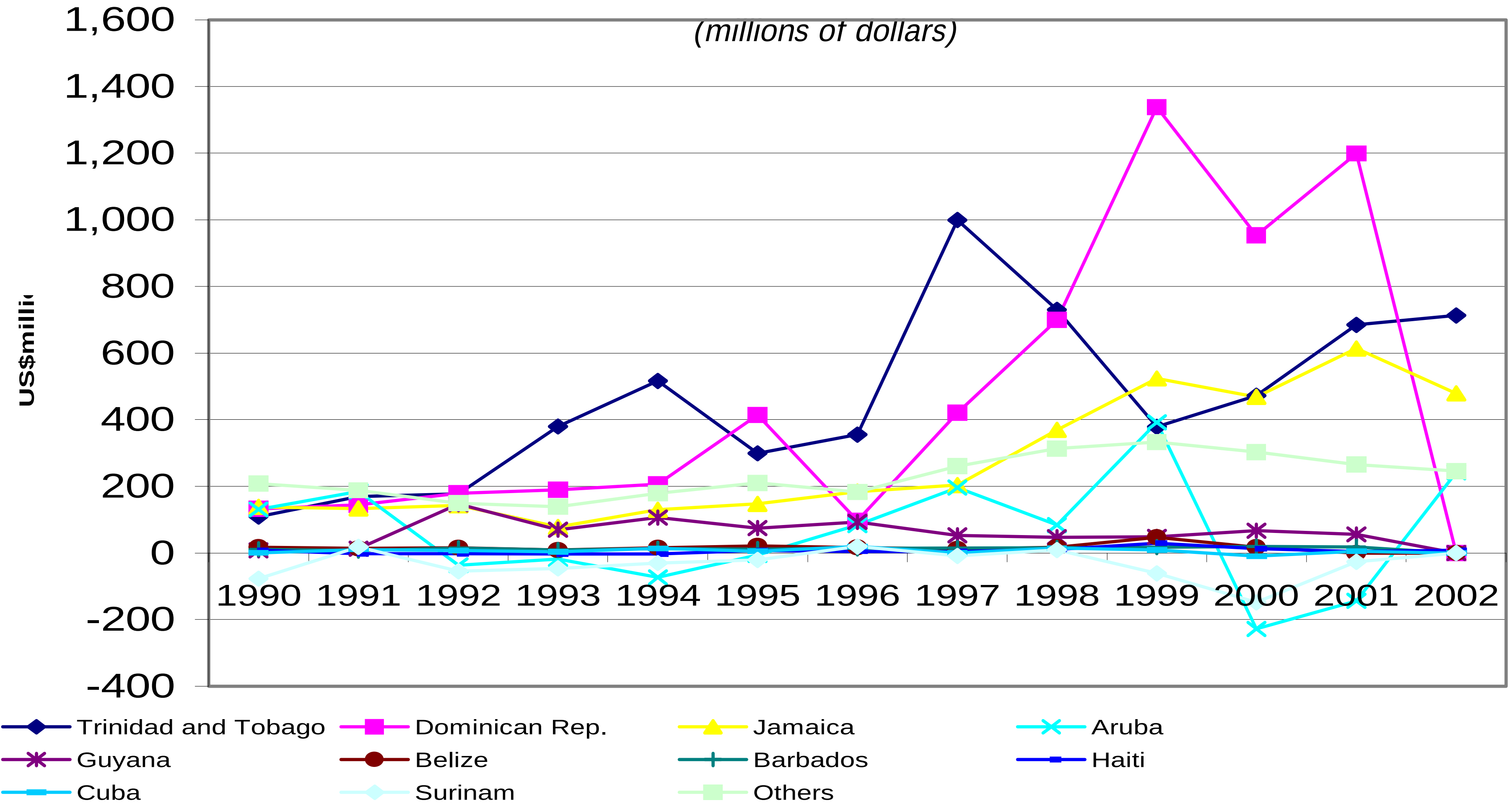
	1990-1994[b]	1995-1999[b]	1999	2000	2001	2002[c]
1. Mexico, Central America & Caribbean	6,846	15,229	17,984	18,263	29,465	17,409
2. South America	8,956	45,375	70,236	57,320	39,555	28,032
-Southern Cone	6,114	35,590	61,881	48,468	30,723	19,969
-Andean Community	2,843	9,786	8,355	8,852	8,832	8,063
3. Financial centers	2,506	8,914	19,810	18,855	14,993	12,000
Total	18,308	69,518	108,030	94,438	84,013	57,441

a/ Net inflows (gross inflows – capital remittances by the same foreign enterprises) b/ Annual average c/ Estimates

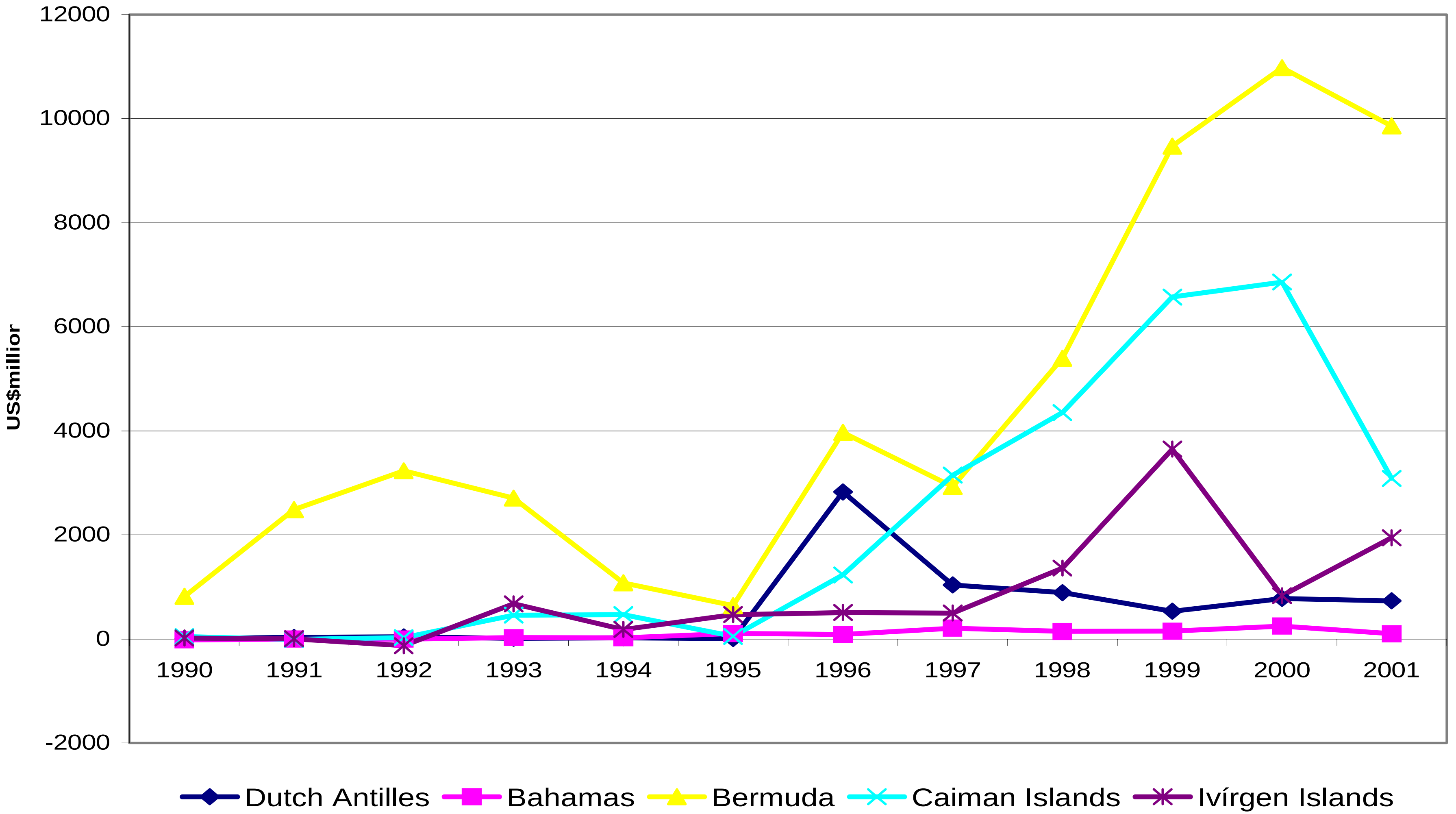
LAC: FDI Inflows during 1990 - 2002



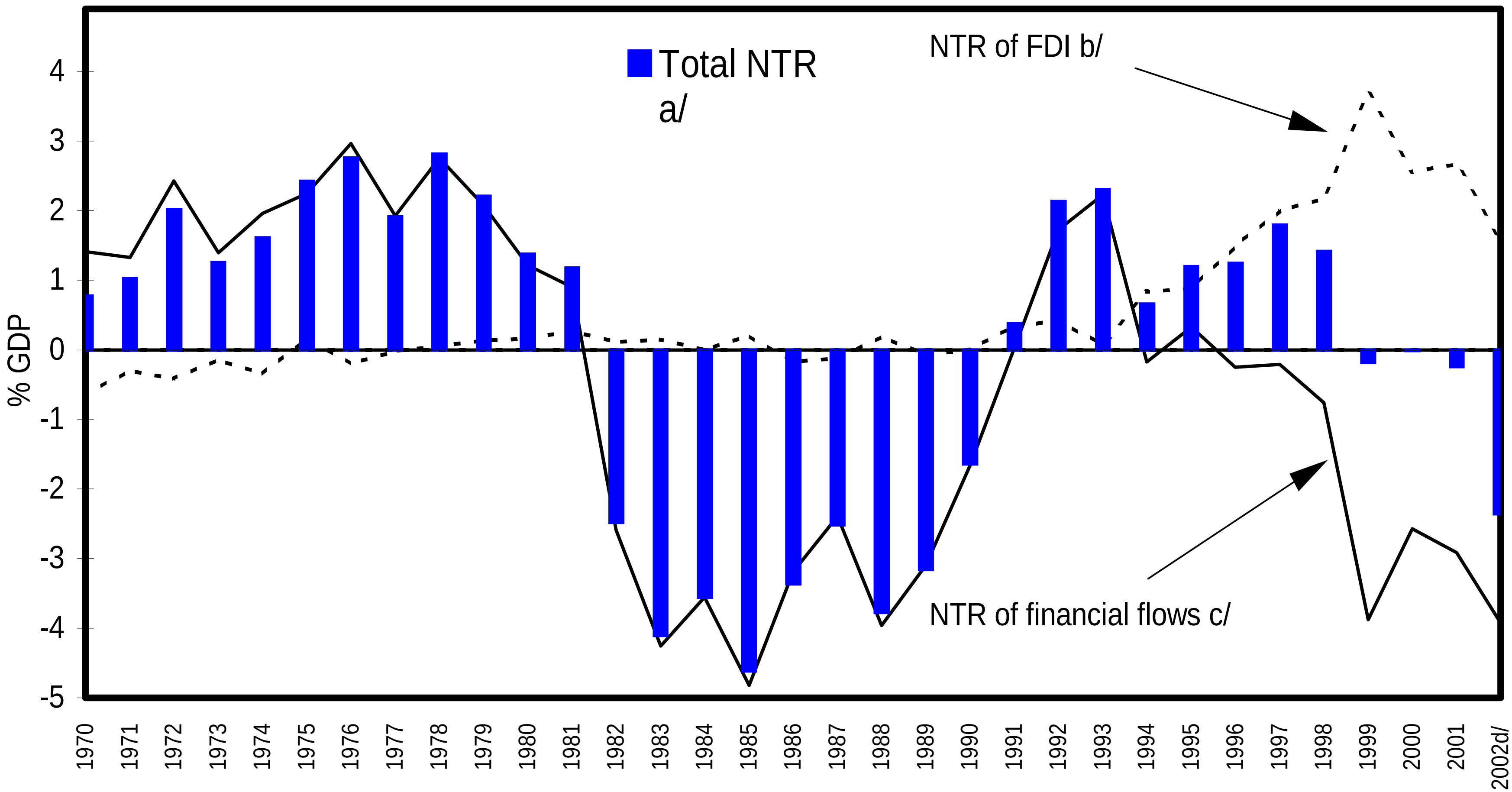
FDI Inflows to Caribbean countries, 1990 – 2002



FDI Inflows to Financial Centers in the Caribbean, 1990 - 2002

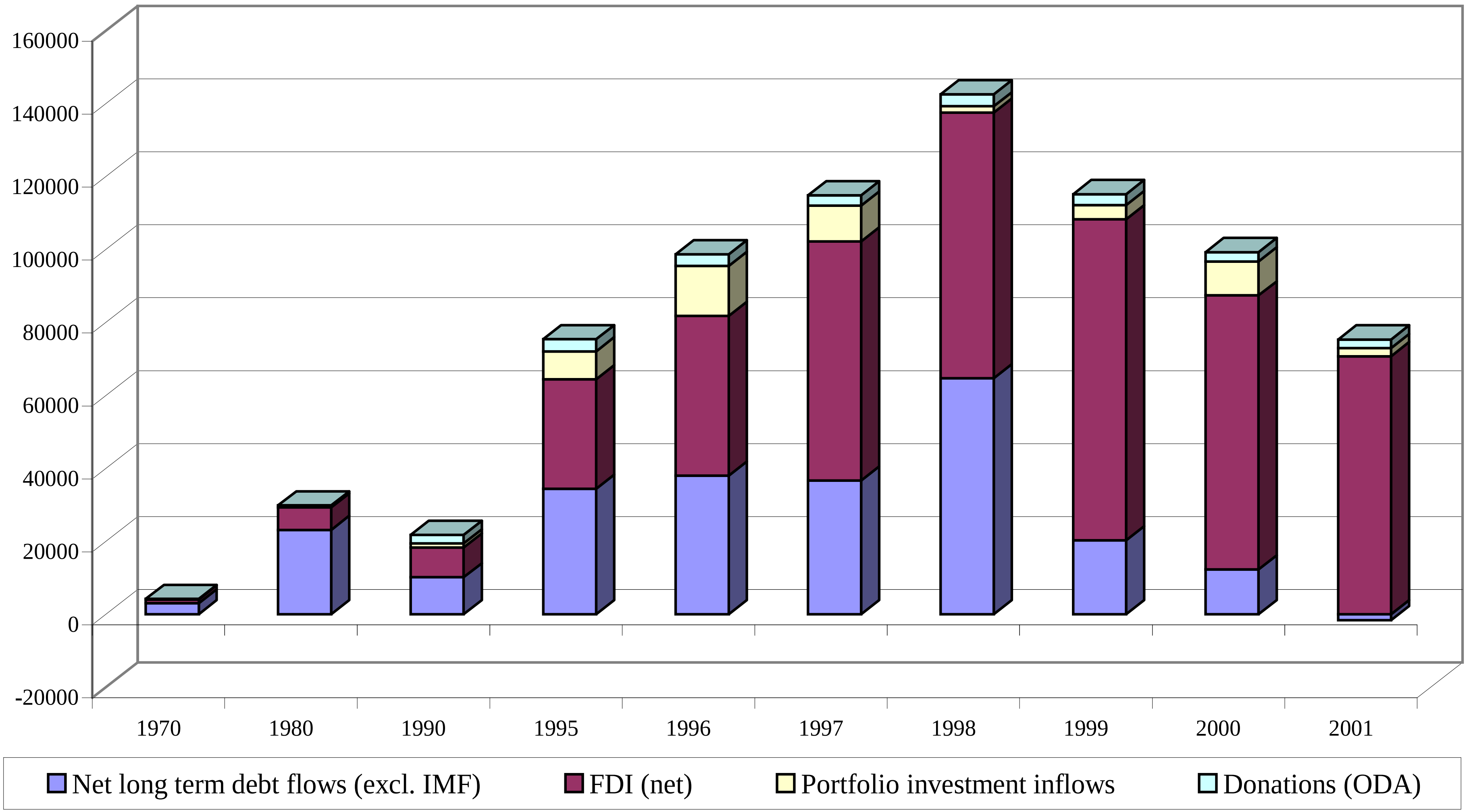


LAC: Net Transfer of Resources (NTR)

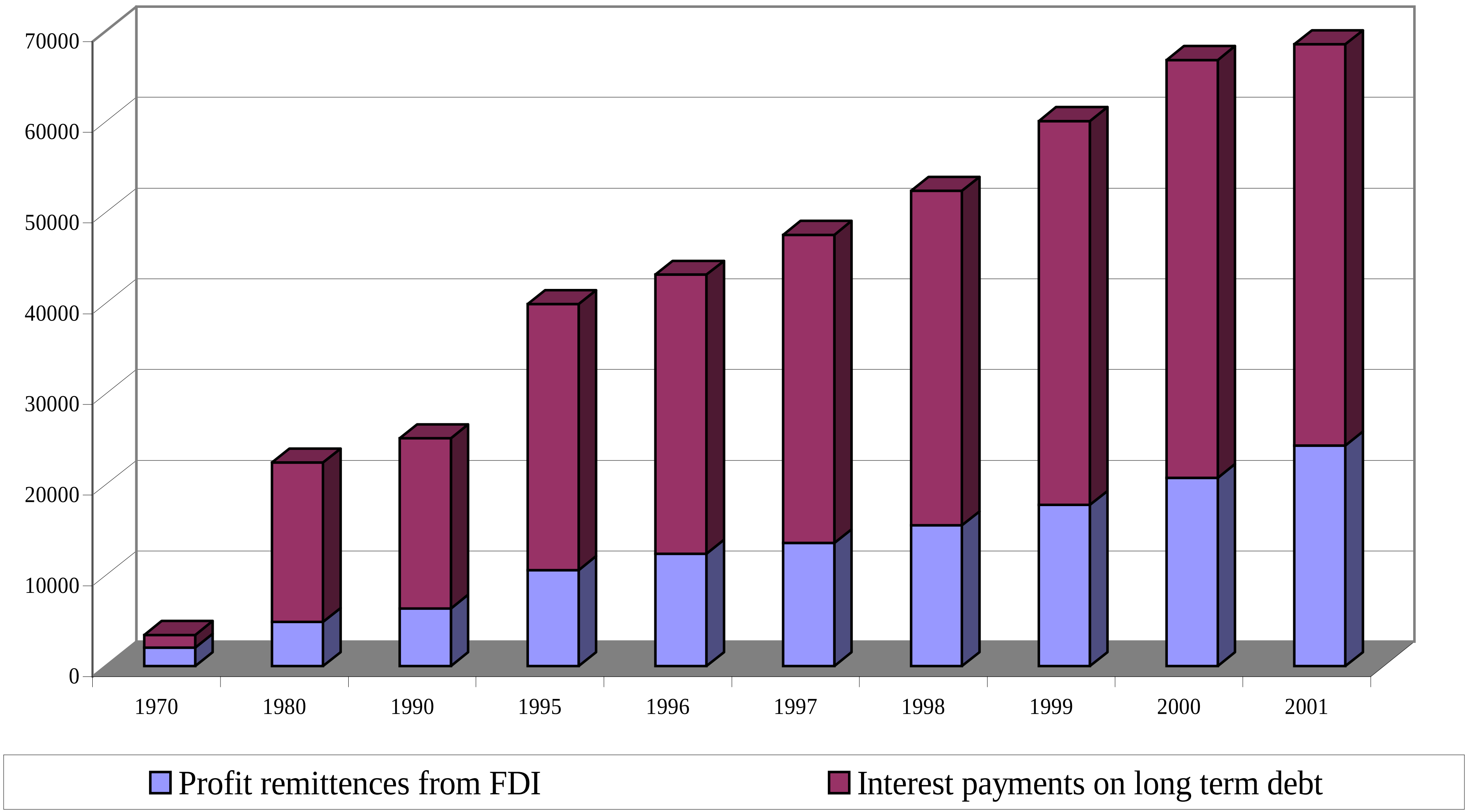


a/ The net transfer of resources is equivalent to the net inflow of capital (including net errors and omissions) less the balance in the factor payment account (profits and net interest payments). Negative figures indicate transfers to the exterior. b/ Equivalent to the net inflow of FDI less profit remittances. c/ Equivalent to the net inflow of other capital, different from FDI, less the net payment of interest. d/ Preliminary estimates.

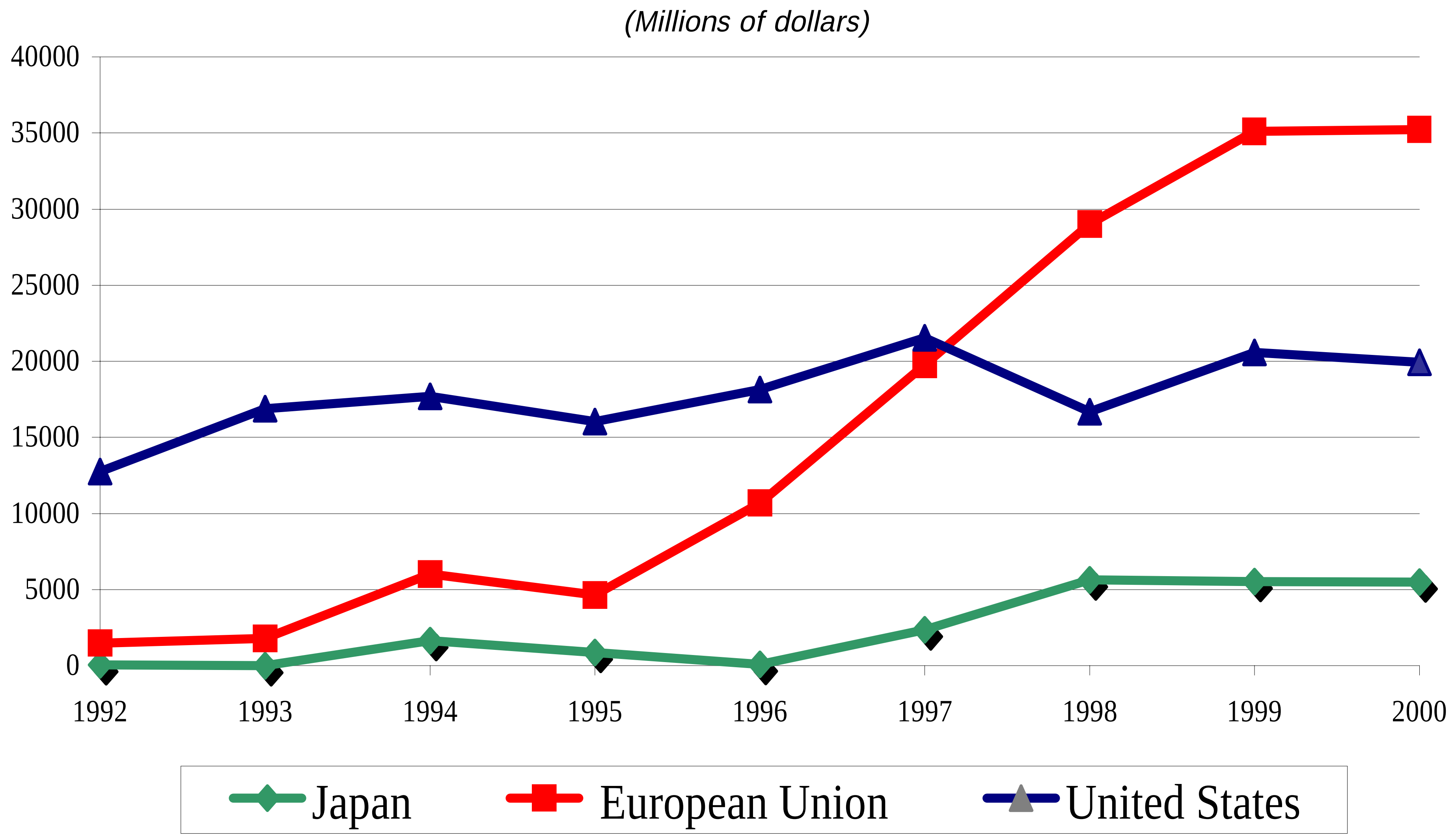
LAC: the share of FDI in net inflows of financial resources



LAC: FDI share of net financial transfers

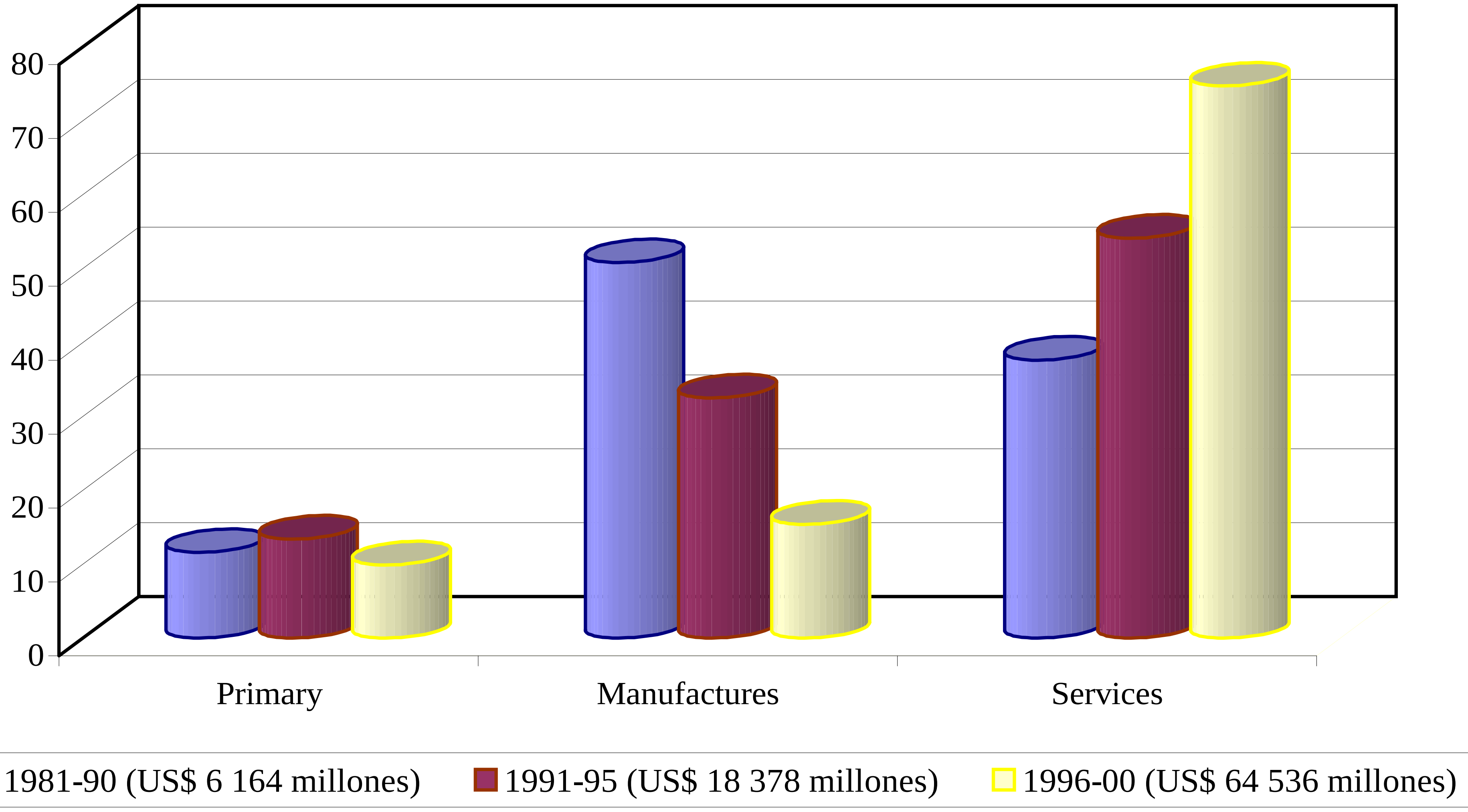


LAC: FDI inflows, by country of origin



LAIA: sectoral distribution of FDI inflows, 1981-2000

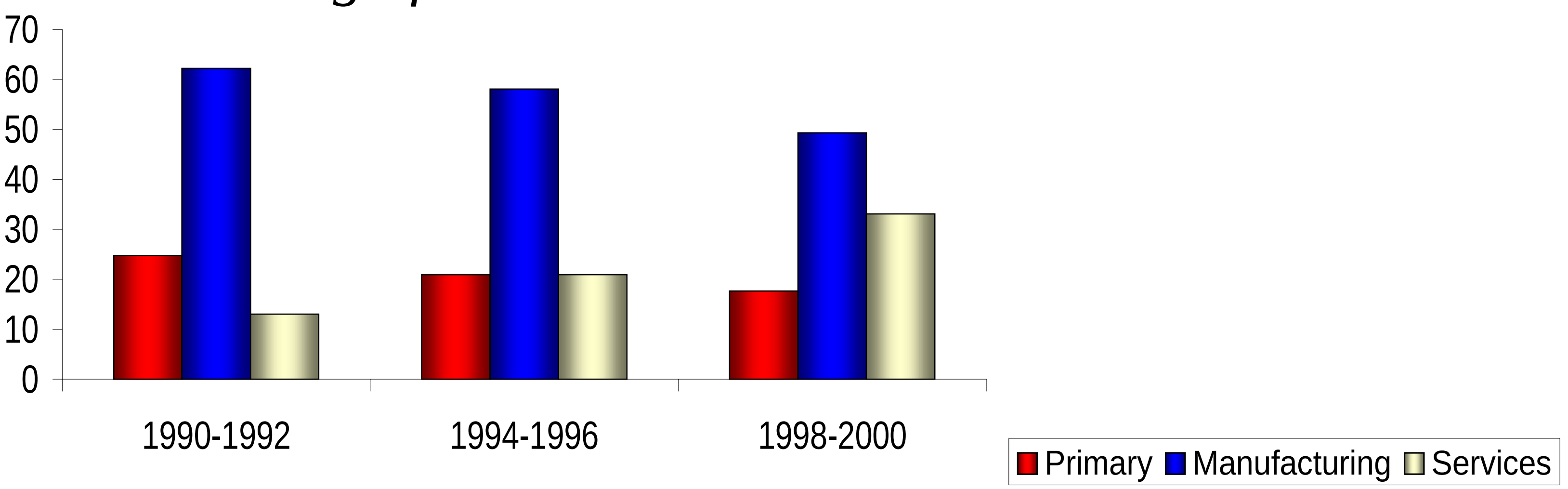
(Percentage)



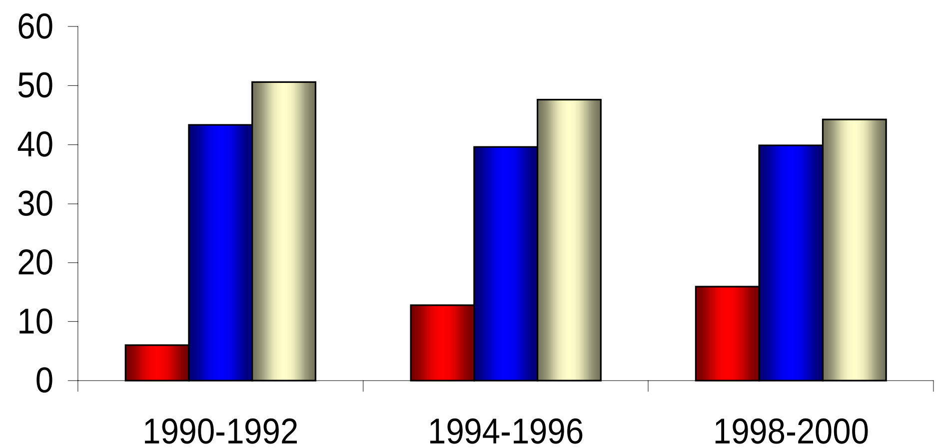
Total sales, by nationality of company, by sector, 1990-2000

(*Percentages*)

Foreign firms



National private companies



Based on the 1000 largest companies by sales in LAC

LAC: the Transnationalization Process

(percent)

	1990-92	1994-96	1998-00
Sales of the 500 Biggest Companies			
Foreign companies	27.4	32.1	41.6
National private companies	39.4	41.0	37.8
State-owned	33.2	26.9	20.6
Total	100.0	100.0	100.0
Sales of the 100 Biggest Manufacturing Companies			
Foreign companies	53.2	59.3	61.7
National private companies	42.6	38.6	37.6
State-owned	4.2	2.1	0.7
Total	100.0	100.0	100.0
Exports of the 200 Biggest Exporters			
Foreign companies		29.2	43.2
National private companies		35.9	30.3
State-owned		34.9	26.3
Total		100.0	100.0

LAC: Principal TNC affiliates, by sales, 2000

(millions of dollars)

	Affiliate	Home country / Sales Market	Sector	Total
1	General Motors de México	USA/USA	Automotive	9 595
•	Daimler Chrysler México	Germany/USA	Automotive	6 941
•	YPF	Spain/Argentina	Petroleum	8 660
•	Wal Mart de México	USA/Mexico	Retail trade	7 725
•	Volkswagen México	Germany/USA	Automotive	7 539
•	Telefónica do Brazil	Spain/Brazil	Telecom.	6 816
•	Ford México	USA/USA	Automotive	5 892
•	Grupo Fiat Brazil	Italy/Brazil	Automotive	4 981
•	Enersis	Spain/Chile	Energy	4 515
•	Volkswagen Brazil	Germany/Brazil	Automotive	4 389
•	Carrefour Brazil	France/Brazil	Retail trade	4 019
•	Shell Brazil	Holland/Brazil	Petroleum	3 912
•	IBM México	USA/USA	Electronics	3 869
•	Nissan México	Japan/USA	Automotive	3 864
•	Grupo Light (Br.)	France/Brazil	Electricity	3 856
•	Grupo Promodes (Arg.)	France/Argentina	Retail trade	3 724

LAC: principal TNCs in the region, by consolidated sales, 2001

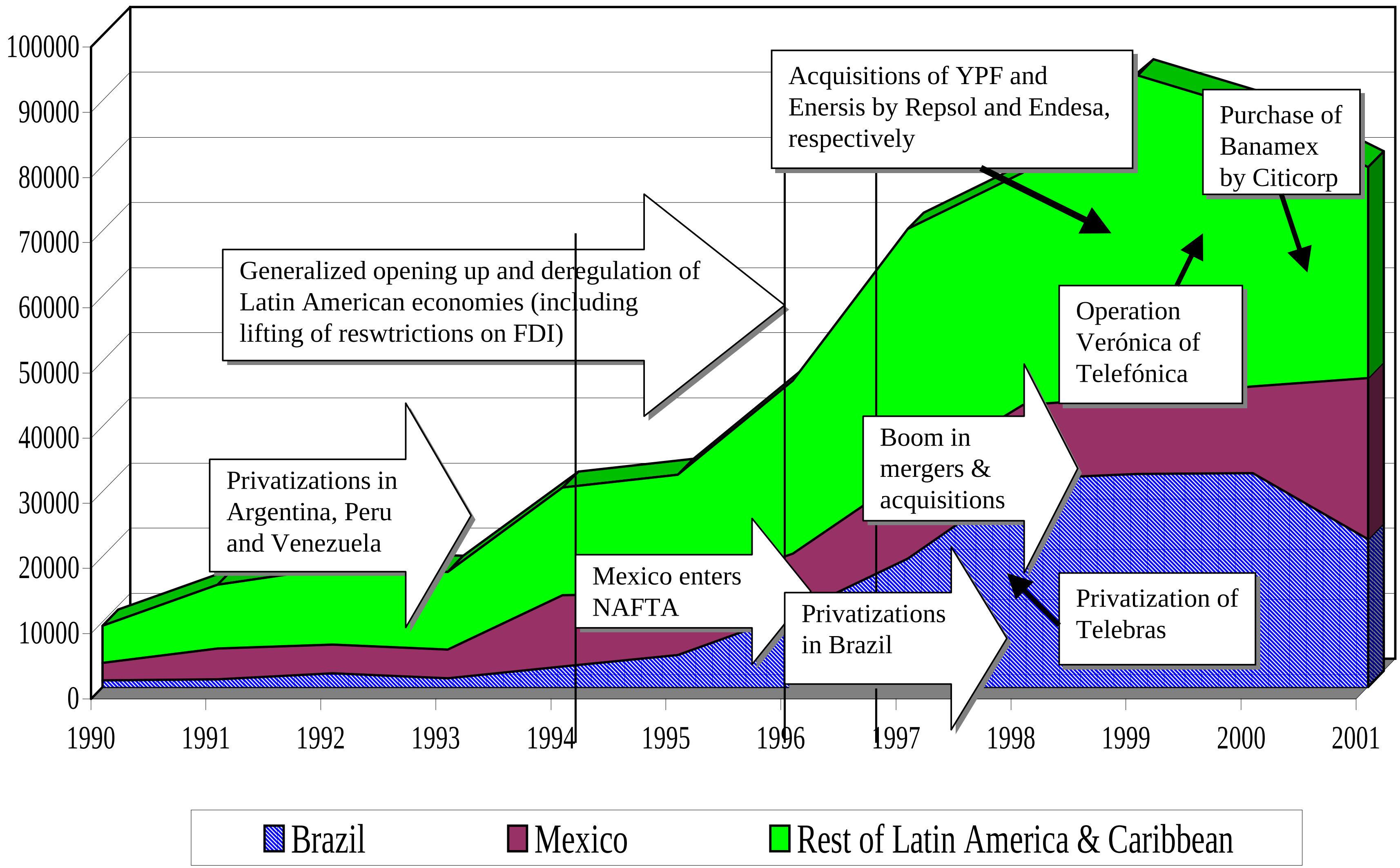
(millions of dollars)

	TNC	Country of Origin	Sector	Total
1	Telefónica de España S.A.	Spain	Telecom.	39 954
•	The Coca Cola	USA	Beverages	14 240
•	Volkswagen AG	Germany	Automotive	12 051
•	DaimlerChrisler	Germany	Automotive	11 930
•	Endesa España	Spain	Electricity	11 147
•	Delphi	USA	Auto parts	10 648
•	General Motors	USA	Automotive	10 378
•	Ford Motors Co.	USA	Automotive	8 627
•	General Electric	USA	Electronics	8 568
•	Exxon Mobil Corp.	USA	Petroleum/gas	8 348
•	Repsol-YPF	Spain	Petroleum/gas	9 013
•	Pepsi Co.	USA	Beverages	5 676
•	AES Corp.	USA	Electricidad	5 274
•	Royal Dutch Shell	Holland/UK	Petroleum	5 094
•	Nissan	Japan	Automotive	5 007

LAC: The Principal Focal Points of FDI

Corporate Strategy / Sector	**Natural resource-seeking**	**Market (national or regional) -seeking**	**Efficiency-seeking**	**Strategic element-seeking**
Goods	*Petroleum/natural gas:* Argentina, Venezuela, Colombia, Bolivia, Brazil, Trinidad & Tobago *Minerals:* Chile, Argentina and Peru	*Auto industry:* Brazil and Argentina *Agro-industry:* Argentina, Brazil and Mexico *Chemicals:* Brazil	*Auto industry:* Mexico *Electronics:* Mexico and Caribbean basin *Apparel:* Caribbean basin and Mexico	
Services		*Financial Services:* Brazil, Mexico, Chile, Argentina, Colombia Venezuela, and Peru *Telecommunications:* Brazil, Argentina, Chile and Peru *Retail trade:* Brazil, Argentina, Mexico and Chile		

LAC: Principal Events Related to TNC Investment



2. TNC Strategies and Their Effects in LAC

LAC: Aspects of its International Competitiveness in World Imports, 1985-2000

(import market shares in percentage)

	1985	1990	1995	2000	Change 1985-2000
MEXICO AND THE CARIBBEAN BASIN					
Overall market shares	**2.39**	**1.96**	**2.40**	**3.35**	**40.2**
1. Natural resources	5.01	3.56	3.28	3.54	-29.3
2. Manufactures based on natural resources	2.09	1.82	1.86	2.10	-
3. Manufactures not based on natural resources	1.34	1.55	2.33	3.57	166.4
- Low technology	1.25	1.53	2.48	3.92	213.6
- Medium technology	1.27	1.64	2.51	3.68	189.8
- High technology	1.66	1.40	1.91	3.19	92.2
4. Others	2.06	2.01	2.37	3.27	58.7
SOUTH AMERICA					
Overall market shares	**3.40**	**2.76**	**2.76**	**2.62**	**-22.9**
1. Natural resources	6.82	7.16	8.33	8.50	24.6
2. Manufactures based on natural resources	5.55	4.66	4.93	4.93	-11.2
3. Manufactures not based on natural resources	1.24	1.14	1.12	1.03	-16.9
- Low technology	1.96	1.75	1.66	1.42	-27.6
- Medium technology	1.20	1.21	1.34	1.27	5.8
- High technology	0.47	0.36	0.29	0.45	-4.3
4. Others	2.10	1.15	1.35	1.56	-25.7

Mexico & Caribbean basin: internacional competitiveness

			1985	1990	1995	2000
I. World import market share			**2.39**	**1.96**	**2.40**	**3.35**
II. Structure of exports			**100.0**	**100.0**	**100.0**	**100.0**
Natural resources			50.6	31.3	20.1	14.5
Resource-based manufactures			16.0	15.3	11.7	8.9
Non resource-based manufactures			30.5	49.8	64.7	72.7
- low technology			7.4	12.9	17.2	18.3
- medium technology			15.1	26.1	32.5	32.6
- high technology			8.0	10.8	15.0	21.8
Others			2.8	3.5	3.4	3.8
III. 10 principal exports, by value	**a/**	**b/**	**39.4**	**32.7**	**33.6**	**41.1**
781 Automobiles for passengers	*	+	0.6	3.9	7.0	8.3

Mexico and the Caribbean basin: factors behind the efficiency-seeking FDI

- US industries undergoing restructuring due to strong competition from Asian exports: ISIPs in automotive, electronic and apparel.
- Convenient production costs (for efficiency-seeking FDI), plus geographic proximity.
- Most active agents: US corporations.
- Significant structural change process: financial and trade opening plus export incentives (*maquila* and export processing zones)
- Concrete trade mechanisms for facilitating access to US market (NAFTA rules of origin for Mexico, production sharing for Caribbean Basin).
- Trade agreements (NAFTA, Caribbean Basin Initiative, Trade and Development Act 2000)

The Impact on Mexico

- Winner country in global export competitiveness but only in North American market
- Autos: some TT, significant HR, some linkages, some ED
- Electronics: some TT, significant HR, few linkages, little ED
- Apparel: little TT, limited HR, few linkages, some ED ("full package" providers)
- NAFTA rules of origin increase national benefits
- Reduced ISIP benefits do to passive, horizontal policies

South America: international competitiveness

			1985	1990	1995	2000
I. World import market share			**3.40**	**2.76**	**2.76**	**2.62**

	1985	1990	1995	2000
II. Structure of exports	**100.0**	**100.0**	**100.0**	**100.0**
Natural resources	48.4	44.8	44.1	44.2
Resource-based manufactures	29.9	27.8	27.0	26.6
Non resource-based manufactures	19.8	26.1	27.1	26.8
- low technology	8.2	10.5	10.0	8.4
- medium technology	10.0	13.6	15.1	14.3
- high technology	1.6	2.0	2.0	4.0
Others	1.9	1.4	1.7	2.3

	a/	b/	1985	1990	1995	2000
III. 10 principal exports, by value	**a/**	**b/**	**52.2**	**44.8**	**41.4**	**43.1**
333 Crude petroleum oils		+	12.4	10.0	11.2	14.5
334 Refined products derived from petroleum		-	10.7	7.3	4.4	5.6
682 Copper		+	3.1	4.4	3.7	3.6
081 Animal feed		+	4.3	4.3	4.7	3.6

LAC: The New Context for Corporate Strategies

- the new developmental context: ***collapsing*** levels of FDI inflows
- transnational corporations: new principal actors in Latin America
- two distinct worlds of corporate strategy:

1. Market access seeking: -Mercosur and Chile
-telecom, electricity, retail trade, banks
-mainly European (esp. Spanish) FDI
-mainly purchase of existing assets
-improved systemic competitiveness
-downside: B-of-P pressures

2. Efficiency-seeking FDI: -Mexico and Caribbean Basin
-autos, electronics, apparel
-mainly US FDI
-mainly in creation of new assets
-huge increase in exports (IC)
-downside: few linkages

LAC: region of limited developmental impacts from FDI inflows and TNC operations

✓In terms of growth, the neo-conservative era was better than the ¨lost decade¨ but worse than the ISI era, except for its international competitiveness.

✓The boom in external finance did not result in sustained stability of the capital account, rather net transfers are negative in a period of decreased FDI inflows.

✓The industrialization process is increasingly in TNC hands with the consequence that its internal logic is that of the ISIP not national integration.

✓Although a small group of winners countries emerged with regard to their international competitiveness, most countries of the region saw their IC worsen.

✓LAC did not connect well with the new ISIPs being constructed, neither in quantity or quality terms.

✓Unlike Asia or the transition economies, no LAC country is close to being transformed into a developed country, in income per capita terms.

3. LAC: FDI Policy Choices

Economic Determinants of Corporate Strategies of TNCs

Type of FDI	Key determinants
Natural resource-seeking FDI	Abundance of natural resources Access to natural resources International commodity price movements
Market-seeking FDI (national or regional)	Market size, growth and purchasing power Level of tariff protection Barriers to entry Market structure (competition) Local regulatory and supervisory requirements
Efficiency-seeking, export-oriented FDI	Access to export markets Quality and cost of human resources Cost of physical infrastructure (ports, roads, telecom) Logistics Quality of suppliers, clusters, etc. International trade and investment commitments
Strategic asset-seeking FDI	Presence of firm-specific assets Science and technology base Logistics

Economic Benefits of Corporate Strategies of TNCs

Type of FDI	Key benefits
Natural resource-seeking FDI	Exports of natural resources High local content Employment in non-urban areas
Market-seeking FDI (national or regional)	Local activities Systemic competitiveness Increased local content New production linkages Enterprise development
Efficiency-seeking, export-oriented FDI	Export competitiveness for manufactures Transfers of technology Improved human resources Deeper production linkages Enterprise development Advance from assembly to manufacturing
Strategic asset-seeking FDI	Science and technology infrastructure Logistics development

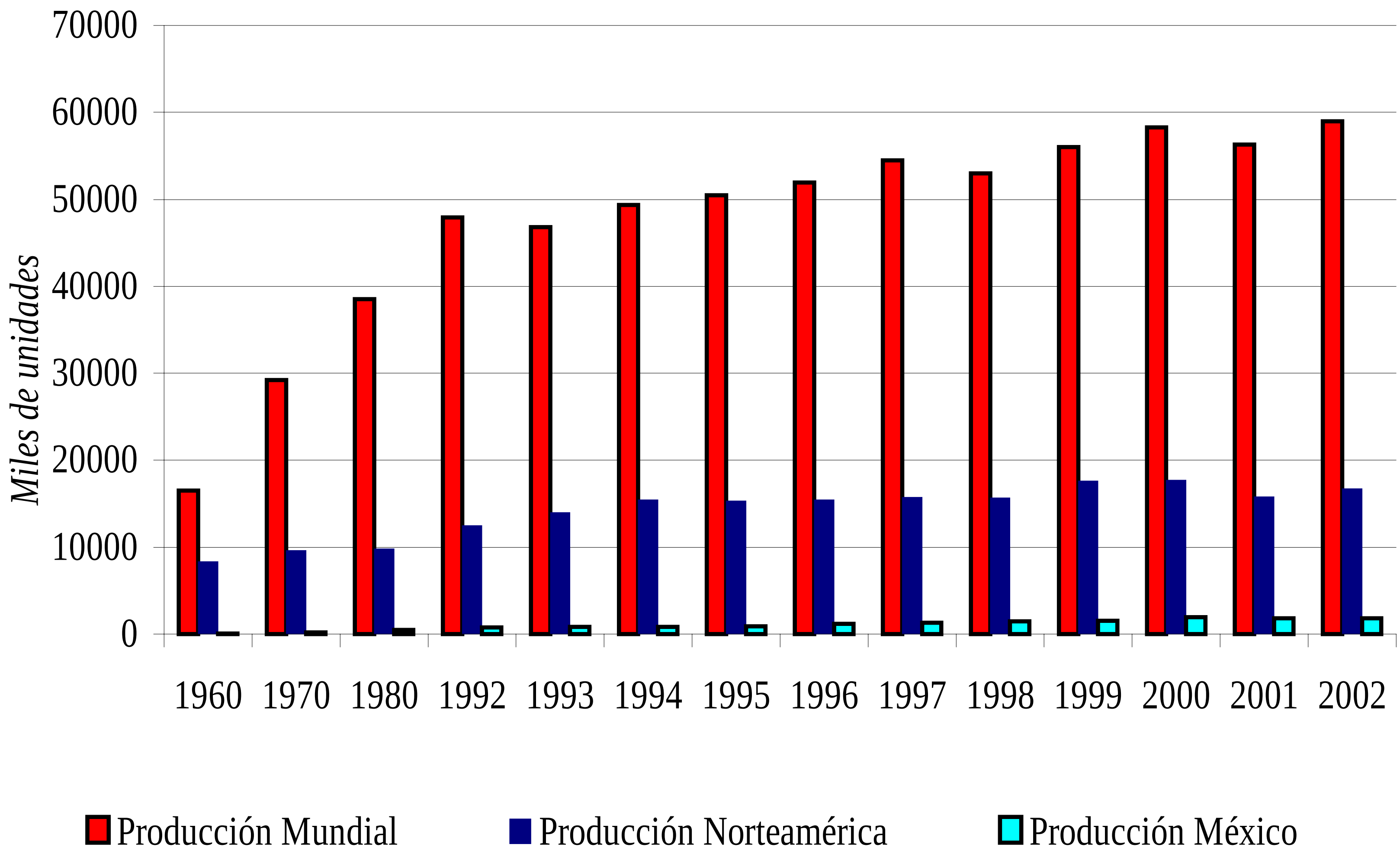
Economic Problems of Corporate Strategies of TNCs

Type of FDI	Principal problems
Natural resource-seeking FDI	Enclave activities not integrated into local economy Low level of local processing Cyclical in relation to international prices
Market-seeking FDI (national or regional)	Higher cost production or service provision Weak international competitiveness Not world class Regulatory problems for services Crowding out of national companies
Efficiency-seeking, export-oriented FDI	Getting stuck in low wage assembly, no upgrading Focus on static not dynamic advantages Limited production linkages: import dependent No advance toward clustering Crowding out of national companies
Strategic asset-seeking FDI	Stagnates at certain level Outcompeted

The Impact on Mexico

- Winner country in global export competitiveness but only in North American market
- Autos: some TT, significant HR, some linkages, some ED
- Electronics: some TT, significant HR, few linkages, little ED
- Apparel: little TT, limited HR, few linkages, some ED (“full package” providers)
- NAFTA rules of origin increase national benefits
- Reduced ISIP benefits do to passive, horizontal policies

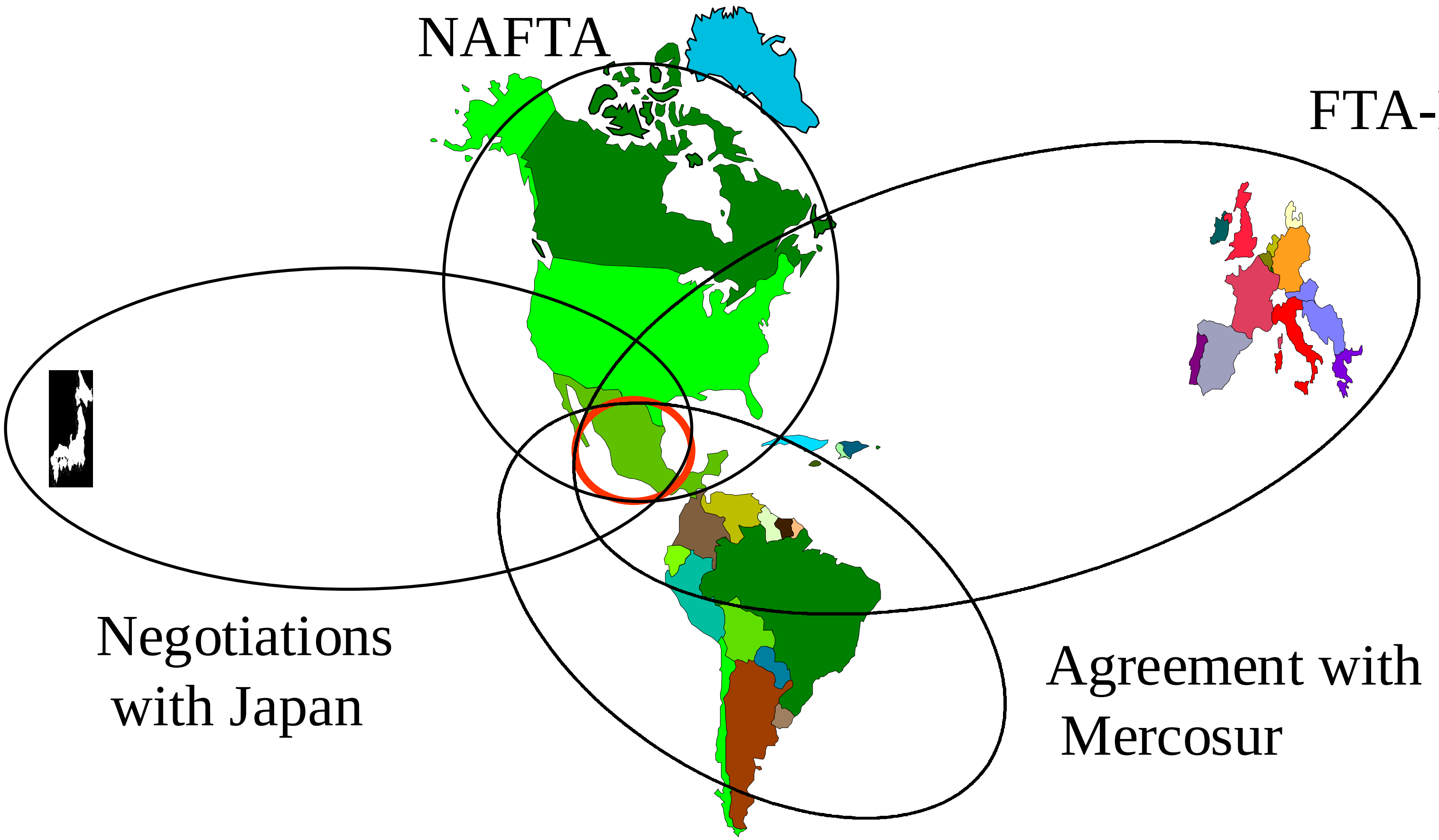
Growth of the world, North American and Mexican Automotive Industries, 1960 - 2002



Mexico has a huge potential

- The US Big 3 have established new plants in Mexico to replace older less competitive plants in North America. There is potential to continue doing so.
- Potential for establishing new plants of other major assemblers that do not possess major ISIP operations in Mexico (Toyota, Honda, Hyundai, etc.).
- Potential to attract more "unique" models made exclusively in Mexico (PT Cruiser, New Beetle, etc.).
- Potential to greatly increase the corresponding supply chains established in Mexico.

Mexico: preferential access to major markets



Automotive Decree—NAFTA—before and after

<table>
<tr><th rowspan="2">Concept</th><th rowspan="2">Automotive Decree</th><th colspan="11">NAFTA</th></tr>
<tr><th>1994</th><th>1995</th><th>1996</th><th>1997</th><th>1998</th><th>1999</th><th>2000</th><th>2001</th><th>2002</th><th>2003</th><th>2004</th></tr>
<tr><td colspan="13">1. National value added</td></tr>
<tr><td>Auto parts industry</td><td rowspan="2">30%</td><td colspan="10" rowspan="2">20%</td><td rowspan="3">0%</td></tr>
<tr><td>National suppliers</td></tr>
<tr><td>Assemblers</td><td>36%</td><td colspan="5">34%</td><td>33%</td><td>32%</td><td>31%</td><td>30%</td><td>29%</td></tr>
<tr><td colspan="13">2. Trade balancing</td></tr>
<tr><td>Assemblers</td><td>100.0%</td><td>80.0%</td><td>77.2%</td><td>74.4%</td><td>71.6%</td><td>68.9%</td><td>66.1%</td><td>63.3%</td><td>60.5%</td><td>57.7%</td><td>55.0%</td><td>0%</td></tr>
<tr><td colspan="13">3. Other instruments</td></tr>
<tr><td>Tariffs on vehicles</td><td>20%</td><td>9.9%</td><td>8.8%</td><td>7.7%</td><td>6.6%</td><td>5.5%</td><td>4.4%</td><td>3.3%</td><td>2.2%</td><td>1.1%</td><td colspan="2">0%</td></tr>
<tr><td>% maquila inputs permitted</td><td>20%</td><td>55%</td><td>60%</td><td>65%</td><td>70%</td><td>75%</td><td>80%</td><td>85%</td><td colspan="4">100%</td></tr>
<tr><td>Regional contenido</td><td>///</td><td>///</td><td colspan="3">50%</td><td colspan="3">56%</td><td colspan="4">62.50%</td></tr>
</table>

Source: BANCOMEXT

FTA-EU and after

Concept		2000	2001	2002	2003	2004	2005	2006
Quota for vehicle imports	Companies installed in Mexico	10% national market				15% national market (disappears in 2007)		
	Companies not installed in Mexico	4% national marketl						
Tariff within quota		3.3%	2.2%	1.1%	0.0%	0%		
Tariff beyond quota		10% (disappears in 2007)						
Regional content		45%		50%			60%	

Source: BANCOMEXT

The Mexican Automotive Industry: from assembly platform to manufacturing center?

- It will not be automatic. A strategic vision is required combined with coordinated FDI and productive development policies.
- Specific policies are needed to promote the transfer and assimilation of technology, production linkages, human resource training and business development
- Does Mexico possess these policies? Only partially. Much needs to be done with respect to elevating the capabilities of national suppliers and targeting the appropriate TNCs in order to transform this industry from an assembly platform to manufacturing center

The Impact on the Caribbean Basin

- Winner countries in regional export competitiveness but only in US market
- Apparel: buyers' contracts more than FDI; minimal TT, some HR, virtually no linkages, limited ED
- US production sharing mechanism minimizes local benefits
- Tendency toward "low road" and "race to bottom"
- Stuck in Export Processing Zone mentality
- WTO ACT challenge (Asian countries, esp. China)
- Effect CBTPA / CAFTA unclear
- Reduced ISIP benefits do to passive, horizontal policies

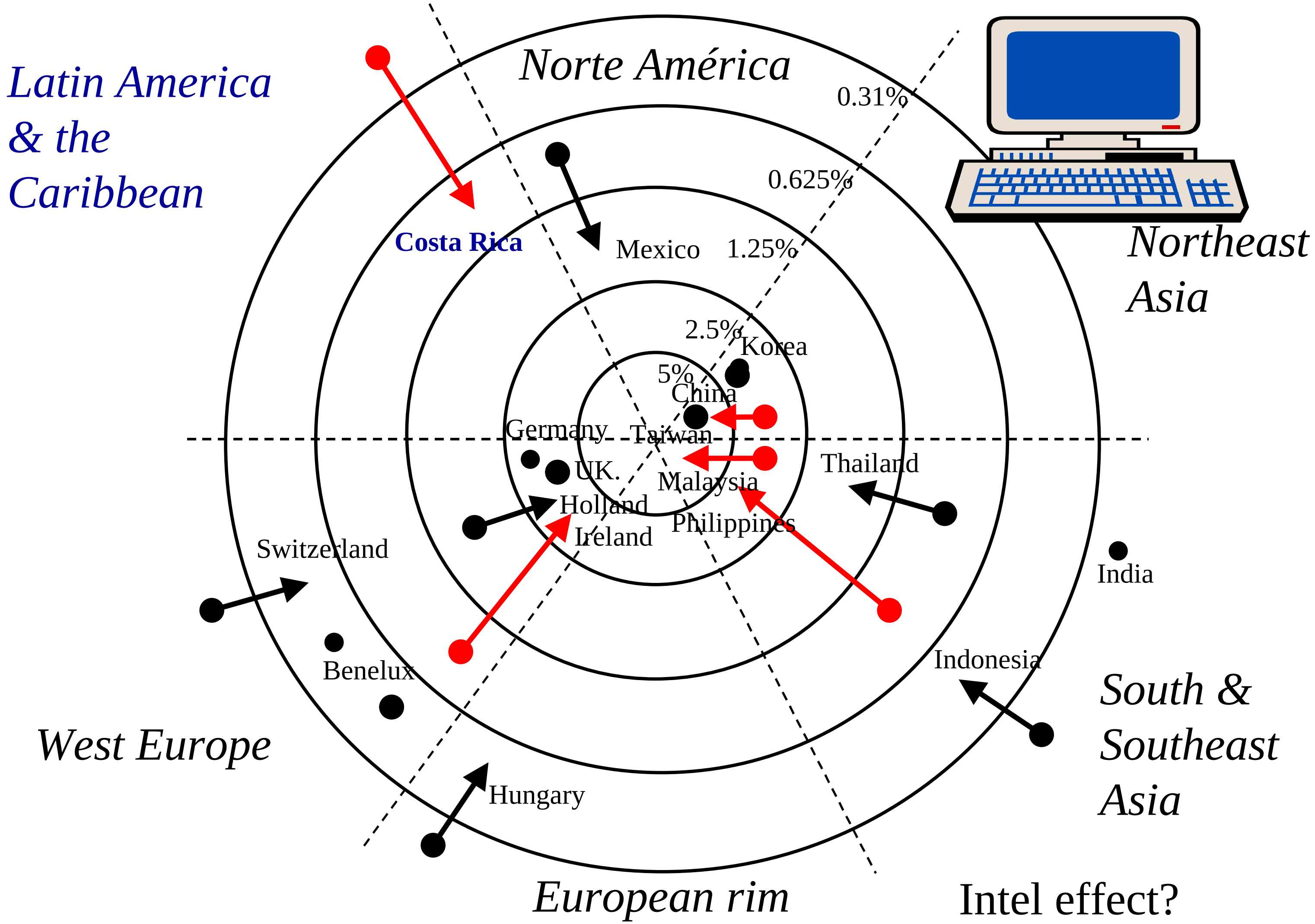
The Exceptional Case of Costa Rica

- Designed and implemented new development strategy: upgrade from apparel to electronics
- Active, focused FDI policy to target the TNCs that would produce desired benefits
- Electronics: some TT, significant HR, some linkages, some ED
- Intel-centric success to date, more needed
- National linkage and training policies promote shift from static to dynamic advantages
- National policy influences production impacts
- Role of CINDE

Costa Rica: international competitiveness, 1985-2000

			1985	*1990*	*1995*	*2000*
I. MARKET SHARES			**0.07**	**0.07**	**0.09**	**0.13**
II. EXPORT STRUCTURE			**100.0**	**100.0**	**100.0**	**100.0**
Primary Products			67.2	57.4	49.7	29.4
Manufactures based on Natural Resources			7.6	6.4	9.7	8.1
Manufactures NOT based on Natural Resources			24.2	35.1	39.1	59.6
- low technology			14.5	25.5	26.9	17.1
- medium technology			6.5	6.1	8.2	8.3
- high technology			3.2	3.5	4.0	34.2
Others			0.9	1.0	1.4	2.8
III. 10 PRINCIPAL EXPORTS (SITC Rev.2)	**a/**	**b/**	**62.0**	**62.1**	**59.8**	**70.6**
759 Parts, n.e.p., of and accesories for 751 and 752	*	+	0.1	0.0	0.1	25.2
057 Fruit and nuts (not oil nuts) fresh or dried		+	30.1	31.9	28.6	18.5
776 Thermionic valves, tubes, semiconductors	*	+	0.1	0.1	0.0	6.0
071 Coffe and coffe substitutes		+	23.9	13.3	10.6	4.6
846 Under garments, knitted or crocheted	*	+	2.7	5.4	6.7	4.5
842 Outer garments, men's / boy's of textile fabrics	*	+	1.9	5.2	5.9	3.1
931 Special transactions and commodities not class.	*	+	0.4	0.7	0.9	2.5
292 Crude vegetables materials, n.e.s.		+	2.4	4.0	4.1	2.3
872 Medical instruments and appliances, n.e.s.	*	+	0.0	0.2	1.0	2.0
058 Fruit, preserved and fruit preparations		+	0.4	1.3	1.9	1.9

Winner countries in world exports of parts and accessories for computers (HS 847330), 1994-2000



Intel effect?

Costa Rica: principal TNC affiliate exporters, 2000

	Empresa Exportadora	US$ millions
•	Componentes Intel Costa Rica	1676.2
2.	Standard Fruit Company De Costa Rica	154.8
3.	Corp. De Desarrollo Agricola Del Monte	137.9
4 .	Abbott Laboratories	102.2
5.	Ind Textilera Del Este S.A. (Heredia)	94.5
6.	Sawtek S.A.	93.6
7.	Baxter	91.8
8.	Manufacturera Cartago S.A.	75.7
9.	Wrangler De Costa Rica S.A	62.5
10.	Merck Sharp & Dohme (I.A.) Corp.	60.6
11.	Babyliss C.R., S.A.	57.3
12.	Liga Agricola Industrial De La Cana	49.8
13.	Coca Cola Interamerican Corporation	44.8
14.	Conducen, S.A.	43.3
15.	Terramix	41.8
16.	Warners De Costa Rica, Inc.	40.4
17.	Remecinc S.A.	38.3
18.	Trimpot Electronicas S.A.	37.9
19.	Confecciones H.D. Lee, S.A.	35.5
20.	Scott Paper Company De Costa Rica	35.3
	All other exporters	2974.2
	Total exports of Costa Rica	5923.0

TNCs = 50%

Source: Comex base on data from Procomer.

Costa Rica: the basis of its success

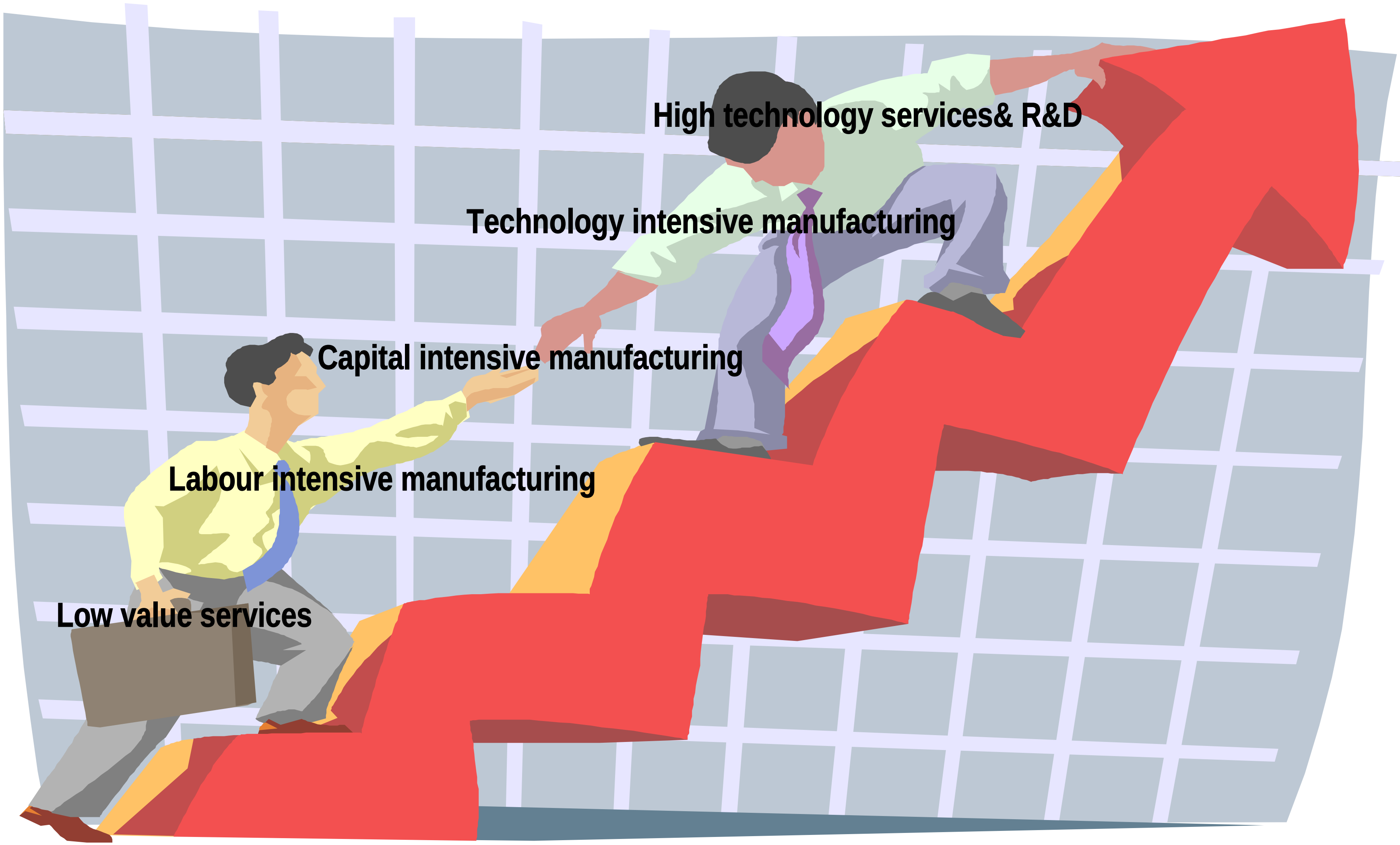
- ✓ Costa Rican authorities realized that, like natural resource exports before them, the newer apparel exports were not going to provide sustained growth and development. They developed a new vision.
- ✓ CINDE implemented a selective policy based on a small number of activities (electronics, medical devices, shared services and tourism).
- ✓ FDI policy was active with regards to targetting specific TNCs based on a careful analysis and benchmarking of their activities.
- ✓ Costan Rican autorities actively sought out coincidences between the needs of the investors' ISIPs and the dynamic comparative advantages of the host economy.
- ✓ Education policy was a strong feature of their attractiveness.

Source: E. Egloff, ex-CINDE, Geneva, November 2001

Policy challenge:
to take advantage of TNC strategies

- TNCs following efficiency-seeking strategies can provide significant benefits to a host country, but they are not automatic
- “The more, the better” FDI policies based on passive, horizontal policies (opening up, liberalization, deregulation and privatization) are not good enough
- National benefits are reduced when corporate strategies are not guided by policies indicating national development priorities. FDI policy must move from “quantity” to “quality”
- FDI is not the goal but a means to developmental goals
- National policy can assist TNCs upgrade from static to dynamic advantages
- Proactive, focused FDI policies targeting the TNCs that can provide the desired developmental impact are required

FDI policy must reflect developmental priorities



Source: S. Lall, Oxford