

The background of the cover features a map of Latin America in a light orange color, centered over a blue background. A large orange circle is drawn around the map. In the lower-left quadrant, there is a line graph with a grid. A red square is positioned to the left of the graph, and another red square is to the left of the title. The title and subtitle are in a dark red color.

Foreign Direct Investment in Latin America

The Role of European Investors

Ziga Vodusek, Editor



Inter-American Development Bank

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Inter-American Development Bank

Washington, D.C.
2001

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Editor's Note

In 1998, the Inter-American Development Bank's Special Office in Europe, together with the Institute for European-Latin American Relations (IRELA), published a study on "Foreign Direct Investment in Latin America: Perspectives of the Major Investors." The present study is based on the same approach—that is, it analyzes FDI in Latin America and the Caribbean from the vantage point of the investor (source) countries. Focusing on European direct investment, the study benefited from the cooperation of authors from each of the eight major investing countries that are covered. We would hereby like to thank the authors for their contributions to the country chapters, as well as the two authors of the regional chapters on Europe and Latin America. Our thanks also go to Edmund Amann, for his help in the editing process and in the preparation of the study's overview, and to Shigeki Tejima for his contribution on Japanese FDI in Latin America. Matija Rojec and Gabor Hunya prepared the text on European FDI in Eastern Europe. We would also like to thank the technical editor, Andrew Crawley, who was in charge of translation, copy-editing and the preparation of the publication for print. María Dolores Azategui copy-edited the text in Spanish. Iván Moyano translated chapters from English into Spanish. The compilation and presentation of the data on FDI flows and stocks, and the systematization of the results of the survey, were the responsibility of Georg Saul. Particular mention should be made of the valuable assistance of Yann Brenner of the Bank's Special Office in Europe throughout the preparation of the study. We would also like to thank Robert Devlin, Deputy Manager of the Integration and Regional Programs Department, for his comments on the text. This publication would not have been possible without the support of the Special Representative of the IDB in Europe, Carlo Binetti, and the Deputy Representative, Leo Harari.

Acknowledgements of assistance in obtaining information and data are due to all institutions that generously provided us with the latest available data on FDI flows and stocks, including government offices, central banks and statistical agencies from the European countries. We would also like to express our gratitude to the government agencies, chambers of commerce and business associations for the distribution of the questionnaire to companies that invest in Latin America and the Caribbean: ICEX of Spain, Medef International of France, Canning House of the United Kingdom, Ibero-Amerika Verein of Germany, the Camera di Commercio of Milan and Turin in Italy, Industrie-Holding of Switzerland, ICEP and the Institute for International Strategic Studies of Portugal, and the Netherlands Council for Trade Promotion.

Ziga Vodusek
Paris, August 2001

FOREWORD

In the 1990s, and particularly in the second half of the last decade, foreign direct investment (FDI) in Latin America and the Caribbean rose to unprecedented levels. The surge in investment can be attributed to a number of factors, both with respect to the region itself and to developments we are witnessing at the global level. The attractiveness of the region for FDI has increased because of the continuing process of stabilization and transformation of the region's economies, based on ongoing fiscal consolidation and the introduction of wide-ranging reforms, including privatization of state-owned enterprises, the opening-up of markets and deregulation of investment. Globally, the barriers to trade and investment flows are progressively being eliminated, and new technological advances are coming on-stream, lowering cross-border costs in the movement of people, goods, services and assets.

FDI represents an important source of investment capital for Latin America and the Caribbean, contributing to the creation of new workplaces, an increase in productivity and a growth in exports. By becoming more efficient and competitive the economies in the region will have an increasing presence in international markets, and be in a better position to benefit therefrom.

In order to provide additional insight into the magnitude and nature of FDI flows to the region, the Special Office in Europe of the Inter-American Development Bank has in recent years gathered and published information on this subject. The analyses have focused on the FDI phenomenon from the perspective of the investor, or home countries. These were also the main sources for the statistical data.

In the past few years, European FDI to Latin America and the Caribbean has risen spectacularly. This is largely—but not exclusively—because of investments from Spain. In the 1996–2000 period, direct investment outflows from Europe to the region have averaged more than \$25 billion per year (excluding flows to offshore centers), representing an increase of more than eight times over the first half of the decade. European investors thus became the foremost source of direct investment flows to Latin America and the Caribbean during the second half of the last decade.

This publication is devoted primarily to the analysis of European direct investment in the region, in an attempt to shed more light on the characteristics of these investments over recent years. Particular attention has also been given to the analysis of the strategies of enterprises investing in Latin America. Besides the authors, we would particularly like to express our gratitude to national institutions and business associations that helped us in the distribution of the survey that was conducted for the purposes of this study.

Carlo Binetti
Special Representative in Europe, IDB

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Chapter 1. Overview: Trends and Main Findings

Edmund Amann and Ziga Vodusek *

Introduction

Over the past 10 years, the economic environment of Latin America and the Caribbean has undergone far-reaching changes. Eschewing the inward-oriented, state-led development models of the past, economies throughout the region have embraced fiscal and monetary orthodoxy, trade liberalization, privatization and market deregulation. In the process, Latin American economies have become less inflation-prone and ever more closely integrated into the global economy.

Perhaps one of the most substantial impacts of these changes has been felt in the field of foreign direct investment (FDI). For much of the twentieth century, Latin America and the Caribbean constituted an important destination for both European and North American FDI. From the Second World War until the 1980s, however, much of this investment occurred in the context of an inward-oriented development strategy known as import substitution industrialization (ISI). Under ISI, FDI played a vital role in the establishment of domestic industrial capacity throughout the region. Nevertheless, such capacity—given the nature of the incentives generated by trade policy—tended to be strongly oriented toward supplying the domestic market. In addition, under ISI the state tended to reserve for itself the exclusive right to operate in such strategic sectors as oil production, electricity generation and distribution, and telecommunications. For this reason FDI was usually concentrated in the industrial sector, rather than in natural resources and public utilities sectors. While this state-led model of development proved effective for a while, by the 1980s, industrial growth had entered a period of stagnation while state-owned enterprises (SOEs) across the region were suffering from severe under-investment as governments attempted to restore fiscal equilibrium. In many cases the lack of investment acted as a serious supply-side constraint, just when the need for greater international competitiveness was becoming more acute.

With the rapid opening up of the region's economies during the 1990s, however, the context for FDI has become far more attractive. In the emergence of this new environment, a number of developments have been paramount. Driven by a need to boost domestic industrial competitiveness, countries throughout the region have embarked on a program of thorough trade liberalization. In most cases this has involved the progressive and unilateral abandonment of non-tariff barriers as a means of protection and their replacement by lower tariffs. In some countries this process has been markedly accelerated by the creation of regional trade arrangements, the most significant being MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) and the North American Free Trade Agreement (NAFTA—Canada, Mexico and the United States).

The advance of trade liberalization appears to offer several advantages for FDI. First, the lowering of trade barriers across the region allows investors to access a number of

* Edmund Amann, School of Economic Studies, University of Manchester, United Kingdom; Ziga Vodusek, Special Office in Europe, Inter-American Development Bank.

geographically proximate markets other than that in which the production capacity is located. Second, progressive trade liberalization facilitates the more cost-effective import of inputs, boosting the viability and competitiveness of Latin American affiliates. Finally, trade liberalization allows foreign investors to import greater quantities of finished goods, enabling them to complement (to competitive advantage) their domestically produced output.

In addition to the incentives provided by trade liberalization, over the past 10 years governments throughout the region have granted foreign investors access to many activities from which they were once excluded. This has involved not only market liberalization but also the wholesale privatization of SOEs. Thus, for example, in the early 1990s Argentina privatized not only the domestic oil enterprise, Yacimientos Petrolíferos Fiscales (YPF), but also the entire telecommunications infrastructure. A little later, as part of an extensive program of market reform in Brazil, privatization accompanied the opening up of the telecommunications and electrical energy sectors, while foreign entry to the oil and gas production sector was permitted for the first time since the early 1950s. While privatization programs throughout the region have been dominated by sales of enterprises in the energy and communications sectors, it is important to recall that privatization has embraced many other sectors. In particular, the late 1980s and 1990s saw the privatization of SOEs across sectors as diverse as steel, chemicals, banking, insurance, transport equipment and mining.

As will be noted at various points in this book, this combination of privatization and market liberalization in key sectors has proven extremely attractive to foreign investors and has underpinned the surge in FDI that took place in the latter half of the 1990s. However, it would be mistaken to assume that the policy shifts helping to propel greater FDI flows have been entirely microeconomic in nature. Following the debt adjustment crisis in the early 1980s, economies throughout the region began to adopt a more orthodox approach to macroeconomic management, in which control of inflation and currency stability assumed prime importance. In a number of economies, substantial and successful efforts were made to curb the expansion of fiscal deficits while monetary policy became increasingly geared to the containment of inflation. As a result of these developments—and thanks also to the competitive impetus generated by trade liberalization—inflation throughout the region fell sharply over the 1990s and economic growth began to recover. It is clear that the region remains highly vulnerable to adverse shifts in the international financial climate, but enough progress has been made to improve the macroeconomic context for investment to surge far beyond the levels that prevailed in the 1980s. Hence it is not surprising that a growing number of foreign direct investors have been attracted to the region, not only because of the privatization opportunities on offer but also because of the more favorable prospects for sustained market growth.

The purpose of this study is to provide an overview and analysis of the increased presence of European investors in Latin America and the Caribbean. Looking at the 1990s, and particularly at the 1995–1999 period, the study seeks to identify the main trends in FDI outflows and outward stock, and identify the basic characteristics of the strategies of companies investing in the region. The countries covered are Spain, the United Kingdom, France, Germany, Italy, Portugal, the Netherlands, and Switzerland. There is also an analysis at the European level, focusing on the process of internationalization and the “Latin Americanization” of European companies (Chapter 3). The official statistical data on FDI have been supplemented by information obtained from a survey distributed to companies in

the aforementioned countries that have investments in the region. Chapter 2 reviews developments related to FDI from the perspective of Latin America and the Caribbean, looking at the main features of investment inflows and at certain aspects of the impact of foreign investment on Latin American economies, particularly the changing structure of ownership. Information is also provided on FDI in the region originating from the United States and Japan (see Annexes 2.1 and 2.2 to Chapter 2), as well as on European FDI in Central and Eastern Europe (see Annex 3.1 to Chapter 3).

Trends

During the 1990s, FDI flows to Latin America and the Caribbean rose strongly, in parallel to rising global FDI flows. Starting the decade at a level of \$7.7 billion,* net FDI inflows to the region rose to \$93.8 billion in 1999. In the first half of the decade (in the 1990–1994 period), flows to the region averaged \$18.2 billion, rising more than three-fold to an average of \$64.5 billion during the 1995–1999 period (ECLAC 2001). In relative terms, the share of Latin America and the Caribbean in global FDI inflows also increased: from 9.0 percent in the 1990–1994 period to 11.4 percent in 1995–1999. This compares to a fall in Asia's share from 18.7 percent to 17.2 percent over the same period, and an increase from 1.9 percent to 3.2 percent of global inflows in the case of Central and Eastern Europe (UNCTAD 2000). In 2000, after six years of continuous growth, FDI inflows in the region contracted to an estimated \$74.2 billion (ECLAC 2001; more detailed data on inflows in the 1990–2000 period are presented in Chapter 2).

The data on the basis of FDI outflows—which are used as the main source and for the present analysis (see Box 1.1 for a description of statistical data on FDI)—show very similar trends. Aggregated data from official statistical sources of the investor countries indicate that average annual outflows in the 1995–1999 period, excluding flows to offshore centers, increased more than three and a half times relative to the 1990–1994 period (Table 1.1).

Looking at outflows by major investor country, it can be noted that in the second half of the decade the share of European countries rose markedly, to account for more than half of all FDI outflows. In absolute terms, outflows from Europe as a whole increased more than eight times. While the increase stems primarily from a surge in flows from Spain, significant increases were also recorded in the case of other countries, such as France and Portugal.

FDI outflows from the United States to the region almost doubled in the second half of the 1990s. Nevertheless, in view of the boom of European investments, the share of flows from the United States fell to less than 40 percent of the total. As Table 1.1 and Figure 1.1 show, Japanese investment in Latin America and the Caribbean almost trebled, albeit at relatively lower levels (more information on United States and Japanese FDI in Latin America and the Caribbean is provided in the annexes to Chapter 2). FDI outflows from Canada—data on which are not available with a geographical breakdown by destination—amounted to an average of \$4.0 billion in the 1995–1999 period (including flows to offshore centers; see the Statistical Annex).

* Please note that references to “dollars” (\$) are to United States dollars, unless otherwise indicated.

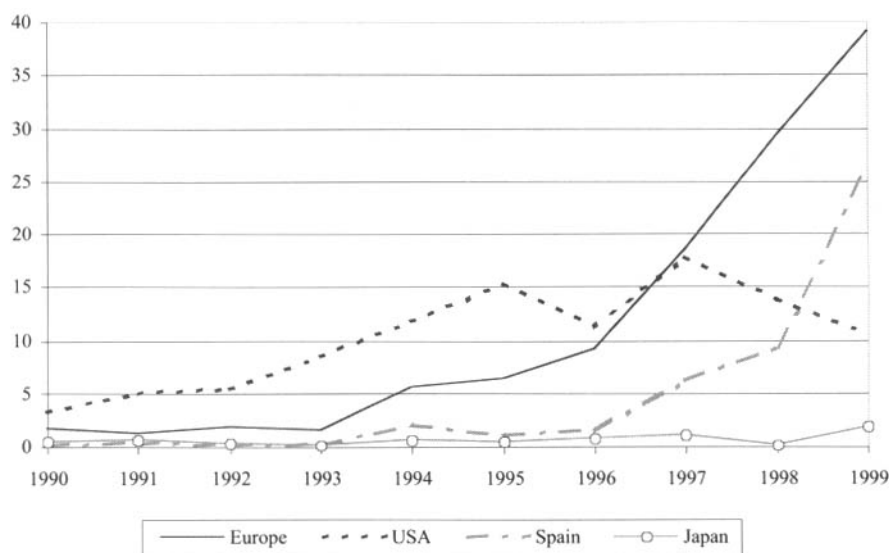
Table 1.1. FDI Flows to Latin America and the Caribbean, 1990–1999
(Excluding offshore centers; net outflows in millions of U.S. dollars and in percentages)

	Total 1990–1994	Annual average	Percent	Total 1995–1999	Annual average	Percent
Europe (1)	12,070	2,414	24.3	102,420	20,484	58.1
France	850	170	1.7	10,333	2,067	5.9
Germany	2,035	407	4.1	8,577	1,715	4.9
Italy	115	23	0.2	2,193	439	1.2
Netherlands	2,640	528	5.3	11,973	2,394	6.8
Portugal	10	2	0.0	6,634	1,327	3.8
Spain	2,740	548	5.5	44,388	8,877	25.2
Switzerland	665	133	1.3	3,612	723	2.0
United Kingdom	2,690	538	5.4	10,442	2,088	5.9
United States (2)	35,765	7,153	71.9	68,825	13,765	39.0
Japan (3)	1,930	386	3.9	5,147	1,029	2.9
Total (1) + (2) + (3)	49,760	9,952	100.0	176,390	35,278	100.0

Note: Europe comprises European Union members (excluding Ireland and Greece), Norway and Switzerland (see the methodological guidelines in Annex A to this book).

Sources: IDB/IRELA, *Foreign Direct Investment in Latin America* (Madrid, 1998) and data provided by central banks and statistical agencies (see Statistical Annex).

Figure 1.1. FDI Flows to Latin America and the Caribbean, 1990–1999
(Excluding offshore centers; net outflows in billions of U.S. dollars)



Sources: IDB/IRELA, *Foreign Direct Investment in Latin America* (Madrid, 1998), and data provided by central banks and statistical agencies (see Statistical Annex).

Table 1.2. European Union FDI Stock in Latin America, 1998
(Outward stock, end-year, in millions of U.S. dollars)

	Latin America ^a	Argentina	Brazil	Chile	Colombia	Mexico	Venezuela
European Union	96,079	15,860	41,462	6,176	6,198	9,246	2,299
Percentage	100%	17%	43%	6%	6%	10%	2%
Of which:							
France	12,135	2,744	7,618	135	215	676	49
Germany	15,177	2,153	7,983	412	501	3,289	385
Netherlands	7,727	1,516	4,080	637	147	768	42
Portugal	2,705	19	2,331	1	0	149	5
United Kingdom	13,063	1,561	2,633	1,881	2,635	1,315	385
Other ^b	44,258	7,791	16,303	2,999	2,700	2,890	1,365

^a Eurostat Balance-of-Payments (BOP) Economic Zone of Latin America includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

^b "Other" has been computed as the difference between the estimated European Union aggregate and the sum of the selected declaring countries.

Note: Data on Spanish assets in Latin America are not separately available; it can be assumed they account for a significant part of "Other".

Source: Eurostat (2001).

Table 1.3. FDI Flows from Europe, Japan and the United States to Latin America and the Caribbean, 1990–1999
(Net outflows, in millions of U.S. dollars)

	Europe		Japan		United States	
	Annual average		Annual average		Annual average	
	1990–94	1995–99	1990–94	1995–99	1990–94	1995–99
Argentina	464	5,492	22	41	734	1,422
Brazil	731	8,715	132	608	2,116	4,708
Chile	210	2,013	7	15	540	1,026
Colombia	–1	1,115	13	5	180	300
Mexico	369	1,797	176	298	2,485	4,211
Peru	329	175	–5	7	–20	342
Uruguay	43	216	0	0	19	48
Venezuela	143	649	36	51	711	749
Latin America/Caribbean	2,414	20,484	386	1,029	7,153	13,765
Andean Community	481	2,001	46	64	970	1,478
Central America	10	51	2	1	30	394
MERCOSUR	1,242	14,471	154	652	2,876	6,207
Offshore centers	1,534	3,008	299	1,864	4,669	4,639
Other flows/countries	1,655	1,562	3	4	40	10
Total	5,602	25,055	688	2,897	11,862	18,414

Sources: IDB/IRELA (1998) and data provided by central banks and statistical agencies (see tables in the Statistical Annex).

Data on outward FDI stock confirm the trend of rapidly rising outflows. While comprehensive data on European FDI stock are not available, European Union (EU) stock in Latin America has been estimated at \$96 billion in 1998 (Eurostat 2001; see Table 1.2). The stock of United States investments in Latin America and the Caribbean, including offshore centers, amounted to \$197 billion (end-1998; \$239 billion at the end of 2000 [United States Department of Commerce]). Detailed data on FDI stock by investing country are presented in the Statistical Annex. Thus, while the European countries represented the leading source of direct investment flows to Latin America and the Caribbean in the second half of the 1990s, the United States remained the leading investor in terms of FDI stock.

As regards the geographical distribution of FDI in the region, two basic features stand out. First, as might be expected, there is a high concentration of FDI in the region's largest economies. This leads to the second observation, that investment from the European countries tends to be concentrated in the Southern Cone (accounting for two-thirds of investments in

Box 1.1. A Note on FDI Data

Statistical data on FDI have a number of shortcomings that limit their reliability and comparability between different countries and sources. This phenomenon stems from a number of factors, including differences in definitions; dissimilarities in recording and reporting statistical components of FDI; the use of distinct methods of measuring the data and the use of different timeframes; and geographical coverage. Further differences and discrepancies arise when comparing distinct categories of FDI. Data can be presented in the form of FDI flows or stock, or as FDI outflows or inflows. It should be noted that FDI flow data, particularly when recorded on an annual basis, are subject to great volatility and thus must be treated with particular caution. The above limitations should be taken into account when analyzing and interpreting FDI data.

The main sources of data used in this overview are central banks and national statistical agencies in the investor countries. The data refer to net FDI outflows and outward FDI stock, and have been systemized with a view to ensuring greater comparability between countries, in line with the methodological approach used in the preparation of the previous study (IDB/IRELA 1998). All data in national currencies have been converted to United States dollars; it should be noted that significant fluctuations in exchange rates have occurred during the period under analysis. FDI flows to offshore centers in the Caribbean have been viewed separately, since the final destination of these flows is difficult to ascertain.

Data on FDI outflows must be distinguished from data on FDI inflows as collected by recipient countries in Latin America and the Caribbean. These two series of data are not directly comparable. In general, data on outflows reported by home countries tend to underestimate the amount of FDI flows, since they do not include flows that pass through offshore centers nor intra-regional investment flows. For these reasons, and to provide a more comprehensive picture, data on FDI outflows are complemented with certain data on inflows (see Chapter 2). The latest year for which comprehensive outflow data with a geographical breakdown are available is 1999; for some countries these data have been complemented with data for 2000. Data on FDI stock, which are not available for all countries, mostly refer to 1999.

A more detailed overview of methodological issues related to FDI data is provided in Annex A. This annex also examines issues concerning the presentation of the data for the purposes of this study. The reader should consult this annex in order to avoid misinterpretation of the statistics provided here. Detailed data on FDI flows and stocks are given in the Statistical Annex. It should be noted that these data are subject to revision.

terms of EU countries' FDI outward stock at the end of 1998, and for 80 percent in terms of total European outflows in the 1995–1999 period—see Table 1.3). FDI from the United States, on the other hand, tends to be geographically more diversified, with 52 percent of flows going to the Southern Cone countries in the period 1995–1999, and 31 percent to Mexico. In terms of investment stocks, 51 percent were located in the Southern Cone countries while 29 percent were located in Mexico (1999; all figures exclude FDI in offshore centers).

Main Findings

After more than a decade of market reform and macroeconomic stabilization, Latin America has undergone substantial structural change, thanks in no small part to the influence of FDI. As investment has flowed in, entire sectors have been modernized and opened up to competition where little previously existed. At the same time, FDI has had an important influence on issues as diverse as levels of national technological capability, self-reliance in fossil fuels and export competitiveness.

Reviewing the experiences of the major European investor countries, this book examines the factors that have determined the recent pattern of FDI while pointing to the challenges and obstacles facing investors in the region. While the individual chapters may consider the broader consequences of FDI for economic performance, the main aim of this book is to focus sharply on *how and why* FDI to Latin America has evolved in the way that it has. The experiences of individual investor countries vary considerably, although some common themes clearly emerge.

One of the most important of such themes concerns the growing internationalization of European firms. In recent years, the global decline in barriers to trade and investment and, more specifically, their virtual abolition in the EU, has acted as a strong stimulus to corporate internationalization. As John Dunning's chapter makes clear, since the beginning of the 1990s European firms have on average become significantly more international in scope. As their home markets have been ever more exposed to international competition and as foreign markets have become ever more accessible, European enterprises have come under pressure not only to raise export intensity but also to locate production capacity abroad. In this regard, European firms are by no means unique: Professor Dunning shows that a similar tendency can be observed in Japan.

According to information obtained from a survey carried out for the purposes of this study—see Box 1.2 below—and as presented in John Dunning's chapter, the main economic determinants driving European multinational enterprise (MNE) investment in Latin America and the Caribbean have been the size and growth of markets. A somewhat less important motivation for investment has been the achievement of efficiency gains in the context of an enterprise's global production or marketing strategy. The improved policy framework, especially the onset of economic stability, as well as favorable developments in the political and social environment, are also deemed particularly important factors in the decision to invest. Nevertheless, despite the region's obvious recent advances in terms of political stability, investors still perceive political uncertainty, excessive regulation and extensive bureaucracy as obstacles to their greater participation.

One of the most striking features is the degree to which some European investor countries have established an international presence where previously they had very little. In the case of Spain, the most dramatic example, the 1990s saw a number of enterprises across the banking, telecommunications and energy sectors achieve the status of major multinational corporations, almost exclusively the result of their direct investment activity in Latin America. This sudden emergence into international prominence has to be seen in a context of decades in which Spanish enterprises had tended to operate almost exclusively within national borders. As the chapter on Portugal demonstrates, the Spanish experience is not unique among European investor countries. In the course of the 1990s, largely because of privatization activity in Brazil, the internationalization of the Portuguese corporate sector accelerated dramatically.

Box 1.2. Survey on Investment Strategies

During October 2000-March 2001, the Special Office in Europe of the Inter-American Development Bank (IDB) carried out a survey on *Investment Strategies of European Companies in Latin America and the Caribbean*. The survey, in the form of a questionnaire, was distributed to companies in the eight European countries covered by this study. The main objective of the survey was to obtain basic information on these enterprises' investments and strategies in the region, with a view to supplementing the available official data on FDI flows and stocks.

Altogether, 245 valid responses were received. It should be noted that the results of the survey are not statistically representative and that estimates of the magnitude of errors cannot be given. The limited reliability of the survey can be attributed to the selection of samples—in the selected countries, national institutions used different criteria in preparing the sample. Because of the low number of responses, particularly from large companies, the results of the survey were not taken into account in the case of Italy and the United Kingdom. In the case of Germany, the results were presented for large manufacturing companies only. In view of these shortcomings, the survey results have not been used for quantitative analysis purposes, but exclusively as supplementary qualitative information of an indicative nature. The results of the questionnaire at the national level have not been reproduced in their entirety. The authors of the country chapters have presented in their analyses only a selection of answers that were deemed relevant.

To acquire an indication of the results of the survey at the European level, the responses of the large companies—a total of 66, with sales of \$1 billion or over—were selected from the responses at the national level and subsequently aggregated. This sample of large companies was given preference in the analysis to that of total responses, as these companies are responsible for the bulk of direct investments in Latin America. Again, only a limited qualitative analysis was undertaken, focusing mainly on the determinants and obstacles to FDI in the region. The analysis of the aggregated survey responses of the large companies is presented in Annex 3.2 in Chapter 3. More information on the survey is given in Annex B.

For most European investor countries, however, the 1990s was a period in which the degree of corporate internationalization rose more gradually. In the case of the Netherlands, Switzerland and the United Kingdom, this gradualism is hardly surprising given the very high degree of internationalization associated with their corporate sectors at the start of the 1990s. For France, Germany and Italy (whose enterprises have traditionally tended to be rather less globalized than those of Netherlands, Switzerland and the United Kingdom), the 1990s also

saw a rise in the degree of internationalization, but at nothing like the rate experienced by Spain and Portugal.

As has already been made clear, the 1990s was a period in which European FDI flows to Latin America tended to rise sharply. This tendency, as might be expected, is strongly reflected in the mounting stock of FDI located in the region. However, it is important to note that FDI flows and stock levels may be subject to considerable year-on-year volatility. On a country-by-country basis, the chapters reveal that flows originating from all the investor countries surveyed were characterized by high volatility; this was particularly marked in the cases of the United Kingdom, France and Germany.

The chapters also make plain that particular periods in the past 10 years were marked by less dynamic or even reduced net FDI flows. Most particularly, flows were relatively depressed in the 1991–1993 period, and in 2000 there was an absolute contraction of flows as regional downturns and declining confidence hit investment plans. By contrast, in the 1994–1999 period there was an unprecedented rise in FDI inflows in response to the region's generally favorable macroeconomic climate and the onset of major privatization programs in Brazil. The evolution of privatization opportunities has also had important implications for another aspect of FDI behavior: the mode of participation.

Before the 1990s a combination of barriers to investment and the prevalence of SOEs in key reserved sectors meant that most FDI activity in Latin America was necessarily realized through greenfield investment, organic expansion and, rather more occasionally, mergers and acquisitions (M&As). Subsequently, as several of the chapters make clear, modes of participation available to investors evolved in line with the emergence of market liberalization and privatization. In particular, as the privatization program accelerated from the mid 1990s onwards, purchases of public enterprises became relatively more important as a means of FDI operations. Over the same period, declining barriers to investment also meant that enterprises could more readily acquire production capacity through conventional M&As.

It is nevertheless important not to exaggerate the importance of privatization as a stimulus for changing the mode of participation. In the case of the United Kingdom, Germany, the Netherlands, Italy and France, for example, the more restricted involvement of these countries' investors in Latin American privatization has meant that greenfield investment and M&As have been much more significant than, for instance, in the case of Spain. As the chapters point out, the typical mode of investment varies as much between recipient countries as it does between investor countries. Alvaro Calderón (Chapter 2) indicates that most FDI in Argentina and Brazil—whether through privatizations or M&A—has involved the purchase of existing assets. In Mexico, by contrast, FDI has tended to be rather more concentrated in the establishment of new capacity, often in the export-oriented manufacturing sector. In the future, of course, this pattern of investment is likely to change. As privatization programs wind down, a somewhat greater proportion of FDI will tend to be concentrated in greenfield investments and, not least, in the organic expansion of existing production facilities as the new owners of the assets, with a view to raising their competitiveness, strive to modernize capacity and improve service quality.

Privatization processes in Latin America have affected a wide variety of sectors. However, in terms of the value of assets sold, by far the most significant privatizations have

been in the utilities and communications sectors. Among the most notable features of recent European direct investment in Latin America has been the varying importance of privatization as a stimulus for FDI among the investor countries. For the United Kingdom, Germany, the Netherlands, Switzerland and (to some extent) Italy, participation in Latin American privatizations remained quite restricted for much of the 1990s. In the case of Germany, for example, public utility investors have tended to shy away from the Latin American market, leaving most German investment in the region located in manufacturing and general services.

Given their pioneering experience in privatization, it is somewhat surprising that United Kingdom utilities companies also remained reluctant to invest in Latin America for much of the past decade. However, as Chapter 5 emphasizes, this situation might be about to change following recent United Kingdom purchases of privatized assets in the gas, telecommunications and electricity transmission sectors. For French and Italian enterprises, participation in Latin American privatizations has tended to be concentrated respectively in the electrical energy and telecommunications sectors, with relatively little involvement elsewhere.

Some European countries have played a limited role in Latin American privatization programs but the same cannot be said of Spain or, to a lesser extent, of Portugal. From the early 1990s onwards Spain has proved itself by far the leading European actor in the Latin American privatization process. Unlike their counterparts in a number of other European countries, Spanish enterprises have actively purchased assets across the entire range of privatized sectors, from telecommunications, to oil and gas production, to electricity generation and financial services. As a result of the extent of their participation in privatizations, some Spanish enterprises now rank among Latin America's largest public utility enterprises. This is particularly true in telecommunications, where Telefónica is now the largest operator in South America. Accompanying the surge of investment in public utilities, Spain's banks have significantly increased their presence across the region (especially in Brazil and Mexico) through M&A activity as well as privatization. The Spanish presence in electricity generation and distribution has also risen sharply over the past decade.

The data reveal that Spanish involvement in Latin American privatizations has far exceeded that of any other European investor country. The chapter on Spain argues that the most significant factors at work—besides a shared cultural and linguistic heritage—include the technical competence of Spanish public utilities, a well-capitalized financial system and the long-term impact on corporate strategy of Spain's emergence from relative isolation to become a full member of the EU. Overall, it appears that investment opportunities in Latin America allowed Spanish enterprises to benefit from their comparative advantage and investing potential to a much greater extent than would have been possible in other regions.

The marked variations in national involvement in Latin American privatizations noted above have implications for the sectoral allocation of investment between investor countries. In the case of France, whose involvement in privatization has been limited, 40 percent of investment stocks in Latin America are concentrated in the industrial sector, with another 33 percent in commercial services. This picture is very similar in the case of Germany, while the Italian share of industrial activities is also very significant. In the case of the United Kingdom, however, general services account for around 50 percent of investment stocks, and the other

half is divided roughly equally between industrial activities and the primary sector (natural resources and agriculture).

In view of the substantial regional activities of oil companies (notably Royal Dutch/Shell and British Petroleum), the share of United Kingdom investments in the oil and gas sectors is considerably higher than for most other European countries. In terms of the sectoral location of investment stocks, Spain is again a special case in comparison to other European investor countries. Given the extensive involvement of Spanish enterprises across a range of public utilities and financial institutions, Spanish FDI stocks in Latin America are dominated by the services sector, while the relative importance of investment in industrial activities is somewhat restricted.

As might be expected, the accelerating pace of FDI inflows has had a significant influence on patterns of corporate ownership throughout the region. As Alvaro Calderón's chapter demonstrates, the relative significance of foreign ownership among Latin America's 500 largest corporations increased significantly over the course of the 1990s. By the end of the decade, 230 of the region's largest 500 companies were foreign enterprises, accounting for 43 percent of this group's total sales.

One of the most widely discussed aspects of Latin America's trade liberalization drive over the past decade has been the creation of regional trade arrangements, in particular MERCOSUR and NAFTA. Among the justifications cited for such arrangements has been that by offering an expanded regional market rather than a national market, they help promote inward investment. The evidence of the country chapters in this book, however, offers only limited support to this argument.

As has been noted, over the latter half of the 1990s the most dynamic component of FDI into the region consisted of purchases of privatized public utilities. Given the non-tradable nature of much of the output produced by these activities, it logically follows that the existence of a regional trade arrangement must at best have been a marginal factor in the decision to invest in such enterprises.

Perhaps more surprisingly, some of the chapters reveal that even in the case of industrial enterprises (which of course produce tradables) the existence of regional trade arrangements was not always of primary importance as a motivating factor to invest. In the case of Germany, it is argued that MERCOSUR was not perceived as a significant factor for investors beyond the automotive industry. However, in Switzerland—which also has a sizable manufacturing presence in Latin America—MERCOSUR was seen as an important inducement to investment. In the case of the Central American Common Market the evidence from individual investor countries does not suggest that the foundation of the regional trade arrangement was a critical determinant of the decision to invest. However, NAFTA was deemed important because of the access to the United States market that it offered to Mexico-based production facilities.

At least for the automotive sector, the founding of MERCOSUR was viewed as highly important by investors not only in Germany but also in France and Italy. Significantly, however, automotive trade within MERCOSUR remains subject to certain quantitative restrictions and is governed by a set of special agreements. Hence such trade does not take

place under a genuinely free trade regime. Nevertheless, by granting producers access to a regional market while affording a degree of protection from extra-regional imports, the MERCOSUR automotive trade regime has proven highly effective in attracting new investment during recent years.

Looking ahead, it seems likely that the relative significance of regional trade arrangements as determinants of investment is likely to grow for at least two key reasons. First, it is increasingly probable that countries throughout the region will succeed in establishing a Free Trade Area of the Americas (FTAA). If such an arrangement emerges after 2005 (as is scheduled) it would create a hemispheric free trade zone, offering Latin American producers tariff-free access to the North as well as the South American markets. This would almost certainly be a major stimulus to FDI, just as the establishment of NAFTA helped boost inward investment in Mexico.

Second, and leaving aside the issue of the FTAA, there is a growing tendency to conclude trade liberalization agreements between different regional trade arrangements. MERCOSUR has begun negotiations for a free trade agreement with the EU. If such an accord is signed it will substantially enhance the attractiveness of the MERCOSUR countries as locations for investment because local producers will have greater access to the European market. To some extent, the expectation that regional trade arrangements will become more important in the future is echoed in the results of the business surveys accompanying some of the chapters. For the moment, however, the chapters reveal that such arrangements, despite their high profile (and with the exception of NAFTA in Mexico's case), have been less significant stimuli to investment than might be supposed. At the European level, according to the results of the survey, a relatively low 33 percent of the responding companies identified a host country's membership of an integration grouping as an important factor in their decision to invest.

Closely linked to the issue of regional trade arrangements is the matter of exports generated by the affiliates of investor country enterprises in Latin America. With the extensive trade liberalization and market reform of the past decade, the Latin American tradables sector has faced growing competitive pressure, forcing it to reduce costs, boost productivity and upgrade product quality. For this reason it might be supposed that Latin America is now a more viable platform for export activities than was the case under ISI. To some extent this proposition is supported by the experiences of European enterprises in the region. In the case of France and Germany, for example, the local affiliates of manufacturing enterprises tend to be relatively export-intensive. To a more limited degree this external orientation is also evident in the cases of the United Kingdom, Switzerland and Italy.

Drawing on the earlier discussion, it is important to emphasize that the most dynamic component of European FDI in the past five years has been the public utilities sector, which by its very nature is geared to serving national rather than international markets. On this basis, therefore, it is difficult to sustain the argument that trade liberalization and the opening up of export potential have been the primary factors underpinning the investment boom of recent years. Rather, it seems more reasonable to suggest that these factors have been important determinants of the (still impressive) growth in European stocks of manufacturing and natural resources investment in the region over the period.

As regards exports from European multinational enterprise affiliates based in Latin America, the chapters reveal some noteworthy trends concerning the location of key markets. As far as French and German enterprises are concerned, exports from their Latin American subsidiaries tend to be targeted at regional rather than extra-regional markets. Exports to Europe and North America are quite limited, the only exception being those subsidiaries established in Mexico with the express intention of serving the United States market.

As might be expected, automotive exports (which are concentrated among French, German and Italian enterprises) are very strongly focused on the market of the free trade area within which the production facilities are located. Thus, in the case of MERCOSUR, the bulk of exports are intra- rather than extra-regional. In the case of NAFTA, similarly, export production from Mexico is very much aimed at the United States market. This pattern of concentration on regional as opposed to extra-regional exports is also apparent in the case of the United Kingdom, the Netherlands and Switzerland, at least in the manufacturing sector.

However, in the case of the mining and oil and gas sectors (in which the United Kingdom and, to a lesser extent, the Netherlands have substantial investments), extra-regional exports are more important. Of course, not all the major investor countries are strongly associated with export activities in Latin America. The heavy concentration of Spanish and Portuguese investment in non-tradable public utilities has meant that the availability of extra- or intra-regional export markets has not been a significant determinant of the decision to locate in Latin America.

One of the most significant roles of FDI in Latin America is its ability to induce the modernization of the supply-side and the introduction of new technologies and production techniques. The chapters in this book do not concentrate in detail on this issue (since their concern is an analysis of the underlying motives for investment), but some interesting evidence does emerge. In the case of Italy and Germany, for example, it is clear that automotive manufacturers have been investing substantially in the technological upgrading of their Latin American production facilities. In one noteworthy example, Volkswagen has been successfully attempting to pioneer an entirely new approach to production at its light commercial vehicle plant in Resende, Brazil. This approach emphasizes not only the use of new capital equipment but also the re-ordering of the production process and its outsourcing to external and independent contractors. The restructuring of industrial production is by no means unique to Volkswagen, and is being repeated in different forms by industrial enterprises across Latin America. One consequence of this is that industrial production is becoming progressively less labor-intensive, a development that is already posing a serious challenge to policy makers.

Turning more explicitly to the issue of technology, the chapters make plain that the affiliates of investor enterprises have been making an important contribution to modernizing and upgrading infrastructure, especially in the field of telecommunications. In the case of the United Kingdom, for example, National Grid plc has played an important role in extending Brazil's fiber optic telecommunications network, while Spain's Telefónica has performed a similar function in Argentina.

Outlook

Without question, the 1990s proved an exceptional period for the evolution of foreign direct investment in Latin America. With macroeconomic stabilization, trade liberalization, market reform and privatization providing a highly favorable climate for investors, foreign—and particularly European—enterprises have strongly increased their presence in the region across a range of sectors from manufacturing, to oil and gas, and to public utilities. The dramatically accelerating pace of FDI flows has offered substantial support to countries across the region in their efforts to finance external deficits and boost economic competitiveness.

As Latin America moves beyond the 1990s, there are indications that future FDI flows might level off in comparison with the exceptional levels recorded toward the end of the decade. Over the course of the 1990s, the countries of the region implemented a series of policy reforms that stimulated FDI flows after years of relative stagnation. As the reform process matures, Latin American privatization programs are reaching their conclusion and the one-off investment flows associated with them will wane, leaving the region reliant on FDI from other sources.

Despite this development, it is reasonable to expect that in the future Latin America will continue to benefit from substantial foreign investment. A number of factors point in this direction. First, while the privatization process may be winding down, the newly installed foreign owners of the privatized assets will need to invest heavily in them in order to remain competitive in the market and satisfy the appropriate regulatory agencies. Second, as the region becomes steadily more integrated into the global economy, enterprises within it will remain under pressure to modernize and upgrade production facilities. In the case of MNE affiliates, this will often require substantial investments. Third, as Latin America continues to adapt to the forces of trade and market liberalization, the ongoing process of industrial restructuring will offer foreign enterprises new and attractive mergers and acquisitions opportunities.

Furthermore, regional integration may become more prominent as a stimulus to FDI flows into Latin America. In many ways the prospect of regional integration motivating FDI will be influenced by the evolution of the sub-regional schemes (some of which are in serious difficulties) as well as by the materialization of the FTAA and of free trade agreements with the EU.

For foreign investors, crucial determinants of FDI are sound macroeconomic policies in the host countries and the growth potential of local and regional markets. As this study points out, foreign investors tend to view these factors as significant in the long run, above and beyond the importance attached to them from a purely short-term cyclical perspective. The investment scenario that will actually come to pass in the future will thus depend chiefly on the region's medium- to long-term macroeconomic outlook. Since the middle of 1998, the region has entered a period of considerable economic uncertainty, with a number of countries facing fiscal and external financing constraints. Consequently, economic growth has been interrupted and several regional currencies have come under pressure. These developments have created a less promising environment for investors, perhaps explaining why the level of new FDI flows waned in 2000 and has further stagnated during the course of 2001. With Latin America's need for foreign direct investment undiminished it is important that the

region's macroeconomic environment and growth performance improve significantly. Whether this will occur rests not only with the region's governments but also with developments in the international financial markets and the global economy, both of which have recently been encountering turbulence.

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Chapter 2. Foreign Direct Investment in Latin America and the Caribbean: An Assessment at the Start of the New Millennium

Alvaro Calderón Hoffmann *

At the start of the twenty-first century, foreign direct investment (FDI)—a reflection of the international expansion of transnational corporations—has become one of the principal engines driving the globalization of the international economy. This process reflects the trend toward a single world market and is largely the outcome of microeconomic forces based on the ongoing technological revolution. In global industries dominated by transnational corporations, the lowering of information and transport costs has made it profitable to undertake production, marketing, and research and development on a global scale (Turner and Hodges 1992). This has boosted the importance of economies of scale in these areas, and has consequently led to the predominance of large companies. At the very least, this has led to the global homogenization of preferences, technologies and products (Levitt 1983).

In the 1990s global FDI flows increased significantly, particularly in the second half of the decade, from an annual average of almost \$245 billion between 1990 and 1996 to more than \$1.1 trillion in 2000 (ECLAC 2001). FDI grew from 2 percent to 14 percent of total gross fixed capital formation between 1980 and 1999. The sale of transnational company affiliates thus grew much faster than total exports, while production levels increased from 5 percent to 10 percent of gross domestic product (GDP) between 1982 and 1999 (UNCTAD 2000). The intra-firm trade of transnational corporations accounts for one-third of world trade, their exports to third parties for a further third, and trade between national companies accounts for the final third. Hence transnational corporations have become key actors in most developed and developing national economies.

The developed countries are at the epicenter of this process. Most global FDI flows originate in and are destined to those countries, mainly the United States, the United Kingdom, France and Germany. In the most recent period, the industrialized economies accounted for 74 percent of total world FDI inflows and for more than 90 percent of outflows (UNCTAD 2000). At the end of the 1990s this marked dynamism was further driven by the *strong performance of the United States economy, the introduction of a single currency in the European Union (EU) and the greater risk associated with investment in emerging markets.* Globalization also prompted significant changes in the strategies of the main transnational corporations, many of which are actively pursuing a policy of mergers and acquisitions (M&A), which account for a significant proportion of FDI flows.

Although lesser actors on the global scene, developing countries have recorded substantial increases in FDI inflows in absolute terms. Such capital flows have become their main source of long-term financial resources, accounting for 60.4 percent of the total in 2000 compared to 24.5 percent in 1996 (World Bank 2001). Their share of total FDI flows increased in the first half of the 1990s, reaching almost 38 percent in 1996, but subsequently

* Economic Affairs Officer, Unit on Investment and Corporate Strategies, Division for Productive Development, Economic Commission for Latin America and the Caribbean (ECLAC), Santiago, Chile.

fell to almost 17 percent in 2000. As noted above, this loss in relative share was the result of the dynamism of flows between industrialized countries, as well as of the negative effects of the 1997 Asian crisis on FDI flows to emerging economies. Latin America and the Caribbean were not particularly affected, however, largely because of the leading role belatedly assumed by Brazil, the vigorous expansion of some service sectors (especially telecommunications), and the massive and extensive purchase of Latin American assets by extra-regional transnational corporations.

Estimates of FDI flows to developing countries in the coming years point to a slower pace of investment than in the 1990s, when many developing countries lifted their restrictions on foreign investment and posted high rates of GDP growth, and when there was a rapid increase in demand in industrialized countries, induced by export-oriented FDI (World Bank 2001; IIF 2001). Lower growth in developing countries and significant uncertainty about the global economy have dampened foreign investors' enthusiasm to continue rapid expansion in new, long-term commitments.¹

Characteristics of FDI and Strategies of Transnational Corporations in Latin America and the Caribbean

As noted earlier, the turbulence in the international markets in the 1990s did not have a significant impact on FDI inflows in Latin America and the Caribbean, which grew three-fold in the second half of the 1990s. In fact, FDI has become the main source of external financing,² increasing from \$32.5 billion in 1995 to \$93.8 billion in 1999, to fall to \$74.2 billion in 2000 (see Table 2.1). Latin America now accounts for more than 40 percent of total FDI flows to developing countries (World Bank 2001; IIF 2001). The extraordinary growth of these capital flows led to a 4.7-fold increase in FDI stock in the 1990s, from \$118 billion in 1990 to \$560 billion in 2000. This indicates the renewed impetus of foreign capital in Latin America and the Caribbean in the 1990s, which suggests a need to reinterpret the characteristics of the phenomenon.

In the 1990s the volume and characteristics of FDI flows were determined not only by the general opening and deregulation of the region's economies, but also by specific events in certain countries and sectors. At the start of the decade the role of foreign capital in the massive privatizations of state assets in Argentina, Peru and Venezuela, sometimes associated with the conversion of foreign debt into capital, largely accounts for the inflows during this period. The gradual economic integration of Mexico with the United States, which led to the signing of the North American Free Trade Agreement (NAFTA), prompted a significant restructuring of the productive base of foreign companies in Mexico and the arrival of a large number of new firms (often United States companies relocating to Mexico) that sought to exploit the advantages of the agreement. Because of Mexico's particular situation, FDI inflows remained high and stable throughout the 1990s. There were other determining factors in the second half of the decade. First, Brazil's belated privatizations led to the arrival of "emerging transnational services firms" that embarked on ambitious internationalization plans. Second, the massive takeover of the largest Latin American private firms by extra-regional foreign companies led to an unprecedented process of M&As (see Figure 2.1).

Table 2.1. Net Foreign Direct Investment Inflows in Latin America and the Caribbean, 1990–2000

(In millions of U.S. dollars)

Countries	1990–1994 ^a	1995	1996	1997	1998	1999	2000	1995–2000 ^a
Latin American Integration Association (LAIA)	14,371	28,084	41,740	61,529	66,350	85,868	67,191	58,460
Argentina	2,971	5,610	6,948	9,156	6,849	23,930	11,957	10,742
Bolivia	85	393	474	731	957	1,016	695	711
Brazil	1,703	4,859	11,200	19,650	31,913	32,659	30,250	21,755
Chile	1,219	2,957	4,634	5,219	4,638	9,221	3,676	5,058
Colombia	818	968	3,113	5,638	2,961	1,009	1,340	2,505
Ecuador	293	470	491	625	814	690	740	638
Mexico	5,430	9,526	9,186	12,831	11,312	11,786	12,950	11,265
Paraguay	98	103	149	236	342	72	100	167
Peru	785	2,056	3,225	1,781	1,905	1,969	1,193	2,022
Uruguay	...	157	137	126	164	229	180	166
Venezuela	836	985	2,183	5,536	4,495	3,187	4,110	3,416
Central America and the Caribbean	1,410	1,984	2,105	4,211	6,125	5,355	4,500	4,047
Caribbean offshore centers	2,506	2,427	3,119	4,513	6,398	2,599	2,500	3,593
Total	18,287	32,495	46,964	70,253	78,873	93,822	74,191	66,100

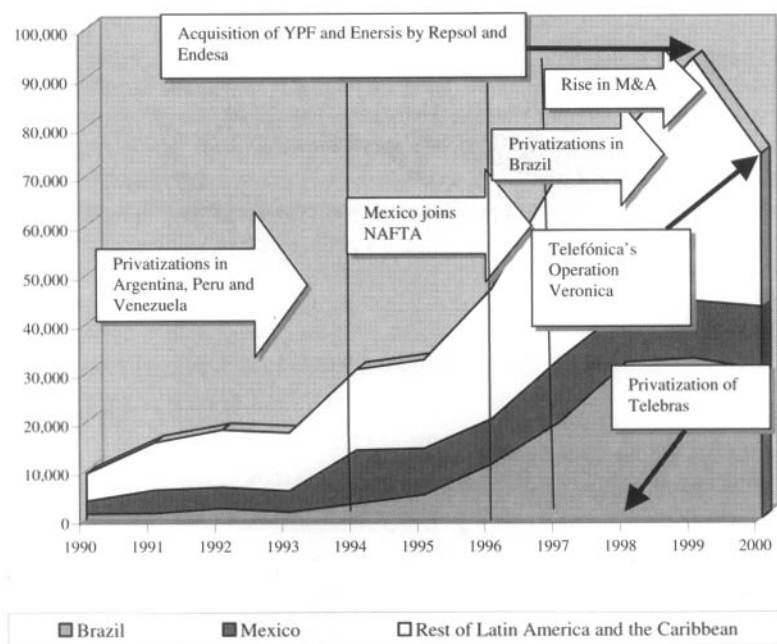
^a Annual average.

Source: Based on data provided by ECLAC, Unit on Investment and Corporate Strategies.

In 2000, FDI flows to Latin America and the Caribbean fell for the first time since 1993. Although inflows exceeded \$74 billion, they declined by more than 21 percent compared to the \$93.8 billion recorded the previous year. Despite this decline, however, inflows in 2000 increased three-fold relative to the annual average in 1990–1994, and were 12 percent higher than the average for 1995–2000 (ECLAC 2001). Nevertheless, this fall in flows to the region in 2000 was the result of specific factors rather than part of a trend. FDI fell in 2000 because of the impact of three large operations carried out the year before: the purchase of Argentina's Yacimientos Petrolíferos Fiscales (YPF) by the Spanish oil company Repsol (\$15,168 million) and Endesa of Spain's acquisition of the Chilean energy companies Enersis and Endesa for a total of \$3,550 million (see Figure 2.1).

Although this pattern has led to some diversification, particularly with the absolute increase in flows to the smaller countries, the larger regional economies have continued to be the main targets for transnational corporations. In the first half of the 1990s just four countries (Argentina, Brazil, Chile and Mexico) accounted for 62 percent of flows; Mexico attracted 29 percent of the total. There was a greater degree of concentration between 1995 and 2000, when these four countries accounted for 74 percent of total FDI flows to the region (see

Figure 2.1. Latin America and the Caribbean: Net Foreign Direct Investment Inflows, 1990–2000
(In millions of U.S. dollars)

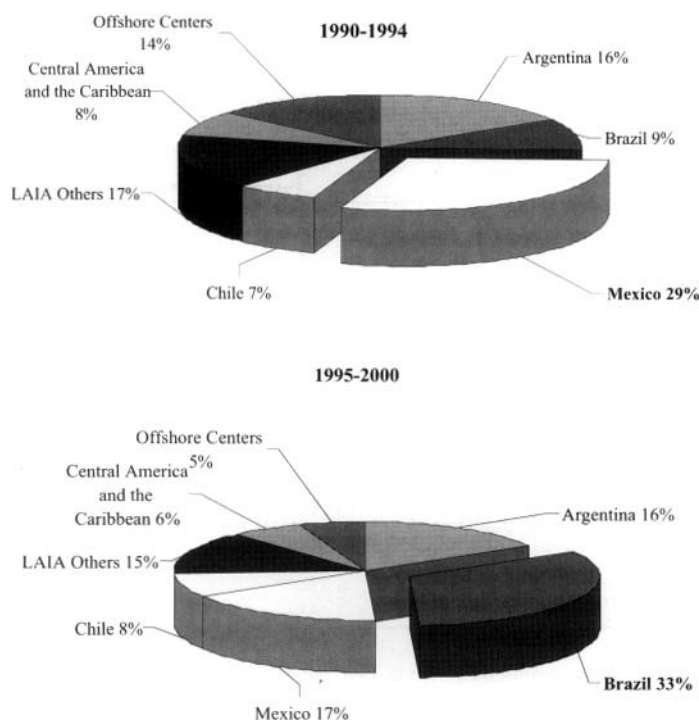


Source: ECLAC, Unit on Investment and Corporate Strategies.

Figure 2.2). From 1996 onwards Brazil replaced Mexico as the main recipient of FDI flows to Latin America and the Caribbean, attracting 40.8 percent of FDI to the region in 2000 (see Table 2.1). The performance of Brazil, which is distinguished by its status as the main motor for FDI growth in Latin America in recent years, is largely attributable to its privatization of state assets and the progressive and rapid deregulation of some key economic sectors. This led to the massive entry of new foreign investors in the services sector (telecommunications, electricity, the retail trade and banking), and has translated into a significant change in the trend of FDI flows to the region.

In this context the importance of foreign capital for domestic economies increased rapidly throughout the decade. The trend was most marked in the larger economies, particularly in Brazil. As a percentage of GDP, the stock of FDI in Brazil grew substantially, from 8 percent to 31 percent between 1990 and 1999. The pattern was similar in Argentina, where the stock grew from 6.2 percent to 22 percent of GDP in the same period. In Mexico, despite a high level of inflows and an absence of any great fluctuations in the period, the contribution of FDI to GDP was less marked than in the other cases (see Table 2.2). This reveals the limitations of the indicator, since it masks some features of FDI that are crucial to

Figure 2.2. Latin America and the Caribbean: Share of FDI Inflows, 1995–2000
(Percentages)



Source: Based on data provided by ECLAC, Unit on Investment and Corporate Strategies.

a full understanding of the domestic impact of foreign investment. The indicator not only reflects the scale of new investment but also resources devoted to the acquisition of existing assets, which entail a shift in the ownership of the capital stock and not necessarily an increase in such stock. In Argentina and Brazil, FDI inflows went largely to the purchase of existing assets; in Mexico, investment in new productive capacity was predominant. This peculiarity indicates that the relative importance of foreign capital as a source of new investment may be over-valued—at least in an initial stage—in those cases in which the merger and acquisition of national companies was massive. Used with care, however, this indicator can reveal the scale of the impact of FDI on recipient economies. This issue will be addressed in detail below to show how changes in ownership, and the relative significance of foreign capital, have substantially changed Latin America's business fabric.

Table 2.2. FDI Inward Stock as a Percentage of GDP in Latin America and the Caribbean, 1990–1999
(In millions of U.S. dollars and percentages)

	FDI Stock (US\$ millions)		FDI Stock/GDP (%)	
	1990	1999	1990	1999
LAIA	91,121	402,569	8.6	24.4
Argentina	9,085	62,289	6.2	22.0
Bolivia	1,026	4,843	16.6	57.9
Brazil	37,143	164,105	8.0	31.0
Chile	10,067	39,258	20.4	58.0
Colombia	4,904	19,521	8.7	22.5
Ecuador	1,626	6,088	12.8	44.5
Mexico	22,424	72,016	10.6	15.0
Paraguay	402	2,217	7.6	28.6
Peru	1,302	8,573	3.5	16.5
Uruguay	882	1,923	10.6	9.1
Venezuela	2,260	21,736	8.0	21.0
Central America	3,890	11,518	17.8	21.5
Costa Rica	1,447	4,651	25.4	30.6
El Salvador	212	1,403	4.7	11.3
Guatemala	1,734	3,190	9.7	17.4
Honduras	383	1,167	13.7	21.7
Nicaragua	114	1,107	9.5	48.8
Selected Caribbean countries	3,392	13,411	20.7	46.4
Dominican Republic	572	4,276	8.1	24.6
Jamaica	727	2,781	16.3	33.0
Trinidad and Tobago	2,093	6,354	41.3	97.5
Total	118,000	485,605	9.3	24.9

Source: Compiled by the author on the basis of data from ECLAC and UNCTAD, *World Investment Report 2000: Cross-Border Mergers and Acquisitions and Development*, Annex Table B.3, pp. 294–299.

In general, in the smaller countries, FDI flows grew strongly in the second half of the 1990s (see Table 2.1). Political and economic stability, as well as a much more favorable attitude toward FDI, allowed foreign investors to use many of these smaller economies in their regional expansion plans. It is difficult to make generalizations about this group of countries because of their varied experiences, but it is worth noting the case of Costa Rica and its successful strategy to attract investment in activities related to cutting edge technology. The arrival of the United States company INTEL, which moved a significant part of its microprocessor production to Costa Rica, was a milestone. In this group, FDI has had a sharp impact on the domestic economies (see Table 2.2), although not as great as in the bigger countries. Here, too, the data must be treated with caution, since the massive arrival of foreign investors has been closely linked to export-promotion programs. These had a less marked effect on GDP than had been expected, since they were related to *maquiladora* companies that are concentrated in cheap labor and that have scant linkages with the rest of the domestic economy.

A note is necessary regarding FDI flows to the Caribbean offshore centers. According to the data on flows reported by the centers, they have progressively lost in importance as recipients of FDI. In relative terms their share of total inflows to the region fell from 13.7

percent to 5.4 percent between the periods 1990–1994 and 1995–2000 (see Table 2.1). In absolute terms, following the peak in 1998 (\$6.4 billion) the data point to a decline in inflows, largely because of the sharp fall in flows to Bermuda and the Cayman Islands. Most of these flows are not destined for the domestic economies of the offshore centers, but are en route to other countries both within and beyond the region. This phenomenon, therefore, is very difficult to quantify; the amounts vary according to where the flows are recorded. Beyond the serious problems of accounting and statistical methodologies, the most reasonable explanations for these capital movements lie in the financial strategies of transnational corporations (see Box 2.1).

Box 2.1. Caribbean Offshore Centers: A Transitory Haven for FDI?

Simultaneous analysis of the flows channeled to offshore centers from the perspective of both the recipient and the investing countries offers a fuller understanding of the features and scale of the phenomenon. First, unlike the figures from the offshore centers, in recent years the data on FDI to offshore centers from the United States, Europe and Japan indicate that these flows have increased substantially. In terms of outflows they grew from \$7.7 billion to \$16.6 billion between 1996 and 1999 (see Statistical Annex). Second, FDI outflows from the main industrialized countries follow a very similar pattern to total FDI inflows recorded by the recipient countries in the region, with a difference of about 20 percent. This differential may be explained by inflows from other sources, including offshore centers, as well as by methodological differences in collecting statistical data. In the 1996–2000 period, a total of 20.7 percent of FDI inflows in the main recipient countries came from regional sources (2.3 percent), offshore centers (7.8 percent) and other sources (10.6 percent; see Table 2.4). In absolute terms, in these countries FDI inflows from offshore centers reached about \$20 billion in the period 1996–2000. In the case of Brazil, FDI inflows from offshore centers reached some \$2.6 billion a year between 1996 and 2000. It may thus be assumed that a significant share of the flows arriving in offshore centers from the main investor countries have as their final destinations other countries in Latin America. Apart from tax implications linked to these capital movements, undertaking investment in offshore centers is seen as giving companies greater autonomy to relocate funds within or beyond the region.

Sectoral Impact of New Corporate Strategies: From Manufactures to Services

Foreign investment in Latin America and the Caribbean has traditionally favored manufacturing activities that supply highly protected domestic markets (see Figure 2.3). However, developments in the international markets and greater competition (stemming from trade and financial liberalization) led to growing interest among new entrants and forced transnational corporations already in the region to redefine their strategies. Companies with a presence in Latin America either *withdrew* (sometimes opting to supply local markets through exports), *streamlined* their operations (basically with defensive import strategies) in order to defend their market share, or *restructured* their activities by carrying out new investment in the revitalized national, subregional and international environment (ECLAC 2000). In recent years, manufacturing FDI has concentrated on countries with large domestic markets (Brazil,

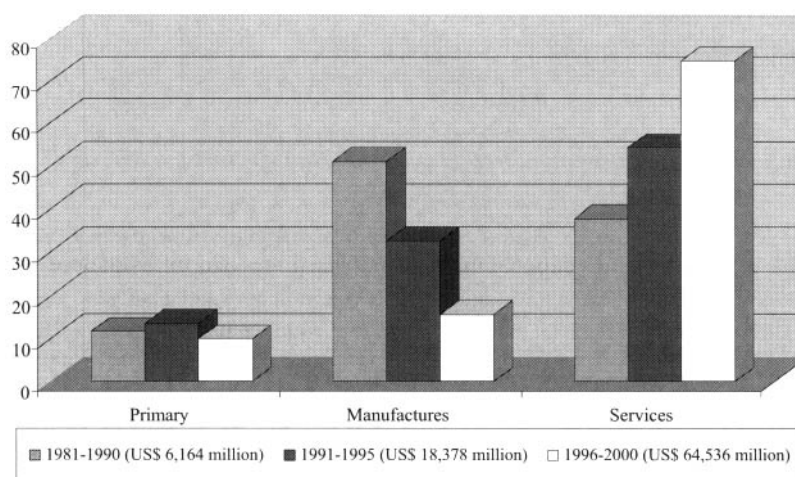
Mexico and Argentina) or those used as export platforms (Mexico and the Caribbean Basin countries). Two types of strategies in manufacturing industry can be identified:

- Increasing the efficiency of transnational corporations' internationally integrated production systems; and
- Seeking access to national and subregional markets for manufactures.

The first strategy includes investment in and exports from Mexico and the Caribbean Basin (see Table 2.3). In most cases, United States companies exploit certain advantages (low wages, geographical proximity and privileged access to the United States market) to increase their competitiveness in their own market and to face competition from Asian firms. This is the case in the production of automobiles and autoparts, computers and electronics, and clothing in NAFTA and in the Caribbean Basin *maquilas*.³

The second strategy involves significant investment in the automobile and foodstuffs subsectors, in the chemical industry, and in the machinery sector supplying large local and subregional markets. Notably in the Argentine and Brazilian automobile industry, firms with a strong presence in the region (Ford, General Motors, Volkswagen and Fiat) have invested heavily to defend their market share, especially of compact automobiles. New firms have also entered the market (Chrysler, Renault, BMW, Toyota, Honda) in search of market niches. However, the difficulties facing the Argentine economy and the devaluation of the Brazilian currency have curbed the dynamism of such undertakings. This has led to the cancellation of investment and the relocation of factories from Argentina to Brazil. The Italian company Fiat is thus moving part of its Argentine production of Uno and Palio models to the Brazilian state of Belo Horizonte.

Figure 2.3. LAIA Countries: Sectoral Distribution of FDI, 1981–2000
(Percentages)



Source: Compiled by the author on the basis of data from national sources in recipient countries.

Table 2.3. Strategies of Transnational Corporations in Latin America and the Caribbean in the 1990s

Sector	Corporate strategy	
	Efficiency-seeking	Market access-seeking (national and/or subregional)
Primary		<i>Oil /gas:</i> Argentina, Venezuela, Colombia, Bolivia and Brazil <i>Minerals:</i> Chile, Argentina and Peru
Manufactures	<i>Automotive:</i> Mexico <i>Electronics:</i> Mexico and the Caribbean Basin <i>Clothing:</i> Caribbean Basin and Mexico	<i>Automotive:</i> Argentina and Brazil <i>Agroindustry, food and beverages:</i> Argentina, Brazil and Mexico <i>Chemicals:</i> Brazil <i>Cement:</i> Colombia, Dominican Republic and Venezuela
Services		<i>Financial:</i> Brazil, Mexico, Chile, Argentina, Venezuela, Colombia and Peru <i>Telecommunications:</i> Brazil, Argentina, Chile and Peru <i>Electricity:</i> Colombia, Chile, Brazil, Argentina and Central America <i>Natural gas distribution:</i> Argentina, Brazil, Chile and Colombia <i>Retail trade:</i> Brazil, Argentina, Mexico and Chile

Source: ECLAC, Unit on Investment and Corporate Strategies.

The deregulation of the Latin American economies, particularly through the privatization of state assets, has created new investment opportunities in sectors previously closed to the private sector in general and to foreign companies in particular. There has been a significant influx of firms that previously had no important role in Latin America, particularly in services, infrastructure (telecommunications, energy, transport, banking, etc.) and extractive activities (mining and hydrocarbons). These investors have adopted two different strategies in the region:

- The search for raw materials; and
- The search for access to national markets in the services and infrastructure sectors.

In extractive activities, the arrival of transnational corporations has occurred against a background of a new organizational pattern of production, the application of new technologies, and modifications to the regulatory frameworks of countries with abundant natural resources. The impact of this investment has generally been gauged by increases in exports of natural resources and the corresponding construction of the necessary infrastructure. In this regard, Chile is prominent in the mining sector.

**Box 2.2. Mobile Telecommunications in Latin America:
Investment at the Technological Frontier**

Recently, the telecommunications sector has offered a strong impetus to FDI in Latin America. Almost a third of the inflows to the region between 1997 and 2000 consisted of investment related to the sector. Hence Latin America has not been detached from the global trend of marked dynamism in telecommunications-related business (basic and mobile telephony, the Internet, cable television). The pace of technological progress, increased competition and the strategies adopted by transnational corporations active in the sector have made mobile telephony a core element of the search for new patterns of convergence in telecommunications in the twenty-first century.

In Latin America, the combination of private ownership and growing competition has given the mobile telephony market one of the highest growth rates in the world. Mobile telephone users increased from 100,000 in 1990 to 3.5 million in 1995 and to 60 million at the end of 2000. Most of these users are in Argentina, Brazil, Chile, Mexico and Venezuela. The figure is expected to reach 90 million in 2004, largely the result of the granting of new PCS licenses, the introduction of 2.5 generation technology and the preparation of the sector for third generation mobile telephones. In some markets of the region (Chile, Mexico, Paraguay and Venezuela) the number of mobile telephone users exceeds those who rely on fixed lines (see Table A below). This explosive growth has given rise to the emergence of 60 new mobile telephone companies in the region. In terms of technology, in Latin America the most extensive standards are AMPS, D-AMPS, CDMA and TDMA. The share of GSM is increasing, especially in the affiliates of European firms. It is expected that there will be at least one GSM operator in every country of the region by 2002. In this context, some of the main actors in the telecommunications industry have included Latin America in their global strategies, a process that has accelerated recently, as outlined below:

- At the start of the 1990s, a few European companies centered their incipient internationalization strategies on taking control—through privatization programs—of the dominant basic telephony operators. Later, they began to expand in other segments and markets, notably mobile telephony and massive entry into Brazil. Spain's Telefónica and Telecom Italy secured leadership positions in most segments and markets in the region. These European companies were joined by BellSouth of the United States.
- In late 2000 some of the most active companies at the global level began to contend for market share with those companies that already had strong regional leadership. As part of the consequent consolidation of assets that stemmed from global mergers and acquisitions, as well as from ambitious strategic alliances, important global operators quickly managed to position themselves in Latin America. This is the case of Verizon of the United States—the result of the purchase of GTE Corp. by Bell Atlantic Corp.—and its recent partnership with Vodafone of the United Kingdom; and the creation of Telecom Américas by SBC Communications, TELMEX and Bell Canada. The latter case seeks to integrate platforms that are separate from these companies in Latin America, especially in mobile telephony based on TDMA technology. The merger of the mobile telephony assets of SBC and BellSouth in the United States might also entail a merger of their networks in the region (see Table A).

Although this trend has a broad regional scope, an important part of the process has concentrated on Brazil, particularly since the privatization of Telebras—regionally divided into 12 holding companies: three fixed telephony firms, one long-distance operator and eight mobile telephony companies. Brazil accounts for 38 percent of the region's mobile telephone users (41 countries and territories), with total revenue through privatization and the sale of licenses in the sector of some \$26.6 billion (ECLAC 2001). About 60 percent of this amount is foreign capital, mostly from Europe. Brazil, moreover, is one of the markets with the greatest expectations of growth: if the technology is available it is expected that third generation licenses will be put to tender in 2002.

Box 2.2 (continued)

Latin America has thus become active in one of the world's most dynamic industries, receiving large-scale investment in cutting-edge technology. Undoubtedly, this will increase the region's systemic competitiveness. Service quality and coverage have improved significantly. Some companies that internationalized only recently, and that aim to be global operators, have committed strongly to Latin America and have secured significant shares of local markets (Telefónica, Telecom Italy and BellSouth). This new situation poses great regulatory challenges to Latin American authorities in terms of securing maximum benefits to their countries' economic development, in view of advances in the telecommunications sector at the global level.

Table A. Major Operators of Mobile Telephony in the Main Regional Markets, December 2000

	Argentina ^a	Brazil ^b	Chile	Colombia ^c	Mexico ^d	Peru	Venezuela
Mobile: fixed line ratio (%)	0.88	0.61	1.01	0.48	1.14	0.6	2.42
Total mobile subscribers (millions)	7	23	3.1	3.2	14.1	1.2	4.9
Telefónica España							
* Coverage	National	Regions 3, 6 and 9	National	-	Regions 1, 2, 3 and 4	National	e
* Technology	TDMA	CDMA y TDMA	D-AMPS	-	AMPS and CDMA	CDMA	e
* % of market	26%	22%	39%	-	10%	73%	e
Telecom Italia							
* Coverage	Northern region and national	Regions 5, 9 and 10	National	-	-	National	Central region
* Technology	D-AMPS and TDMA	TDMA and CDMA	GSM	-	-	GSM	GSM
* % of market	29%	18%	32%	-	-	In construc.	5%
BellSouth							
Coverage	National	Regions 1 and 10	National	National	-	Lima and Callao	National
* Technology	N-AMPS and CDMA	TDMA	AMPS and TDMA	TDMA	-	TDMA	CDMA
* % of market	23%	17%	23%	28%	-	27%	62%
Telecom America							
* Coverage		Region 3	-	Eastern and western regions	National	-	-
* Technology		TDMA	-	AMPS and TDMA	AMPS and TDMA	-	-
* % of market		4%	-	39%	74%	-	-
Verizon-Vodafone							
* Coverage	National	-	-	-	Regions 1, 4, 5, 6, 7, 9	-	National
* Technology	N-AMPS and CDMA	-	-	-	AMPS and CDMA	-	CDMA
* % of market	14%	-	-	-	12%	-	33%

^a Argentina was divided into three areas (Region I or Northern Interior, Region II or Southern Interior and Region III or AMBA). The latter includes the Federal Capital and Greater Buenos Aires. Two licenses were awarded in each region.

^b The country was divided into 10 geographical areas and five bands were assigned in different frequencies. Between 1997 and 1998 the A and B bands were assigned. At the beginning of 2001 the first PCS licenses were tendered and the C, D and E bands were assigned.

^c The territory was divided into three areas, Eastern, Atlantic and Western Coast. In each area two licenses were granted, Bands A and B.

^d The territory was divided into nine regions and two licenses were granted in each. In 1997, nine PCS licenses were awarded. There are now ten mobile telephony concessions and five for PCS.

^e Telefónica has a minority share (16 percent) in the Venworld Telecom consortium controlled by CANTV.

Source: Compiled by the author on the basis of information from the companies.

In services, however, the size of the local market, regulations and technological changes have been determinants in foreign investors' decisions. At play here is a combination of regional and international factors. First, the privatization of state assets, the contracting out of public services, and the far-reaching liberalization of the telecommunications, energy and financial sectors increased competition for regional markets among leading transnational firms. Second, greater global competition, modifications to international regulatory frameworks and rapid and constant technological changes boosted the globalization of these industries, mainly through M&As. In this context, "emerging transnational service companies" were consolidated. Their regional impact is measured by the increase in the systemic competitiveness of the economy as a whole, by public access to new products and services, and by the dissemination of best international practice (see Box 2.2). This is highly important for Latin America and the Caribbean, where investment in services has increased sharply in recent years (see Figure 2.3 and Table 2.3).

New Arrivals in the Second Half of the 1990s: The European Thrust

Changing corporate strategies have also substantially affected the national structure of companies that have invested in the region in recent years. In the last 50 years, the United States has been the main source of FDI flows to Latin America and the Caribbean (see Annex 2.1 in this chapter). Among developing countries, the Latin American economies have also been the main recipients of United States investment.⁴ United States companies have generally invested in manufacturing and, more recently, in services (telecommunications and energy). As noted above, investment in manufacturing exploited advantages (low wages, geographical proximity and privileged access to the United States market) to increase the firms' competitiveness in their own market.

In recent years there has been a significant increase in European, principally Spanish, investment. Spain quickly became the second largest investor in the region and the leading European investor (Calderón 1999). Aside from the spectacular increase in Spanish investment in Latin America, FDI from the United Kingdom, the Netherlands, France, Germany and Portugal has also grown significantly (see the individual country chapters). European investors have been particularly active in the privatization of state companies in the energy and telecommunications sectors (see Box 2.2), and in the purchase of local private banks and large retail chains, especially in the MERCOSUR countries and Chile (see Table 2.4; Calderón and Vodusek 1998). In 2000, Mexico became a leading destination for the new wave of European investors, particularly in banking and telecommunications. Of particular note were the acquisition of Grupo Serfin by Banco Santander Central Hispano (BSCH) for \$1.56 billion; the merger of Banco Bilbao Vizcaya Argentaria's (BBVA) Mexican operations with the Bancomer group (with the Spanish bank investing \$1.85 billion); Telefónica of Spain's purchase of four mobile telephone operators for some \$1.8 billion; and the acquisition (completed in April 2001) of 34.5 percent of Iusacell by the United Kingdom telecommunications giant Vodafone for \$973 million.

Asian, and especially Japanese, investment still accounts for a relatively small share of total FDI to Latin America and the Caribbean (see Table 2.4 and Annex 2.2). The interest of Japanese investors has centered on Panama in financial and commercial services, on Brazil and Mexico in some manufactures—mainly electronics—and on Chile in the mining sector.

Table 2.4. Origin of FDI Inflows to Some Countries of Latin America, 1996–2000^a
(In percentages)

	United States	European Union	Japan	LAIA	Offshore centers	Others	Total
Argentina	13.4	68.6	–	4.4	–	13.6	100.0
Brazil	23.7	54.9	1.4	0.7	12.4	6.9	100.0
Bolivia	32.3	30.6	0.1	27.6	5.2	4.2	100.0
Chile	25.7	45.2	3.2	2.5	3.5	20.0	100.0
Colombia	9.9	33.7	0.5	3.9	32.7	19.2	100.0
Mexico	66.8	18.9	4.5	0.2	2.2	7.5	100.0
LAIA ^b	29.0	48.5	1.8	2.3	7.8	10.6	100.0

^a Accumulated FDI flows for the period 1996–2000.

^b Total includes information on the six countries in the table. There is no information on Paraguay, Peru, Uruguay or Venezuela.

Source: Compiled by the author on the basis of information from national sources in the recipient countries.

As in the global economy,⁵ the purchase of existing assets has been the method most commonly used by foreign investors in the region. At the start of the 1990s this was effected through the privatization of state companies and, more recently, through the acquisition of local private firms. Between 1997 and 1999, the share of FDI inflows classified as purchases of existing assets remained at around 40 percent of the total (ECLAC 2000). This mechanism has been the most used by foreign investors seeking to increase their market share or to position themselves in the region for the first time. It is worth noting that the surge of M&As stemmed from the large number of operations carried out in the largest Southern Cone countries, such as through the Brazilian privatizations in 1997 and 1998 (Telebras and electricity generating companies), as well as the sale of national private companies in Argentina and Chile in 1999 (YPF and Enersis). Particularly important in 2000 was “Operation Verónica”, a series of acquisitions through share exchanges whereby Spain’s Telefónica increased to almost 100 percent its share of its affiliates in Argentina, Brazil and Peru. The operation cost an estimated \$20 billion. In 2000, the banking sectors of the region’s leading economies (Brazil and Mexico) were at the center of this phenomenon. Of note were purchases by two Spanish banks, BSCH (Banco do Estado de São Paulo—BANESPA—and Grupo Serfin) and BBVA (a merger with Grupo Bancomer). More recently, the United States bank Citicorp announced that it would be purchasing the Grupo Financiero Banamex Accival (BANACCI) for \$12.8 billion.

The changes brought about by the high level and the new sectoral composition of FDI flows are also reflected in the shifting positions of the main extra-regional business actors that dominate some of the most important industries in Latin America. First, traditional transnational corporations with a long-standing presence in the region, such as General Motors, Ford Motors, Royal Dutch-Shell and Nestlé, have begun to lose market share to new actors such as Telefónica, Carrefour-Promodés, Repsol-YPF, Endesa España and AES Corporation. In 1999 Telefónica, which at the start of the decade had no presence in Latin America, became the largest foreign company in the region in terms of consolidated sales.

Second, European firms (notably Telefónica) have replaced United States companies as the leading investors in the region. Third, service companies in telecommunications, energy and commerce have rapidly displaced traditional transnational manufacturing firms (see Table 2.5).

Table 2.5. Latin America: Leading Transnational Corporations in Terms of Consolidated Sales, 1999
(In millions of U.S. dollars)

	Company	Country of origin	Sector	Sales
1	Telefónica de España	Spain	Telecoms	12,439
2	General Motors	United States	Automotive	12,425
3	Volkswagen AG	Germany	Automotive	11,902
4	DaimlerChrysler AG	Germany	Automotive	9,746
5	Carrefour—Promodés	France	Commerce	9,561
6	Ford Motors	United States	Automotive	8,252
7	Repsol-YPF	Spain	Oil	8,109
8	Fiat SpA	Italy	Automotive	7,659
9	Royal Dutch-Shell Group	UK-Netherlands	Oil	6,449
10	Exxon Mobil Corporation	United States	Oil	6,403
11	International Business Machines, IBM	United States	Electronics	5,479
12	Endesa España	Spain	Electricity	5,475
13	Wal Mart Stores	United States	Commerce	5,182
14	The AES Corp.	United States	Electricity	4,816
15	Nestlé	Switzerland	Foodstuffs	4,766
16	Renault—Nissan Motor	France	Automotive	4,179
17	Unilever	UK-Netherlands	Foodstuffs	4,126
18	Motorola Inc.	United States	Electronics	3,817
19	Cargill Incorporated	United States	Foodstuffs	3,541
20	Intel Corporation	United States	Electronics	3,540

Source: ECLAC, Unit on Investment and Corporate Strategies.

Effects of the Increase in FDI in the 1990s on Latin American Business

From a medium-term perspective, the large flows of FDI to Latin America and the Caribbean in the 1990s prompted profound transformations in the competitive structure of countries and subregions, and in the industrial ownership structure of the region as a whole.

The *competitive transformations* were strongly conditioned by corporate strategies in different countries and markets. When FDI was mostly geared toward efficiency gains through the integration of productive facilities with broader networks of manufacturing production—such as in Mexico and the Caribbean Basin—the result was an increase in the international competitiveness of these industries. On the other hand, there were less significant increases in international competitiveness in countries where FDI flows were geared toward more traditional, natural resource-based activities or toward manufactures for supplying local or subregional markets (such as in most of South America).

Since a significant and growing share of FDI is geared to the services sector, the impact of these flows on systemic competitiveness and through it on the international competitiveness of recipient countries must be examined. The impressive wave of mergers and acquisitions spurred significant restructuring and the consolidation of important Latin American services industries. This upgraded the quality of services and, through the latter, improved the region's systemic competitiveness. This, however, poses significant challenges to the region's regulatory authorities.

The *transformation of the ownership structure* led to a marked transnationalization of Latin American economies. The presence of foreign firms in the region increased sharply in the 1990s, at the cost of both state companies and national private firms. During this period the number of foreign companies in the list of the region's leading 500 firms increased from 149 to 230, and their share of total sales rose from 27 percent to 43 percent (see Table 2.6). In this same period the share of national private companies in total sales remained relatively stable at about 40 percent, while the share of state companies fell significantly, from 33 percent to 19 percent between 1990–1992 and 1998–1999. The sectoral distribution of sales of the leading 500 companies also reflects a shift in the industrial structure associated with the change of ownership. Companies in the services sector increased their share of the sales of the region's leading 500 companies from 30 percent in 1990–1992 to 40 percent in 1998–1999. Manufacturing sales remained stable at around 42 percent. The sales of primary sector companies fell from 28 percent to 19 percent (see Table 2.6).

Similar ownership trends to those of the leading 500 companies in Latin America in the 1990s are apparent in the subgroup of the region's top 100 manufacturing firms. In the period 1990–1992, ownership of the leading 100 private manufacturing companies in Latin America was evenly distributed between national and foreign capital, with 48 companies in each group, while four companies were state-owned. The distribution of sales between foreign and national companies in 1990–1992 also shows that at the start of the decade foreign ownership was concentrated in relatively large manufacturing firms. At the end of the 1990s, foreign companies increased their already significant participation in the leading regional manufacturing firms, both in terms of the number of companies and share of sales. In 1998–1999, therefore, 59 of the leading 100 manufacturing companies were foreign-owned, 40 were owned by national private capital, and only one was state-owned. In these two years, foreign companies accounted for 62.7 percent of total sales (see Table 2.7).

The ownership and sectoral structure of Latin America's leading 200 exporters between 1995 and 1999 (see Table 2.8) also underscores the high degree of transnationalization in the region in the second half of the decade. In the mid-1990s, 126 of the top 200 regional exporters were nationally owned (115 private and 11 state). They accounted for more than 70 percent of the 200 companies' exports. In 1999, the number of national companies fell to 103 (59 percent of exports). In contrast, the number of foreign firms in this group increased from 74 in 1995 to 97 in 1999, and their share of the 200 firms' exports rose from less than 30 percent in 1995 to 41 percent by the end of the decade.

Table 2. 6. Latin America and the Caribbean: The Leading 500 Firms, 1990–1999
(Number, millions of U.S. dollars and percentages)

	1990–1992	1994–1996	1998–1999
By ownership			
<i>Number of companies</i>	500	500	500
Foreign	149	156	230
National private	264	280	230
State	87	64	40
<i>Sales (millions of dollars)</i>	361,009	601,794	640,948
Foreign	99,028	193,335	275,742
National private	142,250	246,700	244,874
State	119,731	11,759	120,333
<i>Distribution by ownership (%)</i>	100.0	100.0	100.0
Foreign	27.4	32.1	43.0
National private	39.4	41.0	38.2
State	33.2	26.9	18.8
By sector			
<i>Number of companies</i>	500	500	500
Primary sector	50	46	47
Manufactures	278	264	237
Services	172	190	216
<i>Sales (millions of dollars)</i>	361,009	601,794	640,948
Primary sector	100,058	143,540	122,395
Manufactures	153,001	259,942	264,640
Services	107,950	198,313	253,913
<i>Distribution by sectors (%)</i>	100.0	100.0	100.0
Primary sector	27.7	23.9	19.1
Manufactures	42.4	43.2	41.3
Services	29.9	33.0	39.6

Source: ECLAC, Unit on Investment and Corporate Strategies.

Table 2.7. Latin America and the Caribbean: The Leading 100 Manufacturing Companies, 1990–1992, 1994–1996 and 1998–1999
(Number, millions of U.S. dollars and percentages)

	1990–1992	1994–1996	1998–1999
<i>Number of companies</i>	100	100	100
Foreign	48	53	59
National private	48	46	40
State	4	1	1
<i>Sales (millions of dollars)</i>	102,094	176,923	187,789
Foreign	54,293	104,922	117,705
National private	43,463	68,341	70,084
State	4,338	3,661	2,245
<i>Distribution by ownership (%)</i>	100.0	100.0	100.0
Foreign	53.2	59.3	62.7
National private	42.6	38.6	37.3
State	4.2	2.1	1.2

Source: ECLAC, Unit on Investment and Corporate Strategies.

At the start of the new millennium, therefore, the importance of foreign companies in the regional economy has increased significantly. Although the potential spillover effects have not been considered here—such as productive linkages, technology transfer, labor training, the promotion of competition and increased exports—the impact of foreign firms on economic performance in the region should have been very significant. However, these companies' effects on the regional economy have been less marked than was expected, largely for two reasons:

- First, most FDI inflows consisted of transfers of existing assets and did not lead to the creation of new productive units. Their contribution to gross fixed capital formation has thus been limited. The governments of the region, under pressure from strong external disequilibria, also used FDI inflows from privatization to finance part of the balance of payments deficit. Although this did not initially increase the productive capacity of the recipient country, it did improve service quality—chiefly energy generation and distribution, transport and telecommunications. This had a positive effect on the systemic competitiveness of the recipients.
- Second, the contribution made by FDI to industrial development has been modest in terms of national integration. On the one hand, the natural resources-oriented export models, or those of industrial commodities based on them, continue to reproduce enclaves, mainly in oil and mining activities. On the other hand, in the model based on the assembly of manufactures for export (basically in Mexico and the Caribbean Basin), the original rules of access to the United States market (rule on Harmonized Tariff Schedule—HTS 9802) virtually prohibit the use of physical inputs manufactured in the recipient country.

Table 2.8. Latin America and the Caribbean: The Leading 200 Exporters, 1995–1999
(Number, millions of U.S. dollars and percentages)

	1995	1996	1997	1998	1999
By ownership					
Number of companies	200	200	200	200	200
Foreign	74	78	92	97	97
National private	115	112	88	94	94
State	11	10	10	9	9
Exports (millions of dollars)	92,946	115,317	139,883	133,841	131,041
Foreign	26,822	34,033	57,313	60,315	54,000
National private	34,475	40,253	42,644	43,674	42,989
State	31,649	41,031	39,926	29,852	34,052
Distribution by ownership (percentages)	100.0	100.0	100.0	100.0	100.0
Foreign	28.9	29.5	41.0	45.1	41.2
National private	37.1	34.9	30.5	32.6	32.8
State	34.1	35.6	28.5	22.3	26.0
By sector					
Number of companies	200	200	200	200	200
Primary	41	45	36	32	39
Manufacturing	133	132	142	147	138
Services	26	23	22	21	23
Sectors (millions of dollars)	92,946	115,317	139,883	133,841	131,041
primary sector	40,054	52,643	50,923	38,896	44,992
Manufactures	46,561	56,091	78,638	85,568	74,825
Services	6,331	6,582	10,322	9,376	11,224
Distribution by sectors (percentages)	100.0	100.0	100.0	100.0	100.0
Primary sector	43.1	45.7	36.4	29.1	34.3
Manufactures	50.1	48.6	56.2	63.9	57.1
Services	6.8	5.7	7.4	7.0	8.6

Source: ECLAC, Unit on Investment and Corporate Strategies.

This gap between results and expectations raises new questions about FDI in Latin America. To avoid a wider breach in this respect, it would be advisable for governments to clearly define their national policy priorities and the role that FDI is expected to play. At least the convergence, or its absence, between the aims of national policies and the interests of FDI could be measured more transparently. From this perspective, it will be essential for countries to attract transnational companies to activities that foster regional potentials in industries that are more dynamic in international trade. This implies explicit efforts to define realistically the possible competitive advantages of countries in these industries, and to design specific policies for these sectors within each country's broader development context.

Annex 2.1.

The United States—"Historical Partner" of Latin America and the Caribbean

Traditionally, the United States has been the biggest foreign investor in Latin America and the Caribbean. Since the Second World War its stock of direct investment has been concentrated in the manufacturing sector—particularly in foods, chemical products, machinery and equipment—and in the exploitation of natural resources, mainly mining and hydrocarbons. United States companies dominated a very substantial proportion of the most technologically complex industries in the region's main economies. They created miniature replicas of their factories in the United States to assemble their products locally. Trade restrictions forced them to establish an affiliate in each market, with a low level of trade between them. Given the scant efficiency of their operations, they did not reach the minimum operating economies of scale—not to mention that they were far from the technological level of headquarters—and were therefore unable to contribute to the competitiveness of the recipient economies to any significant degree, especially from an export perspective.

With the debt crisis of the 1980s, the subsequent transformations of regional economies, and the acceleration of globalization, the characteristics of United States direct investment rapidly started to change. In general, import substitution activities began to disappear from the manufacturing sector (with a greater lag in the MERCOSUR countries), to be replaced by investment that sought to improve the efficiency of the integrated production systems of United States transnational corporations, mainly in Mexico and the Caribbean Basin. Such investment exploited certain regional advantages, such as low wages, geographical proximity, and privileged access to the United States market, to boost competitiveness in their own market in the face of competition from third countries, especially in Asia. The signing of the North American Free Trade Agreement (NAFTA) was a political ratification of a process that United States companies had begun some years earlier. Moreover, it became evident that United States companies also sought access to new markets in the services sectors, so as to become global players in highly competitive and increasingly concentrated activities.

During the 1990s, United States direct investment flows to Latin America and the Caribbean increased significantly. Outflows grew six-fold relative to the previous decade, especially in the period 1996–2000, although not as much as investment from Europe. Nevertheless, a very significant part of these flows went to Caribbean offshore centers and hence their final destination is unclear. In 2000, 48 percent of United States investment stock in the region was in offshore centers, especially in Bermuda, the Netherlands Antilles, the British Caribbean islands and Panama.

Between 1990 and 2000, United States direct investment flows to the region—excluding offshore centers—increased from \$4.2 billion to almost \$10.4 billion, peaking at \$17.9 billion in 1997 (see Table 2.1.A below). The stock of United States FDI in Latin America more than tripled in the 1990s, reaching \$239 billion in 2000, a reflection of the radical change of orientation and magnitude of United States investment in the region. Between 1996 and 2000, despite a broader geographical diversification of flows and the lesser

relative significance of offshore centers, 86 percent of United States FDI flows to the region—excluding offshore centers—was concentrated in just five countries, particularly Brazil and Mexico. In the latter period, Mexico became the preferred choice of United States investors, replacing Brazil. Hence, in 2000, the stock of United States FDI in Brazil and Mexico were at almost identical levels, about \$35 billion. In 1996, the difference between United States FDI stock in both countries was \$10 billion in Brazil's favor, the result of the significant import-substituting industrial base established in Brazil during the second half of the last century.

Table 2.1.A. Latin America and the Caribbean: FDI Flows of United States Origin
(Outflows in millions of U.S. dollars)

	1980– 1989 ^a	1990– 1995 ^a	1996– 2000 ^a	1996	1997	1998	1999	2000
Argentina	123	1,095	1,137	371	1,701	983	1,956	676
Brazil	663	3,395	3,851	4,159	7,138	4,382	1,291	2,285
Chile	106	800	975	1,860	926	324	912	855
Colombia	–116	236	382	120	746	–66	416	693
Mexico	357	3,360	4,244	2,405	5,596	4,593	5,084	3,542
Peru	26	185	323	700	241	50	563	60
Venezuela	27	744	976	775	668	622	1,557	1,256
Latin America ^b	1,474	10,617	12,982	11,255	17,863	13,018	12,386	10,389
Offshore centers ^c	1,329	4,371	6,403	6,883	3,676	3,681	8,215	9,558
Latin America and the Caribbean	2,803	15,676	19,385	18,138	21,539	16,699	20,601	19,947

^a Annual averages.

^b Excluding offshore centers.

^c Offshore centers are the Netherlands Antilles, the Bahamas, Barbados, Bermuda, the British Caribbean Islands and Panama.

Source: Compiled by the author on the basis of information from the Bureau of Economic Analysis of the United States Department of Commerce (<http://www.bea.doc.gov>).

In this context, the dominance of manufactures in United States FDI flows has been weakening. In 1990, 57.6 percent of United States FDI stock in Latin America—excluding offshore centers—was in the manufacturing sector; this fell to 31.4 percent in 2000. Export-oriented manufacturing investment concentrated on a few industries in Mexico and the Caribbean Basin, basically electrical equipment, transport material and clothing. In Mexico, the United States became by far the main foreign investor (see Table 2.4). Operations in the areas of foodstuffs and chemical products, despite accounting for significant FDI inflows, remained geared to supplying local markets, with special emphasis on the countries of the Southern Cone. There, the manufacturing sector has had a very low propensity to export. The exception is the automotive industry, which has been strengthened by bilateral compensation trade agreements between Argentina and Brazil.

The new strategies of United States manufacturing companies can be seen clearly in Mexico's automobile industry. General Motors (second among the 100 biggest transnational corporations in the region) and Ford Motors (sixth) were better able to compete with Japanese and Korean vehicles in the United States market thanks to the location of new plants in Mexico (ECLAC 2001). Indeed, these companies had some success in curbing Japanese

competition in their own market by investing in new plants in Mexico—using modern technologies and organizational practices—and exporting competitive vehicles to the United States market. About three-quarters of the output of passenger vehicles in Mexico is exported to the United States. A similar situation prevails in the assembly of electronic components and clothing.

Nevertheless, the truly novel feature of the second half of the 1990s was the growing participation of United States firms in Latin American services sectors, especially energy, telecommunications and, more recently, banking. Strong competition in the United States market, linked to profound technological changes and extensive restructuring processes, has spurred a greater concentration among the biggest companies through mergers and acquisitions. In this context, some small and medium companies have been forced to expand outside the United States. The new policies implemented in Latin America (deregulation and privatization) offered attractive opportunities for United States “pioneer companies” in these services sectors.

A particularly interesting case is AES Corporation (ranked thirteenth among the biggest transnational corporations in the region), which has exploited the new global conditions to expand its operations, attaining leadership in the region. Founded in 1982, the company has undergone explosive growth in the last five years and has become the world’s biggest electricity company. Between 1994 and 2000, the market capitalization of AES Corporation multiplied by 20, and its operations expanded from 9 plants in 3 countries to 137 plants in 30 countries (ECLAC 2001). Although it arrived relatively late in Latin America, its penetration has been very swift and central to its process of international expansion. As in the rest of the world, its regional strategy very closely followed the deregulation and privatization of the sector. It acquired assets and built new generating capacity in Argentina, Brazil, Chile and Venezuela, among other countries. The year 2000 was particularly important for this strategy, when it acquired 81 percent of Venezuela’s *Electricidad de Caracas* for \$1.6 billion, 35.6 percent of *Electropaulo* in Brazil for \$1.1 billion, and 95.6 percent of the Chilean conglomerate *Gener* for \$1.3 billion. There have been similar experiences in other services sectors, such as mobile telephony (BellSouth, Verizon and SBC Communications), banking (Citicorp) and retail trade (Wal-Mart stores).

In sum, United States FDI flows to Latin America and the Caribbean increased significantly during the 1990s and concentrated on specific sectors. This brought about a transformation in the activities of the affiliates of United States transnational corporations in the region. Such companies focused on operations with lower value added and adopted a growing external orientation. They also centered on the biggest economies and on recently opened-up sectors, particularly the services sector.

Annex 2.2.

Japanese Direct Investment in Latin America and the Caribbean*

General Trends in Japan's FDI

Throughout the 1990s, Japanese FDI outflows were somewhat stagnant in comparison with flows from the United States and major European countries. This was contrary to the situation in the late 1980s, when Japan was the largest source of outward FDI, the result of the country's vigorous expansion of both greenfield FDI and cross-border M&As. By the late 1990s, Japan's greenfield FDI was steadily expanding in Asian countries and the United States. The expansion of overall Japanese outward FDI nevertheless remained very modest relative to the rapid growth of M&As carried out by MNEs in other industrialized countries.

Japanese firms were cautious in pursuing M&As in the late 1990s not least because of the substantial losses suffered by M&A projects undertaken in the 1980s in the United States and the EU. In services, and even in the manufacturing sector (a typical example being the Bridgestone/Firestone project), Japanese firms recognized that operating a greenfield affiliate is less problematic and more successful than operating an existing entity acquired by means of a cross-border M&A.

Following 1998, Japanese manufacturing firms became more active in cross-border M&As, which is attributable to the materialization of some very large investment projects. For example, Japan Tobacco bought RJRT (based in Europe) in 1999, and NTT Communications and NTT Docomo made large investments in the United States and Europe in 2000. Additionally, Japanese FDI in Asian countries rose following the crisis of 1997–1998. As part of this process, Japanese parent companies acquired majority shares in their Asian affiliates, a development made possible by fewer restrictions on foreign investment.

As regards inward M&A activity, Renault invested about \$6 billion in the stock of Nissan in 1999. Other Western automobile assembly and parts companies also invested in Japan to strengthen their production networks in 2000. To some extent, this new trend of accelerated cross-border M&As in both directions in Japan indicates that Japanese firms recognize that this is an effective means of recovering and preserving their international competitiveness. In the near future this might lead to an expansion in both greenfield investment and M&As in North America, Asia, the EU and Latin America.

FDI in Latin America and the Caribbean

Japan's FDI flows to Latin America and the Caribbean accounted for more than 10 percent of the country's total FDI outflows during the 1990s, averaging \$6.7 billion during the 1997–1999 fiscal period (\$53.3 billion average for total outflows). It is worth noting that in fiscal year 1999, Japan's FDI flows to Latin America exceeded those to Asia (\$7.3 billion and \$7.0 billion, respectively).

* This annex was written by Shigeki Tejima, Professor of Economics, Nishogakusha University, Tokyo, Japan.

By sector, FDI flows to manufacturing in Latin America reached an exceptionally high 31 percent in 1999 (16 percent average during the 1997–1999 fiscal period), but still represented less than those in the services sector, which accounted for the rest.

In terms of the historical accumulation of past outward FDI flows, finance, insurance, and transportation services (shipping) have traditionally accounted for over 50 percent of total FDI stock. Most Japanese FDI stock in transportation services is concentrated in Panama, a tax haven for foreign shipping companies. Similarly, most finance- and insurance-related FDI has tended to concentrate in offshore centers such as the Cayman Islands, the Bahamas, the Netherlands Antilles, Panama and Bermuda (tax havens for foreign financial institutions establishing legal entities to invest in third countries).

The evolution of Japan's FDI stock in the Latin American manufacturing sector has been somewhat stagnant in comparison with that in the shipping sector and in the finance and insurance sector. The main destinations of Japan's FDI in Latin America have been Brazil and Mexico. Japanese automobile and electrical/electronics companies recognize that Mexico is a useful production base for gaining access to the markets of the NAFTA countries. Equally, Japanese firms see the market potential of Brazil as a production base for the automobile and information technology industries.

The largest FDI outflows in the manufacturing sector were in the transportation equipment industry in fiscal year 1999 (\$1.2 billion to Mexico). Nissan increased its paid-in capital in Nissan Mexico, which has started to produce small passenger cars for all the NAFTA markets, not just the Mexican market. Honda is emulating this strategy. Some Japanese auto parts suppliers have also invested in Mexico, building supply chains for their parent companies.

The second largest FDI outflow in the manufacturing sector was in the electronics and electrical sectors in fiscal year 1999. The increase in investment in this sector was especially pronounced in Brazil (\$280 million). Furthermore, NEC acquired the portion of shares of NEC do Brasil, owned by local partners, for \$60 million.

Japanese manufacturing FDI is still modest in comparison with FDI in service sectors, and far behind that of other industrial countries. Nevertheless, Japanese manufacturers have in many ways laid the foundations for a greater presence in a more integrated regional market.

Future Prospects

Japanese automobile companies, including Toyota, Honda and Nissan, are considering expanding production capacity in Brazil, with a view to the future potential of both the national market and MERCOSUR. They are also planning to strengthen their production bases in Mexico to supply the NAFTA market, although they are facing rising labor costs.

Overall, it can be said that Japanese firms are still rather cautious in undertaking FDI in Latin America. Nevertheless, in view of some of their recent investments, and given the region's potential, the level of their engagement in the region can be expected to rise once they perceive with greater certainty the sustainability of economic recovery in the region.

NOTES

- ¹ Especially the significant and simultaneous decline in stock markets, consumer confidence and short-term economic prospects in the United States at the end of the 1990s, which were partly responsible for the downturn in global economic activity.
- ² In 2000, FDI accounted for almost 75 percent of total net capital inflows, significantly higher than portfolio investment, bonds and credit. The impact of the international financial crisis on capital flows to Latin America had a particularly significant effect on credit (World Bank 2001).
- ³ United States companies enjoy a series of instruments that give them preferential access to their own market, notably the rule on Harmonized Tariff Schedule (HTS 9802). This allows companies based in the United States to export parts manufactured in the country for assembly overseas. The finished product can then be shipped to the United States, incurring a tariff based on the value added outside the country. However, Mexico's accession to NAFTA gave it added benefits not enjoyed by the Caribbean Basin countries.
- ⁴ In 1999, the region accounted for 19.7 percent of total stock held by United States companies overseas. This figure falls to 13 percent if the Caribbean offshore centers are excluded (Bargas 2000).
- ⁵ Between 1995 and 1999 there was a four-fold increase (to \$720 billion) in resources for cross-border mergers and acquisitions (UNCTAD 2000). This process was led by capital- and innovation-intensive industries, such as automobiles, pharmaceuticals, telecommunications, electronics and banking, and by firms whose strength lies in marketing and distribution, such as foodstuffs, beverages and tobacco.

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Chapter 3. European Foreign Direct Investment in Latin America

John H. Dunning *

The Global Picture

Globalization continues to forge ahead. In the closing years of the twentieth century, all forms of cross-border economic transactions reached new heights, and none more so than those recorded by the world's leading multinational enterprises (MNEs). According to data published by UNCTAD (2000), in 1998 and 1999 the annual flows of worldwide outward foreign direct investment (FDI) flows rose on average by 33.1 percent—a faster annual rate of growth than that attained over the whole of the previous decade. While most of this increase in new investment was directed to developed countries,¹ the Latin American share of the FDI received by developing countries rose from 30.3 percent between 1990 and 1997 to 41.2 percent in the final two years of the twentieth century.

For some years, FDI has been the fastest expanding form of international business activity. In 1999, the sales of the foreign affiliates of the world's MNEs were twice the value of the global exports of goods and non-factor services. At the same time, more than one half of these exports were accounted for by the foreign affiliates of MNEs. Throughout the past decade, the rate of increase of production financed by FDI has consistently outpaced that of cross-border trade by a factor of three to four.

However, perhaps the most dramatic growth of cross-border transactions in recent years has been that of mergers and acquisitions (M&As). The annual value of international M&A purchases rose from \$151 billion in 1990 to \$720 billion in 1999. In the first half of 2000, it was 80 percent higher than in the corresponding period of the previous year (UNCTAD 2000). While the great majority of these cross-border M&As were between developed countries, the share of global purchases involving firms located in developing countries rose steadily from 10.4 percent in the first half of the 1990s to 13.4 percent between 1996 and 1999. Over the same period, the proportion of developing country M&A sales accounted for by Latin American firms increased from 55.8 percent to 66.5 percent. Indeed, in 1998 and 1999 alone, Argentina and Brazil were responsible for 47.0 percent of all cross-border M&As sales recorded by developing countries (UNCTAD 2000).

Though no direct comparison can be made between FDI flows and cross-border M&As,² there is no question that, in the case of many countries, the former now account for the larger and increasing proportion of trans-border direct capital flows. In 1998 and 1999, UNCTAD estimated the figure, on average, at between 75 percent and 80 percent. In the case of some developing countries such as the Republic of Korea, Argentina and Brazil, it was close to 90 percent. Together with non-equity cross-border strategic alliances, which number several thousands each year, and the dramatic growth of all forms of international communications, particularly the Internet, these data are perhaps the best available indication

*Emeritus Professor of International Relations, University of Reading, United Kingdom.

of the deepening integration of the world economy—which is occurring at both a regional and global level.

As a result of these trends—which predominantly reflect rapid and dramatic technological changes, the liberalization of international markets, and the emergence of new global players—the degree to which both firms and countries are becoming locked into global economic networks is fast increasing. Some characteristics of the changing global economic scenario are set out in Table 3.1. More firm-specific data compiled by UNCTAD and Erasmus University, reveal that, in 1998, the extent of multinationality or transnationality³ of the 100 largest MNEs was in the order of 54 percent⁴, and that of the 51 largest European MNEs was 64.3 percent. Hardly less impressive was the corresponding transnational index (TNI) for the 50 largest MNEs from developing countries, which stood at 36.5 percent.⁵

While many MNEs, particularly those from Europe and North America, date from before the Second World War, others, notably from Japan and developing countries, have only emerged as significant foreign direct investors in the last 30 years or so. Even these figures, however, underestimate the global spread of MNE activity, since they exclude company activities that arise from a plethora of cross-border research and development, production and inter-firm marketing agreements. If these were included in the TNI of the leading MNEs it would increase by over 5 percent.

From a country perspective, the growing economic significance of the cross-border activities of their own and foreign-based MNEs is equally well demonstrated. Taking the combined stock of inward and outward FDI as a measure, and expressing it as a proportion of gross domestic product (GDP), this ratio averaged 9.4 percent in 1980, 17.2 percent in 1990, 19.8 percent in 1995 and 31.5 percent in 1999. For Europe, the respective figures were 12.0, 23.1, 29.2 and 48.2 percent. This acceleration of FDI's significance in global economic activity has been shared by all countries, both large and small, developed and developing. As might be expected, however, it has been particularly marked in the transition economies and the least developed countries. In Latin America, for example, the respective ratios over the same period were 7.0, 12.4, 14.3 and 27.2 percent. As also might be predicted, relative to inbound MNE activity, outbound activity is more significant for most developed countries (but not, interestingly, for the United States), and less significant for the great majority of developing countries and the transition economies.

Some of the relevant statistics on the growth and geography of FDI stocks are set out in Tables 3.2 and 3.3. Table 3.2 clearly shows that over the past decade there has been some shift in the relative importance of the world's leading foreign direct investors. The United States, while retaining its position as the leading source country of MNEs, has ceded some of its earlier pre-eminence to the Western European economies. At the same time the 1990s saw a dramatic fall in the relative significance of Japanese outbound FDI (from 10.7 percent in 1990 to 6.7 percent in 1999).⁶ By contrast, MNEs from developing countries continued to expand their global presence. Latin American outward FDI flows in 1998 and 1999, for example, were more than double those in 1995.

The geographical distribution of inbound FDI also changed in the latter half of the 1990s, as detailed in Table 3.3. This shows there has been a gradual shift in MNE activity toward developing and transitional economies. Inward FDI grew especially rapidly in

virtually all Asian economies, particularly China before the financial crisis of 1996–97, and since then in the Republic of Korea and Hong Kong. However, the most rapid growth of inbound FDI in 1998 and 1999 occurred in Latin American and Caribbean countries.⁷ The region accounted for 42.4 percent of all new FDI in developing countries in latter years, compared with 26.9 percent between 1990 and 1997. The MERCOSUR countries alone increased their annual average FDI inflows from \$4.3 billion between 1990 and 1994 to \$21.3 billion between 1995 and 1999.

Table 3.1. Some Features of the Changing Global Economic Scenario: Early 1980 to Early 2000

1. The renaissance of the market economy becomes the preferred form of economic organization in most countries. Along with such renaissance have come the liberalization, deregulation and privatization of markets, which have lowered the cross-border costs of the movement of goods, services and assets.
2. In light of point 1 above, macroeconomic and micro-management philosophies of national governments are reoriented toward more market-enabling and less market-distorting policies—at least as far as wealth-creating activities are concerned.
3. A new generation of technological advances comes on-stream, and particularly those affecting the production and dissemination of information. These advances have hastened the trend toward knowledge-based capitalism and have dramatically lowered the costs of moving assets, goods and people.
4. In light of point 3, many regional integration economic schemes are promoted (notably the completion of Europe's internal market, NAFTA, ASEAN and MERCOSUR).
5. In light of point 4 above, there is growing international competition among firms—including firms of different nationalities. In a real sense, regional and global competition for resources, capabilities and markets is replacing domestic competition, particularly in international industries.
6. In light of point 5 above, firms have reorganized and restructured the range and composition of their value-added activities. Sometimes this has led to downsizing and the disinternalization of intermediate product markets. At the same time, however, it has prompted more M&As so that firms can better capture the benefits of economies of scale and scope. In other cases it has significantly reduced commercial risks and has facilitated the acquisition of competitive-enhancing assets. Since 1990, cross-border M&As have been the fastest growing form of international transaction in the global economy.
7. Partly as a consequence of point 6 above and the emergence of China, the newly industrializing countries (NICs) and some Central and Eastern European economies as important actors in the global market place (each of which has different propensities both to be invested in by foreign firms and to engage in outward foreign investment), the geography and form of FDI have undergone some major changes over the last two decades.

Table 3.2. Stock of Outward Foreign Direct Investment by Home Regions, 1980–1999
(In billions of U.S. dollars)

	1980			1990			1995			1998			1999		
	Value	%	% GDP ¹	Value	%	% GDP	Value	%	% GDP	Value	%	% GDP	Value	%	% GDP
Developed countries, of which:	506.2	96.8	6.4	1,634.1	95.2	9.8	2,601.1	90.8	11.7	3,649.5	89.8	16.4	4,277.0	89.9	18.5
European Union	212.6	40.6	6.1	789.4	46.0	11.7	1,303.2	45.4	15.4	1,920.4	47.2	22.9	2,336.6	49.1	28.2
North America	244.0	46.6	8.2	515.4	30.0	8.4	817.1	28.5	10.7	1.14	28.1	12.5	1,309.8	27.5	21.4
Other ²	28.2	5.4	2.1	253.0	14.7	7.3	321.6	11.2	5.6	373.1	9.2	8.5	392.2	8.2	7.7
Developing countries, of which:	16.3	3.1	0.9	81.9	4.8	2.6	258.3	9.0	4.9	403.9	4.9	6.7	468.7	9.8	7.6
Africa	1.0	0.2	0.4	12.2	0.7	4.5	14.5	0.5	5.4	16.3	0.4	4.8	17.0	0.4	4.6
Latin America/ Caribbean	9.0	1.7	1.3	20.4	1.2	1.9	48.2	1.7	2.4	77.4	1.9	3.3	104.6	2.2	5.3
Asia	6.3	1.2	0.7	48.9	2.8	2.8	194.2	6.8	6.1	308.4	7.6	9.0	345.2	7.3	9.2
Central and Eastern Europe	nsa	nsa	nsa	0.4	0.0	0.0	5.3	0.2	0.8	11.9	0.3	1.7	13.6	0.3	1.9
World	523.2	100.0	5.4	1,716.4	100.0	8.6	2,870.6	100.0	10.2	4,065.8	100.0	14.1	4,759.3	100.0	15.8

¹ Gross domestic product.

² Including Japan.

nsa = not separately available.

Source: Derived from UNCTAD (2000).

Table 3.3. Stock of Inward Foreign Direct Investment by Host Regions, 1980–1999
(In billions of U.S. dollars)

	1980			1990			1995			1998			1999		
	Value	%	% GDP	Value	%	% GDP	Value	%	% GDP	Value	%	% GDP	Value	%	% GDP
Developed regions, of which:	374.0	75.4	4.7	1,380.8	78.4	8.3	1,967.5	71.7	8.8	2,690.1	67.0	12.1	3,230.8	67.7	14.0
European Union	200.7	40.4	5.5	770.4	48.7	10.9	1,127.3	41.1	12.7	1,546.0	38.5	17.6	1,757.2	36.8	20.0
North America	137.2	27.7	4.6	507.8	28.8	8.3	658.7	24.0	8.7	955.0	23.8	10.5	1,253.6	26.3	13.4
Other	36.1	7.3	2.7	102.6	5.8	3.0	181.5	6.6	3.1	189.2	4.7	4.3	220.0	4.6	4.3
Developing regions, of which:	121.2	24.4	5.4	377.4	21.4	10.5	739.5	27.0	13.4	1,241.0	30.9	20.0	1,438.5	30.1	22.2
Africa	19.2	3.9	6.0	20.9	1.2	12.4	30.8	1.1	19.9	35.3	0.9	21.1	38.2	0.8	23.8
Latin America and the Caribbean	44.1	8.9	5.7	118.3	6.7	10.5	204.9	7.5	11.9	404.6	10.1	19.5	485.6	10.8	23.3
Asia	56.6	11.4	4.9	211.6	12.0	10.2	462.0	16.8	13.6	741.3	18.5	20.2	846.7	17.7	22.2
Central and Eastern Europe	neg	neg	0.0	3.0	0.2	1.5	36.4	1.3	5.2	84.2	2.1	12.1	102.7	2.2	13.7
World	495.2	100.0	4.9	1,761.2	100.0	8.6	2,743.4	100.0	9.6	4,015.3	100.0	13.7	4,772.0	100.0	15.7

neg = negligible.

Source: Derived from UNCTAD (2000).

Regionalization and Globalization from the Perspective of the European Region

Europe has long been the world's leading global investing and trading region. From the Middle Ages to the eighteenth century, Italian banking houses, British and Dutch trading companies and French, British, Portuguese and Spanish colonizing ventures each spread their business activities throughout the then known world. In the early nineteenth century, Europe was in the midst of the industrial revolution, and for much of the following century supplied most of world's manufacturing exports. It also dominated the global capital market. By 1914, European firms accounted for 82 percent of the world's outward FDI stock, estimated at \$14.5 million. Some four-fifths of that amount was located outside Europe, and 65 percent in developing countries.⁸ The Latin American region alone attracted around 30 percent of all European FDI, nearly one-half of which was directed outside Europe. A rough estimate suggests that, as a percentage of European GDP, the stock of outbound FDI was between 1 and 2 percent, with the United Kingdom's percentage being the highest at 2.5 percent.

The First World War and its aftermath saw a considerable retrenchment in European outbound FDI, while at the same time United States MNEs, particularly in the newer industrial sectors, began to widen their territorial horizons. By 1938, Europe's share of the stock of global outward FDI had fallen to around two-thirds. However, the ratio of that accounted for by extra-European FDI had risen to 0.90. Hereinafter this will be referred to as the *globalization ratio* (the difference between this ratio and 1.00 may be thought of as the *regionalization ratio*). Latin American countries continued to be a major attraction to European MNEs; in 1938 they accounted for 25.1 percent of all outbound European FDI.

The Second World War saw a further retrenchment of European outward FDI, but the region began to resume its role as a major international direct investor soon after the cessation of hostilities. However, it had to share this responsibility with the United States, which until the early 1970s accounted for more than one-half of the world's stock of outward FDI. At the same time, because of the growing attractions of the United States domestic market and the opportunities offered by European economic integration, the proportion of extra-European FDI, and that part of it going to developing countries, began to shrink. By 1985, the FDI propensity of Western European MNEs, defined as the proportion of their total outward FDI stock to the GDP of Western European countries, had risen to 10.7 percent (from about 6 percent in 1967).⁹ Notwithstanding this increase, the globalization ratio of European firms¹⁰ fell from its pre-war peak (of around 0.90) to 0.73. The real trend toward European regionalization occurred later, in the 1980s and early 1990s, when most intra-European non-tariff trade and investment barriers were removed as part of the European internal market program. Consequently, although the European FDI propensity rose to 12.2 percent by 1990, the globalization ratio fell to 0.38, and to 0.20 in 1992.¹¹ Since then, and most noticeably since 1995, both the FDI propensity percentage and the globalization ratio have risen, the former to 24.3 percent and the latter to 0.61 by 1998.

Table 3.4 sets out some further details. Inter alia, the data reveal the very substantial increases of EU (15 members) FDI directed to the United States and Japan, and also the increased locational attraction of some developing countries, most noticeably in Latin American subregions. Between 1998 and 1999 the latter accounted for three-fifths of all extra-Triad FDI.¹² The corresponding percentage for the preceding five years was 43.8 percent.

Table 3.4. Intra- and Extra-EU (15)¹ Direct Investment Outflows,² 1992–1999
(ECU billion)

Year	Total (1)	Intra-EU (2)	Extra-EU				Ratio ⁴ (5)/(1)	% (4)/(1)	% (4)/(5)	% (4)/(5-3)
			United States and Japan (3)	Latin America ³ (4)		Total (5)				
				(a)	(b)					
1992	67.1	49.3	7.4	3.0	n.a.	17.8	0.27	4.5	16.9	28.8
1993	64.4	40.2	12.6	2.6	n.a.	24.2	0.38	4.0	10.7	22.0
1994	74.7	50.3	8.1	4.8	0.8	24.1	0.32	6.4	19.9	66.4
1995	99.2	53.6	26.2	3.7	1.6	45.6	0.46	3.7	8.1	42.5
1996	110.4	62.5	19.4	7.7	4.0	47.4	0.43	7.0	16.2	59.1
1997	162.4	71.9	37.5	18.7	6.2	90.1	0.55	11.5	20.8	58.3
1998	325.9	127.5	122.4	28.6	18.8	198.2	0.66	8.8	14.4	37.7
1999	556.3	297.0	186.6	46.2	28.1	259.3	0.47	8.3	17.8	63.5

¹ The EU is taken to comprise the current (2001) membership of 15 countries.

² Equity FDI excluding "reinvested earnings".

³ (a) Central and South America; (b) MERCOSUR.

⁴ Globalization ratio.

n.a. = not available.

Source: Eurostat (2000) and additional data for 1999 made available by Eurostat.

Table 3.5 presents some Inter-American Development Bank (IDB) systemized data on the leading European countries that have invested in Latin America. It shows that in 1998 and 1999 four countries —Spain, the Netherlands, France and Portugal—accounted for over four-fifths of new FDI flows into Latin America and the Caribbean. Compared to the early 1990s there has been a huge increase in the share of Spanish and Portuguese FDI, and a marked decline in that of the more wealthy EU countries, especially the United Kingdom and Germany. While the FDI stock of these latter countries in Latin America dates back to the nineteenth century, that of Spain and Portugal is relatively new. Inter alia, it reflects linguistic, cultural and other affinities between these countries and Brazil and Argentina. The latter two countries, between them, accounted over four-fifths of all Spanish and Portuguese FDI in Latin America in 1998 and 1999.

What effect have regional integration schemes in Latin America had on the extent and geographical pattern of European FDI in the region? Table 3.6 sets out some data for the two leading integration schemes, the Andean Community (originally founded as the Andean Pact in 1969) and MERCOSUR (formed in 1991; customs union came into force in 1995). The data show that, between the 1980s and mid-1990s, the most impressive increase in inbound FDI flows was recorded by the Andean Community. In the late 1990s the rate of increase was most marked in MERCOSUR. While other data, particularly that on the European Union (Dunning 1993, 2001) clearly show that regional integration does tend to lead to more intra- and extra-regional FDI, it is extremely difficult to separate the effects of the more recent integration schemes in Latin America, including Mexico's accession to NAFTA, from those arising from the more general trend toward liberalized markets and institutional reform (IDB/IRELA 1998; Stein and Daude 2001).

Table 3.5. Values of European FDI Outflows to Latin America and by Investing Countries, 1990–1999

Country	1990–94 ¹		1995–97 ¹		1998/99	
	(\$ million)	%	(\$ million)	%	(\$ million)	%
France	170	7.0	1,512	13.3	2,898	8.5
Germany	407	16.9	1,600	14.1	1,889	5.5
Italy	23	1.0	231	2.0	751	2.2
Netherlands	528	21.9	1,430	12.6	3,842	11.2
Portugal	2	0.1	350	3.1	2,793	8.2
Spain	548	22.7	2,914	25.7	17,823	52.1
Sweden	21	8.7	160	1.4	657	1.9
Switzerland	133	5.5	358	3.2	1,269	3.7
United Kingdom	538	22.3	2,347	20.7	1,701	5.0
Others	44	1.8	446	3.9	565	1.7
Total	2,414	100.0	11,348	100.0	34,188	100.0

¹ Annual average, excluding offshore centers.

Source: IDB/IRELA (1998) and data provided by the central banks and statistical offices of investor countries.

Table 3.6. European FDI Outflows by Regional Integration Schemes in Latin America, 1980–1999
(In millions of U.S. dollars, annual average)

	(1) 1980–1989		(2) 1990–1994		(3) 1995–1999		2/1 ×	3/2 ×
	US\$ million	%	US\$ million	%	US\$ million	%	100	100
Andean Community	113	9.3	481	19.9	2,001	9.8	425.7	416.0
MERCOSUR	829	67.9	1,242	51.5	14,471	70.6	149.8	1,165.1
Other countries	279	22.8	691	28.6	4,012	19.6	247.6	580.6
All Latin America and the Caribbean	1,221	100.0	2,414	100.0	20,484	100.0	197.7	848.6

Source: Data derived from IDB/IRELA (1998) and data provided by the central banks and statistical offices of investor countries.

Table 3.7 reveals that both the European globalization ratios and the attractiveness of Latin America to European investors is highly country-specific. The data presented are derived from the Organisation for Economic Co-operation and Development (OECD 1999). These show that, in 1997, Spain, the United Kingdom and Switzerland each invested more outside Western Europe¹³ than within, while Italy, Sweden and Germany were among those most (European) regionalized. Spanish and Portuguese investors strongly favored Latin America over other extra-European locations, while the United States continues to be the leading attraction of the other European investors, especially the United Kingdom and the Netherlands. Table 3.7 also shows that during the 1990s there was some convergence in the globalization ratios of the individual European countries; Spain, Portugal and France became less Eurocentric and the United Kingdom became more so. Over the same period, there was some redirection of FDI by United Kingdom and Italian firms away from Latin America; in the former case to other parts of Europe and in the latter to North America and Asia. (See Annex 3.1 to this chapter for a discussion of FDI in Central and Eastern Europe.)

Most of the changes depicted in Table 3.7 reflect the different economic circumstances of the various European economies, and the responses of their firms and governments to globalization and technological change. Thus, although United Kingdom MNEs increased their FDI in Latin America, their need to exploit and augment their competitive advantages by investing in the United States, and also to benefit from European integration, explains why the intra-Triad FDI ratio of such investment (outward FDI in the Triad/total FDI) rose from 0.67 percent in 1990 to 0.74 percent in 1997. The globalization ratios of other major European investors (except Italy) rose or remained about the same during that period, but the share of FDI directed to Latin America also increased. In the main, as Table 3.7 shows, European investors preferred to invest in the Latin American region rather than in other extra-European countries outside the Triad.¹⁴

Table 3.7. Globalization Ratios and Proportion of FDI Stocks of Selected European Countries Directed to Latin American Countries¹

	1990				1995				1997			
	1	2	3	4	1	2	3	4	1	2	3	4
	Ratio	%	%	%	Ratio	%	%	%	Ratio	%	%	%
France	0.34	2.5	7.4	20.1	0.33	4.0	12.2	29.7	0.46	4.7	10.1	22.3
Germany	0.39	4.8	12.4	32.9	0.34	5.9	17.3	47.8	0.38	6.4	16.8	40.2
Italy	0.30	10.4	34.6	50.5	0.29	3.9	13.6	19.9	0.31	3.9	12.6	18.5
Netherlands	0.46	6.6	14.3	40.5	0.42	6.9	16.4	20.3	0.45	7.3	16.3	39.7
Norway	0.25	2.7	10.7	32.0	0.25	4.2	16.8	38.5	0.23 ²	3.6 ²	15.7 ²	41.9 ²
Portugal ³	0.17	1.9	11.2	12.1	0.47	26.5	56.5	62.1	0.50	41.5	83.0	86.1
Spain ³	0.38	13.5	35.4	53.6	0.58	44.5	76.7	94.7	0.66	54.6	82.4	90.0
Sweden	0.39	nsa	nsa	nsa	0.29	1.9	6.5	11.1	0.36	3.4	9.4	19.8
Switzerland	0.46	15.0	32.6	nsa	0.50	14.5	28.9	56.5	0.51	13.6	26.6	50.6
United Kingdom	0.71	8.9	12.6	28.1	0.61	7.7	12.6	26.3	0.56 ⁴	6.1 ⁴	11.0 ⁴	22.9 ⁴

¹ Latin America and the Caribbean (plus Mexico).² 1996 figures.³ In the case of Portugal and Spain, FDI outflows for 1989–1991 were used to calculate the 1990 figure, 1994–1996 to calculate the 1995 figure, and 1996–1998 flows to calculate the 1997 figure.⁴ 1998 figures.

nsa=not separately available.

Key to notation:

1: Ratio of extra-Western European FDI to total FDI (globalization ratio).

2: Percentage of total FDI accounted for by Latin American countries.

3: Percentage of total extra-Western European FDI accounted for by Latin American countries.

4: Percentage of total extra-Western European FDI less that in the United States and Japan directed to Latin America.

Source: OECD (1999).

At this point it might be instructive to compare the changing geographical pattern of European FDI with that of United States and Japanese FDI. Taking the NAFTA countries to be part of the United States region, and ASEAN countries to be part of the Japanese region, the globalization ratio of United States MNEs rose from 0.82 in 1980 to 0.90 in 1995, and then dropped to 0.87 in 1998. The corresponding share of United States FDI located in Latin America in those same years rose from 14.2 percent to 16.4 percent, and then to 17.4 percent. No doubt the increased FDI propensity to invest in Latin America in the latter years reflected the consequences of NAFTA, and the partial retrenchment of United States FDI in East Asia. Over the same period, the Japanese globalization ratio also rose from a (surprisingly high) figure of 0.75 in the 1989–1991 period¹⁵ to 0.89 in the mid-1990s, and 0.88 in 1996–1998. The respective percentages for Japanese FDI in Latin America (as a share of all Japanese outbound FDI) were 7.1 percent, 9.0 percent and 12.0 percent. These data confirm that Latin American countries have become a more attractive investment location for MNEs from each of the leading investing regions (not to mention those from within Latin America).

Regionalization and Globalization from the Perspective of European Firms

So much for regional and country-level data. What about those on individual European MNEs? To what extent have they increased the transnationality of their activities over the last decade or more, and how far (if at all) have those activities widened in geographic scope?

Table 3.8 sets out some details of the 51 largest European MNEs on the list of the 100 largest MNEs published by UNCTAD in October 2000. As indicated earlier, the transnationality index (TNI) is the firm-level equivalent of countries' FDI propensity. In 1998 this averaged 64.3 percent, compared with an average 41.6 percent for United States MNEs and 38.7 percent for Japanese MNEs. The corresponding TNIs for 1990 were 60.9 percent, 38.5 percent and 35.5 percent.

The final column of Table 3.8 gives some estimates of the globalization index—GI(f)—of some 38 European MNEs. The percentages are derived from information from Erasmus University¹⁶ on their non-European sales, assets and employment. The GI(f) represents an average of these data, expressed as a percentage of the MNEs' worldwide sales, assets and employment for 1998 (or occasionally 1997 where data for 1998 are unavailable¹⁷).

The table shows that, around an (unweighted) average of 37 percent, the GI(f) of European MNEs ranges from 8.0 percent to 70.2 percent. In 12 of the 38 firms the GI(f) exceeded 50 percent, indicating that their cross-border activities were more globalized than regionalized. In more than two-thirds of MNEs, however, most of their activities were intra-European. The GI(f) ratios are seen to vary considerably both between the country of origin and industrial sector. The United Kingdom, Swiss and Dutch (or Anglo-Dutch) firms were the most globalized, while Italian and French firms were the most regionalized. The pharmaceutical and food, drink and tobacco MNEs recorded the highest GI(f), while the vehicle companies appeared to be the least globalized.

Table 3.9 shows that the TNI varies considerably by European country of origin. It is highest in the case of Switzerland, the Netherlands and the United Kingdom, and lowest in the case of Spain and Italy. Data on individual MNEs show the highest TNI in 1998 was recorded

Table 3.8. The Leading European Multinational Enterprises and their Transnationality (TNI(f)) and Globalization (GI(f)) Indices, 1998

Rankings in top MNEs	Corporations	Country	Sector	Foreign assets (US\$ billion)	TNI (f)	GI (f)
3	Royal Dutch/Shell Group	Netherlands/UK	Petroleum	67.0	58.0	58.5
8	B P Amoco	UK	Petroleum	40.5	74.9	63.2
9	Daimler Chrysler	Germany	Autos	36.7	50.4	54.4
10	Nestlé SA	Switzerland	Food/Beverages	35.6	94.2	60.8
11	Volkswagen Group	Germany	Autos	na	53.8	35.8
12	Unilever	Netherlands/UK	Food/Beverages	32.9	90.1	56.0
13	Suez Lyonnaise des Eaux	France	Diversified	na	45.6	na
15	ABB	Switzerland	Electrical Equipment	na	89.1	40.9
17	Diageo PL	UK	Beverages	27.9	76.7	na
19	Siemens AG	Germany	Electronics	na	59.3	27.1
21	Renault SA	France	Autos	23.6	61.8	11.2
23	BMW AG	Germany	Chemicals	21.4	59.9	24.0
26	Bayer AG	Germany	Chemicals	21.4	62.8	40.0
27	Roche Holding At	Switzerland	Pharmaceuticals	21.2	78.7	62.5 ¹
28	Hoechst AG	Germany	Chemicals	21.2	71.6	42.7 ¹
29	Elf Aquitaine	France	Petroleum	na	51.6	29.6
30	Viag AG	Germany	Diversified	na	55.3	19.0
31	Rhône-Poulenc SA	France	Pharmaceuticals	na	69.1	42.0
32	Total fina SA	France	Petroleum	27.0	69.0	42.3
33	Philips Electronics	Netherlands	Electronics	19.0	77.8	55.0
35	Cable and Wireless	UK	Telecommunications	17.7	67.5	70.2 ¹
38	ENI Group	Italy	Petroleum	na	34.1	13.9
40	BASF AG	Germany	Chemicals	na	57.9	26.1
42	Alcatel	France	Electronics	16.7	59.1	20.5
43	Peugeot	France	Autos	15.9	44.2	5.1
50	Fiat Spa	Italy	Autos	14.2	32.1	20.6
52	Telefónica	Spain	Telecommunications	13.8	29.9	na
53	Vivendi	France	Diversified/Utility	na	31.5	8.0
54	Rio Tinto	UK	Mining	12.4	80.4	na
60	Robert Bosch GmbH	Germany	Auto parts	na	56.3	28.0
62	Holderbank Financiere Glaris	Switzerland	Construction Materials	11.6	90.5	na
63	Stora Enso Oys	Finland	Paper	11.5	72.8	na
64	Michelin	France	Rubber Tires	na	76.0	na
65	VEBA Group	Germany	Diversified	na	28.2	16.7
66	RWE Group	Germany	Utility	10.8	22.1	9.3
67	Glaxo Wellcome	UK	Pharmaceuticals	10.8	75.5	na
69	British American Tobacco	UK	Food/tobacco	10.5	91.0	48.9 ¹
71	Smith Kline Beechan	UK	Pharmaceuticals	10.4	82.3	59.4
72	Danone Groupe SA	France	Food/Beverages	10.3	64.6	30.1
73	Carrefour SA	France	Retailing	10.3	55.9	27.3
75	Compart Spa	Italy	Food	10.2	63.4	na
77	Akzo Nobel NV	Netherlands	Chemicals	10.1	76.8	30.1 ¹
79	Montedison Spa	Italy	Chemicals	na	63.1	na
80	Ericsson LM	Sweden	Electronics	9.6	60.4	29.1
82	Electrolux AB	Sweden	Electrical Equipment	na	92.7	45.2
83	Volvo AB	Sweden	Autos	na	57.4	32.8
84	Royal Ahold NV	Netherlands	Retailing	na	62.9	65.0
86	L'Air Liquide Group	France	Chemicals	na	77.0	na
87	MannesmanAG	Germany	Telecommunications	na	44.4	na
96	Imperial Chemical Industries	UK	Chemicals	7.2	60.2	52.8
98	SCA	Sweden	Paper	7.0	80.8	na

Note: Both TNI(f) and GI(f) indices are calculated as an average of three percentages (or of one or two of these if the three are not available), namely foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

¹ 1997 data.

Source: Derived from UNCTAD (2000) and van Tulder, van den Berghe and Miller (2000). I am also most grateful to Professor van Tulder and his colleagues at Erasmus University for providing me with data so that I could compile Column 7 of this table.

by Nestlé (94.2 percent), followed by Electrolux AB (92.7 percent), British American Tobacco (91.0 percent) and Unilever (90.1 percent). All but two of the top ten most transnational MNEs were of European origin.

The Involvement of Some Leading European Firms in Latin America

Some data on the involvement of the 45 leading European MNEs in seven Latin American countries are presented in Table 3.10. The list of 45 firms, ranked in order of the sales of their Latin American affiliates in 1997, includes 27 of the 51 MNEs identified in Table 3.8, and 18 others whose Latin American sales exceeded \$590 million in 1998.

The table shows that as a proportion of the total foreign sales of the companies listed, those with the greatest stake in Latin America included Volkswagen AG, Telefónica de España, Carrefour Supermarché, Fiat Spa, Royal Dutch Shell, Nestlé, British American Tobacco and Holcim (formerly Holderbank Financière Glaris). The auto, chemicals, electronics, telecommunications and petroleum sectors accounted for nearly three-quarters of these foreign affiliates' sales.

Table 3.10 also reveals that relative to other MNEs, those of European origin tend to concentrate their investments in Brazil and Argentina. Between them, these same countries accounted for 71.46 percent of the Latin American sales of the leading European MNEs. By country of origin, the affiliates of the United Kingdom, Anglo/Dutch, German, French and Spanish MNEs accounted for four-fifths of the sales of all European affiliates in Latin America.

Table 3.9. Average Transnationality Indices for Leading Firms from Selected European Countries, 1990 and 1998

Country	Average TNI (%)		Share of foreign assets of top 100 firms (%)	
	1990	1998	1990	1998
France	50.9	58.8	10.4	10.5
Germany	44.4	51.4	8.9	12.6
Netherlands	68.5	73.1	8.9	7.2
Norway	58.1	n.a.	0.4	n.a.
Italy	38.7	48.2	3.5	2.7
Spain	n.a.*	29.9	n.a.	0.7
Sweden	71.7	72.8	2.7	1.9
Switzerland	84.3	88.1	7.5	5.1
United Kingdom	68.5	75.7	16.8	12.3
All Western European countries	60.5	64.3	53.4	48.7
United States	38.5	41.6	31.5	32.9
Japan	35.5	38.7	12.0	14.5
All countries	51.1	54.0	100.0	100.0

* n.a. = Not in top 100.

Source: UNCTAD (2000).

Table 3.10. The Largest European Transnational Corporations in Latin America by Consolidated Sales, 1998
(In millions of U.S. dollars)

UNCTAD ^a	ECLAC	Home country	Firm	Sector	Brazil	Mexico	Argentina	Chile	Colombia	Venezuela	Total	TNI(f)
8	2	Germany	Volkswagen AG	Automotive	6,371	9,265	1,066	521	530	740	18,493	26.4
52	3	Spain	Telefónica de España	Telecom.	4,483		4,209	1,602			10,294	29.9
n.a.	5	Spain	Endesa-España	Electricity	1,195		2,109	5,562	943		9,809	*
73	7	France	Carrefour Supermarché	Retail trade	7,304		1,870				9,174	41.4
12	8	Italy	Fiat Spa	Automotive	7,420		1,268			183	8,871	45.5
10	9	Germany	Daimler-Chrysler	Automotive	1,293	6,605	950				8,848	7.5
3	10	UK/Netherlands	Royal Dutch Shell	Petrol. / Mining	4,470		1,934	889	251	208	7,752	14.2
n.a.	11	Spain	Repsol	Petroleum			6,808				6,808	*
9	14	Switzerland	Nestle AG	Food	2,562	1,648	435	580	303	97	5,625	13.6
77	15	United Kingdom	British American Tobacco	Tobacco	2,050	1,021	866	140		599	4,676	15.9
n.a.	18	France	France Telecom	Telecom			4,292				4,292	*
18	19	UK/Netherlands	Unilever	Food	2,369	545	944	220	194		4,272	12.4
91	20	Netherlands	Royal Ahold	Retail trade	1,728		1,601	845			4,174	10.6
n.a.	21	France	Groupe Casino-Guichard	Retail trade	3,627		438				4,065	*
19	30	Germany	Siemens AG	Electronics	1,186	674	554		146	130	2,690	5.4
n.a.	31	Portugal	Portugal Telecom.	Telecom.	2,609						2,609	*
38	34	Germany	BASF AG	Chemicals	1,035	901	240	59	83		2,318	8.4
n.a.	39	Italy	Telecom Italia	Telecom.	1,474			543			2,017	*
67	40	Sweden	Ericsson LM	Electronics	1,478	500					1,978	12.6
15	41	Germany	Bayer AG	Chemicals	604	602	527			98	1,831	7.1
33	42	France	Renault	Automotive	264		1,389		136		1,789	6.8
13	44	Germany	Hoescht AG	Chemicals	325	1,119	139	82		29	1,694	8.8
n.a.	45	Italy	Parmalet S.A.	Food	1,016		200			445	1,661	*
n.a.	46	Switzerland	Glencore Holding	Retail trade	519		1,092				1,611	*
n.a.	48	Belgium	Sidartin S.A.	Iron and steel	1,541						1,541	*

Table 3.10. *Continued*

20		52	Netherlands	Philips AG	Electronics	408	1,043					1,451	2.2
36		55	France	Rhone-Poulenc S.A.	Chemicals	1,340						1,383	*
n.a.		57	Netherlands	SHV Makro NV	Retail trade	1,204				43		1,321	*
51		59	France	Saint Gobain	Glass	1,292				117		1,292	*
43		60	Switzerland	Novartis	Chemicals	787						1,206	6.7
n.a.		63	Italy	Pirelli	Tyres	1,180			238	181		1,180	*
n.a.		65	France	Dreyfus & Co.	Food	687			476			1,163	*
n.a.		68	Sweden	Saab-Scania AB	Automotive	805			249			1,054	*
89		70	Switzerland	Holderbank Fin. Glaris	Cement	348	685					1,033	15.4
n.a.		73	Spain	Iberia	Transportation				949			949	*
n.a.		76	Spain	Iberdrola	Electricity	911						911	*
88		78	France	Danone	Food	350			533			883	8.7
26		80	France	Alcatel Alsthom	Electronics	475	350					825	3.1
n.a.		83	France	Usinor	Iron and steel	786						786	*
20		88	Switzerland	La Roche & Co.	Chemicals	415	180		175			770	4.8
n.a.		89	Switzerland	Andre & Cie.	Chemicals				756			756	*
n.a.		92	Netherlands	New Holland NV	Auto parts	706						706	*
12		94	Switzerland	ABB Asca Brown Boveri	Machinery	550				74	69	693	*
n.a.		96	Italy	Agip	Petroleum	531	147					678	*
53		97	France	Peugeot	Automotive				609			671	4.4
n.a.		99	Germany	Paulaner	Beverage				592			592	*
Total sales:													
as a % of sales of top 100 foreign affiliates in Latin America						69,698	25,285		36,916	11,697	3,001	2,598	149,195
as a % of sales of European affiliates						56.60	36.11		64.23	80.76	43.72	37.12	53.86
						46.72	16.95		24.74	7.84	2.01	1.74	100

n.a. Not applicable (not in top 100 TNCs).

* Not known.

^a Ranking according to value of foreign assets in 1998 (UNCTAD 2000, pp. 72-74).

Source: Derived from ECLAC (2000).

The Changing Entry Mode of European FDI in Latin America

As mentioned earlier in this chapter, M&As have become the most important modality of new FDI in the last two decades. This section explores this phenomenon and the reasons for it in more detail.

The contemporary cross-border M&A boom began in the mid-1980s. It dipped in the early 1990s, coinciding with the slowdown in world economic growth, but then gathered new momentum for the rest of the decade. By 1999, cross-border M&A purchases had reached a new peak of \$720 billion and, in that year, were valued at 90 percent of FDI flows and 2.5 percent of the world's GDP. The corresponding figures for 1990 were \$151 billion, 72 percent and 0.8 percent (see Table 3.11).

Table 3.12 sets out some further details. Inter alia, it reveals that in 1998 and 1999 Western Europe was the source of 67.4 percent of all global cross-border mergers. The corresponding figure for 1990–1991 was 58.4 percent.¹⁸ These data, then, suggest that in the 1990s European firms were internationalizing their activities to a greater extent than their counterparts from most other countries (Japan and some less developed countries are exceptions), and that this expansion occurred mainly through M&As.

Table 3.11. M&A Purchases by All Firms and Western European Firms with Particular Reference to Latin America

Year	All purchases			Western European purchases			
	US\$ billion	1 (%)	2 (%)	US\$ billion	3 (Ratio)	4 (%)	5 (%)
1988	115.6	1.1	45.3	49.7	0.55	2.2	95.0
1989	140.4	1.4	38.1	74.3	0.59	1.6	48.0
1990	150.6	7.6	71.6	92.6	0.51	8.7	83.5
1991	80.7	4.4	60.4	42.5	0.45	2.1	45.0
1992	79.3	5.3	51.2	49.8	0.27	2.6	65.0
1993	83.1	6.1	40.0	43.0	0.39	1.6	35.0
1994	127.1	7.8	66.7	75.9	0.47	3.9	81.0
1995	186.6	4.6	54.1	92.6	0.52	2.7	61.0
1996	227.0	9.0	59.1	110.6	0.62	5.5	50.5
1997	304.8	13.4	63.5	154.0	0.44	9.1	87.5
1998	531.6	12.0	79.2	324.7	0.64	11.6	85.6
1999	720.1	5.2	57.6	519.5	0.48	4.8	75.1

Key to notations (1–5):

1. Percentage of all M&A purchases directed to Latin American and Caribbean firms.
2. Percentage of all M&A purchases of developing country firms accounted for by Latin American and Caribbean firms.
3. Ratio of M&As outside the European Union as percentage of all M&As (a globalization M&A ratio).
4. Percentage of all M&A purchases by European firms directed to Latin American and Caribbean firms.
5. Percentage of all M&A purchases of developing country firms accounted for by Latin American and Caribbean firms.

Source: UNCTAD (2000), based on data from Thomson Financial Securities Data Company.

Table 3.12. Cross-Border M&A Purchases
(In billions of U.S. dollars)

	1990– 1991	%	1995– 1996	%	1998– 1999	%	(1998–1999)/ (1990–1991)
Developed Countries (as % of FDI outflows)	220.9 (53.3)	95.5	372.0 (58.2)	89.9	1,188.7 (85.7)	95.0	5.38
Western Europe (as % of FDI outflows)	135.0 (52.5)	58.4	203.2 (53.7)	49.1	844.1 (86.3)	67.4	6.25
United States (as % of FDI outflows)	44.2 (72.9)	19.1	118.1 (66.9)	28.6	249.8 (84.1)	20.0	5.65
Developing Countries (as % of FDI outflows)	10.1 (36.2)	4.4	40.9 (37.9)	9.9	60.4 (61.2)	4.8	5.98
Total World¹ (as % of FDI inflows)	231.2 (52.2)	100.0	413.6 (55.3)	100.0	1,251.8 (84.2)	100.0	5.41

¹ Including Central and Eastern Europe.

Source: Derived from UNCTAD (2000).

The situation is very different with regard to developing countries in general and Latin America in particular, and also as regards the significance of the foreign M&As of developing country firms. In 1999, the ratio between the foreign purchases of developing country firms and FDI inflows into developing countries was 0.32. The ratio between the foreign purchases of developing country firms and FDI outflows is generally considerably lower than that of their developed country counterparts. The corresponding ratio for Latin America as a host region was 0.41. In the case of EU investors the figures suggest that, between 1992¹⁹ and 1999, the value of the M&A purchases of both developing country and Latin American firms rose three times faster than that of European FDI in those countries.

The reasons for the increase in cross-border M&As are well known.²⁰ They are, first, the imperatives of technological development and the ever-increasing costs of innovative activities, which have compelled firms to take greater advantage of economies of scope and scale, product and process innovation. Increasingly, firms now invest overseas to augment their global resources and capabilities. One of the fastest ways of doing this is by means of M&As. Second, M&As have been facilitated by the liberalization of markets, by the privatization of large, state-owned enterprises, and by the removal or reduction of restrictions on inbound FDI and on foreign MNEs' acquisition of domestic firms.

These twin forces have increased inter-firm competition to such an extent that it is only by pursuing a strategy of inter-firm alliances and M&As that many firms can (or perceive that they can) adequately meet the challenges of the global economy. Understandably, since the greater part of technological innovation in the 1990s was centered in the industrialized nations,²¹ most asset-augmenting M&As have taken place within the Triad. At the same time, the renaissance of the market economy and the privatization of many state-owned sectors in developing countries have induced a wave of acquisitions as a means

of exploiting a home-based competitive advantage and of entering relatively unfamiliar markets.

The large expansion of M&A purchases by developed country firms in the 1990s, particularly in Central and Eastern Europe and Latin America, was essentially to acquire the assets of indigenous state-owned firms at competitive (or below competitive) prices. In large part these purchases have been concentrated in capital-intensive manufacturing, information-intensive service and infrastructural sectors such as telecommunications, utilities and energy. However, the recent wave of acquisitions of already privately owned firms in the Republic of Korea²² was prompted by two circumstances: first, the firms' need to secure finance and knowledge capital to reconfigure their organizational structures and upgrade their technological capabilities, so they could better meet the needs of the global marketplace; and second, the desire and ability of foreign investors to take advantage of the low price of assets, a reflection of the financial crisis and economic vicissitudes of the mid-1990s.

Table 3.13 shows that in 1998 and 1999 the value of cross-border purchases of Latin American firms was almost as great as that for the eight previous years. It also shows the dominance of Brazil and Argentina as target countries. These two economies alone were host to 62.6 percent of all foreign acquisitions in the 1990s. A further 11.4 percent represented purchases of Mexican firms. Again, as one would expect, there is a close correlation between these data and the corresponding FDI inflows.

What of privatization schemes? Table 3.14 reveals that, overall, only 7.8 percent of all cross-border M&A purchases were targeted toward state-owned enterprises. In Central and Eastern Europe and in some developing countries, however, such schemes were responsible for most purchases of domestic assets by foreign firms. Latin America, in fact, accounted for 37.9 percent of all privatizing M&As, and 80.2 percent of those in developing countries. Over the period 1987–1989, Brazil and Argentina alone accounted for 69.4 percent of all foreign purchases of Latin American state-owned enterprises.

What of the European share of these privatization schemes? Table 3.15 lists the nine most important privatization deals involving European MNEs as purchasers of Latin American firms. The price tag attached to these deals was 67 percent of all purchases of Latin American firms. As is evident from the table, these were wholly concentrated in Brazil and Argentina, and were undertaken in 1997 and 1999. The value of these nine acquisitions totaled \$30.1 billion, an amount equal to 48.1 percent of all M&A purchases by European firms in Latin America in those years, and to 60 percent of those in Argentina and Brazil. Clearly, therefore, privatization deals have played a more important role in the M&A strategies of European firms than they have in the case of United States or other foreign investors. One reason for this concerns the countries of origin of the source purchasing firms. As Table 3.15 shows, Spain and Portugal accounted for all but one of the nine largest privatization schemes in 1997/99. Each of these investments was designed to strengthen the global competitiveness of the investing firms through the acquisition of synergistic assets in culturally similar countries.

Table 3.13. Acquisitions of Latin American Firms by Foreign Firms, 1990–1999
(In millions of U.S. dollars)

Country	1990–1995	%	1996	%	1997	%	1998	%	1999	%
Argentina	2,121	33.3	3,611	19.6	4,635	13.4	10,396	20.7	19183	54.6
Brazil	550	8.6	6,536	35.5	12,064	34.8	29,376	58.5	9396	26.7
Chile	529	8.3	2,044	11.1	2,427	7.0	1,595	3.2	4032	11.5
Peru	713	11.2	844	4.6	911	2.6	162	0.3	845	2.4
Venezuela	453	7.1	1,072	5.8	1,946	5.6	3,220	6.4	278	0.8
Mexico	1,299	20.4	1,428	7.7	7,927	22.9	3,001	6.0	784	2.2
Other	703	11.0	2,894	15.7	4,749	13.7	2,492	4.9	616	1.8
Total*	6,368	100.0	18,429	100.0	34,659	100.0	50,242	100.0	35134	100.0

* Excluding offshore centers.

Source: UNCTAD (2000)

Table 3.14. Value of Cross-Border M&As of Privatized Firms by Country of Sale, 1987–1999

Country	US\$ billion	% of total	% of all M&A sales
Developed countries,	89.1	40.2	3.6
of which:			
Australia	24.3	10.9	25.6
Germany	9.0	4.1	7.5
Belgium	8.3	3.7	16.0
Sweden	8.3	3.7	7.7
France	5.9	2.7	4.5
U.K.	4.5	2.0	1.0
Developing countries	104.7	47.2	31.9
Latin America,	84.1	37.9	40.0
of which:			
Brazil	31.9	14.4	52.0
Argentina	26.4	11.9	52.1
Venezuela	5.4	2.4	58.7
Peru	5.1	2.3	70.8
Mexico	4.6	2.1	22.5
Others	20.6	9.3	17.4
Central and Eastern Europe,	27.9	12.5	78.5
of which:			
Poland	8.3	3.7	81.7
Kazakhstan	4.6	2.1	76.7
Hungary	4.3	1.9	66.2
Total	221.7	100.0	7.8

Source: Derived from UNCTAD (2000), Annex, Table A.IV. 21, p. 262.

Table 3.15. Top Nine Privatization Deals Involving Latin American Firms Acquired by European Firms, 1997–1999

Rank	Privatized firm	Year	Value of acquisition, US\$ bn.	Country	Acquiring firm	Acquiring country
1	YPF SA	1999	13.2	Argentina	Repsol SA	Spain
2	TELESP (Telebras)	1998	5.0	Brazil	Investor Group	Spain
3	Telesp Celular Participacoes	1998	3.1	Brazil	Investor Group	Portugal
4	YDF SA	1999	2.0	Argentina	Repsol SA	Spain
5	Telecentro Sul (Telebras)	1998	1.8	Brazil	Investor Group	Italy
6	Cia de Electricidade do Estado	1997	1.6	Brazil	Investor Group	Spain
7	Condensa	1997	1.2	Colombia	Investor Group	Spain
8	Telesudente (Telebras)	1998	1.2	Brazil	Investor Group	Spain
9	Cia Riograndense de Telecomun	1998	1.0	Brazil	Investor Group	Spain

Note: These acquisitions accounted for 67.9% of all privatization schemes in which the acquired firm was located in Latin America.

Source: Derived from UNCTAD (2000), Table IV 8, p. 134.

Motives and Determinants of European FDI in Latin America

There is a vast literature on the motives and determinants of MNEs engaging in FDI. This is summarized in Dunning (1993), Caves (1996), and in UNCTAD's annual *World Investment Reports*. However, most authorities tend to distinguish between FDI designed to protect or augment the competitive advantages of the investing firm (*asset-seeking* FDI) and that designed to better exploit—add value to—its existing advantages (*asset-exploiting* FDI). In turn, asset-exploiting FDI may be directed to seeking out (a) new or growing markets (*market-seeking* FDI), (b) cheaper and more cost-effective inputs (*resource-seeking* FDI) and (c) ways and means of achieving a more efficient use of existing or potential regional or global resources and capabilities (*efficiency-seeking* FDI).

As to the determinants of FDI, the classification adopted by UNCTAD in its 1998 *World Investment Report* is helpful for understanding European MNE activity in Latin America. This is set out in Table 3.16.

The rest of this part of the chapter is divided into two sections. First, the global picture summarizes the views compiled by the London-based Economist Intelligence Unit (EIU) on the perceived changes in the business environment likely to be affected by Latin American countries between the 1994–1998 and 1999–2003.²³ Second, the European dimension sets out the results of a survey conducted by the Special Office in Europe of the Inter-American Development Bank in 2000/2001 concerning motives for and obstacles to MNE activity in Latin America, and the likely future trend of FDI in the region. This will be examined using the framework set out in Table 3.16.

The Overall Picture

The EIU has developed a world-wide business rankings model applicable to some 60 countries, including 8 in Latin America. The aim of the model is to measure the quality of the business environment and its key components in those countries. The quantitative evaluation of the business environment enables a country to be ranked by overall position and in each of 10 categories (as set out in Table 3.17). The rankings are based on secondary data, business surveys and the subjective views of experts. The overall scores are based on the scores for 70 separate indicators. Combined, these make up the categories identified in the table.²⁴

Table 3.17 also sets out some rankings of major regions of the world for the ten categories over two periods, 1994–1998 and (a forecast) 1999–2003. It shows that, in general, the business environment is expected to improve in all regions, and especially in Eastern Europe. As far as Latin America is concerned, the most noticeable improvements appear to be expected in trade and exchange control liberalization, the macroeconomic environment, and in host government policies toward private enterprise. Relative to other regions in the world, Latin American countries score especially well in terms of their labor markets and FDI policies, but less so in terms of the quality of their infrastructure, and trade and exchange rate regimes.

Table 3.16. Host Country Determinants of FDI

I. Host country determinants	Type of FDI classified by motives of TNCs	Principal economic determinants in host countries
I. Policy framework for FDI <ul style="list-style-type: none"> • Economic, political and social stability • Rules regarding entry and operations • Standards of treatment of foreign affiliates • Policies on functioning and structure of markets (especially competition and M&A policies) • International agreements on FDI • Privatization policy • Trade policy (tariffs and NTBs) and coherence of FDI and trade policies • Tax policy 	A. Market-seeking <ul style="list-style-type: none"> • Market size and per capita income • Market growth • Access to regional and global markets • Country-specific consumer preference • Structure of markets 	
II. Economic determinants	B. Resource/Asset-seeking <ul style="list-style-type: none"> • Raw materials • Low-cost unskilled labor • Skilled labor • Technological, innovative and other created assets (e.g., brand names), including those embodied in individuals, firms and clusters • Physical infrastructure (ports, roads, power, telecommunications) 	
III. Business facilitation <ul style="list-style-type: none"> • Investment promotion (including image-building, investment-generating activities and investment-facilitation services) • Investment incentives • Hassle costs (related to corruption, administrative efficiency, etc.) • Social amenities (bilingual schools, quality of life, etc.) • After-investment services 	C. Efficiency-seeking <ul style="list-style-type: none"> • Cost of resources and assets listed under B, adjusted for productivity for labour resources • Other input costs, e.g., transport and communication costs to/from and within host economy and costs of other intermediate products • Membership of a regional integration agreement conducive to the establishment of regional corporate networks 	

Table 3.17. Business Environment Rankings by Selected Indicators
(a) 1994/1998; (b) 1999/2003

Items	World	G 7	Eastern Europe	Latin America	Asia
Political environment	(a) 3.5 (b) 3.4	4.1 4.2	2.7 3.0	2.9 3.2	3.5 3.3
Macroeconomic environment	(a) 3.4 (b) 3.8	4.0 4.3	2.7 3.5	3.1 3.5	3.7 3.9
Market opportunities	(a) 3.2 (b) 3.1	4.0 3.9	2.4 2.6	3.3 3.2	3.3 3.2
Toward private enterprises	(a) 3.2 (b) 3.6	4.1 4.3	2.4 3.1	3.0 3.4	3.2 3.6
FDI policy	(a) 3.6 (b) 3.9	4.3 4.5	2.9 3.5	3.7 4.0	3.6 3.9
Trade and exchange control liberalization	(a) 3.5 (b) 3.9	4.2 4.4	3.0 3.7	3.1 3.7	3.6 4.2
Burden of taxation	(a) 3.1 (b) 3.2	3.1 3.3	2.2 2.5	3.1 3.2	3.6 3.7
Financing opportunities	(a) 3.3 (b) 3.7	4.2 4.7	2.3 2.8	3.3 3.7	3.3 3.7
Labor market	(a) 3.2 (b) 3.4	3.5 3.6	3.4 3.6	3.3 3.6	3.4 3.5
Quality of infrastructure	(a) 3.1 (b) 3.4	4.3 4.5	2.7 3.0	2.4 2.8	2.8 3.1

Note: Scores range between 1 and 5, a score of 5 being the best for business.

Source: Economist Intelligence Unit (2000).

Table 3.18 sets out some perceived strengths and weaknesses of Latin America in the 1994–1998 period, and the likely strengths and weaknesses in the 1999–2003 period. The data are presented without comment.

Finally, Table 3.19 gives the EIU's score card for individual Latin America economies and their rankings among the 60 countries and 26 developing countries. As can be seen, Chile and Argentina are thought to offer the most favorable business environments in both periods, and Venezuela and Ecuador the least favorable environments. However, it is particularly interesting to observe that all Latin American countries are thought likely to offer a more congenial business environment in the early years of this century than in closing years of the last although their ranking, both among all countries and developing countries, is not expected to change greatly.

The European Dimension

The following material is largely based on a specially commissioned survey, undertaken in 2000/2001 by the IDB, of the investment strategies of some 66 European MNEs that have an annual sales turnover of more than \$1 billion and that are currently investing or contemplating investing in Latin America and the Caribbean. The full survey responses are presented as Annex 3.2 to this chapter (see also Annex B to the book).

**Table 3.18. The Business Environment in Latin America:
Perceived Relative Strengths and Weaknesses***

Strengths	
1994–1998	1999–2003 (Estimated)
<ul style="list-style-type: none"> • Annual growth of exports • Freedom of businesses to compete • Government policy towards foreign capital • Openness of national culture to foreign influences • Corporate and personal tax burden • Openness of banking system • Business friendly labor legislation • Hiring of foreign nationals • Rents of office space 	<ul style="list-style-type: none"> • Government policy toward business • Government debt as % of GDP • Real GDP growth • Profitability of business • Freedom of businesses to compete • Openness of national culture to foreign influences • Top marginal personal income tax • Real labor cost • Hiring of foreign nationals • Cost of living • Rents of office space
Weaknesses	
1994–1998	1999–2003 (Estimated)
<ul style="list-style-type: none"> • Risk of social unrest • Corruption • Impact of crime • Inflation • Exchange rate volatility • Openness of trade • Distortion in financial markets • Incidence of strikes • Availability of skilled labor • Telecommunications infrastructure • R&D expenditure as % of GDP • Production of electricity per head 	<ul style="list-style-type: none"> • Impact of crime • Distortions arising from lobbying by special interest groups • Openness of trade • Consistency and fairness of tax system • Availability of skilled labor • Quality of workforce • Road and rail network • Telecommunications infrastructure • R&D expenditure as % of GDP

* In relation to other regions of the world, and particularly to other developing countries.

Thirty-six of these companies (54.5 percent) recorded a sales turnover of more than \$10 billion in 1999/2000, and the balance of a turnover was between \$1 billion and \$10 billion. Of these 66 MNEs, 17 were of German origin, 12 were from France, 11 from Spain, 8 from the Netherlands, 7 from Switzerland, 6 from the United Kingdom, 3 from Portugal and 2 from Italy. Sixty-one of the companies employed more than 1,000 people and 45 had over 10,000 employees.

Of their total sales outside Europe, the Latin American and the Caribbean region accounted for more than 50 percent in the case of four companies; 20–49 percent in the case of 12 companies; 5–19 percent in the case of 27 companies, and less than 5 percent in the case of 23 companies. Spanish and Portuguese MNEs were the most dependent on their Latin American operations, while French and Dutch companies were the least dependent.

Table 3.19. Business Environment Rankings by Selected Latin American Countries

Country	1994– 1998 total score	Rank		1999– 2003	Rank		Qualitative assessment ¹	
		(i)	(ii)		(i)	(ii)	1994– 1998	1999– 2003
Chile	7.35	19	3	7.80	21	4	Good	Good
Argentina	6.73	25	5	7.17	25	5	Good	Good
Mexico	5.58	35	9	6.92	30	7	Moderate	Good
Peru	5.56	37	11	6.23	36	11	Moderate	Moderate
Brazil	5.07	44	13	6.02	39	12	Poor	Moderate
Colombia	5.46	39	12	6.00	41	13	Poor	Moderate
Venezuela	4.75	48	17	5.71	48	18	Very Poor	Moderate
Ecuador	4.36	50	19	5.18	51	19	Very poor	Poor
Latin America	5.6 ²			6.4 ²			Moderate	Moderate

Key: (i) of all countries; (ii) of developing countries.

¹ Qualitative grades have been assigned by EIU according to the following scale:

Very good: more than 8

Good: 6.5–8

Moderate: 5.5–6.4

Poor: 5–5.4

Very Poor: less than 5

² Ranked higher than Eastern Europe and Africa but lower than Asia.

Source: Economist Intelligence Unit (2000).

Table 3.20. Perceived Obstacles to FDI in Latin America by European Firms

	No	Low	Med	High	Top	Mean score ¹
Political instability	1	11	19	28	5	58.0
Local regulation and bureaucracy	0	5	25	28	1	54.2
Legal/judicial insecurity	1	10	26	21	4	53.4
Corruption	1	8	31	17	4	51.9
Fear of devaluation	5	15	17	23	4	50.8
Violence	2	15	20	19	4	48.5
Problems with repatriation of profits/capital	3	23	20	13	3	43.2
Level of local taxation	3	23	19	13	1	39.4
Undeveloped infrastructure	4	22	21	13	0	39.0
Labor legislation	3	26	19	10	1	37.1
Social problems/poverty	2	25	25	6	1	36.7
Lack of qualified human resources	6	25	25	5	0	34.1
Local safety, health and environmental standards	5	23	25	4	0	32.2
Undeveloped local capital markets	8	25	20	6	0	31.4
Cultural differences	24	24	10	1	1	19.3

¹ Refers to the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey (2000/2001).

The 66 firms identified 173 separate affiliate operations in Latin America. Of these, 107 (61.8 percent) took the form of a wholly owned subsidiary; 47 (27.2 percent) were a joint venture with a Latin American partner; and 16 (9.2 percent) were a joint venture with another European company. The wholly owned subsidiary tended to be the most favored route of entry by European firms into the larger Latin American countries, notably Argentina, Brazil and Mexico.

Finally, of the same number of affiliates, 83.2 percent produced goods and services for the host country's market while 41.0 percent exported their output to MERCOSUR countries; another 30 percent exported to other integrated markets in Latin America.²⁵ Some 47 (27.2 percent) of the 173 affiliates also exported to Europe, while 54 (31.2 percent) exported to the United States and Canada. As might be expected, the foreign affiliates in Mexico identified the United States as their leading export market, while 63.8 percent of Brazilian and Argentine affiliates supplied goods and services to elsewhere in MERCOSUR.

Of all the world's developing regions, Latin America and the Caribbean was ranked a "top" or a "high" priority as a strategic investment location over the past five years by 37 (56.1 percent) of the 66 firms. The corresponding percentages for the next most attractive regions (South and South-East Asia, and Central and Eastern Europe) were 53.3 percent and 30.7 percent respectively. Respondents to the survey were also asked to assign locational priorities over the next five years (2000–2005). No less than 65.7 percent (nearly two-thirds) of firms named Latin America as a "top" or "high" priority. The corresponding percentages for South and South East Asia and for Central and Eastern Europe were 60.0 percent and 36.2 percent, respectively.

Of the Latin American countries thought most likely to be attractive to investment by European firms, Brazil ranked highest: 71.6 percent of the 66 firms assigned it a "top" or "high" priority. This was followed by Mexico with a percentage of 57.4 percent. Argentina was ranked a "top" priority by only two firms (3.4 percent) but was rated a "high" or "medium" priority by 37 firms (72.9 percent).

Chile was ranked as a "top" priority by 3.6 percent of firms and "medium" or "high" priority by 58.2 percent. The corresponding rankings for Venezuela were 10.5 percent and 71.9 percent. For the MERCOSUR subregion as a whole, 80.4 percent of firms assigned it a "high" or "medium" priority, but only 6.5 percent considered it to be a "top" priority. The lowest-rated countries in the region were the Central American and Caribbean countries, as well as offshore centers.

An earlier section of this chapter indicated that an important part of the FDI by European firms in Latin America in the last five years went to finance privatization schemes. Of 128 responses (by the 66 large firms) to a question concerning the form of new FDI in Latin America, the expansion of existing capacity was identified by 51 firms (39.8 percent); new greenfield investment by 34 (26.6 percent); acquisition of an existing Latin American firm by 31 (24.2 percent); and privatization of a state entity by 9.4 percent of firms. Compared with previous modalities of FDI, the expansion route seems likely to become more significant in the future while the greenfield and privatization routes lose importance. A breakdown by country of origin suggests that well-established European investors, notably those from

Table 3.21. Host Country Determinants of FDI with Respect to European FDI in Latin America and the Caribbean*(Percentage of "yes" responses as factors influencing FDI)*

1. Policy Framework	
Economic stability	62.4%
Political and social stability	60.1%
Treatment of foreign affiliates	57.2%
2. Economic Determinants	
<i>A. Market-seeking</i>	
Market size	75.1%
Market growth	75.7%
Access to regional/global markets	32.9%
<i>B. Resource/Asset seeking</i>	
Raw materials	27.2%
Low cost labor	28.3%
Access to skilled labor	46.8%
Physical infrastructure	37.6%
<i>C. Efficiency seeking</i>	
General	48.0%
3. Business Facilitation	
Investment incentives	17.9%

Source: IDB Survey (2000/2001) and Table 3.16 of this chapter.

Germany, France, and Switzerland, appear likely to expand their interest in Latin America via the former two routes. The newer investing countries, notably Portugal and Spain, are more likely to favor the latter two routes.

What are the important incentives and obstacles to investing in Latin America and the Caribbean? Earlier (see Table 3.16), this chapter set out a schema for identifying the critical FDI determinants of firms. Later, discussing the EIU survey, it set out some perceived strengths and weaknesses of the business environment in Latin America. The IDB survey further confirms these results. First, two sets of criteria stand out as critically important factors now influencing any decision to invest in the region: the macroeconomic, political and social stability of the host country, and the size and growth of the local (or regional) market(s). Rather surprisingly, the importance of the host country being a member of an integration grouping was emphasized by less than one-third of respondents.

Table 3.20 sets out some of the major obstacles identified by the 66 firms in the IDB survey. The final column of the table calculates an "average" index of importance. The data suggest that, of the factors identified, political instability, local regulations and bureaucracy, legal/judicial insecurity, corruption and violence are perceived as the main drawbacks to future FDI in the Latin American region, rather than those of a purely economic or commercial nature as set out in Table 3.16.

In the survey, respondents were asked to answer “yes” or “no” as to whether a number of factors identified were important to their decision to invest in Latin America and the Caribbean. Table 3.21 presents the responses using the framework of Table 3.16. The highest “yes” percentages were recorded by economic determinants, noticeably size of the markets (75.1 percent) and growth of the markets (75.7 percent). The policy framework was also regarded as significant, with 62.4 percent of respondents answering “yes” to economic stability and 60.1 percent to political stability. Of the other economic determinants, access to skilled labor (46.8 percent) was thought to be the most important inducement to resource/asset-seeking MNEs. Nearly one-half of respondents (48.0 percent) thought the achievement of efficiency gains in advancing a company’s global production or marketing strategy was an important influence on their decision to invest in Latin America. Rather surprisingly, local tax incentives and/or subsidies did not appear to be a significant FDI determinant: 56.6 percent of respondents said it was not. Further details of these responses are set out in Annex 3.2 to this chapter.

Annex 3.1.*

FDI in Central and Eastern Europe

FDI in Central and Eastern European (CEE) countries is a relatively new phenomenon, since it really began only with their transition to market economies in the 1990s. In 1991 FDI was almost non-existent; in 2000 FDI inflows increased to a record level of \$27.4 billion and the end-year stock reached \$145.7 billion (Hunya and Stankovsky 2001). As a result, FDI stocks as a percentage of GDP in 10 EU-associated countries increased from 6.0 percent in 1993 to 26.5 percent in 2000. The opening up of CEE countries with trade and capital market liberalization, overwhelming privatization processes, and a major need for foreign capital, have been the major factors behind these trends.

FDI in CEE countries is heavily concentrated on a small number of (the most developed) countries. Some 53.9 percent of the end-2000 inward FDI stock was recorded by the Czech Republic, Hungary, Poland, Slovakia and Slovenia. In country terms the major recipients are Poland (22.0 percent), the Czech Republic (13.7 percent), Hungary (13.7 percent) and Russia (14.1 percent). Until the end of 1997, Hungary was the major recipient; since then the Czech Republic and, especially, Poland have become the main destinations. This shift is explained by large foreign privatization deals in the banking sector and telecommunications. Other CEE countries, those in the Balkans and the former Soviet Union, feature slow progress in economic transformation and are mostly considered high-risk by foreign investors.

EU countries are by far the main investors in CEE countries. At the end of 1999, EU investors accounted for as much as 69.8 percent of the FDI stock in the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria and Romania. Germany, with 20.6 percent, is by far the leading investing country, followed by the Netherlands (13.6 percent) and the United States (11.88 percent). In general, large investing countries such as the United States invest in large countries (like Poland) more than in small ones. Small countries (such as Austria) invest more in their own neighborhood (Hunya 2000).

FDI by economic activity reflects the differences in the countries' economic structure and privatization policies. Manufacturing is the main target. The share of manufacturing in end-1999 FDI inward stock was 45.8 percent in the Czech Republic, 38.4 percent in Hungary, 49.2 percent in Poland, 49.1 percent in Slovakia, 51.5 percent in Slovenia, 54.2 percent in Bulgaria and 43.8 percent in Romania. In Bulgaria, Slovenia and, until recently, Poland—countries where privatization in the tertiary sector is slow—manufacturing attracted higher shares of the FDI stock. Within the manufacturing sector most FDI was attracted by food, beverages and tobacco; machinery and equipment; automotive; and chemicals and pharmaceuticals industries (UNCTAD 2000).

* This annex was prepared by Matija Rojec, Faculty of Social Sciences, Ljubljana, Slovenia; and Gabor Hunya, Vienna Institute for International Economic Studies (WIIW), Austria.

Financial intermediation (banking and insurance) took the highest share of FDI in Poland (22.4 percent), Slovakia (20.3 percent) and Romania (23.7 percent), and a little less in the Czech Republic (14.8 percent), Hungary (10.9 percent), Slovenia (15.4 percent) and Bulgaria (11.7 percent). Trade is another important target sector, especially in less developed CEE countries (24.1 percent share in Romania, 19.5 percent share in Bulgaria and 18.7 percent share in Slovakia). Hungary is notable for the high share of FDI in electricity and gas distribution (14.8 percent), as well as in real estate and business services (9.8 percent).

Servicing local markets has no doubt been the major motivation of foreign investors in Central and Eastern Europe. Largely untapped markets with millions of new consumers eager to buy "Western" goods have offered a strong incentive to foreign investors. This inducement has been combined with many attractive acquisition opportunities as a result of overwhelming privatization processes in these countries. In the larger CEE countries and in the services sectors, market-seeking motivations are still predominant. Gradually, however, especially in view of Central and Eastern Europe's increasing integration with the EU, efficiency-seeking FDI is gaining ground. This is especially so in the manufacturing sector, where a substantial share of the sales of foreign affiliates is destined for exports. The exports to sales ratio in manufacturing of foreign affiliates is 72.3 percent in Slovenia, 57.2 percent in the Czech Republic, 56.0 percent in Hungary, 50.9 percent in Estonia and 27.8 percent in Poland. This also denotes the changed role of CEE in the globalization strategies of EU investors. Such strategies are increasingly pursued in the context of integrating these countries and affiliates in the EU's internal market.

Multinational enterprises have integrated CEE economies into the EU at the microeconomic level to varying degrees. The process of ownership-based integration is most advanced in Hungary, followed by Estonia and the Czech Republic, while Poland is catching up. Slovenian companies are less integrated in terms of capital ownership but have close links through company networks. Foreign affiliates already account for a significant share of manufacturing sectors: in 1998, sales by foreign affiliates accounted for 70.0 percent of overall manufacturing sector sales in Hungary, 40.6 percent in Poland, 31.5 percent in the Czech Republic, 28.2 percent in Estonia and 24.4 percent in Slovenia (Hunya 2000). The experiences of CEE countries also confirm the positive contribution of FDI to restructuring and company efficiency. The industrial distribution of manufacturing affiliates in CEE is different from that of domestic enterprises. Foreign affiliates tend to be active in manufacturing industries with above-average profitability, assets per employee (as a proxy for technical sophistication) and also export orientation. Foreign affiliates are also on average more profitable, have much higher productivity, invest more, and are more export-oriented than domestic enterprises (Rojec 2000).

Despite the increasing importance and superior performance of foreign affiliates in a number of CEE countries, the spillover effects for domestic companies seem to be modest. In Bulgaria, Romania and Poland, FDI seems to be important for transferring technology to affiliates, but there is no evidence of technology spillovers to local enterprises. Moreover there is significant evidence of negative spillovers in Poland (Konings 1999). Evidence for the Czech Republic also suggests negative spillovers, and that there might be little technology transfer to foreign affiliates (Djankov and Hoekman 1998). There are some spillovers in the Czech Republic, but they are limited to enterprises engaging in R&D or producing electrical equipment (Kinoshita 2000). Imports of capital goods appear to be a more important channel for technology transfer in the Czech Republic (Djankov and Hoekman 1998). In Slovenia, FDI is an important vehicle of technology transfer to local firms, but there are no or even negative intra-industry knowledge

spillovers from foreign affiliates to domestic enterprises. Local firms are primarily bound to imports and exports as alternative sources of international R&D spillovers (Damijan and Majcen 2001).

The experiences of existing EU members mostly suggest that there will be increased FDI inflows in new member countries from among CEE countries after their accession to the EU, first from other member countries, but also from non-members that will create affiliates to supply the EU market. EU membership will affect FDI inflows through (i) the reduction of political risk; (ii) the harmonization of legal and institutional frameworks and the convergence of structural and economic policies in CEE countries with those in the EU (Rosati 1998); and (iii) the reorganization of multinationals' activities within the EU's newly expanded internal market. The result of the new restructuring of foreign affiliates will be a more intense production integration of new member countries in multinationals. Foreign affiliates can be expected to move from a stand-alone, domestic market orientation towards a regionally integrated production system. The major short-term effect of CEE membership of the EU will be connected to the attractiveness of intra-regional versus extra-regional trade. This would encourage non-EU multinational enterprises to swap exports for FDI and the consequent sales of local affiliates (Rojec 1997).

Annex 3.2.

Investment Strategies of European Companies in Latin America and the Caribbean

Large Companies (Annual sales/turnover more than 1 billion U.S. dollars)

Responses: 66

Banks: 5

Q1a Total annual sales/turnover of your company in millions of US\$:		
Less than 50	0	0.0%
50–1,000	0	0.0%
1,000–10,000	30	45.5%
More than 10,000	36	54.5%
Non-response	0	0.0%
Total	66	100.0%

Q1a Total annual sales/turnover of your company in millions of US\$:									
	Fra.	Ger.	Italy	Neths.	Port.	Spain	Switz.	UK	Total
Less than 50	0	0	0	0	0	0	0	0	0
50–1,000	0	0	0	0	0	0	0	0	0
1,000–10,000	5	6	1	5	2	7	2	2	30
More than 10,000	7	11	1	3	1	4	5	4	36
Total	12	17	2	8	3	11	7	6	66

Q1b Total number of employees of your company:		
Less than 250	1	1.5%
251–1,000	4	6.1%
1,001–10,000	16	24.2%
More than 10,000	45	68.2%
Non-response	0	0.0%
Total	66	100.0%

Q1b Total number of employees of your company:

	Fra.	Ger.	Italy	Neths.	Port.	Spain	Switz.	UK	Total
Less than 250	1	0	0	0	0	0	0	0	1
251-1,000	0	1	0	1	0	2	0	0	4
1,001-10,000	4	3	0	5	1	3	0	0	16
More than 10,000	7	13	2	2	2	6	7	6	45
Total	12	17	2	8	3	11	7	6	66

Q2 What is the share of your company's sales/turnover in Latin America and the Caribbean in your overall sales/turnover outside of Europe?

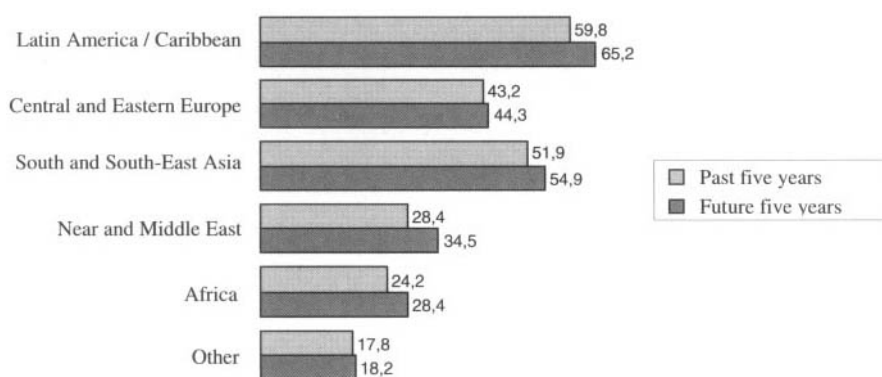
Less than 5%	23	34.8%
5-20%	27	40.9%
20-50%	12	18.2%
More than 50%	4	6.1%
Non-response	0	0.0%
Total	66	100.0%

Q2 What is the share of your company's sales/turnover in Latin America and the Caribbean in your overall sales/turnover outside of Europe?

	France	Ger.	Italy	Neths.	Port.	Spain	Switz.	UK	Total
Less than 5%	8	8	0	3	0	2	1	1	23
5-20%	3	7	2	4	0	3	4	4	27
20-50%	1	0	0	1	2	5	2	1	12
More than 50%	0	2	0	0	1	1	0	0	4
Total	12	17	2	8	3	11	7	6	66

Q3a Indicate the importance of Latin America and the Caribbean, and of other world regions presented below, as strategic investment locations:												
	Total responses											
	Past five years						Future five years					
	no	low	med	high	top	Total	no	low	med	high	top	Total
Latin America / Caribbean	3	10	16	32	5	66	0	7	15	33	9	64
Central and Eastern Europe	10	14	19	14	5	62	8	9	20	16	5	58
South and South-East Asia	8	9	12	28	5	62	5	8	11	29	7	60
Near and Middle East	16	23	14	8	0	61	9	18	22	7	2	58
Africa	22	24	10	4	2	62	11	28	14	5	1	59
Other	9	2	2	7	5	25	5	4	4	8	3	24
% distribution												
Latin America / Caribbean	4.5	15.2	24.2	48.5	7.6	100	0.0	10.9	23.4	51.6	14.1	100
Central and Eastern Europe	16.1	22.6	30.6	22.6	8.1	100	13.8	15.5	34.5	27.6	8.6	100
South and South-East Asia	12.9	14.5	19.4	45.2	8.1	100	8.3	13.3	18.3	48.3	11.7	100
Near and Middle East	26.2	37.7	23.0	13.1	0.0	100	15.5	31.0	37.9	12.1	3.4	100
Africa	35.5	38.7	16.1	6.5	3.2	100	18.6	47.5	23.7	8.5	1.7	100
Other	36.0	8.0	8.0	28.0	20.0	100	20.8	16.7	16.7	33.3	12.5	100

Figure 3.2.A. Large Companies: The Importance as Strategic Investment Locations of Latin America / Caribbean and Other Regions in the World

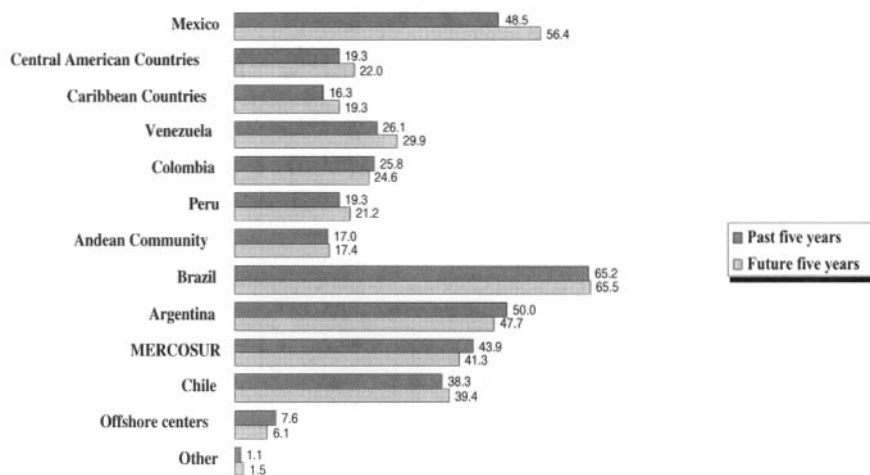


The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Q3b Of the countries and integration groupings below, indicate the importance of each as a strategic investment location within Latin America and the Caribbean:												
	Total responses											
	Past five years						Future five years					
	no	low	med	high	top	Total	no	low	med	high	top	Total
Mexico	13	9	13	23	6	64	6	5	15	26	9	61
Central Am. countries	27	23	8	4	0	62	22	18	14	4	0	58
Caribbean countries	30	21	6	2	1	60	21	23	8	4	0	56
Venezuela	19	23	14	6	0	62	10	21	20	6	0	57
Colombia	21	18	16	6	0	61	17	18	19	3	0	57
Peru	27	20	11	3	0	61	18	24	10	4	0	56
Andean Community	23	18	12	1	0	54	17	19	9	3	0	48
Brazil	2	5	16	25	15	63	1	2	14	29	14	60
Argentina	7	7	25	17	6	62	3	11	22	21	2	59
MERCOSUR	1	8	15	18	6	48	1	5	19	18	3	46
Chile	9	18	19	11	3	60	4	17	17	15	2	55
Offshore centers	27	8	3	2	0	40	20	8	4	0	0	32
Other ¹	0	0	0	1	0	1	0	0	0	0	1	1
% distribution												
Mexico	20.3	14.1	20.3	35.9	9.4	100	9.8	8.2	24.6	42.6	14.8	100
Central Am. countries	43.5	37.1	12.9	6.5	0.0	100	37.9	31	24.1	6.9	0.0	100
Caribbean countries	50.0	35.0	10.0	3.3	1.7	100	37.5	41.1	14.3	7.1	0.0	100
Venezuela	30.6	37.1	22.6	9.7	0.0	100	17.5	36.8	35.1	10.5	0.0	100
Colombia	34.4	29.5	26.2	9.8	0.0	100	29.8	31.6	33.3	5.3	0.0	100
Peru	44.3	32.8	18.0	4.9	0.0	100	32.1	42.9	17.9	7.1	0.0	100
Andean Community	42.6	33.3	22.2	1.9	0.0	100	35.4	39.6	18.8	6.3	0.0	100
Brazil	3.2	7.9	25.4	39.7	23.8	100	1.7	3.3	23.3	48.3	23.3	100
Argentina	11.3	11.3	40.3	27.4	9.7	100	5.1	18.6	37.3	35.6	3.4	100
MERCOSUR	2.1	16.7	31.3	37.5	12.5	100	2.2	10.9	41.3	39.1	6.5	100
Chile	15.0	30.0	31.7	18.3	5.0	100	7.3	30.9	30.9	27.3	3.6	100
Offshore centers	67.5	20.0	7.5	5.0	0.0	100	62.5	25	12.5	0.0	0.0	100
Other ¹	0.0	0.0	0.0	100	0.0	100	0.0	0.0	0.0	0.0	100	100

¹ "Other" refers to Trinidad & Tobago.

Figure 3.2.B. Large Companies: The Importance as Strategic Investment Locations of Countries and Integration groupings within Latin America and the Caribbean



The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Q4 Your investments carried out in the past, and those to be carried out in the future, can be linked to:		
	Past	Future
Privatization of a state entity	15	12
Acquisition of an existing private entity	30	31
New investment (greenfield)	38	34
Expansion of already existing capacities	37	51

Q4 Your investments carried out in the past, and those to be carried out in the future, can be linked to:		Total responses																	
		France		Ger.		Italy		Neth.		Port.		Spain		Switz.		UK		Total	
		P.	F.	P.	F.	P.	F.	P.	F.	P.	F.	P.	F.	P.	F.	P.	F.	P.	F.
	Privatization of a state entity	3	2	0	0	0	0	2	2	2	1	4	4	1	1	3	2	15	12
	Acquisition of an existing private entity	3	4	7	6	1	1	5	4	3	2	4	7	3	2	4	5	30	31
	New investment (greenfield)	9	5	10	8	1	1	5	6	1	1	5	5	3	4	4	4	38	34
	Expansion of already existing capacities	6	10	12	15	1	1	6	8	0	2	2	3	6	7	4	5	37	51
	Total	21	21	29	29	3	3	18	20	6	6	15	19	13	14	15	16	120	128
		% distribution																	
	Privatization of a state entity	14.3	9.5	0.0	0.0	0.0	0.0	11.1	10.0	33.3	16.7	26.7	21.1	7.7	7.1	20.0	12.5	12.5	9.4
	Acquisition of an existing private entity	14.3	19.0	24.1	20.7	33.3	33.3	27.8	20.0	50.0	33.3	26.7	36.8	23.1	14.3	26.7	31.3	25.0	24.2
	New investment (greenfield)	42.9	23.8	34.5	27.6	33.3	33.3	27.8	30.0	16.7	16.7	33.3	26.3	23.1	28.6	26.7	25.0	31.7	26.6
	Expansion of already existing capacities	28.6	47.6	41.4	51.7	33.3	33.3	33.3	40.0	0.0	33.3	13.3	15.8	46.2	50.0	26.7	31.3	30.8	39.8
	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

P = past
F = future

Q 5 Your company's investments in Latin America and the Caribbean by sector of activity:	
Primary - Agriculture and Fishing	1
Primary - Mining	3
Primary - Mining - Oil extraction	3
Primary - Mining - Gas extraction	3
Manufacturing - Food and tobacco	5
Manufacturing - Textiles	1
Manufacturing - Wood	0
Manufacturing - Chemicals and rubber	8
Manufacturing - Chemicals and rubber - Pharmaceuticals	5
Manufacturing - Metal and mechanical products	9
Manufacturing - Office machinery and computers	0
Manufacturing - Radio, TV and communications equipment	2
Manufacturing - Vehicles and other transport equipment	12
Manufacturing - Miscellaneous manufacturing	4
Services - Utilities	5
Services - Utilities - Electricity	7
Services - Utilities - Gas	4
Services - Utilities - Water	5
Services - Construction	8
Services - Trade (distribution)	5
Services - Tourism (hotels and restaurants)	2
Services - Transport	5
Services - Telecommunications	7
Services - Financial intermediation	3
Services - Financial intermediation - Banking	6
Services - Financial intermediation - Insurance	4
Services - Real estate and business activities	4
Services - Other services	2
Services - Multi-media, audiovisual and publishing	1

Note: In Q5 several enterprises have given multiple responses.

Q 6 Indicate the importance of each of the factors presented below in your decision to invest in Latin America and the Caribbean:														
	Argentina	Brazil	Chile	Colombia	Guatemala	Guyana	Mexico	Panama	Peru	Puerto Rico	El Salvador	Trinidad and Tobago	Venezuela	Total
Total responses	36	52	15	7	1	1	36	2	2	1	1	1	12	4
Macroeconomic stability	Yes	22	35	14	1	0	23	1	1	1	1	0	6	3
	No	8	8	0	5	1	4	0	1	0	0	1	4	0
Political and social stability	Yes	19	35	12	1	0	22	1	2	1	1	0	7	3
	No	10	8	2	5	1	4	0	0	0	0	1	3	0
Foreign investment legislation	Yes	21	30	10	7	1	16	1	1	1	1	1	6	2
	No	9	12	4	0	0	9	0	1	0	0	0	3	0
Local tax incentives/subsidies	Yes	9	13	2	0	0	4	0	0	0	1	0	2	0
	No	18	28	12	4	1	19	1	2	1	0	1	7	2
Low cost of manpower	Yes	7	18	4	2	0	13	0	0	0	1	0	3	0
	No	21	25	10	2	1	10	1	2	1	0	1	6	2
Availability of skilled manpower	Yes	17	28	7	3	1	17	1	1	0	1	0	3	2
	No	13	14	7	1	0	8	0	1	1	0	1	6	1
Quality of infrastructure	Yes	19	25	4	0	0	12	0	0	0	1	0	2	2
	No	10	17	9	4	1	12	1	2	1	0	1	7	0
Availability of raw materials	Yes	10	16	3	4	1	7	0	1	0	0	1	2	1
	No	15	23	11	0	0	17	1	1	1	0	0	7	1
Agricultural production potential	Yes	2	1	0	0	0	1	0	0	0	0	0	0	0
	No	22	37	13	3	1	22	1	2	1	0	1	8	2
Size of market	Yes	26	48	9	2	0	32	2	0	0	0	0	6	3
	No	6	2	5	3	1	2	0	2	1	1	1	5	0
Growth of market	Yes	26	45	10	0	1	31	2	0	1	1	0	8	3
	No	6	4	5	4	0	1	0	2	0	0	1	3	0
Host country being member of integration grouping	Yes	14	18	3	2	0	17	0	0	0	0	0	3	0
	No	14	22	10	3	1	9	1	2	1	0	1	6	2
Achieving efficiency gains in context of your company's global production/marketing strategy	Yes	15	32	6	1	1	20	0	0	1	1	0	4	2
	No	13	14	7	3	0	6	1	1	0	0	1	4	0

Q 6 Indicate the importance of each of the factors presented below in your decision to invest in Latin America and the Caribbean:															
		Argentina	Brazil	Chile	Colombia	Guatemala	Guyana	Mexico	Panama	Peru	Puerto Rico	El Salvador	Trinidad and Tobago	Venezuela	Total
% distribution		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Macroeconomic stability	Yes	61.1	67.3	93.3	14.3	0.0	0.0	63.9	50.0	50.0	100.0	100.0	0.0	50.0	62.4
	No	22.2	15.4	0.0	71.4	100.0	100.0	11.1	0.0	50.0	0.0	0.0	100.0	33.3	19.7
Political and social stability	Yes	52.8	67.3	80.0	14.3	0.0	0.0	61.1	50.0	100.0	100.0	100.0	0.0	58.3	60.1
	No	27.8	15.4	13.3	71.4	100.0	100.0	11.1	0.0	0.0	0.0	0.0	100.0	25.0	20.8
Foreign investment legislation	Yes	58.3	57.7	66.7	100.0	100.0	0.0	44.4	50.0	50.0	100.0	100.0	100.0	50.0	57.2
	No	25.0	23.1	26.7	0.0	0.0	100.0	25.0	0.0	50.0	0.0	0.0	0.0	25.0	22.5
Local tax incentives/subsidies	Yes	25.0	25.0	13.3	0.0	0.0	0.0	11.1	0.0	0.0	0.0	100.0	0.0	16.7	17.9
	No	50.0	53.8	80.0	57.1	100.0	100.0	52.8	50.0	100.0	100.0	0.0	100.0	58.3	56.6
Low cost of manpower	Yes	19.4	34.6	26.7	28.6	0.0	0.0	36.1	0.0	0.0	0.0	100.0	0.0	25.0	28.3
	No	58.3	48.1	66.7	28.6	100.0	100.0	27.8	50.0	100.0	100.0	0.0	100.0	50.0	48.0
Availability of skilled manpower	Yes	47.2	53.8	46.7	42.9	100.0	0.0	47.2	50.0	50.0	0.0	100.0	0.0	25.0	46.8
	No	36.1	26.9	46.7	14.3	0.0	100.0	22.2	0.0	50.0	100.0	0.0	100.0	50.0	31.8
Quality of infrastructure	Yes	52.8	48.1	26.7	0.0	0.0	0.0	33.3	0.0	0.0	0.0	100.0	0.0	16.7	37.6
	No	27.8	32.7	60.0	57.1	100.0	100.0	33.3	50.0	100.0	100.0	0.0	100.0	58.3	38.7
Availability of raw materials	Yes	27.8	30.8	20.0	57.1	100.0	100.0	19.4	0.0	50.0	0.0	0.0	100.0	16.7	27.2
	No	41.7	44.2	73.3	0.0	0.0	0.0	47.2	50.0	50.0	100.0	0.0	0.0	58.3	45.1
Agricultural production potential	Yes	5.6	1.9	0.0	0.0	0.0	100.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	2.9
	No	61.1	71.2	86.7	42.9	100.0	0.0	61.1	50.0	100.0	100.0	0.0	100.0	66.7	65.9
Size of market	Yes	72.2	92.3	60.0	28.6	0.0	100.0	88.9	100.0	0.0	0.0	0.0	0.0	50.0	75.1
	No	16.7	3.8	33.3	42.9	100.0	0.0	5.6	0.0	100.0	100.0	100.0	100.0	41.7	16.8
Growth of market	Yes	72.2	86.5	66.7	0.0	100.0	100.0	86.1	100.0	0.0	100.0	100.0	0.0	66.7	75.7
	No	16.7	7.7	33.3	57.1	0.0	0.0	2.8	0.0	100.0	0.0	0.0	100.0	25.0	15.0
Host country being member of integration grouping	Yes	38.9	34.6	20.0	28.6	0.0	0.0	47.2	0.0	0.0	0.0	0.0	0.0	25.0	32.9
	No	38.9	42.3	66.7	42.9	100.0	100.0	25.0	50.0	100.0	100.0	0.0	100.0	50.0	42.8
Achieving efficiency gains in context of your company's global production/marketing strategy	Yes	41.7	61.5	40.0	14.3	100.0	0.0	55.6	0.0	0.0	100.0	100.0	0.0	33.3	48.0
	No	36.1	26.9	46.7	42.9	0.0	100.0	16.7	50.0	50.0	0.0	0.0	100.0	33.3	30.1

Note: The aggregated Yes and No responses may differ from the 100% of total responses because of non-responses.

Q7 Your investment generates production/services for:

	Argentina	Brazil	Chile	Colombia	Guatemala	Guyana	Mexico	Panama	Peru	Puerto Rico	El Salvador	Trinidad and Tobago	Venezuela	Latin America/Caribbean	Caribbean	Total
Total responses	36	52	15	7	1	1	36	2	2	1	1	1	12	4	2	173
Local market	33	47	11	5	1	0	33	1	0	1	1	0	8	3	0	144
Market of integration grouping: MERCOSUR	24	33	5	0	0	1	4	0	0	0	0	0	2	2	0	71
Market of integration grouping: Andean Community	6	9	1	2	0	1	2	0	0	0	0	0	0	0	0	21
Market of integration grouping: CACM	2	5	0	0	0	1	8	0	0	0	0	0	1	1	0	18
Market of integration grouping: Caribbean Community	1	2	0	0	0	1	4	1	0	0	0	1	3	0	0	13
Exports to: Latin America	13	27	4	1	0	0	13	2	0	0	0	0	3	2	0	65
Exports to: Europe	7	16	4	1	0	1	10	2	1	0	0	1	2	2	0	47
Exports to: USA and Canada	3	15	3	2	0	0	21	1	1	0	0	1	6	1	0	54
Exports to: other destinations	3	10	3	2	0	1	6	1	1	0	0	0	3	1	0	31

Q8 a Your investment operations are in most cases carried out:

	Argentina	Brazil	Chile	Colombia	Guatemala	Guyana	Mexico	Panama	Peru	Puerto Rico	El Salvador	Trinidad and Tobago	Venezuela	Latin America/Caribbean	Caribbean	Total
Total responses	36	52	15	7	1	1	36	2	2	1	1	1	12	4	2	173
Directly in host country	33	50	14	7	1	1	32	2	1	1	1	1	9	3	1	157
Through a third country	1	0	0	0	0	0	2	0	0	0	0	0	0	0	0	3
Through an offshore center	0	0	0	0	0	0	2	0	0	0	0	0	1	0	1	4

Q9 According to your experience, the major obstacles for investing in Latin America and the Caribbean are						
	no	low	med.	high	top	Mean Score¹
Local regulation and bureaucracy	0	5	25	28	1	54.2
Political instability	1	11	19	28	5	58.0
Legal/judicial insecurity	1	10	26	21	4	53.4
Social problems/poverty	2	25	25	6	1	36.7
Violence	2	15	20	19	4	48.5
Corruption	1	8	31	17	4	51.9
Cultural differences	24	24	10	1	1	19.3
Fear of devaluation	5	15	17	23	4	50.8
Problems with repatriation of profits/capital	3	23	20	13	3	43.2
Undeveloped infrastructure	4	22	21	13	0	39.0
Undeveloped local capital markets	8	25	20	6	0	31.4
Lack of qualified human resources	6	25	25	5	0	34.1
Level of local taxation	3	23	19	13	1	39.4
Labor legislation	3	26	19	10	1	37.1
Local safety, health and environmental standards	5	23	25	4	0	32.2
Other (specified by respondent) Size of the market	0	0	0	0	1	1.5
Other (specified by respondent) Regulatory framework	0	0	0	1	0	1.1
Other (specified by respondent) Economic stability	0	0	0	0	1	1.5

¹ Refers to the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Q 10 During your investment operations, did you make use of the services or financing support from the following institutions?	
National Institutions - Chamber or industry association	17
National Institutions - Investment insurance agency	10
National Institutions - Commercial bank(s)	46
National Institutions - Investment bank(s)	28
National Institutions - Credit rating agency	10
International Institutions - European Union	11
International Institutions - World Bank	12
International Institutions - IDB	9
Other	6

NOTES

- ¹ In 1998 and 1999, developed countries accounted for 72.2 percent of all new FDI inflows, compared with 63.0 percent over the previous seven years.
- ² This is primarily because M&As may be financed by means other than by FDI.
- ³ The terms multinationality and transnationality are used interchangeably throughout this chapter.
- ⁴ The transnationality index (TNI) is calculated as the average of three sets of ratios: the percentage of foreign assets to global assets of the enterprises in question; that of their foreign sales to global sales; and that of foreign employment to global employment. All averages were weighted by the size of the firms.
- ⁵ Including 14 firms from Latin America, which recorded an average transnationality index of 27.3 percent.
- ⁶ In fact, most of this fall occurred between 1990 and 1996.
- ⁷ Most noticeably Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela, which increased their share of the world stock of inward FDI from 8.5 percent in 1997 to 12.8 percent in 1999.
- ⁸ Calculated by the author from a variety of sources. For further details see Franko (1976).
- ⁹ Further details are set out in Dunning (1993).
- ¹⁰ More particularly that of firms from the (then 12) EU countries.
- ¹¹ Since 1992, data on the globalization ratio of European MNEs refer to those from the 15 countries that are currently members of the EU (EU 15).
- ¹² The Triad is made up of the EU, the United States and Japan.
- ¹³ That is, in the EU (15) plus Iceland, Liechtenstein and Norway.
- ¹⁴ That is, mainly in other developing countries.
- ¹⁵ No data are available on stock of outbound Japanese FDI.
- ¹⁶ I am especially indebted to Professor Rob van Tulder and his colleagues for providing me with these data. The Scope project of the Faculty of Business Studies at Erasmus University, Rotterdam, is a major investigation into the internationalization strategies of the world's largest enterprises (for further details see van Tulder, van den Berghe and Muller (2001).
- ¹⁷ Sometimes only one of the three percentages was available; sometimes only two; but in 17 cases all three were available.
- ¹⁸ These include intra-European M&As.
- ¹⁹ Data before this date are not available.
- ²⁰ These are set out in detail in UNCTAD (2000).
- ²¹ Where, according to OECD data, more than 90 percent of the world's R&D is undertaken.

- ²² Over four-fifths of new FDI in the Republic of Korea in 1998 and 1999 took the form of M&As.
- ²³ The EIU Survey carried out annually is just one of several attempts to evaluate the attractiveness of countries or regions to inbound FDI. However, it is one of the most wide-ranging studies and embraces both qualitative and quantitative materials from a large number of sources. For further details see EIU (2000).
- ²⁴ Of the indicators used almost half are quantitative in nature, being based on established national statistical sources in the case of the 1994-98 period, and on EIU macroeconomic forecasts for the 1999-2003 period. The remaining indicators are qualitative. For the 1994-98 period, these indicators have been compiled on the basis of a range of business survey and other sources. For the 1999-2003 period, the qualitative indicators have been compiled on the basis of EIU analysts' assessments. In employing such a wide range of sources and indicators, the EIU's business rankings model provides a rich and readily accessible overview of the relative attractiveness of particular countries as locations in which to conduct business.
- ²⁵ Notably the Andean Community, the CACM, and the Caribbean Community.

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Chapter 4. Spain

Alfredo Arahuetes *

Introduction

In the productive diversification and external opening of the Spanish economy during recent decades, FDI outflows have undergone three phases from the balance of payments standpoint. In the first phase, from the 1960s until the start of the 1990s, Spain was a net recipient of FDI; in the second, the mid-1990s, there was a narrowing of the significant gap between direct investment in Spain (traditionally high except in crisis periods) and Spanish investment abroad (historically very low); in the third stage, from 1997 to the present, not only did the gap between outflows and inflows narrow but Spanish FDI abroad exceeded that of foreign companies in Spain. This was the first time in Spain's recent history that the country became a net direct investor. FDI abroad became significant after Spain joined the European Community (EC) in 1986, but has been particularly important since the second half of the 1990s.

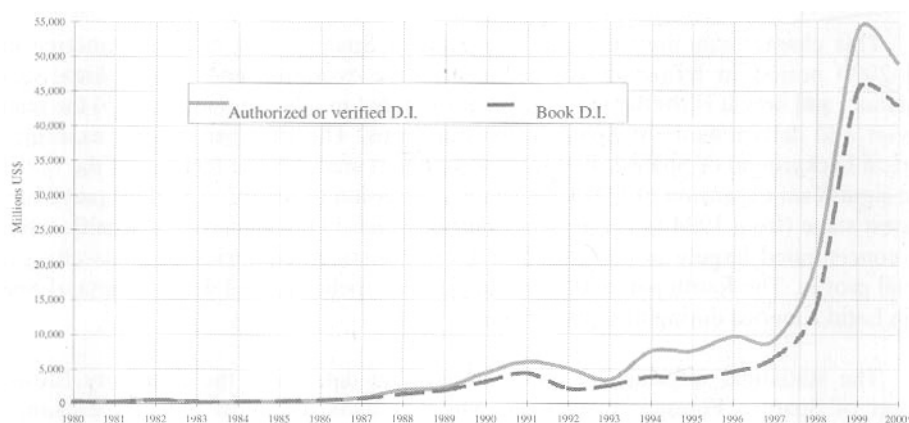
This chapter examines the characteristics of Spanish FDI in Latin America in the 1990–2000 period in terms of: (a) its quantitative evolution and geographical-sectoral orientation, and how it is similar to or different from that in other regions; and (b) the features, behavior and determinants of Spanish investor firms. The first part briefly examines the historical background of Spanish FDI. The second part analyzes the features of the first stage of the significant expansion of FDI after Spain's accession to the EC. The third part examines the latest stage (from 1994 to the present), during which FDI has increased significantly, has been concentrated largely in one group of Latin American countries, and has changed its sectoral profile. The fourth part addresses the features, behavior and determinants of Spanish FDI in Latin America during this latter phase.

The statistical information used is based on data from the Economy Ministry's Register of Spanish Foreign Investment, which reflects the latest legislative changes in Spanish law.¹ The register's data differ from that of the Bank of Spain's (Central Bank) balance of payments register, although the difference is not as great as in the past. Data from the Bank of Spain, which are also used here, include information provided by banks on transactions classified as direct investment. Economy Ministry data are based on investment projects presented for verification, and which have been included in the investment register since 1993. When investment was subject to verification (until 1992) it had to be effected within six months but in reality it could take longer, thereby prompting a lag in its inclusion in the Bank of Spain register. This was undoubtedly the main discrepancy between the two registers (see Figure 4.1). At the end of the 1990s this divergence became less marked, and data from the Bank of Spain's register and the Economy Ministry's investment register should thus begin to converge.

* Professor of International Economics, Faculty of Economic and Business Sciences, Universidad Pontificia Comillas, Madrid, Spain.

This study uses verification data and information from the Economy Ministry's Investment Register, since they include FDI data not found in any other public source. Verification data and information from the register have traditionally included not only data on direct investment outflows, but also: (a) investment by banks offset against their foreign currency holdings overseas (these were often very high and have been included in the verification data since July 1992 and, subsequently, in the investment register); (b) data on profits made and reinvested in the destination countries; and (c) compensation on foreign payments and collections, since investment was often carried out under this formula. It also should be noted, however, that the register is the only source that identifies the detailed geographical-sectoral distribution of FDI, mainly by destination countries and sectors. The Bank of Spain's register, although useful, only includes aggregate data for some areas and countries, and refers to net flows. It is thus necessary to use the data on verified and/or registered flows to examine the geographical-sectoral orientation of FDI, which includes gross figures but reflects the latest legislative changes.²

Figure 4.1. Spanish FDI Abroad: Verification Series from the Economy Ministry's Investment Register and the Bank of Spain's Register, 1980–2000
(In millions of U.S. dollars)



* Data for 2000 are projections in line with trends in the first nine months of the year.

Source: Calculated by the author on the basis of data from *Boletín de Información Comercial Española* (BICE), Economy Ministry, and the Bank of Spain.

Features of the First Wave of Spanish FDI

This stage took place between the 1960s and Spain's accession to the EC in 1986. The first wave of Spanish FDI in the 1960s and early 1970s was very modest, accounting for 0.1 percent of international FDI flows. This investment was almost wholly concentrated in commercial and financial activities, as well as in those supporting exports and in activities related to the exploitation of raw materials for supply to the domestic market; the share of manufactures was modest. Most Spanish FDI was destined to other EC countries, followed by Latin America, which together represented more than 80 percent of investment. In Europe the

leading destination countries were Portugal, the United Kingdom and France; in Latin America leading countries were Mexico, Argentina and Chile; investment in Brazil was low. Most investment came from medium-sized companies, which explains why the largest share of investment was in marketing and services, activities that did not require significant resources.

In the 1970s, and until the Latin American external debt crisis, there was an increase in the volume of FDI compared to the previous period, and Spain's share in international flows rose to 0.3 percent. During this new stage, direct investment to Latin American and Caribbean countries became more significant, accounting for more than half of total flows, while that to EC countries and the United States lost relative share. In Latin America almost all investment was concentrated in a small group of countries: Mexico, Argentina, Venezuela, Brazil and Chile and, outside this group but also within the region, Panama and Puerto Rico. Financial and commercial activities accounted for around 75 percent of Spanish FDI in Latin America—as well as in the EC and the United States—although investment in manufacturing was still important in the case of Latin America, at least until domestic markets contracted following the onset of the debt crisis. In this period, therefore, investment was dominated by banks, insurance companies and a small group of large firms. Despite these problems, Spanish FDI still reached an annual average of \$260 million. Companies and banks invested mainly through expansions and long-term loans, with acquisitions still not commonly used.

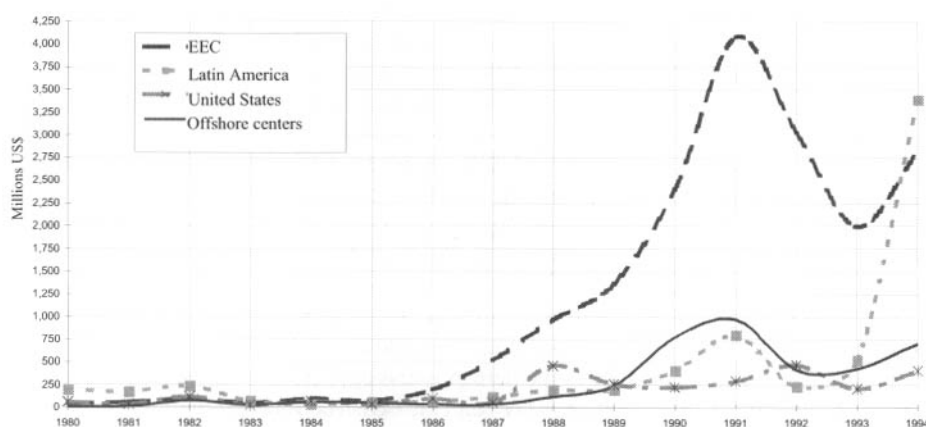
There was a change in the principal characteristics of FDI after the external debt crisis: the decline in commercial and industrial activities boosted the importance of financial activities, which was the only form of investment to survive the crisis. In this period, however, a new phenomenon emerged: large investment by non-financial institutions. Not only was there an expansion in financial activities overseas (carried out by banking and non-banking financial institutions), but new business groups were being organized as Spain's most important firms created holding companies (Arahuetes 1996). The new organization of companies overseas was a response to the demands and opportunities of international markets. This is why companies in sectors such as cement, construction, communications, tourism, banking and other financial institutions began to create financial services companies to carry out most of their foreign investment activities. Latin American countries lost their attractiveness at the end of this period, and their share of investment fell from more than 50 percent to 20 percent in 1985. The EC's share increased.

A New Phase in Spanish FDI, 1986–1993: The First Great Boom and a Focus on European Countries

Spain's accession to the EC in 1986 marked the beginning of a new phase of FDI. During this period, direct investment reached an annual average of \$3 billion, compared to \$350 million during the previous phase. The EC countries were the main destinations for this investment, accounting for 60 percent of flows, followed by the 10 percent going to Latin America (excluding Panama and the Caribbean offshore centers, which accounted for 9 percent), and the 8 percent that went to the United States (see Figure 4.2). In aggregate sectoral terms, financial activities and services accounted for two-thirds of the total, commercial activities for 10 percent, and communications and transport for 9 percent. Manufacturing investment fell sharply.

In the European Union (EU), Spanish investment was concentrated in three groups of countries. The first consisted of those countries that were the traditional destination of Spanish FDI in Europe, and which absorbed two thirds of Spanish investment in the region: Portugal (28 percent), the United Kingdom (24 percent) and France (12 percent). In sectoral terms, investment in these countries was mainly in financial activities and services, followed by commercial activities; together, these represented 60 percent of the total. However, specific locational factors played a significant role in other investment sectors in these countries. FDI in Portugal tended to center on extracting non-energy minerals, the non-metallic minerals industry, and energy and water. In the United Kingdom it focused on the exploitation of natural resources (oil, gas and fisheries). In France FDI concentrated on the non-metallic minerals industry.

Figure 4.2. Spanish Direct Investment by Destination, 1980–1994
(In millions of U.S. dollars)



Source: Calculated by the author on the basis of BICE data.

The second group of countries that had become attractive for Spanish investment comprised Germany, Italy and Belgium, which had a share of around 6 percent. They had similar sectoral features: most investment was in financial and commercial activities, followed by foodstuffs, beverages and tobacco, the paper and publishing industry and, in the case of Germany, automobile parts and components. The third group consisted of the Netherlands and Luxembourg, where investment was effected through holding companies—in a search for fiscal advantages and the development of strategic capacities—and in financial activities.

In Latin America (excluding Puerto Rico, Panama and the Caribbean offshore centers) two groups of countries accounted for most Spanish FDI (see Table 4.1). The first represented 88 percent of Spanish flows to the region and consists of Argentina (34 percent), Chile (19.2 percent), Venezuela (13.5 percent), Mexico (12.5 percent) and Brazil (9.3 percent). In

Argentina, most investment (60 percent) was in financial services and activities, followed by telecommunications and transport. In Chile, at least 75 percent was directed at financial services and activities, with telecommunications in second place. In Venezuela there were severe restrictions on investment in banking and insurance during this period. Most FDI thus went to tourism, the metal products industry and paper and publishing. Mexico also imposed restrictions on investment in banking, and FDI therefore focused on commercial activities, insurance and the manufacturing sector (metal processing). In Brazil, investment in banking activities accounted for almost 60 percent, followed by foodstuffs, beverages and tobacco.

**Table 4.1. Geographical Distribution of Spanish Direct Investment
Flows in Latin America, 1986–1993**
(In millions of U.S. dollars and percentages)

	1986–1993	%
Argentina	854	34.1
Brazil	228	9.1
Chile	482	19.2
Mexico	312	12.5
Venezuela	340	13.6
Other countries	290	11.6
Total Latin America*	2,506	100.0
Offshore centers and Puerto Rico	2,337	

*Excluding Puerto Rico, Panama and Caribbean offshore centers.

Source: Calculated by the author on the basis of BICE data, various years.

The second group consisted of Colombia, Peru, Uruguay, Cuba and the Dominican Republic. Investment was concentrated in activities based on the advantages these countries offered in terms of locational factors: natural resources, tourism and finances. Financial activities accounted for most investment in Puerto Rico, Panama and the Caribbean offshore centers (which represented 9 percent of FDI flows), since most direct investment by holding companies had banking activities as its final destination.

Banks, which invested in credit institutions, were the most important investors. They were followed by: insurance companies, especially Mapfre; a group of companies that sought to strengthen and broaden their overseas commercial activities through the creation or extension of distribution networks; and communications and transport—notably Telefónica's increasing international expansion and, to a lesser degree, Iberia's.

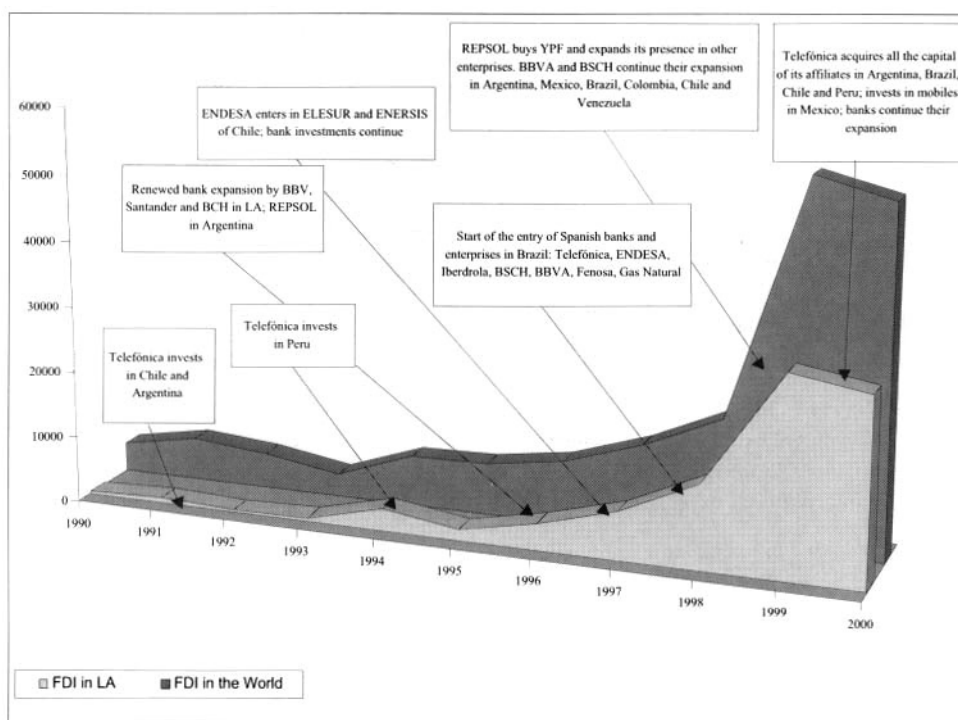
The growth of FDI in this period mainly stemmed from increases in the capital of companies with Spanish participation and, secondly, from acquisitions; greenfield investment was less significant. The predominance of capital increases in the Spanish case is largely explained by the relatively high level of direct investment in financial institutions—especially banking, but also insurance—which made this option necessary. FDI in the financial sector required firms to invest significant funds in order to expand in the market and to comply with the risk ratios set by the monetary authorities in each country. The increasing use of acquisitions (which was also evident at the global level) was a response to expansion based on the purchase of strategic and/or commercial assets, and to the exploitation of investment

opportunities that helped secure a high level of market access or penetration (Arahetes 1998; ECLAC 1998 and 2000; UNCTAD 2000).

The Second Expansionary Wave, 1994–2000: A Change of Direction Toward Latin America

There was a quantitative leap in FDI flows during this period, mainly because of the attraction of many investment opportunities in leading Latin American countries (see Figure 4.3). While the preceding phase overall average annual FDI outflows reached about \$3.1 billion, the figure rose to \$15 billion in this period. Because of the sharp increase in the level of outward FDI, Spain became a net direct investor in 1997. In turn, this quantitative change was also reflected in a new concentration of destination regions and countries: Latin America and the EU jointly absorbed 86 percent of FDI flows, with 60 percent and 26 percent respectively (see Figure 4.4). Panama and offshore centers attracted 6 percent and the United States 4.5 percent.

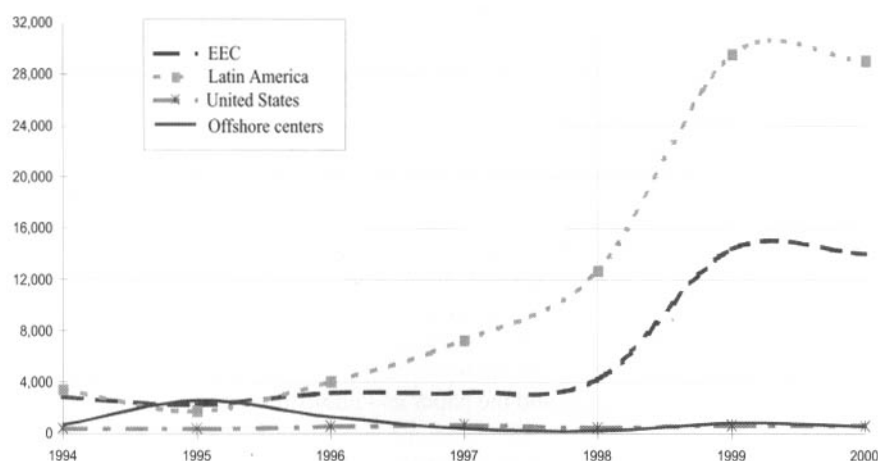
Figure 4.3. Direct Investment by Spanish Companies in Latin America, 1990–2000
(In millions of U.S. dollars)



Source: ECLAC 2000; R. Casilda 2001; and author's calculations.

In the case of Latin America this is in stark contrast to the previous phase, when the region's relative share was 10 percent. Average annual investment also increased from \$300 million to \$9.7 billion (based on authorization/verification figures). This high level of FDI transformed Spain into the second most important international investor in the region after the United States. The absolute value of Spanish investment in the United States also increased (\$3,242 million), but its relative share fell from 7.5 to 4.5 percent.

Figure 4.4. The Direct Investment of Spanish Companies by Destination Region, 1994–2000
(In millions of U.S. dollars)



Source: Calculated by the author on the basis of BICE data.

Table 4.2. Geographical Distribution of Spanish FDI in Latin America, 1994–1999
(In millions of U.S. dollars and percentages)

	1994–1999 ^a	%	1994–1999 ^b	%
Argentina	21,055	36.0	20,311	43.7
Brazil	16,444	28.1	11,336	24.4
Chile	8,884	15.2	7,386	15.9
Colombia	3,769	6.4	2,135	4.6
México	2,347	4.0	2,038	4.4
Peru	3,378	5.8	2,061	4.4
Venezuela	1,489	2.5	1,151	2.5
Other countries	1,158	2.0	42	0.1
Latin America total ^c	58,524	100.0	46,460	100.0

^a According to data from the Economy Ministry, BICE, various years.

^b According to data from the Bank of Spain.

^c Excludes Puerto Rico, Panama and Caribbean offshore centers.

Source: Calculated by the author on the basis of BICE data.

In this phase Spanish FDI in Latin America was concentrated in a group of countries that accounted for 98 percent of flows to the region: Argentina, Brazil, Chile, Colombia, Peru, Mexico and Venezuela (see Table 4.2).

The Sectoral Pattern of Spanish Investment in Latin America

The sectoral specialization of Spanish FDI in Latin America, the EU and the United States has a number of common features. The most noteworthy of these, because of the sums involved, is undoubtedly the fact that the main destination sector is made up of holding companies.³ Investment channeled through these companies is used for investment projects in other sectors (in the same destination country), which are the real final destination. The reason for using holding companies as intermediaries is probably financial-fiscal, since they facilitate resource optimization. As a result, this mechanism became increasingly widespread in the 1990s. In sectors where this indirect path began to be used in the 1980s, it was common for large Spanish companies to extend their use of holding companies in order to expand their overseas business activities. The phenomenon is evident from an analysis of the sectoral distribution of Spanish FDI in different regions and countries, although this approach substantially distorts the results since the final destination cannot be accurately identified. In this period holding companies accounted for 65 percent of total flows in the EU, 45 percent in the United States, and 37 percent in Latin America. In the EU countries, the final destination of investment effected through holding companies was mainly in sectors such as financial intermediation, commercial activities and other manufactures. In the United States it was in other manufactures, commercial activities and financial intermediation. In Latin America it was in telecommunications, electricity, other manufacturers and, to a lesser extent, oil extraction, foodstuffs, beverages and tobacco, and the paper and publishing industry.

Once the final destination sectors receiving investment through holding companies are identified, the sectoral profile of the rest of FDI in Latin America and other regions can be more accurately gauged (see Table 4.3). The most noteworthy feature in this respect is the large share of investment in financial intermediation and insurance activities (by banks and insurance companies); notably, the EU and Latin America account for 75 percent of flows to this sector. This common feature aside, however, there are different sectoral patterns in each region. These differences spring from the advantages of Spanish firms, their expansion strategies in the international markets, and the locational factors offered to these companies by each country.

In Latin America, the traditional hegemony of financial intermediation and insurance activities was broadened to include the expansion of pension fund management companies. The second leading destination of Spanish investment was oil extraction and derivatives processing following Repsol's strategic decision to develop a broad presence in various countries of the region. Its position was consolidated after its acquisition of Argentina's YPF in 1999. In third place were telecommunications and, to a lesser extent, transport through Iberia's investment. Telefónica's investment in Latin America was so important that it accounted for at least 80 percent of global Spanish flows in this sector,⁴ confirming that the countries of the region are at the center of Spanish firms' international expansion strategies. The quantitative significance is even greater given Telefónica's strategy since the end of 1999

Table 4.3. Sectoral Distribution of Gross Direct Investment Flows from Spain to Latin America, 1993–1999^a
(In millions of U.S. dollars and percentages)

	1993	1994	1995	1996	1997	1998	1999	1993-99	%
Primary sector									
Agriculture, livestock and fisheries	–	18	33	9	19	24	24	129	0.2
Oil and fuels processing	–	–	–	443	–	36	13,446	13,925	22.4
Manufactures									
Food, beverages	12	10	–	7	48	54	93	224	0.4
Textiles and clothing	–	–	–	–	2	2	4	8	–
Paper and publishing	15	4	39	37	73	52	16	236	0.4
Chemicals	2	5	28	5	14	26	75	155	0.2
Other manufactures	–	134	31	105	245	229	439	1,183	1.9
Services									
Construction	10	52	58	46	200	171	29	566	0.9
Commerce	–	–	15	27	11	131	978	1,162	1.9
Transport/communications	106	2,211	162	181	497	158	2,083	5,398	8.7
Electricity, water, gas	9	51	106	224	809	2,324	1,572	5,095	8.2
Financial intermediation (banks, insurance, funds)	155	217	296	1,713	3,770	1,391	3,288	10,830	17.4
Hotels	–	–	33	38	55	35	67	228	0.4
Portfolio companies ^b	301	755	1,239	1,621	2,962	8,386	7,739	23,003	37.0
Total	610	3,457	2,040	4,456	8,705	13,021	29,853	62,142	100.0

^a Excludes Panama and Caribbean offshore centers.

^b By order of importance, firms in the following sectors have invested indirectly through these companies: financial institutions, telecommunications, energy and transport (ECLAC 2000).

Source: Compiled by the author on the basis of data from BICE, various years.

to acquire all the capital of affiliates in which it has a share.⁵ The fourth most important sector is electricity, water and gas, where the main firms (Endesa, Iberdrola, Fenosa, Aguas de Barcelona, Gas Natural) have pursued international growth strategies in various countries of the region. FDI in financial intermediation, oil, telecommunications, and electricity, water and gas constitute the region's new sectoral pattern. FDI by companies in these sectors accounts for more than 90 percent of flows to Latin America.

As regards the expansion of Spanish companies in Latin America, a number of locational factors have played an important role, such as the privatization of state companies in telecommunications, electricity, water and gas, as well as the liberalization of financial systems and, in some cases, the privatization of state banks. These privatizations have undoubtedly offered an enormous inducement to foreign investment (Agosin 1994; Calderón 1994; Calderón and Vodusek 1998; OECD 2000; UNCTAD 2000 and ECLAC 2000). This has been of particular interest to Spanish companies. With their technological and organizational advantages, they have been attracted by the entry conditions (the privatizations have been operations with guaranteed premiums) and the profitability of medium- and long-term investment.

The level of direct investment in the sectors mentioned above far exceeds that in other sectors. It should nonetheless be noted that although there is less FDI in other sectors, such investment reflects the confidence that a number of Spanish companies are placing in the

Latin American market in areas such as other manufactures, construction, tourism and hotels, the paper and publishing industry, and primary activities. There has also been a sharp recovery of investment in commercial activities. Although large company investment mostly accounts for the significant share of Spanish FDI in Latin America, all the evidence suggests that in recent years an increasing number of companies in new sectors have renewed their interest in the region. This has broadened the range of activities and, gradually, the sectoral pattern. These investments are nevertheless overshadowed by those in services, while investment in industrial activities remains relatively low, especially in the category of “other” manufactures.

In this period the sectoral profile of investment in the EU was similar to (albeit at a lower level than) that in Latin America. The main destination sector is financial intermediation⁶ followed by commercial activities; investment in the latter has been exceeded by that in Latin America. Other important areas of investment are telecommunications, other manufactures, electricity, water and gas. Activities with a higher degree of specialization include the chemicals industry and foodstuffs, beverages and tobacco. All the indications are that the pattern of investment in the EU is changing. The previous phase was marked by the dominance of investment in financial and commercial activities, and by the growing importance of investment in industrial activities. In the current period there are greater similarities with the sectoral pattern in Latin America, with a focus on some industrial sectors and a low investment profile in the former two areas.

The leading destination for Spanish investment in the United States is traditional financial intermediation, although other sectors have come to the fore. These include telecommunications (Telefónica investment in Lycos), “other” manufactures (Accrinox), foodstuffs, beverages and tobacco, and commercial activities (El Corte Inglés).

In Panama and Caribbean offshore centers, investment is concentrated in holding companies and financial intermediation, but the final destination of these flows is unknown.

The Main Recipients of Spanish Investment in Latin America

The level of Spanish FDI in Latin America beginning in 1994 has made Spain the leading EU investor in the region and, in global terms, the second main investor after the United States. Spain’s position in the region might prove to be even more significant if the destination of flows channeled to the countries of the region through Panama and the Caribbean offshore centers could be more accurately identified (Duran 1996; Arahuetes 1998; ECLAC 2000).

As noted earlier, this second great wave of Spanish FDI in Latin America is concentrated in two groups of countries. The first, which attracted 79.3 percent of the total, consists of Argentina (36 percent), Brazil (28.1 percent) and Chile (15.2 percent); and the second, with 18.7 percent, comprises Colombia (6.4 percent), Peru (5.8 percent), Mexico (4 percent) and Venezuela (2.5 percent) (see Table 4.4).

Argentina remains the leading destination market for Spanish companies, even in terms of global Spanish FDI. In the 1980s Argentina was already one of the most attractive countries for FDI in the region. It increased its ability to attract FDI in the early 1990s, and especially after 1994, because of the opportunities spawned by privatization in which Spanish

firms played a key role (Chudnovsky, Porta and López 1994; Calderón and Vodusek 1998; Arahuetes 1998; ECLAC 2000). In the previous phase, investment was concentrated in financial intermediation (banks and insurance) and, to a lesser degree, in non-metallic minerals, construction and fisheries.

The nascent features of a new profile emerged in the 1990s, as investment began in telecommunications and transport. Telefónica's investments increased throughout the 1990s, and especially after 1994, with the company acquiring a presence similar to that of traditional banking investment. Repsol also expanded strategically, first into fuel distribution and later into oil extraction and derivatives processing through the acquisition of several companies, most notably YPF in 1999. The leading Spanish banks (BSCH and BBVA) continued their strategy of upgrading their presence in Argentina by investing in commercial and investment banks and by acquiring significant shares in pension fund management companies.

Simultaneously, privatization was proceeding in areas such as electricity, water and gas. Spanish oligopolies (Endesa, Iberdrola, Aguas de Barcelona, Gas Natural), which had significant competitive advantages, decided to invest in these sectors, transforming the industries into new sectors with significant Spanish investment. The stability of the Argentine economy following convertibility, and the dissipation of fears in 1995 about the possible negative "tequila" effects, boosted investment in a sector that had still not recovered from the debt crisis: export-related commercial activities. In the new climate of economic and business optimism, there was greater investment in sectors that traditionally had a Spanish presence, such as manufacturing ("other" manufactures, the chemicals industry, and the paper and publishing industry), in "other" services (construction), and in the primary sector (fisheries). In the 1994–1999 period, therefore, the sectoral pattern of Spanish FDI diversified relative to its traditional profile—that is, the predominance of investment in financial intermediation.

Table 4.4. Sectoral Distribution of Gross Direct Investment Flows from Spain to Latin America by Destination Countries and Sectors, 1993–1999
(In millions of U.S. dollars)

	Argentina	Brazil	Chile	Colombia	Peru	Mexico	Venezuela
Primary sector							
Agriculture, livestock and fisheries	57.7	–	6.4	–	–	–	–
Oil and fuels processing	13,445.7	–	–	–	78.3	2.8	–
Manufactures							
Food, beverages	26.2	54.1	48.0	3.9	–	32.7	–
Textiles and clothing	–	5.9	–	–	–	0.7	–
Paper and publishing	128.8	37.5	6.3	27.0	–	32.7	–
Chemicals	120.8	61.6	–	–	–	66.2	–
Other manufactures	139.6	295.8	40.8	233.4	17.0	302.9	13.8
Services							
Construction	124.9	11.6	338.4	58.6	4.6	12.3	6.7
Commerce	311.9	591.8	18.7	–	15.7	177.4	38.4
Transport/communic.	741.4	1,872.0	130.5	1.9	2,141.4	404.6	32.5
Electricity, water, gas	553.0	7,52.1	30.3	2,535.5	397.7	191.0	309.5
Fin. Intermed. (banks, insur., funds)	2,536.9	2,006.0	1,734.4	1,268.2	182.8	605.1	662.1
Hotels	0.6	–	0.7	6.3	–	179.1	4.9
Portfolio companies	3,200.6	10,713.4	6,921.4	119.5	402.3	440.5	435.3
Total	21,388.1	16,401.8	9,275.9	4,254.3	3,239.8	2,448.0	1,503.2

Source: Drawn up by the author on the basis of data from BICE, various issues

Spanish FDI in **Brazil** was very limited relative to the size of the Brazilian economy until the *Real Plan* took effect in the summer of 1994 and the country embarked on the process of liberalizing its economy and privatizing public companies. Even the sectoral pattern of investment in Brazil differed from that of the rest of the region and the world as a whole. Investment was scant in financial intermediation and commercial activities, sectors in which Spanish firms then had competitive advantages overseas. The size and level of protection of Brazil's domestic market, and the advantages of Spanish companies that decided to locate there, meant that most FDI was directed at the manufacture of electrical and electronic material (except computers), automobile parts and components, foodstuffs, beverages and tobacco, and the manufacture of metal products (except machinery); these latter industries invested through holding companies.

During this phase of Spanish FDI in the region, Brazil became the second main destination for Spanish investment after Argentina. The sectoral distribution changed significantly. FDI in financial intermediation, banking and insurance increased steadily, with BSCH acquiring Banespa in 2000. The privatization of telecommunications in 1998 gave Telefónica its long-sought opportunity to invest in the Brazilian market, first in Rio Grande do Sul and then in São Paulo (Telesp and various mobile concessions). Financial intermediation and telecommunications are therefore the two sectors in which Spanish FDI is concentrated. The electricity sector was also privatized, attracting investment from Endesa, Iberdrola and Fenosa. Most investment through holding companies has been in these three sectors. Brazil's sectoral pattern reflects the key feature of the new pattern of Spanish FDI in the region's leading markets: about 75 percent of Spanish FDI is in financial intermediation, telecommunications and electricity. At a lower level—but still important because of its continuity—is investment in other manufactures, especially automobile parts and components. The rapid expansion of investment in commercial activities is also important: it had been very modest in the past and it reflects the potential for trade between the two countries, which historically has been very low.

In the 1980s and until the mid-1990s Spanish FDI in **Chile** was traditionally characterized by its high concentration in financial intermediation (banking and insurance). In the second half of the decade, however, the sectoral pattern began to diversify as a significant number of construction firms expanded (Agroman, Ferrovial, Dragados y Construcciones, SACYR and Obrascon Huarte), and as Endesa and Telefónica grew. Privatization of the water sector also began at the end of the 1990s, attracting investment from Aguas de Barcelona. The foodstuffs sector, additionally, has attracted significant investment, with Ebro Azucarera acquiring Campos Chilenos-IANSA. Despite the sectoral diversification of FDI, investment in other manufactures and fisheries (with the growth of Pescanova) has retained its relative share. The traditional sectoral pattern of investment in Chile has thus diversified because privatization (water and public services) and new opportunities (electricity, construction and foodstuffs) have induced a small group of companies to invest heavily.

Since 1994 **Colombia** has been the fourth main destination for Spanish FDI in the region. Investments were very limited in the previous phase, and had been directed at the paper and publishing industry, insurance and commercial activities. Investment in financial intermediation increased after 1994 (in banking, as BBVA bought Banco Ganadero and BSCH acquired Banco Santander Colombia), as well as in insurance and in pension funds.

The sectoral pattern began to reflect concentration in financial activities. In 1997, however, as part of its regional expansion strategy, Endesa jointly invested in the electricity market with Chile's Enersis through the purchase of Luz de Bogotá, Capital y Energía, Codensa and Emgesa. For its part, Repsol and Gas Natural jointly invested in the gas sector (acquiring Gas Natural del Oriente, Gas Natural Bogotá and Sociedad Transportadora de Gas) and later in oil extraction. This process has continued, and new investment in electricity has been effected through Unión Eléctrica Fenosa's purchase of Electrificadora de la Costa Atlántica, Electrificadora del Caribe, and Empresa de Energía del Pacífico. The nature and size of this new investment has changed the traditional pattern of Spanish investment in the country: the electrical energy sector is now in first place, followed by new investment in banking, insurance and pension funds and, to a lesser extent, gas and oil extraction. Less but still significant investment has gone to other manufactures and the paper and publishing industry, as well as to construction—notably Dragados, Ferrovial, FCC, NECSO (Acciona) and SACYR.

Spanish investment in **Peru** began in 1994 with Telefónica. The lack of foreign investment in the Peruvian market for almost 15 years stemmed from severe instability and the poorly defined nature of some crucial elements of economic policy. Macroeconomic stability and a broad reform process, including privatization, created new investment opportunities. Spanish firms began to invest from the outset of that process, mainly through high-cost operations carried out by large companies in those sectors that were characteristic of the new sectoral pattern of Spanish FDI. The most significant investment was in telecommunications: Telefónica acquired the Compañía Peruana de Teléfonos and Entel. Electricity (production and distribution) was the second most important sector for investment: Endesa bought Inversiones Distrilima, the Compañía Peruana de Electricidad, Generalima, Edelnor, Eléctrica de Piura and Etevensa. In third place was the financial intermediation sector: Banco CentralHispano invested in Banco del Sur del Perú; Banco Santander in Banco Santander Peru; BBV in Banco Continental; and Mapfre in Compañía de Seguros Sol Nacional. Spanish firms also invested in oil extraction, as well as in fuel processing and distribution (notably Repsol in Refinadores del Perú, Corpetrol, Repsol PERU, Refinería la Pampilla), and in gas through Solgas.

Up to 1993, Spanish FDI in **Mexico** differed from that in other countries of the region, since it was mainly directed at commercial activities, the metal processing industry and insurance. Of particular note was the absence of investment in financial intermediation because of severe restrictions in this area. The liberalization and opening up of foreign investment (in order to strengthen the financial system after the exchange rate crisis that emerged at the end of 1994) attracted the interest of Spanish banks. Since 1995, therefore, investment by banks has accounted for about half of Spanish flows to Mexico. Notable in this regard are BBV's investment in Grupo Financiero Probusa and, at the end of the 1990s, in Bancomer; Banco Santander's investment in Santander Mexicano and subsequently in Serfin; and BCH's investment in Grupo Financiero Prime International. The growing presence of Spain's two largest banks in Mexico suggests that the country is a strategic market for their international expansion strategy and, consequently, that they will continue to increase investment in the coming years.

Direct investment in telecommunications was in second place (Telefónica in mobiles), followed by electricity (headed by Endesa and Iberdrola). There is also a significant Spanish

presence in commercial activities and tourism, as well as in the industrial sector. Investment in the latter, in contrast to that in other countries, is of long standing and was stimulated by the entry into force in 1994 of the North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada. In this phase investment in other manufactures was particularly significant, especially that by Accrinox and Industria de Turbo Propulsores.

Up to 1993, Spanish FDI in *Venezuela* was minimal and erratic, a reflection of economic uncertainty in the country. Investment in the main destination sector (tourism) declined, while that in cement, publishing and insurance was sustained at low levels. The severity of the crisis, which continued well into the 1990s, revealed the fragility of most of the financial system and the need to strengthen it by opening it to investment by foreign banks. Of particular note since 1997 have been Banco Santander's acquisition of Banco de Venezuela and BBV's investment in Banco Provincial. FDI in financial activities only took off in that year, a process that continued in 2000 with BSCH's purchase of Banco Caracas and BBVA's acquisition of Banco de Lara. After the opening up and modernization of the financial system, the traditional presence of a small number of Spanish firms in Venezuela changed: there was investment in electricity (Endesa in Electricidad de Caracas), telecommunications (Telefónica in Cia. Nacional de Telecomunicaciones de Venezuela), oil (Repsol) cement (Valenciana de Cementos in Sandword Holding), publishing (Editorial Planeta) and insurance (Mapfre in Inverserca). Venezuela is considered highly attractive to Spanish investors provided its economy is stabilized and there is a more transparent long-term environment for foreign investors.

Additionally, one group of countries with a relatively small share (around 2 percent, or \$1.2 billion in this phase) attracts investment with a particular sectoral specialization. This group consists of *Uruguay, Cuba, Bolivia, the Dominican Republic, Honduras and Nicaragua*. In Uruguay, Spanish investment is mainly concentrated in financial activities and the cellulose industry, although in recent years there has been an increase in investment in water management. In Bolivia investment has focused on the cement industry (Uniland) and financial activities (Argentaria). In Cuba and the Dominican Republic, Spanish investment has concentrated almost exclusively on tourism and complementary services, flows to the latter being higher in the Dominican Republic. In 2000 Altadis invested in tobacco in Cuba. Since 1997 there has been significant investment in Central America. Tabacalera invested in Honduras's Tabacalera San Cristobal and in Nicaragua's Tabacalera San Cristobal de Nicaragua. BBV invested in El Salvador's AFP Previsión.

Most investment in *Puerto Rico*, including that channeled through holding companies, has been in financial intermediation, mainly banking institutions, since the country is viewed as an excellent location for access to the United States market. There has been some investment in telecommunications.

During this second wave of Spanish FDI in Latin America, investment was concentrated in Argentina, Brazil and Chile, was carried out by a small number of firms, involved large sums, and included a greater number of sectors than had traditionally been the case in earlier phases (Arahuetes 1998; OECD 1999; ECLAC 2000). A significant number of medium-sized firms, pursuing an internationalization strategy, have also invested heavily in the markets of the region (although to a lesser degree).

Spanish Companies in Latin America: Factors Determining their Investment Decisions

In the period following the external debt crisis in Latin America, after Spain's accession to the EC, and up to 1993, Spanish companies gave preference to investments in European countries. In strategic terms, Latin American markets were still considered as being of secondary importance. Although direct investment in the region maintained its traditional sectoral concentration in financial intermediation and commercial activities in the 1990s, there was a significant fall in FDI in industrial activities, while investment in telecommunications and transport had barely begun. Investors consisted of a small group of large and medium companies active in a small number of sectors. As stated earlier, the process underwent a dramatic change after 1994, as did the companies investing in the region's economies (see Box 4.1).

This section adopts two methodological approaches. First, it examines the characteristics of investors in Latin America, the main features of their behavior and the motivations behind their decisions to invest. The analysis is based on information arising from a survey prepared by the Special Office in Europe of the IDB and conducted by ICEX for the purposes of this study in 2000–2001, and covering altogether 107 Spanish companies with investment in the region (for more information on the survey, see Annex B to this book). Second, these results are complemented by information from other sources⁷ and, furthermore, by the application of Dunning's eclectic theory to a database derived from various sources referring to company investments.⁸ This approach allows the characteristics, behavior and determinants of Spanish investment in the region to be gauged more accurately. It also reveals possible future trends, in addition to circumstances in the recent past and the present.

The majority group of investors in the survey—accounting for a little over 50 percent of the sample—consists of medium-sized companies with fewer than 250 employees and annual sales of under \$50 million. For these companies the region represents a maximum of 10 percent of their total business. This is a group with a relatively small share of total Spanish FDI in the region in the phase that began in 1994. The second group—which accounts for some 31 percent of the companies in the survey—are medium/large companies with 250–1,000 employees and annual sales of between \$50 million and \$1 billion. They invest in sectors such as fisheries, gas, automobile parts and components, publishing, construction, tourism and telecommunications. They have a significant share of total investment, accounting for some 10 percent of the large sums invested in the region during this period. The Latin American markets account for at least 20 percent of these firms' total business, and hence the development of the region's economies affects the progress of the companies themselves.

The third group consists of large companies employing more than 1,000 workers and with sales volumes of over \$1 billion (18 percent). These companies account for more than three quarters of investment in the region, and Latin America represents more than 20 percent of their business. These firms are active in manufactures, electricity, water, construction, tourism, transport, telecommunications and financial intermediation (banking and insurance).

For Spanish companies, Latin America is the main strategic expansion area in the developing world (see Figure 4.5). This has been the case for the last five years and for 67

percent of the firms in the survey; 74 percent of companies expect this to continue to be the case in the next five years. The countries with the greatest capacity to attract investment were Brazil, Mexico, Argentina, and Chile. These were also considered to be the most attractive in the next five years. Expectations regarding Venezuela, Colombia and Peru are markedly lower. It is interesting to note that companies have lower expectations of MERCOSUR than of its main countries individually (see Figure 4.6). This appears to show that investors still view national markets as more important than the integrated market.⁹

Box 4.1. Main Spanish Investors in Latin America

In the 1997-2000 period, when Spanish investment in Latin America grew markedly, operations carried out by the biggest firms accounted for more than 85% of total flows. Within this group, investments by the large companies listed in the table are worth noting.

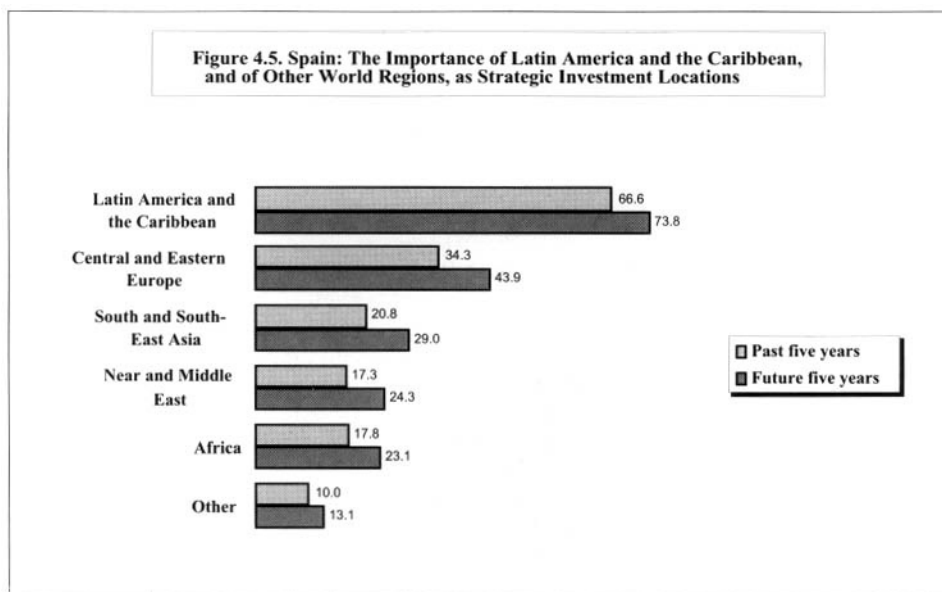
FDI in Latin America from Major Spanish Firms
(In millions of U.S. dollars)

	1997	1998	1999	2000
Telefónica	934	4,705	2,992	21,818
BSCH	1,249	1,156	1,565	8,969
BBVA	613	2,905	549	2,781
Repsol	687	85	15,169	1,311
Endesa	1,493	930	3,584	1,219
Iberdrola	947	-	264	595
Fenosa	212	101	165	362
Total	6,135	9,882	24,225	37,055

Source: Compiled by the author on the basis of data from ECLAC's *Directorio de IED*; *América Economía*; *The Financial Times*; *The Wall Street Journal Américas*, *Expansión*; and *Cinco Días*.

The year 2000 was special in that the level of investment—when the final official figures are known—will surpass the high level of 1999. Telefónica's acquisition of the remaining shares of its affiliates and its entry into mobile telephony in Mexico, together with BSCH's operations in Mexico (Banco Serfin) and Brazil (in Banespa) and BBVA's activities in Mexico (in Bancomer), exceeded \$30 billion. This investment has been paralleled by lesser operations in electricity, construction, hydrocarbons, metal processing, gas, tourism, commercial services and financial activities. With the level that Spanish investment flows in Latin America are likely to have reached in 2000, all the indications are that FDI flows have reached an advanced stage of maturity and that the levels will hereafter be lower, with distinct strategies for each country.

According to the survey, companies' preferred method of expansion in the region is through greenfield investment, followed by the acquisition of private companies, increasing the capital of their own firms, and the purchase of privatized companies (see Figure 4.7). In future they are likely to expand by acquiring privatized state firms and, to a lesser extent, through greenfield investment. These data, however, contrast with those of previous years. Until 1994 firms preferred to invest mainly by increasing the capital of their foreign affiliates. Acquisitions became more significant in that year, with Telefónica's investment in Peru.



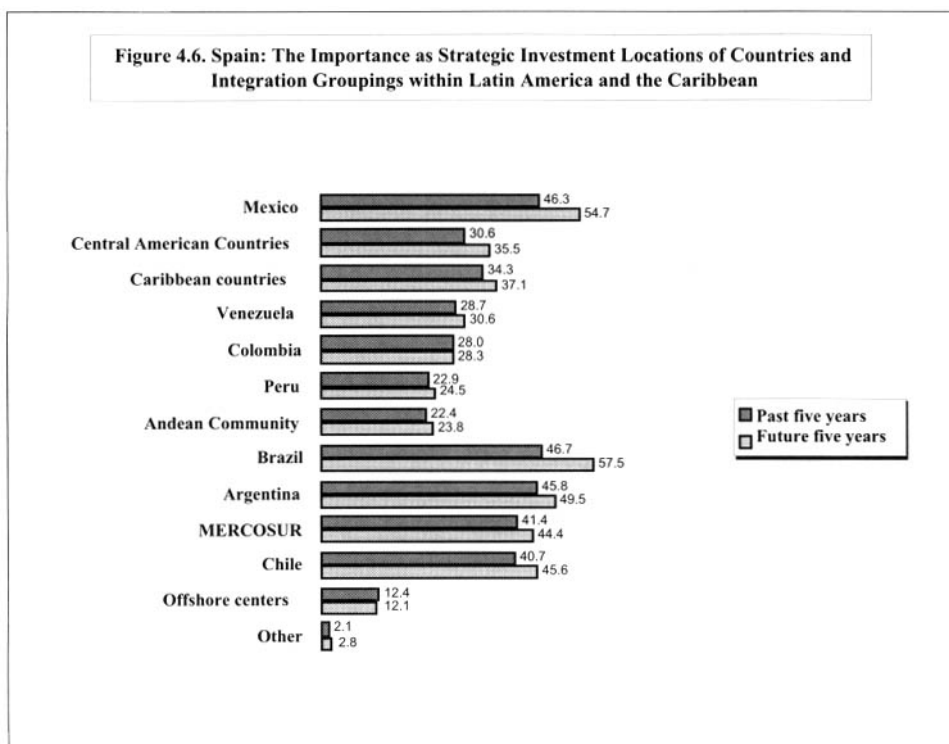
Note: The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey 2000–2001.

In subsequent years, most Spanish companies invested in Latin America through acquisitions. After 1996 this exceeded investment through increased capital, despite the latter's significant expansion. This strategy is similar to that adopted by companies in major industrialized countries since the mid-1980s. It reflects the high strategic value of different business assets and the elimination of entry barriers that had made it difficult to penetrate foreign markets efficiently and quickly. Greenfield investment was therefore low and similar to the levels of long-term intra-firm loans. This pattern is very similar to investors' future expectations in this respect.

The companies that responded to the survey tend to channel their investment directly into the recipient country without using third countries or offshore centers. They prefer to invest through their own companies and view alliances with local firms as an important alternative route. In implementing and developing direct investment, almost all prefer to hire local companies rather than firms from their home country.

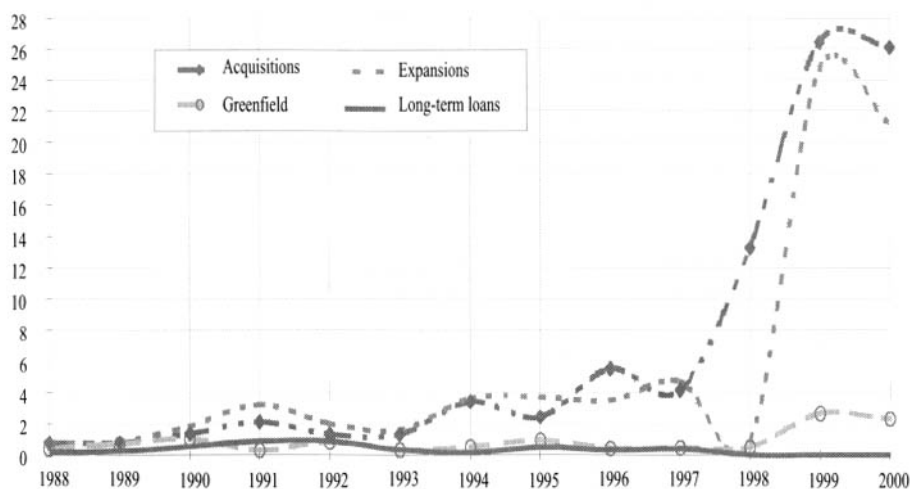
Spanish companies invest in Latin America with domestic markets in mind. Their main target is the local market, particularly in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Second, they invest in order to export to other markets in the region and, in the sole case of Mexico, to complement their export strategy for other Latin American countries with that for the United States market.



Note: The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

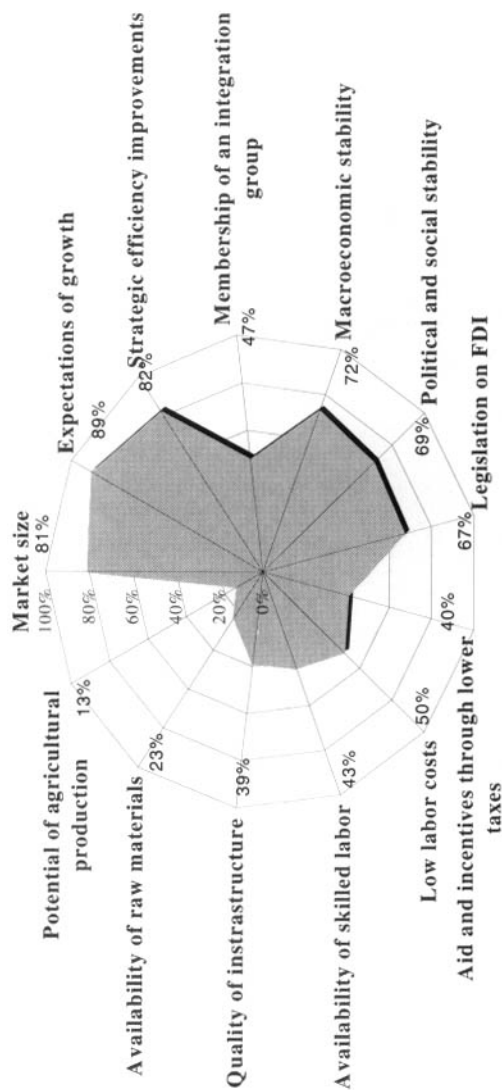
Source: IDB survey 2000–2001.

Figure 4.7. Means of Spanish Direct Investment Abroad, 1988–2000
(In billions of U.S. dollars)



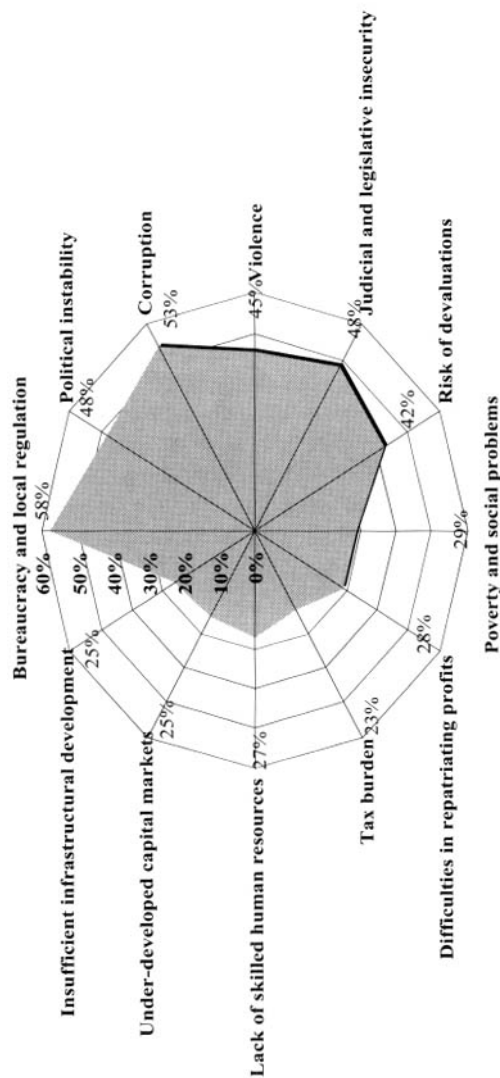
Source: Compiled by the author on the basis of data from BICE, various years.

Figure 4.8. Decisive Factors for Spanish Investment in Latin America
(Percentage of "yes" responses in the total)



Source: IDB survey 2000–2001.

Figure 4.9. Greatest Obstacles to Spanish Direct Investment in Latin America
(Percentage of companies rating the issue as highly important)



Source: IDB survey 2000-2001.

According to the responding companies, the two main determinants of their investment decisions were the size of the market and its growth prospects. Also significant were the search for efficiency improvements in their global production/marketing strategies. They also noted that markets should have macroeconomic, political and social stability, and that legislation should ensure fair treatment for foreign investment. The above factors are essential, in contrast with the relatively scant importance given to other factors such as membership of an integration grouping, support or incentives through lower taxes, cheap labor, the availability of skilled labor, the quality of infrastructure, and the availability of raw materials and agricultural production.

The most serious obstacles and disincentives for Spanish companies that invest in Latin America are local bureaucracy and regulations, political and economic instability, corruption, and violence (see Figure 4.9). The survey respondents also cited as less serious problems: difficulty in repatriating profits, high taxes, the lack of skilled human resources, undeveloped capital markets, poverty and social problems, and poor infrastructure.

From a microeconomic perspective, Spanish companies that invest in Latin America can be classified into two large groups:¹⁰ the first consists of big companies in the oligopoly sectors and privatized companies that operate in regulated markets. In the 1994–2000 period, investment by this group accounted for 88 percent of Spanish investment in the region. These companies are identified in Table 4.5.

The second group, which has a small but growing share relative to the first, consists of medium/large companies with advantages in technology, know-how, organization and management, brand names and marketing. They invest overseas to produce in countries with large markets, high growth potential and certain levels of protection, in order to acquire strategic assets, to stimulate their exports, and to secure raw materials or products for which there is a high demand in the international and Spanish markets. This group has a relatively small but increasing share of total investment and they have made a strategic decision to operate in the countries of the region. These companies are identified in Table 4.6.

In the study of the determinants of direct investment, Dunning's eclectic theory¹¹ suggests that companies invest directly because they have ownership advantages, are attracted by the locational factors of recipient countries, and decide to exploit advantages based on the internalization of activities rather than undertaking them through the market. Companies' ownership advantages (technology, organization and/or management advantages, know-how, brand names and marketing) offset the costs and disadvantages that firms face in investing directly in relatively unknown environments. According to Dunning's theory, intangible assets comprise the main determinant of direct investment. The available empirical evidence for the Spanish case confirms that the accumulation of intangible assets increases FDI.¹² This is the case with some companies in the second group: Gamesa, Grupo Antolín-Irausa, Ficosa, Talleres Fabio Murga, Viscopfan, Acerinox, Roca Radiadores, and the publishing companies Planeta, Santillana and Salvat. In the group of large companies, Banco Santander Central Hispano (BSCH), Banco Bilbao Vizcaya Argentaria (BBVA), Mapfre and Telefónica have established a brand image and consolidated their market position, possess organizational and management advantages, and maintain an aggressive internationalization strategy. Ownership factors are necessary, but they need to be combined with locational factors.

Table 4.5.
Main Spanish Companies Investing in Latin America

First Group	
Company	Sector
Banco Santander Central Hispano (BSCH)	Financial institution
Banco Bilbao-Vizcaya Argentaria (BBVA)	Financial institution
Santander Investment S.A.	Financial institution
Banco Santander de Negocios	Financial institution
Mapfre	Insurance company
Telefónica	Telecommunications
Repsol	Hydrocarbons
Iberia	Transport
Endesa	Electricity
Iberdrola	Electricity
Unión Fenosa	Electricity
Dragados	Construction
Agroman	Construction
Ferrovial	Construction
SACYR	Construction
Empresa Nacional de Celulosas	Paper industry
Aguas de Barcelona	Water management and waste treatment
Gas Natural	Gas distribution
Tabacalera	Tobacco industry
Azucarera Ebro	Foodstuffs

Source: Drawn up by the author using data from ECLAC's *Directorio de IED, América Economía*, *Financial Times*, *The Wall Street Journal Américas*, *Expansión* and *Cinco Días*.

Locational factors are found in recipient countries and constitute the main attraction for investor countries. These factors depend on the size of the markets and on their estimated growth rates, liberalization and opening up to foreign capital, participation in integration processes, the availability of skilled labor, the existence of and investment in infrastructure, the availability of raw materials, relatively low labor costs, investment incentives, tariff and non-tariff protection and close trading relations. The high concentration of Spanish FDI in services in Latin America reveals certain specific sectoral locational factors. It is worth noting that these factors began to operate simultaneously and jointly. The process started with the opening up and liberalization of a wide range of services in the recipient countries, which had been severely restricted. This was especially the case in financial intermediation (banks and pension funds), telecommunications, electricity, water, gas, oil extraction and construction. This liberalization occurred against a backdrop of greater economic stability, in which several governments also promoted privatization by placing strategic assets on the market and by giving favorable treatment to FDI.

The locational factors of new services were highly attractive in countries with large markets and high growth rates, but also in smaller countries such as Chile, Peru, Colombia and Venezuela. Hence the most important determinants were market liberalization, the elimination of restrictions, fair treatment of FDI and expectations of the profitability of services based on the acquisition of strategic assets, mainly through privatization. The companies in the survey also highlighted a feature common to all markets: significant cultural affinity with Latin America.

Locational factors—such as raw materials (Repsol, Gas Natural) and fisheries (Pescanova, Pesquera Cabo Mayor, José Pereira e Hijos and Viera)—also play a key role in investment in the primary sector. Locational factors in manufacturing are: market size and level of protection, and the opportunities offered by supplier-customer relations (consolidated in the investor company's home country). In the automobile sector these have stimulated the multinationalization of Spanish parts and component firms (Antolín-Irausa, Talleres Fabio Murga, Ficosa) in Mexico, Brazil and Argentina.

Finally, mention should be made of internalization advantages—that is, the investor company's direct control of the different stages of the value chain in affiliates and firms in which it has a share. There is not enough information for this to be studied directly, and indicators must therefore be used to gauge its strategic importance. In that regard, for Spanish investment that is mostly concentrated in services, one of the most important factors is the degree of control over overseas affiliates. Spanish companies tend to establish majority control of their operations in foreign markets, a feature that is evident both in the EU countries and in the United States, as well as in Latin America. In 2000, Telefónica acquired all the capital of its Latin American affiliates, while Spanish banks increased their shares in the banks of the region, purchasing them outright where possible.

Table 4.6. Medium and Large Spanish Companies Investing in Latin America

Second Group	
Fagor	Electrical goods
Ficosa	Auto parts and components
Gamesa	Auto parts and components
Grupo Antolin-Irausa	Auto parts and components
Gestamp	Auto parts and components
Talleres Fabio Murga	Auto parts and components
Tableros de fibras-S.A.(Tafisa)	Wood industry
Acerinox	Metal processing industry
Viscofan	Plastic and collagen wrapping
Indetex	Clothing textile industry
Ibereucaliptus S.A.	Paper industry
Sol Melia	Tourism
Homasi	Tourism
Iberco	Tourism
Hoteles Mayorquines Reunidos	Tourism
Maninvest	Tourism
Roca Radiadores	Cleaning and heating
Planeta	Publishing
Santillana	Publishing
Salvat	Publishing
Prisa	Communications
Cía Catalana de Cementos Pórtland	Non-metallic mining industry
Cía Valenciana de Cementos Portland	Non-metallic mining industry
Corporación Uniland	Non-metallic mining industry
EPSA	Engineering projects
Iberostar Hoteles	Tourism
SOS Arana Alimentación	Foodstuffs
Interagua	Water management services
General de Servicios de ITV S.A.	Technical vehicle inspection services
Pescanova	Fisheries
Pesquera Cabo Mayor	Fisheries
José Pereira e Hijos	Fisheries
Viera	Fisheries

Source: Compiled by the author using data from ECLAC's *Directorio de IED, América Economía*, *Financial Times*, *The Wall Street Journal Americas*, *Expansión* and *Cinco Dias*.

Conclusion

Spanish companies greatly increased their investment in Latin American markets after 1994, which led to the start of a phase of great expansion. That year also marked the start of a new great wave of Spanish FDI abroad, which significantly boosted overall investment to an annual average of over \$15 billion. The sheer scale of this transformed the Spanish economy into a net direct investor after 1997, and in 1999 into the sixth largest international direct investor.

During this phase, Spanish direct investment centered on a small number of regions, particularly Latin America (which absorbed 60 percent of the flows)¹³ and the EU. In Latin America, companies invested in two groups of countries. The first, which accounted for around 80 percent, consisted of Argentina, Brazil and Chile; the second, which absorbed 18 percent, comprised Colombia, Mexico, Peru and Venezuela. The rest of this investment (which in absolute terms rose to \$1.25 billion) was more dispersed: Cuba, Uruguay, Bolivia, Honduras, Nicaragua, Guatemala, Ecuador and El Salvador.

The scale of the phenomenon and its greater focus on Latin America have reflected the new strategies of Spanish firms, which have taken account of changes and opportunities in the region's markets. Renewed economic and political stability in the region, the privatization of state companies and the liberalization and deregulation of activities to promote private sector-led dynamism, gave rise to the creation of a more FDI-friendly environment. There was an increase in the traditional predominance of FDI in financial intermediation (banks, insurance and pension fund management) in those countries where Spanish institutions were already operating, and also in countries that thereto had placed various restrictions on such activities: Brazil, Peru, Mexico, Colombia and Venezuela.

The significant expansion into financial activities has been matched by new investment in telecommunications, oil extraction and fuel processing, electricity, transport, water, gas and construction. These sectors are the most important new features of the sectoral pattern of Spanish investment in the region. However, despite the concentration in these sectors, there has been significant growth of investment in tourism and industry (other manufactures, as well as paper and publishing). A new feature worth highlighting since the external debt crisis is the recovery of investment in commercial activities; this trend reflects expectations of closer trade relations in future. Spain has become Europe's leading direct investor in the region, and the second largest after the United States.

As regards the means whereby investment is realized, Spanish companies have tended to prefer acquisitions—determined by the privatization and purchase of companies—and increasing the capital of their own companies or that of affiliates. As an intermediate option, a significant share of this investment has been channeled through holding companies, which is a common feature of investment in both Latin America and the EU.

The sectors in which Spanish investment in the region has been concentrated underscores the fact that investment has come from a group of large oligopolistic and privatized companies and, to a lesser degree, from a group of medium/large companies whose international growth strategies are based on ownership advantages developed in countries with locational factors, notably large markets. In both cases the business strategies aim to

satisfy domestic markets. These firms acknowledge that the most determinant of the investment decision is the size and growth rate of the national markets, economic and political stability, the treatment given to foreign investment, and greater efficiency in the company's global production/marketing strategies.

To preserve their ability to attract investment, the countries of the region should continue to assume the complex task of maintaining macroeconomic stability while striving for further open insertion into the global economy by deepening regional integration processes, upgrading infrastructure and improving social conditions in terms of education, health and the fight against poverty. It should be acknowledged that this is a difficult challenge to meet without international support. Spanish companies have meanwhile invested significant resources that, while seeking profits, help improve the conditions for stability and the modernization of economies in the region. There is obviously a risk that, despite improvements in production, and therefore in these countries' competitiveness, their external fragility will persist. This is a risk to be shared between the investor companies and the recipient countries.

Over the coming years Spanish FDI in the region will reach a high level of maturity, leading to a new phase with probably lower levels of investment flows. The degree of maturity will differ in each country, and Spanish firms are likely to continue to invest in sectors that have been central to their strategies in recent years. Hence investment will probably continue at high levels in Brazil and Mexico, and to a lesser extent in Argentina, Chile and the other countries. The outlook will depend on the results stemming from the interweaving of company strategies and countries' locational factors, their levels of economic and political stability, and international economic conditions.

NOTES

- ¹ After the total liberalization of capital movements in the EC in February 1992, the Spanish government approved a new regulation for Spanish FDI—Royal Decree 672/1992, of 2 July—in order to make it compatible with the new liberalizing general framework. Since direct investment was already widely liberalized, the new regulation helped simplify bureaucratic procedures (De la Cueva 1993): (a) Only investment worth more than 250 million pesetas (then worth \$1.7 million) had to be submitted for prior verification, while the previous limit was 25 million pesetas (\$170,000); (b) investment by holding companies, and that carried out in offshore centers (countries or territories outlined in Royal Decree 1080/1991 of 5 July), was also subject to prior verification. The simplification of bureaucratic procedures and the reduction in the limit of investment in prior verification did not significantly alter the data reflected in the verification statistics of overseas investment. However, after 1993 a sectoral methodological structure was introduced that corresponded more closely to the real investment situation. This superseded that which existed until 1992, which was more concentrated.

Royal Decree 672/1992, of 2 July, was replaced on 23 April 1999 by RD 664/1999 on foreign investment. This ratified the complete liberalization of foreign investment, defined as both foreign investment in Spain and Spanish investment overseas. The new regulation ratified the system of only declaring investment that had already been carried out (established in the 1992 Royal Decree), in contrast to the previous system of prior verification. For administrative, economic and statistical reasons, investment under the new system would be included in the Register of Spanish Foreign Investment. Prior verification, as well as *ex-post* verification, would only be required for investment in offshore centers (RD 1081/1991). The administrative, economic and statistical information meets the role assigned to the government by Article 73.D of the EC's founding treaty. This article obliges governments to collect information to adequately monitor investment in order to carry out promotion activities.

- ² It should be noted that Royal Decree 664/1999 changed the definition of what constitutes Spanish foreign investment in two ways: a) loans (of more than five years on average) to companies abroad are no longer defined as direct investment, b) marketable securities are defined as direct investment when the investor acquires more than 10 percent of the capital of the foreign company, since it is deemed that the investor has established a relationship that gives influence in the management of the firm; and it can lead to the investment process being prolonged, since successive partial acquisitions can be made until the investor achieves a majority stake or buys the foreign company outright.
- ³ Panama and the Caribbean offshore centers in Latin America, and Luxembourg and the Netherlands in the EU, are the only countries and territories in which holding companies are not the final destination.
- ⁴ Excluding the \$12.5 billion investment by the United States internet company Lycos.
- ⁵ This process requires investment of at least \$20 billion.
- ⁶ Investment in financial intermediation accounts for 40 percent if investment through holding companies is included.
- ⁷ Through the BICE, the Economy Ministry publishes aggregate data on the modalities of investment adopted by companies: acquisitions, increased capital, greenfield investment and, until 1999, long-term inter-company loans.
- ⁸ Database of Spanish companies that invest overseas, drawn up by the author on the basis of data from: ECLAC's *Directorio de IED, América Economía, Financial Times, Wall Street Journal Américas, Expansión* and *Cinco Días*.
- ⁹ The survey does not mention NAFTA, which would have made possible a comparison with MERCOSUR.
- ¹⁰ For this approach, see Campa and Guillén, 1996; Arahuetes, 1998; ECLAC, 2000

¹¹ Dunning 1988, 1992 and 1998.

¹² Campa and Guillén, 1996; Durán, 1996 and 1999; Arahuctes, 1998; ECLAC 2000.

¹³ The share is greater if the figure includes direct investment in Panama and the Caribbean offshore centers, most of which subsequently goes to other countries in the region.

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Chapter 5. United Kingdom

Edmund Amann *

Introduction

In relation to its relative size in GDP terms, the United Kingdom economy has long contributed a disproportionately large share of global outward foreign direct investment (FDI). Over the course of the 1990s, the United Kingdom ranked as the second largest source of FDI outflows not only to the world as a whole but also to the Latin America and the Caribbean region. Underlying the United Kingdom's long-standing pivotal position as a source of FDI on a global scale lie a number of factors, not least the liberal nature of its capital markets and the strong international bias of many United Kingdom companies.

Throughout the 1990s, the Latin American region rapidly increased its importance as a location for global foreign direct investment. Between 1995 and 1999, total net FDI flows into Latin America and the Caribbean almost trebled to just over \$93 billion (ECLAC 2000). The United Kingdom has not been left behind in this trend and has strongly increased investment in the region. Between 1990 and 1999, United Kingdom FDI stock in the region more than doubled, while FDI flows more than trebled during the second half of the decade to reach an annual average of \$2.1 billion (\$538 million during 1990-94; see Tables 5.1 and 5.3 below). However, despite the marked expansion of these flows, the accelerated pace of British investment activity elsewhere meant that the region's share of the United Kingdom's total global stock of investment fell slightly over the 1990s.

Table 5.1. The Evolution of United Kingdom FDI Stocks by Region, 1990–1999

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
European Union	60,944	26.6	112,852	37.0	242,715	35.5
Central and Eastern Europe	17	0.0	662	0.2	2,458	0.4
North America*	99,776	43.5	104,709	34.3	308,813	45.1
Near and Middle East	605	0.3	1,222	0.4	1,720	0.3
Asia	15,367	6.7	26,737	8.8	39,203	5.7
Africa	7,457	3.3	7,680	2.5	15,976	2.3
Latin America and the Caribbean**	4,502	2.1	8,759	2.8	13,387	2.0
World Total	229,306	100.0	304,864	100.0	684,292	100.0

*United States and Canada

**Excluding offshore centers

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid 1998), and data provided by the United Kingdom Office for National Statistics.

* School of Economic Studies, University of Manchester, United Kingdom.

The rapid expansion of United Kingdom foreign direct investment flows to Latin America in the late 1990s has a number of general explanations, some of which are linked to changes in the region's macroeconomic environment, progress in market liberalization, and to changes in corporate strategy of British companies. For the region as a whole, the 1990s marked a considerable advance in the progress of macroeconomic stabilization. Eschewing the failed stabilization policies of the 1980s, a number of countries acted effectively to bring inflation under control, adopting a combination of fiscal and monetary orthodoxy allied to trade liberalization. As hyperinflation receded and positive economic growth returned, the macroeconomic environment became conducive to foreign direct investment as uncertainty was reduced and consumer spending rose. Accompanying these improved macroeconomic circumstances, policy makers began to set in motion a radical program of market liberalization whose long-term goal was to improve the fundamental competitiveness of economies throughout the region. The core elements in this program consisted of trade liberalization, privatization, the opening up of new areas of activity to foreign investors, and the greater elaboration and more rigorous enforcement of competition law.

While these general factors help explain the expansion of United Kingdom FDI into the region, it is important, in addition, to take into account the evolution of individual corporate strategies. Prior to examining such strategies, however, a quantitative review of recent United Kingdom FDI in the region is necessary.

Patterns of United Kingdom Investment in Latin America and the Caribbean

Partly reflecting the relative size of economies within the region, both the United Kingdom's FDI stock and flows are unevenly distributed between recipient countries. As Table 5.2 indicates, discounting offshore centers, the United Kingdom's stock of FDI is concentrated in Brazil, Chile, Mexico, Chile, Colombia and Jamaica. Among these major recipient countries, Brazil is the most important, alone accounting for almost one-third of the United Kingdom's total FDI stock in the region in 1999 (discounting the offshore centers).

While the prominence of Brazil as a recipient is partly accounted for by its sheer size (Brazil generates something like 40 percent of regional GDP), it is also a function of the magnitude of the policy changes that have swept the country over the past five years. In particular, with market liberalization accompanying a broadly successful macroeconomic stabilization plan since 1994, a number of United Kingdom enterprises have significantly extended their presence in Brazil.

Another feature of the data concerns the shifts in the allocation of FDI stocks over the 1990s. As Table 5.2 reveals, the proportion of United Kingdom FDI stocks accounted for by the offshore centers (as opposed to the major Latin American economies) declined noticeably over the 1990s.

Examining recent data for United Kingdom net flows of FDI to Latin America on a country-by-country basis, some interesting trends become apparent. As Table 5.3 indicates, for Latin America and the Caribbean as a whole, net annual FDI flows from the United Kingdom in general rose considerably over the course of the 1990s. However, for the region as a whole in 1998 and 1999 there was a sharp reversal of this trend, with net outflows from

the United Kingdom falling from \$3.4 billion in 1997 to \$1.8 billion in 1998 and \$1.5 billion in 1999. However, there were some exceptions to this general pattern. In the case of Argentina, for example, total net FDI flows from the United Kingdom rose from \$157 million in 1997 to \$409 million in 1999. This was even more pronounced for Brazil, where net flows rose from \$581 million to \$1.5 billion over the same period.

Table 5.2 United Kingdom: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	332	1.6	705	2.9	1,227	5.1
Brazil	2,410	11.8	3,601	14.8	4,256	17.6
Chile	399	1.9	1,032	4.2	1,738	7.2
Colombia	–	–	1,871	7.7	1,579	6.5
Jamaica	291	1.4	431	1.8	1,521	6.3
Mexico	781	3.8	543	2.2	1,673	6.9
Venezuela	133	0.6	209	0.9	810	3.4
Others	155	0.8	368	1.6	535	2.5
Latin America/Caribbean	4,502	22.0	8,759	35.9	13,387	55.4
Offshore Centers	13,579	66.3	13,931	57.2	12,372	51.2
Other	2,414	11.8	1,676	6.9	–1,612	–6.7
Total	20,495	100.0	24,366	100.0	24,147	100.0

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid 1998), and data provided by the United Kingdom Office for National Statistics.

Table 5.3. FDI Flows from the United Kingdom to Latin America and the Caribbean, 1980–1999
(Net outflows, millions of U.S. dollars)

	Annual averages					
	1980– 1989	1990– 1994	1995– 1999	1997	1998	1999
Argentina	40	79	283	157	664	409
Brazil	289	250	894	581	535	1,524
Chile	41	81	–13	255	278	–1,087
Colombia	8	–97	371	396	573	537
Mexico	34	90	395	1,248	250	183
Venezuela	24	67	41	581	–666	113
Others	23	69	118	210	203	–118
Latin America/Caribbean	458	538	2,088	3,431	1,839	1,562
Offshore Centers	710	897	1,059	671	1,474	2,350
Other flows/countries	93	335	648	131	649	2,689
Total	1,261	1,770	3,793	4,233	3,959	6,594

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid 1998), and data provided by the United Kingdom Office for National Statistics.

However, for most countries the final three years of the 1990s saw net outflows declining and, in some cases (notably Chile) there was significant disinvestment. These trends, of course, run counter to the general tendency of the 1990s for substantial year-on-year increases in net FDI receipts from the United Kingdom. Explanations for this sudden reversal of an established trend are by no means clear, and the inherent volatility in FDI flows should also be borne in mind. Nevertheless, one explanation may lie in the economic turbulence that hit the region in 1998/1999.

Further important trends emerge when one examines the sectoral pattern of United Kingdom FDI across the region. As Table 5.4 indicates, United Kingdom investment stocks across the key productive sectors are little more evenly distributed than they are across countries. United Kingdom FDI stocks are heavily concentrated in the services sector (especially the real estate and business services sector), with the manufacturing and primary product sectors accounting for a much smaller share in the overall total. However, in accounting for the prominence of such services it is important to take account of the impact of the United Kingdom's strong presence in the offshore centers and the volatility of stocks associated with the financial, real estate and business services sectors. Aside from real estate and business services, the United Kingdom's services investments in the region are dominated by the financial, transport and communications sectors.

The relatively limited importance of the electricity, gas sector and water component of total investment in services reflects the surprisingly restricted extent to which United Kingdom enterprises have participated in the privatization of public utilities and other public services throughout the region. However, in other energy-related fields, they have tended to be far more active. The United Kingdom is a substantial investor in the oil and gas sectors across the region. In Colombia, Brazil and Venezuela, British enterprises have played a key role in bidding for new exploration and production concessions as governments have liberalized rules on investment and encouraged the opening of new oil fields.

Table 5.4. United Kingdom FDI Stock in Latin America and the Caribbean, by Sector

	1999	
	US\$ million	%
Mining and quarrying (including oil/gas)	3,202	13.3%
Manufacturing	5,696	23.6%
Food products	2,955	12.2%
Chemical, plastic and fuel products	588	2.4%
Transport equipment	916	3.8%
Other manufacturing	916	3.8%
Services	12,812	53.1%
Electricity, gas and water	301	1.2%
Hotels & restaurants	322	1.3%
Transport and communications	2,113	8.8%
Financial services	1,686	7.0%
Real estate and business services	7,969	33.0%
Others	2,428	10.1%
Total	24,147	100.0%

Source: Data prepared by the United Kingdom Office for National Statistics.

One of the notable trends to emerge from the data concerns the relatively significant role of the manufacturing sector as a focus for United Kingdom investment in Latin America. While in the United Kingdom, the share of manufacturing in GDP has declined sharply over the past 20 years, British manufacturing enterprises have continued to invest heavily in their overseas operations, not least in Latin America. In terms of the total stock of investment, United Kingdom investment in the region's manufacturing stood at \$5.7 billion in 1999, well ahead of that in the natural resources sector (\$3.2 billion) or the agricultural sector (just \$10 million).

Within the manufacturing sector, as Table 5.4 indicates, United Kingdom investment is biased toward the chemical and plastics, transport equipment, and the food, drink and tobacco sub-sectors. By contrast, investment in such major manufacturing sectors as mechanical equipment is quite limited. In large part these data reflect more general global patterns of specialization within United Kingdom manufacturing as a whole. Over the past 20 years or so British manufacturing enterprises have increasingly become concentrated in the process and food industries, with their participation in the engineering sectors falling off sharply. Within the latter sector, United Kingdom enterprises have increasingly come to specialize in higher-end, higher value-added, low volume activities. Typically, the enterprises involved in these activities tend to be relatively small by international standards. By contrast, especially in the food, drink and tobacco sector, the past few years have seen the consolidation and international expansion of large United Kingdom owned conglomerates such as Diageo and British American Tobacco.

As noted previously, United Kingdom participation in the gas, water and electricity component of the services sector has thus far been relatively limited. However, there are signs that this situation may be about to change. Over the past two years British enterprises have undertaken substantial programs of investment in the energy sectors of Brazil and Argentina. Another center of potentially intensified activity is the telecommunications sector, where British telecommunications enterprises have already begun to take significant steps into the Latin American market with the purchase of stakes in Iusacell and ImpSat by Vodafone and British Telecommunications.

Investment Strategies of British Corporations in Latin America: Evidence from Selected Enterprises

While the aggregate data examined so far illustrate the broad evolution of recent United Kingdom investment into the region, they do not shed much light on the motives underpinning that investment or its distribution among individual corporations. The following section analyzes the investment strategies of a number of major United Kingdom corporations in the services, manufacturing and natural resources sectors.

In attempting to understand recent patterns of United Kingdom direct investment it is essential to take a step back and consider from a theoretical perspective the framework within which investment decisions are formulated. Perhaps the earliest (and certainly among the most significant) theory of international direct investment has been presented by Stephen Hymer (1976). For Hymer, corporations undertake investment projects beyond their home countries' frontiers because they seek to capitalize on some specific competitive advantage

they possess that competitor firms in the recipient countries do not. The competitive advantage in question could stem from a number of sources including managerial skill, proprietary technology, access to cheap capital and marketing flair. The real contribution of Hymer's work has been to demonstrate that cross-border investment may take place for reasons not strictly related to trade. Instead, investor enterprises take advantage of their superior competitiveness, using this to drive up market share and profitability in territories outside their "home" markets. Partly inspired by Hymer's analysis, John Dunning (1980) has elaborated a more comprehensive approach to the explanation of foreign direct investment flows which has been termed "the eclectic paradigm" of international production and investment.

For Dunning, corporations will engage in international investment and production when three key conditions apply. In the first place, *pace* Hymer, corporations will be stimulated to invest abroad when they enjoy competitive advantages that incumbent enterprises in the investment recipient countries do not. The second necessary condition for foreign direct investment to take place is that the corporation in question must take the decision to internalize these advantages rather than transferring them (i.e., selling them) to other firms. Finally, for investment to occur, the overseas locations for investment must prove more profitable than would the domestic location.

Within this broad framework, Dunning identifies a number of investment modalities, each associated with distinct corporate strategic goals. First, enterprises may engage in "resource-seeking" international investment and production as they attempt to "gain privileged access to resources *vis-à-vis* competitors".¹ Enterprises may also establish production facilities abroad as part of a "market-seeking strategy" as part of an internationalized attempt to protect or expand market share. Equally, the pursuit of an "efficiency-seeking" strategy may help to explain why investment takes place as enterprises attempt to drive down production costs by establishing themselves in lower cost locations.² Finally, Dunning identifies motives for investment originating from the quest for strategic technological assets, the need to support international trade activity, and the provision of support service to existing productive activities.

The work of Gary Gereffi (1994) argues for a reconsideration of the traditional conception of the multinational corporation. With falling transport costs and international barriers to trade and investment declining substantially over the past two decades, the process of production itself, so Gereffi argues, has become ever more internationalized. Increasingly, discrete stages in the production process for any given product need no longer be conducted in close geographical proximity to each other and may instead be widely dispersed across international frontiers. Equally, there is no inevitability about a single corporation owning and operating all the assets employed at each stage in production. In this increasingly common setting the multinational corporation takes on the role as a coordinator of a "global production chain," a role subtly different to that embodied in traditional conceptions of such enterprises. Gereffi's work would tend to suggest that we are likely to witness increasing alterations in the pattern of FDI as multinational corporations internationalize production, though without necessarily taking direct ownership of productive assets.

Drawing on the theoretical contributions outlined above, the remainder of this section examines the recent evolution of United Kingdom FDI into Latin America and the Caribbean

at the corporate level. In particular, the analysis focuses on the strategic motivations that may be discerned for particular enterprises' patterns of direct investment. To begin with, the experiences of four key enterprises in the manufacturing sector are discussed.

United Kingdom Investment Strategies in the Latin American Manufacturing Sector

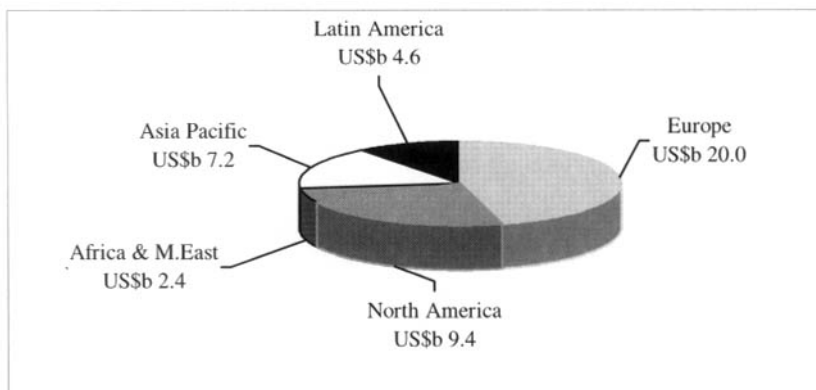
As has already been indicated, the United Kingdom constitutes a substantial investor in the region's manufacturing sector. In contrast to France, Germany or the United States, British investments in Latin American manufacturing tend to be concentrated outside the engineering, electrical, electronic or automotive sub-sectors. Instead, the most significant investors in manufacturing tend to be located in the consumer non-durables and chemical industries. Within the former sector, the three most significant single enterprises are Diageo, British American Tobacco, and Unilever, the latter forming the basis for the first case-study.

Unilever is one of the world's largest consumer goods manufacturing enterprises and was formed through the merger of an English firm, Lever Brothers and a Dutch enterprise, Van der Bergh. Unilever's main product activities divide into processed foods and household cleaning products. Since it began operations in Latin America, over 70 years ago, Unilever has built up a substantial regional presence. Unilever currently has operations in Argentina, Brazil, Chile, Mexico, Peru and Uruguay, as well as across Central America and in the Dominican Republic, Trinidad and Tobago, Jamaica, Cuba and Haiti. Its activities in Latin American and the Caribbean accounted for 10.6 percent of the group's total worldwide turnover for 1999 and 9.9 percent of its global profits (see Figures 5.1 and 5.2).³

Over the past five years, Unilever has been pursuing an aggressive investment and acquisition strategy in Latin America and the Caribbean. The most significant element in this strategy so far has been the purchase in October 1997 of Kibon, Brazil's largest ice cream producer. The acquisition of Kibon, for \$930 million from Philip Morris of the United States was emblematic of Unilever's growing attempts to gain market share in key Latin American economies. However, in attempting to gain such share, Unilever's strategy has been characterized by its determination to establish or acquire production facilities with which to serve individual national rather than regional or extra-regional markets. Interestingly, though, with the purchase of Kibon, Unilever appears to be changing tack, having announced that Kibon is to be made its ice cream innovation center for Latin America as a whole. This may herald a period in which Unilever will attempt to more effectively integrate its individual national operations into a regional whole.

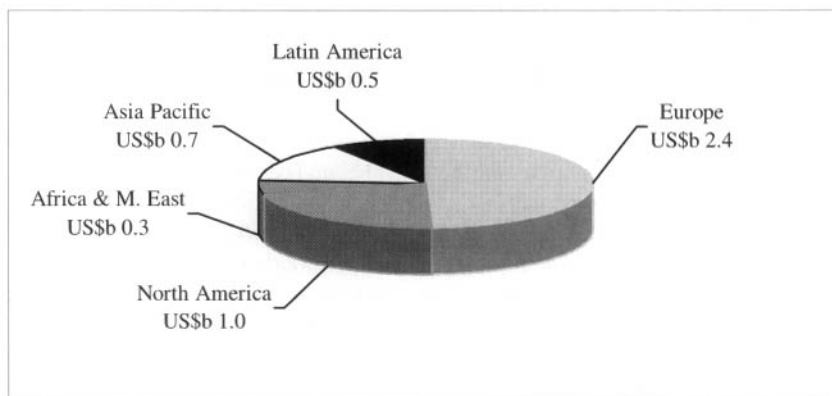
Following its purchase of Kibon, Unilever's policy of acquisition in the region accelerated further with the purchase in November 1999 of a 60 percent interest in Varela S.A., a Colombian home and personal care company specializing in soap.⁴ The purchase of this controlling interest in Varela (for an undisclosed sum) has enabled Unilever to consolidate its presence in Colombia while pursuing economies of scale. These objectives are likely to be realized since, following the takeover of Varela, its operations have been merged with those of Unilever's pre-existent Colombian subsidiary. In the same year, Unilever announced that it had also acquired the home and personal care division of the Sociedad Industrial Dominicana of the Dominican Republic.

Figure 5.1. Turnover by Region, Unilever plc., 1999
(In billions of U.S. dollars)



Source: Annual report and accounts.

Figure 5.2. Profit by Region, Unilever plc., 1999
(In billions of U.S. dollars)



Source: Annual report and accounts.

Again, with the objective of building national market share, Unilever announced in March 2000 that it was to purchase Grupo Cressida, the Honduras-based soap, detergent and foods business for \$314 million.⁵ This major purchase has effectively doubled Unilever's already substantial presence in Central America. In the most recent of its regional acquisitions, Unilever's presence in the Andean region was significantly strengthened in October 2000 with the purchase of a controlling interest in the Corporación Jabonería Nacional, an Ecuadorian manufacturer of detergents, soaps and foods.

Unilever's strategy of acquisition and consolidation of productive capacity on a national basis can be seen to coincide with the "market-seeking" strategy identified by Dunning. That the enterprise has adopted such a strategy is not entirely surprising given the nature of the sector within which it operates. The consumer non-durables sector is characterized by a range of relatively mature products in the product cycle and associated

with intense competition and low margins. Under these circumstances, the pursuit of profitability depends on the achievement of substantial market share allied to extensive economies of scale in production. Equally, given the ever-present threat of commodification that hangs over such mature product categories, the pursuit of brand management strategies is essential to prevent the erosion of margins. In this regard, enterprises such as Unilever with well-developed branding skills (and the brands to go with them) clearly are at an advantage when attempting to build up their share in individual national markets.

The production of soaps, detergents and processed foodstuffs constitutes a classic process industry. Significantly, another British company with a strong tradition in the process industries also has a significant presence in Latin America. ICI—Imperial Chemical Industries plc—is one of the world's largest producers of paints, polymers, starches and speciality chemicals. ICI has enjoyed a presence in Latin America for many years and currently operates in Argentina, Brazil, Colombia, Costa Rica, Mexico, Uruguay and Venezuela.

In conducting business in Latin America, ICI operates in a number of ways. Aside from wholly owned subsidiaries trading under the parent company's brand name, ICI also presides over two international subsidiaries, the United States-based National Starch Inc. and Quest International, which in turn operate subsidiaries across the region.⁶ In addition, ICI has penetrated Latin American markets by buying a stake in local enterprises, sometimes acquiring the right to use well-recognized local brand names. In the case of Brazil, for instance, ICI has come to control the production and distribution of Tintas Coral, a leading local brand of paints.

The striking feature of ICI's strategy of investment in the region is the extent to which it has sought to penetrate major national markets with a full range of products with associated manufacturing and service facilities. Thus, in the case of Brazil, ICI supplies the national market with a product range that includes electronic and engineering materials, silicas, packaging coatings, industrial starches, adhesives, synthetic polymers and food flavorings. These products are manufactured and/or distributed from no less than seven subsidiaries, mainly located in and around São Paulo.⁷ Such a comprehensive approach to meeting local market demand can also be seen in the case of Mexico and Argentina.

In explaining ICI's approach to regional investment, it is important to be aware of the special characteristics applying to much of the bulk chemicals sector. Successful operation in this sector requires a close relationship with clients and, ideally, given the bulky nature of many of the products, close proximity of the manufacturing or distribution sector to the industrial end user. For this reason the establishment of national subsidiaries close to the customer base has become a characteristic feature, not just of ICI but of other major multinational chemicals producers in the region and beyond. In this sense, ICI's strategy can be seen as consistent with the provision of trade, distribution and support services to existing industrial activities, a role outlined by Dunning.

The British engineering company GKN has also established a major presence in Latin America over the past few years, as Table 5.5 attests. GKN's main business operations are concentrated in the precision engineering and defense sectors. In the United Kingdom, GKN is probably best known for its manufacture of armored vehicles. Within Latin America, the

enterprise, unlike ICI, has adopted a highly focused investment strategy with the emphasis being placed firmly in just two main business sectors: constant velocity joints and the supply and management of containers and pallets. These businesses have very different characteristics in that one constitutes a precision manufacturing activity while the other represents a diversification into industrial services.

Table 5.5. GKN plc Operations in Latin America

Country	Name of Subsidiary	Activity
Argentina	GKN Sinter Metals de Argentina S.A.	Manufacture of sinter metal and oil pump components
	Transmisiones Homocineticas Argentinas S.A. (49% stake)	Manufacture of constant velocity joints
	CHEP Argentina S.A.	Supply and management of containers and pallets
Brazil	GKN Comercial Ltda	Holding and service company
	ATH-Albarus Transmissões Homocineticas Ltda (49% stake)	Manufacture of constant velocity joints
	CHEP do Brasil Ltda	Supply and management of containers and pallets
Chile	CHEP Chile SA	Supply and management of containers and pallets
Colombia	Transejes Transmisiones Homocineticas de Colombia S.A. (49% stake)	Manufacture of constant velocity joints
Mexico	Velcon SA de CV (39% stake)	Manufacture of constant velocity joints
	CHEP México SA de CV	Supply and management of containers and pallets

Source: Corporate website.

In the case of constant velocity joints—a key component in motor vehicles—GKN has acquired minority stakes in three major Latin American producers based in Argentina, Brazil, Colombia and Mexico. The location of production facilities in these countries has been related to structural change in the global automotive industry, as well as to the expansion of regional automotive production over the past few years. For many automotive component suppliers—GKN included—there have been substantial pressures for internationalization as their key customers—the multinational car manufacturers—have increasingly sought to appoint suppliers capable of serving them on a global rather than purely national basis.⁸ This has resulted in waves of takeovers of indigenous Latin American component manufacturers by international groups.⁹ Thus increasingly, multinational corporations have come to incorporate the subsidiaries of other multinational corporations into their production chains on a global basis.

United Kingdom Investment Strategies in the Latin American Services Sector

Perhaps more than in any other sector, the recent evolution of United Kingdom direct investment in the Latin American services sector has been influenced by shifts in public policy. Since the end of the 1980s, governments throughout the region have embarked on a course of rapid market liberalization, abolishing statutory state monopolies across a range of public utility activities. In view of these policy shifts, public utility enterprises from the United States and Europe have participated in a series of privatizations and concession auctions throughout the region. Somewhat surprisingly—especially given the United Kingdom's pioneering experience with privatization—British participation and success in these asset and concession sales has so far been very limited. However, there are signs that, especially in the telecommunications sector, British investment has begun to rise.

In a demonstration of what may be the beginning of a new trend, the cellular telecommunications enterprise, Vodafone Group plc announced in January 2001 that it was to purchase a 34.5 percent stake in Grupo Iusacell S.A., Mexico's second largest cellular network operator. Once completed, the transaction will make Vodafone the second-largest shareholder in Iusacell after the United States telecommunications enterprise, Verizon Communications Inc.¹⁰ The sale, which is valued at \$973 million, places Vodafone in a strategic position in the Mexican market at a time when subscriber numbers are expected to rise strongly. Iusacell currently operates in four main regions including the metropolitan Mexico City area and Guadalajara, a service area that covers 69 percent of the country's total population. The new presence of Vodafone in Mexico is likely to impose more competitive pressure on a market that was heavily regulated until recently. In expanding into Latin America, Vodafone is taking advantage of its technological expertise and revenue streams it has already developed in the more mature markets of Western Europe, especially the United Kingdom.

Perhaps surprisingly, Britain's largest fixed line telecommunications provider, British Telecommunications plc. (BT) has thus far proven a marginal player in Latin America's numerous telecommunications privatizations and concession auctions. Over the past three to four years, despite a range of innovative product launches and aggressive marketing, BT has increasingly come under pressure from mobile service operators in its home market while its international merger ambitions have been thwarted. With a suitable large-scale merger failing to materialize BT appears to have altered tactics, securing an alliance with AT&T and purchasing small-scale though strategically placed telecommunications assets on a worldwide basis.

As part of this wave of acquisitions, BT announced in April 1999 the purchase of a 20 percent stake (for \$147 million) in ImpSat, an important satellite telecommunications provider based in Buenos Aires, Argentina.¹¹ ImpSat represents an important step into the Latin American market for BT, since the Argentine company's network presence extends to Brazil, Colombia, Ecuador, Mexico and Venezuela. However, unlike Vodafone's venture in Mexico, ImpSat will focus on the provision of services to corporate rather than individual customers.

Of the United Kingdom's leading utility companies, the most ambitious so far in terms of its Latin American ventures has been National Grid plc. This enterprise came into being following the privatization of the British electricity sector in the 1980s and remains

responsible for much of its home country's long-distance, high-voltage electricity distribution. Taking advantage of its above and below ground transmission infrastructure, National Grid plc became involved in the development of one of the United Kingdom's most advanced long distance fiber optic data networks. National Grid's innovative approach to electricity transmission and telecommunications network construction has endowed the enterprise with a considerable technological and managerial edge. In the past three to four years, National Grid has been seeking to capitalize on its acquired experience with the objective of enhancing profitability and penetrating new markets. In Latin America its efforts have been concentrated in the Argentine and Brazilian markets.

In June 1993, National Grid plc entered the Argentine market by forming part of a consortium that won a 95-year concession to own and operate the country's long-distance electricity transmission system. The winning consortium, through a holding company, Citelec, gained a 65 percent stake in Transener SA, the company that owned and operated the network.¹² By May 1997, National Grid's initial experience had proved sufficiently encouraging for it to increase its participation in Citelec from 15 percent to 42.9 percent.¹³ Despite possessing a minority interest in this holding company, National Grid nevertheless holds the position of registered operator, allowing it to exercise considerable influence over strategic decisions.

Following National Grid's acquisition of an increased stake, Transener has embarked on a program of expansion, aiming to add to capacity and build market share. In July 1997 Transener purchased for \$220 million the electricity transmission assets of Transba, the state-owned electricity utility serving Buenos Aires. With this development, Transener increased its network by 5,600 kilometers and effectively absorbed the assets of Argentina's second largest electricity transmission network. In December 1999, the scale of Transener's network increased further with the completion of a fourth high-voltage 1,300 kilometer line linking generating stations in the Comahue area to Buenos Aires.¹⁴

Taking advantage of its experience in the United Kingdom telecommunications market, National Grid plc has also been active in the construction of new fiber-optic networks in Brazil, Chile and Argentina. In the case of Argentina, the enterprise has embarked upon a new joint venture—Southern Cone Communications—with Telefónica Manquehue and Williams Communications.¹⁵ Southern Cone Communications is now constructing a 4,120 kilometer fiber-optic network for \$212 million, linking Santiago in Chile with several major Argentine cities. Mirroring National Grid's practice in the United Kingdom, the new network makes use of electricity transmission lines as well as road ducts and ducts running along a gas pipeline.¹⁶

In Brazil, National Grid plc. has gained an important foothold in the telecommunications market. In January 1999 a consortium founded by National Grid proved successful in bidding \$42 million for a 40-year concession to operate long distance and international fixed line services. The consortium consists of National Grid (which has a 50 percent stake), Sprint of the United States and France Telecom (each of which have 25 percent), and now trades in Brazil under the Intelig brand name. By 2004 Intelig plans to have invested \$1.6 billion in creating a comprehensive fiber-optic based network.¹⁷

The varying strategies of the United Kingdom's major telecommunications investors in Latin America lend themselves to some theoretical interpretation. Clearly, in investing in Latin American telecommunications and power utilities, British enterprises are not seeking access to abundant natural resources, lower input costs or even a privileged position in any international production chain. Rather, they are seeking to gain access to profitable market opportunities thrown open by changes in the regulatory environment.

Significantly, United Kingdom investors have only sought selective entry into the Latin American utilities sectors. Entry, where it has occurred, has been closely tied to enterprises' particular areas of speciality. Thus Vodafone has targeted the mobile telecommunications sector (a business area in which it was a pioneer) while National Grid has focused only on those businesses specializing in long-distance electricity transmission and the construction of fiber optic backbones. BT, considering its broad range of services has also proven itself conservative in its choice of acquisitions. The selectivity of the United Kingdom investors can be contrasted with such enterprises as Telefónica of Spain, whose participation in the Latin American telecommunications sector spans a whole range of technologies from fiber-optic networks, through mobile systems, to the purchase of analog networks.

As in the case of the public utilities, the pattern of investment in the financial services sector has been strongly affected by shifts in the public policy climate throughout the region. Given the need in many cases to effect urgent capital injections into distressed financial systems, governments—especially in Brazil and Argentina—have tended to encourage the entry of foreign institutions whether through takeovers or the establishment of new and directly owned subsidiaries. This shift of policy has been most expressive in Brazil, where several state-owned banks have been privatized and sold to foreign owners. At the same time, the authorities have been more than willing to permit the purchase of under-capitalized local institutions by large foreign banks. Responding to these changes, the most active United Kingdom investor by far has been HSBC Holdings plc.

HSBC has assembled an extensive Latin American branch network with a total of more than 1,700 branches in 10 countries of the region. Its presence is most strongly marked in Brazil, where the bank currently operates more than 1,400 branches following the acquisition of Banco Amerindus in March 1997 for \$1 billion. In the same month HSBC also assumed control of Banco Roberts in Argentina for \$600 million, while in January 1998 the bank increased its presence in the Mexican market when it acquired 19.9 percent of Grupo Financiero Serfin for \$145 million. HSBC's strategy in Latin America has been marked by its growth through acquisition rather than organic means.

Despite the scale of the opportunities on offer, other United Kingdom banks have, in the main, avoided rapid expansion into the Latin American market. Lloyd's Bank plc., with a longstanding presence throughout the region, appears to have opted for a more organic approach to growth. Unlike HSBC, it has eschewed entry into the mass retail market, opting instead to concentrate on corporate banking and the higher net worth personal sector. Royal Bank of Scotland plc. has also resisted rapid expansion into the region. However, it did provide financial backing to its partner institution Banco Santander in its 2001 purchase of the São Paulo State Bank (Banespa).

In the insurance sector, United Kingdom institutions have attained a relatively strong position in the countries in which they operate. After a period of expansion, CGU Seguros (a division of CGNU plc.) now constitutes one of Brazil's largest insurance groups while Royal and Sun Alliance has secured an important foothold in the Chilean market following its acquisition of a 40 percent stake in the La Construcción insurance group in late 1997.

British Investment Strategies in the Latin American Oil and Gas Sector

While British investment might have been relatively slow to respond to market liberalization in the public utilities sectors, the same cannot be said in the case of the energy sector. Over the past decade, especially in Argentina and Brazil, public policy has shifted increasingly in favor of encouraging foreign participation in the development of national oil and gas sectors. In the case of Brazil, there has been a flood of new foreign investment in the exploration sector following the abolition of Petrobras's statutory monopoly in 1995. In the case of Argentina, foreign participation in the sector has been stimulated both by the privatization of the state oil company YPF and the construction of a pipeline that will eventually transport gas to southern Brazil. Opportunities have also been presented by the region's largest oil and gas producer, Venezuela, whose state oil company PDVSA has signed a series of production agreements with foreign oil companies.

As a result of these developments, there has been a substantial upturn in United Kingdom investments in the Latin American oil and gas sector, most especially in the field of exploration (see Table 5.6). Following the auction of exploration blocks in Brazil during 1998 and 1999, BP Amoco, Amerada Hess and Royal Dutch/Shell have all begun offshore drilling operations.¹⁸

The United Kingdom's involvement in the development of the Brazilian energy sector extends well beyond offshore exploration. In April 1999 another British enterprise, BG Group, and Royal Dutch/Shell acquired control of São Paulo State's leading distributor of gas, Comgás. The purchase of Comgás came at a strategic moment in the development of the Brazilian gas sector with the construction of the Bolivia-Brazil natural gas pipeline. With the pipeline completed, Comgás will begin to roll out the distribution of Bolivian natural gas, allowing it to increase total gas supply to 7 million cubic meters per day (3 million will originate from Brazil and 4 million from Bolivia). Taking advantage of improving supply conditions, Comgás has announced its intention to expand market share by extending its operations to a further three cities from its present 21.¹⁹

Table 5.6. Exploration and Production Activities of United Kingdom Resources Enterprises in the Latin American and the Caribbean Oil and Gas Sector

Enterprise	Country	Activity
Amerada Hess	Brazil	Offshore exploration
BP Amoco	Argentina	Onshore exploration & production
	Bolivia	Gas distribution
	Brazil	Offshore exploration;
	Colombia	Onshore exploration & production
	Venezuela	Onshore production
British Borneo	Brazil	Offshore exploration
Lasmo	Venezuela	Onshore production
Royal Dutch/Shell ²⁰	Argentina	Onshore production and exploration
	Brazil	Offshore exploration & production
	Colombia	Offshore exploration
	Peru	Onshore exploration
	Suriname	Offshore exploration
	Trinidad and Tobago	Offshore exploration
	Venezuela	Offshore production

Source: Corporate websites.

In the Southern Cone's expanding natural gas market, BP Amoco has acquired a 60 percent stake in the Buenos Aires-based Pan American Energy (PAE) and a 30 percent stake in the Bolivian enterprise Empresa Petrolera Chaco (Chaco). Both enterprises have developed significant production interests, with PAE producing and distributing natural gas for both the domestic markets, and via pipelines, for the Brazilian and Uruguayan markets. The significant feature of United Kingdom investments in the Brazilian, Argentine and Bolivian gas sectors is that the assets being created form part of an emerging trans-national energy transmission network. With the completion of the Brazil-Bolivia gas pipeline and the eventual extension of the Argentina-Uruguay pipeline to Porto Alegre in Southern Brazil, United Kingdom enterprises are playing an important role in addressing south-eastern Brazil's acute energy shortage.

At the same time, United Kingdom energy enterprises have continued to invest in more established oilfields. In the case of Colombia, BP-Amoco—which has operated in the country since 1918—has begun development of the Cusiana and Cupiagua field, where production should begin this year. In neighboring Venezuela, BP-Amoco, Royal Dutch/Shell and Lasmo have all invested substantially, though with the emphasis tending to rest on production rather than exploration. The expansion into Latin America has been especially

significant for Lasmo, which in 1997 won a contract to operate the Dacion field, one of Venezuela's largest.

Conclusions and Prospects

Over the past five years the United Kingdom has retained its position as one of the most important direct investors in Latin America. Encouraged by macroeconomic stabilization, market liberalization and the growing internationalization of corporate strategy, British enterprises have generally increased their presence in Latin American markets at a time when their foreign counterparts, too, have been extremely active. In line with historical patterns, United Kingdom direct investment in the region has tended to be concentrated in a subset of Latin America's largest economies. As Latin America enters the twenty-first century, however, the question arises as to whether the United Kingdom will continue to contribute strongly to the region's direct investment inflows.

From the analysis of the corporate case studies it can be said that the prospects are relatively favorable, with the majority of enterprises analyzed showing no sign of wishing to diminish their investment presence in the region. As far as the potential for the actual expansion of United Kingdom investment is concerned, the case studies suggest that firms in the services sector will play a more important role as market liberalization proceeds and technological change accelerates. In order to gain a broader view of the future prospects for United Kingdom investment in the region—and to grasp in general terms the factors currently underpinning it—a sample survey of major United Kingdom investing enterprises was conducted (see Annex B). The limited size of the sample precludes the drawing of robust conclusions; nevertheless, the survey does offer some interesting insights.

Among the fifteen enterprises questioned the factors most commonly viewed as important in determining investment flows were macroeconomic stability, political and social stability, and foreign investment legislation. Of the enterprises surveyed, an overwhelming majority felt that local taxes and subsidies, agricultural production potential and the host country's membership of an integration grouping were less important factors in determining investment levels. Turning to the obstacles facing United Kingdom investors in Latin America, the barriers most often cited by respondents were local regulation and bureaucracy, political instability and legal/judicial insecurity. Importantly, all of these factors are more connected with the political and social sphere than with the economic environment *per se*. Issues more directly connected with the latter—such as fear of devaluation, problems with capital repatriation and local taxation levels—ranked lower on the list of investors' concerns. These findings appear to indicate that policy makers, in their quest to attract investors, should be at least as concerned with political and social issues as with the more specific economic issues normally assumed to constitute the prime concern of multinational corporations.

On balance, therefore, the likelihood is that the United Kingdom based enterprises will continue to occupy an important position among major foreign investors in the region. The strategic imperatives underpinning United Kingdom investors' commitment to the region will be several. For many enterprise—especially in the consumer goods sector—the focus will be on driving up market share in mature product areas. In the case of the public utility sectors, the pursuit of market share will also be a factor, as will the profitable exploitation of acquired

technologies and managerial skills. The latter will also prove of significance in United Kingdom energy companies' efforts to gain access to promising new oil and gas fields throughout the region.

However, these favorable prospects should not obscure the need for caution. As the survey results point out, significant internal obstacles to investment remain in place across Latin America and the Caribbean. Moreover, as the events of the past three years have demonstrated, the region as a whole remains highly vulnerable to adverse shifts in the international financial climate. For this reason, if no other, United Kingdom enterprises are likely to exercise more than an element of caution in formulating their investment strategies for the region.

NOTES

- ¹ Dunning (1993, Table 4.2, pp. 82–83 reproduced in Dicken (1998)).
- ² *Ibid.*
- ³ Unilever annual report and accounts; Unilever Website.
- ⁴ Unilever press release, 17 November 1999.
- ⁵ Unilever press release, 2 March 2000.
- ⁶ ICI Corporate Website.
- ⁷ *Ibid.*
- ⁸ Arbix and Zilbovicius (1997).
- ⁹ Enterprises taken over have included such prominent Brazilian firms as Freios Varga (by Lucas Varley of the United Kingdom (now Lucas Varley of the United States)) and Metal Leve (by Mahle of Germany).
- ¹⁰ Bloomberg, 8 January 2001.
- ¹¹ BT Corporate Website.
- ¹² The remaining stakes are held by the Argentine government (25 percent) and the employees of Transener and the industry body responsible for managing the wholesale market (10 percent).
- ¹³ National Grid Corporate Website.
- ¹⁴ *Ibid.*
- ¹⁵ National Grid holds a 50 percent stake in the venture while Manquehue Telephonic and Williams Communications respectively hold 30.1 percent and 19.9 percent.
- ¹⁶ Gas pipeline ducts are employed in the Trans-Andean section.
- ¹⁷ National Grid Corporate Website.
- ¹⁸ In the case of BP-Amoco, the enterprise is currently carrying out exploration activity in two blocks around 300 kilometers north of the mouth of the Amazon river. In one of the blocks—BM-FZA 1—Royal Dutch/Shell and British Borneo have embarked on a joint venture with BP, Esso and Petrobras, with BP and Esso each having acquired a 12.5 percent interest in the operation. Further south, along the coast of Espírito Santo, Royal Dutch/Shell has acquired a 35 percent interest in Block BC-10, with Petrobras, Esso and Mobil holding the remaining stakes. Amerada Hess, meanwhile, has acquired interest in six deepwater exploration blocks off the Brazilian coast stretching from Ceará in the northeast to the Santos Basin in the southeast.
- ¹⁹ Comgás Corporate Website.

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Chapter 6. France

Javier Santiso * ¹

Introduction

In the 1990s French companies began an extensive and accelerated process of internationalization. French FDI abroad increased strongly after 1985, and especially after 1995. Since then French investment has been concentrated not only in European countries and the United States, but has spread significantly to the emerging economies of Asia, Eastern Europe and, particularly, Latin America and the Caribbean.

French firms employ some 2.5 million workers abroad. The large industrial groups alone employ more than a million workers outside France, with the low-wage countries accounting for 10 percent of this investment and 27 percent of total French employment overseas. French FDI stock is worth over \$45 billion, 6 percent of the world total.² Although this international expansion has involved all sectors of activity, it has been led mainly by the large business groups, with French small and medium enterprises (SMEs) revealing more limited international dynamism, especially in emerging countries. The large firms strongly developed their overseas production in the 1990s and Latin America, among other regions, became a very significant area of expansion.

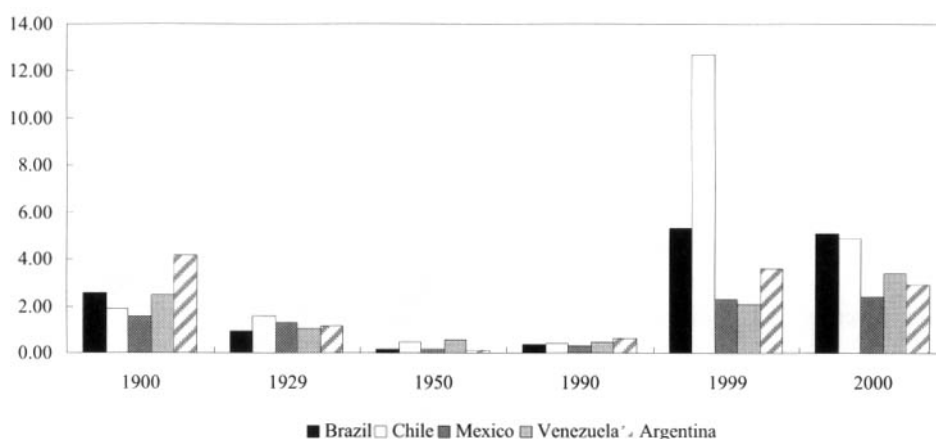
This chapter distinguishes between large French firms and SMEs in their internationalization towards Latin America.³ After examining economic relations between France and Latin America, using data from the Banque de France and the Ministry of Economy, Finance and Industry, it presents a more qualitative analysis of French business presence based on an examination of the international development of French multinationals in the region. To aid understanding on the French presence in Latin America the chapter examines in particular the strategies of large French firms, presenting a general framework illustrated by concrete examples. It analyzes this development using the results of a survey carried out at the end of 2000 and the start of 2001 in the form of a questionnaire, prepared by the Special Office in Europe of the Inter-American Development Bank and sent out with the support of Medef (French Enterprises Association) to French firms operating in the region. This has been complemented by a series of interviews in Paris, São Paulo and Buenos Aires with executives of the main multinationals present in the region. The chapter also examines the presence of French SMEs in Latin America using some of the results of an extensive study conducted in 2000 with the support of the European Office of the IDB.⁴

* Research fellow at the Centre d'Etudes et de Recherches Internationales (Sciences Po), France, and Visiting Professor at SAIS, Johns Hopkins University.

The Acceleration of the French Presence in Latin America: An Example of Business Internationalization

The business presence of Europe, and especially France, in Latin America is of long standing. At the start of the twentieth century Latin America accounted for a significant relative share of FDI flows, with a massive European (and particularly British) presence (see Figure 6.1). These flows were also important in the case of France: Latin America accounted for 14 percent of total French FDI in 1914 (compared to 20 percent for the United Kingdom and 16 percent for Germany).⁵

Figure 6.1. FDI Flows to Latin America, 1900-2000
(Percentage of GDP)



Source: Santiso, 2001; calculations based on Taylor, 1999; Maddison, 1995; ECLAC and UNCTAD, 2000; Banco Central do Brasil and Banco de Mexico, 2001; Chilean Foreign Investment Committee, 2001.

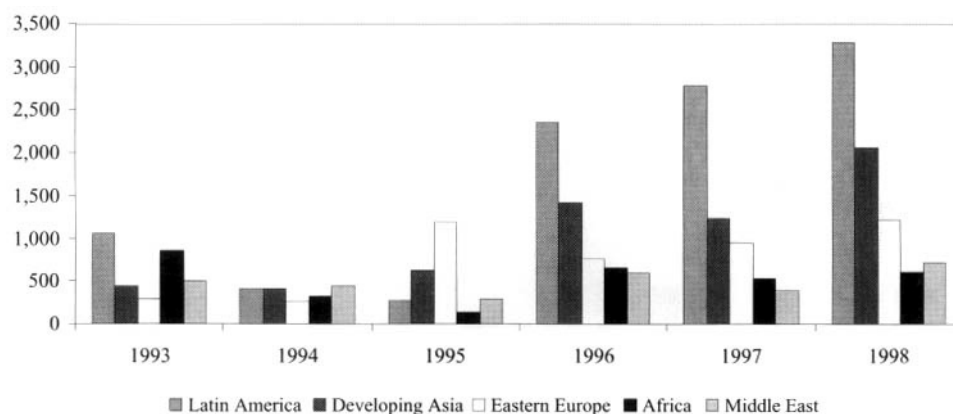
This presence, however, declined in the course of the twentieth century, although not uniformly so. Europeans only resumed significant investment in Latin America during the last decade of the century. According to the latest AT Kearney survey, published in February 2001,⁶ Brazil has become the second-ranked emerging economy after China in European firms' decisions on where to invest. In some countries, particularly in the Southern Cone, the European and French presence is particularly strong. In 2000, French FDI flows to Brazil accounted for more than 8 percent of total FDI in Brazil. France thus became the fourth largest investor in the country after Spain (21 percent), the United States (20 percent) and Portugal (10 percent) (Banco do Brasil).

It is also worth noting that the French presence in Latin America is no longer insignificant in terms of global French FDI. In the AT Kearney study, French companies highlight Brazil as one of their three main FDI priorities for the next few years. French FDI in Latin America exceeds that to other emerging regions such as Asia.

French FDI has continued to increase over recent years. In 1998 France—in terms of flows—became the fifth largest investor in the world, behind the United States, the United Kingdom, Germany and Japan. The following year France became the third largest investor, with an increase of almost 150 percent in flows between 1998 and 1999.

Although most French FDI was directed at European countries (51 percent of the total in 1999) and the United States (28 percent), there has been a dramatic increase in investment in emerging countries over recent years (see Figure 6.2). This is especially the case in Latin America, where French investment flows increased by 50 percent in 1997, a trend that is still continuing (see Figure 6.3). In 1998⁷ French FDI flows to Latin America reached \$3.8 billion (out of a total FDI figure of \$35 billion), having tripled since 1993.⁸ Although there was a slowdown in direct investment in Latin America the following year, it still reached \$3.2 billion.

Figure 6.2. Evolution of French FDI in Emerging Countries, 1993-1998
(In millions of U.S. dollars)



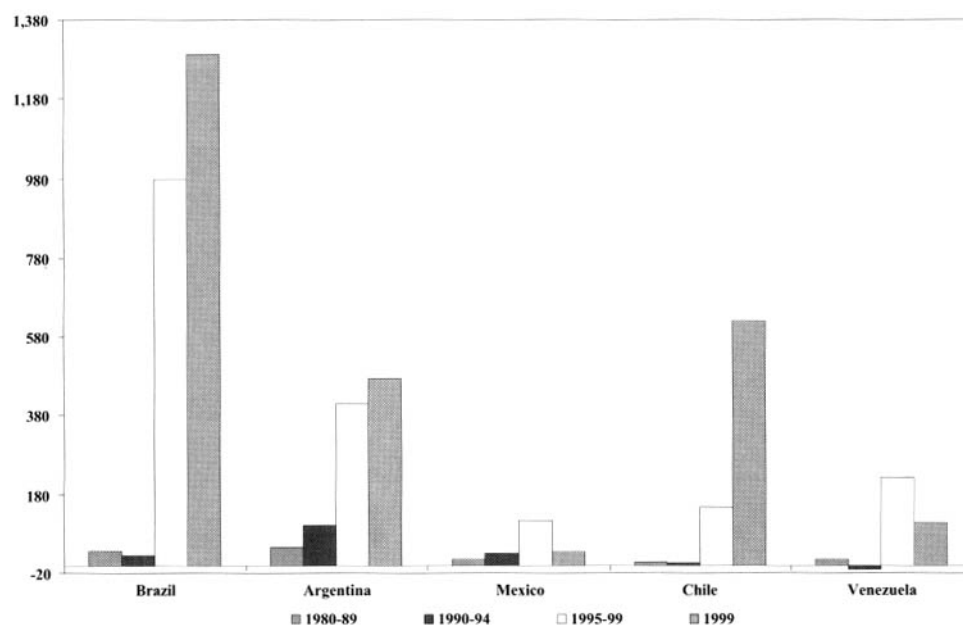
Source: Santiso, 2001; based on Direction des Relations Economiques Extérieures (DREE), Ministère de l'Economie, des Finances et de l'Industrie, 2000; and Banque de France.

In 1998 French FDI in Latin America reached 9 percent of total French FDI flows to the world, compared to only 1 percent in the mid-1990s. After 1996—that is, even before the Asian crisis—Latin America again became the most important emerging region for French FDI, ahead of Asia. This trend has been confirmed in recent years, with Asia (\$1.2 billion of FDI in 1998) trailing Africa/Middle East (\$1.3 billion) and Eastern Europe (\$1.2 billion). In Latin America the main recipients of French FDI are Brazil (ranked ninth in the world in terms of stock in 1998), Argentina (ranked 11), Mexico (ranked 22), Chile (ranked 36), Panama (ranked 39) and Venezuela (ranked 40).

The Southern Cone countries, especially the two major MERCOSUR economies and associate member Chile, are the main Latin American recipients of French FDI, both in terms of flows and stock.⁹ In 1998 MERCOSUR accounted for almost 77 percent of French FDI

stock in the region (60 percent in 1990). In 1998 Brazil represented 56 percent of French FDI stock in Latin America, ahead of Argentina (20 percent) and Mexico (5 percent) (see Table 6.1). French FDI in Mexico is still limited and has even fallen in relative terms (in 1990 it accounted for 7.3 percent of French stock in Latin America). EU and French investment might, however, increase with the EU-Mexico free trade agreement.¹⁰

Figure 6.3. French FDI Flows to Latin America, 1980-1999
(Outflows in millions of U.S. dollars)



Source: Santiso, 2001; based on DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000; and Banque de France.

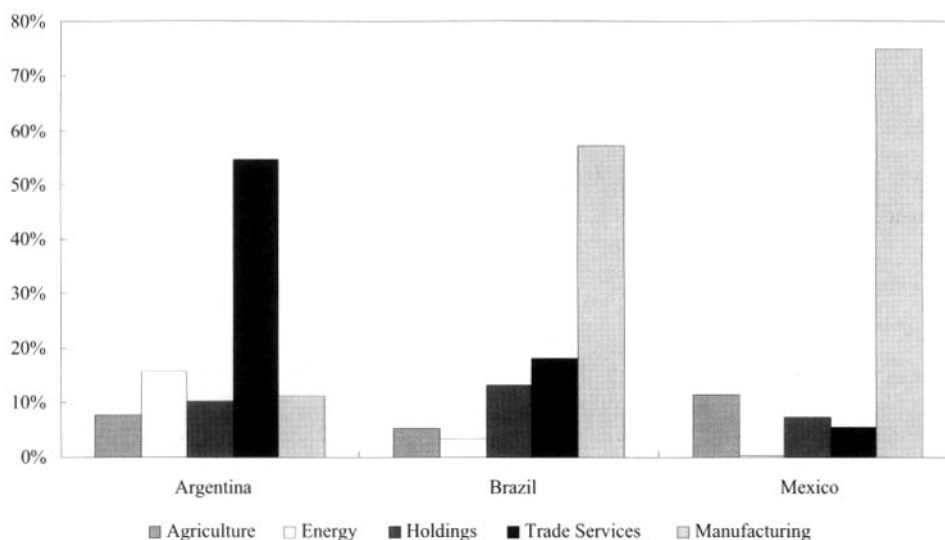
With regard to the sectoral distribution of this investment in the region, the French presence is concentrated in industry (40 percent of total French FDI stock in 1998), although this has diversified in recent years, especially in terms of commercial services (33 percent), energy (7 percent) and agriculture (5 percent) (see Figure 6.4). However, among the main Latin American economies there are differences in the sectoral distribution of French FDI. Of particular note is manufacturing investment in Mexico (75 percent of total French FDI stock in the country in 1998) and commercial services in Argentina (55 percent of the total). In Chile, French FDI is mainly concentrated in commercial services (90 percent of total stock in 1998) and banking services.

Table 6.1. France: FDI Stock in Latin American and Caribbean Countries, 1990–1998

	1990		1995		1998	
	US\$ millions	% share	US\$ millions	% share	US\$ millions	% share
Latin America / Caribbean	2,489	84.5%	5,936	82.3%	11,222	82.3%
Argentina	384	13.0%	1,436	19.9%	2,744	20.1%
Brazil	1,345	45.7%	3,743	51.9%	7,618	55.9%
Chile	377	12.8%	326	4.5%	135	1.0%
Colombia	9	0.3%	—	—	—	—
Mexico	216	7.3%	371	5.1%	676	5.0%
Uruguay	41	1.4%	—	—	—	—
Venezuela	113	3.8%	60	0.8%	49	0.4%
Andean Community	122	4.1%	60	0.8%	49	0.4%
MERCOSUR	1,773	60.2%	5,179	71.8%	10,362	76.0%
Offshore centers	429	14.6%	975	13.5%	1,467	10.8%
Other countries	27	0.9%	300	4.2%	942	6.9%
Total	2,945	100.0%	7,211	100.0%	13,631	100.0%

Source: Banque de France.

Figure 6.4. French FDI Stock in Latin America: Sectoral Distribution
(Percentage of the total)



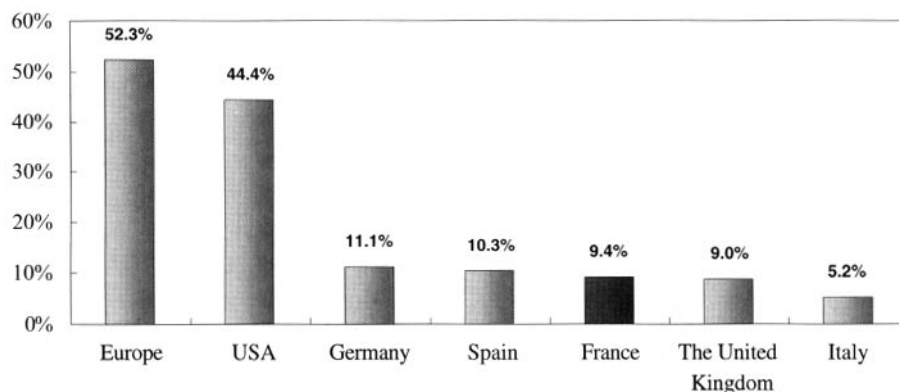
Source: Banque de France.

The Accelerated Internationalization and “Latin Americanization” of French Multinationals

The growing presence of French investors in Latin America in the 1990s cannot be fully grasped unless the overall process of internationalization of French multinationals in that decade is taken into account. In the face of competitive pressures in their local markets and the search for profits and areas of expansion, the multinationals began an extensive process of diversification and international expansion (see Box 6.1). The UNCTAD reports on transnational companies suggest that this phenomenon was generalized at the European level (see also John Dunning’s chapter in this volume). The French case is also significant, in that France surpassed a number of other European countries in having 11 of its multinationals included among the leading 100 foreign firms in Latin America, ahead of Germany and Switzerland (seven each). With regard to the consolidated sales of the leading 100 foreign firms in Latin America, France accounted for 10 percent of the total, the third largest share in Europe behind Spain and Germany (Figure 6.5).

French multinationals, like their OECD counterparts, embraced globalization in the 1990s. UNCTAD’s transnationality index, which includes three main variables—overseas assets, sales and employees overseas as a percentage of the total—increased in the case of France from 51 percent in 1990 to 59 percent in 1998. Although France lags behind many European countries, it has one of the highest growth rates in terms of its transnationalization.

Figure 6.5. Consolidated Sales of the Leading 100 Foreign Firms in Latin America
(Percentage of the total)

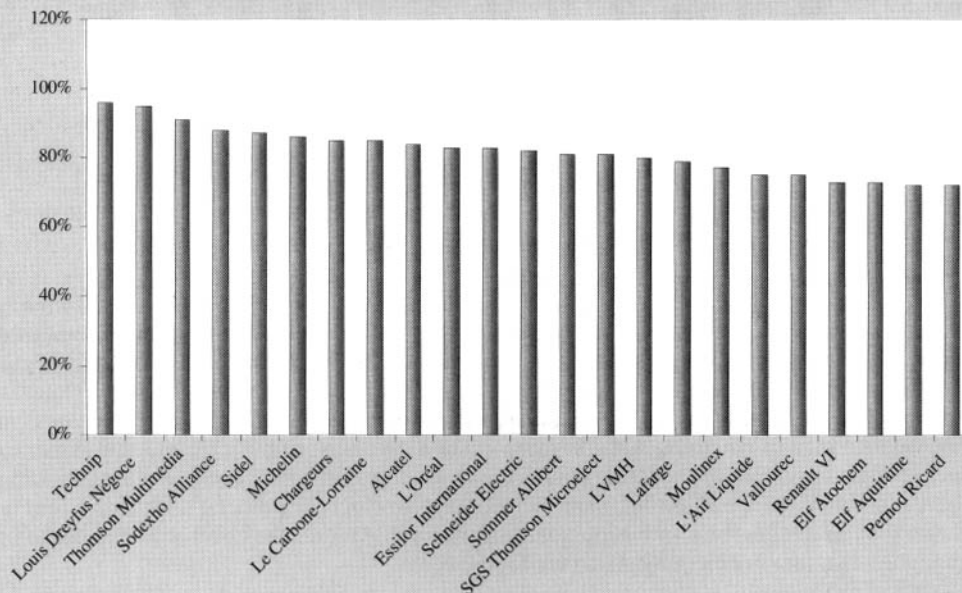


Source: Santiso, 2001; based on UNCTAD and ECLAC reports, 2000.

Box 6.1. The Internationalization of French Companies

The French multinationals are the main actors of internationalization, accounting for 75% of French exports and for an even greater share of FDI. The foreign-sale-volume/total-sale-volume ratios of the 15 largest exporting multinationals are above 80 percent. Of particular note in this respect are the energy sector (11 percent of the 2,500 leading French internationalized groups), the transport material sector (10 percent) and electric and electronic production (10 percent).

Figure A. The 23 Leading French Exporting Multinationals
(Foreign sales volume / total sales volume, 2000)

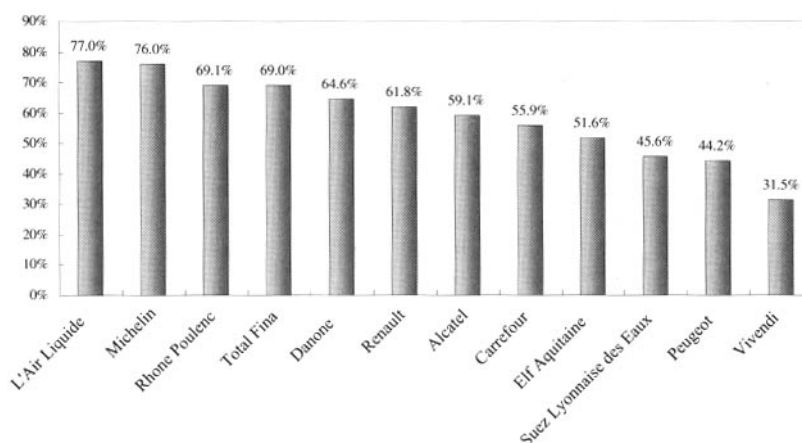


Source: Santiso, 2001; based on data provided by the Moniteur du Commerce International/ Centre Français du Commerce Extérieur.

There are still some firms that are not particularly internationalized and that have significant potential in this regard. This is particularly the case for France Telecom (before its acquisition of Orange) and, above all, in the utilities sector, EDF/GDF (Electricité de France/Gaz de France), which has hastened its international development in recent years. In 1999, affiliates accounted for 13 percent of the group's consolidated business volume (6 percent in 1998). At the end of 2000, EDF/GDF's international activities accounted for 18 percent of the company's consolidated business volume. According to company executives the international business volume should reach almost 50 percent of the total by 2005. Of note is that the internationalization of EDF/GDF, as of the Carrefour group, partly began in Latin America, particularly in Argentina and Brazil. The turnover of EDF/GDF in emerging countries accounted for 5 percent of the total in 1999; Latin America represented almost 3 percent of international business volume and 0.5 percent of total business volume. In Latin America, however, as in other emerging regions, entry opportunities are still seen as significant. This is especially true for Mexico, where France's presence is particularly low compared to the two Southern Cone countries.

Figure 6.6. French Multinationals in the Leading 100 MNEs in the World, 1998

(UNCTAD's transnational index, percentages)

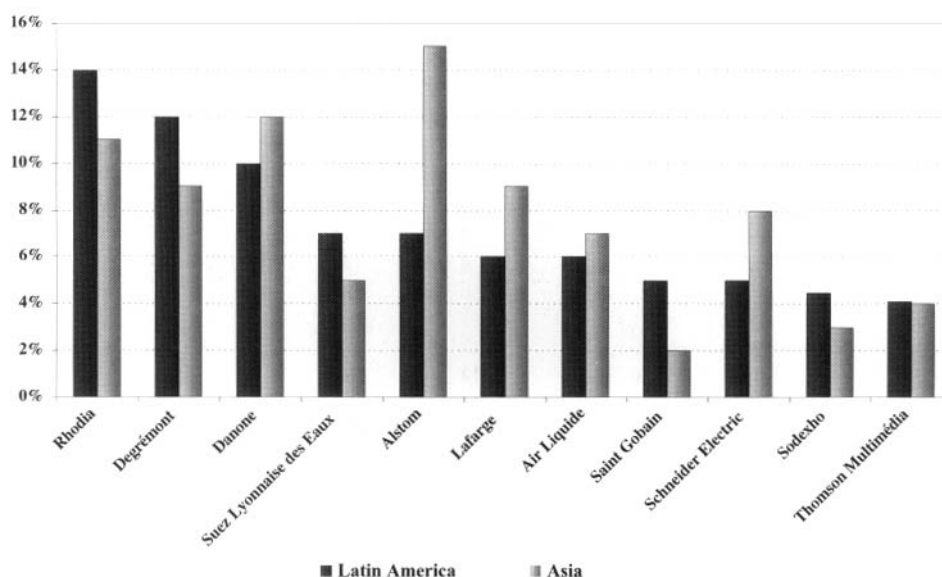


Source: Santiso, 2001; based on UNCTAD, 2000.

As Figure 6.6 shows, French multinationals in the list of most transnationalized companies have a significant presence in the region. Some of them, such as Carrefour, began their internationalization process in Latin America in the mid 1970s, before expanding later to other emerging regions. Many French multinationals now have a higher volume of business in Latin America than in emerging Asia. In many cases the volume of business in Latin America often exceeds 10 percent of the total. This is the case for groups that have had a longstanding presence in Brazil, such as Rhodia, Saint Gobain or Carrefour. For others, such as Alstom or Lafarge, the relative increase in business volume in Latin America has been comparable to or even higher than that in emerging Asia (see Figure 6.7).

French participation in the wave of mergers and acquisitions is also worth noting.¹¹ The Ministry of Economy, Finance and Industry carried out a survey on the transnationalization of French companies. Based on a Dun & Bradstreet database, it identified the world's 750 leading groups, their locations, where their affiliates are located, their volume of business and their number of employees.¹² The results help refine the previous transnationalization indicators, taking into account the level of dispersal or concentration of these locations. As expected, the United States groups dominate (around 300, or 40 percent of the sample), ahead of the European groups (197, or 26 percent of the sample). France is in fifth place in terms of the number of companies, behind the United Kingdom and Germany (see Table 6.2).

Figure 6.7. French MNEs: Compared Volumes of Business in Latin America and Asia
(Percentages of total volume of business, 1999)



Source: Santiso, 2001; based on annual company reports, 2000 and 2001 (the business volumes for Carrefour correspond to 2000).

Table 6.2. The Home Country of the Most Internationalized Groups in 2000

Number of groups among the leading 50 groups in the world			Number of groups among the top 750	
		%		%
United States	13	26	298	39
Netherlands	7	14	15	2
Switzerland	7	14	17	2
Germany	5	10	55	7
United Kingdom	5	10	65	9
France	3	6	37	5
Republic of Korea	2	4	15	2
Italy	2	4	8	1
Japan	2	4	169	22
Sweden	2	4	2	0
Norway	1	2	2	0

Source: DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000; based on Dun & Bradstreet database (World Base TM).

Table 6.3. Leading French Groups in the World

Name	Classification	No. of subsidiaries	No. of countries invested in
Total Fina	1	520	44
Lafarge	2	327	28
Michelin	3	98	25
Louis Dreyfus	4	89	19
Usinor	5	283	24
Renault	6	255	25
Elf Aquitaine	7	448	44
Peugeot	8	237	27
Axa	9	310	21
LVMH	10	276	35
Mousquetaires	11	303	9
France Telecom	12	273	19
Société Générale	13	374	32
Financière d'Ivry	14	21	6
Carrefour	15	118	14
Caisse mutuelle agricole	16	152	14
Gaz de France	17	50	7
Foncière Euris	18	43	5
CCF	19	285	21
Dexia	20	120	10
Crédit Lyonnais	21	203	26
EDF	22	131	13
Air France	23	34	6
BNP	24	824	39
Airbus	25	14	4
SNCF	26	188	8
La Poste	27	62	8
CNCA	28	315	26

Source: DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000; based on Dun & Bradstreet database (World Base TM).

The classification in Table 6.3 also helps verify the fact that the most internationalized French groups are also almost all located in Latin America, such as the oil group Total Fina (now Total Fina Elf after its merger in 2000). This oil company is in ninth place in this classification (which combines internationalization and concentration), far ahead of Lafarge (30) and Michelin (32), which also have a strong presence in Latin America.

In sum, the presence of French companies in Latin America continued to grow in the 1990s. The region not only became the main emerging recipient of French FDI but the favored area for the internationalization of many French multinationals. As for their Spanish counterparts, it was in this region of the world that these companies learned the rules of globalized markets. Many of these multinationals, following the example of Carrefour, embarked on the path to globalization on the (often forked) roads of Latin America.

The Strategies of French Multinationals in Latin America

The strategies of French multinationals in Latin America can be classified using the “eclectic paradigm” first developed by Dunning.¹³ On the basis of an earlier study,¹⁴ these strategies can be characterized in three types for French investors operating in the region.

The first type of strategy corresponds to investors that seek to optimize local natural resources (*resource-seeking*). This strategy is traditionally present in Latin America, which has a large supply of raw materials and agricultural goods. The strategy also includes investment in petrochemicals, agrochemicals and metallurgy. It is characterized by a lack of interaction with the local economy, since the raw materials are exported while equipment is imported. Companies such as l’Air Liquide, Usinor and, above all, Total Fina Elf are examples of French multinationals that have adopted resource-seeking strategies. The Usinor case is particularly interesting because of its MERCOSUR entry strategy at the end of the 1990s. Brazil emerged as an important industrial base, and Usinor adopted an internationalization strategy in a country where its main clients—particularly automotive sector operators—had investments. In 2000 the volume of business outside the OECD reached 9 percent, and Latin America (Brazil) accounted for most of the investment in the emerging economies. After the merger between Usinor, Arbed and Aceralia, the renamed Newco group became a world leader (although in a steel market that remains dispersed)¹⁵ and will continue to develop strongly in Latin America, particularly in Brazil.

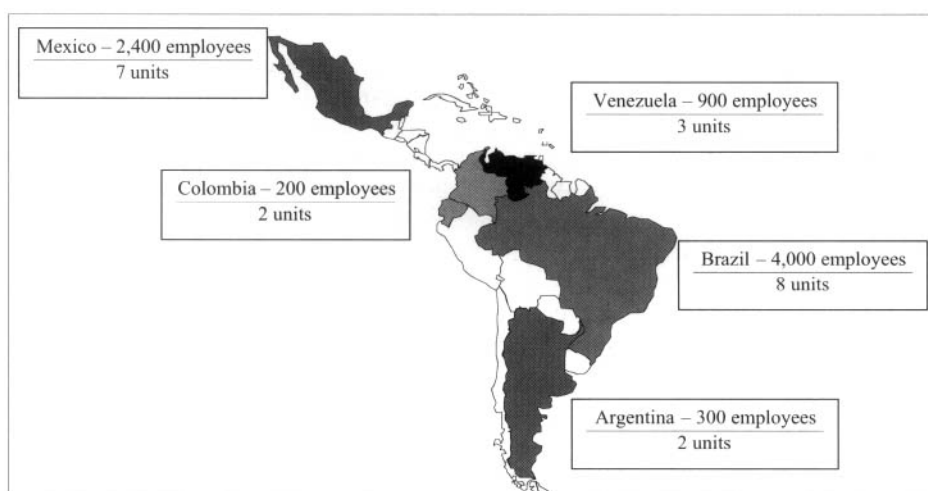
For a company such as the oil firm **Total Fina Elf**, the world’s fourth largest oil group,¹⁶ Latin America was a growth region with great potential. Before the merger with Elf, the American continent accounted for 25 percent of Total’s world reserves. For the new Total Fina Elf this share fell to around 10 percent. Latin America, however, remains one of the most important and strategic regions for the new group in terms of its growth potential. The group has a number of projects in the region, particularly in Venezuela with the 35-year \$4 billion Sincor project (Total Fina Elf, 47 percent). The group is also gradually making significant gas finds in Bolivia, and is actively participating in reshaping the energy geography of the Southern Cone. It also carried out an assessment of its Argentine gas reserves, largely to increase its access to local consumer markets, and has participated in developing various pipelines in Argentina and Chile, as well as the Bolivia-Brazil pipeline. In Argentina, Total Fina Elf is currently the second largest gas producer, with operational production of around 20 million cubic meters a day. Its main production zones are concentrated in the Neuquén region near the Andes mountain range and in Tierra del Fuego. The company is also conducting exploration, especially in the maritime zones of Tierra del Fuego. This presence also has a regional dimension since Total Fina Elf has a presence in the Southern Cone, making it one of the main players in the reorganization of MERCOSUR’s energy map. Hence the Neuquén gas is not only destined for the Argentine market (it meets 45 percent of the country’s total energy needs) but also for Santiago in Chile. In future some production will go to Brazil through the TransurBrasil gas pipeline, which is currently under construction. The Bolivian gas reserves discovered in the 1990s are also destined for the large Brazilian market through the Bolivia-Brazil gas pipeline that came on tap in 1999.

A second type of internationalization strategy involves multinationals that emphasize market operations (*market-seeking*), giving priority to meeting internal or regional demand when, for example, they operate at the MERCOSUR level. This investment, which involves sectors where product differentiation is a strategic asset, includes manufacturing and service

companies. Many French multinationals invested heavily in these sectors in Latin America, notably large groups such as Danone, Alstom or Suez Lyonnaise des Eaux, but also large industrial and distribution operators like Carrefour (whose international strategy is one of the most “Latin Americanized” and interesting, and has been analyzed in the study by Santiso and Giordano, 2000).¹⁷ In the 1990s these market-seeking companies invested in Latin America, largely because of the need to find markets with strong potential for demand growth and in order to get closer to clients. Hence they have increasingly differentiated the product supply and have given growing strategic importance to commerce-related services.

The **Alstom** group’s longstanding presence in the region was consolidated in the mid-1990s. Alstom is now present in most Latin American countries, including Mexico, Venezuela, Colombia, Peru, Chile, Argentina and Brazil. Besides its commercial activities it has also developed a significant industrial presence in Latin America (see Figure 6.8). The region has thus become one of the group’s main strategic development centers. In 2000–2001, South America accounted for more than 7 percent of its total trade volume, and more than 13 percent if Mexico is included in the Latin American total (a level comparable to that in Asia). Above all the group developed a regional strategy that operationally separates MERCOSUR and NAFTA. Mexico is included in the North American sub-group, while Brazil is the second coordination center for the South American sub-group. This type of organization also reflects the intention of most French market-seeking operators in Latin America to get closer to the market.

Figure 6.8. Alstom’s Industrial Presence in Latin America in 2001



Source: Alstom, 2001.

The **Danone** example illustrates well the extent of internationalization among French multinationals in the 1990s. In this specific case, as in many other examples of French companies, Latin America played a central role. Danone significantly expanded its international presence in less than 10 years, and its volume of operations outside Europe increased from less than 10 percent of the total in 1990 to almost 40 percent in 2000 (see

Table 6.4). The French multinational's turnover in Latin America is currently comparable to that in Asia and to that of its main global competitors, Nestlé and Unilever.

Emerging countries account for around a third of Danone's turnover. Latin America (mainly Argentina and Brazil, where most of this presence is concentrated) accounts for 10 percent of business volume (compared to 12 percent for emerging Asia, including China and India). In the emerging countries the biscuit and water divisions grew most rapidly. In 1999 these divisions respectively accounted for 34 percent and 35 percent of the group's turnover in emerging countries, and Latin America was a particularly dynamic growth area. The strategy basically consisted of hastening the launch of Danone's presence by acquiring strong brands with large market shares (such as Argentina's Bagley).

Table 6.4. Geographical Distribution of Turnover of Danone, Nestlé and Unilever in 2000

Regions	Danone	Nestlé	Unilever
Europe	60.0	36.0	36.0
North America	11.0	30.0	26.9
<i>Developed countries, total</i>	<i>71.0</i>	<i>66.0</i>	<i>63.6</i>
Asia, Oceania	12.0	23.7	15.8
Latin America	10.0	7.2	12.0
Eastern Europe	6.0	3.1	3.5
<i>Emerging countries, total</i>	<i>29.0</i>	<i>34.0</i>	<i>36.4</i>

Source : Danone, 2001; and brokers, 2001.

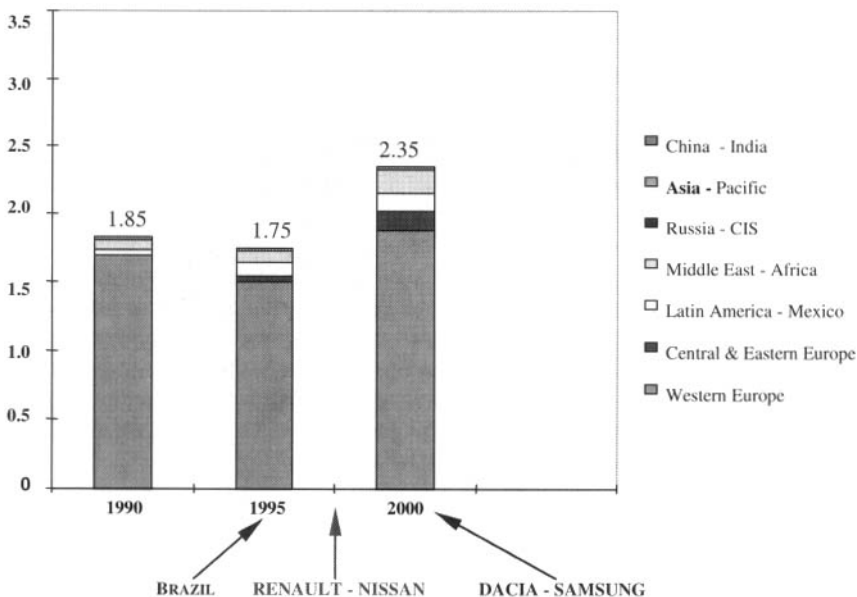
For **Suez Lyonnaise des Eaux** (Groupe Suez since March 2001), another of the leading French multinationals, Latin America was and remains a strategic growth area and the company has a strong presence in the region, above all in MERCOSUR (Brazil and Argentina). The group integrated its activities in the energy sector under *Electricidad y Gas Internacional* (EGI). It has made significant acquisitions in Latin America (such as the Brazilian operator Gerasul in 1998), concentrating most of its installed capacity (45 percent of the total) in the region, far ahead of the Middle East or Europe. Tractebel, the Group's Belgian subsidiary, increased its regional expansion in gas distribution in Mexico and in strengthening its presence in Chile. In the water sector Suez is one of the leading regional players, with a significant presence in Argentina (Suez supplies water to a total of 23 million Latin Americans). The group's internationalization differs from that of its French rival Vivendi. Vivendi Environnement's strategic development zones remain in the developed countries of Europe and North America. In 2000 the group's activities in the emerging economies of Asia and Latin America accounted for less than 3 percent of its total business volume. In contrast, almost 50 percent of Suez's total business volume is outside France and Belgium. Latin America is one of its main emerging areas of development, accounting for almost 8 percent of Suez's total business volume (compared to 5 percent for Asia) and almost 15.5 percent of the total at the international level.

In a third type of strategy, corresponding to *regionalization-globalization*, the existence of an integrated regional market is very important. Because of the significant economies of scale and the presence of an oligopolistic market, the main examples of this strategy can be found in the automotive sector. This sector is also characterized by a strong tendency towards concentration. In 1995 the world's six leading groups accounted for 50

percent of the global market, while by 2000 this share had increased to 80 percent. The MERCOSUR integration process entailed the formation of an enlarged market. Production was concentrated in the two main markets (Argentina and Brazil) because of complementarity between the specialization of affiliates in these two countries, and the region's automotive tax regime. This regional localization must also be viewed in the context of the global strategies of these companies, which manufacture models in MERCOSUR that are also made in other production centers. These centers in emerging countries can also be viewed as export platforms for other markets.

An important aspect of this strategy is, in some cases, the location of decision-making centers in the emerging markets themselves, closer to the regional markets. **Renault** is a case in point. The company completely reformed its organization in 1997 by relocating its regional (MERCOSUR) operational executive to Brazil. This strategic decision meant a return to a country that was well known to the group. In the 1990s the automotive industry clearly singled out the emerging markets, including Latin America (especially Brazil, Argentina and Mexico) as its main growth areas. The emerging markets' share of the world automotive market increased from 20 percent in 1990 to 24 percent in 1995. Estimates suggest that this figure will rise to 31 percent of the total by 2010. Renault rapidly increased its international presence after 1995, first by relocating production units to Brazil and subsequently by acquiring the Republic of Korea's Samsung Motors, Rumania's Dacia and Japan's Nissan (see Figures 6.9 and 6.10). In 2000, Renault's international sales accounted for 20 percent of the total. Latin America—Brazil, Argentina, Colombia and Venezuela—represented almost 30 percent of the company's international sales.

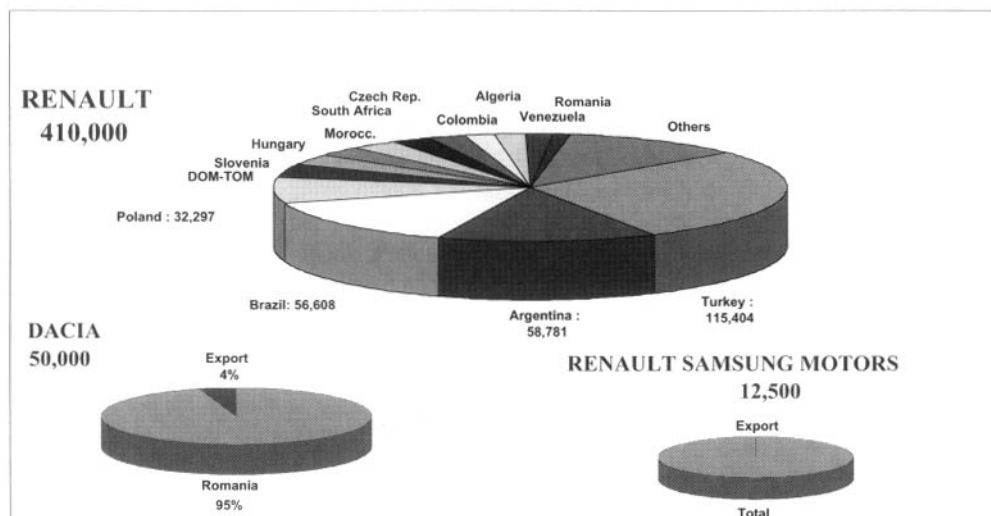
Figure 6.9. The Development and Diversification of Renault's World Sales
(In millions of units)



Source: Renault, Direction des opérations internationales, 2001.

As these different business examples indicate, the strategies of French companies in the region were very diverse. Besides the typology outlined in this study, however, it is also worth highlighting Latin America's singular importance for many of these multinationals during the 1990s. Although many of them had a traditional presence prior to the 1990s, all increased their investment, especially by returning to the region (Renault) or by internationalization via Latin America (Danone or the Suez Lyonnaise des Eaux group). These are not isolated examples; on the contrary, Latin America, like and even more so than emerging Asia, became a favored growth area for French multinationals seeking globalized markets.

Figure 6.10. Renault's Sales Outside of Western Europe, 2000
(In units)



Source : Renault, Direction des opérations internationales, 2001.

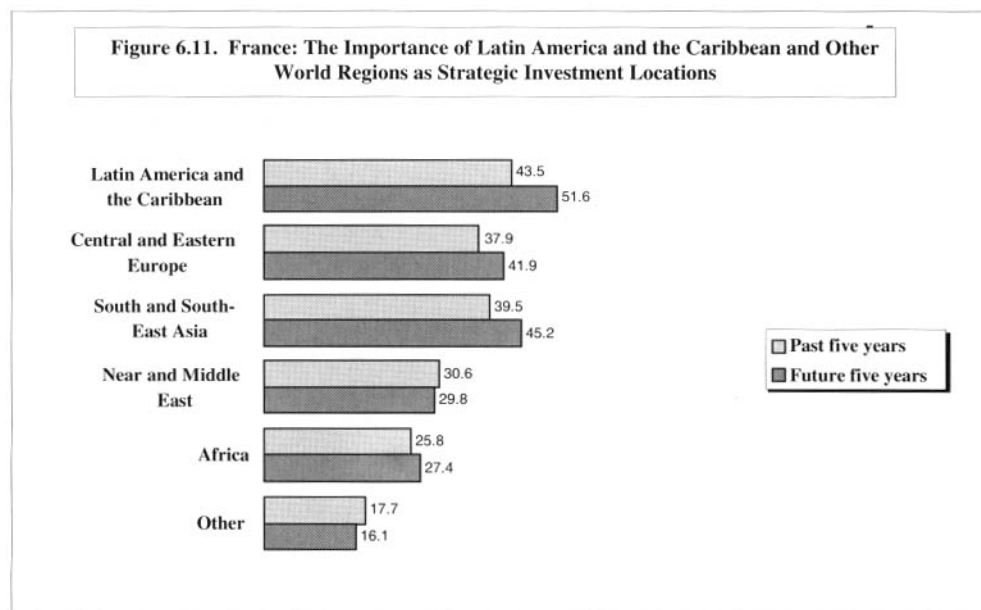
The Results of the Survey Conducted in France in 2000/2001

To better understand the French presence in Latin America and the importance of the region in French multinationals' globalization strategy, a survey was prepared by the Special Office in Europe of the Inter-American Development Bank—and distributed with the help of Medef, the French Enterprises Association—at the end of 2000 and the beginning of 2001 (for more information on the survey see Annex B). The results of this qualitative survey, in the form of a questionnaire supplemented by direct interviews, underline several features that can be put into perspective in view of the results of a previous (1998) survey.¹⁸

A total of 35 replies were received and 33 were taken into account. The response rate is comparable to the 1998 survey (25 responses used). As in the previous survey, the latest exercise also included the main French multinationals, which cover seven of the nine French multinationals in ECLAC's list of the 100 leading multinationals in Latin America. The survey also included 11 of the 20 leading French groups in terms of stock exchange

capitalization and turnover. Most of the surveyed companies are in the service sector (64 percent), notably transport, distribution and electricity operators. The manufacturing sector accounts for 33 percent of the total, far ahead of the primary products sector (2.5 percent). Around 20 percent of the companies have annual sales volume exceeding \$1 billion. The sample's employee data also reveals the presence of large multinationals (more than 22 percent have over 10,000 employees), although most are medium-sized multinationals (42 percent of firms have between 1,000 and 10,000 employees).

For the groups responding to the survey, Latin America accounts for a growing—albeit modest—share of their total business volume. Some 55 percent of respondents said that the region accounted for under 5 percent of their total business volume outside Europe, while only 6.5 percent said that it represented more than 20 percent. It is worth noting, however, that for most of these groups Latin America had been the main emerging region in terms of their direct investment strategy in the last five years, and would remain so for the next five years. This confirms what was said earlier: French companies were latecomers to the internationalization process but the process accelerated in the 1990s when the substantial increase in investment opportunities in Latin America (privatizations, deregulation, regional integration) created significant entry opportunities for French multinationals that were seeking to increase their international presence, particularly in the emerging economies. In the last—and subsequent—five years, the region has become the main strategic area for French multinationals: in terms of investment, the race to the Americas is part of an internationalization strategy.



The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey, 2001.

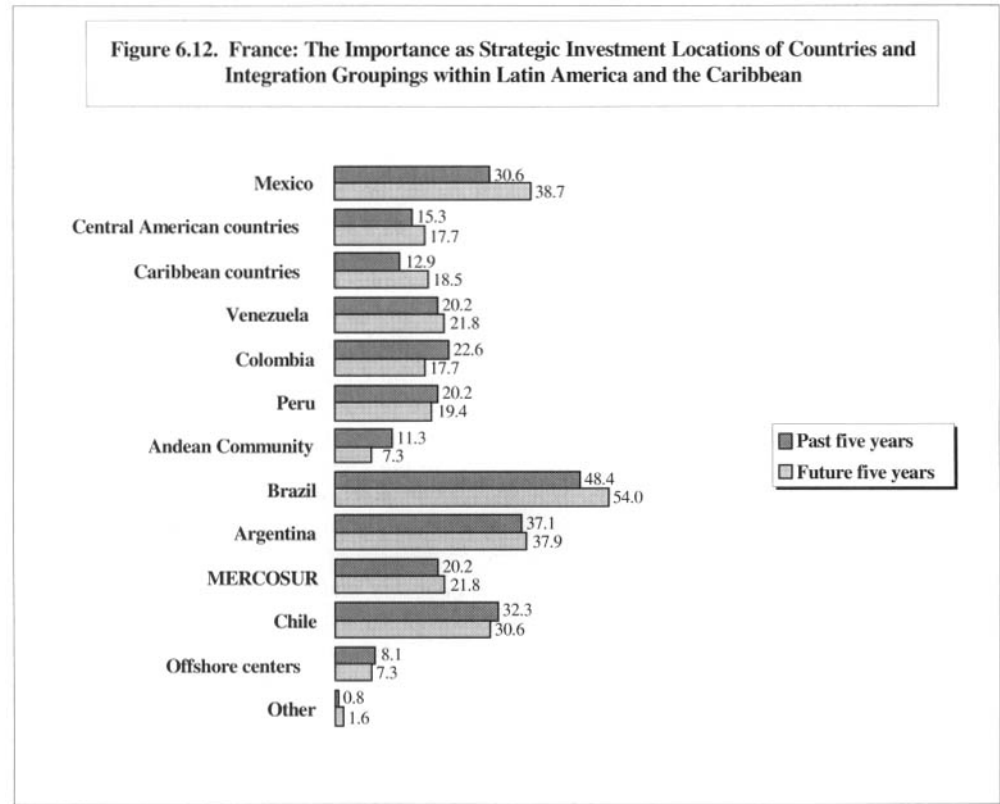
Figure 6.11 shows that Latin America, more than any other emerging region, is the main strategic investment zone for those French companies included in the survey. Respondents expressed a preference for Latin America above all others, both retrospectively and prospectively. Taking account of the trend, it can be said that all emerging regions show a progression that indicates a clear preference for emerging countries in the next five years (except the Middle and Near East). Latin America not only leads this list of prospective preferences but also evidences the main progression, with an increase of more than 8 points – far ahead of emerging Asia (+6 points) and Central and Eastern Europe (+4 points).

As in all such surveys, only those companies that have an interest in a particular region (in this case Latin America) will respond, but these data are in line with the aforementioned macroeconomic figures showing that Latin America—contrary to a dominant notion—has in fact become the leading recipient of French FDI among the emerging regions. Since the mid 1990s, and above all since the end of the decade, Latin America has been viewed as the main emerging region for the international development of French multinationals. The survey also shows that this interest in the region is likely to continue in the coming years. The 1998 survey (and direct interviews in Paris, Buenos Aires and São Paulo in February and March 2001) also show that this presence is long-term. The decision to invest in Latin America is based on a long-term time horizon. This is clearly the case for companies such as Saint Gobain and Carrefour, which have been present in the region for more than 60 and 25 years respectively. For the other companies, whose presence increased in or dates from the 1990s, the region also forms part of a long-term strategy. In the 1998 survey, 9 out of a total of 25 companies said they had had a time horizon of over 20 years, only 5 admitted operating with a short-term horizon (between 1 and 5 years) and 4 said they would withdraw from the region in case of a regional crisis (and not only national, in the case of some of the larger countries of the region). The interviews conducted between February and March 2001 corroborate this resolve. Although some of the groups interviewed admitted to engaging in or studying the possibility of industrial relocation within MERCOSUR, none is considering a withdrawal. On the contrary, some firms even viewed the crisis as an opportunity to consolidate their presence or, at least, said it has not had an impact on their long-term strategic vision in the region.

As regards the different Latin American countries, the 2000–2001 survey also highlights the large French groups' national preferences within the region as shown in Figure 6.12. Not surprisingly, the respondents expressed a preference for the main economies. Brazil is the main country in terms of investment strategy in the last five years and in the next five, followed by Argentina, Mexico and Chile. The French groups thus have a clear preference for the Southern Cone countries. As regards this group of countries, however, it is worth noting that Mexico records the main progression (+8 points), far ahead of Brazil (+6 points) and Argentina (+1 point). Chile is the only country in this group to record a slight negative progression. Note also the decline recorded by the Andean Community (more than –4.5 points). Colombia is largely responsible for this; Venezuela continues to make progress, while Peru remains stagnant in terms of the preferences of the firms interviewed. The progression of Central America, and particularly the Caribbean, is also noteworthy: they recorded significant progression in terms of the preference of French businesses (+2 and +6 points respectively).

Although the Latin American entry strategies of these companies were linked to the opportunities associated with privatization and the acquisition of existing operators, there was significant greenfield investment and, above all, an expansion of existing capacity. Figure

6.13 shows that some 39 percent of companies surveyed point out that in future they will invest in the region by expanding existing capacity (compared to 31 percent in the past), while operations linked to privatizations remain stable (11 percent in the past and future). However, there is a significant fall in greenfield investment (from 40 percent of the total in the past to less than 28 percent in the future).



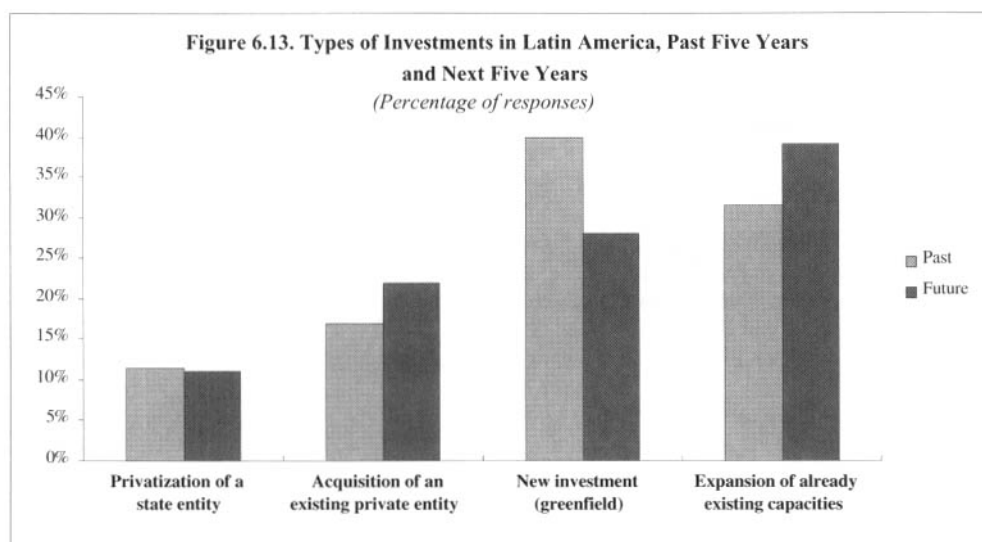
The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.
Source: IDB survey, 2001.

When investing in the region these companies operate alone (in 77 percent of cases) and without a local partner (23 percent of cases). Those that operate through a joint venture do so either with a local firm or through a holding company; a joint venture is rarely with a European company. Local partners are used because of the need to operate speedily and to lower the transaction costs attendant on a lack of knowledge of the local market. To improve knowledge of the local market and to reduce investment risks, the French multinationals also make wide use of local companies for consultation and sub-contracting (almost 70 percent of companies in the survey use a local operator, most of which are SMEs).

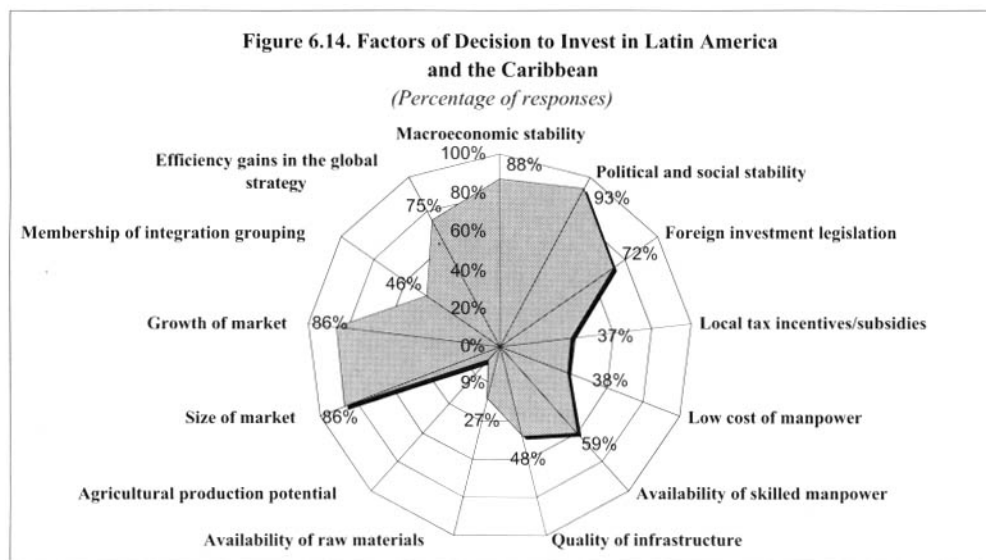
As illustrated in Figure 6.14, the main motivations for French investment are related to the prospects for political and social (93 percent) or macroeconomic (88 percent) stability.

These factors are even viewed as more important or comparable with growth potential (86 percent) and market size (86 percent). Most companies claimed that the existence of raw materials or agricultural potential, low wages, tax incentives and the quality of infrastructure were not key factors in deciding whether to invest in the region. Only 38 percent claim that low labor costs were a decisive factor in their investment. Most also give importance to human capital in their decisions about where to invest (59 percent). It is interesting to note that membership of a regional integration group does not influence companies' investment decisions (except perhaps in the case of Mexico). In most cases investment is effected for the local market. When a company adopts a regional strategy (mainly MERCOSUR or NAFTA) it also takes into account the possibility of using the productive bases for export, mainly to other Latin American countries and, to a lesser extent, to Europe and the United States.

The risk aversion of French companies in the survey towards political and economic instability is also evident in their responses to questions concerning the main obstacles to investment in the region. Of most concern were factors associated with monetary and political instability, corruption and regulatory instability. Other factors, however, do not have the same impact on their decisions and are viewed as less important obstacles by French operators. These include labor legislation, the skills level of the labor force, the underdevelopment of markets or cultural differences.



Source: IDB survey, 2001.



Source: IDB survey, 2001.

French SMEs in Latin America: An Assessment Based on a Sample of 10,000 SMEs¹⁹

The international activity of French SMEs is closely related to their size. SMEs' propensity to export increases with the size of the company; those employing more than 200 workers are the most internationalized.²⁰ The relationship between the two main forms of business internationalization—exports and direct investment—depends both on sectoral factors and the size and independence of the companies. Similarly, companies in the service sector tend to prefer direct investment, while industrial SMEs tend to favor exports. An equally important trend is the growth of FDI in recent years. French companies have significantly increased their production overseas to levels similar to that of exports (see Box 6.2).²¹

Geographical concentration is another important feature of this international activity: when French SMEs develop internationally they do so mostly in Europe and the nearest emerging regions such as North Africa and Central Europe. The discriminatory nature of geographical proximity leads to a lower level of SME direct investment and exports in regions such as Latin America. In a 1998 qualitative study of 800 SMEs, conducted for the Ministry of Economy, Finance and Industry, only 100 companies had an overseas presence (11 percent). Of these 100 firms, only 13 percent admitted to having a direct presence in Latin America, compared to 57 percent with activities in Western Europe (see Figure 6.15).

Geography does not explain everything, however, since the survey reported that 34 percent of these SMEs have directly invested in the distant Asian countries. The SMEs' share of total French exports is also more than 50 percent in countries such as China, South Africa or Hong Kong.

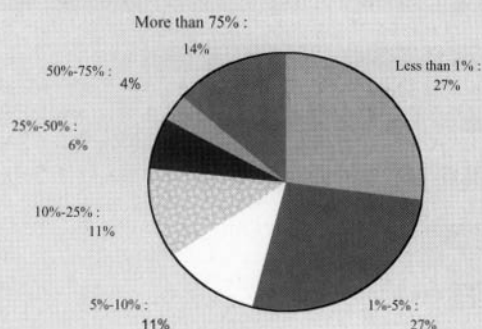
Box 6.2. Exports From French SMEs to Latin America

Most French SMEs that export to Latin America are from the region of Ile de France (38 percent), Rhône Alpes (12 percent), Provence-Alpes-Côte-d'Azur (7 percent), Aquitaine (4.5 percent) and Nord-pas-de-Calais (4 percent) regions. These SMEs are relatively small, but when they export they do so to a large number of countries: 56 percent of them export to more than 11 countries. Some 42 percent of them have an international business volume that exceeds \$1 million.

The export activity of French SMEs in Latin America is, however, very concentrated. They tend to limit themselves to only one country in the region (65 percent of the sample) and, to a lesser extent, to two countries (16 percent). It is also useful to add that the weight of the region in the total exports of these companies is relatively small: Latin America accounts for less than 10 percent of the total exports of 55 percent of the sample. The average business volume is therefore very modest: 75 percent of the SMEs registered annual Latin American sales of under 500,000 francs (equivalent to about \$70,000).

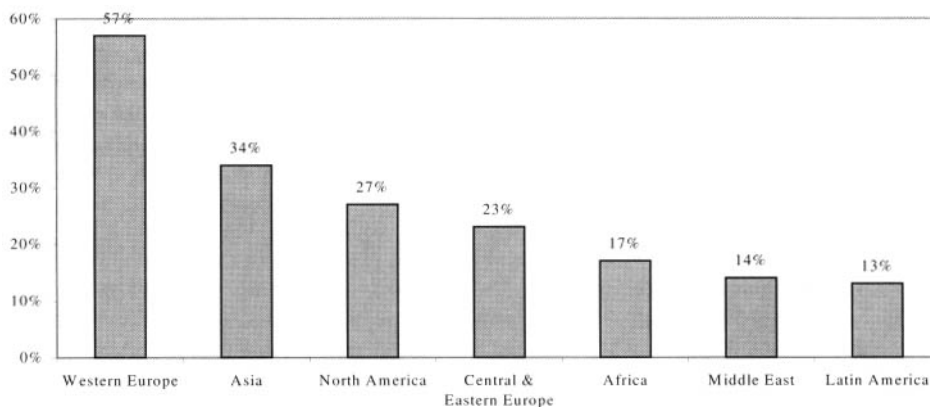
There are, however, a small number of highly "Latin Americanized" firms: 8 percent of French SMEs export to more than five Latin American countries; 13 percent have Latin American sales of over \$1.5 million. In 13.5 percent of cases Latin America accounts for more than 75 percent of total international sales. All these factors suggest that there is a significant potential for further "Latin Americanization" of SMEs' international activities, particularly those that are to some degree acquainted with Latin America.

The Latin American Exports of French SMEs as a Percentage of Total Exports



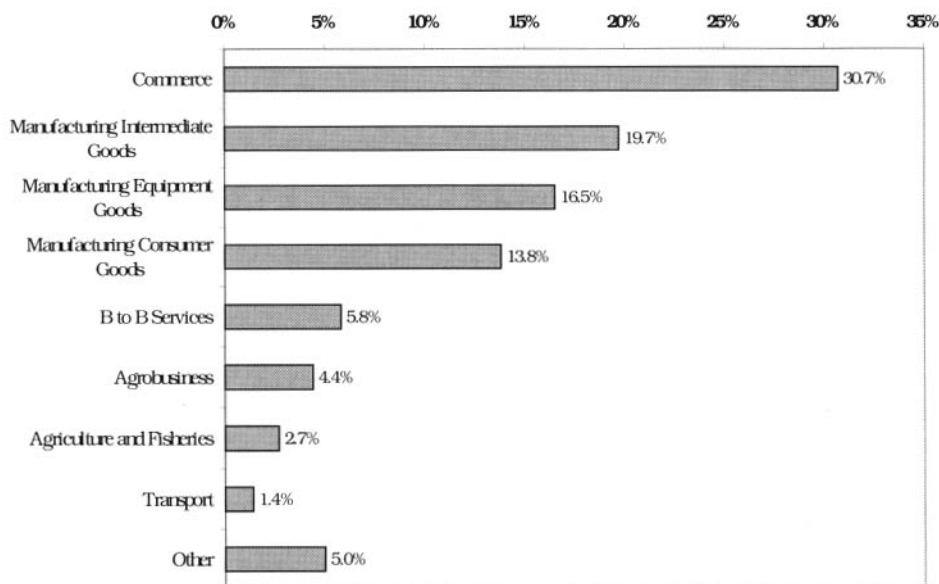
Source: Santiso, 2001; based on data from DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000.

Figure 6.15. Direct Investment of French SMEs in Emerging Markets, 2000
(Based on 100 companies, percentage of total)



Source: Santiso, 2001; based on Direction de la Communication du Ministère, de l'Economie, des Finances et de l'Industrie, 1998.

Figure 6.16. Classification of French Companies Present in Latin America by Sector
(Percentage of total)



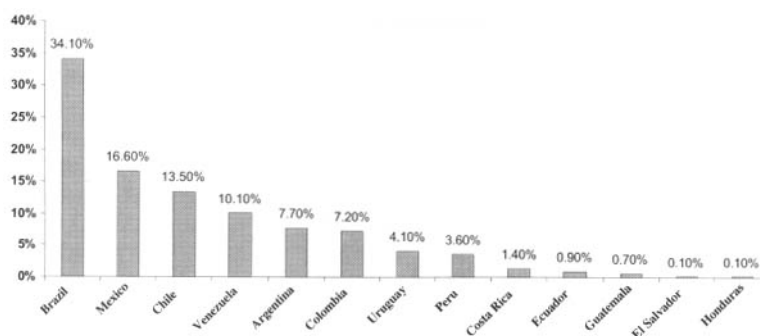
Source: Santiso, 2001; based on data from DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000.

A better understanding of the presence of French SMEs in Latin America is provided by use of a broader and more complete database. This database, provided by the Ministry of Economy, Finance and Industry, includes most French companies present in the region, either through exports or direct investment. The database identifies 9,824 such firms in 1999, of which 9,052 are SMEs. These companies are mostly in the commercial (31 percent) and intermediate goods (20 percent) sectors, and in the equipment (16.5 percent) and consumer goods (14 percent) sectors (Figure 6.16).

SMEs account for 92 percent of the French firms present in Latin America through exports or direct investment. SMEs with more than 100 employees account for 12 percent of the sample, and large companies with more than 2,000 workers represent less than 2 percent.

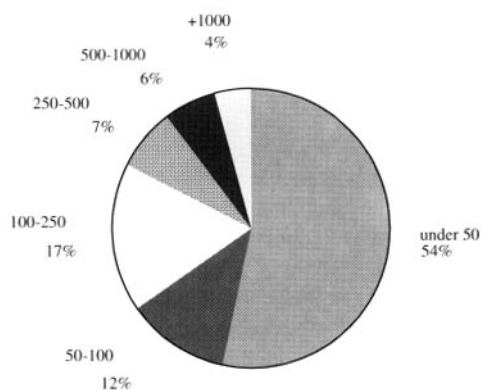
These firms have 809 affiliates in Latin America, most of them in Brazil, Mexico and Chile. It is interesting to note that this concentration is also evident at the country level: 80 percent of French affiliates in Latin America are in the capital cities. Only Brazil, Mexico and Argentina have any kind of diversity as to location. The affiliates tend to be of modest size: 90 percent are themselves SMEs and more than 65 percent employ under 100 employees (see Figures 6.17 and 6.18).

Figure 6.17. Location of French Subsidiaries in Latin America
(Percentages based on 809 subsidiaries)



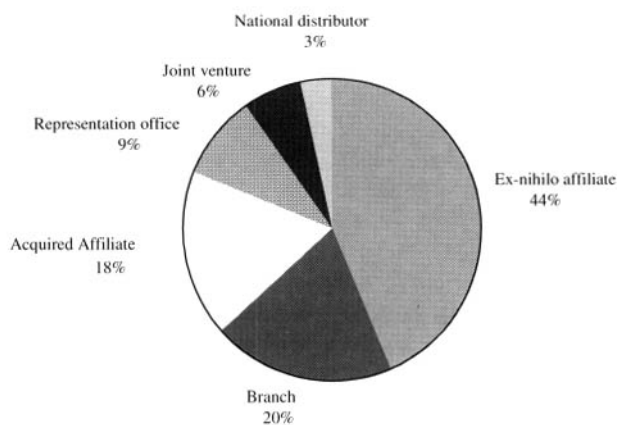
Source: Santiso, 2001; based on data from DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000.

Figure 6.18. Size of French Affiliates in Latin America
(Classification by number of employees, in % of total)



Source: Santiso, 2001; based on data from DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000.

Figure 6.19. Type of Affiliates in Latin America
(In percentages, 809 subsidiaries)



Source: Santiso, 2001; based on data from DREE, Ministère de l'Economie, des Finances et de l'Industrie, 2000.

French companies tend to set up affiliates *ex nihilo* (44 percent of the affiliates in the survey), through a branch (20 percent) or by acquiring local companies (18 percent). Most of these affiliates (62 percent) are controlled 100 percent by the parent company. If majority control is taken into account then the figure increases: more than 85 percent of French affiliates are more than 51 percent controlled by the parent company (see Figure 6.19). Although some affiliates have been in existence since the start of the twentieth century, most companies entered the Latin American market much more recently: more than 50 percent of the affiliates were set up after 1990.

The presence of French SMEs in Latin America also accelerated in the 1990s. They probably represent the foremost potential in terms of investments in the region: although some are expanding through their own momentum, this expansion is circumscribed and for many of them the impetus has come from the parent company (if they belong to a group) or from clients (which also tend to be those multinationals examined earlier that invested heavily in Latin America). These new investors face many challenges, either in terms of information or financial transaction costs. However, the investments of these smaller investors continue to grow in the wake of the multinationals.²²

Conclusion

French investment in Latin America, like that of several other European countries, increased sharply in the 1990s. In 1996, Latin America again became the leading emerging region for French FDI, ahead of Asia, Africa/Middle East and Eastern Europe. Many French multinationals have a higher volume of operations in Latin America than in emerging Asia.

Latin America is considered as one of the leading strategic targets for French groups. As indicated by the survey carried out for the purposes of this analysis, French companies that participated in the survey point out that the region continues to have priority in future investment preferences, ahead of other emerging regions such as Asia or Central and Eastern Europe. The presence of SMEs is still relatively modest. However, the data suggest that investments carried out by the large clients of SMEs are in some cases helping the SMEs to increase their own investments, or to consider other ways of expanding a presence in the region that goes beyond exports.

French firms investing in Latin America followed a path that was opened by the process of liberalization, privatization and regional integration, and which created numerous opportunities for companies seeking to expand internationally. The wave of investment was carried out through private groups and recently privatized companies, while those that were not privatized—such as EDF/ GDF—in many ways learned the rules of international competition in Latin America. Not all sectors moved into Latin America in their quest for an international presence.

While companies in distribution, automobiles, iron, oil, aluminum and services became “Latin Americanized”, telecommunications—above all France Telecom—and banking were left on the sidelines of the race towards the Americas. The French manufacturing and service sectors, however, increased their presence in Latin America and

gained market share from their main European competitors. In the current decade, French investment could continue to expand, either directly or through alliances with other European companies that have a greater presence in the region. Until 2000, countries like Mexico remained mostly outside the perimeter of European and, particularly, French investment; the EU-Mexican trade agreement might lead to an intensification of relations.

NOTES

- ¹ This study was carried out using the results of a European survey coordinated by the Special Office in Europe of the IDB at the end of 2000 and the beginning of 2001, and a series of interviews carried out by the author in Paris, Buenos Aires and São Paulo with some of the largest French multinationals present in Latin America. In order to avoid limiting the study to the large companies, a second study was carried out in 2000 on the basis of an unpublished survey of French SME internationalization in Latin America. See Javier Santiso, *En búsqueda del tiempo perdido: Internet y la internacionalización de las pymes. Un enfoque europeo y latinoamericano*, which was prepared by Santiso as an IDB consultant, Paris, 2001 (mimeo). The author would like to thank the following people, whose support made this study possible: Andrés Bajuk, Leo Harari, Sergio Orce and Ziga Vodusek from the Special Office in Europe of the IDB; François Benaroya, Edouard Bourcieu, Laurent Chabot, Christophe Destais, Gabriel Lcost and Edouard Mathieu, of the French Ministry of Economy, Finance, and Industry; Henry Savajol and Sophie Bétemps of BDPM; Stéphane Witkowski of Medef International for his support in carrying out the IDB 2000 study in France; and Bernardo Kosacoff, Fernando Porta, Daniel Chudnovsky, Andrés Lopez, Michael Mortimore, Andrea Goldstein and Joaquim Oliveira for documents exchanged, conversations held and meetings shared. It is impossible to mention all the people who provided documents, data, and interviews throughout this year-long study but I would like to thank them all here, particularly the business people who spent their time with the various surveys. For their time and support I would especially like to thank Philippe Armand and Philippe Jahan of Total Fina Elf, Luc Jamet and Gérard Gastaut of Renault, Jean Nassau of Suez Lyonnaise des Eaux, and Pedro Solé and Stéphane Marazzi of Alstom. I would also like to mention the team of research assistants, economics doctoral students at Sciences Po, who provided me with valuable and enthusiastic support on the SME study: Ignacio Briones, Juan Carlos Guerrero, and Brando Suescun. Some preliminary versions of the results summarized here were presented to the French Ministry of Economy, Finance, and Industry on 28 February 2001; and to SAIS, Johns Hopkins University Bologna Centre on 27 April 2001. The proposals and any errors in this study are the sole responsibility of the author.
- ² For a discussion, see François Farhi and Claude Vimont, "Le commerce extérieur industriel français et l'emploi", in Ministère de l'Economie, des Finances et de l'Industrie, *Industrie française et mondialisation*, Paris: Secrétariat d'Etat à l'Industrie, Service des Etudes et des Statistiques Industrielles, 1998, pp. 180–189.
- ³ French and European investment in Latin America is not new, as is claimed by certain studies in economic history. European investment in Latin America, especially the Southern Cone, was very significant at the end of the nineteenth century and the start of the twentieth, during one of the main globalization phases. On this matter see William Summerhill, *Order Against Progress: Government, Foreign Investment and Railroads in Brazil, 1854–1913*, Stanford: Stanford University Press, 2000; John Coatsworth and Alan Taylor (eds.), *Latin America and the World Economy Since 1800*, Cambridge, Mass: Harvard University Press, 1988.
- ⁴ See Javier Santiso, *En búsqueda del tiempo perdido: Las estrategias de internacionalización de las pymes francesas. Un enfoque latinoamericano*, Paris, CERI (Sciences Po), carried out with the support of the IDB, Paris, 2001 (mimeo).
- ⁵ For a detailed analysis, see the study in economic history by Kevin O'Rourke and Jeffrey Williamson, *Globalization and History*, Cambridge, Mass: MIT Press, 1999.
- ⁶ See AT Kearney, *FDI Confidence Index. Global Business Policy Council*, Volume 4, AT Kearney, February 2001.
- ⁷ See Direction des Relations Economiques Extérieures (DREE), *Les investissements directs dans le monde en 1998*, Paris: Ministère de l'Economie, des Finances et de l'Industrie, 2000; Banque de France, *La balance des paiements et la position extérieure de la France*, Paris: Banque de France, July 1999; Alain Dreyfus, "Les flux d'investissements directs de la France avec l'étranger en 1998", in *Bulletin de la Banque de*

France, N° 66, June 1999, pp. 1–20; Michel Houdebine and Agnès Topiol-Bensaïd, “L’investissement direct et les entreprises françaises”, in *Economie et Statistique*, N° 326–327, vol. 6/7, 1999, pp. 113–128; and Fabrice Hatem, “Investissement international: un nouveau cycle de croissance”, in Ministère de l’Economie, des Finances et de l’Industrie, *Industrie française et mondialisation*, Paris: Secrétariat d’Etat à l’Industrie, Service des Etudes et des Statistiques Industrielles, 1998, pp. 111–120.

- ⁸ See Maryse Raffestin, “France”, in IDB/IRELA, *Foreign Direct Investment in Latin America. The Perspectives of the Major Investors*, Madrid: IDB/IRELA, 1998, pp. 167–197.
- ⁹ On the “MERCOSUR effect” see Paolo Giordano and Javier Santiso, “La course aux Amériques: les stratégies des investisseurs européens dans le Mercosur”, in *Problèmes d’Amérique latine*, N° 39, October–December 2000, pp. 55–87; and Daniel Chudnovsky (ed.), *El boom de la inversión extranjera directa en el Mercosur*, Buenos Aires: Siglo XXI de Argentina Editores and Red Mercosur, April 2001.
- ¹⁰ See Christophe Cordonnier and Javier Santiso, “Mexique: croissance ou développement?”, in *Problèmes d’Amérique latine*, N° 40, January–March 2001, pp. 31–55.
- ¹¹ On this issue, see UNCTAD, *Informe sobre las inversiones en el mundo 2000: Las fusiones y adquisiciones transfronterizas y el desarrollo. Panorama general*, New York and Geneva: United Nations, 2000.
- ¹² See François Benaroya and Edouard Bourcieu, “Les grands groupes français face à la mondialisation”, in *Les Notes Bleues de Bercy*, N° 196, 1–15 December 2000, pp. 1–12; François Benaroya and Edouard Bourcieu, “Les grands groupes français face à la mondialisation”, in *Les Notes Bleues de Bercy*, N° 197, 16–31 December 2000, pp. 1–20.
- ¹³ John Dunning, *The Globalization of Business*, London: Routledge, 1993; see also Bernardo Kosacoff, (ed.), *Corporate Strategies Under Structural Adjustment in Argentina: Responses by Industrial Firms to a New Set of Uncertainties*, London: St Martins Press, 2000; and Bernardo Kosacoff and Fernando Porta, “Apertura y estrategias de las empresas transnacionales en la industria argentina”, in Bernardo Kosacoff, (dir.), *Estrategias empresariales en tiempos de cambio*, Buenos Aires: Universidad Nacional de Quilmes/CEPAL, 1998, pp. 57–122.
- ¹⁴ See Javier Santiso and Paolo Giordano, “La course aux Amériques: les stratégies des investisseurs européens dans le Mercosur”, in *Problèmes d’Amérique latine*, N° 39, October–December 2000, pp. 55–87.
- ¹⁵ Although the 10 largest world automobile manufacturers control almost 95 percent of the market, the leading 10 steel companies control only 30 percent of the world market. The new Newco group accounts for 60 percent of the European market but only 6 percent of the world market.
- ¹⁶ For an analysis of the Total Fina Elf group see the special edition “Total Fina Elf : l’aube d’une ère nouvelle” of the group’s internal magazine *Energies*, N° 42, spring/summer 2000.
- ¹⁷ Paolo Giordano and Javier Santiso, 2000, *op. cit.*; and for more analysis see Paolo Giordano and Javier Santiso, “La course aux Amériques : les stratégies d’investissements des firmes européennes en Argentine et au Brésil”, in *Etudes du CERI*, N° 52, April 1999.
- ¹⁸ For the results see Paolo Giordano and Javier Santiso, “La course aux Amériques : les stratégies des investisseurs européens dans le Mercosur”, in *Problèmes d’Amérique latine*, N° 39, October–December 2000, pp. 55–87.
- ¹⁹ This section and the following are based on the results of detailed research carried out in 2000 with the support of the IDB’s Special Office in Europe on the internationalization of French SMEs in Latin America.

See Javier Santiso, *En búsqueda del tiempo perdido: Las estrategias de internacionalización de las pymes francesas. Un enfoque latino-americano*, Paris, 2001 (mimeo).

- ²⁰ For a discussion see Sylvie Scherrer, “La taille des entreprises détermine-t-elle à elle seule leur comportement à l’exportation?”, *Economie et Statistique*, N° 319–320, 1998, pp. 163–178 ; and, on the increasing impact of intra-group flows, Michel Hannoum and Gilbert Guerrier, “Les échanges intra-groupe des entreprises industrielles. France: un tiers des exportations, un cinquième des importations”, in Ministère de l’Economie, des Finances et de l’Industrie, *Industrie française et mondialisation*, Paris: Secrétariat d’Etat à l’Industrie, Service des Etudes et des Statistiques Industrielles, 1998, pp. 121–135.
- ²¹ Edouard Mathieu, “La production industrielle française à l’étranger: à l’égal des exportations”, in Ministère de l’Economie, des Finances et de l’Industrie, *Industrie française et mondialisation*, Paris: Secrétariat d’Etat à l’Industrie, Service des Etudes et des Statistiques Industrielles, 1998, pp. 63–82.
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Chapter 7. Germany

Rolf Jungnickel and Rasul Shams *

The Internationalization of German Firms

German firms have been at the forefront of globalization. Their foreign direct investment (FDI) has increased slightly above the average of the developed countries. Overall German outward FDI stock reached about \$390 billion in 1998 (latest stock data available), almost three times the level of 1990 (\$140 billion). Flow statistics indicate that the internationalization process has accelerated recently with FDI outflows reaching an all time high in 1998 and 1999, and high outflows continuing in 2000.¹ As in other developed countries, German FDI was driven by mergers and acquisitions (M&A) with a few very large transactions heavily influencing the entire pattern. Well-known examples are Daimler-Chrysler, BMW-Rover, Hoechst-Rhone Poulenc, Mannesmann-Orange, and Deutsche Bank-Bankers Trust.

It should be noted that FDI does not necessarily involve net capital flows; specifically, foreign affiliates may finance their investment projects using domestic capital markets. At the same time, FDI activity might not necessarily give rise to an increase in net investment if all that is involved is a transfer of asset ownership or the purchase of the goodwill of an acquired company. Given these considerations, and in addition to examining FDI flow and stock data, it is useful to focus the analysis of the internationalization process on operational data on employment and production in foreign affiliates and parent companies (Härtel et al. 1998). Foreign employment and production, in particular, can readily be compared with related domestic statistics. Although both of these indicators of international operations display clearly less dynamic development than data on FDI flows and M&As, their growth rates by far exceed those of domestic production and employment. The degree of internationalization of German enterprises has steadily increased, especially since the mid-1990s. At the end of 1998 some 8,500 German firms operated almost 29,000 foreign affiliates. These employed some 3.7 million people and achieved sales of \$970 billion. The ratio of foreign to domestic employment for German firms stands at 17 percent.

Traditionally, manufacturing has been the focus of German companies' international operations. Services have nevertheless caught up rapidly as a result of deregulation, the opening up of domestic and foreign markets, and technical progress. Services now account for almost 60 percent of all outward FDI. However, the manufacturing sector still accounts for almost two-thirds of all foreign employment. In terms of employment, the degree of internationalization in manufacturing thus remains much higher than in services. Expressed in terms of the ratio of foreign to domestic employment, manufacturing is on average four to five times more internationalized than services (Borrmann et al. 2001).

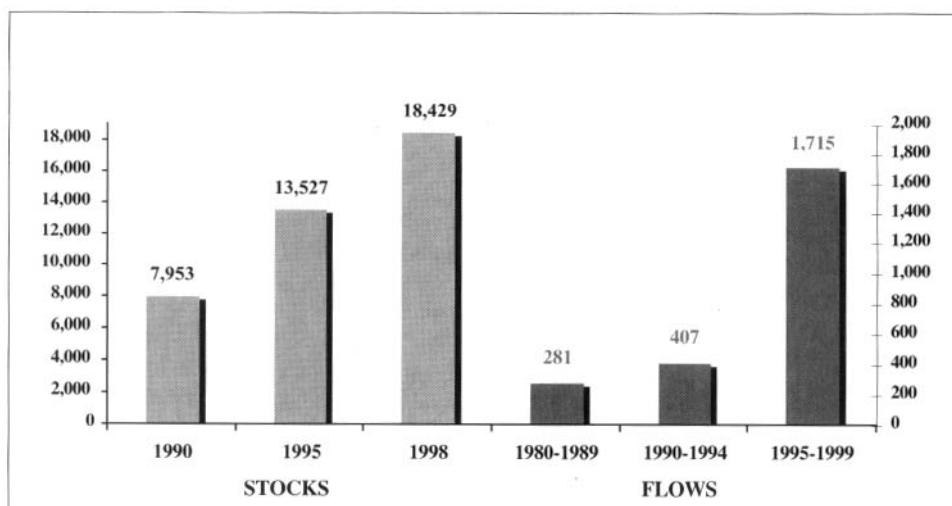
* Rolf Jungnickel heads the research program "International Mobility of Firms" at the Hamburg Institute of International Economics (HWWA), Germany; Rasul Shams is Senior Economist at HWWA and Professor of International Economics at the University of Bremen, Germany.

In this chapter German FDI in Latin America and the Caribbean is discussed against the background of the strong overall tendency toward internationalization. The chapter first reviews the overall position of investments in Latin America and whether there is evidence that Latin America is competing for German FDI with other locations, especially the European countries in transition and East Asia. Following an overview of the pattern of German FDI in Latin America, the chapter addresses the strategy of German investors in Latin America. Starting from the old issue of foreign production versus foreign trade, the basic motivation—market size and growth against cost factors and tax advantages—is analyzed, as is the question of whether German investors have taken advantage of the opportunities afforded by privatization and integration processes within and beyond the region. Finally, the chapter discusses the prospects for German FDI in Latin America. The analysis is largely based on German and international FDI data, and on operational data of German affiliates abroad. In addition, the chapter refers to the survey undertaken by the Special Office in Europe of the Inter-American Development Bank with German companies investing in Latin America (see Box 7.1).

The Position of Developing Countries and Latin America in German FDI

Like overall FDI outflows, direct investment flows from Germany to Latin America and the Caribbean (Caribbean countries are not considered here in detail) have increased strongly in recent years, reaching an average of \$1.7 billion in the 1995–1999 period compared to \$407 million between 1990 and 1994. At the same time German FDI stock in the region more than doubled, rising from \$7.9 billion in 1990 to \$18.4 billion at the end of 1998 (excluding offshore centers; see Figure 7.1).

Figure 7.1. German FDI in Latin America and the Caribbean^a
(In millions of U.S. dollars; left-hand scale: stocks;
right-hand scale: annual average outflows)



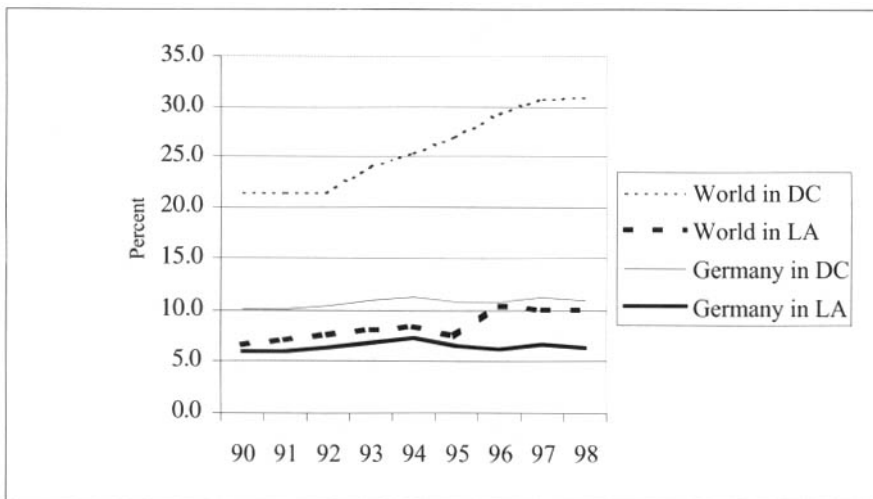
^a Offshore centers excluded.

Source: Deutsche Bundesbank.

German FDI directed at developing countries in general, and at Latin America in particular, differs from that originating in other important home countries, particularly the United States. Not only are German investors less active in developing countries than other major developed countries, but their involvement has also been less dynamic and has stagnated in relative terms. This is despite the fact that the absolute volume of FDI stock more than doubled in the 1990s.

The international operations of German firms are concentrated in highly developed countries. What is often referred to as “globalization” for most firms and sectors should rather be termed “Europeanization” or transatlantic expansion to the United States. About 40 percent of all industrial production abroad and about one-third of all employment in foreign manufacturing affiliates are located in EU countries. The share of investment in the United States is a little lower. Affiliates in developing countries (including China) play a minor role in German firms’ internationalization process, although various indicators reveal different pictures. Developing countries’ share of German FDI flows has more than halved (from around 15 percent to around 6 percent) since the mid-1990s, thus reverting to the low levels of the 1980s. FDI stocks and sales of foreign affiliates,² on the other hand, have retained their share of a little over 10 percent, but this is clearly less than in the 1980s.³ Because of more labor-intensive production their share in foreign employment has been much higher, although it has been declining. It fell from 28 percent in 1990 to 21 percent in 1998. Both the level and trends of German FDI in developing countries are different from the average of all investors: the level is clearly lower and the relative stagnation over time contrasts with the increasing share in worldwide FDI as calculated by UNCTAD (2000). According to UNCTAD figures, developing countries increased their share of worldwide FDI stock by almost half, from slightly over 20 percent to over 30 percent in the 1990s.

Figure 7.2. Worldwide and German FDI in Latin America and Other Developing Countries
(Percentage of worldwide and German outward FDI stock)



Source: Deutsche Bundesbank; UNCTAD.

Within the generally low level of involvement in developing countries, Latin America and the Caribbean have been the traditional focus of German investors (see Figure 7.2). A stable 60 percent of all developing country investment, in terms of stock, is invested in the region (slightly down from 67 percent in the early 1980s). In worldwide FDI in developing countries, by comparison, Latin America's share slightly increased during the 1990s, reaching about one-third of all FDI in the developing world (UNCTAD 2000). Developing countries' relatively low share of German FDI but the latter's strong relative concentration on Latin America prompts the conclusion that German firms mostly lag behind the international average in non-Latin American developing countries.⁴ However, the gap in Latin America was widening rather than closing in the late 1990s, especially in comparison to FDI from the United States and Spain. It must nevertheless be stressed in this context that great caution is required in comparing FDI data that cover both home countries and host countries, since statistical methodologies vary among countries.⁵ Hence it is no surprise that in Germany's case estimates of institutions other than the Bundesbank arrive at different values for German FDI abroad. A survey by the Ibero-Amerika Verein, for example (Ibero-Amerika Verein 2000), based on asset data received from German chambers of commerce, puts the stock of German FDI about 15 percent higher than the Bundesbank.

The evolution of German involvement in Latin America can perhaps best be viewed using employment data, which are not affected by valuation problems. German affiliates in the region cut their workforce from about 400,000 in 1990 to less than 300,000 in 1996. It was only in 1998 that employment numbers picked up significantly, reaching 326,000 (see Table 7.1). However, the bulk of this recent increase probably stemmed not from the expansion of German affiliates but from Chrysler's incorporation into the Daimler-Chrysler group. While employment in the Latin American affiliates of German enterprises stagnated for much of the 1990s, it should be noted that throughout the region—in view of the process of trade liberalization and market reform—the private sector was both obliged and allowed to cut the labor force substantially as it strove to reduce unit labor costs. Such cuts in labor input were frequently accompanied by a sizeable upturn in capital investment and plant modernization. As a result of these trends, the production techniques adopted by most firms in the Latin American manufacturing sector have become increasingly capital-intensive, leading to a rise in productivity (see the section “High Productivity Manufacturing” later in this chapter).

Table 7.1. Latin America as an Investment Location for German Firms, 1990 and 1998

Location of German FDI	German affiliates abroad						
	FDI stock (US\$ billion)		Employees (thousands)		Sales (US\$ billion)		
	1990	1998	1990	1998	1990	1998	1998 ^a
World	135	390	2,337	3,732	461	970	500
Developing countries (and China)	16	43	655	789	51	100	63
Latin America/ Caribbean	10	25	402	326	30	53	41

^a Manufacturing only.

Source: Deutsche Bundesbank.

German FDI in Latin America can be discussed from both German and Latin American perspectives. The German perspective focuses on possible implications for the German economy, especially the effects on the labor market. It can be noted that due to the relatively limited volume of total FDI abroad, and the stagnating share of employment in German overseas affiliates relative to employment in Germany, the export of jobs from Germany is not a real issue. The Latin American perspective seems to be more interesting, and in that context two matters will be discussed: Does the relative stagnation stem from investment diversion to other areas? What strategies are followed by German investors in Latin America? Answers to the second question should offer some guide to the implications of German FDI for Latin America. The main issues to be covered in this respect are the basic motivation of, and obstacles to, German FDI in Latin America.

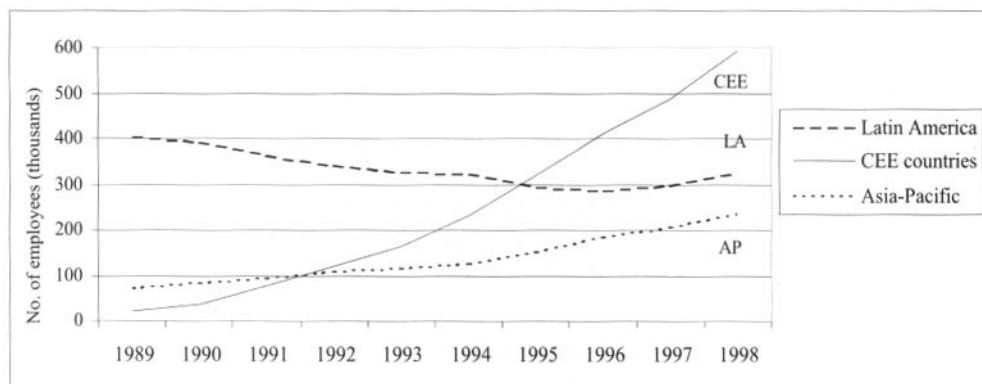
Is Investment Being Diverted from Latin America to Central and Eastern European Countries?

It might be assumed that the relative stagnation of German FDI in Latin America is the result of investment diversion to Central and Eastern European (CEE) countries—in other words, that what was invested in the East would have been invested in Latin America had the CEE option not existed. This diversion hypothesis can be based on two lines of argument:

- **Cost-motivated FDI**, which is more “footloose” than market-oriented FDI, could be diverted from Latin America for several reasons, such as cultural and geographical proximity to Germany; industrial tradition, with a well-qualified and low-cost labor force; and the prospect of EU accession. These factors imply stable and familiar investment conditions, low production costs and low costs of integrating CEE production into operations in Germany and other European locations.
- The attractiveness of CEE countries for **market-oriented investment** is conditioned by the fact that their markets opened up for foreign investors only in the late 1980s and early 1990s. They were thus to be newly conquered in the 1990s and had positive growth prospects, not least because of their future accession to the EU. In principle, market-oriented FDI is tied to locations in the respective country or region, so expansion in the East would be additional to existing FDI. Diversion from Latin American to Eastern European locations might, however, be possible indirectly. If investors were facing bottlenecks in the availability of managerial and financial resources, this would allow expansion only in the most promising region. Such restrictions on the available resources force competition between locations in different parts of the world, even if production is not competing.

The diversion hypothesis seems to be strongly supported by the available data. While employment in German affiliates in Latin America receded and the relative share of the region in total FDI stagnated at best, both FDI and employment in affiliates in the CEE countries expanded rapidly (Figure 7.3). The stock of FDI in CEE countries is almost equivalent to that in Latin America, and employee numbers clearly surpassed those in Latin American affiliates as early as 1994. About 600,000 people were employed by German affiliates in CEE countries at the end of 1998, up from only 35,000 in 1990.

Figure 7.3. Employment with German Affiliates in Latin America, Central and Eastern Europe (CEE) and Asia-Pacific^a, 1990–1998



^a Includes China, Hong Kong (China), Indonesia, Malaysia, Philippines, Singapore, Republic of Korea, Taiwan (China), Thailand and Vietnam.

Source: Deutsche Bundesbank.

However, there are strong general and specific arguments against this thesis. Doubts arise about both wage-cost-motivated and market-oriented FDI. Generally, FDI in CEE countries cannot be fully seen as a substitute for investment in Latin America. The opening up of “easier” locations such as CEE entails new investment opportunities that were previously unavailable or less accessible. This does not necessarily divert investment, production and jobs from other locations in the developing world. Rather, it triggers additional FDI, including that from firms that had not previously invested overseas (in Latin America, for example) and would be unlikely to do so under the conditions prevailing in the region. More specifically, in the case of market-oriented FDI, the diversion thesis rests on the assumption that there are limits to the resources available for FDI. This can be an important consideration for SMEs but less so for big multinationals with a long tradition and a large volume of FDI. To the extent that FDI in the CEE countries mainly originates in such large multinationals, the diversion thesis is less plausible, although statements from large companies such as Siemens and Ferrostaal clearly point to some shift of attention to eastern Germany and the CEE countries (*Süddeutsche Zeitung*, 21 September 1999; *Nachrichten für Aussenhandel*, 25 November 1999). In the case of cost-motivated FDI in the East, the thesis assumes that a significant portion of FDI in Latin America seeks to exploit lower costs. It will be shown below that this view is unsustainable.

The available data do not point unequivocally to relocations from Latin America to the CEE countries. First, Latin America had already fallen behind as an investment location for German firms in the 1980s (from 12 percent to a little over 7 percent of total German FDI), before investment in the CEE countries became an option. Second, other locations in the developing world that do not benefit from proximity have been able to increase their share of German FDI substantially. This is particularly the case for East Asian countries such as China, Malaysia, Thailand, the Philippines and the Republic of Korea. Both these developments suggest that the relative stagnation of German FDI in Latin America springs not only from the availability of new opportunities in Central and Eastern Europe but also from obstacles within Latin America. Indications of the obstacles to FDI in the region, as they are viewed by German investors participating in the IDB survey, are given in Table 7.2 (see also the

summary of results in the IDB survey in Box 7.1). The factors ranked particularly highly are those related to bureaucracy and to political, legal and administrative instability. Additionally, as mentioned earlier, Latin America has significantly increased its share of other source countries' total FDI, although this is mainly true for United States investors and less so for other European source countries. This prompts the conclusion that part of the relative stagnation in German FDI in Latin America can be seen as a consequence of changes in German companies' strategic priorities, or of the "inability" of (potential) German investors.

Table 7.2. Obstacles to FDI in Latin America

Q9 According to your experience, the major obstacles for investing in Latin America and the Caribbean are (number of cases):

	No	Low	Med.	High	Top	Mean Score ^a
Local regulation and bureaucracy	0	2	4	9	0	61.7
Political instability	0	3	6	6	0	55.0
Legal/judicial insecurity	0	4	3	8	0	56.7
Social problems/poverty	0	7	6	2	0	41.7
Violence	0	3	4	8	0	58.3
Corruption	0	3	5	7	0	56.7
Cultural differences	11	3	1	0	0	8.3
Fear of devaluation	0	4	6	3	1	48.3
Problems with repatriation of profits/capital	3	7	3	2	0	31.7
Undeveloped infrastructure	0	4	8	3	0	48.3
Undeveloped local capital markets	3	7	3	2	0	31.7
Lack of qualified human resources	0	10	5	0	0	33.3
Level of local taxation	0	7	5	2	1	45.0
Labor legislation	0	8	3	3	1	45.0
Local safety, health and environmental standards	0	8	5	2	0	40.0

^a Refers to the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey, Question 9 (see Annex B).

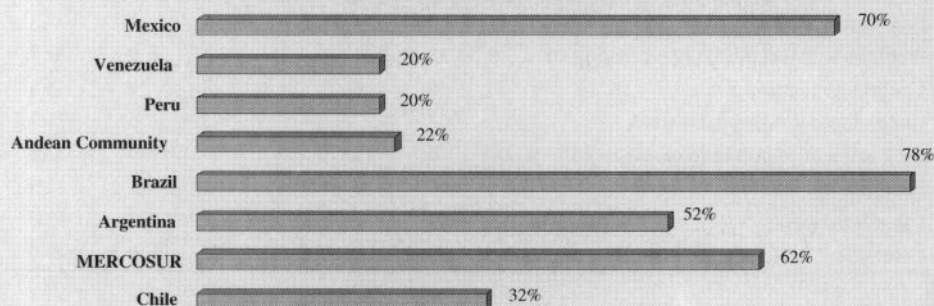
There is no clear-cut conclusion as to FDI diversion. On the one hand, it seems highly unrealistic to assume that the surging FDI in CEE countries could equally have occurred in Latin America. On the other hand, new and relatively easy investment and production conditions in one region will automatically divert the attention of investors from less favorable investment locations. More detailed information on investment patterns and strategies in Latin America can offer further insights. In particular, there is a need to assess the role of cost-motivated FDI, of the adjustment to new investment conditions, and of large multinationals that might be less affected than SMEs by bottlenecks in their financial or managerial resources.

Box 7.1. IDB Survey of German FDI in Latin America

The IDB questionnaire was sent to over 200 German firms that have business relations with Latin America and the Caribbean. With 23 responses, the survey cannot be considered representative for German FDI in the region. It does, however, include 15 of the leading manufacturing investors with information on 39 affiliates in seven host countries. It can therefore be assumed that the results are indicative for the strategies of the large MNEs in the core manufacturing sectors (see Annex B to this book for more information on the survey). Below are the main findings of the survey for the 15 leading manufacturing German investors.

Comparing the importance of different developing regions as strategic investment locations in the past five years, the surveyed companies ranked Latin America and the Caribbean in second position (57 percent, see the note below the figure), after South and South-East Asia (78 percent), but before Central and Eastern Europe (52 percent). German MNEs indicated that Brazil and Mexico were the most attractive destinations in Latin America for investment.

Figure A.
The Importance of Latin American Countries and Integration Groupings as Strategic Investment Locations for German Manufacturing Industry in the Past Five Years



Source: IDB Survey 2001. The graph shows the mean score of the given responses, assigning values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100

Concerning the modalities of FDI in Latin America, the responses indicate typical behavior for a large majority of German MNEs: the investment operation is carried out directly in the host country (not through a third country or an offshore center), without joint ventures but very often by subcontracting a local company (especially an SME), as well as with financial support from German commercial banks. As to the form of FDI used in the past five years, the expansion of existing capacities was identified by 44 percent of the German MNEs surveyed, whereas new greenfield investment or the acquisition of an existing private entity was mentioned by 30 percent and 26 percent of the firms respectively. None of those surveyed identified a link between their investment and the privatization of a state entity.

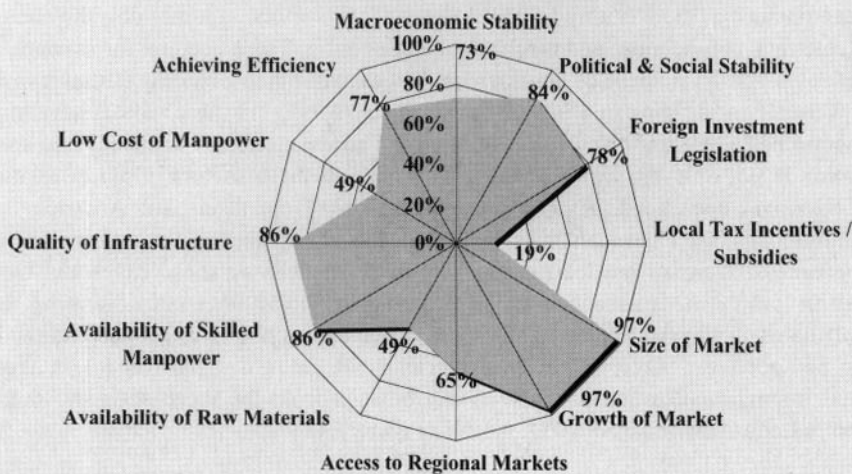
When questioned about the main determinants of and obstacles to investment in Latin America and the Caribbean, in 97 percent of cases the German MNEs indicated that both market size and market growth are essential for their decision to invest, while two-thirds of them (73 percent in the case of Mexico) rated as “important” the host country’s membership of an integration grouping.

Among the other economic factors, key determinants of their presence in Latin America included efficiency-seeking in the context of a global production/marketing strategy (77 percent “yes” responses; 92 percent and 86 percent in the cases of Mexico and Brazil), the quality of infrastructure (86 percent) and the availability of skilled manpower (86 percent). In 49 percent of cases respondents give importance to the cost of manpower, and only 19 percent (30 percent in Brazil) consider local tax incentives/subsidies as a determinant.

German MNEs identified the following as essential factors for their investment in the region: macroeconomic stability (73 percent “yes” responses), foreign investment legislation (78 percent) and, above all, political and social stability (84 percent).

This is in accordance with the main obstacles identified by the IDB survey: the leading five impediments to investment in Latin America are “local regulation and bureaucracy” (considered very important in 60 percent of cases), “legal and judicial insecurity” and “violence” (both 53 percent), “corruption” (47 percent) and “political instability” (40 percent).

Figure B. Main Determinants of German FDI in Latin America
(Percentage considering factor important)



Source: IDB Survey

The Structural Pattern of German FDI—Who Invests Where in Latin America?

The structure of FDI in Latin America differs from that in developed economies in terms of both its sectoral and regional structures. The 1,370 German affiliates (end of 1998, up from 1,044 in 1995) are characterized by sectoral and regional concentration. While natural resource-oriented investments are negligible, as in most other host regions, the share of manufacturing (which is already high by international standards) is even higher in Latin America, although it has fallen slightly since the early 1990s.⁶ Accounting for over 60 percent of the FDI stock and over 80 percent of the total sales and employment of German affiliates in the region, the manufacturing sector is much more important than in other regions (Table 7.3) and more important for German FDI than for United States investment, which is more diversified.⁷

Table 7.3. Share of Manufacturing in German FDI, 1998
(Percentages)

	FDI stock	Affiliate employment	Affiliate sales
FDI in Latin America	63	87	84
Total FDI	39	64	51

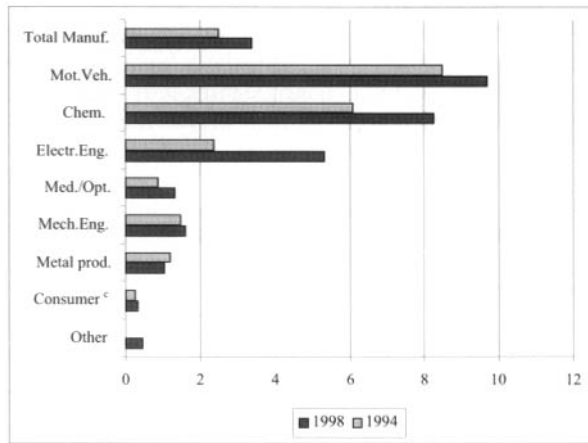
Source: Deutsche Bundesbank and authors' calculations.

Competitive Industries

Within manufacturing, there is a traditional focus on four sectors: automobiles, the chemicals industry, electrical engineering, and mechanical engineering. These account for as much as 91 percent of sales and 83 percent of employment in German manufacturing affiliates in Latin America. Virtually all leading multinational enterprises (MNEs) in these sectors have built up major operations in at least one of the three core Latin American countries. The sectoral concentration is not only the result of the greater size of these sectors. Even in relation to domestic (German) operations they reveal the highest involvement in Latin America—in the case of automobiles, the chemicals industry and electrical engineering the ratio is between 5 and 10 percent of German production (see Figure 7.4). Only in these cases has German investment in Latin America reached a significant scale. In the other manufacturing sectors German affiliates can be considered to be on the fringes, from both the German and the Latin American perspectives.⁸ Overall, Latin American affiliates did participate in German companies' internationalization process, as can be seen from the increase in the shares of production in Latin America from 1994 to 1998 (Figure 7.4).

The predominant manufacturing sectors, in absolute sales and FDI values, as well as in terms of the relative weight of Latin American operations, are among the most competitive industries in Germany. They are not under any great import pressure from low-cost countries and they did not cut employment at home at rates above the average in the 1990s. This sectoral structure of German FDI in Latin America differs significantly from that in the CEE countries. In most competitive sectors, German production in Latin America is several times greater than German production in CEE, while the contrary is true in the more traditional consumer goods sectors (Figure 7.5).

Figure 7.4. German Manufacturing in Latin America^a as a Share of Production in Germany, 1994 and 1998
(In percentages, by sector^b)



^a Sales of manufacturing affiliates in Latin America.

^b 1994 and 1998 ratios are not fully comparable because of statistical regrouping, especially in electrical engineering.

^c Traditional consumer goods: textiles, clothing, leather goods, food, glass/ceramics.

Source: Deutsche Bundesbank; Statistisches Bundesamt; authors' calculations.

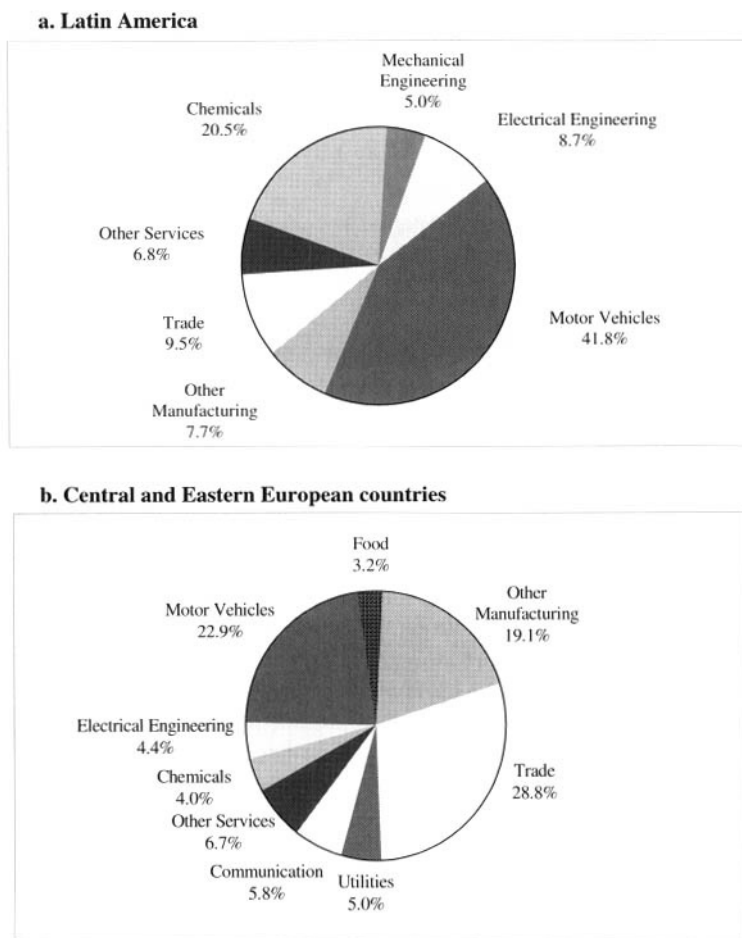
It can therefore be assumed that German FDI in Latin America does not seek mainly to exploit low-cost locations. Rather, investors aim to exploit their home-grown competitive advantage on a broader scale in Latin American markets (or, as will be shown below, in NAFTA markets). On the one hand, this is further evidence against the diversion thesis: there is little probability of the direct substitution of locations in Latin American for those in the CEE countries,⁹ although there has probably been indirect substitution stemming from budget restrictions or scarce management resources. On the other hand, the predominance of "modern" sectors spurs the assumption that German investors can (to a modest extent) contribute to structural change and income growth rather than to employment gains in Latin America. These effects essentially depend on the investment strategy.

Besides the natural resources sector, German investors' lag is particularly visible in the services sectors, including utilities. German operations in services production in Latin America is negligible. The share held by German affiliates located in Latin America in total employment abroad is only about 2 percent, less than a quarter of the corresponding share in manufacturing. In the foreign employment of United States investors, by comparison, the weight of Latin American affiliates in services (11 percent) is about half their weight in manufacturing.

Large Host Countries

The regional pattern of German affiliates' operations in Latin America is also marked by a strong concentration in certain countries (Figure 7.6). Together, Brazil, Mexico and Argentina account for nearly 90 percent of all affiliates' sales and employment. In manufacturing the concentration in the three leading countries is particularly high—up to 93 percent of sales and employment.¹⁰ This concentration did not change significantly in the 1990s and, according to the IDB survey, it will not be greatly altered in the next five years. It

Figure 7.5. Sales of German Manufacturing Affiliates in Latin America Compared with Affiliates in CEE, by Sector, 1998

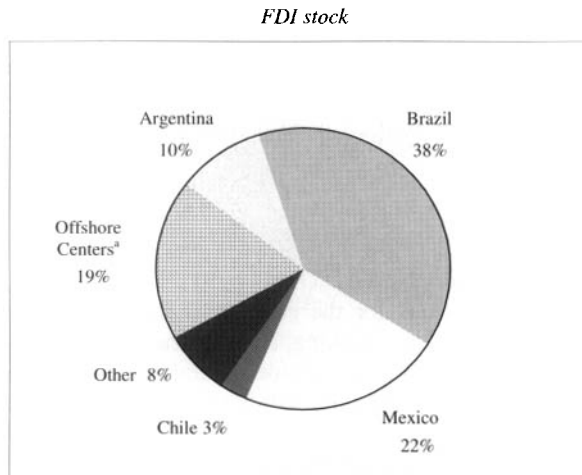


Source: Deutsche Bundesbank.

compares with these three countries' 70 percent share of Latin American GDP. The next-ranked (Chile, Colombia and Venezuela) have caught up only in relative terms. They each still account for less than 3 percent of German employment or sales in Latin America. More significant changes have occurred among the leading three. While Brazil's share of German operations in Latin America has fallen from about 70 percent to about 50 percent,¹¹ Mexico has roughly doubled its share to about 30 percent and Argentina's share has remained fairly stable. (Figure 7.6). This change differs significantly from that of total worldwide FDI flows to Latin America in recent years, when Argentina and Brazil saw relative gains while Mexico suffered a relative loss (UNCTAD 2000, p. 57).¹²

For the three big economies, some sector-specific data are available on the affiliates' number of employees and sales, as well as on FDI stock values. They reveal, in most cases, a

**Figure 7.6. German Affiliates in Latin America:
FDI Stock and Employment by Host Country, 1998**



^a Offshore centers: Bahamas, Bermudas, Virgin Islands, Cayman Islands, Netherlands Antilles, Panama.



Source: Deutsche Bundesbank.

regional pattern that is not very different from the general one outlined above. In some cases, however, there are discrepancies:

- FDI in financial services and holding companies is concentrated in offshore centers, with only 15 percent in the leading three countries (mainly Brazil);
- The manufacture of mechanical and electrical machinery, as well as basic metals and medical and optical instruments, is particularly concentrated in Brazil. Mexico is a center for the rubber and plastics industry (which often serves as supplier to the automobile industry);
- The manufacture of automobiles is virtually confined to the big three countries; the Daimler-Chrysler merger has significantly increased operations in Mexico, where it has caught up with the sales level of the Brazilian affiliates, although the employment figures are still 40 percent lower, indicating more sourcing and greater efficiency in Mexico;
- Affiliates in the chemical industry (including pharmaceuticals), and in the trade and repair business (which consists mainly of distribution outlets and the repair shops of manufacturing firms), are particularly widespread over the continent.

Elements of an FDI Strategy

According to Dunning (1998) and UNCTAD (1998, p. 91), FDI can serve four different goals that may have different implications for the economies involved: (1) market-seeking, (2) natural-resource-seeking, (3) efficiency-seeking, and (4) strategic-asset-seeking.¹³ Since from the perspective of German investment in the region natural-resource-seeking can be assumed to be unimportant, and strategic-asset-seeking will hardly be relevant either, it is of particular interest to explore the relevance of market-seeking versus efficiency-seeking—that is, cost-oriented investment. Efficiency-seeking can have different characteristics. It can be motivated by exploiting given cost advantages, such as lower wages in host countries, and it can aim at cross-border specialization in order to increase scale economies. From the available information on the strategic orientation of German investors, some basic conclusions may be drawn with regard to their economic implications. To arrive at definite answers would, however, require a complex (and still uncertain) analysis that is beyond the scope of this chapter. Assumptions regarding different scenarios, with no or less German FDI, would have to be developed—something that can only be done in a more comprehensive country- and sector-specific study.

Local Production Instead of Trade

Traditionally, German (as well as other countries') manufacturing FDI in Latin America has aimed mainly at overcoming trade barriers that sprang from the import substitution policies of the host countries. Local production in Latin America started early in German firms' internationalization process. Economic links between Germany and Latin America were soon marked by foreign production rather than trade. As early as 1977, the sales value of

manufacturing subsidiaries (\$8 billion) was five times the value of exports, and eight times the value of imports.

In the late 1980s and the 1990s many Latin American countries implemented economic reform programs, of which trade liberalization and privatization were key elements. Additionally, the restrictive treatment of FDI in the 1970s was wholly abandoned and replaced by a policy to promote investment and give guarantees to foreign investors. How did German MNEs respond to these new opportunities?

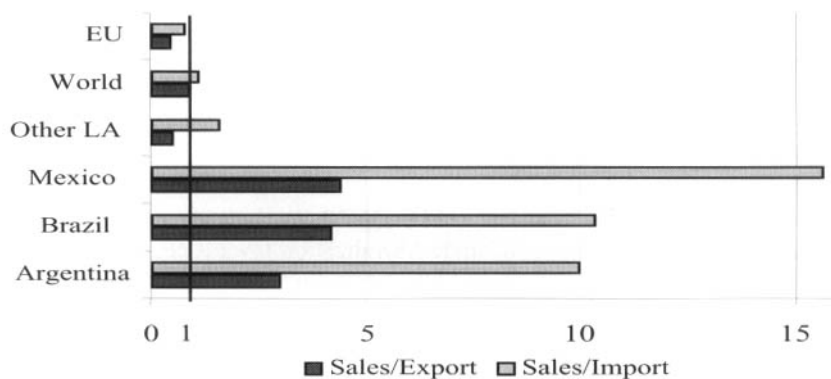
While the impact of lower barriers to FDI should clearly lead to greater investment if other conditions are right, the impact of trade liberalization toward countries outside of the region¹⁴ on FDI is not unambiguous. Since FDI was traditionally seen as a way to surmount trade barriers, fewer restrictions and tariff cuts could reduce FDI and favor trade. On the other hand, a major motive for FDI is the exploitation of firm-specific intangible assets. Because of the high transaction costs of trade with third parties, establishing foreign affiliates might sometimes be a more effective way of exploiting these assets. Furthermore, easier access for exports to Latin American markets might open up those markets for foreign investors as well, and enhance the prospects of developing cross-border systems for the division of labor. A decline in trade barriers could therefore stimulate overall FDI by enabling MNEs to operate more efficiently across international borders. Moreover, to the extent that trade liberalization leads to efficiency benefits and growth, FDI flows might also be affected positively. It can thus be expected that liberalization will favor both trade and FDI.

Empirical data show that German exports to Latin America increased substantially in the 1990s (although more slowly than world exports to the region), while German imports from Latin America lagged. However, since local manufacturing by German firms also increased in absolute terms (it doubled between 1991 and 1998), economic relations with developing countries in general, and with Latin America in particular, are still dominated by local production rather than trade. The manufacturing production of German firms in Latin America amounted to \$44 billion in 1998 while German exports and imports of manufactured products to and from Latin America were lower, at \$16 billion and \$10 billion respectively. This contrasts with the roughly balanced level of total German foreign trade and overseas production. It should be emphasized that thus far local production has not led to substantial imports into Germany, which would indicate cost-motivated investments. On the other hand, there is little evidence of any effective promotion of exports to Germany by local manufacturing in Latin America.¹⁵

There are, however, fundamental sectoral and regional differences in the economic links between Latin America and Germany:

- In the “big three” markets, and particularly in Mexico, the dominance of local production is markedly strong, while the links with the other countries are still predominantly marked by trade (Figure 7.7);
- In the chemical industry and in automotive products, the two sectors with the heaviest productive involvement in Latin America, the local production of German firms is more than six times the value of exports from Germany, while in the other sectors the levels are almost balanced.

Figure 7.7. German Production in and Trade with Latin America, 1998



Source: Deutsche Bundesbank; Statistisches Bundesamt; authors' calculations

Local Market Orientation Still Prevailing

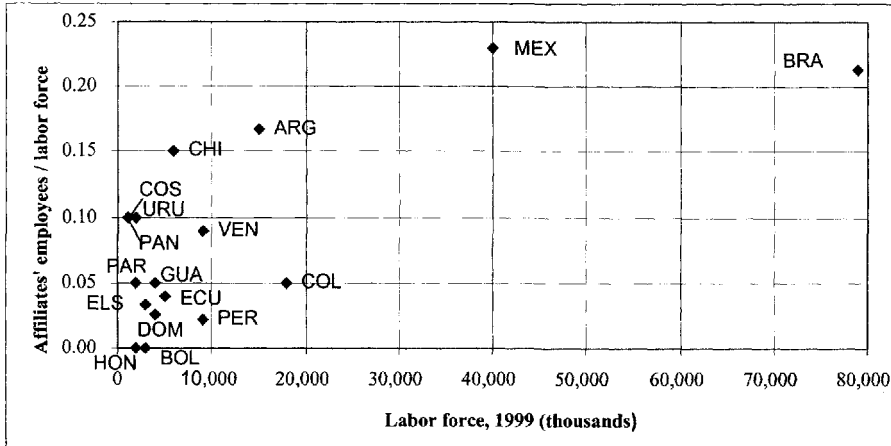
Given the below-average importance of German imports from Latin America and the continuing growth of German exports to the region (which was almost as strong as the growth in the production of German affiliates in Latin America), it can be presumed that the orientation of “German” production toward the German home market does not play an important role. This view is supported by the regional structure of production: not only in terms of stock is German FDI concentrated in the largest Latin American markets—Brazil, Mexico, and Argentina, as shown above. In these same markets the share of employment in German affiliates in the national labor force is the highest (Figure 7.8a). Although there is no evidence of a positive correlation in the small and medium countries, this is not evidence against the market thesis. The pattern shown in Figure 7.8 reflects, on the one hand, that the host economy must obviously be a certain size before local production becomes profitable. On the other hand, it reflects the widely differing economic, administrative and political investment conditions in the various countries; Chile is in a good position while conditions in Colombia and Peru, for example, are less favorable. Furthermore, there is a strong correlation between the employment share of German affiliates in total employment and income per capita (Figure 7.8b), which is not surprising. German investors mainly produce products (such as motor vehicles) for the higher-income segment of the population. Frequently, such production also requires more developed infrastructure and a workforce with a higher level of education.

The assumption of mainly market-driven investment in Latin America is supported by the results of the IDB survey. Both the size and growth of the host country market rank highest among the factors that determined the investment decision. The availability of skilled labor and the quality of the infrastructure are also important conditions, whereas low manpower costs ranked much lower. However, the IDB survey also raises questions about the differentiation between cost- versus market-oriented FDI. Most of the affiliates covered also serve neighboring Latin American and North American markets, especially from Mexico. For

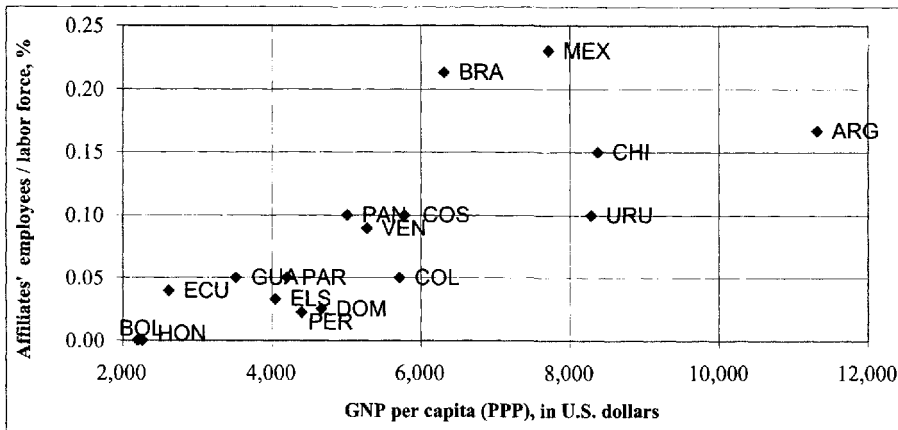
the affiliates in Mexico in particular, low labor costs are often important. In most cases, achieving efficiency gains by integration in the investors' global production and marketing networks were also named as important factors, which suggests that the line between market-, cost-, and efficiency-oriented investment is further blurred.

Figure 7.8. Employment Share of German Affiliates in Latin America
(By size and level of income in host country)

a) Employment share and size of host country



b) Employment share and income level of host country



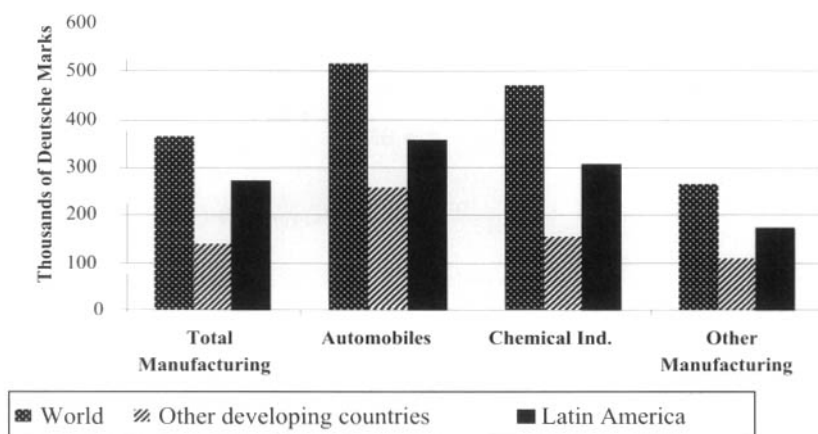
Source: World Bank; Deutsche Bundesbank; authors' calculations

High Productivity Manufacturing

While data on value added are not available for the production of German affiliates, sales per employee can serve as an indicator of productivity. In the manufacturing sector, productivity thus defined reached 274,000 Deutsche Marks (DM) or \$156,000 per employee in 1998, which is roughly half the value in Germany. This difference does not stem from a bias of German investment toward low-productivity sectors in Latin America. Rather, the reason is that production in Latin America is less real capital and/or human capital intensive than production in Germany within the respective sectors. Given the high-productivity environment in Germany, the lag in Latin America is not surprising. It is evident to a similar extent with respect to affiliates in other developed countries (Figure 7.9).

More remarkable is that Latin American locations enjoy—on average—a clear productivity advantage over locations in the other developing regions (Figure 7.9) and in CEE countries. This might indicate that Latin American locations offer comparatively more favorable investment and production conditions for German MNEs.¹⁶ In most sectors there is an advantage of at least 50 percent over affiliates in other developing countries. In the case of furniture and toys, for example, productivity in Latin America is about three times higher than that in developing countries as a whole.

Figure 7.9. “Productivity”^a of German Affiliates in Latin America Compared with Affiliates in Other Regions, 1998



^a Sales per employee in manufacturing affiliates (DM 1,000).

Source: Deutsche Bundesbank; authors' calculations.

Latin America's productivity edge, however, might also spring from the prevailing orientation toward the respective domestic markets. Given the low share of less productive, labor-intensive production for export, average productivity is pushed upwards. This could be one of the main reasons why German affiliates in Argentina achieve extremely high sales productivity, with DM 453,000 (\$257,000) per employee in the manufacturing sector. This is near the value in industrialized countries and in some cases—such as mechanical engineering

and automobiles—even surpasses it.¹⁷ Investments in Mexico, by comparison, with a higher share of low-cost production directed to North American markets, are far behind in productivity (DM 298,000 or \$170,000 per employee).

Strategic Adjustment to Integration Processes

Latin America has a long tradition of regional integration. The two most recent and dynamic regional integration schemes in the region are NAFTA and MERCOSUR. To what extent have these attempts at regional integration created new opportunities for FDI, and how far have German MNEs gone in seizing those opportunities? It can generally be expected that regional integration induces higher investments from third countries. The reason for this is that FDI is a way of surmounting tariff barriers, and regional integration agreements usually offer a certain level of protection for producers. Since the individual national markets are limited in scope, the inflow of foreign capital would also increase because of the enlargement of the market. To the extent that integration agreements prompt trade diversion, foreign firms might also respond through strategic investment in order to obviate the loss of markets when their customers turn to suppliers based in the region. Additionally, the integration process might spur efficiency gains that will raise the growth rate of the participating countries. This should make the integrated region a more attractive location for domestic and foreign investment.

NAFTA is a form of North-South integration. MNEs from third countries might see investment in Mexico as a cost-efficient way of serving the United States market in labor-intensive activities. As illustrated in Box 7.2, German companies such as Volkswagen and Daimler-Chrysler, in fact, no longer treat Mexico as part of Latin America but as part of the North American integration zone (Krumwiede and Nolte 1998, p. 72). This might become more widespread for other European companies in view of the entry into force of the free trade agreement between the EU and Mexico on 1 July 2000. Since substantial trade effects can be expected, trade liberalization could induce FDI in Mexico. Trade liberalization allows the duty-free import of intermediate products. Export-oriented European companies in Mexico could therefore transfer the manufacture of export goods for the United States market from European locations to Mexican plants (Busse et al. 2000).

FDI to Mexico substantially rose with the establishment of NAFTA. In the five-year period from 1989 to 1993, FDI flows to Mexico amounted to \$18.2 billion, while in the five years after the establishment of NAFTA the level more than tripled to \$58 billion. German MNEs have invested strongly in the NAFTA region in recent years. While the stock of German FDI as a whole grew by 77 percent in the period 1994-1998, it increased by 115 percent in NAFTA with Mexico experiencing the greatest growth (+177 percent, compared to 118 percent for the United States and 44 percent for Canada). NAFTA's share of German FDI thus grew from 26 percent to 31 percent (Deutsche Bundesbank, 1997 and 2000). The expansion of German firms in Mexico largely occurred in manufacturing, which accounts for 90 percent of total German FDI stock in the country.

Unlike NAFTA, MERCOSUR is a purely Latin American integration grouping with considerable economic weight in the region. In 1998, MERCOSUR—without its associate members Bolivia and Chile—accounted for more than half of Latin America's GDP. There

Box 7.2. German Automobile Investment in Latin America: Integration into International Production Networking¹⁸

Investments by the German automobile industry in Latin America were among the first and largest FDI projects of German firms worldwide. Volkswagen (VW) established an assembly plant in São Paulo, Brazil, as early as 1953. In 1957, a production plant was established in São Bernardo producing the Beetle and the transporter Bulli, and in 1964 a plant was opened in Mexico. Daimler set up plants for the production of trucks and buses in Brazil and Argentina, and had almost 10,000 employees by the mid-1960s.

The Latin American operations of these two major MNEs still represent the core of German FDI in Latin America. A new dimension was reached with the Daimler-Chrysler merger. VW and Daimler-Chrysler account for about two-thirds of the 108,000 employees of the German car industry in Latin America. Together with BMW, which has just started assembly operations in Mexico, their production share (Figure B) is :

- Thirty percent in Brazil, where VW is the leading producer of passenger cars and—together with Fiat—trucks. Mercedes is the largest producer of buses;
- Fifty percent in Mexico, where VW is by far the leading producer of passenger cars and Chrysler leads in producing light trucks. Including imported cars and excluding exports, VW is the leading company in Mexico, with a market share of 27 percent.¹⁹

While German-controlled firms could not hold on to their earlier (and even stronger) position in Brazil, they clearly gained ground in the expanding Mexican production (Figure A). This stemmed not only from the inclusion of Chrysler, which more than doubled its production share in 1998. VW as well as Daimler and, on a much lower level, BMW, all recorded well above-average growth rates in the late 1990s (VDA 2000).

The traditional motivation of German investors, like that of investors from other countries, was to serve protected markets, so Latin American affiliates' island factories were under no particular pressure to raise efficiency. Significant changes nevertheless took place, especially in the 1990s:

- Investors increasingly developed global production strategies, which included locations in low-wage countries; and
- Integration and liberalization processes both within and beyond Latin America widened the options of an intra-company division of labor.

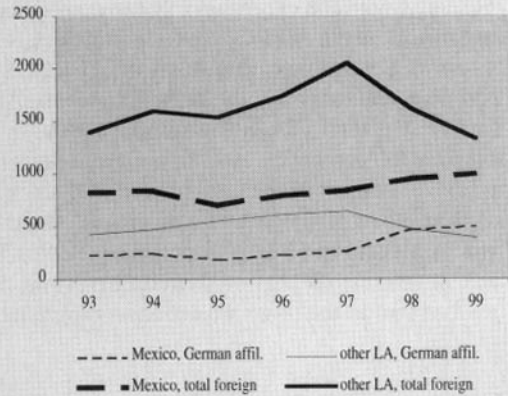
Both factors increased competitive pressure on Latin American affiliates and gave them a bigger role in international operations. This is particularly true for VW's affiliates. The company's globalization strategy became mainly based on the premise that high-quality innovative products that meet European standards can be produced worldwide at any location. Consequently, the company invested heavily both in Brazil and Mexico. Engines have been produced in São Carlos since 1996 in Brazil's first automobile plant to use robots. The newest plant in São José dos Pinhais/Curitiba started production of the Audi A3 and Golf A4 in 1999, with investments of \$700 million and 2,200 employees. At the same time, and with a similar level of capital, Daimler-Chrysler opened a new plant for the production of the A-class. (In both cases, however, the start of production has proved untimely since demand for cars plummeted because of the economic crisis). VW has modernized its Mexican subsidiaries, investing \$1.5 billion in the last five years; a similar amount is to be invested over a five-year period beginning in 2000. The Puebla plant in Mexico was chosen as the exclusive site for production of the new Beetle, and is the only plant in Latin America producing the Jetta/Bora models.

Box 7.2 (continued)

The changed production systems of the German manufacturers increasingly rest on outsourcing and the integration of component suppliers. On the one hand, modern supply systems, such as just-in-time delivery, are implemented. Suppliers are integrated into the new plants. The production of trucks and buses, for example, which VW started in Resende, Brazil in 1996, was organized by subcontractors. Of 1,500 employees only 200 are paid by VW, which invested \$250 million in this plant. Another facility started production of engines in São Carlos in 1996. It employs 450 people paid by VW, and 330 paid by subcontractors. In Mexico, starting with VW, Daimler and, most recently BMW, German supply firms have implemented their own global strategies. They often succeeded in establishing supply links with non-German manufacturers. To this end, they also started to locate production in the north of Mexico in order to be closer to the plants of the United States multinationals (Carillo and Lopez 1999).

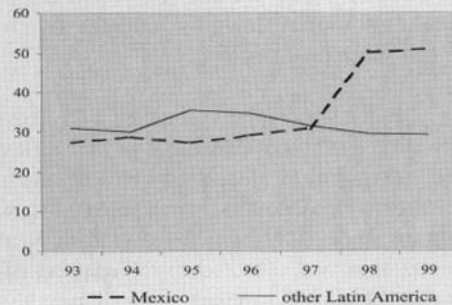
With the integration into international production and distribution systems, the German subsidiaries' plants in Latin America are increasingly involved in international operations both within and beyond the region. The cross-border exchange of components is of particular importance. For example, the Argentine VW plants receive engines from Brazil and Mexico, and axles and stamped parts from Mexico. The highly integrated plants in Brazil also receive axles and stamped parts from Mexico, while Brazil and Argentina supply axles to the Mexican plant which, in turn, supplies engines and cylinder heads to the inter-continental production network. The cross-border trade in cars is also expanding rapidly. Mexico supplies Bora and Jetta models to the MERCOSUR countries in exchange for Derby and Pointer cars from Brazil. Plants in Mexico further deliver a substantial number (about 15 percent of production) of the new Beetles to Germany and the European markets. The biggest change in international operations, however, was triggered by the formation of NAFTA. The rapid expansion of exports to the United States and Canada led to a boom in Mexican car production. VW exports about 65 percent of production to the North. Along with Chrysler, VW is Mexico's most important car exporter. The export-led boom exemplifies the potential for the specialization and economies of scale that can be triggered by trade liberalization.

Figure A. Foreign-owned Production of Passenger Cars in Latin America
(Thousands of units)



Note: Latin America = sum of Argentina, Brazil, Mexico.

Figure B. Share of German Production, Passenger Cars
(Percentage)



has been a strong interest in MERCOSUR on the part of foreign investors since its founding in 1991, but the real boom in FDI did not occur until the establishment of the custom union in 1995. At over \$50 billion, FDI flows to MERCOSUR reached a new height in 1999. Presently, with the exception of China, no other emerging market lures so much foreign direct investment as the MERCOSUR countries (UNCTAD 2000). As was outlined above, German investors became less important in MERCOSUR in the 1990s relative to those from other European countries and the United States. In Argentina, FDI from Germany amounted to only 2 percent of total FDI inflows in the 1990s. In Brazil, the share of German direct investment fell from 11 percent in 1995 to a mere 2 percent of the inflows in the 1996–1999 period, and to some 6 percent of the total inward FDI stock (Bfai 2000, 8; *Frankfurter Allgemeine Zeitung* 12 December 2000). The two countries' share of total outward German FDI stock decreased from 4 percent in 1992 to 3 percent in 1998. This development, however, does not reflect a lack of interest on part of German investors. Rather, it is the consequence of little German involvement in the large privatization programs.

Little Involvement in Privatization

Privatization not only creates opportunities for FDI by involving foreign investors in the sale of state-owned enterprises but can also induce additional inflows that are independent of actual privatization. One reason for this is the injection of additional funds for upgrading the enterprises bought. Another reason is that privatization, especially in the infrastructure sector, induces additional flows by reducing overhead costs, thereby making potential investment projects more profitable.

In the 1990s the volume of FDI flows to Latin America reached record levels. While there is no doubt that this surge in FDI inflows springs from the opening up of the region and from deregulation and liberalization, the inflows cannot be ascribed to specific reform measures. The Argentine government, for example, has carried out a sweeping privatization program since 1989, which resulted in a dramatic increase in FDI in the early 1990s. But privatization was effected in the context of a comprehensive program of state and market reform, which led to clear improvements in the overall economic climate (Harteneck and McMahon 1996). The same is true of Brazil, which embarked on profound structural reforms and far-reaching privatization in the second half of the 1990s.

Despite the ample opportunities spawned by liberalization and privatization in the 1990s, German MNEs were highly reluctant to exploit these new opportunities in Latin America. Rather, they invested in increasing capacity and restructuring existing facilities. In Brazil, for example, German MNEs participated in just 0.1 percent of the privatizations, which was the main reason why Germany fell behind as an investor (*Frankfurter Allgemeine Zeitung*, 12 December 2000; Bfai 1999, 10). The IDB survey indicates that not even the biggest investors were involved in privatization. This prompts the question of why German participation was not stronger. Two reasons seem to be important in this respect:

- As mentioned above, significant engagement in the CEE countries and eastern Germany, as well as positioning in EU's internal market, took a large share of potential investors' resources. The economic prospects of these regions were often

deemed brighter than in a Latin America beset by crises. Additionally, the transaction costs of FDI are lower.

- The internationalization of German firms in general, and in Latin America in particular, was driven largely by core manufacturing sectors such as the chemicals and pharmaceutical industry, automobiles and electrical and mechanical engineering. In contrast, the bulk of privatizations were in telecommunications, banking, steel, and energy/utilities. There were therefore few German investors who could profit from previous experience in the region. In several fields that were important for privatization, Germany itself lagged behind in privatization. In utilities and telecommunications, for example, most German firms were, until recently, bound to their protected domestic markets.

While the reluctance or failure of German firms to become involved in the privatizations can be considered a disadvantage from the Latin American viewpoint (since a wider range of investors would probably increase competition and improve the transfer of know-how), it is not necessarily a problem for potential German investors. Their strategy in the region has mainly been based on investing in greenfield projects, and particularly in the expansion of existing capacities. Furthermore, as was outlined above, German investors have been attracted by favorable investment opportunities elsewhere.

Prospects

German investors in Latin America and the Caribbean have become less important relative to other investors. At the same time, Latin America as an investment location has lost relative importance for German investors. Despite this relative stagnation, however, it should be noted that in absolute terms the 1990s saw a substantial expansion in German FDI located in the region (the level of FDI stocks more than doubled, surpassing \$18 billion in 1998). Moreover, much of the new investment carried out by German enterprises has been in some of the most sophisticated and dynamic segments of the manufacturing sector. Additionally, a number of German enterprises have pioneered new and lean production techniques in the region, and German subsidiaries in Latin America are being increasingly integrated into their companies' global production and distribution systems (in the automobile industry, for example).

As regards overall economic relations between Germany and Latin America, the value of local production in subsidiaries in the region surpasses the level of trade flows. The local production of German investors is concentrated in a few core manufacturing sectors and, regionally, in Brazil, Mexico and Argentina. Mexico has been gaining in importance while Brazil has lost some of its traditional dominance.

According to the IDB survey, German enterprises view Latin America as a continuing attraction for future investments, predominantly through the expansion of existing capacities, followed by acquisitions and new greenfield projects. Most companies see Mexico as the most important strategic location for future investment.

Nevertheless, the extent to which positive expectations of the leading German multinationals will materialize, and whether this will lead to a further increase in direct investment remains an open question. This is largely seen as depending on several factors:

- The most important question is: will large host countries such as Argentina and Brazil manage to overcome the occurrence of financial crises and eliminate administrative rigidities? Both international and German experiences show that FDI closely and disproportionately follows the macroeconomic development of host countries;
- Greater progress on economic integration within Latin America, particularly MERCOSUR, is a precondition for the further development of cross-border production networks. This should lead not only to efficiency gains for existing FDI but should also enhance the attractiveness of the region for more FDI;
- There would be greater potential for more German investment if there were more free trade agreements with the EU. This would reduce costs, improve stability in investment conditions and enable investors to develop competitive production structures;
- Stronger participation of German firms in privatization processes can be expected to pick up in the medium term only, as there are still attractive opportunities in other potential host regions, particularly Eastern Europe. Furthermore, it might take some time for potential investors to emerge in the areas where privatizations are being carried out.

The level of future investment by German companies in Latin America will depend on socioeconomic and political developments in the region, as well as the inclusion of a broader spectrum of German companies as investors at both the global level and in Latin America.

NOTES

- ¹ FDI inflows also reached all-time highs recently, a fundamental change from earlier years.
- ² The differing evolution of flows on the one hand, and stocks and production data on the other, points to the limited explanatory power of flow data. Stock data also have shortcomings, particularly in view of the impact of exchange rate fluctuations on their valuation.
- ³ The share of developing countries in Germany's outward FDI stock fell from 18 percent in 1980 to 12 percent in 1989.
- ⁴ The 6 percent share of German FDI in Latin America in total German FDI compares with a Latin American share in worldwide FDI of about 10 percent. For non-Latin American developing countries the figures are 5 percent versus 20 percent.
- ⁵ The methodologies differ among countries with regard to such issues as: reinvestments, correction for indirect investments via holding companies in third countries, and the definition of FDI by the assets of affiliates or by capital received from outside investors.
- ⁶ The share of manufacturing in the FDI stock fell to 63 percent from 76 percent in 1990. However, this does not seem to be a diversification into services. Rather, it is the result of FDI in the financial sector and holding companies in offshore centers, which increased their share in FDI by half in the 1990s. With 19 percent of German FDI stock in the region (end 1998), offshore centers are statistically among the leading FDI destinations in Latin America and the Caribbean (see also Statistical Annex Tables 6 and 41).
- ⁷ Manufacturing accounts for 67 percent of total employment with United States affiliates in Latin America (see Raymond J. Mataloni, "U.S multinational companies: Operations in 1998," *Survey of Current Business*, July 2000, p. 42).
- ⁸ Germany's lagging in Latin America thus has a clear sectoral dimension.
- ⁹ This does not mean there is no cost-motivated German FDI in Latin America. There are in fact a number of establishments involved in labor-intensive manufacturing, especially in Caribbean countries and territories. However, while these affiliates may be important for the individual investors their volume is very limited compared with FDI in Latin American countries of the mainland. Furthermore, their production is directed to the United States rather than to the German market. The same holds for the more sizable cost-motivated German production in Mexico.
- ¹⁰ Production activities are also concentrated in the host countries.
- ¹¹ Nevertheless, São Paulo is considered worldwide as the most important cluster of German manufacturing firms. Besides hosting over 1,000 German investors it also has the largest German vocational school (IFPA institute) outside Germany.
- ¹² Data on German FDI flows to Latin America indicate, as do those on other countries, a varying trend. In recent years flows have increased in the cases of Brazil and Argentina (as well as the Cayman Islands), while flows to Mexico have been lower and particularly volatile. This development, however, should not be over-interpreted in view of the limited and often misleading force of expression of flow statistics when viewed over a short period.
- ¹³ In practice it is difficult to attribute specific FDI projects unequivocally to these aims. In particular, efficiency-seeking can be an element of the other three types of FDI.

- ¹⁴ Liberalization of transactions between Latin American countries is addressed in the section titled "Little Involvement in Privatization."
- ¹⁵ In this context it is interesting to note that the role of German manufacturing firms' distribution outlets and service stations is much more limited in Latin America (less than 4 percent of FDI) than in other developing regions (about 16 percent of FDI). This part of German FDI is here defined as FDI in trade that was not carried out by trading companies. Source of data: Deutsche Bundesbank.
- ¹⁶ For United States investors, the sales productivity in Latin American manufacturing shows no advantage over affiliates in the Asia-Pacific region.
- ¹⁷ Another reason for the high productivity in Argentina is that firms adjust to the relative factor costs. Argentina has the highest income per capita of all Latin American countries.
- ¹⁸ Source of the following text, if not otherwise mentioned, includes company and press information from the Hamburg Institute of International Economics (HWWA) archives.
- ¹⁹ If light trucks are included, VW is number 2, behind GM (FAZ of 15 February 2001).

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Chapter 8. Italy

Alberto Brugnoli and Alessandro Maffioli *

Introduction

This chapter analyzes the internationalization of production by Italian companies in Latin America and the Caribbean. To that end it is divided into two sections. The first examines Italy's position in international markets in terms of sales and capital flows. The aim is to provide a macroeconomic picture of the internationalization process pursued by Italian companies, and to describe the background to Italian foreign direct investment (FDI) in the broader process of globalization at the international and European levels. The second section looks at the international development patterns adopted by a number of Italian companies in the Latin American market.

Italy in the International Economic Arena

The internationalization of production has been examined in the economic literature using three different levels of analysis: macro, meso and microeconomic. In this section, the analysis concentrates on the macroeconomic level with a view to providing the best possible understanding of how the Italian internationalization process has evolved in the international and European contexts. It is useful at this level briefly to consider the internationalization of trade, so that the competitiveness of the "Italian system" as a whole can be more clearly understood.

Trade Flows

In the 1990s, Italy's position in international trade partially worsened. Data on the volume of world exports and imports of goods from and to the 20 major countries show that in 1999 the country ceded to Canada its sixth position in the rank of both importing countries and exporting countries (ICE, 2000).

What caused this deterioration? Is it a cyclical phenomenon that has led to a temporary weakening of Italy's position relative to the world's other industrial powers, or is it symptomatic of a wider structural problem? Before attempting to answer these questions it is necessary to take a close look at the dimensions of Italy's commercial internationalization, and to analyze its characteristics in terms of a number of variables at the international level.

First, the deterioration took place in an international context in which the volume of trade was growing. Indeed, the 1990s saw a significant increase in the level of world goods trade, which grew by 5.4 percent in 1998 and by 5.9 percent in 1999. This raised expectations of a further 13 percent growth in 2000 (OECD 2000).

* Alberto Brugnoli is a lecturer at the University of Bergamo and at Bocconi University in Milan, co-director of the Masters Program in International Economics and Management (MIEM), and coordinator of research at the Institute of Latin American Studies (ISLA). Alessandro Maffioli is a doctoral student at the University of Insubria in Varese and researcher at the Institute of Latin American Studies (ISLA) of Bocconi University in Milan. Although the paper is the result of close cooperation and joint research by the authors, the part on trade and FDI flows is to be attributed to Alberto Brugnoli and the part on internationalization strategies to Alessandro Maffioli.

Analysis of Italy's export performance reveals that in 1999 it was significantly worse than that recorded at the world level and by other European countries.¹ In fact, exports of goods and services fell in that year by the highest percentage in the decade (-5.9 percent at 1995 prices, see Table 8.1).²

Table 8.1. Italy: Trade Flows, 1992–1999

	1992	1993	1994	1995	1996	1997	1998	1999
FOB exports								
Billions of US\$	178	169	191	234	252	240	245	231
% var.		-5.1	13	22.5	7.7	-4.7	2.3	-5.9
CIF imports								
Billions of US\$	188	148	169	206	208	210	218	217
% var.		-21.3	14	21.9	1.1	1.0	3.9	-0.5
Balance								
Billions of US\$	-10	21	22	28	44	30	27	14
Absolute variation		31	1	6	16	-14	-3	-13
Standardized balance ^a	-2.8	6.6	4.5	6.4	9.6	6.7	5.8	3.1

^aThe standardized balance is the ratio between the balance and the total amount of exports and imports.

Source: ICE, 2000.

Generally speaking, during the second half of the 1990s the increase in the ratio of exports to gross domestic product (GDP) in Italy was less dynamic than at the international or European levels. This lack of dynamism can be explained by international, European and specifically Italian factors. At the international level, the financial crises of the late 1990s in Asia, Latin America and Russia led to a downturn in global trade. In Italy's case the negative impact was particularly strong because of the geographical composition of the country's exports, since the markets that were worst hit were also the main outlets supporting the growth of Italian exports (Table 8.2).

Table 8.2. Italy: Trade in Goods, 1996–2000

(Values in billions of U.S. dollars; percentage variations in the corresponding period)

Period	Exports (FOB)				Imports (CIF)				Trade Balance			
	EU	Extra-EU	of which LA	Total	EU	Extra-EU	of which LA	Total	EU	Extra-EU	of which LA	Total
1996	140	112		252	127	81		208	13	31		44
1997	132	108	10	240	128	82	5	210	4	26	5	30
	-5.7%	-3.6%		-4.8%	0.8%	1.2%		1.0%	-69.2%	-16.1%		-31.8%
1998	140	106	10	245	135	83	5	218	5	23	5	27
	6%	-0.9%	0.0%	2.5%	5.5%	1.2%	0.0%	3.8%	25.0%	-11.5%	0.0%	-6.7%
1999	137	98	9	235	136	85	5	221	1	13	4	14
	-2.1%	-7.5%	-10%	-4.5%	0.7%	2.4%	0.0%	1.4%	-80.0%	-43.5%	-20.0%	-50.0%
2000 ^a	130	107	9.5	237	133	103	6	236	-3	4	3.5	1
	-5.1%	9.2%	5.6%	0.9%	-2.2%	-44.3%	20.0%	6.8%	-400.0%	-69.2%	-12.5%	-92.9%

^a Provisional data. For the purposes of consistency the growth rates are calculated using unrectified 1999 data.

Source: ICE, 2000.

Some analysts believe that the performance of Italian exports has been negatively affected by their low level of specialization and deficient flexibility. Italy's share of world exports in the 1998–1999 period fell by more than that of the other major countries of the European Union (EU), which were able to benefit from the growth in exports to East European countries.

Provisional data for 2000 point to a considerable recovery in Italian exports (growth of over 16 percent), particularly as a result of the greater competitiveness arising from the higher value of the dollar. Nevertheless, one of the factors that will be decisive for Italy's export performance in the coming years will be the prospects for expansion into EU markets, which absorb almost 60 percent of all Italian foreign sales.

Finally, a review of Italy's trade balance confirms the deterioration in the country's competitive position during the 1990s (Table 8.3). The substantial downturn of the trade balance stems partly from the worsening of net positions with respect to a number of European partners—particularly Germany—and partly from the increase in the price of energy-related raw materials, which has generated a substantial trade deficit with the countries producing such inputs. A counter-trend has clearly been trade with the United States and emerging countries strongly linked to the dollar, while the deficit with China increased and the surplus with Brazil and Argentina declined. In the case of Argentina this is attributable to a fall in the demand for Italian exports spurred by the country's serious recession rather than to exchange-related variables, which should instead have improved Italy's competitive position.

Table 8.3. Italy's Trade Balance by Geographical Area, 1997–2000
(Values in billions of U.S. dollars)

Areas and countries	Trade balances				Standardized balances ^a
	1997	1998	1999	2000	2000
Industrialized countries	21.8	18.1	13.7	14.6	3.5
European Union	3.9	4.2	1.3	-3.2	-1.0
Japan	0.5	-0.7	-1.5	-2.3	-19.4
United States	8.7	10.3	9.9	14.3	32.7
Countries in transition	4.8	4.6	0.8	-2.8	-5.7
Russia	-0.4	-0.6	-2.3	-6.3	-53.6
Developing countries and regions	2.7	3.8	-2.0	-11.7	-12.3
Africa	-3.7	-1.6	-3.0	-6.2	-30.0
Latin America	5.2	5.0	3.6	4.1	22.3
Argentina	0.9	0.9	0.5	0.1	6.4
Brazil	1.6	1.2	0.5	-0.1	-2.3
Asia	-1.4	-4.8	-4.4	-6.9	-33.7
China	-1.9	-2.8	-3.0	-5.0	-49.4
Middle East and Europe	2.6	5.2	1.8	-2.6	-7.3
World	30.3	27.3	13.2	1.5	0.3

^aThe standardized balance is the ratio between the balance and the total amount of exports and imports.
Source: ICE, 2000.

Mention should also be made of the sectoral structure of Italian foreign trade. As regards exports, recent years have seen an increase in the share accounted for by transport equipment, energy products, footwear and mechanical products. In the more traditional sectors, the increase in imports is attributable not only to buoyant internal demand but also to investments by Italian companies in various sectors of Eastern Europe, which has given rise to a significant increase in imports of partly finished goods.

In 1999 exports contracted, particularly in traditional sectors such as textiles, clothing and footwear, as well as in the mechanical products sector. The negative variations recorded in the clothing sector are mainly attributable to economic conditions in the EU, while the fall in exports of mechanical instruments is connected to a decline in the purchasing power of Eastern European and developing countries following the crises that they recently faced.

Table 8.4. Sectoral Structure of Trade between Italy and Latin America, 1999
(Percentages)

	0	1	2	3	4	5	6	7	8	9	Total
<i>Exports</i>											
Argentina	2.2	0.1	0.5	0.9	0.0	6.4	12.6	65.8	11.4	0.0	100.0
Brazil	1.5	0.8	0.5	5.3	0.1	7.6	9.7	64.4	10.2	0.0	100.0
Chile	0.9	0.2	1.0	0.6	0.1	7.3	16.5	56.8	16.7	0.0	100.0
Colombia	1.2	0.7	0.9	0.0	0.2	12.9	18.3	49.8	16.0	0.0	100.0
Mexico	0.6	0.3	0.3	0.1	0.2	7.8	16.8	63.9	9.9	0.0	100.0
Peru	1.9	0.6	0.4	0.0	0.1	9.6	15.8	54.0	17.6	0.0	100.0
Venezuela	2.0	0.3	0.1	2.1	0.1	5.9	15.7	63.7	10.1	0.0	100.0
Total LAC	1.4	0.6	0.4	2.3	0.1	6.7	11.9	61.0	15.6	0.0	100.0
<i>Imports</i>											
Argentina	61.9	0.0	8.6	0.1	0.6	4.4	11.3	12.1	1.0	0.0	100.0
Brazil	18.2	0.6	29.5	1.1	0.1	2.5	22.3	24.4	1.4	0.0	100.0
Chile	7.2	0.2	15.4	0.0	0.0	1.3	75.2	0.7	0.1	0.0	100.0
Colombia	52.0	0.0	1.1	24.0	0.0	2.1	14.0	2.5	3.7	0.6	100.0
Mexico	10.9	1.9	7.3	5.2	0.1	20.4	11.1	34.8	8.2	0.1	100.0
Peru	15.1	0.0	14.2	0.0	2.3	2.3	55.0	0.6	3.8	6.7	100.0
Venezuela	6.4	0.8	37.2	20.0	0.0	6.7	26.4	2.2	0.3	0.0	100.0
Total LAC	29.4	0.5	19.0	4.5	0.2	3.4	25.8	15.0	1.9	0.3	100.0

Note: Sectoral classification (SITC rev. 3): 0 = food and live animals; 1 = beverages and tobacco; 2 = raw materials excluding fuels; 3 = mineral fuels; 4 = animal, vegetable oil, fat; 5 = chemicals; 6 = basic manufactures; 7 = machines and transport equipment; 8 = miscellaneous manufactured goods; 9 = goods not classified by kind.

Source: Compiled by the authors on the basis of data from Eurostat, 2000.

UNCTAD data confirm Italy's international specialization in the traditional goods sector, such as furniture, ceramic tiles and tanned leather, as well as in the textile and clothing sector (ICE 2000). In this sense Italy's position differs from that of the EU as a whole, where the trend is towards international specialization in sectors characterized by economies of scale and a decline in the traditional sectors. In some sectors, such as furniture and consumer goods, Italy is losing ground to East European and developing countries, while its share in the mechanical instruments market is increasing. The specialization of Italian companies is very

weak in the chemicals sector. As in the rest of the EU, there is also a deficit in the area of products with a higher research content, such as electronics and precision instruments.

As regards the sectoral specialization of trade between Italy and Latin America (see Table 8.4), Italy clearly specializes in exports of machines and transport equipment, primarily the result of Fiat's activity. Although Fiat and its main suppliers have established a substantial number of plants in the region,³ many components still come directly from Italy. Exports of machine tools for the manufacturing sector in Latin America also play an important role. Imports from the region seem to be concentrated in the primary sectors in categories such as food, live animals and raw materials. Imports from Brazil, Chile and Mexico, however, reflect a more balanced structure and are less dependent on the primary sector.

Foreign Direct Investment

This section examines direct investment flows from Italy in greater detail, and attempts to define the main features of Italy's process of productive internationalization.

The last two decades have seen the rapid growth and gradual consolidation of Italy's role as an investing country. In 1980, outgoing investments accounted for 1.4 percent of the world stock (\$7.3 billion), while in 1990 they represented 3.3 percent (\$57.3 billion) and in 1998 4 percent (\$165.4 billion; UNCTAD 2000). In terms of net flows, overall Italian FDI abroad increased strongly in the course of the 1990s, rising from \$7.6 billion at the start of the decade to \$10.4 billion and \$14.1 billion in 1997 and 1998, respectively. In 1999, FDI outflows fell to \$3.0 billion. This decline, however, is attributable to the specific manner in which the acquisition by a foreign investor of the Italian group Omnitel and Infostrada (for \$6.5 billion) was recorded.⁴ In 1999 there was a decline in Italy's share of world outward FDI stock, to 3.5 percent (\$168.4 billion).

The period between the second half of the 1980s and the end of the 1990s was an important phase in the internationalization of Italy's industrial system. In the mid-1980s, in fact, the total size of foreign shareholdings owned by Italian companies operating in the industrial sector was still quite small, revealing a low level of internationalization relative to other countries with a comparable level of economic development. Since then, the number of initiatives undertaken by Italian companies abroad has steadily increased, often faster than the average for industrialized countries. This acceleration stems from efforts to bring the internationalization of Italian industry more into line with other countries. Such efforts were made in a number of sectors with a vital interest in involvement in the globalization of the world economy. To ensure their survival, Italian companies operating in these sectors were obliged, in a very short period, to devise and implement strategies for multinational expansion that would allow them to compete on a global scale (Porter 1986). This phenomenon, which some commentators termed the "multinational chase" (Caminotti et al. 2000), was matched and fostered by the measures taken by successive Italian governments in the same period to liberalize capital movements, provide incentives for investment abroad, balance the flow of capital entering the country—which was putting pressure on the balance of payments—and fulfill their commitment to ensure gradual economic and monetary integration in Europe (see Table 8.5).

In the space of 15 years, the number of Italian companies that have invested abroad and the number of foreign companies in which shares are held have increased almost four-fold (growing by an average annual of 10 percent) while the number of their employees more than doubled. The number of majority shareholdings increased faster, by 11 percent between 1986 and 2000. Hence, at the beginning of 2000, the number of foreign companies controlled by Italian investors accounted for 76.9 percent of all the foreign companies in which shares were held, for a total of 1,979 firms.⁵ This increase in majority shareholdings shows that the expansion methods of Italian companies have evolved in both quantitative and qualitative terms, that the companies are more focused on taking control of foreign businesses in which they own shares, and that they are increasingly able to do so.

Table 8.5. Evolution of Italian Company Shareholdings in Foreign Industrial Companies, 1986–2000

	Controlling shares (a)		Total shareholdings (b)		a / b
	Number	Annual growth rate	Number	Annual growth rate	
Italian investor companies (no.)					
Jan. 1986	180		282		63.8
Jan. 1990	241	8%	340	5%	70.9
Jan. 1994	473	18%	618	16%	76.5
Jan. 1998	650	8%	859	9%	75.7
Jan. 2000	797	11%	1,017	9%	78.4
Foreign companies in which shares are held (no.)					
Jan. 1986	442		697		63.4
Jan. 1990	771	15%	1,075	16%	71.7
Jan. 1994	1,264	13%	1,707	12%	74.0
Jan. 1998	1,674	7%	2,183	6%	76.7
Jan. 2000	1,979	9%	2,573	9%	76.9
Employees of companies in which shares are held (no.)					
Jan. 1986	152,010		244,188		62.3
Jan. 1990	279,749	16%	435,690	21%	64.2
Jan. 1994	384,273	8%	578,144	7%	66.5
Jan. 1998	429,472	3%	602,779	1%	71.2
Jan. 2000	460,469	4%	642,523	3%	71.7
Turnover of companies in which shares are held (billions of US\$)					
Jan. 1986	20.0		25.7		77.8
Jan. 1990	44.8	22%	61.9	34%	72.3
Jan. 1994	57.8	7%	81.0	7%	71.4
Jan. 1998	84.0	10%	107.0	7%	78.5
Jan. 2000	85.2	0.7%	113.6	3%	75.0

Source: Reprint data bank, Consiglio Nazionale dell'Economie e del Lavoro (CNEL)/ Recherche e Progetti (R&P), Politecnico di Milano.

With regard to the evolution of this internationalization process it should be noted that, following the period of rapid growth of all the indicators examined between 1986 and 1994, in the second half of the 1990s growth rates slowed considerably. There were two reasons for this. First, the successive financial crises that characterized the second half of the 1990s,

including that which struck Mexico in 1994 and the Brazilian crisis of January 1999, prompted a substantial decline in investor confidence, particularly among smaller investors. They also triggered a significant fall in the turnover growth of Italian multinationals because of the negative performances of companies located in the areas affected by the crisis. Second, a significant role was played by the gradual reorganization of companies acquired as part of privatization programs in emerging countries, such as the telecommunications industry in Latin America. Such reorganization often led to substantial downsizing.

Another matter of interest to emerge from analysis of the internationalization of the Italian industrial system in the 1990s is the participation of small and medium enterprises (SMEs). While the first phase of internationalization was characterized by the involvement of only the largest industrial groups in the country (such as IFI-Fiat, ENI, Pirelli, Ferruzzi-Montedison, CIR-Olivetti), from the beginning of the 1990s there was an unprecedented and significant involvement of SMEs in FDI flows from Italy. This is evidenced by the fact that at the beginning of 2000, 830 of 1,017 Italian firms (81.3 percent of the total) were SMEs (having fewer than 500 employees) that could be defined as “small multinationals” (see Table 8.6). Also significant is the fact that 75 percent of Italian SMEs that have undertaken foreign direct investments abroad have majority shareholdings, revealing the great competitiveness of these new multinationals.

Companies belonging to Italian “industrial districts” or clusters have been significant in this trend. Under growing pressure from international competition, they have often tried to internationalize through FDI. The success of these attempts, however, remains uncertain: on the one hand FDI by district companies seems to open up new opportunities, but on the other it might pose a threat to this particular way of organizing production. Companies in Italian industrial districts have always been characterized by a strong propensity to internationalize, particularly to find new outlets for their goods through product specialization that often constitutes their most important competitive advantage. The importance of opening up new foreign markets is demonstrated by the sectoral specialization of Italian international trade, which is strongly characterized by traditional products. “Market-seeking” FDI by industrial district companies can be interpreted as a further evolution of a successful model.

However, in recent years a number of district companies have internationalized in a search for new and cheaper labor markets to carry out certain stages of production that are normally performed in the industrial district itself. According to some authors, such internationalization risks damaging the district organizational model, because it weakens relationships and the circulation of strategic information between the district companies, and because it undermines the mechanisms for reproducing the specific knowledge available locally (Garofoli 2000, Mariotti and Piscitello 1999).

It is worth noting that FDI flows from Italy are considerably smaller than those from other countries of a comparable size and level of economic development. This is attributable on the one hand to the continuing lag in the internationalization of the productive sector and, on the other, to the smaller size of many Italian investors, which entails lower levels of capital being invested for the same number of investors. The substantial weight of these “small multinationals” has a considerable effect on FDI flows for two reasons. First, these companies have fewer financial resources available; and second, given their obvious difficulties in meeting the sizeable costs for information to access new markets with FDI, they often rely on

Table 8.6. Distribution of Shares Held by Italian Companies in Industrial Companies Abroad on 1 January 2000, by Size of Investing Company
(Measured on the basis of the number of employees in Italy)

	Parent companies		Foreign companies in which shares are held		Employees of companies in which shares are held	
	No.	%	No.	%	No.	%
<i>Majority shareholdings</i>						
Up to 499 employees	627	78.7	905	45.7	89,926	19.5
500 to 4,999 employees	147	18.4	564	28.5	126,258	27.4
Over 4,999 employees	23	2.9	510	25.8	244,285	53.1
Total	797	100.0	1,979	100.0	460,469	100.0
<i>Equal or minority shareholdings</i>						
Up to 499 employees	209	64.3	339	57.1	33,336	18.3
500 to 4,999 employees	81	24.9	108	18.2	35,393	19.4
Over 4,999 employees	20	6.2	147	24.7	113,325	62.2
Total	325	100.0	594	100.0	182,054	100.0
<i>Total</i>						
Up to 499 employees	830	81.6	1,244	48.3	123,262	19.2
500 to 4,999 employees	162	15.9	672	26.1	161,651	25.2
Over 4,999 employees	25	2.5	657	25.5	357,610	55.7
Total	1,017	100.0	2,573	100.0	642,523	100.0

Source: Reprint data bank, CNEL – R&P – Politecnico di Milano.

lighter forms of internationalization—such as joint ventures, licensing and sub-supplies—before carrying out direct investment (Bank of Italy 2000, Bugamelli et al. 2000).

In contrast to the situation of exports, the sectoral distribution of Italian FDI is similar to the typical model of industrialized countries. It is significantly concentrated in sectors marked by economies of scale (47 percent of all foreign shareholdings), followed by traditional sectors (29 percent) and specialized sectors (15 percent). High-tech sectors are at the bottom of the list (9 percent).

Among the economy-of-scale sectors, a particularly important role is played by motor vehicles and associated components, processed food (in which major Italian industrial groups such as Parmalat and Ferrero operate), mining and metal processing, and non-metallic minerals. Traditional sectors include basic foodstuffs, textiles and clothing, in which many SMEs from industrial districts are active alongside large industrial groups. In the specialized sector, an important position is held by the machinery and mechanical equipment segment. In the high technology sector, following Olivetti's departure from the IT sector and Finmeccanica's sale of Elsas Bailey, the only segment of any importance on the international

scene is microelectronics, because of the presence of the Franco-Italian company STMicroelectronics (Cominotti et al. 2000).

Overall, Italian industry's internationalization model is substantially in line with that of other developed countries, in which the high-tech and high scale intensity sectors are the main actors in terms of FDI. There is still an anomaly, however, because of the greater importance of traditional production and the lesser importance of science-based sectors. Nevertheless, the weakness of Italian FDI in the science-based segment stems largely from the limited size of the potential investor base, rather than from Italian companies' lesser willingness to internationalize. This suggests that there is a lag in Italy's industrial development in general, rather than in the country's internationalization.

Italian FDI in Latin America: Geographical Distribution and Sectoral Specialization

In terms of the number of employees working for companies in which shares are held, Latin America (including Mexico, data for which are included as part of North America in Table 8.7) with 13.4 percent is the third-ranked destination for Italian FDI abroad, after Western Europe (38.7 percent) and Eastern European countries (18 percent). North America (excluding Mexico) accounts for 9.7 percent of the total number of employees of companies in which shares are held abroad, while Asia and Oceania together account for 14.8 percent of the total, and Africa for 5.5 percent (Table 8.7).⁶

Latin America has always been a traditional destination for Italian investment. However, since the 1980s the region's importance as a destination for Italian FDI outflows has varied substantially in line with the strategic priorities of Italian companies in the context of their internationalization processes.

Table 8.7. Employees of Foreign Industrial Companies in Which Italian Companies Had a Shareholding on 1 January 2000, by Geographical Area

Country or area	Shareholdings				
	Majority		Equal/minority		Total
	Number	%	Number	Number	%
European Union	181,487	39.4	59,964	241,451	37.6
Other West European countries	6,500	1.4	474	6,974	1.1
Central and Eastern Europe	83,623	18.2	31,864	115,487	18.0
North America	60,618	13.2	10,502	71,120	11.1
Canada	10,174	2.2	1,863	12,037	1.9
Mexico	5,072	1.1	4,368	9,440	1.4
United States	43,972	9.5	4,271	48,243	7.5
Latin America	71,256	15.5	5,625	76,881	12.0
Argentina	11,282	2.5	1,036	12,318	1.9
Brazil	49,837	10.8	3,815	53,652	8.3
Asia	27,625	6.0	60,416	88,041	13.7
China	8,770	1.9	13,205	21,975	3.4
India	4,783	1.0	18,071	22,854	3.5
Oceania	7,146	1.6	54	7,200	1.1
Africa	22,214	4.8	13,155	35,369	5.5
Total	460,469	100.0	182,054	642,523	100.0

Source: Reprint data bank, CNEL – R&P – Politecnico di Milano.

During the second half of the 1980s, the investment targets of large Italian industrial groups were mainly the larger European countries and the United States. The prospect of a single European market further boosted the level of FDI directed at European countries.

In the 1990s this trend was reversed in favor of emerging areas. Eastern Europe in particular has been an attractive target in view of the prospects for rapid market development following the collapse of Communist regimes. During the 1990s there was a gradual contraction of the share of FDI destined for Western Europe and North America, particularly in the traditional sectors. Between 1994 and 1998 there was a further decline in the level of investment in the industrial countries and a slight fall in Eastern European countries. FDI to Latin America increased from 15.8 percent to 17.1 percent of the total, and that to Asia from 10.9 percent to 13.8 percent.

Over the last two years Italian shareholdings in European countries have recovered. The positive trend in Asia has continued, and there has been a strong recovery in both Central and Eastern Europe and in Africa (see Table 8.8). With regard to Latin America, however, it is interesting to note that in terms of the number of employees there was a positive balance between new shareholdings and the loss of more than 8,000 workers in the two-year period 1998–1999 (including Mexico, data for which are included as part of North America in Table 8.8). Overall, there has been a 25.5 percent decline in the number of employees working for companies in which Italian companies have shareholdings. This factor does not spring from disinvestments as much as from a fall in business recorded by companies in Latin America, the result of the financial crisis that hit Brazil and then Argentina. Clearly, Italian companies facing that crisis preferred to reduce the scale of their activities while retaining a local presence and waiting for an improvement in economic conditions, rather than abandon installed production activities.

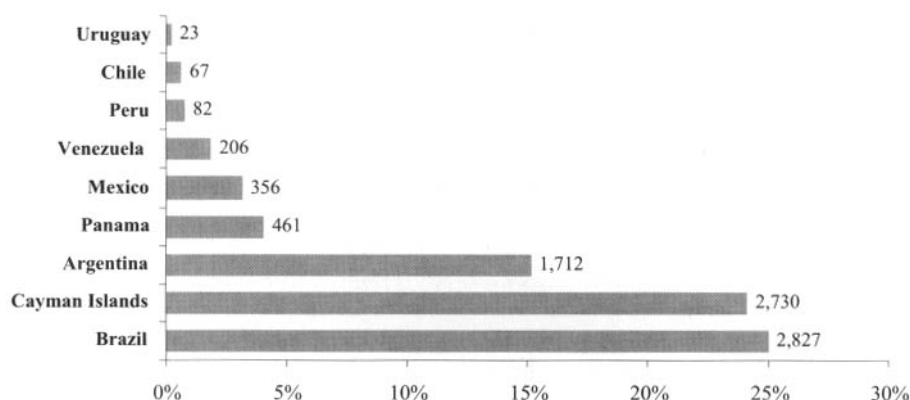
Table 8.8. Balance Between New Shareholdings and Disposals by Italian Companies in Foreign Industrial Companies by Geographical Area, 1998–1999,⁷

Country or area	Majority shareholdings		Total	
	Companies	Employees	Companies	Employees
European Union	105	22,196	108	34,505
Other West European countries	8	3,016	10	3,161
Central and Eastern Europe	61	15,717	79	20,264
North America	35	5,434	43	6,212
Canada	2	200	3	208
Mexico	6	660	6	1,030
United States	27	4,506	34	4,911
Latin America	41	6,918	62	7,147
Argentina	11	1,667	23	1,965
Brazil	18	2,967	29	3,222
Asia	38	8,396	62	5,386
China	12	104	22	503
India	8	2,704	10	–1,660
Oceania	5	5,558	7	5,608
Africa	25	5,558	31	5,706
Total	318	72,793	402	87,989

Source: Reprint data bank, CNEL/R&P/Politecnico di Milano.

A more detailed analysis of the targets of Italian FDI in Latin America and the Caribbean reveals two key trends. The first of these is the substantial recourse by Italian companies to the benefits offered by Caribbean offshore centers such as the Cayman Islands and the Netherlands Antilles, which alone account for 40 percent of Italian FDI in the region (see Figure 8.1). That phenomenon is not examined in detail here because it is purely financial and fiscal rather than industrial.

Figure 8.1. Italian FDI Outward Stock in Latin America and the Caribbean, 1998
(Percentages of total Italian FDI stock in Latin America, in millions of U.S. dollars)



Source: Compiled by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

The second trend is the significant concentration of FDI, excluding offshore centers, in operations in two countries, Argentina and Brazil. This is evidence of the substantial Italian interest prompted by (in addition to the size of the markets) the political, economic and financial stabilization policies implemented by those two countries in the 1990s (Rodde 1999). The other countries in the area played a complementary but subordinate role in Italian FDI in Latin America. The figure for Chile, one of the region's most developed economies, seems particularly modest. Chile appears to have failed to attract the interest of Italian investors, perhaps because of its limited internal market.

An analysis of the flow of investments and disinvestments over the 1997–1999 period (see Table 8.9) confirms and reinforces the conclusions reached in terms of stock: in 1998 and 1999 over 50 percent of Italian capital movements to Latin America and the Caribbean, in terms of the flow of investments, was concentrated on two countries, Brazil and—to a somewhat lesser degree—Argentina. Again, the trend is even more significant if the offshore centers are excluded.

An analysis of the sectoral dynamics provides further clarification of the process of localization of Italian multinationals in Latin America. In general, the model of sectoral specialization of FDI in Latin America differs significantly from that of other advanced and emerging regions. An analysis of more recent data on industrial sectors (see Table 8.10) shows the relative and significantly under-average weight of the traditional sectors, while scale-intensive sectors remain significantly above the average. Also below average, albeit less

markedly, are the specialized and science-based sectors. The trend is confirmed by the weighted specialization indices (see Table 8.11): areas like Western Europe, North America and Asia record high levels of sectoral specialization⁸ in high-tech sectors; Latin America seems to attract the most investment (again in terms of the number of employees) in sectors with a high economy of scale (index 1.30). Traditional (0.46) and high-tech sectors (0.39) are of marginal importance.

Two factors have undoubtedly contributed to this development. On the one hand, in recent years Latin America has become one of the most interesting emerging markets for consumer durables. Political and economic stabilization, the significant increase in per capita

Table 8.9. Italian FDI Flows to Latin America and the Caribbean, 1997–1999
(In millions of U.S. dollars and in percentages)

Country		1997		1998		1999	
		US\$	%	US\$	%	US\$	%
Argentina	Balance	33.8	5.75	129.3	7.88	167.6	40.10
	Investments	100.9	10.77	176.3	10.21	184.6	13.77
	Disinvestments	-67.1	19.27	-47.0	8.92	-17.0	1.85
Brazil	Balance	171.7	29.20	695.3	42.37	482.3	115.33
	Investments	233.4	24.94	751.9	43.54	545.8	40.70
	Disinvestments	-61.7	17.74	-56.6	10.73	-63.5	6.89
Cayman Islands	Balance	156.0	26.53	384.2	23.41	-435.1	-104.10
	Investments	277.5	29.64	672.0	38.91	83.4	6.22
	Disinvestments	-121.5	34.91	-287.8	54.60	-518.5	56.27
Chile	Balance	18.5	3.15	0.4	0.02	2.2	0.53
	Investments	18.6	1.98	0.8	0.05	3.1	0.24
	Disinvestments	-0.1	0.02	-0.4	0.07	-0.9	0.10
Mexico	Balance	158.4	26.93	3.1	0.19	-28.4	-6.80
	Investments	213.8	22.83	38.6	2.24	27.3	2.04
	Disinvestments	-55.4	15.93	-35.5	6.74	-55.7	6.04
Paraguay	Balance	0.4	0.07	2.1	0.13	0.9	0.22
	Investments	0.5	0.05	2.1	0.12	0.9	0.07
	Disinvestments	-0.1	0.02	0.00	0.00	-0.0	0.00
Peru	Balance	1.3	0.22	0.1	0.00	1.1	0.26
	Investments	1.3	0.13	0.3	0.01	1.3	0.09
	Disinvestments	0.00	0.00	-0.2	0.04	-0.2	0.01
Uruguay	Balance	0.1	0.02	4.0	0.24	6.0	1.44
	Investments	0.2	0.02	4.1	0.24	21.6	1.61
	Disinvestments	-0.1	0.03	-0.1	0.02	-15.6	1.70
Venezuela	Balance	4.6	0.78	6.8	0.41	3.4	0.81
	Investments	8.3	0.89	7.8	0.45	8.2	0.61
	Disinvestments	-3.7	1.05	-1.0	0.19	-4.8	0.52
Total investments		936.2	100.00	2,168.0	100.00	1,339.4	100.00
Total disinvest.		-348.1	100.00	-527.0	100.00	-921.4	100.00
Total balance		588.1	100.00	1,641.0	100.00	418.0	100.00

Source: Compiled by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

Table 8.10. Number of Employees Working for Industrial Companies in Which Italian Companies Have a Shareholding, by Geographical Area^a and Sector Using the Pavitt Method, 1998–2000

	TR		SI		SP		SB		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
<i>On 1 Jan. 1998</i>										
Western Europe	27,481	12.3	147,409	65.8	24,324	10.9	24,800	11.1	224,014	100
Central and Eastern Europe	39,579	39.1	50,669	50.0	8,584	8.5	2,500	2.5	101,332	100
North America	6,995	11.4	34,182	55.6	9,931	16.1	10,404	16.9	61,512	100
Latin America	2,697	2.6	90,611	87.8	6,976	6.8	2,910	2.8	103,194	100
Asia and Oceania	13,771	16.6	49,252	59.3	10,263	12.4	9,711	11.7	82,997	100
Africa	9,341	31.4	14,641	49.2	249	0.8	5,499	18.5	29,730	100
Total	99,864	16.	386,764	64.2	60,327	10.0	55,824	9.3	602,779	100
<i>On 1 Jan. 2000</i>										
Western Europe	30,603	12.3	159,382	64.2	34,829	14.0	23,611	9.5	248,425	100
Central and Eastern Europe	45,727	39.6	57,784	50.0	9,101	7.9	2,875	2.5	115,487	100
North America	7,970	11.2	41,531	58.4	14,699	20.7	6,920	9.7	71,120	100
Latin America	6,774	8.8	60,452	78.6	7,182	9.3	2,473	3.2	76,881	100
Asia and Oceania	20,110	21.1	52,749	55.4	11,306	11.9	11,076	11.6	95,241	100
Africa	13,629	38.5	14,859	42.0	568	1.6	6,313	17.8	35,369	100
Total	124,813	19.4	386,757	60.2	77,685	12.1	53,268	8.3	642,523	100
<i>Variation, %</i>										
Western Europe	11.4		8.1		43.2		-4.8		10.9	
Central and Eastern Europe	15.5		14.0		6.0		15.0		14.0	
North America	13.9		21.5		48.0		-33.5		15.6	
Latin America	151.2		-33.3		3.0		-15.0		-25.5	
Asia and Oceania	46.0		7.1		10.2		14.1		14.8	
Africa	45.9		1.5		128.1		14.8		19.0	
Total	25.0		0.0		28.8		-4.6		6.6	

Note: According to the Pavitt classification, sectors are divided into *supplier-dominated* (the traditional sectors), *production-intensive* (which include the scale-intensive and specialized suppliers sectors) and *science-based*. The Pavitt macro-sector classification is based on the “technological trajectory” of companies operating in each sector. In turn, the technological trajectory depends on sectoral differences with reference to three characteristics: the source of the technology, the needs of users and the way in which they share the benefits. For more information see Pavitt (1984).

Key: TR = Traditional sectors; SI = Scale-intensive sectors; SP = Specialized sectors; SB = Science-based sectors.

Source: Compiled by the authors on the basis of data published by Cominotti et al. (2000).

income recorded over the last decade, and the enactment of laws that are very favorable to incoming FDI have attracted almost all the multinationals operating in sectors with a high economy of scale. These include the larger Italian multinationals, all of which are currently present in the region. In many ways, therefore, Latin America has become the logical choice for companies operating in highly globalized sectors such as those marked by economies of scale.

Geographical distance and the peculiarities of the Italian industrial system help explain the performance of other sectors. In Italy, traditional, specialized and high-tech sectors are dominated by small companies, and the former two in particular by industrial district companies. The complexity of carrying out FDI operations in such a distant region, and the

attendant high entry and control costs significantly reduce the potential for investment. Furthermore, compared to other emerging areas closer to Italy, Latin America does not have particularly low production costs and is therefore more attractive to small multinationals mainly for commercial reasons, which is why SMEs often prefer to try other forms of internationalization before tackling the organizational complexity of FDI.

Examination of cross-referenced data on FDI stocks by country in the industrial sector (see Tables 8.12 and 8.13) reveals the fundamental role of FDI in companies in Brazil's scale-intensive sectors: car production, basic chemicals production, processed food products and drinks, energy products, metal products and some miscellaneous manufactured goods.¹⁰ Also significant, albeit less so, is Italian FDI in Argentina. Traditional sectors are less important and investments are closely linked to the activities of two multinationals in particular: Benetton in Argentina and Parmalat in Brazil.

It can therefore be concluded that investment by Italian industrial companies in Latin America is strongly determined by the potential to access large markets that can absorb a large quantity of products marked by significant economies of scale. The driving force behind this phenomenon has been the size of the recipient markets, mainly Argentina and Brazil—underpinned by the creation of MERCOSUR. Of crucial importance, indeed a precondition, has been the process of economic and financial stabilization in Argentina and, particularly, Brazil over recent years.

As regards the agricultural sector (see Table 8.14), Italian investments have two characteristics. First, they are at a much lower level. In view of the opportunities that the region offers in this sector, this attests to a relative reluctance to internationalize on the part of the Italian agricultural sector, which often tends to see emerging countries as a threat requiring tariff protection rather than as a business opportunity. Second, investments are distributed much more uniformly than in industrial sectors. Brazil remains the leader, but this position seems to be justified more by the size of the country than by any real locational advantage.

Finally, in the services sector (Tables 8.15 and 8.16) there is a significant concentration of investment by financial sector companies in offshore centers. Also important is FDI in the telecommunications sector, all of it arising from the Telecom Italia's activity in the region.¹¹

Table 8.11. Sectoral Specialization Indices of Italian Shareholdings Abroad on 1 January 2000 in Terms of Employees, by Geographical Area¹²

	Western Europe	Eastern Europe	North America	Latin America	Asia	Other countries
<i>Traditional sectors</i>	0.63	2.05	0.57	0.46	1.18	1.64
Basic foodstuffs	0.76	1.11	0.87	0.87	1.37	1.80
Textiles	0.70	2.48	0.27	0.55	0.97	0.84
Clothing	0.38	2.64	0.57	0.04	1.43	1.73
Leather, leatherwear and footwear	0.33	3.59		0.01	1.26	0.81
Wood and wooden products	0.20	2.10	0.57	0.48	0.03	6.38
Publishing and printing	2.07	0.15	0.69	0.52	0.25	
Various manufacturing companies	1.00	0.87	1.11	0.94	1.37	0.54
<i>High economy-of-scale sectors</i>	1.07	0.83	0.97	1.30	0.87	0.85
Processed food products	0.89	0.47	1.63	2.34	0.18	1.25
Drinks	0.62	2.34	0.65	1.62	0.31	0.48
Paper and paper technology	1.54	0.12	3.40	0.02	0.01	0.03
Oil and other energy products	0.35	0.48	0.08	0.81	0.21	9.73
Basic chemical products	1.30	0.71	1.19	0.39	1.37	0.04
Soaps, detergents and cosmetics	0.81	0.13		5.53		
Synthetic and artificial fibers	0.78	3.32	0.12	0.73	0.03	
Tires and rubber products	1.37	0.21	0.62	2.25	0.45	0.48
Plastic material products	1.26	1.02	1.09	0.75	0.65	0.49
Glass processing	1.46	0.30	0.33	0.58	0.30	3.53
Other non-metallic products	1.02	1.25	1.59	0.17	1.01	0.69
Metals and their alloys	1.41	1.14	0.94	0.65	0.45	0.09
Metal products	1.37	0.87	0.38	1.02	0.78	0.62
Electrical appliances	1.70	1.24	0.10	0.05	0.72	0.04
Insulated wires and cables	1.23	0.47	1.04	1.47	0.53	1.17
Automotive electrical components	1.04	0.86	1.42	0.67	1.49	0.05
Other electrical products and components	1.17	0.80	2.86	0.19	0.41	0.14
Cars, motorcycles and bicycles	0.61	0.97	0.00	1.72	2.59	0.46
Automotive mechanical components	1.18	1.04	0.69	2.05	0.20	0.11
<i>Specialized sectors</i>	1.16	0.66	1.72	0.77	1.01	0.19
Machinery and mechanical equipment	1.19	0.62	1.88	0.55	1.02	0.22
Instrumental electro-mechanics	0.99	0.97	0.18	2.39	0.99	0.03
Shipbuilding, train and tram building	0.48	0.74	5.25	0.22	0.54	
<i>High tech sectors</i>	1.15	0.30	1.17	0.39	1.52	1.80
Chemical derivatives	1.57	0.08	1.49	1.27	0.45	
Pharmaceuticals	1.89	0.05	0.28	1.22	0.42	0.39
IT and office equipment	0.10	0.06	6.06	2.08	0.23	
Electronics and telecommunications	1.12	0.09	0.83	0.05	1.93	2.81
Instruments and precision mechanics	0.76	1.37	1.59	0.03	1.76	0.61
<i>Total</i>	1.00	1.00	1.00	1.00	1.00	1.00

Note : Specialization index = $\frac{\% \text{ incidence of area } i \text{ for sector } j}{\% \text{ incidence of area } i \text{ for all sectors}}$

Source: Reprint data bank, CNEL – R&P – Politecnico di Milano.

Table 8.12. Italian FDI Stock in Industrial Sectors in Latin America and the Caribbean, 1998
(In millions of U.S. dollars)

	Food	Automotive	Chemicals	Energy	Mechanics	Metals	Textiles and cloth.	Misc.	Total
Argentina	11.5	133.4	46.6	105.7	101.1	28.6	49.9	743.5	1,220.4
Brazil	328.2	266.5	535.5	121.3	84.3	577.6	8.3	89.8	2,011.3
Chile	21.7	—	0.5	0.1	1.8	1.4	0.0	6.7	32.1
Colombia	3.4	7.1	0.0	—	16.3	4.0	—	6.6	37.5
Mexico	3.0	—	2.2	253.1	37.9	2.4	0.9	15.0	314.6
Nicaragua	—	—	—	—	—	2.0	—	0.1	2.1
Panama	0.0	0.1	28.7	0.8	0.2	64.9	0.3	16.8	111.8
Paraguay	0.6	—	0.2	—	—	—	0.1	0.1	1.0
Peru	0.1	—	4.7	29.0	19.0	0.0	0.9	0.1	54.0
Uruguay	15.3	—	11.1	—	8.7	—	10.3	4.0	49.4
Venezuela	48.5	24.9	37.8	7.5	91.0	18.4	7.7	6.6	242.4
Others	307.9	9.1	288.4	448.3	595.2	10.2	32.6	297.7	1,989.5
Total	740.3	441.1	955.9	965.8	955.5	709.4	111.1	1,186.9	6,065.9

Source: Compiled by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

Table 8.13. Italian FDI Stock in Industrial Sectors in Latin America and the Caribbean, 1998
(In percentages)

	Food	Automotive	Chemicals	Energy	Mechanics	Metals	Textiles & cloth.	Misc.	Total
Argentina	1.56	30.24	4.88	10.95	10.58	4.03	44.96	62.64	20.12
Brazil	44.33	60.41	56.02	12.56	8.82	81.41	7.47	7.56	33.16
Chile	2.93	—	0.06	0.01	0.18	0.19	0.00	0.56	0.53
Colombia	0.46	1.62	0.00	—	1.70	0.56	—	0.56	0.62
Mexico	0.41	—	0.23	26.21	3.96	0.34	0.85	1.26	5.19
Nicaragua	—	—	—	—	—	0.28	—	0.01	0.04
Panama	0.00	0.02	3.00	0.09	0.02	9.14	0.25	1.41	1.84
Paraguay	0.08	—	0.02	—	—	—	0.11	0.01	0.02
Peru	0.02	—	0.49	3.00	1.99	0.00	0.85	0.01	0.89
Uruguay	2.06	—	1.16	—	0.92	—	9.25	0.34	0.81
Venezuela	6.56	5.65	3.96	0.77	9.52	2.59	6.93	0.56	4.00
Others	41.59	2.06	30.17	46.41	62.29	1.44	29.34	25.08	32.79
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Drawn up by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

Table 8.14. Italian FDI Stock in the Agricultural Sector in Latin America and the Caribbean, 1998
(Values in millions of U.S. dollars and percentages)

	Millions of dollars	%
Argentina	1.28	12.2
Bahamas	0.03	0.4
Brazil	3.12	29.7
Cayman Islands	1.06	10.1
Chile	0.82	7.8
Costa Rica	0.09	0.8
Dominican Republic	0.62	5.9
El Salvador	1.53	14.6
Guyana	0.32	3.0
Panama	0.38	3.6
Paraguay	0.39	3.7
Uruguay	0.77	7.3
Venezuela	0.07	0.7
Total	10.50	100.0

Source: Compiled by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

Table 8.15. Italian FDI Stock in the Services Sectors in Latin America and the Caribbean, 1998
(Millions of U.S. dollars)

	Public companies	Financial companies	Insurance and brokers	Trade	Transport/communic.	Other services	Unspecified	Total
Argentina	–	76.1	322.2	202.1	20.6	28.3	0.3	649.6
Brazil	1.4	179.8	91.0	69.8	501.6	40.5	4.1	888.2
Cayman Isl.	–	1,321.5	423.7	–	–	968.9	–	2,714.1
Chile	–	3.6	14.1	0.0	16.8	–	0.2	34.8
Colombia	–	0.5	16.2	–	0.1	1.1	0.4	18.4
Costa Rica	0.1	0.7	0.1	0.1	0.1	4.6	0.2	6.0
Jamaica	6.3	0.3	0.0	0.1	–	0.2	0.0	6.8
Mexico	–	12.5	12.4	8.3	8.0	7.8	4.8	53.8
Netherlands Antilles	–	2,030.8	0.0	0.8	5.5	78.4	–	2,115.5
Panama	–	233.6	37.7	0.7	38.6	33.6	5.1	349.3
Paraguay	–	0.1	0.0	0.6	–	2.2	0.3	3.1
Peru	–	0.1	27.8	0.5	1.5	0.1	–	29.9
Uruguay	–	0.2	0.5	0.6	0.0	10.0	1.0	12.4
Venezuela	0.1	1.8	68.2	0.6	35.0	6.1	0.3	112.0
Others	8.5	441.1	356.6	18.0	21.8	136.3	8.4	990.7
Total	16.4	4,302.7	1,370.5	302.2	649.6	1,318.1	25.1	7,984.6

Source: Compiled by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

Table 8.16. Italian FDI Stock in the Services Sectors in Latin America and the Caribbean, 1998
(In percentages)

	Public companies	Financial companies	Insurance and brokers	Trade	Transport/ communic.	Other services	Unspecified	Total
Argentina	—	1.77	23.51	66.87	3.17	2.15	1.36	8.14
Brazil	8.47	4.18	6.64	23.11	77.21	3.07	16.19	11.12
Caymans	—	30.71	30.91	—	—	73.51	—	33.99
Chile	—	0.08	1.03	0.01	2.59	—	0.76	0.44
Colombia	—	0.01	1.19	—	0.02	0.08	1.61	0.23
Costa Rica	0.48	0.02	0.01	0.03	0.02	0.35	0.93	0.07
Jamaica	38.68	0.01	—	0.02	—	0.01	—	0.09
Mexico	—	0.29	0.90	2.76	1.23	0.59	19.11	0.67
Neth. Antilles	—	47.20	0.00	0.26	0.84	5.95	0.05	26.50
Panama	—	5.43	2.75	0.24	5.94	2.55	20.24	4.37
Paraguay	—	0.00	—	0.19	—	0.16	1.27	0.04
Peru	—	0.00	2.03	0.15	0.23	0.01	—	0.38
Uruguay	—	0.00	0.04	0.21	0.01	0.76	3.78	0.15
Venezuela	0.33	0.04	4.97	0.21	5.38	0.46	1.05	1.40
Others	52.04	10.26	26.02	5.94	3.36	10.35	33.65	12.41
Total LAC	100	100	100	100	100	100	100	100

Source: Compiled by the authors on the basis of data published by the Italian Exchange Office (*Ufficio Italiano Cambi*).

The Internationalization Strategies of Italian Companies in Latin America

This second section aims to examine the features of Italian companies' internationalization in Latin America by examining several case studies. Particular attention is paid to the reasons why these companies invested there, and how the combination of business motivations and locational benefits determined the sectoral distribution and scale of Italian FDI in the region.

Traditional Sectors: Are Newly Industrialized Countries Insufficiently Attractive to Italian Companies from Industrial Districts?

As has already been pointed out, Italy's presence in traditional sectors in Latin America is not particularly significant. This is because of the specific structure of Italian industry. Most traditional sectors in Italy (particularly the textiles, clothing, furniture and footwear sectors) are firmly controlled by companies operating in clusters in what are known as "industrial districts". This specific way of organizing production activity has allowed Italy to remain competitive thus far in sectors in which competition from newly industrialized countries seemed relentless. The survival and success of these districts is linked to complex internal dynamics concerning quality, innovation and flexibility. This has led Italian districts to specialize in segments characterized by high quality and product innovation, and to control areas of high value-added markets. Hence districts operating in these sectors pay most attention to developed markets that are interested in traditional, high quality products—the "Made in Italy" goods. With regard to production, moreover, district companies that have internationalized through FDI to set up production plants abroad have done so mainly as part of an efficiency-seeking strategy (Dunning 1983), or in search of ways to organize production

that would allow lower production costs. Such a motivation assumes that the labor market in the target area will have a number of specific features: a skills level that satisfies the sector's requirements and labor costs that, for equal skills, are significantly lower than in the home country. There is an additional requirement for Italian district companies, which are often small, family-run businesses: the costs of use and control in the FDI target market must be low. These are costs related to acquiring information about the target market, the paperwork required to make the investment itself, the physical establishment of the production plants, and the monitoring of the day-to-day activities of the investment. For SMEs these costs often become insurmountable barriers, particularly given the substantial pressure of managerial functions on the company owner or family members.

It is therefore understandable that Latin America, despite its undeniable cultural and social similarities with Italy, is not one of the preferred destinations for the most dynamic segment of Italian industry. The cost of labor is often higher than in other emerging areas, especially countries along the Mediterranean coast of Africa or in Eastern Europe. They can be reached much more quickly and are therefore easier for Italian industrialists to monitor.

Hence the limited number of relevant case studies center on companies operating in the larger traditional sectors. Firms in these sectors are interested in the Latin American market for two reasons: strictly commercial motives (market-seeking) and considerations related to the supply of raw materials (natural-resource-seeking); the latter, however, has a more marginal importance. In the traditional sectors the success of Italian companies' internationalization processes is linked to the implementation of strategies that have allowed their survival and success in Italy and Europe: product quality and innovation.

The Benetton Group's presence in Latin America is motivated by sales and the purchase of supplies. Among Italian textile companies that have internationalized, this type of investment is unique. In 1991 Benetton invested about \$80 million in 900,000 hectares of land in five provinces in Patagonia, where they rear *lanerino* sheep (in 2000 there were approximately 280,000 head of sheep). The investment should allow the group to produce about 10 percent of its raw material requirements. While the initial investment was a good deal in itself because the value of land has risen substantially, the potential success of this investment was significantly curbed by a 30 percent fall in the price of wool during the 1990s, which, while markedly lowering the production costs of the group's clothing, significantly cut the monetary and strategic value of the investment made in Argentina.

The company's strategy in Latin America has been that of a large-scale market-seeker rather than that of a company operating in a medium to high segment of the market—the one in which it is seen to be most competent. This process has prompted significant image problems, particularly in the region's two main markets, Argentina and Brazil. In Latin America, in fact, Benetton made what is seen as a strategic error for a company operating in the upper levels of a traditional sector: it paid little attention to the quality of its products. The company's two production plants in Argentina and Brazil had to close as a result. Currently, the Group's strategy to relaunch its products in Brazil is being effected via the Sisley brand because the Benetton brand has been excessively compromised. In Argentina the company is trying to restore its image by guaranteeing that products are being supplied directly from Italy. The sharp fall in internal demand spurred by the persistent recession makes it very difficult to assess whether this strategy has been effective in Argentina.

Scale-Intensive Sectors: The Effects of Globalization

As mentioned in the first section of this chapter, Italian FDI in Latin America is mainly concentrated in scale-intensive sectors. The marked dynamism displayed by Italian companies operating in these sectors in recent years is explained by the efforts made to counter growing competition from other multinationals in sectors that are becoming increasingly globalized. This section examines some of the most salient examples of scale-intensive Italian multinationals operating in the region. A typically scale-intensive and highly globalized sector is the automotive industry.

The Fiat Group. Fiat's first Latin American branch opened in Buenos Aires in 1919. In the second half of the 1950s the company set up Fiat Someca Construcciones Córdoba to produce tractors. Córdoba subsequently became an important center for the production of small and medium-sized cars in the region, allowing Fiat to become one of the main operators in the Southern Cone in the 1970s. As a result, a new production center was created in Brazil with the establishment of Fiat Automoveis SA.

This initial period of the Fiat Group's presence in Latin America was based on a strategy that might be termed "multi-domestic". This included the purchase of a shareholding in the Spanish company Seat and the signing of agreements with various partners in Eastern Europe (Balcet 2000). In this context the domestic subsidiaries set up through FDI mainly supplied the local market and replaced other forms of lighter internationalization, such as exports and the granting of licenses, which were often hindered by protectionist measures (Porter 1986). In other words, the approach was that of a pure market-seeker. Each market was served by the most efficient means, particularly as regards the costs of entering the target market, but there was no strategic interaction between the production units set up in the various countries of the world. All of them were equally dependent on the Italian parent company.

In the 1980s the Fiat Group was forced to withdraw partly from Latin America because of the problems of economic and financial stability facing many countries of the region, and because of the serious difficulties it was facing in Italy, which led it to carry out a profound restructuring of its international business. In Argentina, Fiat's historical home in Latin America, production was taken up for 15 years (between 1980 and 1995) by a licensee, Sevel Argentina SA. This was born of a merger between Fiat Automoviles SA and Safrar Peugeot SA in an attempt to increase economies of scale and address the regional crisis of that period. Following this long absence the company returned to the region in the second half of the 1990s with a new internationalization strategy. This sprang from the need for the Fiat Group to tackle growing and increasingly integrated international competition.

The changing world market, as well as stagnation in the internal market,¹³ led Fiat to aim much of its business at emerging regions: Eastern Europe, Latin America, Asia, and northern and southern Africa. Before the series of international financial crises of the second half of the 1990s, these countries had potential growth rates of between 8 percent and 10 percent, compared to growth for the Triad (Western Europe, North America and Japan) of just 2 percent. Some commentators (Bélis-Bergouignan et al. 1996) have attributed this preference for emerging markets to the lag accumulated by the Italian car sector in particular and the European car sector in general, which until the end of the 1980s concentrated on

internal markets and ignored foreign markets, particularly those in which there was most competition.

Fiat's approach to internationalization in the 1990s has been defined as a targeted globalization strategy (Balcer 2000). The traditional definition of an internationalization strategy stipulates that production is organized by the multinational enterprise in a series of macro-regions, in which each regional network specializes and becomes responsible for the development and production of a specific range of products to be sold throughout the world. Fiat's strategy in Latin America, however, is a mix of the regional and the global approaches. Integrating the activities of foreign affiliates within MERCOSUR, particularly in Brazil and Argentina, and locating production units in the subregion on the basis of efficiency criteria, have become essential for the international development of the company and the lynchpin of a wider globalization project.

From the production perspective, Fiat's re-entry into Latin America has led to the creation of modern production plants based on lean production methods and just-in-time supply, in line with the model of new production plants in Italy. To pursue this policy, however, it was necessary to have first-rate suppliers able to comply with the quality standards and efficiency requirements of the production process.¹⁴ Hence the Fiat Group undertook to develop a global network of suppliers with which to set up relations in the various regions where the company intended to be located. It can thus be said that the multinational development of the 1990s encouraged much of the Italian car industry to globalize. Most of Fiat's major suppliers were involved in the re-entry into Latin America and some of them, following an initial phase in which they adopted a "follow-the-leader" strategy, began to implement independent strategies of their own to penetrate the local market (Brugnoli 1999).

The strategic choice and the production choice were embodied in the "178 Project", Fiat's world car. This new strategy, adopted by a number of carmakers, aims to build a uniform product that can satisfy the requirements of the global market—in other words, a car that could be sold in various models throughout the world and that requires only a few marginal modifications in each region.

This fosters great economies of scale at the global level (expected production for 2000 was one million type-178 cars) thanks to the specialization and integration of production units in the various regions, organized into "production poles" and assembly units. Further developments were the launch of a global sourcing system, coordinated by the Turin computer center, and the organization of research at the international level by transferring research and development activities for the 178 Project to Brazil (see Table 8.17). Production of the 178 model began in Latin America in 1996, initially at the Bctim plant in Brazil, then in Argentina (at the \$600 million Ferreyra plant in Córdoba), and finally in Venezuela (through FAV, a wholly-owned subsidiary of Fiat that was subsequently sold in 1999).

Fiat's strategy during the second half of the 1990s had three bases: globalization, emerging markets and regionalism. In Latin America the Turin-based company structured production along the following lines: the Palio and Siena models are built in Argentina for the whole of Latin America, while the Palio models produced in Brazil are intended for the regional and European markets. Clearly, this strategy gives rise to a number of problems that

stem from the embryonic level of integration among Latin American markets, such as the sharp difficulties that arose in the Argentine plant following the Brazilian devaluation of 1999.

Table 8.17. Development of Fiat's "178 Project"

Country	Company	Production capacity	Models	Investment (US\$ millions)	Start of production	Status
Brazil	Fiat Automovéis (FIASA)	391,000	Palio, Palio WE, Strada	560	January 1996	In progress
Argentina	Fiat Argentina (FIA)	127,000	Palio, Siena	180	December 1996	In progress
Venezuela	Fiat Automoviles (FAV)	20,000	Palio, Siena	5	March 1997	Stopped
Poland	Fiat Auto Poland (FAP)	46,000	Palio WE, Siena	70	May 1997	In progress
Morocco	Fiat Auto Maroc (FAM) ^a	24,000	Palio, Siena	30	September 1997	In progress
Turkey	TOFAS (jv with Koc Group)	114,000	Palio, Siena, Palio WE	165	March 1998	In progress
India	Fiat Auto Limited (FIAL)	85,000	Palio, Siena, Palio WE	220	March 1999 Siena; 2000 Palio WE; 2001 Palio	In progress
Russia	Nizhegorod Motors (jv with Gaz)	Currently being determined	Palio, Palio WE	Currently being determined	Currently being determined	In progress
Egypt	Fiat Auto Egypt (jv with Seoudi Group) ^b	20,000	Siena	10	February 2000	In progress
South Africa	Fiat Auto South Africa (FASA) ^c	30,000	Palio, Siena, Palio WE, Strada	50	February 2000	In progress
China	Nanya Co. (jv with Yuejin Group)	Currently being determined	Palio, Siena, Palio WE	Currently being determined	2001	In progress

^aProduction to order at the Somanca plant.

^bProduction to order at the Seoudi Group plant (Nissan Egypt).

^cProduction to order at the Nissan plant.

Source: A. Camuffo and L. Massone (2001), "Relazioni industriali e globalizzazione: la strategia di FIAT auto," *Economia & Management*, No. 1. (Milan: Gennaio ETAS).

What are the results of Fiat's decisive re-entry into the Latin American market? The figures are not particularly encouraging and fall far short of the outcome that should have been guaranteed by the new strategy. Although 442,180 cars were produced in 1997, output fell and the company produced just 340,969 in 1999 (see Table 8.18). There have been clear difficulties with the plants in Argentina. They suffered from the effects of the devaluation of the *real* at the beginning of 1999, because Argentine production was meant to be absorbed mainly by the Brazilian market, and from the serious crisis in the domestic market caused by the country's persistent recession in the second half of the 1990s. Apart from the failure to meet the set targets, another cause for concern is the under-use of production plants. Only in 1997 was potential installed production capacity in line with the market share actually

Table 8.18. Fiat Model 178 Cars Produced Throughout the World

	1996			1997			1998			1999		
	No. of cars	Share of plant, %	Use of plant, %	No. of cars	Share of plant, %	Use of plant, %	No. of cars	Share of plant, %	Use of plant, %	No. of cars	Share of plant, %	Use of plant, %
Brazil	157,570	100.0	40.3	375,169	84.9	95.9	265,865	68.3	68.0	254,504	74.7	65.0
Argentina				48,141	10.9	37.9	60,544	15.6	47.7	26,139	7.7	20.6
Poland				9,006	2.0	19.6	28,521	7.3	62.0	21,957	6.4	47.7
Venezuela				9,766	2.2	48.8	8,858	2.3	44.3	1,867	0.6	9.3
Morocco				98	0.0	0.4	5,393	1.4	22.5	8,361	2.5	34.8
Turkey							20,095	5.2	17.6	23,964	7.0	21.0
S. Africa										137	0.0	
India										3,766	1.1	4.4
Total	157,570	100.0	40.3	442,180	100.0	73.0	389,276	100.0	54.0	340,695	100.0	41.0

Source: Compiled by the authors on the basis of data published by Fiat Auto.

achieved. In other years, because of falling sales and the launch of new production plants, potential production capacity seems to have been significantly under-used. Of all the plants, moreover, only the one in Brazil has seen satisfactory levels of use.

These results have caused difficulties for the entire Italian automobile production chain, particularly for suppliers that had decided to follow Fiat in its internationalization process. The new production poles are mainly organized according to the principles of lean production and just-in-time supply, which allow end-user companies to free themselves of a major part of their sub-production costs and pass them on to the supplier network. The condition of the latter has become particularly critical in markets such as Argentina.

Nevertheless, the new push for internationalization has led to significant expansion by Fiat in Latin America, so much so that it is currently represented in the region by 67 companies with a total of 27,883 employees and 24 research centers. The share of general revenue accounted for by the region increased from 4 percent in 1990 to 22 percent in 1999, with revenues per target market increasing from 9 percent to 21 percent. In Brazil, Fiat Automoveis has been the leading car maker since 1999 with a 25.4 percent share of the market, thanks to its new plant in Betim (Minas Gerais).

Another scale-intensive sector in which the presence of Italian multinationals in Latin America is traditionally significant is that of processed food. In this regard, mention should be made of one of Italy's best known multinationals: **Parmalat**. The company can be characterized as a market-seeker with a "multi-domestic" approach. A key factor on which Italian food companies can rely in Latin America is cultural similarity, the result of the high percentage of the region's population that is of Italian descent.

Parmalat's internationalization in South America began in 1974, when a joint venture was set up with Laticinios Mokoka SA (called Yolat SA). The initial aim was to conquer a share of the yogurt market, just as a number of the company's French competitors had done (Danone and Chambourcy). The following year the company started producing milk using machinery passed on from Italian plants and setting up Parmalat's first Latin American production plant at Itamonte in Minas Gerais. By the beginning of the 1980s Parmalat's

investments in milk production were failing to yield the expected results. Nevertheless, the company stayed in Brazil and undertook to adapt its strategy to the market.

The company came to realize that the main reason for its lack of success was that it had copied the strategy that had made it successful in Italy, ignoring the specific requirements of the local market. From the second half of the 1980s Parmalat's organizational structure in Latin America changed radically, and the local affiliate was given much more autonomy. This allowed greater market penetration because products were better adapted to the requirements of the local market and because of greater efficiency in tackling Brazilian competition as a whole. A decisive factor in Parmalat's success in Brazil was also the change that took place in the market: Parmalat's products could satisfy the gradual increase in demand for medium to high quality goods much more effectively than most of the local competition. By the second half of the 1990s the company was the leader in many of the market's dairy food segments (see Table 8.19).

Table 8.19. Parmalat's Shares of the Brazilian Market
(In percentages)

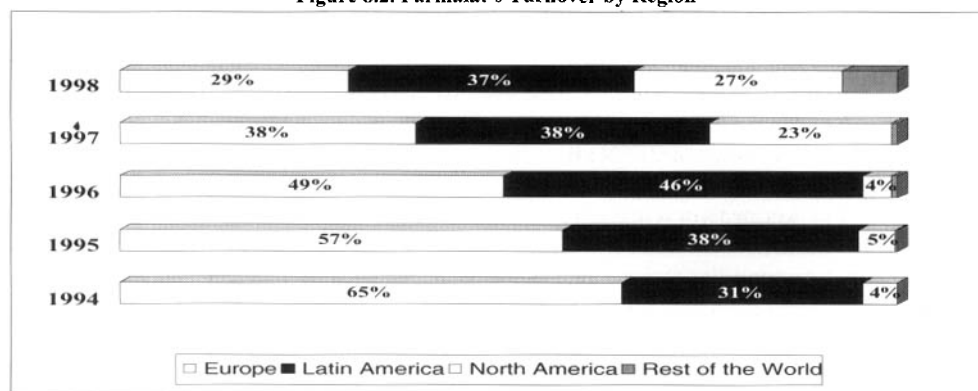
Segment	1997	1998	Position
Pasteurized milk	11.1	11.1	Leader
UHT milk	33.0	31.8	Leader
UHT cream	33.9	38.0	Leader
Fruit juices	51.0	36.5	Leader
Yogurt	14.5	18.5	Co-leader
Iced tea	47.0	45.2	Leader

Source: www.parmalat.net

In the 1990s, therefore, Parmalat's strategy changed from a multi-domestic model to a regional model. In Latin America this led to the creation of a structure closely coordinated by the firm's Brazilian branch, which enjoys great autonomy from the Italian parent company. Over the last 10 years Parmalat has invested in Argentina and Uruguay (1992), Chile, Colombia, Paraguay and Venezuela (1994) and Ecuador (1995). In 1998 a milestone was reached: Parmalat's turnover in Latin America overtook its turnover of Parmalat in Europe (see Figure 8.2). Parmalat has adopted a strongly regionalized structure, not only in Latin America but throughout the world. The Group is currently operating in 29 countries, coordinated by four head offices in Australasia, Europe, Italy and Latin America.

Relations between the Italian parent company and the head office in Latin America, which is located in São Paulo, are not formally determined. In fact, within the parent company's structure there is no division specifically responsible for business abroad. Parmalat S.p.A. is organized by functions and strategic product areas rather than by strategic locations. A high degree of autonomy is given to regional chief executives. Hence Parmalat has been developing a strongly regional internationalization strategy. The national affiliates deal exclusively with their regional head office, which not only administers the activities of the national affiliates but also coordinates activities on a regional basis, deciding on volumes of production and on the exchange of supplies among the affiliates.

Figure 8.2. Parmalat's Turnover by Region



Source: Compiled by the authors.

High Technology Sectors: Telecom Italia and Privatizations

In science-based and specialized sectors, as in the traditional sectors, Italy's presence in Latin America is not particularly significant. There are two reasons for this. First, and particularly in the specialized sectors of machinery and electro-mechanics, the Italian industrial system is characterized by small and medium-sized enterprises (SMEs)¹⁵ that are highly competitive and innovative but that face all the difficulties of internationalization mentioned above in the analysis of the traditional sectors. Second, Italian industry has accumulated an apparently irrecoverable lag in sectors such as industrial chemicals and biotechnology, in which Italy is at an incipient stage, and pharmaceuticals, in which Italian companies are often excessively small compared to the sector's multinationals—although there have been a few internationalization ventures in this sector in Latin America (such as Zambon S.p.a.).

The situation is very different in the telecommunications sector. Here, and particularly in mobile telephony, Italy gained much experience in the 1990s, in terms of both technology and management. Italy's presence in this sector in Latin America is dominated by **Telecom Italia**, a company almost fully under public ownership until 1997, when it was privatized. Telecom Italia took part in many of the telephone company privatization operations in the region during the 1990s. Currently, Telecom Italia has a strong vocation for internationalization and makes plain its intention to assert its presence as one of the main competitors on the international market. For that reason it invested about \$7 billion between 1992 and 1999.

Telecom Italia's international venture effectively began in 1992, when the company STET International was set up. Its mission was to expand the Group's multinational business by making acquisitions and buying shareholdings through two holding companies, STET International Netherlands for fixed telecommunications and STET Mobile Holding for mobile telecommunications. Initially, Telecom Italia's internationalization strategy was not well defined, particularly because the public status of the company led to frequent management changes, with negative repercussions for the definition of medium- and long-term strategies. During this initial phase the company's international activities were determined by the

possibility of investing the high profits guaranteed by its monopoly on the national market rather than by a real globalization strategy.¹⁶

Telecom Italia's first venture in Latin America was in Argentina. In 1989, the government decided to privatize the national telecommunications company, Empresa Nacional de Telecomunicaciones (ENTEL). In this period Telecom Italia (which was then still known as STET) had not set itself any goals in terms of international expansion (STET International was set up two years later), but its management felt that participation in the privatization would benefit the company. Since this was the Group's first international operation it was decided not to act alone but to seek partners that were willing to share the financial and strategic risks.

A consortium called Nortel Inversora SA was therefore set up with the participation of STET (32.5 percent), France Cables et Radio, part of France Telecom (32.5 percent), Argentina's Perez Compaq Group (25 percent) and the merchant bank that was to monitor the operation, JP Morgan (10 percent). The Nortel Inversora consortium was awarded 60 percent of Teleco Norte SA, the part of ENTEL that operated in the north of the country, for an investment of about \$2.5 billion. More than \$2.3 billion of this amount was in Argentine government bonds, the market value of which was actually little more than \$350 million (Maffioli and Marafioti 1999).

This led to the birth of Telecom Argentina, the first foreign company in which Telecom Italia acquired a shareholding. Despite the difficulties encountered in managing the joint venture, Telecom Argentina was in a good competitive position when the market was liberalized in November 2000, having made substantial investments to modernize the network. One hundred percent of the network was digitized by mid-2000, with an investment in 1999 of \$4.3 billion (ECLAC 2000).

The Franco-Italian management has consolidated over time, so much so that in 1999 Telecom Italia and France Telecom decided to acquire 35 percent of the Nortel Inversora consortium from the Perez Compaq Group and JP Morgan for the equivalent of \$530 million. As a result, the two companies now control 60 percent of Telecom Argentina.

The second stage of Telecom Italia's investment in Latin America took place in Cuba, where the company participated in the privatization of Empresa de Telecomunicaciones de Cuba SA (ETEC) in 1994. Telecom Italia's share in the consortium that won the tender remained a minority one until 1997, when Telecom Italia increased its share to 29.2 percent, and thus gained operational control of ETEC. This case shows how Telecom Italia's initial strategy was somewhat fragmented rather than integrated, and how investment decisions were greatly influenced by market opportunities. This approach could be defined as that of strategic asset-seeking rather than that of a multi-domestic market seeker. During the initial internationalization period the Italian company was driven more by concerns about being left out of telecommunications privatization world-wide than by the search for new markets in which to apply the skills it had acquired in the Italian market.

The same could be said of initial participation in the privatization of the Bolivian Telecom company in 1996. Telecom Italia secured a 50 percent share, for \$610 million, in addition to the monopoly on short- and long-distance fixed telephony services for six years.

There was substantial investment to modernize the network (approximately \$420 million to install a 4,000 kilometer fiber optic network). This operation in many ways triggered a realization within Telecom Italia that the Latin American market was strategically important, and that it had to be approached in a way that would allow it to benefit from regional synergies. Something fundamental was beginning to change in Telecom Italia's approach, compared to the initial investment in Argentina. There was a need to establish a clearer strategy and to give the region a local point of reference.

The change in strategy was illustrated by the development of the company's activities in Chile. Since 1996, when a minority shareholding was acquired in the Chilean telecommunications company using the same method as in Cuba and Bolivia, the shareholding has grown to the point that Telecom Italia now controls 25.6 percent of the capital. This share has allowed it to secure operational control and to manage the company in a joint venture with Chile's Chilquinta Group. One very significant achievement in Chile was the creation in 1998 of Latin America's first GSM network, a technology in which Telecom Italia has almost unique experience. In 2000, Telecom Italia successfully bought the shares of the Chilean member, thus acquiring a 54.7 percent controlling share of the company. Many have related this investment to the links that the Chilean telecommunications company has with the United States market, where it controls Americantel, a company offering telephone services to Spanish speakers in the United States. This is the first time that Telecom Italia has conducted an operation inspired by a global vision, in which it is seeking not only better integration of its investments at the regional level but is also striving to use the knowledge acquired in one region to penetrate another.

Telecom Italia's strategic development plan for Latin America could not ignore Brazil. The chance to penetrate the Brazilian market came with the government's program to privatize fixed and mobile telephone services in 1998. Telecom Italia participated as a member of a consortium that took control of two mobile telephone companies (Tele Celular Sul and Tele Nordeste Celular), and one of the three fixed telephony companies (Tele Centro Sul, Telemato) into which Telebras was divided at the time of privatization.¹⁷

The interplay between fixed and mobile services spurred a contentious issue in Brazil. Telecom Italia continues to operate in the former in association with local partners, which are part of Telecom Brasil SA. In mobile telephony, however, a segment in which the Italian company has an undisputed competitive advantage in terms of management and technical know-how, Telecom Italia operates directly through Telecom Italia Mobile (TIM) and directly controls development in this area. This became apparent at the beginning of 2001 when competition started for the award of "D" category mobile telephony licenses, and when the Telecom Italia Group exercised its veto to prevent Telecom Brasil from taking part in the contest. As a result of this operation, which cost \$780 million, and a subsequent operation to acquire "E" type licenses at a cost of \$470 million, TIM has penetrated São Paulo and the western and northern regions of the country, becoming the only operator to offer nation-wide digital coverage.¹⁸ As regards Internet activities in Brazil, in June 2000 Telecom Italia invested \$810 million to acquire a 30 percent stake in the "Globo.com" portal in order to become the leading supplier of mobile Internet services.

In May and October 2000, Telecom Italia's mobile telephone services were further expanded by its entry, via TIM, into the Peruvian market—where it has become the country's

third mobile telephony provider and where it uses GSM technology—and into Venezuela with the acquisition of Digitel.

Table 8.20. Telecom Italia's Presence in Latin America

Country	Year of entry	Local company	Shareholding (%)	Main services
Argentina	1991	Telecom Argentina	30.0	Long distance, local telephony, mobile telephony, data transmission and Internet
Bolivia	1995	ENTEL	50.0	Long distance, local telephony, mobile telephony, data transmission and Internet
Brazil	1998	Tele Celular Sul	40.7	Mobile telephony
	1998	Tele Nordeste Celular	40.7	Mobile telephony
	1998	Tele Centro Sul	9.8	Local telephony
	1999	Brasil Telecom	19.7	Local telephony
	1997	Maxitel	90.0	Mobile telephony
Chile	1997	ENTEL	54.7	Long distance and mobile telephony
		ENTEL PCS	54.7	Mobile telephony
Cuba	1994	ETEC	29.2	Local and long distance telephony
Paraguay	1998	Telecom Personal	20.0	Mobile telephony
Peru	2000	TIM Perú	100.0	Mobile telephony
Venezuela	2000	DIGITEL	56.6	Mobile telephony

Sources: ECLAC (2001) and Telecom Italia (2001).

Overall, Telecom Italia's operations in Latin America, although not shaped at the outset by an explicit internationalization strategy, have allowed the Group to achieve an important position in fixed telephony services throughout the region. This position has enabled it to implement more structured and ambitious projects in segments where Telecom Italia has significant competitive advantages relative to its major international competitors, namely mobile telephony using GSM technology. The approach has thus achieved the results expected, allowing Telecom Italia to develop a regional strategy.

The latest operations aimed at establishing links between the Latin American and North American markets are also very significant. Important in this regard was the acquisition of the Chilean telecommunications company, and thereby of Americantel. Telecom Italia has also invested in a project to install an undersea fiber optic network known as the "Latin America Nautilus" which is expected to connect New York and Miami to Latin America's main cities.

Telecom Italia's strategy in Latin America seems to have two main purposes: first, to secure the maximum benefit from the competitive advantages acquired in the Italian market in managing mobile telephony services, particularly in Brazil; and second, a more global strategy in which the experience and market position acquired in the region during the past decade provide an opportunity to enter the United States market, beginning with Hispanic users.

Conclusion

Historically, relations between Italy and Latin America have been very strong, above all because of large-scale migration in the last century. Hence one might have expected substantial levels of Italian direct investment in the region. The role of Italian FDI in Latin America, however, is still somewhat limited and certainly below expectations.

Why is it difficult for Italian businesses to develop in the region? This can largely be attributed to two complementary considerations: the idiosyncratic structure of Italian business, and the international attractiveness factors of Latin American markets.

The internationalization of Italian business has always lagged behind that of other developed countries. As regards FDI, this lag has been aggravated by the relative weakness of the “Italian System” in those sectors that were the first to be affected by globalization. The backbone of the Italian economy consists of SMEs, particularly SME networking systems. Hence most of the expectations for the international expansion and relaunching of the Italian economy have focused on the dynamism of these actors, which nonetheless face structural impediments to internationalization. In many ways the presence of Italian companies in Latin America reflects the various structural shortcomings of Italy’s internationalization process.

From the perspective of firms and their strategic investment decisions, Latin America’s attractiveness as an investment location, which induced the high level of FDI inflows evident in the 1990s, can be ascribed to three main factors: 1) the size of certain markets and the positive (at least initially) growth of demand in certain scale-intensive sectors; 2) the privatization of many state-owned enterprises in various sectors; and 3) the availability of mineral and agricultural raw materials. All these factors made the region particularly interesting for enterprises of a certain size. Consequently, and as shown by the case studies presented above, in all those sectors in which the Italian economy was able to develop internationally competitive companies (such as mobile telephony), there was substantial large-scale direct investment. Such investment, however, was not without difficulties.

Italian companies are absent from those sectors in which they are insufficiently competitive, and in those regions where the factors of attractiveness are still perceived as inadequate. This is the case of Italian SMEs, and particularly of SMEs operating in industrial districts. These companies are following two different paths of international expansion: the first consists of seeking lower production costs, and the second aims to increase market share in highly specialized or high value-added segments. In neither case is Latin America particularly attractive, especially in relative terms. In the former case Italian SMEs were able to find better locations closer to home (a significant advantage in view of the companies’ organizational structure) or in areas with greater labor cost advantages, such as the Mediterranean coast of Africa or Eastern Europe. The level of Latin American demand for goods and services is not always sufficiently “advanced” in relative terms to be interesting for highly specialized production and for “Made in Italy” goods, nor sufficiently “demanding” to attract high value added sectors.

The development of Italian FDI in Latin America thus seems to depend on three forms of impetus. The first is a recovery of competitiveness on the part of large Italian

multinationals operating either in scale-intensive sectors or in science-based sectors; this recovery is closely linked to the global strategies of the main Italian industrial groups and to government policy on privatization. The second is further development in Latin America's internal demand, which would make the region's markets more attractive for SMEs concentrating on specialized or high-quality production. The third is better management of the internationalization processes undertaken by Italy's small and medium multinational companies. Two of these three factors depend on developments in Italy's business system, and on its capacity both to conform to and benefit from the globalization of international markets. The other factor depends substantially on the endogenous development of the larger Latin American markets, in which Italian FDI could then be represented by more important investors.

NOTES

- ¹ In 1999 the growth of international trade was sustained by the positive performance of the economies of Asia (+11 percent), Latin America (+7 percent) and North America (+4.5 percent), and by the lesser but still positive performance of Western Europe (+3.5 percent). The transition economies, however, recorded negative growth rates (-3 percent).
- ² Most data have been converted from national currencies to United States dollars, on the basis of the exchange rates from the International Monetary Fund's *International Financial Statistics* (March 2001 edition and 1999 Yearbook).
- ³ See the discussion of Fiat's presence in Latin America further on in this chapter.
- ⁴ The way in which this operation was recorded in the national accounts caused a significant distortion of the data relating to FDI outflows from Italy. Given that the Omnitel and Infostrada group was controlled by a foreign company, which in turn was wholly owned by an Italian group, the transfer took the form of a sale to non-residents of an Italian FDI abroad, and the operation was therefore recorded as a *decrease in Italian investments abroad*, rather than as an increase in foreign investments in Italy. This fact explains why, in terms of monetary flows, 1999 saw such a strong fall in outflows compared to 1998.
- ⁵ For more details see Cominotti et al. (2000).
- ⁶ It should be noted that the Reprint databank considers Mexico as a part of North America. Because it was impossible for the authors to recalculate some indicators coming from this data set, in this study this asymmetry of classification remains.
- ⁷ See note 6.
- ⁸ An indicator of sectoral specialization is provided by the specialization index, which is calculated as follows:

$$\text{Specialization index} = \frac{\text{Percent incidence of area } i \text{ for sector } j}{\text{Percent incidence of area } i \text{ for all sectors}}$$
- ⁹ See note 6.
- ¹⁰ The degree to which the data have been aggregated makes it impossible to classify sectors accurately.
- ¹¹ More details on the telecommunications sector are provided further on in this chapter.
- ¹² See note 6.
- ¹³ The share of the Italian market held by Fiat fell from 57.2 percent in 1988 to 44.4 percent in 1993.
- ¹⁴ Just-in-time production leads to a drastic reduction in the number of suppliers. Remaining suppliers are then organized into a hierarchical structure divided into bands. Top band suppliers are the only ones to have direct relations with the end-user company and are responsible for building and, in part, designing and developing some systems and components. When planning the production plants in Cordoba, for example, Fiat asked Sevel to carry out a pre-selection among its local suppliers to check how many could perform the role of a top band supplier. None of Sevel's 350 suppliers was suitable and therefore Fiat had to approach its traditional suppliers.

- ¹⁵ In this case too, industrial district companies have played a significant role. Examples include suppliers of machine tools for mechanical engineering districts, small and medium sized chemical companies supplying dyes and fabric or yarn treatment services to textile districts, and metal plating companies operating in jewelry districts.
- ¹⁶ In this context, several acquisitions were nevertheless made in Western Europe (in Spain with the privatization of Retevisión; in France with Telecom Reseau SA and the alliance with the Bouygues Telecom Group; in Greece with a shareholding in Stet Hellas Telecommunication; in Austria with shareholdings in Telekom Austria and Mobilkom Austria; and in Eastern Europe (Czech Republic, Russia, Ukraine and the controversial stake in Telekom Serbia) and elsewhere in the world (Israel, India and China).
- ¹⁷ In addition to these shareholdings, Telecom Italia acquired 10 regional licences to operate “B” band cell phone telephone services through a 43 percent shareholding in Maxitel. Subsequently all of Telecom Italia’s telephony business was brought together to form TIM do Brasil, part of Telecom Italia Mobile (TIM), a member of the Telecom Group which operates mobile telephony services. The fixed telephony services were also brought together under a single holding company called Brasil Telecom Participações, which controls two companies: Brasgh Telecom SA, consisting of nine local operators, and Companhia Riograndense de Telecomunicações (CRT), which operates in the state of Rio Grande do Sul.
- ¹⁸ See Telecom Italia (2001) *Prima relazione trimestrale 2001*, www.telecomitalia.it

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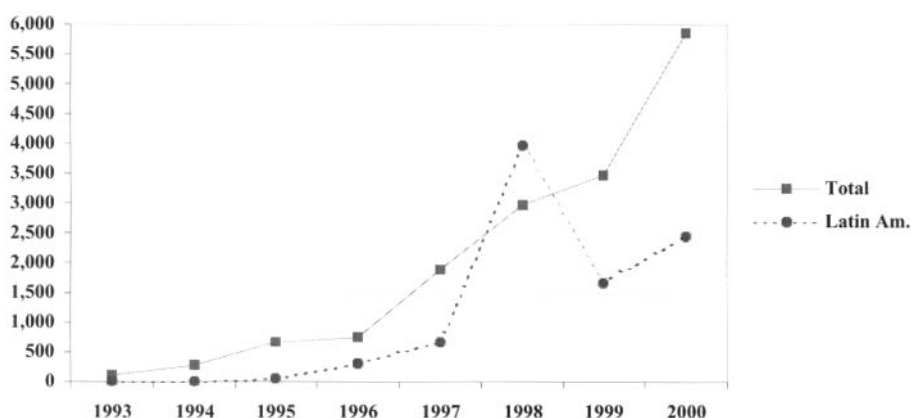
Chapter 9. Portugal

José Braz *

Introduction

Portuguese foreign direct investment (FDI) abroad increased sharply during the second half of the 1990s, rising nine-fold between 1995 and 2000. A major contributor to this increase was Portuguese investment in Latin America, which rose from less than 1 percent of the total in 1994 to 133 percent in 1998 (the result of significant transfers from offshore centers) and 42 percent in 2000 (see Figure 9.1). During this period, more than 97 percent of Portuguese FDI in Latin America was accounted for by investment in Brazil.

Figure 9.1. Portuguese FDI Abroad
(Outflows, in millions of U.S. dollars)



Source: Data from Table 9.1, below.

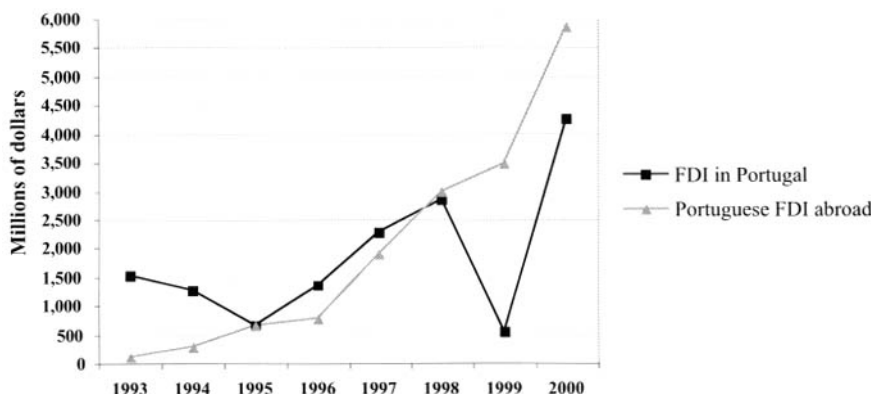
This chapter seeks to analyze the circumstances in which the recent surge in Portuguese FDI took place, and in particular to examine why it has been so heavily concentrated in Brazil. The chapter provides a brief overview of Portuguese FDI flows and stocks, a description and analysis of Portuguese investment in Brazil, an overview of sectoral experiences, including two case histories, the results of a questionnaire specially prepared for this study and answered by Portuguese firms that have invested in Latin America, a brief review of recent developments and prospects, and summary conclusions.

* Managing partner of TecFinance, Lda, a financial services consultancy based in Lisbon, Portugal. The author gratefully acknowledges assistance with data provision received from the Banco de Portugal, ICEP (Lisbon and São Paulo), and GEPE, Ministério da Economia, Portugal.

Portuguese FDI: An Overview

Portugal has traditionally been a net recipient of FDI flows from abroad. In the past four years, however, Portuguese FDI abroad has increased dramatically and in 1999 actually overtook foreign investment in Portugal by a large margin (see Figure 9.2).

Figure 9.2. Total FDI from and into Portugal
(Flows, in millions of U.S. dollars)



Sources: Eurostat (1999) from 1993 to 1995; and Bank of Portugal from 1996 to 2000.

The increase in Portuguese FDI abroad corresponds to a phase of rapid globalization of Portuguese enterprises in traditional markets in Europe and Africa. However, the most spectacular increase occurred in Portuguese FDI in Latin America, mainly in Brazil. Portuguese FDI in other Latin American countries also grew, but remained at relatively modest levels. The share of total Portuguese FDI going to Brazil increased from less than 1 percent in 1994 to 130 percent in 1998, when Portuguese direct investment flows abroad were supplemented by substantial inflows of capital held in offshore centers (the bulk of “rest of the world” in Table 9.1)¹. In 2000, FDI flows to Brazil accounted for 41 percent of total Portuguese overseas investment flows. Total Portuguese FDI increased almost 55-fold between 1993 and 2000. In the same period, flows to Brazil rose from practically zero to close to \$2.4 billion (see Table 9.1).

During the period 1996–2000, 59 percent of Portugal’s overall FDI flows were invested in Brazil. Excluding flows to offshore centers, the corresponding share rises to 63 percent, or almost two-thirds of investment flows. Table 9.2 below shows the principal destinations of Portuguese FDI during the second half of the 1990s.

As a consequence of the surge of Portuguese FDI into Brazil during the late 1990s, Brazil’s share in the outstanding stock of Portuguese FDI abroad increased from less than 1 percent at the end of 1995 to 24 percent at the end of 1998. During the same period, the share of Portuguese foreign direct investment in Latin America roughly doubled, from 16 to 34 percent of the stock of Portuguese FDI abroad. This increase was compensated by declines from 19 to 11 percent in the stock of Portuguese FDI in Africa, and from 58 to 50 percent in

the case of Europe. During this period, the total FDI stock abroad more than doubled, from \$4.4 billion to \$9.8 billion (see Table 9.3). By the end of 1999, Portuguese stock in Brazil rose further to \$5.9 billion (Bank of Portugal).

Table 9.1. Portuguese FDI Abroad
(Outflows, in millions of U.S. dollars)

Year	Brazil	Argentina	Mexico	Venezuela	Latin America	Africa	Europe	Rest of the world	Total
2000	2,380	4	11	0	2,454	1,064	1,019	1,328	5,865
1999	1,602	12	7	0	1,666	314	-1,354	2,766	3,392
1998	3,863	8	6	2	3,965	338	1,182	2,503	2,982
1997	651	7	10	-1	679	108	1,048	65	1,900
1996	350	0	-4	0	312	98	227	119	756
1995	31	3	0	0	43	32	534	65	674
1994	2	0	0	0	2	28	193	60	283
1993	0	0	0	0	0	16	142	-52	106

Sources: Eurostat (1999) from 1993 to 1995; Bank of Portugal from 1996 to 2000.

Table 9.2. Destination of Portuguese FDI, 1996-1999
(Outflows, in percentages)

Country	Gross investment	Disinvestment	Net investment	Net investment (millions of euros)
Brazil	30.9	3.2	67.5	5,562.5
Cayman Islands	37.8	56.6	13.1	1,080.0
Ireland	3.1	0.5	6.7	549.2
Belgium/Lux.	2.3	0.8	4.3	358.2
United States	1.2	0.3	2.4	193.8
Poland	0.9	0.1	2.0	161.3
Angola	0.7	0.3	1.3	105.5
Germany	0.7	0.5	0.9	75.7
Mozambique	0.4	0.1	0.9	70.4
Cape Verde	0.3	0.0	0.7	53.6
Macao	0.6	0.6	0.6	48.1
Spain	6.0	11.2	-0.8	-62.7
Others	14.9	25.8	0.5	44.8
Total	100.0	100.0	100.0	8,240.4

Source: Bank of Portugal, quoted in GEPE (2001).

Table 9.3. Portuguese Direct Investment Abroad
(Outward stock, year-end positions, in millions of U.S. dollars)

Year	Brazil	Latin America	Africa	Europe	Total
1998	2,331	3,361	1,039	4,966	9,841
1997	779	1,650	823	3,116	5,933
1996	178	905	852	2,641	4,726
1995	25	720	839	2,555	4,408

Source: OECD (2000), based on Bank of Portugal.

The Brazil Boom—Why Now?

Brazil has long been recognized as a natural destination for Portuguese FDI because of the two countries' cultural and linguistic affinities, as well as their historical links. Until very recently, however, this potential—repeatedly proclaimed in official speeches on both sides of the Atlantic—remained largely unrealized. The FDI boom in Brazil that began in 1995 was similarly accompanied by speeches and numerous visits by government officials and entrepreneurs. However, as previous similar speeches and visits had not resulted in actual investment, official encouragement cannot be credited with having been the determining factor for the recent boom in investments. Probably more relevant was the modernization of the Portuguese economy in the context of European integration, the economic liberalization policies being implemented in Brazil, and the overall process of globalization of enterprises that is taking place throughout the world.

One of the features of Portugal's recent incursion into the Brazilian economy is that it was led by companies with a monopoly or quasi-monopoly status in the home market. Practically all the major Portuguese companies that led the investment boom in Brazil were themselves recently privatized or are still in the public sector. The largest investments were in telecommunications by Portugal Telecom (PT); cement (CIMPOR); electricity, water and sanitation (EDP, EPAL and IPE); and banking (Caixa Geral de Depósitos—CGD). Of these, EPAL, IPE and CGD are state enterprises while PT, CIMPOR and EDP were largely or fully privatized in incremental steps, and to a large degree they have retained their public sector management.

All these firms are in sectors that were subject to progressive liberalization in the 1990s, and hence were faced with the choice of either expanding through diversification abroad or being themselves absorbed by international competitors. This process coincided with the economic liberalization and privatization phase in Brazil. That phase made the Brazilian market, which additionally has linguistic and historical affinities as facilitating advantages, a "natural hunting ground" for expanding Portuguese firms.

The lead of the public sector companies was rapidly followed by private sector firms, both large groups and small and medium-sized enterprises (SMEs), many of which were business associates of public enterprises in Portugal. Thus, for example, investment in electricity distribution and telecommunications also attracted cable manufacturers and software providers.

The fact that many of the public companies operated in markets that are natural monopolies (electricity, water) or have been effective monopolies until recently (telecommunications) permitted them to generate large profits in their own market, thereby enabling them to finance acquisitions abroad. An alternative way of laying the bases for Portuguese companies to reap the benefits of globalization would have been for the public companies to provide lower cost/higher quality service at home, adding to the competitiveness of the economy as a whole. In effect, this could be seen as a choice between two different globalization strategies: either led by the well-funded utility providers or by SMEs whose competitive position had benefited from lower-cost utility services (Braz 1999: 84–85).

In practice the former strategy was followed, as the utilities continued to provide expensive, low-quality services at home and to invest heavily abroad. According to the *UNICE Benchmarking Report 2000*, available indicators of the quality and cost of information and communications technology (ICT) infrastructure places Portugal at or near the bottom of the ranking of the OECD countries, with quality levels some 40 percent below the EU average. Another recent study (*Expresso* 2000a) indicates that the cost of both telecommunications and electricity in Portugal are well above the EU average. Mateus (2000), quoting OECD data, points out that the cost of electricity for Portuguese industry, although declining in recent years, is the most expensive in the OECD—at 37 percent above the average for European countries.

In addition to excess profits generated in the home market, many of the firms investing in Brazil availed themselves of the high-valued stock markets of the late 1990s to raise capital to fund investments abroad. In many cases, their resulting large exposure to an emerging market—Brazil—has strongly penalized their share price during the recent downturn in share prices worldwide.

Another contributing factor to the recent expansion of Portuguese FDI abroad concerns European consolidation and the adoption of the single currency. This process marked a further step in the maturing of the Portuguese economy, entailing a reduction in both risks and returns. Increasingly, Portuguese companies wishing to expand had to seek foreign markets. In some cases, such as foodstuffs retailing, Portuguese firms cited obstacles to domestic expansion (the tightening of regulations on licensing and trading hours) as a significant cause of their expanding activity abroad (Braz 1999: 153). Some analysts refer to the stagnation of the Portuguese economy and the continued delays in implementing macroeconomic reforms as a strong motivator of Portuguese FDI abroad (Ramos Silva 2001).

Experiences by Sector

Initially, the main destinations for large-scale Portuguese direct investments in Brazil were the sectors in which the Brazilian privatization process was most marked, namely utilities such as telecommunications and electricity (see Box 9.1). While these sectors attracted the largest and visible investments, many smaller investments were more diversified in terms of both sectors and geographical regions (see Box 9.2). Table 9.4 shows the sectoral distribution of Portuguese FDI in Brazil during the 1996–1999 period. It also reveals the form in which the investment was channeled.

Table 9.4. Portuguese FDI in Brazil by Sector and Type of Investment Operation, 1996–1999
(Percentages)

Sector	Equity	Loans, credits	Real estate	Reinvested profits	Other	Total
Services to companies	44.8	55.3	3.9	28.7	3.0	49.6
Transport, communications	2.5	40.8	0.0	0.0	0.0	20.4
Electricity, water, sanitation	35.8	2.6	0.0	87.9	1.5	19.8
Banking, financial	13.1	0.0	0.0	–19.2	0.2	7.1
Other	3.8	1.3	96.1	2.6	95.3	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Memo item:						
Weight by investment type	53.5	46.7	0.3	–0.6	0.1	100.0

Source: Bank of Portugal, quoted in GEPE (2001).

As is evident from the last row of Table 9.4, virtually all the investment took the form of equity or credits to the purchased companies. This is natural given that the period corresponds to the initial phase of investment. The sectoral distribution is more diverse than appears from the table. The first row, “Services to companies”, is a catchall category and includes the activities of holding companies, most of which effectively represent investments in the manufacturing sector. The second row reflects the significant investments in telecommunications by Portugal Telecom, while the third corresponds to investments in electricity generation and distribution by the Portuguese utility EDP.

Brazilian data for investment in 1999 (SOBEET 2000) rank Portugal as the third largest investor in Brazil, following the United States and Spain (and by far the largest foreign investor in per capita terms, based on the population of the investing country). In that year, Portuguese FDI flows amounted to 9 percent of total FDI in Brazil, compared to 29 percent from the United States and 20 percent from Spain. Excluding investments in telecommunications, however, Portuguese and Spanish FDI both equaled 3.5 percent of total FDI flows to Brazil (GEPE 2001: Table 3.7). In addition to investments by the utilities and banks, an estimated 200 Portuguese SMEs made investments in a broad variety of sectors, including automotive parts, software development and other IT providers (*Expresso* 2000b).

In banking, CGD was the main investor through the purchase of Banco Bandeirantes, but other Portuguese banks also invested in Brazil. The Espírito Santo group, one of the few Portuguese investors active in Brazil before the 1990s, controlled 27.5 percent of Banco Boavista Inter Atlântico, while smaller investments were made by Banco Finantia and Banif. The banking sector was one of the first in which the market dictated a change of strategy. The initial strategy of buying and managing medium-sized banks was abandoned after substantial investments failed to make them profitable. The institutions were then sold to local banks in exchange for shareholdings in the purchasing banks. In this way, CGD acquired almost 5 percent of the shares (and 8 percent of the votes) in Banco Itaú and 14 percent of the shares (with 10 percent of the votes) in Unibanco.

In telecommunications, PT controls Brazil’s largest mobile operator, Telesp Celular, with a 64 percent share in voting capital (currently in the process of being increased to 100

Box 9.1. Portugal Telecom in Brazil

Portugal Telecom (PT), the recently privatized telecommunications segment of what used to be CTT, the Portuguese state postal and telephone service provider, began facing competition on its home turf in the 1990s, when private mobile operators were granted licenses. PT already had some international exposure, mainly small operations in ex-colonies of Portugal, but its large-scale move abroad came in 1998, with major purchases during the break-up and privatization of Telebrás, Brazil's national telephone provider. With its investments in Brazil, PT's strategy moved from simple diversification in its limited home market to becoming a global player in the telecommunications and multimedia markets. In its various international investments, PT has created partnerships with other global operators such as BT, MCI, Telefónica, Microsoft, and Globo (Brazil).

In June 1998, PT acquired 23 percent of a consortium holding 85 percent of Companhia Riograndense do Sul (CRT), the main fixed and mobile provider of the state of Rio Grande do Sul. In July, it purchased 23 percent of Telesp Fixa, the fixed-line provider of São Paulo, Brazil's most prosperous state, which alone accounts for 38 percent of Brazil's GDP and has a population of 35 million. At the time, Telesp had a market penetration rate of merely 16 percent and a waiting list for 5 million lines. More significantly, PT also acquired control (52 percent of voting rights) of Telesp Celular Participações, owner of 71 percent of Telesp Celular, São Paulo's major mobile provider, with 90 percent market share, 2.1 million clients and a waiting list of an additional 3.5 million.

In January 2001, PT announced a joint venture with Telefónica, Spain's international telecom operator, to develop mobile business in Brazil. The joint venture company, still awaiting the approval of regulators, would be the largest mobile operator in Latin America by far, with some 10 million clients. The new holding company would have a market capitalization of about \$10 billion when it was announced, and would cover an area with 94 million inhabitants, equivalent to some 70 percent of Brazil's GDP. Currently, the two companies together have a market share of about 60 percent in the areas they cover. Brazil currently has some 30 mobile operators, making it likely that coming years will see a process of market consolidation. In this, PT and Telefónica would act together via their new holding company rather than in competition with each other. With enormous unmet demand, the mobile market is expected to remain dynamic for a long time. In the first 18 months of operation by PT, Telesp Celular increased its client base from 1.6 million to 4 million clients; a 30 percent rate of growth is expected for the Brazilian mobile market as a whole in 2001.

Other PT investments in Brazil include a 49 percent share (but with management control) of MOBITEL, a paging service with national coverage, and a new financial portal, Bancol.net, together with Unibanco, Brazil's third largest private bank. PT's multimedia arm, PTMultimedia, owns Zip.net, a fast-growing portal, and recently reached a deal with UOL, Brazil's largest portal, for web activity, including content provision (PTMultimedia already owns Portugal's largest web portal and a major publishing group). In a more traditional segment, PT is part of the consortium laying a 12,930-km digital undersea cable linking Brazil to Europe (via Portugal) and Africa (via Cape Verde).

PT's growth strategy relies mainly on the mobile, multimedia and data transmission segments of the market, already responsible for well over half of total revenues. Traditional fixed-line operations in Portugal, grouped under PT Comunicações, accounted for 61 percent of revenues in 1999 but only 38 percent by the first quarter of 2001. The group has 14 million clients, 56 percent of them in the mobile phone segment of its business. In addition to its operations in Portugal and Brazil, PT has business interests in Angola, Botswana, Cape Verde, China, Guinea-Bissau, Macao, Morocco, Mozambique and Sao Tome and Principe.

Sources: Portugal Telecom's Web site (www.telecom.pt) and various press reports.

Box 9.2. Sogrape in Argentina

Sogrape was founded in 1942 to produce and market table wines from the Douro region in northern Portugal. Its most notable early success was the creation and marketing of *Mateus Rosé*, currently sold in 125 countries and probably the best-known Portuguese commercial brand worldwide. To reduce its dependence on a single brand, Sogrape later diversified its operations with the acquisition of traditional producers of well-known brands of port wines, a segment in which it now accounts for more than a third of the market.

Facing increasing competition in the international market from Western Hemisphere wine producers, and with structural constraints at home that impeded efficient large-scale expansion of production capacity, Sogrape decided in 1997 to seek production opportunities outside Portugal. The search led to the acquisition of Finca Flichman, a well-established wine producer from the Mendoza province in Argentina, with origins going back to 1873. Sogrape paid \$18 million for 100 percent of the capital of Finca Flichman and invested an additional \$10 million in improving production facilities and increasing the firm's working capital.

In addition to maintaining the well-established brands of Finca Flichman, Sogrape's strategy for its new acquisition was to increase production and add varietal wines to its own *Mateus* brand—namely *Mateus Chardonnay* and *Mateus Cabernet Sauvignon*—for sale in international markets where *Mateus Rosé* already has good market recognition. Additionally, the Argentine wine market (three times larger than that of Portugal and with good growth prospects) and the larger MERCOSUR market are to be exploited for greater penetration of traditional Sogrape brands, namely *Ferreira* and *Offley* port wines.

Source: Case history written by Sogrape and reproduced in Braz (1999).

percent), as well as large shares in Ceterp Celular, Companhia Riograndense de Telecomunicações (CRT) and Mobile, a paging operator. Additionally, PT participates in the Atlantis II undersea cable consortium. Other firms with investments in the telecommunications sector include Nelson Quintas, NQF Energia, Tecnitron and Ensitel, while Finapar-Easyphone, Pararede and SMD are active in communication services (call centers and Internet providers).

In the sector of electricity, gas, water and sanitation, several investments have been made by EDP in energy production and distribution, namely through the control of EBE (Empresa Bandeirante de Energia) and participations in CERJ, COELCE, ESCELSA and ENERSUL. Additionally, EDP participates in the INVESTECO consortium that is building the Lajeado hydroelectric dam as well as a thermoelectric plant through Petroenergia, a company that plans to build nine thermoelectric plants by 2003. CGD also has a 40 percent stake in CGDE to build small-scale electricity generating plants. In water and sanitation, EPAL and IPE are participating in the ongoing privatizations.

In cement production, CIMPOR has invested more than \$1 billion in acquiring about 10 percent market share, while Cimentos Liz has produced cement in Minas Gerais since 1961. In retail distribution, the two leading Portuguese companies, SONAE and Jerónimo Martins, have expanded rapidly in the Brazilian market. SONAE is the third largest retailer, after Carrefour and Pão de Açúcar, with more than 170 outlets. Jerónimo Martins is in ninth position, with more than 50 outlets.

Another traditionally strong sector of Portuguese industry, mould manufacture, has also established a presence in Brazil through several firms: Alfamolde, Geco, Neoplástica, Porcei Portugal, Tranbusti, UPM, Casinfor, Iberoformas and Cimoldes. In the related sector of packaging, Logoplast is already the largest producer of plastic packaging in Brazil.

Other sectors in which Portuguese firms are active include metallurgy, ceramics, porcelain, wood and cork, textiles, fruit stuffs and beverages, automotive parts, batteries, electric and fiber-optic cables, machine tools, hotels, tourism and construction.

Characteristics of Portuguese FDI in Latin America

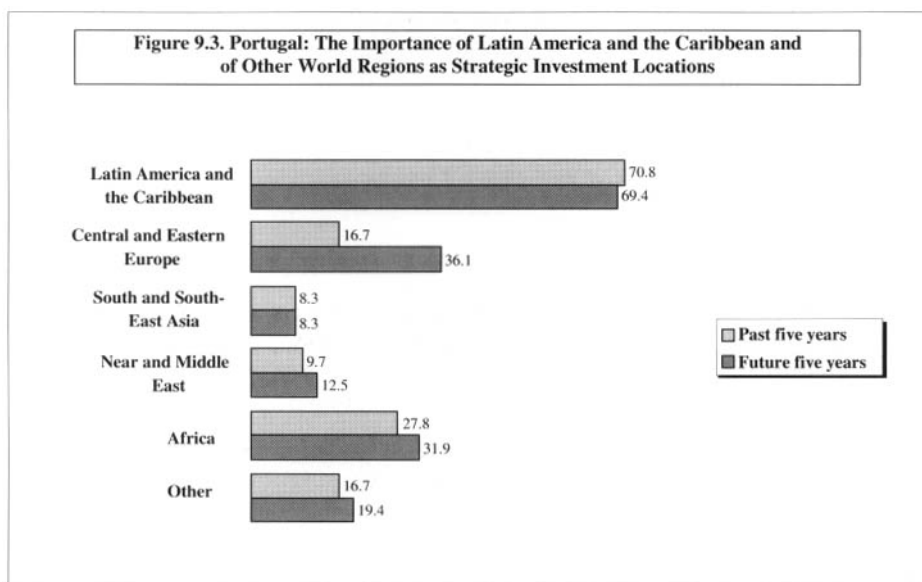
In preparation for this study, a survey on the investment strategies of Portuguese companies in Latin America and the Caribbean was drawn up by the Special Office in Europe of the Inter-American Development Bank and distributed to companies known to have invested in the region. Some of the results of the questionnaire are summarized here. It should be noted that in view of the size of the sample, the results of the questionnaire are not representative of all Portuguese investors in the region and should be considered as indicative only (detailed information on the survey is presented in Annex B). The companies responding are relatively well-distributed in terms of size (annual turnover and number of employees). About two thirds are medium-sized firms with total annual sales or turnover of under \$1 billion and less than 1,000 employees, as shown by the answers to questions 1 and 2 of the survey (Table 9.5).

Table 9.5. Size of Portuguese Companies Investing in Latin America and the Caribbean
(Number of respondents and percentage)

Question 1a. Total annual sales/turnover of your company in millions of U.S. dollars:		
Less than 50	5	27.8%
50–1,000	8	44.4%
1,000–10,000	2	11.1%
More than 10,000	3	16.7%
Non-response	0	0.0%
Total	18	100.0%
Question 1b. Total number of employees in your company:		
Less than 250	7	38.9%
251–1,000	5	27.8%
1,001–10,000	4	22.2%
More than 10,000	2	11.1%
Non-response	0	0.0%
Total	18	100.0%
Question 2. What is the share of your company's sales/turnovers in Latin America and the Caribbean in your overall sales/turnover outside Europe?		
Less than 5%	4	22.2%
5–20%	4	22.2%
20–50%	4	22.2%
More than 50%	6	33.3%
Non-response	0	0.0%
Total	18	100.0%

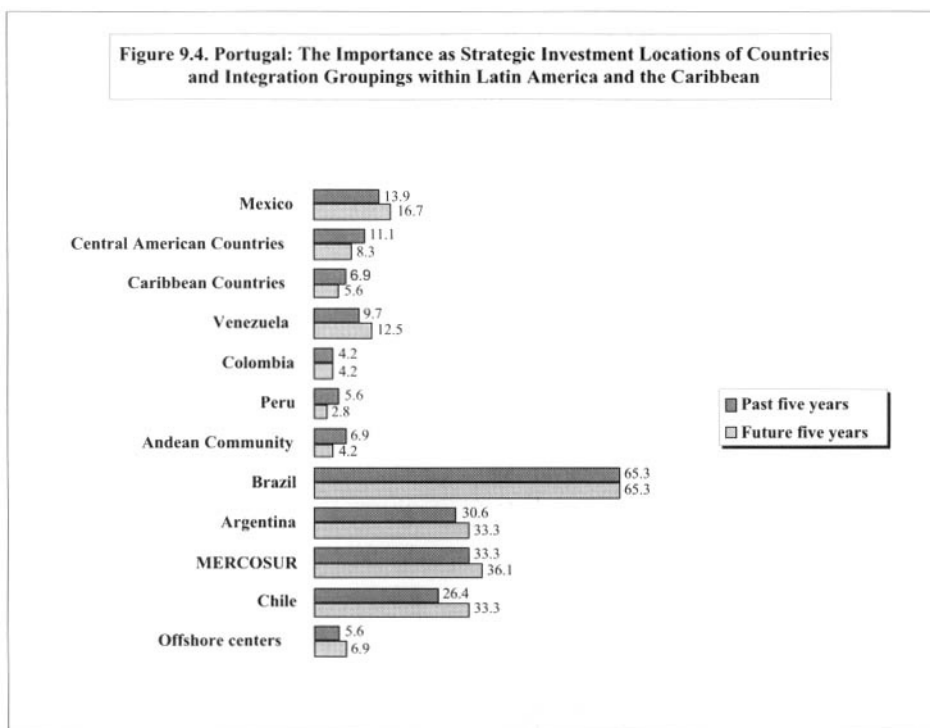
Source: IDB survey.

Companies in the sample invested in a variety of sectors, the majority in the services sector, namely utilities (electricity, gas and water), telecommunications, trade, tourism and others, including financial services. In manufacturing, investments were in the food industry, metal industry and chemicals. For most of the firms sampled, Latin America and the Caribbean was the most important strategic investment location during the past five years and was expected to remain so over the next five years. Within the region, Brazil was said to be the most important location by far during both five-year periods, followed by Argentina, Mexico and Venezuela. Comparing the two five-year periods, Argentina, Mexico and Venezuela are expected to increase their importance in the future while Central America, the Caribbean and the Andean Community are expected to decline in relative importance, even from the current modest levels. Figures 9.3 and 9.4 indicate the relative importance of different geographic regions and countries, respectively, for Portuguese investors that responded to the questionnaire.



Note: The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no = 0, low = 25, medium = 50, high = 75, top = 100.

Source: IDB survey.



Note: The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey.

The bulk of investments, both in the past and the future, consist of new investments in greenfield projects or represent the acquisition of an existing private entity. Only a small portion (two cases in the past and three expected in the future) could be linked to the privatization of a state entity. Virtually all investors stated that strong market growth and market size were the principal motivators for the investment. Other important factors were the availability of skilled manpower, macroeconomic stability and political and social stability. In most cases, the investments were expected to generate output for the local market only or for other MERCOSUR markets.

According to respondents to the questionnaire, the main drawbacks to investment in Latin America and the Caribbean are, in declining order of importance: fear of devaluation, local regulation and bureaucracy, legal/judicial insecurity, political instability and the level of local taxation. The replies to question 9 of the IDB survey are reproduced in Table 9.6.

Table 9.6. Perceived Obstacles to FDI in Latin America by Portuguese Firms
(Number of survey respondents)

Question 9: According to your experience, the major obstacles for investing in Latin America and the Caribbean are:						
	No	Low	Med.	High	Top	Mean score ^a
Local regulation and bureaucracy	0	4	6	6	1	52.8
Political instability	1	3	6	6	1	51.4
Legal/judicial insecurity	0	1	9	5	1	52.8
Social problems/poverty	0	4	8	4	0	44.4
Violence	0	5	6	5	0	44.4
Corruption	0	5	10	0	1	40.3
Cultural differences	5	8	2	0	0	16.7
Fear of devaluation	0	2	6	8	1	58.3
Problems with repatriation of profits/capital	0	7	4	5	0	41.7
Undeveloped infrastructure	0	7	8	1	0	36.1
Undeveloped local capital markets	1	7	5	3	1	41.7
Lack of qualified human resources	3	6	4	3	0	31.9
Level of local taxation	0	4	8	4	1	50.0
Labor legislation	1	5	8	3	0	41.7
Local safety, health and environmental standards	0	11	5	0	0	29.2

^aRefers to the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey (Question 9).

Recent Developments and Prospects

The strong pace of investment by Portuguese firms continued in early 2001. Portugal Telecom invested in the purchase of another mobile operator, Global Telecom, and launched a public acquisition offer on the outstanding shares of Telesp Celular, where it has management control and 30% of the share capital. EDP announced investments of about \$1 billion in Brazil's Priority Thermoelectric Program, while Portugal's major toll-road operator, Brisa, announced the investment of more than \$100 million in the purchase of 20 percent of Companhia de Concessões Rodoviárias (CCR), a toll-road operator accounting for about a third of all toll revenues in Brazil. The Portuguese construction company Somague entered a joint venture with the Brazilian group Leão e Leão to tender for federal highway projects in Ribeirão Preto. In the same region, these two firms were joined by Portuguese airport operator ANA in bidding for the privatization of the local airport.

Overall, total FDI by Portuguese firms in Brazil is expected to reach \$3 billion in 2001, of which about \$1 billion is by SMEs (*Gazeta Mercantil Latino-Americana* 2000). The same source forecasts that a further \$8.5 billion will be invested by Portuguese firms in Brazil by 2005, more than doubling the stock of Portuguese FDI at end-2000.

The energy crisis in Brazil has had negative repercussions for foreign investors: it contributed to a weaker *real*, in turn causing losses for investments made in United States

dollars and other foreign currencies that generate revenues in *reais*. The crisis, however, has also created new opportunities. The electricity generator EDP Brasil, owned by Portugal's EDP, is considering accelerating its investments in thermoelectric generation, to counteract the dependence on hydroelectric power as Brazil faces its worst drought in 70 years. With 92 percent of its power coming from hydroelectric sources, Brazil's diversification plan creates new opportunities for suppliers with experience in alternative sources, as is the case of EDP.

It should also be noted that the recent surge in investment activity has been accompanied by a significant increase in air passenger traffic between Portugal and Brazil, both for business travel and for leisure. The Portuguese national carrier TAP increased its capacity by 45 percent in 2001. This raised the frequency of flights from 17 to 24 per week in peak season and made TAP the European airline with most weekly flights to Brazil. At the same time, new airlines are entering the charter segment and adding new direct destinations, such as Maceió and João Pessoa.

In March 2001, a "Treaty of Friendship, Cooperation and Consultation" between Brazil and Portugal was ratified by the Brazilian Chamber of Deputies and sent to the Senate. Among other features (reciprocal visas, residence and voting rights), the treaty reintroduces regulations to prevent double taxation, replacing the previous treaty that expired in 2000. Over the previous year, Portuguese entrepreneurs had often referred to the lack of such a tax treaty as a problem. The treaty also permits companies registered in one of the countries to operate directly in the other, without having to register again in the host country. The treaty has completed all approval formalities in Portugal and politicians have expressed the hope that the Brazilian Senate will complete formalities so that an official signing can take place during the next Portugal-Brazil Summit in Brasilia in early September 2001.

Conclusions

In the second half of the 1990s, Portuguese FDI in Latin America rose spectacularly. The average level of flows reached \$1.8 billion in the 1996–2000 period, as compared to practically non-existent flows in the first half of the decade. The dominant destination by far was Brazil, which accounted for 97 percent of total flows in the 1996–2000 period mentioned. The boom in FDI to Latin America paralleled—and was largely the cause of—the rapid rise in overall Portuguese investments abroad, as the country consolidated its position in the process of European integration and the introduction of the euro.

The expansion of Portuguese companies in Latin America—in the context of and as a part of the globalization process—is having profound effects on the investing companies and on the Portuguese economy in general. This is prompting a discussion of these issues, particularly in view of the continuing high level of Portuguese FDI in Latin America into 2001, and of the deterioration in global and regional economic conditions. Certain Portuguese companies that have a relatively large exposure to a single emerging market, such as Brazil, have seen their ratings and stock prices affected in times of crisis in the host market (Ferreira da Silva 2001).

Another issue that arises is the extent to which the strategy of aggressive expansion abroad will permit Portuguese firms to remain independent, rather than make them financially

fragile and susceptible to takeover bids. For example, the recent decision by Portugal Telecom to join with Spain's Telefónica in an equal-shares holding company to control the two companies' activities in Latin American mobile telecommunications has raised questions about the benefits for PT. In view of the cross-company ownership of shares, it is seen as leaving PT more vulnerable to eventual takeover bids (Figueiredo 2001).

There is no doubt, however, that for a very significant number of Portuguese firms, of all sizes and in most areas of activity, investment in Latin America is proving to be their most important avenue for expansion. For many, it is also their first experience abroad and may contribute to their expansion into other markets as well, with stronger growth prospects than in the increasingly mature Portuguese economy.

NOTE

- ¹ Although the Caribbean offshore centers are geographically part of the Latin America and Caribbean region, they are not included in this analysis of Portuguese FDI in the region since capital flows to and from offshore centers do not constitute actual investments in the Caribbean locations. The volatility of offshore "investments" is evident in the very substantial flows in 1998 and 1999, amounting to an inflow of US\$ 2.6 billion and an outflow of US\$ 2.7 billion, respectively (Bank of Portugal).

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Chapter 10. The Netherlands

Karel Jansen and Rob Vos *

Introduction

Given their relatively small domestic market, Dutch corporations depend on international activities for their growth. As a result, foreign trade and investment have been very important. The Netherlands' share of world exports is 3.3 percent, the share of the global stock of outward foreign investment is 6.4 percent, while the country's share in world GDP is only 1.3 percent and its share in world population less than 0.3 percent.¹

Dutch investment in Latin America and the Caribbean has been growing rapidly since 1987. This swift growth is part of a more general increase in foreign investment in developing countries that started in the late 1980s. The flow of foreign investment to developing countries fluctuated at a level of about \$11 billion per year over the period 1975–1987, but then rapidly increased to around \$100 billion in 1994–1995 and to almost \$200 billion in the late 1990s (UNCTAD 2000).

The surge in capital flows during the 1990s, including foreign direct investment (FDI), is partly associated with the global process of trade and financial market liberalization. Nearly all Latin American countries introduced radical economic reforms, including the virtual elimination of most trade barriers, liberalization of the capital account and lifting of restrictions on direct investment, and privatization of state-owned enterprises (Vos, Taylor, and Paes de Barros 2001). In the first half of the 1990s the boom in capital inflows was led by portfolio investment, to be overtaken by FDI in the second half of the decade. The role of FDI has increased in part because privatization programs in most countries only materialized in the course of the 1990s. Furthermore, contagion in international financial markets affected portfolio flows to emerging market economies more severely. The “tequila effect” following Mexico's peso crisis and Brazil's crisis were chief among the factors that ended the boom in portfolio flows, as they heightened volatility. FDI was less affected initially but in the final years of the 1990s there was some slowdown, mainly in flows to Brazil.

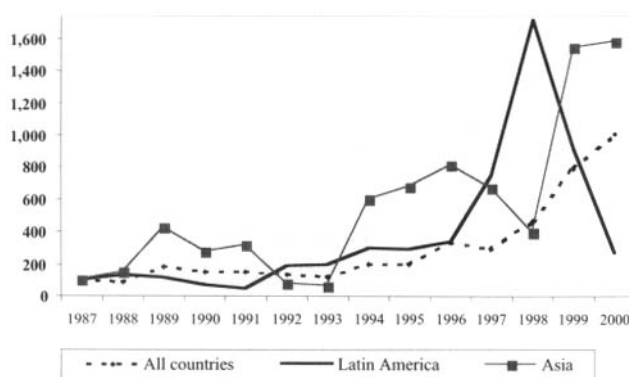
Dutch FDI to Latin America has followed a similar, even more pronounced pattern (see Figure 10.1). The level of FDI flows increased from the mid-1990s onwards, peaked in 1998 and fell steeply after 1999. As discussed below, this is probably because the return of macroeconomic instability and the decline in domestic growth in some of the region's major economies seemed to discourage Dutch investors. The data for Dutch FDI in Asia show a similar decline following the Asian financial crisis of 1997–1998, as well as a remarkable recovery thereafter.

It should be noted, however, that Dutch FDI in Latin America is relatively unimportant in the country's overall foreign investments. In terms of flows, FDI in the European Union countries and to the United States are several times those to the Latin American and Caribbean region and Asia (see Figure 10.2). Of Dutch corporations' total stock of outward foreign investment in 1999, 3.6 percent was invested in Latin America and the Caribbean, up from only 2.5 percent in 1987.² Table 10.1 shows that 15 percent of the

* Karel Jansen is Associate Professor and Rob Vos is Professor of Development Finance at the Institute of Social Studies in The Hague, Netherlands.

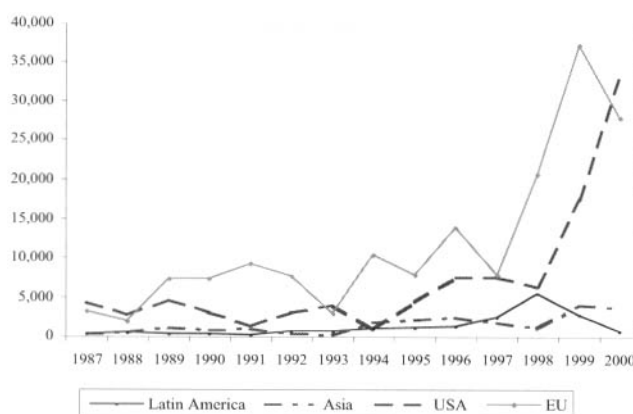
total stock of investment was located in developing countries, and of that percentage about a third was in the Latin American and Caribbean region. The surge in overall capital flows to emerging-market economies in the 1990s has done little to alter this overall pattern. Measured in current Dutch guilders, the growth rate of the value of the stock of investment by Dutch corporations in Latin America and the Caribbean (excluding the Netherlands Antilles) was 17.0 percent per year over the period 1987 to 1999, against a growth rate of 13.3 percent per year for total Dutch outward foreign investment.³ For the recipient countries, however, the size of the flows is not negligible. This chapter describes in some detail the nature of Dutch FDI to Latin America and the Caribbean, the main factors that determine these flows, and the extent to which investment flows are linked to trade patterns between Latin America and the Caribbean and the Netherlands.

Figure 10.1. Trends in Dutch FDI: Total, Asia and Latin America and the Caribbean, 1987–2000
(Index of net outward flows, 1987 = 100)



Source: De Nederlandsche Bank.

Figure 10.2. Trends in Dutch FDI by Major Regions, 1987–2000
(Outward flows in millions of U.S. dollars)



Source: De Nederlandsche Bank.

Table 10.1. Geographical Distribution of Dutch FDI, 1987 and 1999
(Percentage of outward stock)

	1987	1999
OECD countries	87.6	85.0
Developing countries in:		
Eastern Europe	0.3	3.5
Africa	1.2	1.1
Asia	4.4	5.2
Latin America and the Caribbean	2.5	3.6
Latin America and the Caribbean incl. Netherlands Antilles	6.5	5.2

Source: De Nederlandsche Bank.

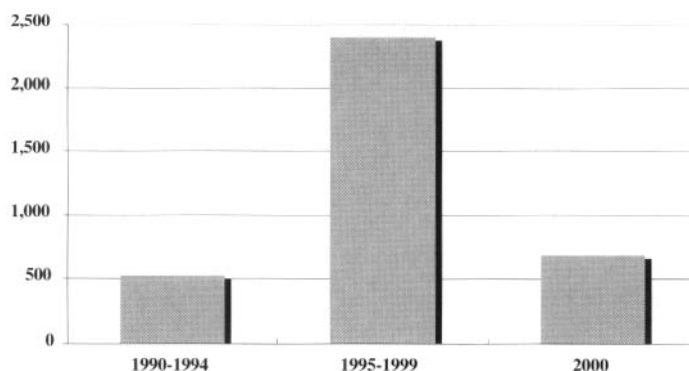
The Nature of Dutch Foreign Investment in Latin America

As mentioned above, the level of Dutch FDI in Latin America and the Caribbean rose strongly in the 1990s. Total flows in the 1990–1999 period, excluding offshore centers, amounted to \$11.9 billion, compared to \$700 million over the whole of the 1980s. The spectacular increase took place in the second half of the 1990s, as average annual flows reached \$2.4 billion, compared to \$528 million in the first half (see Figure 10.3; detailed data with a country breakdown are presented in the Statistical Annex, Table 8).

In terms of FDI stock, Dutch FDI almost doubled during the 1990s, reaching \$13.3 billion in 1990 (including offshore centers); Argentina, Brazil and Mexico account for the bulk of the investments (Table 10.2).

Figure 10.3. Trends of Dutch FDI Flows to Latin America

(Average annual outward flows, in millions of U.S. dollars, excluding the Netherlands Antilles)



Source: De Nederlandsche Bank.

To secure information on the strategies of Dutch companies investing in LAC, a survey was prepared by the Special Office in Europe of the Inter-American Development Bank and

distributed in the Netherlands. A total of 33 corporations responded, some of which were active in more than one country in Latin America and the Caribbean (for more information on the survey, see Annex B). The Dutch firms investing in the region that responded to the survey are a combination of medium and large firms. Most of those investing in the region are truly global firms: for almost all of them Latin American and Caribbean sales are less than 20 percent of total sales outside Europe (see Table 10.3).

Table 10. 2. Stock of Dutch FDI, 1990 and 1999
(Outward stock, in millions of U.S. dollars
and as percentage of total)

	1990	% of total	1999	% of total
Argentina	399	5.4	1,500	11.3
Brazil	952	12.9	5,120	38.5
Chile	182	2.5	753	5.7
Colombia	—	—	174	1.3
Mexico	369	5.0	971	7.3
Peru	—	—	67	0.5
Suriname	93	1.3	179	1.3
Venezuela	29	0.4	99	—0.7
Other unspecified	709	9.6	743	5.6
Offshore centers	4,665	63.1	3,887	29.2
Total Latin American and Caribbean region	7,398	100	13,295	100

Source: De Nederlandsche Bank.

Table 10.3. Distribution of Sales of Firms in Survey Sample

Sales in Latin America and the Caribbean (% of total sales outside Europe)	Percentage of firms
< 5%	40.6
5%–20%	46.9
20%–50%	6.3
> 50%	0.0
No response	6.3
Total	100.0

Source: IDB survey.

A minority of the investing firms ranked Latin America and the Caribbean as a high or the highest priority for them. Of those surveyed, only 33 percent stated that in the coming five years LAC would be high or the highest priority. Most firms accorded the region a low or medium importance. The surveyed firms (that is, firms with investments in Latin America and the Caribbean), gave a somewhat higher priority to countries in South and South-East Asia (53.6 percent of the firms gave a high or the highest priority to that region), and in Central and Eastern Europe (44.7 percent).

Within Latin America and the Caribbean, the Dutch investing firms gave the highest priority for the coming five years to Argentina, Brazil, Mexico and Chile. These countries already have the highest concentration of Dutch foreign investment in the region.

Multinationals invest in order to exploit natural resources, to service the local market or to create an export platform. The answers to the survey among Dutch investors suggest that local market considerations are dominant. Table 10.4 concerns the factors that are important in the investment decision. Such factors are ranked by their importance, as reflected in the percentage of firms that responded that the factor had played a role in their decision to invest.

The great majority of firms said that the size and growth of the market was an important factor. A majority indicated that factors such as macroeconomic stability, agricultural production potential, political and social stability, foreign investment legislation and infrastructure were important to them. Surprisingly low scores were given to membership of regional integration groupings, tax incentives or subsidies, and the low cost of manpower.

Table 10.4. Factors Driving the Investment Decision
(Percentage of firms indicating that the factor is important)

Growth of market	84.2
Size of market	75.9
Efficiency gains in the company's global strategy	72.9
Political and social stability	68.1
Macroeconomic stability	66.6
Agricultural production potential	60.0
Foreign investment legislation	54.3
Availability skilled manpower	54.2
Quality infrastructure	50.0
Availability of raw materials	43.5
Tax incentives/subsidies	31.9
Low cost of manpower	29.2
Host country membership of integration grouping	19.1

Source: IDB survey.

These answers suggest that foreign investment predominantly focuses on production for the local market. The size and the growth of the market was by far the most important factor mentioned. Some of the major Dutch investors in Latin America include multinationals such as ABN-AMRO, a major bank, and Ahold, a major retail business firm, which have expanded their stakes in domestic service activities, particularly in Brazil. Multinationals active in tradable goods sectors, like Philips (electronics), and Unilever (food processing) also typically look to enhance local market shares (for a report on the activities of Ahold in Latin America and the Caribbean, see Box 10.1). Factors such as the low cost of manpower or membership of a regional trade agreement, which would be important to firms aiming at export markets, received only low scores. However, in response to another question, many firms replied that their affiliates also produce for exports to other countries in Latin America and the Caribbean, as well as to Europe and the United States.

Such mixed responses are not surprising in as much as different firms, investing in different sectors, have different aims. Some focus entirely on the domestic market, some on the domestic market and exports, and some on exports only. Nevertheless, the overall

impression that emerges from the responses to the survey is that most Dutch investment in the Latin American and Caribbean region goes to production for the local market.

The sectoral allocation of Dutch FDI in Latin America and the Caribbean fits the standard pattern that emerged in the 1980s and 1990s, with foreign investment in the services sector acquiring growing importance. This sectoral pattern differs from the overall pattern of Dutch outward FDI (Table 10.5). The share of FDI in primary activities (agriculture and mining) in the region is much higher than in the rest of the world. This is consistent with the region's comparative advantage based on its natural resource endowment, and is reflected in the substantial importance of primary products in its export structure. Dutch foreign investment is pioneering in some sub-sectors, such as cut flower production and poultry in countries like Ecuador and Colombia. The relative importance of overall investment in these countries—and, as mentioned, in LAC as a whole—is rather slight.

Table 10.5. Distribution of Dutch FDI (Stock) by Sector in Latin America and the Caribbean and the World, 1997
(Percentages)

Sector	Latin America and the Caribbean	
	Caribbean	All countries
Primary sector	22.9	1.1
Manufacturing	29.3	48.5
Utilities and construction	12.5	0.6
Services	35.4	48.1
Unallocated	—	1.7

Source: OECD (1999).

Dutch FDI is concentrated in the larger countries in Latin America and the Caribbean. This is a further confirmation that the size of the local market is important in the investment decision, although foreign investors producing for export markets may also prefer larger economies as they provide advantages in terms of economies of scale, linkages and externalities.

Table 10.6 ranks countries by the size of their GNP in 1999. The three largest economies account for 61 percent of the total inward stock of FDI of Latin America and the Caribbean. Such a concentration is not surprising. Their share in total inward FDI is somewhat less than their share in the regional GNP, and is about the same as their share in the region's population. Dutch foreign investment is more concentrated. Close to 88 percent of Dutch FDI in Latin America and the Caribbean (excluding offshore centers) is concentrated in the region's three largest countries, which is considerably more than could be expected given the shares of these three countries in the region's GNP and population. Chile is another important destination for Dutch FDI. Together, the four main countries (Brazil, Mexico, Argentina and Chile) account for 70 percent of the region's total inward FDI, for 96 percent of Dutch FDI, for 78 percent of the region's GNP and for 62 percent of its population.

Table 10.6. Geographic Concentration of FDI in Latin America and the Caribbean, 1999
(Percentages)

	Share in total FDI in LAC	Share in stock of Dutch FDI in LAC ^a	Share in GNP of LAC	Share in LAC population
Brazil	33.8	59.1	38.0	33.0
Mexico	14.8	11.2	21.9	19.1
Argentina	12.8	17.3	14.2	7.2
Top 3	61.4	87.6	74.1	59.3
Colombia	4.0	1.9	4.8	8.2
Venezuela	4.5	...	4.5	4.7
Chile	8.1	8.7	3.6	2.9
Peru	1.8	0.7	3.1	4.9
Suriname	n.a.	2.1	n.a.	n.a.

^a Excluding offshore centers and unspecified flows

Source: Shares in Dutch FDI: De Nederlandsche Bank (see also Statistical Annex, Table 44); total shares, data on GDP and population: World Bank (2000).

From these data it is clear that the concentration of FDI in Latin America and the Caribbean is less than might have been expected. The main destinations for FDI in fact receive less than would seem to be indicated by their shares in the region's output. Dutch foreign investment, on the other hand, is strongly concentrated in the region's bigger economies. As noted above, Dutch firms cite as their main motive for investment the need to serve the domestic market. Hence it is not surprising to note that they invest in the largest markets. Brazil and Chile appear to receive more Dutch FDI, and Mexico less, than might be expected on the basis of the size of their economies.

Patterns of Trade and the Impact of Foreign Investment

In assessing the impact of foreign investment on the recipient economy, most studies have focused on the impact on investment and growth, employment, technology transfer and trade. FDI flows have been important in financing investment in Latin America and the Caribbean. As Table 10.7 shows, Dutch FDI by itself is too small to have much impact on the level of investment. However, it is part of a broader process of foreign investment that does have a significant impact. In Latin America and the Caribbean foreign investment makes an important contribution to total investment and growth, raising the gross investment ratio directly by about three percentage points for the region on average, and by substantially more for countries such as Chile, Colombia and Venezuela. The higher investment levels are likely to have a positive impact on growth.

There will also be indirect effects. There is evidence that, in general, FDI crowds in local investment (De Melo 1997). There may also be linkage and spill-over effects from foreign-invested firms to local firms that help increase the efficiency of production. An important channel for such spill-over effects will be backward and forward linkages between

the foreign-invested firm and local firms. The Dutch companies included in the survey report that in a majority of cases they subcontract to local firms.

A growing share of foreign investment in Latin America takes the form of mergers and acquisitions (M&A). The survey of Dutch firms investing in the region suggests that Dutch multinationals are increasingly engaged in taking over existing firms. About 40 percent of companies in the IDB survey sample had been involved in taking over privatized state enterprises or private firms.

Box 10.1. Ahold—A Worldwide Food Retailer

An example of the activities of Dutch multinationals in the services sector of the Latin American and Caribbean region is Royal Ahold, a leading firm in food retailing and food services in the Netherlands. Ahold has, however, expanded beyond the Dutch market to the extent that its Dutch activities now are only a small part of its total turnover (less than 20 percent of sales). It aims to become the world's number one food specialist, and the firm has seen a rapid international expansion in recent years. In the year 2000, Ahold ran over 8,500 stores in 25 countries in four continents of the world with a total sales of \$47.9 billion.

Ahold is active in eight countries in the Latin American and Caribbean region. Its main activities are in Argentina (235 Disco supermarkets with sales of \$2.0 billion in 2000) and in Brazil (108 Bompreço stores with sales of \$1.4 billion). There are also partnerships with majority ownership in Chile, Peru and Paraguay (Santa Isabel stores) and in Guatemala, El Salvador and Honduras (La Frague stores). In total, in the eight countries, there are almost 550 stores with sales totaling \$4.7 billion in 2000, accounting for 10 percent of Ahold's worldwide sales. Ahold's investment in fixed assets in the region was Euro 286 million in 2000, almost 12 percent of its total fixed investment in that year.

It is interesting to note that while in general foreign investors seek out large markets, Ahold has been able to bypass the disadvantage of smaller countries by operating cross-border retail store chains. Ahold is not "exporting" its prototype of a supermarket, but rather its expertise in managing chains of stores. The strategy of Ahold when taking over local stores is to keep the local identity and focus on the local market while benefiting from the networks, know-how and scale advantages of the global parent.

Ahold is different from many other Dutch multinationals in that it does not have much concentration in Asia. Its global sales are strongly concentrated in the Western Hemisphere with the United States accounting for 58 percent of 2000 sales and Latin America and the Caribbean for 10 percent, Europe for 31 percent and Asia for only 1 percent. Still, Ahold's entry into the Latin American and Caribbean region is relatively recent. The partnership with Bompreço started in 1996 and in 2000 Ahold obtained complete control. Disco joined Ahold in 1998, as did the Santa Isabel stores. The La Frague stores were acquired in 1999. Since the acquisition of these stores sales have been growing rapidly, both through organic growth and through expansion through acquisition.

Table 10.7. Foreign Direct Investment and Economic Growth

	1985 stock of inward FDI (US\$ billion)	1998 stock of inward FDI (US\$ billion)	1998 stock of inward FDI as % GDP	Inflow of FDI as % of GFCF (average 1997–1998)	Dutch FDI inflow as % of total inflow (1997–1998)
Argentina	6.6	47.1	13.9	13.2	2.3
Brazil	25.7	132.7	17.1	15.1	10.8
Chile	2.3	30.0	40.4	26.1	11.7
Colombia	2.7	18.1	20.0	21.8	0.3
Mexico	2.0	60.8	14.3	14.0	4.7
Peru	1.2	8.0	12.5	11.6	1.0
Suriname	n.a.	n.a.	n.a.	1.1	22.7
Venezuela	1.5	19.1	20.1	30.2	...
Total	62.9	404.6	19.5	16.4	5.0

Note: GFCF = gross fixed capital formation.

Source: Columns (2)–(5): UNCTAD (2000); Column (6): De Nederlandsche Bank.

It is also interesting to analyze whether the Dutch investment in the region is related to trade patterns between Latin America and the Caribbean and the Netherlands. Foreign direct investment by Dutch firms could follow from existing trade relations, or foreign investment could change trade patterns. In general, trade patterns are geographically concentrated. Countries that are geographically close tend to have more intensive trade links than countries that are far apart. De Jong and Vos (1995) argue that proximity between countries can reduce the impact of market imperfections, incomplete information, transaction costs and transport costs that could hinder trade. They show that trade and investment patterns are strongly regionalized: in other words, countries that are geographically closer have more intensive trade and financial links. They also observe that between 1985 and 1990 this regional bias has weakened somewhat with the liberalization of trade and the globalization of world production and finance.

Against that background one would not expect strong trade and investment links between the Netherlands and Latin America, since the two are far apart and the Netherlands is strongly embedded in the EU and the United States in the Western Hemisphere. On the other hand, as a small economy the Netherlands is exceptionally open: its exports account for a very large part of its GDP and it has a relatively very large stock of outward FDI.

The trade and investment relations between two countries or groups of countries are likely to be linked in the following situations:

- Firms may invest in foreign countries to which they have previously exported. Exports establish contacts that lessen the information and transaction cost problems mentioned earlier. If such production is for the local market, the exports of the home country to the host country would decline;
- Firms may invest abroad to exploit natural resources for export, or to establish an export platform using low production costs in the host country;

- Firms investing abroad in order to produce for local markets or exports will import capital and intermediate goods from the parent company, thereby increasing intra-industry trade.

The net impact of these effects is not clear *a priori*, and can only be established empirically. If foreign investment by firms of country *i* in country *j* is aimed at producing for the local market, such investment might reduce the exports of country *i* to country *j* as local production replaces the earlier exports. If the foreign investment is in the extractive sector or aims to use the host country as a low-cost basis for export production this will not affect exports from country *i* to *j*, but it might affect the exports of *j* to *i*. In both cases the exports of country *i* to *j* might increase, as the affiliates of the foreign firms import capital and intermediate goods from the parent company in country *i*.

De Jong and Vos (1995) propose a number of ratios to measure the trade and financial linkages between countries or regions, the first of which is:

$$\beta_{ij} = \frac{X_{ij} / X_i}{X_j / X}$$

where:

- X_{ij} = exports from country *i* to country *j*;
 X_i = total exports from country *i*;
 X_j/X = share of country *j* in exports from all other countries.

The beta-coefficient relates the share of country *j* in the exports of country *i* to the share of country *j* in the exports of all other countries in the world. It can be used to measure the bias in trade linkages, since it indicates whether exports from *i* to *j* are more or less than what could be expected on the basis of the share of country *j* in world trade.

Trade linkages between two countries are described by two beta-coefficients, β_{ij} and β_{ji} . Or, if analyzed from the perspective of country *i*, β_{ij} shows the trade linkages between *i* and *j* through the exports of *i* to *j*, and β_{ji} shows the trade linkages through the imports of *i* from *j*.

Such concentration coefficients can also be formulated for financial linkages between countries. Financial coefficients would measure whether the financial linkages between countries *i* and *j* are more or less than what could be expected given the place of country *j* on the global financial markets. The financial coefficients can be formulated for the total financial assets and liabilities outstanding between countries *i* and *j*, but they can also be measured for specific types of financial assets, such as FDI, portfolio investment or bank lending. This chapter concentrates on linkages through FDI. This ratio is herein termed the gamma-coefficient:

$$\gamma_{ij} = \frac{FDI_{ij} / FDI_i}{FDI_j / FDI}$$

The nominator measures the share of country j in the stock of outward foreign investment of country i . The denominator measures the share of country j in the outward foreign investment of all other countries. The gamma-coefficient can be used to analyze the concentration of Dutch foreign investment. In this case there is no reason to formulate the “reverse” gamma-coefficient, since there is hardly any foreign investment by firms from Latin America and the Caribbean in the Netherlands.

The beta and gamma coefficients can be used to measure biases in trade and financial linkages. If β or $\gamma > 1$, there is a positive bias—in other words, the trade or financial linkage between the two countries or regions is stronger than what could be expected on the basis of the share of the country in world trade or finance. If β or $\gamma < 1$ there is a negative bias, or a weaker than average linkage.

De Jong and Vos (1995) also formulate a delta-coefficient:

$$\delta_{ij} = \frac{FDI_{ij} / FDI_i}{X_{ij} / X_i}$$

where:

FDI_{ij}/FDI_i = share of country j in outward investment of country i
 X_{ij}/X_i = share of country j in exports of country i .

The delta-coefficient relates the financial and trade linkages to each other. If $\delta_{ij} = 1$ the share of country j in the outward FDI of country i would be the same as the share of country j in the exports of country i . This would imply that a country prefers to invest in countries with which it has already trade linkages.

Table 10.8 gives a number of ratios describing the trade and financial linkages between the Netherlands and the main LAC countries. The following ratios are included:

- *Inward FDI of country j / global FDI.* This ratio captures the relative importance of the country as a destination of FDI;
- *Share of country j in Dutch outward FDI / share of country j in global outward FDI.* This is the gamma-coefficient defined above. It identifies whether Dutch investment in country i is more or less than average—that is, more or less than what could be expected on the basis of the share of country j in overall foreign investment;
- *Share of country j in Dutch exports / share of country j in exports from all countries.* This ratio describes whether Dutch exports to country j are more or less than what could be expected given the share of country j in world trade. This is the beta-coefficient defined above;
- *Share of the Netherlands in exports from country j / share Netherlands in exports from all countries.* This is the reverse of the third ratio;

- *Share of country j in Dutch outward FDI / share of country j in Dutch exports.* This is the delta-coefficient defined above. It captures the relative strength of trade and financial linkages.

The first column gives the shares of the Latin American and Caribbean countries in the global stock of FDI. Argentina, Brazil, Mexico and, to a lesser extent, Chile are important destinations for global foreign investment. The table gives the 1998 shares, but it is relevant to note that over the 1986–1998 period the shares of all Latin American and Caribbean countries, with the exception of Brazil, increased. From 1986 onward global flows of FDI increased sharply and most countries of the region have been tapping an increasing share of this large flow. Table 10.7 presented data on the sharp increase in the stock of inward FDI in the major Latin American and Caribbean countries since 1985.

Table 10. 8. Trade and Financial Linkage Ratios between the Netherlands and Latin America and the Caribbean, 1998

	Share in global FDI	Gamma- coefficient	Beta-coefficient (i to j)	Beta-coefficient (j to i)	Delta- coefficient
Argentina	1.16	0.50	0.22	1.32	4.72
Brazil	3.26	0.48	0.34	1.60	4.39
Chile	0.74	0.33	0.26	0.61	2.74
Colombia	0.45	0.12	0.25	0.73	0.80
Mexico	1.50	0.20	0.08	0.09	1.68
Peru	0.20	0.13	0.30	0.58	0.57
Suriname	n.a.	n.a.	5.12	6.72	0.87
Venezuela	0.47	0.04	0.24	0.24	0.24

The shares of Latin American and Caribbean countries in the outstanding stock of Dutch FDI are considerably lower than their shares in the global stock of FDI. Hence the ratios in the second column of Table 10.8 are all less than 1. Moreover, the shares of the region's countries in outward Dutch FDI has not changed systematically since 1985, the share increasing for some countries and declining in others. Dutch foreign investment in the region has increased substantially over the last 15 years when measured in absolute terms, but in relative terms Dutch foreign investment in Latin America and the Caribbean was relatively low and growth in recent years has not been so rapid as to change this relative position. It is therefore clear that the region has not been a priority destination for Dutch foreign investment and that the latter is not drawing level.

The trade ratios in Table 10.8 offer a similar picture. Dutch exports to Latin American and Caribbean countries are less than what might be expected on the basis of the place of these countries in world trade. The beta-coefficients in column 3 are all considerably less than 1, with the exception of Suriname where the special historical relationship has led to more intense trade links. Over the 1986–1998 period these beta-coefficients declined for four countries and stagnated for three more; only in the case of Suriname did the coefficient increase.

The beta-coefficients for the region's exports to the Netherlands (see column 4 of Table 10.8) are larger than 1 for Argentina, Brazil and Suriname, indicating that these countries export more to the Netherlands than might be expected given the role of the Netherlands in world trade. For the other countries the coefficient is less than 1, but for all

countries listed the β_{ji} is greater than the β_{ij} , indicating that the Latin American and Caribbean countries have a stronger export bias towards the Netherlands than the Netherlands has towards the region's countries. These ratios, too, have not changed systematically since 1986, the coefficient declining in five countries and remaining stable for one country.

The final column of Table 10.8 presents the data on the delta-coefficient. It is interesting to note that the coefficient is larger than one for the larger countries and less than 1 for the smaller countries. This implies that for the larger countries the investment linkage is stronger than the trade linkage. This is in line with the general finding that FDI concentrates on the bigger developing countries. Foreign investors are attracted to countries with large domestic markets, and this is also true for Dutch foreign investment in Latin America and the Caribbean.

Conclusion

Foreign direct investment by Dutch firms in Latin America and the Caribbean has increased rapidly in recent years. Relative to the region's position in the world economy, however, Dutch investment is low. This regional bias against Latin America and the Caribbean is part of a more general bias. Moreover, trade flows between the Netherlands and Latin America are less than might be expected given the latter's importance in world trade. The macroeconomic stabilization and the liberalization of trade and investment evident in the region's countries during recent years have probably facilitated the growth of Dutch foreign investment to the region in absolute terms.

Hence the overall conclusion is that the Latin American and Caribbean region does not figure very prominently in the Dutch investment and trade picture. Indicating the intensity of linkages, the gamma-coefficients for foreign direct investment are below 0.5 and the beta-coefficients for Dutch exports to the region are quite small. The exception in the trade linkages is Suriname, where the special relationship is reflected in more intense trade.

It is impossible to trace any pattern between investment and trade flows. There is no systematic relationship between the intensity of trade and financial linkages between the Netherlands and Latin American and Caribbean countries in 1986 or 1998, and neither is there any relationship between the changes in trade and financial links. The data on the countries covered in this chapter do not support the hypothesis that trade links may facilitate foreign investment, or that foreign investment will lead to a change in trade relations. This absence of a linkage is not surprising. Only a small number of countries are being examined. Moreover, some of the Dutch multinationals are truly global firms that are active in many countries. Even if their investment were to follow on trade linkages, or if such investment were to change trade relations, the trade linkages need not necessarily be between the Netherlands and the host country. They could be between the host country and any of the countries in which the multinational is active.

The data do, however, confirm that there is a significant regionalization of trade and investment patterns. Around 1985, foreign investment by Dutch firms in the region was relatively modest, and the level of Dutch exports to Latin American and Caribbean countries was lower than might be expected on the basis of the region's place in world trade. In the

drive to globalization since the mid-1980s, trade and investment between the Netherlands and Latin America and the Caribbean grew in absolute terms, but the latter's shares in Dutch trade and investment did not increase. The various beta-coefficients showed a tendency to decline rather than increase. In relative terms, therefore, the bias against the region was maintained.

It might seem surprising that the dramatic changes in trade and investment policies in Latin America and the Caribbean during the period under study did not induce a stronger response from Dutch investment and trade, but the data show that Dutch foreign investment and trade maintained its traditional focus on Europe, the United States and Asia.

NOTES

- ¹ Figures relate to 1999. The figures on exports, GDP and population are based on the tables in the 2000/2001 *World Development Report* (World Bank 2000) and the data on foreign investment come from UNCTAD's *World Investment Report 2000* (UNCTAD 2000).
- ² The 3.6 percent figure refers to Latin America and the Caribbean excluding the Netherlands Antilles. However, most investment in the Netherlands Antilles is related to its function as a tax haven. Part of these flows may subsequently be directed to investment in other Latin American and Caribbean countries or in countries outside the region. The Netherlands Antilles is excluded from most of the following analysis. When the Netherlands Antilles are included the share increases to 5.2 percent. In 1987 the share of Latin America and the Caribbean, including Netherlands Antilles, in the stock of outward investment had been 6.5 percent. Clearly, investment in the Netherlands Antilles lagged behind during this period.
- ³ The data source is De Nederlandsche Bank (DNB). According to the 2000 *World Investment Report* (UNCTAD), the stock of total inward foreign investment in Latin America and the Caribbean in current dollars grew by 15.7 percent annually over the 1985-1999 period.

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Chapter 11. Switzerland

Jan Atteslander *

Swiss Companies as Global Investors

Highly active as global investors, Swiss companies started to invest abroad at an early date because of their small home market. FDI outflows have grown rapidly, from \$12 billion in 1995 to \$41 billion in 1999. The stock of total outward FDI amounted to a book value of \$192 billion at the end of 1999. Some 34 percent of this was in the industrial sector and 66 percent in the services sector. In the same year, more than 1.6 million people were employed by Swiss companies abroad, 58 percent in the industrial sector and 42 percent in the services sector. Worldwide, their workforce has increased by 14 percent since 1995. The scale of Swiss FDI underlines the importance of open markets for the Swiss economy. Three Swiss companies are among the world's 30 largest foreign direct investors, and more than 4,500 Swiss companies have affiliates overseas. This relatively large number reflects the fact that many Swiss SMEs also have direct investments abroad.

The internationalization of Swiss companies is further evident in the fact that by 1998 more than 21 percent of all private sector firms were engaged in trade activities or had investment abroad, compared to 11 percent in 1990 (Aravanitis et al. 2001). The largest growth in the percentage of companies active abroad was among firms with fewer than 100 employees. Some 32 percent of industrial companies are active overseas, compared to 14 percent in the service sector. Between 1993 and 1998, Swiss firms' FDI stock increased by 84 percent. The two main incentives for FDI are market access and lower costs abroad (Henneberger, Vocke and Ziegler 1998). For SMEs, inadequate management capacity is seen as a significant obstacle (Bezzola, Donzè and Hollenstein 1999). Since the mid-1980s, FDI has been more important than trade for the globalization of Swiss firms. Industries with high rates of innovation and a high human capital content are most active abroad.

Econometric studies indicate a positive relationship between international trade and investment and the growth of the Swiss economy (Arvanitis et al. 2001). Such studies also show that Swiss FDI outflows have no negative effects on the Swiss labor market.

The total stock of Swiss FDI abroad has grown steadily in recent years and reached \$192 billion in 1999 (up from \$143 billion in 1995).¹ Measured in Swiss francs, FDI stock grew by an annual average of 15 percent in the second half of the 1990s (see Figure 11.1).

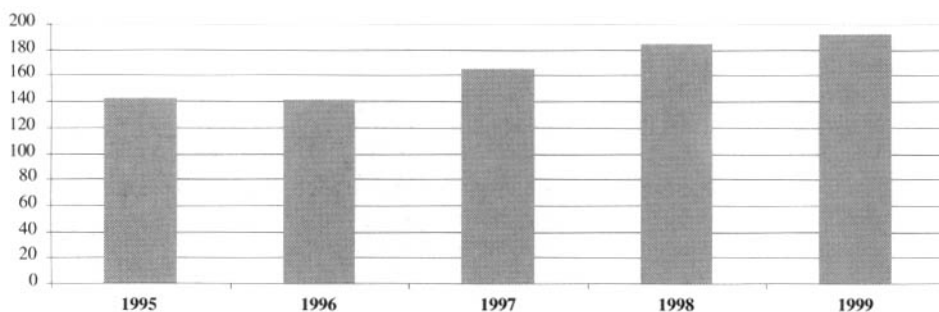
It should be noted that most Swiss FDI is recorded at book value. There are no complete data on Swiss FDI stock at market values. Market values can be expected to be substantially higher than the book values, especially when FDI has been in place for longer. The regional distribution of stock reveals Europe's importance for Swiss investors (see Figure 11.2). In the year 1999, FDI stock in European Union (EU) countries accounts for 47 percent

* Federation of Swiss Industrial Holding Companies, Bern, Switzerland. The author thanks Dr. Piero Corpina of Holcim, Björn Edlund of ABB, Dr. Herbert Oberhänsli of Nestlé, Thomas Schlup of Swiss National Bank, and Ziga Vodusek of the IDB for their valuable contributions and support in the writing of this chapter.

of total Swiss FDI abroad, followed by the United States with 22 percent. Within the EU, the United Kingdom is the most important destination (12 percent), followed by Germany (9 percent). Latin America, with 14 percent, is the main investment destination among the emerging markets, followed by Asia with 10 percent. Central and Eastern Europe accounts for a relatively low level (2 percent) of Swiss FDI stock.

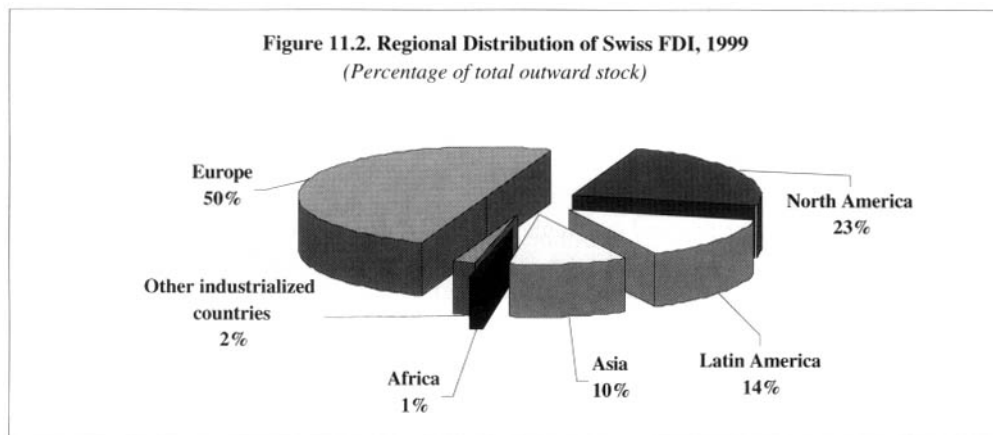
Total Swiss FDI abroad is equivalent to 30 percent of domestic capital investments for the years 1996/1998. Only five countries record a higher percentage, among them the Netherlands (49 percent), Sweden (41 percent), and the United Kingdom (34 percent). Sweden and the Netherlands are comparable to Switzerland in as much as both of them have relatively small domestic markets.

Figure 11.1. Swiss Foreign Direct Investment Stocks, 1995-1999
(In billions of U.S. dollars)



Source: Swiss National Bank, 2000.

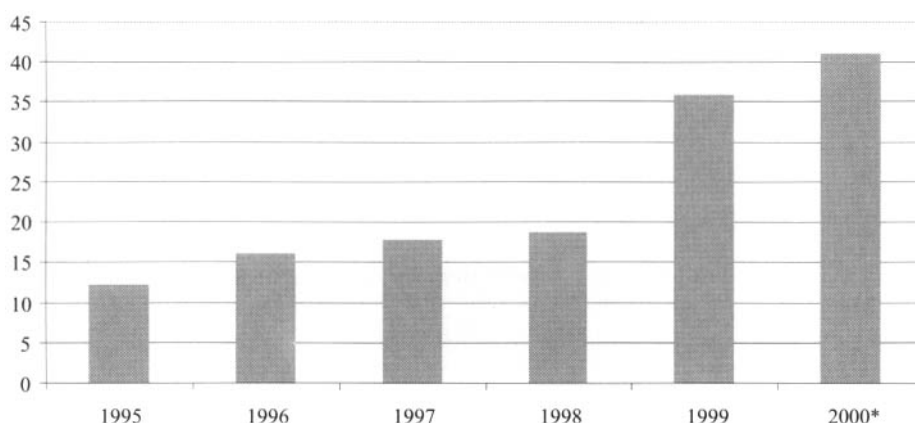
Figure 11.2. Regional Distribution of Swiss FDI, 1999
(Percentage of total outward stock)



Source: Swiss National Bank, 2000.

As with investment stock, FDI outflows grew markedly in the second half of the 1990s (see Figure 11.3). The service sector accounted for 79 percent of total Swiss FDI outflows in 1999 (43 percent in 1995), while the industrial sector accounted for 21 percent (57 percent in 1995).

Figure 11.3. Swiss Foreign Direct Investments, 1995-2000
(Outward stock in billions of U.S. dollars)



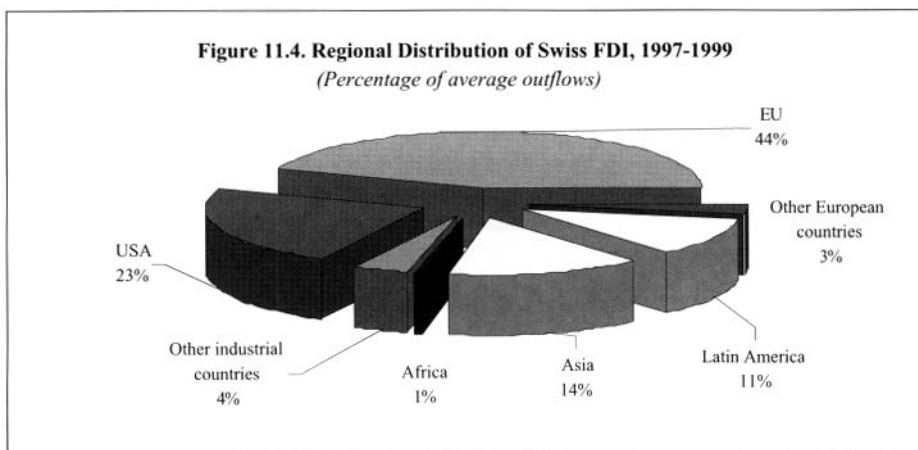
* Preliminary data for 2000

Source: Swiss National Bank, 2000.

The industrialized countries attract about three-quarters of total Swiss FDI flows. Outflows grew very strongly in 1999 and 2000, mainly the result of FDI in the service sector.

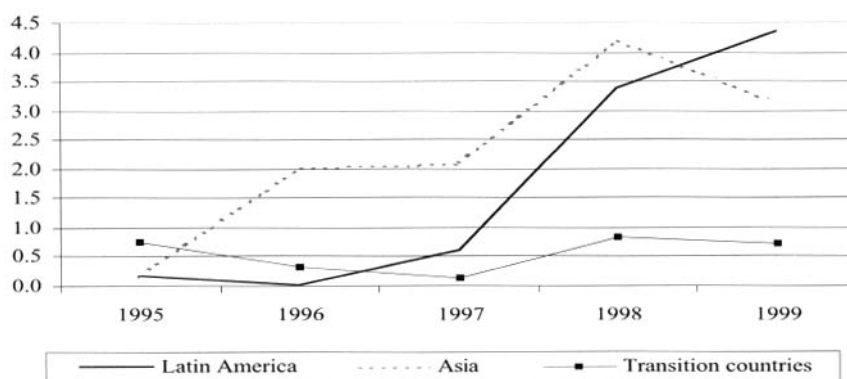
The geographical distribution of FDI flows is very similar to that of stock. The EU countries are the main targets: in 1999, 45 percent of Swiss FDI went to the EU, and 27 percent to the United States. Latin America accounted for 12 percent of Swiss FDI in 1999, while Asia took some 9 percent. This distribution is relatively stable compared with the period 1997–1999 (see Figure 11.4).

Swiss FDI to emerging and developing countries² amounted to \$7.7 billion in 1999 (21 percent of total outward FDI), of which Asia accounted for \$3 billion (see Figure 11.5). Singapore (\$2.3 billion) was the most important host country, followed by Hong Kong (\$431 million) and Malaysia (\$152 million). The decline in Swiss FDI flows after the 1998 peak of \$3.9 billion stemmed mainly from a sharp fall in FDI in the Philippines, from \$827 million (1998) to \$38 million (1999). FDI flows to China were also lower. Nevertheless, in both 1998 and 1999 Swiss FDI to Asia surpassed the level prevailing before the region's economic crisis. Since 1995, Swiss FDI to Latin America has grown even more sharply than that to Asia. Since the mid-1990s, FDI flows have also increased to the transition countries in Central and Eastern Europe: \$810 million in 1998 and \$760 million in 1999, mostly to Russia and Poland.



Source: Swiss National Bank, 2000

Figure 11.5. Swiss FDI to Developing and Transition Countries
(Outflows in billions of U.S. dollars)



Source: Swiss National Bank, 2000

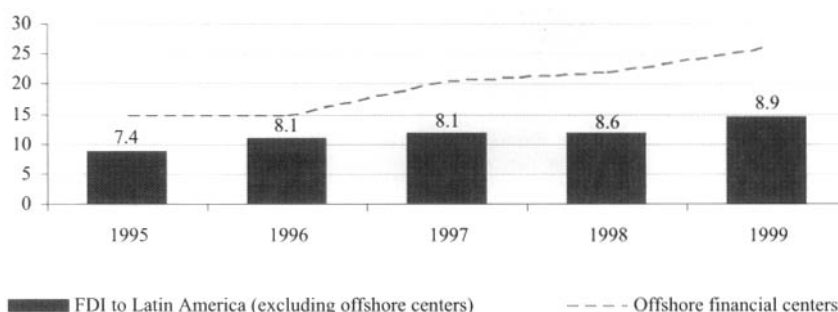
Recent Developments in Swiss FDI in Latin America

The first Swiss companies started to invest in Latin America at the beginning of the last century (see Boxes 11.1–11.3), and such investment has steadily grown. In recent years, Swiss investment in the region has grown sharply, paralleling the trend of other major investors.

Swiss FDI stock in Latin America has increased since 1995 (see Figure 11.6), and the growth of FDI stock in Caribbean offshore centers³ has been greater than that of FDI in Latin America. A high proportion of the investment in offshore centers is probably reinvested in the

United States and Latin America, although the statistical data do not allow for the allocation of FDI flows to individual countries. As regards part of these flows, moreover, there are indications that insurance companies have built up insurance services in the offshore centers.

Figure 11.6. Swiss FDI to Latin America
(Outward stocks in billions of Swiss francs)



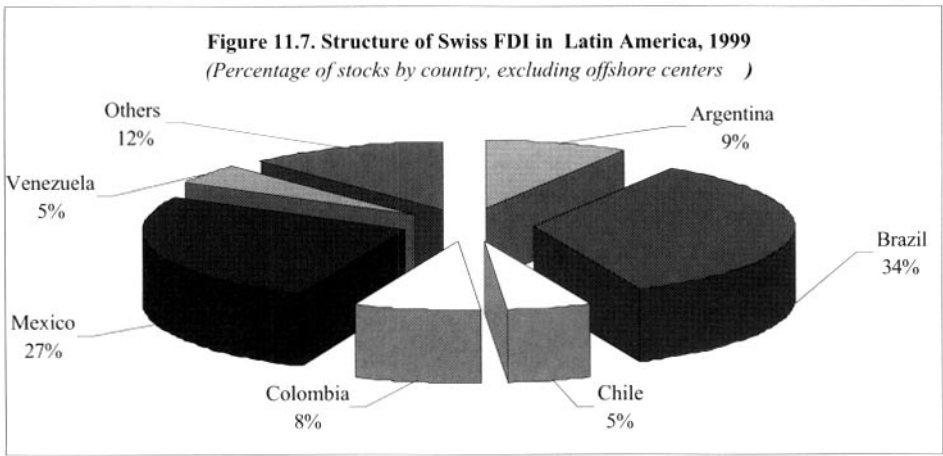
Note: Amounts above bars are in billions of US dollars.

Source: Swiss National Bank, 2000.

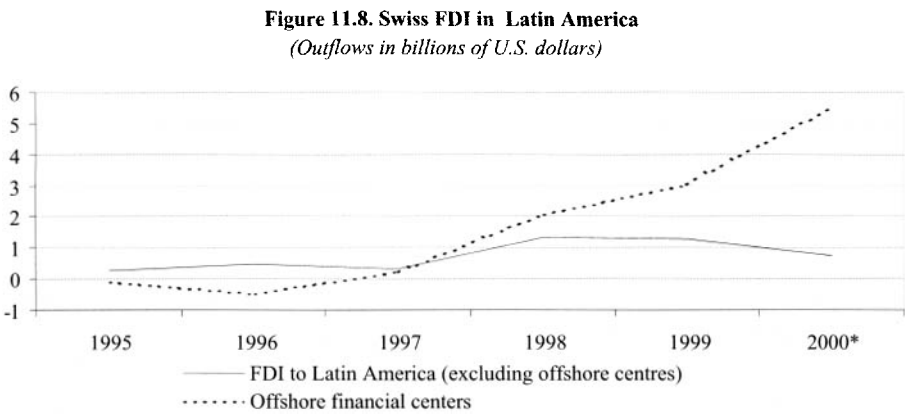
Figure 11.7 shows the regional distribution of Swiss FDI in the region in terms of stock, excluding offshore centers. Brazil accounts for around a third of total stock (\$3.2 billion), followed by Mexico with just over a quarter (\$2.4 billion). It should be noted that in the case of Mexico, FDI stock doubled between 1995 and 1999, while in the case of Brazil it stagnated.⁴ Colombia and Venezuela also recorded high growth in FDI stock, to \$728 million and \$435 million respectively (Table 48 in the Statistical Annex presents a detailed breakdown of FDI stock by country).

A corresponding increase was also recorded in FDI flows. While annual average flows to the region amounted to \$1.1 billion in the first half of the 1990s, the average climbed to \$1.7 billion in the second half of the decade (including offshore centers).

Since FDI flows can be volatile, it is worth examining accumulated flows over several years. Overall, the volatility of Swiss FDI to individual countries also stems from large single transactions. Between 1995 and 2000, Mexico attracted the largest share of net investment (a total of \$1,472 million), followed by Uruguay (\$955 million), Brazil (\$773 million) and Colombia (\$387 million). Most of these countries recorded an increase in Swiss FDI during 1998–1999 despite the economic crisis in South-East Asia and the risk of “contagion” spreading to Latin America. Swiss FDI flows to offshore financial centers stood at \$206 million in 1997, \$2.1 billion in 1998, \$3.1 billion in 1999 and \$5.5 billion in 2000 (see Figure 11.8).



Source: Swiss National Bank.

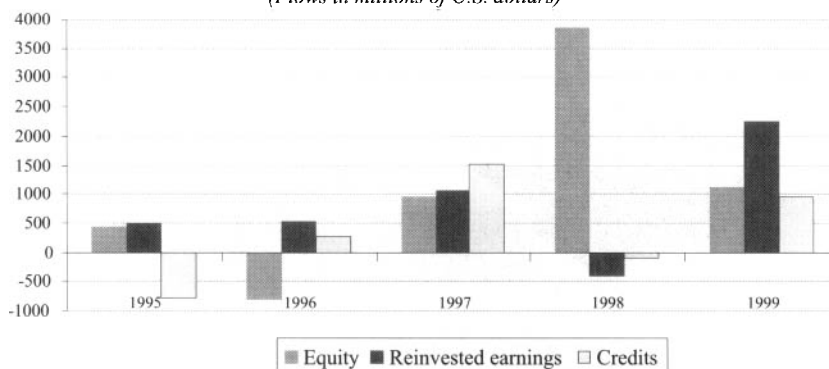


* Preliminary data for 2000.

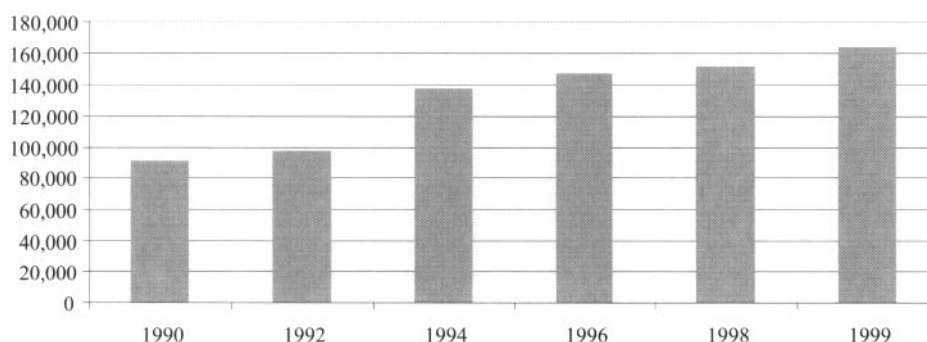
Source: Swiss National Bank.

As regards the financial structure of Swiss FDI flows to Latin America, equity and reinvested earnings are the main sources of financing, evidencing a long-term perspective on the part of investing companies (see Figure 11.9).

Between 1990 and 1999 the number of employees of Swiss investors in Latin America grew from 90,000 to 165,000 (see Figure 11.10). This was an 83 percent increase, the largest part of which was recorded in the first half of the decade. Workforce growth in Latin America during the 1990s surpassed the global increase of Swiss firms' employees (about 65 percent in the same period). In 1999 Swiss companies' workforce in Latin America accounted for about 10 percent of Swiss investors' global employment.

Figure 11.9. Financial Structure of Swiss FDI in Latin America*(Flows in millions of U.S. dollars)*

Source: Swiss National Bank, 2000.

Figure 11.10. Number of Employees of Swiss Investors in Latin America

Source: Swiss National Bank, 2000.

Latin America as a Destination for Swiss Investors

At the end of 2000 and the beginning of 2001, in cooperation with the Special Office in Europe of the Inter-American Development Bank, a questionnaire was distributed to over 30 Swiss companies that are the main overseas investors. These are all global companies with direct investments worldwide, including Latin America and the Caribbean. Ten companies responded to the survey. While this is a relatively low response rate, the sample covers the main investors in the region and those firms account for a major part of Swiss investment there. The results should nevertheless be interpreted only as indicative, and not as representative of all Swiss investors in the region. Detailed information on the content and the distribution of the survey is presented in Annex B.

Swiss investors view Latin America and the Caribbean as an important investment location. The companies participating in the survey ranked the region second, only slightly behind South and South-East Asia and well ahead of Central and Eastern Europe.

To a large extent this positive perception of Latin America stems from political and economic reform in the region during the 1990s. The survey shows that, at the country level, Mexico, Brazil and Argentina are the main targets for direct investment. These three countries accounted for 70 percent of Swiss FDI stock in Latin America in 1999, excluding flows to offshore centers. This is corroborated by data on Swiss FDI in Latin America, as shown in Figures 11.11 and 11.12.

Box 11.1. ABB's Presence in Latin America

A global company, ABB Ltd. is present in more than 100 countries. It has 160,000 employees and total revenues of about \$23 billion in 2000. The company is active in over 15 countries in Latin America and the Caribbean, employing more than 10,000 people in the region, and is present in many sectors, including IT industries, robotics, utilities, power technology, processing industries, oil and gas, manufacturing and consumer industries. For ABB, the Western Hemisphere is the second most important region, accounting for 25 percent of the company's global income (Europe accounts for 55 percent).

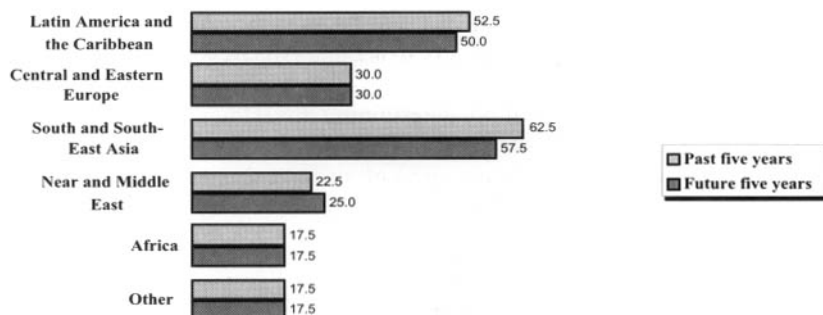
With the deregulation and expansion of the power sector market in Latin America, ABB has been supplying numerous power plants in the region. It has, for example, supplied more than half of all power plants currently operating in Brazil.

ABB parent companies have been present in Mexico since the early part of the last century: ABB was formed by the merger of ASEA of Sweden, active in Mexico since 1928, and Brown Boveri of Switzerland (BBC), present in Mexico since 1900. BBC opened a plant near Mexico City in 1947. ABB currently employs 1,200 people in three manufacturing locations in Mexico. In South America, ABB has roots dating back to the early twentieth century. The company has been in Brazil since 1912, when it supplied electrical equipment for the Sugar Loaf cable car in Rio de Janeiro. The first factory was opened in 1957. Today, the company is involved in the utilities, oil, gas and petrochemical industries and has seven industrial sites employing some 6,500 people. Activities in Brazil account for half of the firm's turnover in South America.

ABB has also developed natural gas fields in central Peru and built a gas-powered 155-megawatt power plant and line to supply electricity to the coast. The company has also won contracts to construct power plants in Chile and Argentina.

According to ABB, Latin America is an increasingly attractive market, as well as a politically and economically stable investment destination. The countries in the region are opening their markets to international trade and investment, and are embracing the new global economy.

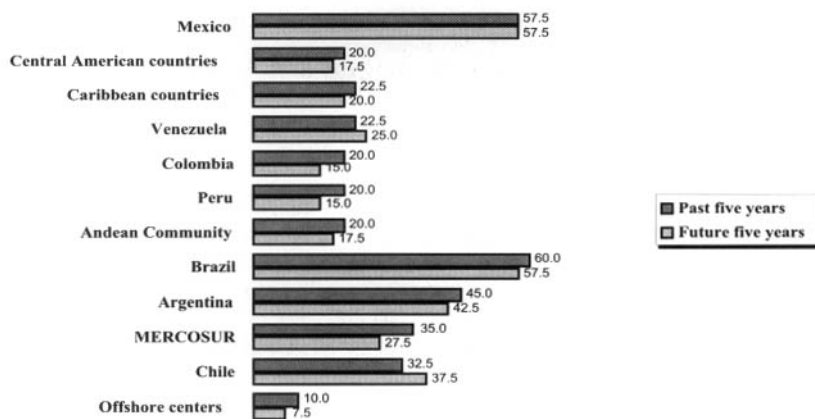
Figure 11.11. Switzerland: The Importance of Latin America and the Caribbean, and of Other World Regions, as Strategic Investment Locations



Note: The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey.

Figure 11.12. Switzerland: The Importance as Strategic Investment Locations of Countries and Integration Groupings within Latin America and the Caribbean



Note: The graph shows the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Source: IDB survey.

Business Strategies in Latin America

As regards business strategies in recent and future years, the companies participating in the survey indicated that their investments are mostly linked to the expansion of existing capacities (eight responses), followed by greenfield investment (four) and the acquisition of existing entities (three). There has been less investment in the privatization of state companies (one). The responses vary from one industry to another (see Boxes 11.1– 11.3).

The most important factor in determining investment is the local market. The MERCOSUR markets are also seen as a target for setting up local capacity. In general, exports to Europe or the United States are not an incentive to invest in local production capacities. Mexico, however, is an important exception in this regard (see Table 11.1).

Box 11.2. Holcim

Formerly known as “Holderbank” Financière Glaris Ltd., Holcim is one of the world’s biggest cement companies. Founded in 1912, the Swiss-based group is active in more than 70 countries on all continents. It owns 112 cement plants and grinding stations, 240 quarries, gravel and sand operations, as well as 722 concrete facilities. Total net sales rose 15 percent in 2000 to \$8.3 billion, while sales in Latin America grew by 30 percent to \$2.2 billion. The region is important for the group, accounting for almost 27 percent of consolidated net sales. In Latin America, Holcim’s activities currently span 17 countries, reflecting a unique regional network. Strategic positioning started in the 1950s when the group recognized the development potential of Latin American construction markets and began investing in local cement companies.

2000 Consolidated Results	Total	Latin America	Share (%)
Production (cement/clinker, millions of tons)	82.0	19.3	24
Aggregates (millions of tons)	86.6	12.5	15
Concrete (millions of cubic meters)	24.9	7.2	29
Net sales (US\$ billion)	8.3	2.2	27
Operating profit (US\$ billion)	1.2	0.5	42

Source: Holcim Website

In the last five years Holcim has carried out significant acquisition and expansion activities in Latin America. In Central America, it strengthened its presence with the acquisitions of minority stakes in Honduras and El Salvador, and acquired a majority stake in Nicaragua. The commissioning of a production unit in the Dominican Republic and acquisition of five import terminals in the Caribbean further consolidated the company’s presence in the subregion. More recently, Holcim acquired a 20 percent stake in Guatemala’s Cementos Progreso as part of a strategic cooperation agreement, and signed an agreement in 2000 to purchase Panama’s INCEM through a joint venture with Cementos del Caribe, a member of the Colombian Argos Group. Capacity expansion came on stream in Argentina and in Brazil in the last 12 months, and is under way in Mexico and Chile. While strategic management is centralized, the corporate principles take account of a country’s specific economic conditions, allowing the group’s business units to operate with strong local attributes. Active involvement by local shareholders and a flexible choice of investment models underpin this approach, positioning Holcim close to its customer base and ensuring adaptability to different markets.

Box 11.3. Nestlé

Nestlé's first sales in Latin America date back to the nineteenth century when the founder, Henry Nestlé, started to export his new invention, the baby cereal Cerelac, from Switzerland. The group was one of the first to invest in the region, and this year will mark the eightieth anniversary of its industrial presence. The first factory producing condensed milk for local consumption (in Araras, Brazil) was opened in 1921.

Nestlé has been expanding its production and sales of brand food ever since, and the company now ranks first in the production of processed food in Brazil, Mexico and Chile. It has persevered with production in the region despite adverse conditions at times of economic and financial crises and political turmoil. During the depression of the 1930s, Nestlé developed a new product in Brazil, soluble coffee, to help overcome the slump in coffee sales. The first Nescafé reached the market in 1938. It opened up new markets for coffee and made Nestlé the leading buyer of green coffee in Latin America, Africa and Asia.

In 2000 Nestlé's sales in Latin America reached \$6.8 billion, accounting for 22 percent of the company's global income. The firm operates 79 factories in 19 countries throughout the region and has sales organizations in virtually all the countries of the hemisphere. In 2000 the company paid \$1 billion in salaries to local staff and spent \$2.4 billion on purchasing raw materials and packaging (to a large extent bought locally). A similar amount was spent on purchasing services and on amortization for investment, and some \$500 million were paid in taxes. Production is destined for the local markets.

According to the company's management, the Nestlé Group is committed to Latin America and is optimistic about its future in the region (sales underwent real growth of 6 percent in the region during 2000) and will continue to invest there. The company sees new opportunities developing with further economic openings at the subregional level. This would lead to greater local sourcing as the smaller markets expand and develop faster, and as local production in certain product groups becomes possible because of higher consumption in the larger markets.

Overall, exports to Latin American markets are important, although to a somewhat lesser degree.

According to the respondents, in most cases investment operations are carried out directly in the host country by the company itself. There are some cases in which operations are effected through holding companies and, to a lesser degree, through joint ventures. Local companies are often subcontracted by the investor.

Key Factors of Investment Decisions

The survey indicates that the size and growth of the market are the main determinants of investment decisions (see Table 11.2). Macroeconomic stability is another important factor. In general, regional integration is not seen as a key factor, although Mexico's NAFTA membership is an exception (four positive and two negative responses). About 75 percent of the surveyed investors in Mexico also produce for exports to the United States and Canada (see Table 11.1). Access to markets, particularly if these are large, can be an important determinant of investment.

Table 11.1. Motives for Investment by Swiss Companies in Latin America

	Arg	Brazil	Chile	Col	Mexico	Ven	Total
Local market	7	9	3	1	8	2	30
Market of integration grouping: MERCOSUR	5	6	2	0	0	0	13
Market of integration grouping: Andean Community	1	2	0	1	0	0	4
Market of integration grouping: CACM	1	2	0	0	3	0	6
Market of integration grouping: CARICOM	1	2	0	0	1	1	5
Exports to: Latin America	2	3	1	1	3	0	10
Exports to: Europe	0	2	0	0	3	0	5
Exports to: United States and Canada	1	1	0	0	6	1	9
Exports to: Other destinations	0	1	1	0	1	0	3

Note: Based on responses to Question 7 of the IDB survey: "Your investment generates production/services for (countries where major investments are located)."

Table 11.2. Key Factors of Swiss Firms Deciding to Invest in Latin America and the Caribbean

		Arg	Brazil	Chile	Col	Mexico	Ven	Total
Total responses		7	9	3	1	8	2	30
Macroeconomic stability	Yes	2	5	2	1	4	1	15
	No	1	0	0	0	0	0	1
Political and social stability	Yes	1	4	0	1	3	0	9
	No	2	1	2	0	1	1	7
Foreign investment legislation	Yes	0	2	0	0	2	0	4
	No	3	3	2	1	2	1	12
Local tax incentives/subsidies	Yes	0	0	0	0	0	0	0
	No	3	5	2	1	4	1	16
Low cost of manpower	Yes	1	2	1	1	3	0	8
	No	2	3	1	0	1	1	8
Availability of skilled manpower	Yes	1	3	0	1	2	0	7
	No	2	2	2	0	2	1	9
Quality of infrastructure	Yes	0	2	0	0	2	0	4
	No	3	3	2	1	2	1	12
Availability of raw materials	Yes	0	2	0	0	2	0	4
	No	3	3	2	1	2	1	12
Agricultural production potential	Yes	1	1	0	1	1	0	4
	No	2	4	2	0	3	1	12
Size of market	Yes	4	9	1	1	8	1	24
	No	1	0	1	0	0	0	2
Growth of market	Yes	4	8	3	1	7	1	24
	No	1	0	0	0	0	0	1
Host country being member of integration grouping	Yes	0	0	0	0	4	0	4
	No	3	5	2	1	2	1	14
Achieving efficiency gains in context of your company's global production/marketing strategy	Yes	2	5	1	0	4	1	13
	No	2	3	1	1	2	0	9

Note: Based on Question 6 of the IDB survey: "Indicate the importance of each of the factors presented below in your decision to invest in Latin America and the Caribbean."

Foreign investment legislation and local tax incentives or subsidies do not seem to play a significant role in investment decisions. Mixed results are noted for low labor costs (eight positive and eight negative responses), the availability of skilled manpower (seven positive and nine negative), and securing efficiency gains in the context of the companies' global production and marketing strategies (thirteen positive and nine negative). These mixed results may spring from branch-specific causes. The same might be the case for the availability of raw materials and agricultural production potential, which are not indicated as key factors for investment decisions (four positive and twelve negative responses).

Major Obstacles to FDI in Latin America and the Caribbean

According to the respondents, political instability is a major obstacle to investment in Latin America. Hence the efforts made in many countries of the region to strengthen political stability in recent years has helped lower the barriers to investment. Legal and judicial insecurity, as well as corruption, also rank high on the list of obstacles, as do social problems and poverty. The level of local taxation, on the other hand is viewed as less important (see Table 11.3).

Overall, devaluation and problems in repatriating profits and capital are seen as important obstacles (in the medium to high range). Local regulation and administrative procedures are also viewed as significant (medium). The lack of qualified human resources is seen as a low to medium obstacle for investment, as is labor legislation.

Table 11.3. Major Obstacles for Investing in Latin America

	No	Low	Medium	High	Top	Mean Score ^a
Local regulation and bureaucracy	0	2	3	1	0	27.5
Political instability	0	2	3	2	1	45.0
Legal/judicial insecurity	1	0	4	1	1	37.5
Social problems/poverty	0	2	3	0	1	30.0
Violence	1	2	2	1	0	22.5
Corruption	1	1	3	2	0	32.5
Cultural differences	1	4	1	0	0	15.0
Fear of devaluation	1	5	1	2	0	32.5
Problems with repatriation of profits/capital	0	3	2	2	0	32.5
Undeveloped infrastructure	0	3	2	1	0	25.0
Undeveloped local capital markets	1	3	2	0	0	17.5
Lack of qualified human resources	0	2	5	0	0	30.0
Level of local taxation	1	1	4	0	0	22.5
Labor legislation	0	2	3	1	0	27.5
Local safety, health and environmental standards	1	3	1	0	0	12.5
Other (specified by respondent)	0	0	0	0	1	10.0
Size of markets						

^a Refers to the mean score of the given responses, assigning the following values to the scores: non-responses and no=0, low=25, medium=50, high=75, top=100.

Note: Based on Question 9 of the IDB survey: "According to your experience, the major obstacles for investing in Latin America and the Caribbean are..."

Conclusion

Swiss FDI stock and flows to Latin America increased substantially during the 1990s. FDI stock stood at \$25.4 billion in 1999 (up from \$20.6 billion in 1995) and FDI flows reached \$6.3 billion in 2000 (up from \$159 million in 1995). Latin America and the Caribbean undoubtedly represent a very important destination for Swiss investors, comparable to Asia. A large part of Swiss investments in the region are destined to offshore centers.

The main motive for Swiss FDI in Latin America is to supply local markets and, to a lesser degree, to produce exports to other Latin American countries. In the case of Mexico, exports to NAFTA markets are a very important factor. As shown by the survey of Swiss companies, most direct investment is linked to the expansion of existing capacity and, to a lesser degree, to greenfield investment. The key determinants for Swiss investors are the size and growth of local markets and macroeconomic stability.

Major obstacles to Swiss investment in Latin America include political instability, as well as legal and judicial instability. Other aspects of public affairs can dissuade investors, such as corruption or local regulation and bureaucracy.

Subregional integration and cooperation can enhance stability and facilitate investments. About a quarter of Swiss investors have recently set up a new business in Latin America. This can be taken as an indication of the potential number of Swiss companies that are prepared to invest in the region and to join other Swiss firms that began to invest there a century ago.

Many national markets in the region are insufficiently large to attract FDI and induce the establishment of production and service capacities for local demand, although a policy of trade and investment liberalization could help lessen this disadvantage. Plans to establish the Free Trade Area of the Americas (FTAA) by 2005 are seen as a significant step in this direction. For smaller Swiss multinational companies with a high degree of specialization in a particular market segment, the establishment of service or production capacities will only be rational if these capacities can be used to serve enlarged markets. Similarly, for large-scale production sites, national markets are often too small to absorb large production volumes. Subregional and regional integration would change this since larger markets could be served by bigger production units. Furthermore, production and service capacities that could serve several national markets without barriers would reduce the impact of short-term cycles in a single economy. This would reduce the risk exposure to FDI and could be important in Latin America, where many economies repeatedly undergo marked cycles. In the long run, regional integration has the potential to attract investment from Swiss companies that are not yet active in the region.

Swiss investors see some aspects of foreign investment legislation as particularly important. The efforts made by many Latin American countries in the areas of investment protection, market access, double taxation treaties, transfer pricing rules and the protection of intellectual property have undoubtedly motivated Swiss investors to set up local business activities. Further progress in such areas would have a positive effect in attracting additional investment.

NOTES

- ¹ It should be noted that there are no detailed data on Swiss FDI abroad for the period before 1993. Investments of less than 10 million Swiss francs (around \$7 million) are not covered in the statistics of the Swiss National Bank. This is important, since many Swiss SMEs have investments overseas.
- ² According to the published FDI statistics of the Swiss National Bank the category of developing countries comprises China, Colombia, Costa Rica, Ecuador, Egypt, Guatemala, India, Indonesia, Côte d'Ivoire, Lebanon, Morocco, Nigeria, Pakistan, Peru, Saudi Arabia, United Arab Emirates, Uruguay, Venezuela and Vietnam. Classified as emerging countries are Argentina, Brazil, Chile, Hong Kong (China), Malaysia, Mexico, Philippines, Republic of Korea, Singapore, Taiwan (China), and Thailand.
- ³ According to Eurostat, offshore financial centers comprise the following countries and territories: Bahamas, Barbados, Bermuda, British Virgin Islands, Jamaica, Cayman Islands, Montserrat, Netherlands Antilles, Panama and Saint Kitts and Nevis.
- ⁴ In Swiss francs, stock in Mexico rose by 272 percent and in Brazil by 15 percent.

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ANNEX A

Foreign Direct Investment Statistics: A Methodological Note

Georg Saul *

Introduction

Direct investment statistics presented in this book provide detailed flow and stock statistics for outward foreign direct investment (FDI) based on data from central banks and statistical agencies in European countries, the United States and Japan. The data are presented for these two categories of FDI by geographical distribution, comprising destination countries and regional integration groupings in Latin America.

It should be noted that FDI statistics suffer from several limitations. The methods and criteria used to register and monitor FDI operations differ between countries. These discrepancies essentially stem from four factors. First, the definition of what actually constitutes FDI varies from country to country. Second, the items included in national FDI statistics also vary. Third, the systems for compiling figures differ, making it possible only to calculate certain types of FDI, or different timeframes are used when recording FDI. Finally, national statistics might not reflect the real final destination of FDI. Differences in FDI definitions, measurement and recording methods limit the quality and evidence of FDI statistics, and can lead to misinterpretations of the data.¹

Methodological guidelines for recording and reporting FDI statistics are specified in the IMF *Balance of Payments Manual*, fifth edition, and the OECD *Benchmark Definition of Foreign Direct Investment*, third edition. In 1997 the IMF and the OECD conducted a joint survey to discover the extent to which countries have adopted the recommendations on FDI statistics made in the *Manual* and the *Benchmark Definition*, as well as to secure standardized information on data sources, collection methods and dissemination practices. The results of this survey for about 100 countries can be found in the *Report on the Survey of Implementation of Methodological Standards for Direct Investment* (IMF/OECD, March 2000). In the last decade the OECD countries, which constitute the main source of FDI, have made significant efforts to improve the methodology and enhance consistency in recording and reporting FDI statistics. The statistical requirements of the European Union made a particular contribution to these efforts. Despite significant improvement in the comparability of FDI statistics, further efforts are needed to secure greater international consistency.

Defining FDI

For the purposes of methodological clarification it is important to note that, in general, the greater part of foreign investment consists of direct investment and portfolio investment. The

main determinant of the type of investment is the motivation of the investor. FDI is the manifestation of a foreign investor's lasting interest in an enterprise in which the investor can achieve a significant degree of management influence.

The IMF and the OECD are the main sources for guidelines on the definition of FDI and the procedures that should be used to measure it. The fifth (1993) edition of the IMF's *Balance of Payments Manual* (BOPM5) and the third (1996) edition of the *Detailed Benchmark Definition of Foreign Direct Investment* (BD3) contain the most widely used definitions of FDI.

In general, FDI refers to the category of international investment made by an incorporated or unincorporated resident entity in one country with a lasting interest in an enterprise in another country (the resident entity is the direct investor and the enterprise is the direct investment enterprise). A lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and that the investor has a significant degree of influence on its management. Direct investment comprises not only the initial transactions establishing the relationship between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated.

The most important feature in defining FDI is the investor's relative degree of influence on management. Usually, the investor attains an effective voice in the management of a direct investment enterprise through a lasting interest. In the IMF *Balance of Payments Manual* (1993), lasting interest is defined as ownership of 10 percent of the equity of a direct investment enterprise. In practice this might not be the case, since an investor could own more than 10% without having a lasting influence on management, or own less than 10 percent and have effective decision-making powers. Some countries adopt a flexible attitude to the 10 percent minimum stake.

The definition distinguishes between three types of foreign investment companies. Affiliates are defined as companies in which the direct investor has a stake of more than 50 percent; associated companies are those where the stake is between 10 percent and 50 percent; and branches are those companies that are fully or partially owned by the parent company. FDI also includes the stake held indirectly by the direct investor in affiliates of the direct investment company. A number of countries do not include this latter type of FDI, and hence there is a likelihood of underestimating total FDI flows and reinvested assets.

Measurement of FDI Statistics

FDI statistics are acquired from three main sources of data collection: the international transactions reporting system; enterprise surveys; and investment notifications and approvals (IMF 1995).

Statistics based on data from an international transaction reporting system normally cover only flows of equity capital that are registered by settlements. Much of the necessary information is available in banking records. However, non-cash transactions (such as those involving reinvested earnings, equity in the form of machinery, and inter-company debts) are

not reflected in these figures. This is because, unlike flows of equity capital, these movements do not involve transactions that are recorded in the registers of the central bank.

Most countries use a combination of data collection systems when compiling their FDI statistics. Those countries that base their balance of payments statistics on an international transactions reporting system often supplement the information with declarations from enterprises and/or information from annual enterprise surveys.

The main purpose of surveys is to collate detailed information on the financial and operational data of direct investors. Company surveys supply the most complete record of FDI transactions and stock data. They also provide information on other economic activities relating to FDI, such as sales (domestic and foreign), earnings, employment, and the value added contribution of foreign affiliates. Most countries with significant FDI flows use company surveys to acquire information on the different dimensions of foreign investment.

Data on investment approvals/notifications are collected by government agencies in line with national regulations on FDI. The approvals/notifications system is rarely set up according to balance of payments requirements. In general, reinvested earnings, inter-company loans and liquidations of investment are not recorded.

The countries analyzed in this study generally use figures on international transactions and/or company surveys to compile FDI statistics. Japan and Spain also provide investment data based on approvals and notifications. These contain more detailed information by economic sector and geographical destination, but they are not directly comparable with the balance of payments data.

Geographical Distribution of FDI

The interpretation of FDI statistics is further complicated by the geographical destination of the investment. In practice, FDI statistics do not always reflect the final destination country. If foreign investment is channeled through a holding company which is itself a subsidiary of the direct investor, then the total investment may be assigned to the country in which the subsidiary is based rather than to its final destination.

An accurate geographical distribution of FDI flows or stock data is particularly difficult to identify in the case of FDI channeled via Special Purpose Entities (SPEs). These include holding companies, corporations in offshore centers, financial affiliates, regional headquarters, and so forth. These entities are usually located in offshore centers with relatively low tax rates, high levels of banking and commercial confidentiality, no exchange control, and no obligation to provide financial statements to regulatory or statistical authorities (see below the geographical listing of offshore centers in Latin America and the Caribbean).

A significant proportion of FDI flows to Latin America from a number of investor countries goes to offshore centers in Latin America and the Caribbean. For example, when a company from an OECD country transfers funds to an offshore center such as the Bahamas, the investment is registered as going to the Bahamas even though the final destination might be a country in Latin America. When interpreting the data presented in this study, it should be

kept in mind that the final destination of FDI flows to offshore centers in Latin America and the Caribbean might also be a country outside the region.

FDI Data Sources and Processing

The statistics presented in this book generally relate to balance of payments figures provided directly by central banks or relevant statistical agencies (see the listing below). Missing information has been covered by using statistics from Eurostat and the OECD. Some of the more specific analyses in the country chapters also rely on statistics disseminated by other institutions such as Spain's Ministry of Economy and Finance, which registers data on notifications. Data from regional or international organizations such as ECLAC or UNCTAD, which report data on inward FDI to destination countries, were also used.

Data Source			
Country	Organization	Updates	Content
Austria	<i>Österreichische Nationalbank</i> – Austrian National Bank	1997-1999	Flows, stocks
Belgium	<i>Banque Nationale de Belgique</i> – National Bank of Belgium	1997-1999	Flows
Canada	OECD - DCD (Development Cooperation Directorate)	1990-1999	Flows
Denmark	<i>Danmarks Nationalbank</i> – Denmark's National Bank	1997-1999	Flows, stocks
Finland	<i>Suomen Pankki</i> – Bank of Finland	1997-1999	Flows, stocks
France	<i>Banque de France</i> – Bank of France	1996-1999	Flows, stocks
Germany	<i>Deutsche Bundesbank</i> – German Federal Bank	1995-1999	Flows, stocks
Italy	<i>Ufficio Italiano dei Cambi</i> – Italian Exchange Office	1997-1999	Flows, stocks
Japan	Bank of Japan	1997-1999	Flows, stocks
Netherlands	<i>De Nederlandsche Bank</i> – Bank of the Netherlands	1995-1999	Flows, stocks
Norway	<i>Norges Bank</i> – Bank of Norway	1990-1999	Flows, stocks
Portugal	<i>Banco de Portugal</i> – Bank of Portugal	1996-1999	Flows, stocks
Spain	<i>Banco de España</i> – Bank of Spain	1997-1999	Flows
Sweden	<i>Sveriges Riksbank</i> – Bank of Sweden	1995-1999	Flows, stocks
Switzerland	<i>Schweizerische Nationalbank</i> – Swiss National Bank	1996-1999	Flows, stocks
United Kingdom	Office for National Statistics	1996-1999	Flows, stocks
United States	U.S. Department of Commerce/Bureau of Economic Analysis	1995-1999	Flows, stocks

The data were processed in a number of steps. Flow data were: (a) harmonized using a uniform geographical breakdown; (b) converted from national currencies into United States dollars using the average IMF exchange rate for the period; and (c) values for country groups were aggregated. Furthermore, a range of outward FDI stock statistics was prepared to complete the data on FDI outflows. The stock data were converted into United States dollars using IMF end-of-year exchange rates.

Net Values of FDI

Data in this study refer to net values of FDI abroad. In the balance of payments, FDI is treated on an asset-liability base, an asset for the economy of the direct investor and a liability for the economy of the direct investment enterprise. This is not complete, however, since the direct investor and the direct investment enterprise have claims on and/or liabilities to each other, mainly in the form of reverse flows and cross participation. FDI therefore is recorded

separately for assets and liabilities. Net FDI abroad includes the assets and liabilities of the direct investor from the reporting country with the direct investment enterprise of the host country (net outward FDI). Net FDI in the reporting economy includes the assets and liabilities of the direct investor enterprises from the reporting country with the direct investor of the home country (net inward FDI). In this sense, disinvestment (when the direct investor sells his share of the direct investor enterprise) is treated as a liability of the direct investor to the direct investment enterprise.

FDI Flows and Stocks

FDI flows comprise capital provided by the direct investor of the country of origin to the enterprise in the destination country (host country); also included are reverse flows, received by the direct investor in the country of origin (home country). FDI flows consist of three components: equity capital, reinvested earnings and intra-company debt. However, not all countries include all these items in their statistics.

Equity capital includes outflows of capital that occur when a direct investor company increases its investment in any of its existing foreign affiliates or makes a new investment in a foreign company, either by acquiring an existing business or by establishing a new one.

Reinvested earnings refer to the direct investor's participation in the undistributed profits of its foreign affiliates. They are calculated after corporate tax has been deducted from total earnings and represent the difference between the direct investor's share of its affiliate's current earnings and the dividends paid by the affiliate to its parent company. One of the most common difficulties in any attempt to measure FDI is the lack of information on reinvested earnings.

Inter-company debt transactions take place when an affiliate receives a loan from the parent company, or when the direct investor receives a loan from its affiliate.

It should be noted that investment flow figures do not give a complete picture of FDI in an economy. Generally, FDI flow data do not include capital that is raised locally for financing investment projects. Furthermore, FDI flows are often highly volatile. The volume of FDI flows can vary substantially from year to year. These fluctuations may be attributed to exceptional one-off investments, which have a considerable impact on annual FDI flow figures.

It is also noteworthy that the information presented here on FDI net outflows differs from the data on FDI inflows recorded by recipient countries. Figures for FDI outflows registered in the countries of origin of FDI, and figures for FDI inflows registered by recipient countries of FDI, are not directly comparable. In general, data on outflows underestimate the volume of FDI flows, since they include neither flows passing through offshore centers nor intra-regional investment flows.

FDI stock data generally provide a better indication of the geographic and sectoral distribution of FDI. They also include historical FDI. Information on stock is normally obtained from company surveys. The information registered in surveys includes the total

value of assets attributable to foreign ownership at a given time. FDI stocks include the following components: the value of shares and reserves attributed to the direct investor, plus short- and long-term loans, trade credit, debt securities and dividends that have been declared but not yet paid to the direct investor (OECD 1996).

The IMF and the OECD recommend that stocks be valued at market prices at the recording dates. However, FDI stock data is generally based on the balance sheets of the direct investment enterprises that could be measured on a historical cost basis. If historical cost-based values are used, stock figures do not conform to the international recommendations and it might be difficult to make comparisons between stock data from several countries.

Most OECD countries report the totality of FDI stock data in figures on the “International Investment Position”. However, several countries do not provide FDI stock figures on a more detailed level, namely by a geographical breakdown and/or one by economic sector.

Rounding-up of Figures

Most data are expressed in units of millions. Because of the calculation methods used, rounding differences may appear between an aggregate and the sum of its components.

Data Conversion

To facilitate comparisons between countries, all data are expressed in United States dollars. Data from central banks have been converted from national currencies into United States dollars using average annual exchange rates in the case of FDI flows, and end-of-period values for FDI stock figures, as given in the IMF’s *International Financial Statistics*.

Sign Conventions

A dash (–) means that data are either not available, have been suppressed for confidentiality purposes, are zero or are insignificant.

A zero value (0) indicates that the amount is less than half the minimum value reported, but more than zero.

Negative values refer to disinvestment: such as the liquidation of capital that the direct investor had invested in the host country, as well as to reverse flows from the direct investment company to the direct investor.

Geographical Classifications

Andean Community:	Bolivia, Colombia, Ecuador, Peru and Venezuela.
Central America:	Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
The European Union:	Here, the EU includes Austria, Belgium (with Luxembourg), Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Ireland and Greece do not report FDI flows broken down by host country.
Europe:	The EU, Switzerland and Norway.
Latin America/Caribbean:	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
MERCOSUR:	Argentina, Brazil, Paraguay and Uruguay.
Offshore Centers:	Anguilla, the Bahamas, Barbados, Bermuda, the Cayman Islands, the Netherlands Antilles, Panama, St. Vincent and the Grenadines, the Turks and Caicos Islands and the British Virgin Islands. This classification may differ from that used by other international organizations.
Other Flows:	Antigua and Barbuda, Aruba, Belize, Cuba, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and unspecified or unallocated flows to the region.

NOTE

¹ This note draws in part on the chapter "FDI Statistics: Methodological Issues" in IDB/IRELA, *Foreign Direct Investment in Latin America: The Perspectives of the Major Investors* (Madrid: IDB/IRELA 1998).

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ANNEX B

Survey Report

In autumn 2000 the Special Office in Europe of the Inter-American Development Bank (IDB-SOE) launched a survey on *Investment Strategies of European Companies in Latin America and the Caribbean*. The survey was carried out by means of a questionnaire that was distributed in the October 2000-March 2001 period in eight European countries. It targeted resident enterprises in Europe that have already undertaken—or plan to undertake—direct investments in Latin America and the Caribbean. Its main objective was to obtain basic information on these enterprises' investments and strategies in the region, with a view to supplementing the available official data on FDI flows and stocks. The survey was not intended as the sole or main element of an analysis of the investment strategies of enterprises investing in the region, but rather as a source of additional, qualitative information.

The questionnaire was distributed in France, Germany, Italy, the Netherlands, Portugal, Spain, Switzerland and the United Kingdom. Dissemination was effected through various national institutions, such as chambers of commerce or industry, associations of enterprises and export promotion institutes. The original English form was translated into French, German, Italian, Spanish and Portuguese to facilitate comprehension, ensure a higher response rate, and contribute to the quality of responses.

The survey is basically qualitative and focuses on the following: (a) the size and structure of European companies that invest in Latin America and the Caribbean; (b) the perception of the region as a whole and of countries in it as an investment location in the past and in the future; (c) the factors and obstacles that affect investment decisions by European companies; and (d) the modalities of investments carried out. The three-page survey was prepared as a multiple-choice questionnaire containing 14 questions distributed in 10 blocks, with a maximum of 536 variables (the survey is presented at the end of this annex).

A working procedure was established to ensure the anonymity and confidentiality of the data. Responses were collected by IDB-SOE. After separating the questionnaire from the cover sheet that included the name and address of the company, a database of responses was created. The database contains information on enterprises from the eight European countries, on total responses, and on responses from "large companies". These include companies with annual sales/turnover of more than \$1 billion. Of the total of 270 responses received, 25 were excluded from the analysis. These were generally incomplete responses or responses from companies that do not invest in Latin America and the Caribbean. The responses included 66 "large companies" and 8 banks. A review of the names of the respondents from the questionnaire cover sheets showed that responses came from 17 (37 percent) of the 46 European companies that were among the leading 100 companies in terms of consolidated sales in Latin America in 1998 (see Table 3.10 in the chapter by John H. Dunning). Those 17 companies account for 46.5 percent of the total sales of the 46 European companies in the region (\$69.36 billion out of the total of \$149.2 billion).

Distribution of Responses										
	Fra.	Ger.	Italy	Neth.	Port.	Spain	Switz.	UK	Total	<i>Of which are large companies</i>
Total responses	33	24	16	37	20	110	10	20	270	66
Valid responses	31	20	11	33	18	107	10	15	245	
Responses from banks	1	2			2		1	2	8	6
<i>Of which are large companies</i>	12	17	2	8	3	11	7	6	66	

It should be noted that the results of the survey are not statistically representative, and that estimates of the magnitude of errors cannot be given. The response rates for France and Spain are estimated at between 3 and 4 percent. For Germany, the Netherlands, and the United Kingdom the response rate was between 11 and 12 percent, while the rates for Switzerland and Portugal are above 30 percent. Information for Italy was incomplete. The limited reliability of the survey can be attributed to the selection of samples from different national institutions with different criteria for preparing the sample. The national samples may contain imperfections in the coverage of the population included in the survey. Imperfections can stem from under-coverage, meaning that there are companies that should have been included in the sample but were not; or from over-coverage, meaning that certain companies should have been excluded from the survey but were nevertheless included. This might explain the marked differences in the number of responses between countries. In illustration, the number of responses in the case of the United Kingdom and Portugal are the same (20), despite the fact that the United Kingdom has more companies investing in the region and a higher level of investment activities. The results of the questionnaire at the national level have not been reproduced in their entirety. In their analyses in the country chapters, authors have presented only a selection of the responses deemed representative and pertinent. The detailed results of the survey at the national level can be made available to interested readers.

In view of these shortcomings, the results of the survey have not been used for quantitative analysis but, as already mentioned, exclusively as supplementary, qualitative information. Moreover, because of the low level of response from Italy and the United Kingdom, the results of the survey for these two countries were not presented at the national level. It should be noted, however, that the large Italian and British companies that completed the survey were included in the analysis of the "large companies". In the case of Switzerland the questionnaire results were analyzed, with all the necessary caveats, since practically all the responses came from large companies that represent the greater part of Swiss investments in Latin America. As for Portugal, given the relatively smaller number of companies that invest in the region and the corresponding size of the sample to which the questionnaire was distributed, and in view of the high response rate, the results of the survey (with the caveats mentioned) were taken into account. For Germany, the results of the survey were presented for large companies only.

To secure an indication of the results of the survey at the European level, the responses of the large companies—a total of 66, defined as above—were selected from the responses at the national level and subsequently aggregated. The analysis gave preference to this sample over total responses, the main reason being that large companies are responsible for the bulk of direct investments in Latin America. Again, it should be pointed out that only a limited qualitative analysis was undertaken. It focused mainly on the questions in the survey that relate to the determinants and obstacles to investment in Latin America. The aggregated responses of the large companies are presented in Annex 3.2 to John Dunning's chapter.

INVESTMENT STRATEGIES OF EUROPEAN COMPANIES IN LATIN AMERICA AND THE CARIBBEAN

Please mark here if your company is a bank: ☐

Q 1a	Total annual sales/turnover of your company in millions of US\$:			
	Less than 50 <input type="checkbox"/>	50 - 1,000 <input type="checkbox"/>	1,000 - 10,000 <input type="checkbox"/>	More than 10,000 <input type="checkbox"/>
Q 1b	Total number of employees of your company:			
	Less than 250 <input type="checkbox"/>	251 - 1,000 <input type="checkbox"/>	1,001 - 10,000 <input type="checkbox"/>	More than 10,000 <input type="checkbox"/>

Q 2	What is the share of your company's sales/turnover in Latin America and the Caribbean in your overall sales/turnover outside of Europe?			
	Less than 5% <input type="checkbox"/>	5-20% <input type="checkbox"/>	20-50% <input type="checkbox"/>	More than 50% <input type="checkbox"/>

Q 3a	Indicate the importance of Latin America and the Caribbean, and of other world regions presented below, as strategic investment locations:									
	Past five years					Future five years				
	No	low	med.	high	top	no	low	med.	high	top
Latin America and the Caribbean	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Central and Eastern Europe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
South and South-East Asia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Near and Middle East	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Africa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q 3b	Of the countries and integration groupings below, indicate the importance of each as a strategic investment location within Latin America and the Caribbean:									
	Past five years					Future five years				
	No	low	med.	high	top	no	low	med.	high	top
Mexico	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Central American countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Caribbean countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Venezuela	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Colombia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Peru	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Andean Community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Brazil	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Argentina	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MERCOSUR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Offshore centers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q 4	Your investments carried out in the past, and those to be carried out in the future, can be linked to:	
	Past	Future
Privatization of a state entity	<input type="checkbox"/>	<input type="checkbox"/>
Acquisition of an existing private entity	<input type="checkbox"/>	<input type="checkbox"/>
New investment (greenfield)	<input type="checkbox"/>	<input type="checkbox"/>
Expansion of already existing capacities	<input type="checkbox"/>	<input type="checkbox"/>

Q 5 Your company's investments in Latin America and the Caribbean by sector of activity:			
Primary		Services	
Agriculture and Fishing	<input type="checkbox"/>	Utilities	<input type="checkbox"/>
Mining	<input type="checkbox"/>	Electricity	<input type="checkbox"/>
Oil extraction	<input type="checkbox"/>	Gas	<input type="checkbox"/>
Gas extraction	<input type="checkbox"/>	Water	<input type="checkbox"/>
Manufacturing		Construction	<input type="checkbox"/>
Food and tobacco	<input type="checkbox"/>	Trade (distribution)	<input type="checkbox"/>
Textiles	<input type="checkbox"/>	Tourism (hotels and restaurants)	<input type="checkbox"/>
Wood	<input type="checkbox"/>	Transport	<input type="checkbox"/>
Chemicals and Rubber	<input type="checkbox"/>	Telecommunications	<input type="checkbox"/>
Pharmaceuticals	<input type="checkbox"/>	Financial intermediation	<input type="checkbox"/>
Metal and mechanical products	<input type="checkbox"/>	Banking	<input type="checkbox"/>
Office machinery and computers	<input type="checkbox"/>	Insurance	<input type="checkbox"/>
Radio, TV and communication equipment	<input type="checkbox"/>	Real estate and business activities	<input type="checkbox"/>
Vehicles and other transport equipment	<input type="checkbox"/>	Other services	<input type="checkbox"/>
Miscellaneous manufacturing	<input type="checkbox"/>	Multi-media, audiovisual and publishing	<input type="checkbox"/>

Q 6 Indicate the importance of each of the factors presented below in your decision to invest in Latin America and the Caribbean:									
Indicate the countries where your major investments are located		.....		.....		.....		.....
		yes	no	yes	no	yes	no	yes	no
Macroeconomic stability		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Political and social stability		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Foreign investment legislation		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local tax incentives/subsidies		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Low cost of manpower		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of skilled manpower		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality of infrastructure		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of raw materials		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agricultural production potential		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Size of market		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Growth of market		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Host country being member of integration grouping		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Achieving efficiency gains in context of your company's global production/marketing strategy		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q 7 Your investment generates production/services for:				
Countries where your major investments are located (as in Q 6)	.....	.....	.....	.....
Local market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market of integration grouping:				
MERCOSUR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Andean Community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Central American Common Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Caribbean Community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Exports to:				
Latin America	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Europe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
USA and Canada	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other destinations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q 8a	Your investment operations are in most cases carried out:				
Countries where your major investments are located (as in Q 6)	.....	.....	.....	.....	.....
Directly in host country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Through a third country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Through an offshore center	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q 8b	Your investment operations are in most cases carried out:				
<u>On your own</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Through a joint-venture:</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
With a local company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
With another European company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Through a holding company</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q 8c	During your investment operations, do you subcontract a:				
Company from your company's country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SME from your company's country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local SME	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
No subcontracting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Other (please specify)</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q 9	According to your experience, the major obstacles for investing in Latin America and the Caribbean are:					
	no	low	medium	high	top	
Local regulation and bureaucracy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Political instability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Legal/judicial insecurity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Social problems/poverty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Violence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corruption	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cultural differences	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fear of devaluation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Problems with repatriation of profits/capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Undeveloped infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Undeveloped local capital markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of qualified human resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Level of local taxation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labor legislation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local safety, health and environmental standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Other (please specify)</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q 10	During your investment operations, did you make use of the services or financing support from the following institutions?			
<u>National Institutions</u>		<u>International Institutions</u>		
Chamber or industry association	<input type="checkbox"/>	European Union	<input type="checkbox"/>	
Investment insurance agency	<input type="checkbox"/>	World Bank	<input type="checkbox"/>	
Commercial bank(s)	<input type="checkbox"/>	Inter-American Development Bank	<input type="checkbox"/>	
Investment bank(s)	<input type="checkbox"/>	<u>Other (please specify)</u>	<input type="checkbox"/>	
Credit rating agency	<input type="checkbox"/>	<input type="checkbox"/>	

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STATISTICAL ANNEX

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Note: Geographical classifications are presented in Annex A.

Table 1. FDI Flows from Austria to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	—	1	6	—	5	2	13	11
Bolivia	—	—	—	—	—	—	—	—
Brazil	—	5	31	19	1	38	69	29
Chile	—	—	0	0	1	—	1	—
Colombia	—	0	0	—	—	-1	-1	—
Costa Rica	—	—	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	—	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—	—	—
Mexico	—	—	3	0	0	1	10	1
Nicaragua	—	—	—	—	—	—	—	—
Paraguay	—	—	0	—	—	1	—	—
Peru	—	—	—	—	—	—	—	—
Suriname	—	—	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—	—	—
Uruguay	—	—	0	—	—	1	-1	—
Venezuela	—	0	0	—	—	—	—	-1
Latin America/Caribbean	—	6	40	20	7	42	92	39
<i>Andean Community</i>	—	0	-1	—	—	-1	-1	-1
<i>Central America</i>	—	—	—	—	—	—	—	—
<i>MERCOSUR</i>	—	5	38	19	6	42	82	39
Offshore Centers	—	—	—	—	—	—	—	—
Other Flows / Countries	4	9	59	—	201	41	-179	230
Total	4	15	99	20	208	83	-87	270

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Österreichische Nationalbank.

Table 2. FDI Flows from Belgium to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	-2	-12	82	2	171	24	235	-22
Bolivia	0	0	4	1	15	-4	-	6
Brazil	11	-15	123	-13	280	73	825	-552
Chile	2	2	55	5	59	2	95	112
Colombia	0	1	10	-	0	0	6	43
Costa Rica	0	1	-2	-3	1	1	2	-12
Dominican Republic	0	2	-1	0	-	0	-4	-
Ecuador	1	1	-14	-	-1	1	2	-70
El Salvador	-	0	0	-	0	-	-1	-
Guatemala	-	-1	8	3	3	1	-	34
Guyana	0	0	0	-	-	0	-	-
Haiti	-	-	0	-	-	0	-	1
Honduras	0	0	1	1	5	1	-	-
Jamaica	0	0	0	-	-	0	-	-
Mexico	-2	21	90	182	43	111	-234	349
Nicaragua	0	0	1	0	0	0	-	4
Paraguay	0	1	2	1	0	6	1	1
Peru	1	2	19	0	0	118	-27	2
Suriname	0	0	0	0	0	-	-1	-
Trinidad and Tobago	-	-	-	-	-	-	-	-
Uruguay	0	3	0	1	0	7	-10	3
Venezuela	4	-4	39	1	2	-4	25	173
Latin America/Caribbean	15	3	416	178	579	338	914	73
<i>Andean Community</i>	<i>6</i>	<i>0</i>	<i>58</i>	<i>1</i>	<i>17</i>	<i>112</i>	<i>6</i>	<i>154</i>
<i>Central America</i>	<i>0</i>	<i>0</i>	<i>8</i>	<i>1</i>	<i>10</i>	<i>3</i>	<i>1</i>	<i>27</i>
<i>MERCOSUR</i>	<i>9</i>	<i>-23</i>	<i>207</i>	<i>-10</i>	<i>451</i>	<i>110</i>	<i>1,052</i>	<i>-570</i>
Offshore Centers	115	8	-57	-135	-9	-154	83	-70
Other Flows / Countries	0	16	3	9	-2	7	-	2
Total	129	26	363	53	568	191	997	4

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banque Nationale de Belgique.

Table 3. FDI Flows from Denmark to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	—	1	6	—	3	—	15	14
Bolivia	—	0	—	—	—	—	—	—
Brazil	0	2	11	9	21	11	—	14
Chile	—	—	3	—	—	—	15	—
Colombia	—	0	0	—	1	—	—	—
Costa Rica	—	—	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	—	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—	—	—
Mexico	1	2	16	34	19	—	30	—
Nicaragua	—	1	—	—	—	—	—	—
Paraguay	—	0	—	—	—	—	—	—
Peru	—	—	—	—	—	—	—	—
Suriname	—	—	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—	—	—
Venezuela	—	3	4	—	6	—	15	—
Latin America/Caribbean	1	9	41	43	49	11	74	29
<i>Andean Community</i>	—	3	4	—	7	—	15	—
<i>Central America</i>	—	1	—	—	—	—	—	—
<i>MERCOSUR</i>	0	3	18	9	24	11	15	29
Offshore Centers	—	3	—	—	—	—	—	—
Other Flows / Countries	17	12	27	25	73	34	16	-14
Total	18	23	68	68	123	45	90	14

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Danmarks Nationalbank.

Table 4. FDI Flows from Finland to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	-	-	-	-	-	-	-	-
Bolivia	-	-	-	-	-	-	-	-
Brazil	3	12	-12	9	-	-19	-45	-5
Chile	-	13	10	43	24	13	-14	-14
Colombia	-	-	-	-	-	-	-	-
Costa Rica	-	-	-	-	-	-	-	-
Dominican Republic	-	-	-	-	-	-	-	-
Ecuador	0	-	-	-	-	-	-	-
El Salvador	-	-	-	-	-	-	-	-
Guatemala	-	-	-	-	-	-	-	-
Guyana	-	-	-	-	-	-	-	-
Haiti	-	-	-	-	-	-	-	-
Honduras	-	-	-	-	-	-	-	-
Jamaica	-	-	-	-	-	-	-	-
Mexico	0	1	1	-	2	-	1	-
Nicaragua	-	-	-	-	-	-	-	-
Paraguay	-	-	-1	-	-	-1	-1	-4
Peru	0	-	-	-	-	-	-	-
Suriname	-	-	-	-	-	-	-	-
Trinidad and Tobago	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-
Latin America/Caribbean	3	26	-3	52	25	-7	-59	-23
<i>Andean Community</i>	0	-	-	-	-	-	-	-
<i>Central America</i>	-	-	-	-	-	-	-	-
<i>MERCOSUR</i>	3	12	-13	9	-	-20	-46	-9
Offshore Centers	11	45	50	62	187	-	-	-
Other Flows / Countries	-	3	45	1	0	68	7	147
Total	14	74	92	114	211	62	-52	124

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Suomen Pankki.

Table 5. FDI Flows from France to Latin America and the Caribbean, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	46	101	410	35	434	342	766	474
Bolivia	0	0	12	10	—	18	16	14
Brazil	37	24	980	-222	1,022	1,234	1,572	1,294
Chile	7	6	148	-30	44	43	60	621
Colombia	9	-10	111	64	67	360	58	4
Costa Rica	0	1	0	-1	1	—	—	—
Dominican Republic	0	1	0	—	—	—	—	2
Ecuador	3	7	4	4	15	8	-11	5
El Salvador	0	—	—	—	—	—	—	—
Guatemala	36	0	—	—	—	—	—	—
Guyana	—	4	—	—	—	—	—	—
Haiti	0	0	—	—	—	—	—	—
Honduras	—	1	—	—	—	—	—	—
Jamaica	—	1	—	—	—	—	—	—
Mexico	13	31	114	181	230	71	57	33
Nicaragua	0	—	—	—	—	—	—	—
Paraguay	1	1	41	4	-1	3	151	46
Peru	0	-3	3	9	9	1	30	-33
Suriname	1	0	—	—	—	—	—	—
Trinidad and Tobago	—	4	—	—	—	—	—	—
Uruguay	4	13	20	4	13	5	17	60
Venezuela	13	-11	224	2	203	356	451	108
Latin America/Caribbean	169	170	2,067	59	2,036	2,442	3,168	2,628
<i>Andean Community</i>	24	-17	354	88	294	743	544	98
<i>Central America</i>	36	1	0	-1	1	—	—	—
<i>MERCOSUR</i>	89	139	1,451	-179	1,467	1,584	2,507	1,873
Offshore Centers	46	—	385	213	89	346	700	578
Other Flows / Countries	1	250	1	0	1	—	4	—
Total	216	420	2,453	273	2,126	2,788	3,873	3,206

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banque de France.

Table 6. FDI Flows from Germany to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	60	62	294	315	144	470	302	238
Bolivia	0	1	1	1	1	7	4	-7
Brazil	143	162	839	1,183	354	372	1,146	1,140
Chile	3	31	38	184	-8	41	38	-66
Colombia	1	23	71	92	80	59	114	10
Costa Rica	0	7	2	3	-7	1	17	-4
Dominican Republic	0	1	9	4	11	6	20	5
Ecuador	0	2	32	56	11	14	7	75
El Salvador	-1	0	7	24	-3	-1	13	2
Guatemala	-1	1	12	1	2	31	20	7
Guyana	0	-	0	-	-	-	6	-4
Haiti	0	0	-	-	-	-	-	-
Honduras	0	0	1	-	-1	10	-1	-1
Jamaica	0	0	1	1	-	1	-	1
Mexico	60	89	239	-17	33	1,005	260	-86
Nicaragua	-1	-	2	-	-1	-	6	3
Paraguay	1	2	1	1	3	3	1	-1
Peru	3	-2	14	-1	17	8	20	26
Suriname	0	-	-	-	-	-	-	-
Trinidad and Tobago	0	14	20	37	31	26	9	-
Uruguay	1	4	10	4	5	8	7	28
Venezuela	10	9	121	9	45	125	157	268
Latin America/Caribbean	281	407	1,715	1,898	716	2,185	2,146	1,632
<i>Andean Community</i>	14	33	239	157	154	213	302	370
<i>Central America</i>	-2	8	24	29	-10	41	55	7
<i>MERCOSUR</i>	205	230	1,145	1,504	505	853	1,456	1,405
Offshore Centers	68	166	374	291	-3	839	53	689
Other Flows / Countries	0	62	1	2	2	3	-2	-1
Total	349	635	2,090	2,191	714	3,028	2,196	2,320

Note: In 1999 Germany changed several features to measure direct investment. The threshold of participation in the direct investment enterprise was reduced from 20 percent to 10 percent. Reinvested earnings are now assigned to the year when originated. Until 1999 reinvested earnings of the current year were calculated as the difference between earnings of the previous year and current dividend payments. Short-term credits between the direct investor and the direct investment enterprise are also included. All credits are recorded on the directional principle covering reverse flows as well.

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Deutsche Bundesbank.

Table 7. FDI Flows from Italy to Latin America and the Caribbean, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	9	23	103	63	123	34	129	168
Bolivia	0	0	0	0	0	1	0	1
Brazil	79	-11	284	45	25	172	695	482
Chile	1	4	5	2	4	19	0	2
Colombia	0	0	3	0	2	3	1	8
Costa Rica	1	0	2	2	2	2	0	2
Dominican Republic	0	1	3	2	3	3	4	5
Ecuador	0	0	0	0	0	0	0	0
El Salvador	-	0	0	0	0	0	2	-
Guatemala	0	0	0	-	0	0	0	1
Guyana	-	0	0	0	-	-	-	-
Haiti	-	-	0	0	0	-	0	-
Honduras	0	0	0	-	-	0	0	0
Jamaica	0	1	0	0	0	-	0	0
Mexico	3	-13	27	-12	12	158	3	-28
Nicaragua	-	0	0	0	0	0	0	0
Paraguay	0	-2	1	0	0	0	2	1
Peru	1	1	1	2	0	1	0	1
Suriname	-	1	0	0	-	-	-	-
Trinidad and Tobago	-2	0	0	-	0	0	-	0
Uruguay	0	1	4	5	5	0	4	6
Venezuela	4	16	5	2	6	5	7	3
Latin America/Caribbean	97	23	439	111	183	398	849	652
<i>Andean Community</i>	<i>6</i>	<i>18</i>	<i>9</i>	<i>5</i>	<i>9</i>	<i>9</i>	<i>8</i>	<i>14</i>
<i>Central America</i>	<i>1</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>2</i>	<i>2</i>	<i>3</i>	<i>2</i>
<i>MERCOSUR</i>	<i>88</i>	<i>11</i>	<i>392</i>	<i>112</i>	<i>152</i>	<i>206</i>	<i>831</i>	<i>657</i>
Offshore Centers	103	167	148	-26	28	189	789	-239
Other Flows / Countries	0	22	2	1	2	1	3	4
Total	201	212	589	87	213	588	1,641	418

Note: For the time up to and including 1998, the item direct investment includes: the acquisition of enterprises that imply a lasting interest (according to the reporting agents' declarations), the acquisition of at least 20 percent of the equity capital of direct investment enterprise, the totality of the non-equity participations, and real estate. For the time series from 1999 onward, direct investment includes: the acquisitions of at least 10 percent of the equity capital of the direct investment enterprise, the financial relationships between the direct investor and the direct investment enterprise (loans, trade credits, etc.), the totality of non-equity participations, reinvested earnings, and real estate.

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the *Ufficio Italiano dei Cambi*.

**Table 8. FDI Flows from the Netherlands to Latin America
and the Caribbean, 1980-1999**
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	15	135	202	523	198	28	320	-59
Bolivia	0	-	-	-	-	-	-	-
Brazil	45	238	1,572	-204	524	1,335	3,749	2,455
Chile	1	17	307	116	198	287	839	97
Colombia	2	51	33	112	11	-3	27	18
Costa Rica	0	-	-	-	-	-	-	-
Dominican Republic	0	-	-	-	-	-	-	-
Ecuador	0	-	-	-	-	-	-	-
El Salvador	0	-	-	-	-	-	-	-
Guatemala	0	-	-	-	-	-	-	-
Guyana	0	-	-	-	-	-	-	-
Haiti	0	-	-	-	-	-	-	-
Honduras	0	-	-	-	-	-	-	-
Jamaica	-	-	-	-	-	-	-	-
Mexico	2	54	303	225	75	315	626	272
Nicaragua	0	-	-	-	-	-	-	-
Paraguay	-	-	-	-	-	-	-	-
Peru	2	-	19	-	52	76	-39	7
Suriname	-1	-	2	-1	5	7	-2	3
Trinidad and Tobago	0	-	-	-	-	-	-	-
Uruguay	1	-	-	-	-	-	-	-
Venezuela	1	34	-44	217	49	144	-520	-111
Latin America/Caribbean	70	528	2,394	989	1,112	2,189	5,000	2,683
<i>Andean Community</i>	6	85	8	330	113	217	-532	-85
<i>Central America</i>	0	-	-	-	-	-	-	-
<i>MERCOSUR</i>	61	373	1,774	319	721	1,363	4,069	2,396
Offshore Centers	48	-	-154	-145	275	957	559	-2,415
Other Flows / Countries	35	46	145	335	571	-213	-91	125
Total	153	574	2,386	1,179	1,958	2,933	5,468	393

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by De Nederlandsche Bank.

Table 9. FDI Flows from Portugal to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	—	—	6	2	0	7	8	12
Bolivia	—	—	—	—	—	—	—	—
Brazil	—	2	1,300	31	350	651	3,863	1,602
Chile	—	0	0	—	—	0	0	1
Colombia	—	—	0	—	0	0	0	0
Costa Rica	—	—	0	—	—	—	—	0
Dominican Republic	—	—	0	—	—	—	—	0
Ecuador	—	—	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—	—	—
Guatemala	—	—	14	—	—	—	69	2
Guyana	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	—	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—	—	—
Mexico	—	0	4	0	-4	10	6	7
Nicaragua	—	—	—	—	—	—	—	—
Paraguay	—	—	0	—	—	—	0	—
Peru	—	—	2	—	—	—	5	5
Suriname	—	—	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—	—	—
Uruguay	—	—	0	—	0	0	2	0
Venezuela	—	—	0	—	0	-1	2	0
Latin America/Caribbean	—	2	1,327	34	347	668	3,955	1,630
<i>Andean Community</i>	—	—	2	—	0	-1	7	5
<i>Central America</i>	—	—	14	—	—	—	69	2
<i>MERCOSUR</i>	—	2	1,306	34	351	658	3,873	1,614
Offshore Centers	—	—	4	—	-34	11	9	36
Other Flows / Countries	—	11	2	10	—	—	—	—
Total	—	13	1,333	43	312	679	3,965	1,666

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banco de Portugal.

Table 10. FDI Flows from Spain to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	21	55	4,049	555	610	1,388	1,437	16,256
Bolivia	—	0	0	—	2	—	—	—
Brazil	11	22	2,262	73	37	619	6,854	3,725
Chile	37	35	1,453	-24	82	1,455	524	5,229
Colombia	2	15	422	30	376	1,368	327	10
Costa Rica	0	0	1	—	6	—	—	—
Dominican Republic	4	1	1	0	3	—	—	—
Ecuador	2	7	3	3	9	—	—	—
El Salvador	—	0	—	—	—	—	—	—
Guatemala	6	0	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	0	0	0	0	—	—	—
Jamaica	—	—	—	—	—	—	—	—
Mexico	21	60	371	207	94	253	282	1,018
Nicaragua	—	0	—	—	—	—	—	—
Paraguay	5	2	2	—	—	1	11	—
Peru	3	323	89	170	275	—	—	—
Suriname	—	—	—	—	—	—	—	—
Trinidad and Tobago	—	0	1	-2	6	—	—	—
Uruguay	7	6	10	5	35	-17	0	27
Venezuela	9	20	213	19	42	1,062	-76	20
Latin America/Caribbean	128	548	8,877	1,037	1,577	6,129	9,360	26,285
<i>Andean Community</i>	16	365	727	223	704	2,429	251	30
<i>Central America</i>	6	0	1	0	6	—	—	—
<i>MERCOSUR</i>	44	86	6,323	633	682	1,991	8,303	20,008
Offshore Centers	51	182	85	-154	581	—	—	—
Other Flows / Countries	1	3	582	0	3	577	1,138	1,194
Total	181	733	9,545	883	2,162	6,706	10,498	27,479

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banco de España.

Table 11. FDI Flows from Sweden to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	1	7	5	—	—	0	29	-3
Bolivia	—	—	1	2	—	0	0	1
Brazil	0	5	296	-18	140	298	577	484
Chile	1	2	6	-1	1	17	0	10
Colombia	0	—	5	—	—	-3	21	8
Costa Rica	0	—	—	—	—	—	—	—
Dominican Republic	0	—	—	—	—	—	—	—
Ecuador	0	—	-6	15	—	4	-53	1
El Salvador	—	—	0	—	—	—	—	0
Guatemala	—	—	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	—	0	—	—	—	—	2
Jamaica	—	—	—	—	—	—	—	—
Mexico	-5	4	34	32	3	-12	81	65
Nicaragua	—	—	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—	—	—
Peru	0	0	19	—	—	6	27	61
Suriname	0	—	—	—	—	—	—	—
Trinidad and Tobago	—	—	0	—	—	—	—	0
Uruguay	—	—	-1	—	—	-1	-2	-2
Venezuela	1	2	0	—	—	-4	2	3
Latin America/Caribbean	-2	21	359	31	143	306	682	631
<i>Andean Community</i>	<i>1</i>	<i>2</i>	<i>18</i>	<i>17</i>	<i>—</i>	<i>3</i>	<i>-3</i>	<i>74</i>
<i>Central America</i>	<i>0</i>	<i>—</i>	<i>1</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>3</i>
<i>MERCOSUR</i>	<i>1</i>	<i>12</i>	<i>301</i>	<i>-18</i>	<i>140</i>	<i>298</i>	<i>605</i>	<i>479</i>
Offshore Centers	6	-1	13	—	—	-2	10	57
Other Flows / Countries	46	—	1	—	—	—	—	5
Total	50	20	373	31	143	304	692	693

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Sveriges Riksbank.

**Table 12. FDI Flows from the United Kingdom to Latin America
and the Caribbean, 1980-1999**
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	40	79	283	46	137	157	664	409
Bolivia	—	1	8	—	28	11	—	—
Brazil	289	250	894	747	1,081	581	535	1,524
Chile	41	81	-13	347	139	255	278	-1,087
Colombia	8	-97	371	194	156	396	573	537
Costa Rica	4	—	3	3	8	5	—	—
Dominican Republic	—	—	19	36	-3	29	18	13
Ecuador	7	-12	-7	3	—	-2	—	-39
El Salvador	—	—	2	—	—	5	3	—
Guatemala	—	—	3	-2	3	10	3	—
Guyana	2	1	0	—	6	-2	-3	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	—	1	—	—	3	—	2
Jamaica	6	60	51	82	59	115	—	—
Mexico	34	90	395	125	172	1,248	250	183
Nicaragua	—	—	1	2	2	—	—	—
Paraguay	0	1	3	13	—	—	—	—
Peru	2	6	-23	—	—	-3	-7	-104
Suriname	0	—	—	—	—	—	—	—
Trinidad and Tobago	1	10	44	6	8	31	186	-13
Uruguay	1	2	13	17	16	8	3	23
Venezuela	24	67	41	25	153	581	-666	113
Latin America/Caribbean	458	538	2,088	1,645	1,965	3,431	1,839	1,562
<i>Andean Community</i>	<i>41</i>	<i>-36</i>	<i>391</i>	<i>223</i>	<i>337</i>	<i>984</i>	<i>-99</i>	<i>508</i>
<i>Central America</i>	<i>4</i>	<i>—</i>	<i>9</i>	<i>3</i>	<i>12</i>	<i>23</i>	<i>7</i>	<i>2</i>
<i>MERCOSUR</i>	<i>329</i>	<i>332</i>	<i>1,192</i>	<i>822</i>	<i>1,234</i>	<i>747</i>	<i>1,203</i>	<i>1,956</i>
Offshore Centers	710	897	1,059	393	408	671	1,474	2,350
Other Flows / Countries	93	335	636	-239	9	131	646	2,683
Total	1,261	1,770	3,793	1,799	2,382	4,233	3,959	6,594

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the Office for National Statistics.

**Table 13. FDI Flows from the European Union to Latin America
and the Caribbean, 1980-1999**
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	189	451	5,447	1,542	1,825	2,453	3,920	17,498
Bolivia	0	2	25	13	47	33	20	14
Brazil	619	697	8,579	1,659	3,833	5,367	19,842	12,193
Chile	93	191	2,012	642	543	2,132	1,837	4,905
Colombia	23	-17	1,026	493	694	2,178	1,126	638
Costa Rica	5	9	6	5	11	8	19	-14
Dominican Republic	5	6	32	43	14	39	38	26
Ecuador	13	6	12	82	35	25	-55	-28
El Salvador	0	0	9	24	-2	4	17	3
Guatemala	40	0	38	2	9	41	92	44
Guyana	2	5	1	0	6	-2	2	-4
Haiti	0	0	0	0	0	0	0	1
Honduras	0	1	4	1	4	15	-1	3
Jamaica	7	62	52	83	60	115	0	1
Mexico	128	340	1,596	956	677	3,160	1,373	1,813
Nicaragua	0	1	3	2	1	0	6	7
Paraguay	7	5	48	18	2	14	166	43
Peru	12	327	143	180	353	208	10	-34
Suriname	1	1	2	-1	5	7	-3	3
Trinidad and Tobago	0	28	65	41	45	57	194	-13
Uruguay	14	29	57	36	73	11	19	144
Venezuela	65	137	604	276	506	2,265	-604	576
Latin America/Caribbean	1,221	2,281	19,761	6,097	8,739	18,132	28,019	37,820
<i>Andean Community</i>	<i>113</i>	<i>455</i>	<i>1,810</i>	<i>1,043</i>	<i>1,634</i>	<i>4,708</i>	<i>497</i>	<i>1,167</i>
<i>Central America</i>	<i>45</i>	<i>11</i>	<i>60</i>	<i>34</i>	<i>22</i>	<i>69</i>	<i>134</i>	<i>43</i>
<i>MERCOSUR</i>	<i>829</i>	<i>1,182</i>	<i>14,132</i>	<i>3,255</i>	<i>5,732</i>	<i>7,844</i>	<i>23,947</i>	<i>29,878</i>
Offshore Centers	1,157	1,467	1,908	500	1,521	2,859	3,677	986
Other Flows / Countries	197	768	1,514	144	861	649	1,542	4,375
Total	2,575	4,516	23,184	6,741	11,120	21,640	33,238	43,180

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by European central banks and statistical offices.

Table 14. FDI Flows from Norway to Latin America and the Caribbean, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	-	-	-	-	-	-	-	-
Bolivia	-	-	-	-	-	-	-	-
Brazil	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	-	-
Colombia	-	-	-	-	-	-	-	-
Costa Rica	-	-	-	-	-	-	-	-
Dominican Republic	-	-	-	-	-	-	-	-
Ecuador	-	-	-	-	-	-	-	-
El Salvador	-	-	-	-	-	-	-	-
Guatemala	-	-	-	-	-	-	-	-
Guyana	-	-	-	-	-	-	-	-
Haiti	-	-	-	-	-	-	-	-
Honduras	-	-	-	-	-	-	-	-
Jamaica	-	-	-	-	-	-	-	-
Mexico	-	-	-	-	-	-	-	-
Nicaragua	-	-	-	-	-	-	-	-
Paraguay	-	-	-	-	-	-	-	-
Peru	-	-	-	-	-	-	-	-
Suriname	-	-	-	-	-	-	-	-
Trinidad and Tobago	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-
Latin America/Caribbean	-	-	-	-	-	-	-	-
<i>Andean Community</i>	-	-	-	-	-	-	-	-
<i>Central America</i>	-	-	-	-	-	-	-	-
<i>MERCOSUR</i>	-	-	-	-	-	-	-	-
Offshore Centers	-	-	-	-	-	-	-	-
Other Flows / Countries	-	13	176	87	157	548	9	79
Total	-	13	176	87	157	548	9	79

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Norges Bank.

Table 15. FDI Flows from Switzerland to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	-	13	45	24	53	-9	221	-66
Bolivia	-	-	-	-	-	-	-	-
Brazil	-	34	136	107	-8	-295	308	568
Chile	-	18	1	30	67	25	-123	5
Colombia	-	16	89	6	66	30	267	77
Costa Rica	-	-3	5	38	8	-1	-18	-
Dominican Republic	-	-	-	-	-	-	-	-
Ecuador	-	3	24	9	65	24	7	13
El Salvador	-	-	-	-	-	-	-	-
Guatemala	-	2	-15	3	-142	52	-3	15
Guyana	-	-	-	-	-	-	-	-
Haiti	-	-	-	-	-	-	-	-
Honduras	-	-	-	-	-	-	-	-
Jamaica	-	-	-	-	-	-	-	-
Mexico	-	29	202	-3	98	97	451	365
Nicaragua	-	-	-	-	-	-	-	-
Paraguay	-	-	-	-	-	-	-	-
Peru	-	2	32	16	-7	138	-17	31
Suriname	-	-	-	-	-	-	-	-
Trinidad and Tobago	-	-	-	-	-	-	-	-
Uruguay	-	14	159	78	139	189	196	191
Venezuela	-	6	46	-4	98	85	42	7
Latin America/Caribbean	-	133	723	304	436	335	1,331	1,206
<i>Andean Community</i>	-	26	190	27	222	276	299	129
<i>Central America</i>	-	-1	-10	41	-134	52	-21	15
<i>MERCOSUR</i>	-	60	339	209	184	-114	725	693
Offshore Centers	-	67	1,100	70	106	206	2,063	3,055
Other Flows / Countries	360	874	-128	-216	-548	94	-23	51
Total	360	1,073	1,694	159	-6	636	3,371	4,312

Note: From 1993 to 1996 Swiss FDI to offshore centers included only Panama. For these years the greater part of FDI recorded under "Other Flows" consists of flows to offshore centers.

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by *Banque Nationale Suisse*.

Table 16. FDI Flows from Europe to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	189	464	5,492	1,566	1,877	2,444	4,141	17,432
Bolivia	0	2	25	13	47	33	20	14
Brazil	619	731	8,715	1,766	3,825	5,072	20,149	12,761
Chile	93	210	2,013	672	610	2,158	1,715	4,910
Colombia	23	-1	1,115	499	761	2,208	1,393	715
Costa Rica	5	6	11	43	19	8	2	-14
Dominican Republic	5	6	32	43	14	39	38	26
Ecuador	13	9	35	91	99	48	-48	-14
El Salvador	0	0	9	24	-2	4	17	3
Guatemala	40	2	23	5	-134	94	89	59
Guyana	2	5	1	0	6	-2	2	-4
Haiti	0	0	0	0	0	0	0	1
Honduras	0	1	4	1	4	15	-1	3
Jamaica	7	62	52	83	60	115	0	1
Mexico	128	369	1,797	953	775	3,257	1,824	2,178
Nicaragua	0	1	3	2	1	0	6	7
Paraguay	7	5	48	18	2	14	166	43
Peru	12	329	175	196	345	346	-7	-3
Suriname	1	1	2	-1	5	7	-3	3
Trinidad and Tobago	0	28	65	41	45	57	194	-13
Uruguay	14	43	216	114	213	201	215	335
Venezuela	65	143	649	272	604	2,349	-562	584
Latin America/Caribbean	1,221	2,414	20,484	6,401	9,175	18,468	29,350	39,026
<i>Andean Community</i>	<i>113</i>	<i>481</i>	<i>2,001</i>	<i>1,070</i>	<i>1,856</i>	<i>4,984</i>	<i>796</i>	<i>1,296</i>
<i>Central America</i>	<i>45</i>	<i>10</i>	<i>51</i>	<i>75</i>	<i>-113</i>	<i>121</i>	<i>113</i>	<i>57</i>
<i>MERCOSUR</i>	<i>829</i>	<i>1,242</i>	<i>14,471</i>	<i>3,464</i>	<i>5,916</i>	<i>7,730</i>	<i>24,672</i>	<i>30,571</i>
Offshore Centers	1,157	1,534	3,008	570	1,627	3,065	5,741	4,040
Other Flows / Countries	558	1,655	1,562	16	470	1,292	1,528	4,505
Total	2,935	5,602	25,055	6,987	11,271	22,825	36,619	47,571

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by European Central Banks and statistical offices.

Table 17. FDI Flows from Canada to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	—	—	—	—	—	—	—	—
Bolivia	—	—	—	—	—	—	—	—
Brazil	—	—	—	—	—	—	—	—
Chile	—	—	—	—	—	—	—	—
Colombia	—	—	—	—	—	—	—	—
Costa Rica	—	—	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—
Honduras	—	—	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—	—	—
Mexico	—	—	—	—	—	—	—	—
Nicaragua	—	—	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—	—	—
Peru	—	—	—	—	—	—	—	—
Suriname	—	—	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—	—	—
Venezuela	—	—	—	—	—	—	—	—
Latin America/Caribbean	—	—	—	—	—	—	—	—
<i>Andean Community</i>	—	—	—	—	—	—	—	—
<i>Central America</i>	—	—	—	—	—	—	—	—
<i>MERCOSUR</i>	—	—	—	—	—	—	—	—
Offshore Centers	—	—	—	—	—	—	—	—
Other Flows / Countries	—	490	4,042	2,389	3,745	6,196	5,157	2,719
Total	—	490	4,042	2,389	3,745	6,196	5,157	2,719

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the OECD-DCD.

Table 18. FDI Flows from Japan to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	10	22	41	40	38	15	107	5
Bolivia	0	—	—	—	—	—	—	—
Brazil	203	132	608	256	634	924	560	664
Chile	8	7	15	50	—	6	10	9
Colombia	3	13	5	8	—	4	9	7
Costa Rica	0	0	—	—	—	—	—	—
Dominican Republic	0	—	—	—	—	—	—	—
Ecuador	0	1	—	—	—	—	—	—
El Salvador	0	—	1	—	—	2	1	—
Guatemala	0	—	—	—	—	—	—	—
Guyana	0	—	—	—	—	—	—	—
Haiti	0	—	—	—	—	—	—	—
Honduras	-2	1	—	—	—	—	—	—
Jamaica	0	1	—	—	—	—	—	—
Mexico	84	176	298	129	-61	128	154	1,142
Nicaragua	—	—	—	—	—	—	—	—
Paraguay	1	0	3	—	—	2	1	10
Peru	-21	-5	7	—	—	2	—	34
Suriname	1	—	—	—	—	—	—	—
Trinidad and Tobago	0	—	—	—	—	—	—	—
Uruguay	0	0	0	—	—	1	—	—
Venezuela	5	36	51	10	168	10	20	46
Latin America/Caribbean	292	386	1,029	492	780	1,094	862	1,919
<i>Andean Community</i>	-13	46	64	17	168	16	29	88
<i>Central America</i>	-1	2	1	—	—	2	1	—
<i>MERCOSUR</i>	214	154	652	296	673	942	668	680
Offshore Centers	1,119	299	1,864	370	-680	1,252	4,782	3,595
Other Flows / Countries	1	3	4	21	-4	—	2	—
Total	1,412	688	2,897	883	96	2,346	5,645	5,514

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the Bank of Japan.

**Table 19. FDI Flows from the United States to Latin America
and the Caribbean, 1980-1999**
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	123	734	1,422	2,048	371	1,701	1,252	1,740
Bolivia	—	15	37	123	-153	297	71	-155
Brazil	663	2,116	4,708	6,954	4,159	7,138	4,834	455
Chile	106	540	1,026	1,291	1,860	926	448	604
Colombia	-116	180	300	164	120	746	21	450
Costa Rica	—	17	218	271	362	316	599	-456
Dominican Republic	—	67	118	69	66	91	77	288
Ecuador	23	84	51	113	32	-269	187	191
El Salvador	—	9	108	-25	42	46	323	153
Guatemala	—	10	66	36	100	24	76	96
Guyana	—	6	7	14	15	6	9	-9
Haiti	—	3	1	-6	3	10	—	—
Honduras	—	-7	-16	-8	-26	43	-61	-27
Jamaica	-9	129	237	116	292	264	169	344
Mexico	357	2,485	4,211	2,983	2,405	5,596	4,718	5,355
Nicaragua	—	—	17	—	-2	56	20	10
Paraguay	—	7	28	-4	22	43	58	23
Peru	26	-20	342	334	700	241	-18	452
Suriname	—	16	-8	5	16	55	-96	-21
Trinidad and Tobago	-44	32	93	151	50	-214	395	85
Uruguay	—	19	48	—	39	77	86	39
Venezuela	-27	711	749	654	775	668	668	980
Latin America/Caribbean	1,102	7,153	13,765	15,283	11,248	17,861	13,836	10,597
<i>Andean Community</i>	-94	970	1,478	1,388	1,474	1,683	929	1,918
<i>Central America</i>	—	30	394	274	476	485	957	-224
<i>MERCOSUR</i>	786	2,876	6,207	8,998	4,591	8,959	6,230	2,257
Offshore Centers	1,329	4,669	4,639	860	6,797	3,467	3,096	8,975
Other Flows / Countries	373	40	10	-103	93	211	-102	-50
Total	2,803	11,862	18,414	16,040	18,138	21,539	16,830	19,522

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the United States Department of Commerce/Bureau of Economic Analysis.

Table 20. FDI Flows from Europe, Canada, Japan and the United States to Latin America and the Caribbean, 1980-1999
(Net outflows, millions of U.S. dollars)

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Argentina	322	1,220	6,956	3,654	2,287	4,160	5,500	19,177
Bolivia	0	17	62	136	-106	330	91	-141
Brazil	1,485	2,979	14,030	8,976	8,618	13,134	25,543	13,880
Chile	207	756	3,054	2,013	2,470	3,090	2,172	5,523
Colombia	-90	192	1,421	670	881	2,958	1,423	1,172
Costa Rica	5	23	230	314	381	324	601	-470
Dominican Republic	5	72	150	112	80	130	115	314
Ecuador	36	93	86	204	131	-221	139	177
El Salvador	0	10	118	-1	40	52	342	156
Guatemala	41	12	89	41	-34	118	165	155
Guyana	2	12	8	14	21	4	11	-13
Haiti	0	3	2	-6	3	10	0	1
Honduras	-2	-5	-12	-7	-22	58	-62	-24
Jamaica	-2	191	289	199	352	379	169	345
Mexico	568	3,030	6,307	4,065	3,119	8,981	6,695	8,675
Nicaragua	0	1	20	2	-1	56	26	17
Paraguay	8	12	80	14	24	59	225	76
Peru	17	304	525	530	1,045	589	-25	483
Suriname	1	17	-6	4	21	62	-99	-18
Trinidad and Tobago	-44	60	158	192	95	-157	589	72
Uruguay	14	61	264	114	252	279	301	374
Venezuela	42	891	1,449	936	1,547	3,027	126	1,610
Latin America/Caribbean	2,614	9,952	35,278	22,176	21,203	37,422	44,048	51,541
<i>Andean Community</i>	6	1,497	3,542	2,476	3,498	6,683	1,754	3,301
<i>Central America</i>	43	41	445	349	363	607	1,071	-167
<i>MERCOSUR</i>	1,829	4,272	21,330	12,759	11,180	17,631	31,570	33,508
Offshore Centers	3,605	6,501	9,511	1,800	7,744	7,784	13,618	16,611
Other Flows / Countries*	931	2,189	5,617	2,323	4,304	7,699	6,585	7,174
Total*	7,150	18,642	50,407	26,300	33,251	52,905	64,251	75,327

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices.

*Includes Canada.

Table 21. FDI Flows to Argentina, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	1	6	—	5	2	13	11
Belgium	-2	-12	82	2	171	24	235	-22
Denmark	—	1	6	—	3	—	15	14
Finland	—	—	—	—	—	—	—	—
France	46	101	410	35	434	342	766	474
Germany	60	62	294	315	144	470	302	238
Italy	9	23	103	63	123	34	129	168
Netherlands	15	135	202	523	198	28	320	-59
Portugal	—	—	6	2	0	7	8	12
Spain	21	55	4,049	555	610	1,388	1,437	16,256
Sweden	1	7	5	—	—	0	29	-3
United Kingdom	40	79	283	46	137	157	664	409
EU	189	451	5,447	1,542	1,825	2,453	3,920	17,498
Norway	—	—	—	—	—	—	—	—
Switzerland	—	13	45	24	53	-9	221	-66
Europe	189	464	5,492	1,566	1,877	2,444	4,141	17,432
Canada	—	—	—	—	—	—	—	—
Japan	10	22	41	40	38	15	107	5
United States	123	734	1,422	2,048	371	1,701	1,252	1,740
Europe + Japan + United States	322	1,220	6,956	3,654	2,287	4,160	5,500	19,177

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 22. FDI Flows to Brazil, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	5	31	19	1	38	69	29
Belgium	11	-15	123	-13	280	73	825	-552
Denmark	0	2	11	9	21	11	—	14
Finland	3	12	-12	9	—	-19	-45	-5
France	37	24	980	-222	1,022	1,234	1,572	1,294
Germany	143	162	839	1,183	354	372	1,146	1,140
Italy	79	-11	284	45	25	172	695	482
Netherlands	45	238	1,572	-204	524	1,335	3,749	2,455
Portugal	—	2	1,300	31	350	651	3,863	1,602
Spain	11	22	2,262	73	37	619	6,854	3,725
Sweden	0	5	296	-18	140	298	577	484
United Kingdom	289	250	894	747	1,081	581	535	1,524
EU	619	697	8,579	1,659	3,833	5,367	19,842	12,193
Norway	—	—	—	—	—	—	—	—
Switzerland	—	34	136	107	-8	-295	308	568
Europe	619	731	8,715	1,766	3,825	5,072	20,149	12,761
Canada	—	—	—	—	—	—	—	—
Japan	203	132	608	256	634	924	560	664
United States	663	2,116	4,708	6,954	4,159	7,138	4,834	455
Europe + Japan + United States	1,485	2,979	14,030	8,976	8,618	13,134	25,543	13,880

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 23. FDI Flows to Chile, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	0	0	1	—	1	—
Belgium	2	2	55	5	59	2	95	112
Denmark	—	—	3	—	—	—	15	—
Finland	—	13	10	43	24	13	-14	-14
France	7	6	148	-30	44	43	60	621
Germany	3	31	38	184	-8	41	38	-66
Italy	1	4	5	2	4	19	0	2
Netherlands	1	17	307	116	198	287	839	97
Portugal	—	0	0	—	—	0	0	1
Spain	37	35	1,453	-24	82	1,455	524	5,229
Sweden	1	2	6	-1	1	17	0	10
United Kingdom	41	81	-13	347	139	255	278	-1,087
EU	93	191	2,012	642	543	2,132	1,837	4,905
Norway	—	—	—	—	—	—	—	—
Switzerland	—	18	1	30	67	25	-123	5
Europe	93	210	2,013	672	610	2,158	1,715	4,910
Canada	—	—	—	—	—	—	—	—
Japan	8	7	15	50	—	6	10	9
United States	106	540	1,026	1,291	1,860	926	448	604
Europe + Japan + United States	207	756	3,054	2,013	2,470	3,090	2,172	5,523

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 24. FDI Flows to Colombia, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	-	0	0	-	-	-1	-1	-
Belgium	0	1	10	-	0	0	6	43
Denmark	-	0	0	-	1	-	-	-
Finland	-	-	-	-	-	-	-	-
France	9	-10	111	64	67	360	58	4
Germany	1	23	71	92	80	59	114	10
Italy	0	0	3	0	2	3	1	8
Netherlands	2	51	33	112	11	-3	27	18
Portugal	-	-	0	-	0	0	0	0
Spain	2	15	422	30	376	1,368	327	10
Sweden	0	-	5	-	-	-3	21	8
United Kingdom	8	-97	371	194	156	396	573	537
EU	23	-17	1,026	493	694	2,178	1,126	638
Norway	-	-	-	-	-	-	-	-
Switzerland	-	16	89	6	66	30	267	77
Europe	23	-1	1,115	499	761	2,208	1,393	715
Canada	-	-	-	-	-	-	-	-
Japan	3	13	5	8	-	4	9	7
United States	-116	180	300	164	120	746	21	450
Europe + Japan + United States	-90	192	1,421	670	881	2,958	1,423	1,172

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 25. FDI Flows to Costa Rica, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	—	—	—	—	—	—
Belgium	0	1	-2	-3	1	1	2	-12
Denmark	—	—	—	—	—	—	—	—
Finland	—	—	—	—	—	—	—	—
France	0	1	0	-1	1	—	—	—
Germany	0	7	2	3	-7	1	17	-4
Italy	1	0	2	2	2	2	0	2
Netherlands	0	—	—	—	—	—	—	—
Portugal	—	—	0	—	—	—	—	0
Spain	0	0	1	—	6	—	—	—
Sweden	0	—	—	—	—	—	—	—
United Kingdom	4	—	3	3	8	5	—	—
EU	5	9	6	5	11	8	19	-14
Norway	—	—	—	—	—	—	—	—
Switzerland	—	-3	5	38	8	-1	-18	—
Europe	5	6	11	43	19	8	2	-14
Canada	—	—	—	—	—	—	—	—
Japan	0	0	—	—	—	—	—	—
United States	—	17	218	271	362	316	599	-456
Europe + Japan + United States	5	23	230	314	381	324	601	-470

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 26. FDI Flows to Jamaica, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	—	—	—	—	—	—
Belgium	0	0	0	—	—	0	—	—
Denmark	—	—	—	—	—	—	—	—
Finland	—	—	—	—	—	—	—	—
France	—	1	—	—	—	—	—	—
Germany	0	0	1	1	—	1	—	1
Italy	0	1	0	0	0	—	0	0
Netherlands	—	—	—	—	—	—	—	—
Portugal	—	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—	—
Sweden	—	—	—	—	—	—	—	—
United Kingdom	6	60	51	82	59	115	—	—
EU	7	62	52	83	60	115	0	1
Norway	—	—	—	—	—	—	—	—
Switzerland	—	—	—	—	—	—	—	—
Europe	7	62	52	83	60	115	0	1
Canada	—	—	—	—	—	—	—	—
Japan	0	1	—	—	—	—	—	—
United States	-9	129	237	116	292	264	169	344
Europe + Japan + United States	-2	191	289	199	352	379	169	345

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 27. FDI Flows to Mexico, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	3	0	0	1	10	1
Belgium	-2	21	90	182	43	111	-234	349
Denmark	1	2	16	34	19	—	30	—
Finland	0	1	1	—	2	—	1	—
France	13	31	114	181	230	71	57	33
Germany	60	89	239	-17	33	1,005	260	-86
Italy	3	-13	27	-12	12	158	3	-28
Netherlands	2	54	303	225	75	315	626	272
Portugal	—	0	4	0	-4	10	6	7
Spain	21	60	371	207	94	253	282	1,018
Sweden	-5	4	34	32	3	-12	81	65
United Kingdom	34	90	395	125	172	1,248	250	183
EU	128	340	1,596	956	677	3,160	1,373	1,813
Norway	—	—	—	—	—	—	—	—
Switzerland	—	29	202	-3	98	97	451	365
Europe	128	369	1,797	953	775	3,257	1,824	2,178
Canada	—	—	—	—	—	—	—	—
Japan	84	176	298	129	-61	128	154	1,142
United States	357	2,485	4,211	2,983	2,405	5,596	4,718	5,355
Europe + Japan + United States	568	3,030	6,307	4,065	3,119	8,981	6,695	8,675

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Central Banks and statistical offices from investor countries.

Table 28. FDI Flows to Peru, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	—	—	—	—	—	—
Belgium	1	2	19	0	0	118	-27	2
Denmark	—	—	—	—	—	—	—	—
Finland	0	—	—	—	—	—	—	—
France	0	-3	3	9	9	1	30	-33
Germany	3	-2	14	-1	17	8	20	26
Italy	1	1	1	2	0	1	0	1
Netherlands	2	—	19	—	52	76	-39	7
Portugal	—	—	2	—	—	—	5	5
Spain	3	323	89	170	275	—	—	—
Sweden	0	0	19	—	—	6	27	61
United Kingdom	2	6	-23	—	—	-3	-7	-104
EU	12	327	143	180	353	208	10	-34
Norway	—	—	—	—	—	—	—	—
Switzerland	—	2	32	16	-7	138	-17	31
Europe	12	329	175	196	345	346	-7	-3
Canada	—	—	—	—	—	—	—	—
Japan	-21	-5	7	—	—	2	—	34
United States	26	-20	342	334	700	241	-18	452
Europe + Japan + United States	17	304	525	530	1,045	589	-25	483

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 29. FDI Flows to Uruguay, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	0	—	—	1	-1	—
Belgium	0	3	0	1	0	7	-10	3
Denmark	—	—	—	—	—	—	—	—
Finland	—	—	—	—	—	—	—	—
France	4	13	20	4	13	5	17	60
Germany	1	4	10	4	5	8	7	28
Italy	0	1	4	5	5	0	4	6
Netherlands	1	—	—	—	—	—	—	—
Portugal	—	—	0	—	0	0	2	0
Spain	7	6	10	5	35	-17	0	27
Sweden	—	—	-1	—	—	-1	-2	-2
United Kingdom	1	2	13	17	16	8	3	23
EU	14	29	57	36	73	11	19	144
Norway	—	—	—	—	—	—	—	—
Switzerland	—	14	159	78	139	189	196	191
Europe	14	43	216	114	213	201	215	335
Canada	—	—	—	—	—	—	—	—
Japan	0	0	0	—	—	1	—	—
United States	—	19	48	—	39	77	86	39
Europe + Japan + United States	14	61	264	114	252	279	301	374

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 30. FDI Flows to Venezuela, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average							
	1980-89	1990-94	1995-99	1995	1996	1997	1998	1999
Austria	-	0	0	-	-	-	-	-1
Belgium	4	-4	39	1	2	-4	25	173
Denmark	-	3	4	-	6	-	15	-
Finland	-	-	-	-	-	-	-	-
France	13	-11	224	2	203	356	451	108
Germany	10	9	121	9	45	125	157	268
Italy	4	16	5	2	6	5	7	3
Netherlands	1	34	-44	217	49	144	-520	-111
Portugal	-	-	0	-	0	-1	2	0
Spain	9	20	213	19	42	1,062	-76	20
Sweden	1	2	0	-	-	-4	2	3
United Kingdom	24	67	41	25	153	581	-666	113
EU	65	137	604	276	506	2,265	-604	576
Norway	-	-	-	-	-	-	-	-
Switzerland	-	6	46	-4	98	85	42	7
Europe	65	143	649	272	604	2,349	-562	584
Canada	-	-	-	-	-	-	-	-
Japan	5	36	51	10	168	10	20	46
United States	-27	711	749	654	775	668	668	980
Europe + Japan + United States	42	891	1,449	936	1,547	3,027	126	1,610

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 31. FDI Flows to the Andean Community, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	0	-1	—	—	-1	-1	-1
Belgium	6	0	58	1	17	112	6	154
Denmark	—	3	4	—	7	—	15	—
Finland	0	—	—	—	—	—	—	—
France	24	-17	354	88	294	743	544	98
Germany	14	33	239	157	154	213	302	370
Italy	6	18	9	5	9	9	8	14
Netherlands	6	85	8	330	113	217	-532	-85
Portugal	—	—	2	—	0	-1	7	5
Spain	16	365	727	223	704	2,429	251	30
Sweden	1	2	18	17	—	3	-3	74
United Kingdom	41	-36	391	223	337	984	-99	508
EU	113	455	1,810	1,043	1,634	4,708	497	1,167
Norway	—	—	—	—	—	—	—	—
Switzerland	—	26	190	27	222	276	299	129
Europe	113	481	2,001	1,070	1,856	4,984	796	1,296
Canada	—	—	—	—	—	—	—	—
Japan	-13	46	64	17	168	16	29	88
United States	-94	970	1,478	1,388	1,474	1,683	929	1,918
Europe + Japan + United States	6	1,497	3,542	2,476	3,498	6,683	1,754	3,301

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 32. FDI Flows to Central America, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	-	-	-	-	-	-	-	-
Belgium	0	0	8	1	10	3	1	27
Denmark	-	1	-	-	-	-	-	-
Finland	-	-	-	-	-	-	-	-
France	36	1	0	-1	1	-	-	-
Germany	-2	8	24	29	-10	41	55	7
Italy	1	1	2	3	2	2	3	2
Netherlands	0	-	-	-	-	-	-	-
Portugal	-	-	14	-	-	-	69	2
Spain	6	0	1	0	6	-	-	-
Sweden	0	-	1	-	-	-	-	3
United Kingdom	4	-	9	3	12	23	7	2
EU	45	11	60	34	22	69	134	43
Norway	-	-	-	-	-	-	-	-
Switzerland	-	-1	-10	41	-134	52	-21	15
Europe	45	10	51	75	-113	121	113	57
Canada	-	-	-	-	-	-	-	-
Japan	-1	2	1	-	-	2	1	-
United States	-	30	394	274	476	485	957	-224
Europe + Japan + United States	43	41	445	349	363	607	1,071	-167

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 33. FDI Flows to MERCOSUR, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	5	38	19	6	42	82	39
Belgium	9	-23	207	-10	451	110	1,052	-570
Denmark	0	3	18	9	24	11	15	29
Finland	3	12	-13	9	—	-20	-46	-9
France	89	139	1,451	-179	1,467	1,584	2,507	1,873
Germany	205	230	1,145	1,504	505	853	1,456	1,405
Italy	88	11	392	112	152	206	831	657
Netherlands	61	373	1,774	319	721	1,363	4,069	2,396
Portugal	—	2	1,306	34	351	658	3,873	1,614
Spain	44	86	6,323	633	682	1,991	8,303	20,008
Sweden	1	12	301	-18	140	298	605	479
United Kingdom	329	332	1,192	822	1,234	747	1,203	1,956
EU	829	1,182	14,132	3,255	5,732	7,844	23,947	29,878
Norway	—	—	—	—	—	—	—	—
Switzerland	—	60	339	209	184	-114	725	693
Europe	829	1,242	14,471	3,464	5,916	7,730	24,672	30,571
Canada	—	—	—	—	—	—	—	—
Japan	214	154	652	296	673	942	668	680
United States	786	2,876	6,207	8,998	4,591	8,959	6,230	2,257
Europe + Japan + United States	1,829	4,272	21,330	12,759	11,180	17,631	31,570	33,508

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 34. FDI Flows to Latin American and Caribbean Countries, 1980-1999*(Excluding offshore centers and other flows; net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	6	40	20	7	42	92	39
Belgium	15	3	416	178	579	338	914	73
Denmark	1	9	41	43	49	11	74	29
Finland	3	26	-3	52	25	-7	-59	-23
France	169	170	2,067	59	2,036	2,442	3,168	2,628
Germany	281	407	1,715	1,898	716	2,185	2,146	1,632
Italy	97	23	439	111	183	398	849	652
Netherlands	70	528	2,394	989	1,112	2,189	5,000	2,683
Portugal	—	2	1,327	34	347	668	3,955	1,630
Spain	128	548	8,877	1,037	1,577	6,129	9,360	26,285
Sweden	-2	21	359	31	143	306	682	631
United Kingdom	458	538	2,088	1,645	1,965	3,431	1,839	1,562
EU	1,221	2,281	19,761	6,097	8,739	18,132	28,019	37,820
Norway	—	—	—	—	—	—	—	—
Switzerland	—	133	723	304	436	335	1,331	1,206
Europe	1,221	2,414	20,484	6,401	9,175	18,468	29,350	39,026
Canada	—	—	—	—	—	—	—	—
Japan	292	386	1,029	492	780	1,094	862	1,919
United States	1,102	7,153	13,765	15,283	11,248	17,861	13,836	10,597
Europe + Japan + United States	2,614	9,952	35,278	22,176	21,203	37,422	44,048	51,541

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 35. FDI Flows to Offshore Centers, 1980-1999*(Net outflows, millions of U.S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	—	—	—	—	—	—	—	—
Belgium	115	8	-57	-135	-9	-154	83	-70
Denmark	—	3	—	—	—	—	—	—
Finland	11	45	50	62	187	—	—	—
France	46	—	385	213	89	346	700	578
Germany	68	166	374	291	-3	839	53	689
Italy	103	167	148	-26	28	189	789	-239
Netherlands	48	—	-154	-145	275	957	559	-2,415
Portugal	—	—	4	—	-34	11	9	36
Spain	51	182	85	-154	581	—	—	—
Sweden	6	-1	13	—	—	-2	10	57
United Kingdom	710	897	1,059	393	408	671	1,474	2,350
EU	1,157	1,467	1,908	500	1,521	2,859	3,677	986
Norway	—	—	—	—	—	—	—	—
Switzerland	—	67	1,100	70	106	206	2,063	3,055
Europe	1,157	1,534	3,008	570	1,627	3,065	5,741	4,040
Canada	—	—	—	—	—	—	—	—
Japan	1,119	299	1,864	370	-680	1,252	4,782	3,595
United States	1,329	4,669	4,639	860	6,797	3,467	3,096	8,975
Europe + Japan + United States	3,605	6,501	9,511	1,800	7,744	7,784	13,618	16,611

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 36. Total FDI Flows to Latin America and the Caribbean, 1980-1999*(Including offshore centers and other flows; net outflows, millions of U. S. dollars)*

	Annual average			1995	1996	1997	1998	1999
	1980-89	1990-94	1995-99					
Austria	4	15	99	20	208	83	-87	270
Belgium	129	26	363	53	568	191	997	4
Denmark	18	23	68	68	123	45	90	14
Finland	14	74	92	114	211	62	-52	124
France	216	420	2,453	273	2,126	2,788	3,873	3,206
Germany	349	635	2,090	2,191	714	3,028	2,196	2,320
Italy	201	212	589	87	213	588	1,641	418
Netherlands	153	574	2,386	1,179	1,958	2,933	5,468	393
Portugal	—	13	1,333	43	312	679	3,965	1,666
Spain	181	733	9,545	883	2,162	6,706	10,498	27,479
Sweden	50	20	373	31	143	304	692	693
United Kingdom	1,261	1,770	3,793	1,799	2,382	4,233	3,959	6,594
EU	2,575	4,516	23,184	6,741	11,120	21,640	33,238	43,180
Norway	—	13	176	87	157	548	9	79
Switzerland	360	1,073	1,694	159	-6	636	3,371	4,312
Europe	2,935	5,602	25,055	6,987	11,271	22,825	36,619	47,571
Canada	—	490	4,042	2,389	3,745	6,196	5,157	2,719
Japan	1,412	688	2,897	883	96	2,346	5,645	5,514
United States	2,803	11,862	18,414	16,040	18,138	21,539	16,830	19,522
Europe + Canada + Japan + United States	7,150	18,642	50,407	26,300	33,251	52,905	64,251	75,327

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by central banks and statistical offices from investor countries.

Table 37. Austria: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U. S. dollars)

	1990		1995		1998	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	—	—	35	3.2%
Bolivia	—	—	—	—	—	—
Brazil	—	—	—	—	271	24.6%
Chile	—	—	—	—	5	0.4%
Colombia	—	—	—	—	2	0.2%
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	—	—	1	0.1%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—
Venezuela	—	—	—	—	—	—
Latin America/Caribbean	—	—	—	—	314	28.5%
<i>Andean Community</i>	—	—	—	—	2	0.2%
<i>Central America</i>	—	—	—	—	—	—
<i>MERCOSUR</i>	—	—	—	—	306	27.8%
Offshore Centers	—	—	—	—	—	—
Other	—	—	—	—	788	71.5%
Total	—	—	—	—	1,101	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Österreichische Nationalbank.

Table 38. Denmark: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1998	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	—	—	31	5.1%
Bolivia	—	—	—	—	—	—
Brazil	—	—	—	—	125	20.5%
Chile	—	—	—	—	31	5.1%
Colombia	—	—	—	—	—	—
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	—	—	157	25.6%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—
Venezuela	—	—	—	—	63	10.3%
Latin America/Caribbean	—	—	—	—	407	66.7%
<i>Andean Community</i>	—	—	—	—	63	10.3%
<i>Central America</i>	—	—	—	—	—	—
<i>MERCOSUR</i>	—	—	—	—	172	28.2%
Offshore Centers	—	—	—	—	—	—
Other	—	—	—	—	204	33.3%
Total	—	—	—	—	611	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Danmarks Nationalbank.

Table 39. Finland: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	—	—	—	—
Bolivia	—	—	—	—	—	—
Brazil	—	—	99	—	96	41.3%
Chile	—	—	70	—	2	0.7%
Colombia	—	—	—	—	—	—
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	2	—	4	1.6%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—
Venezuela	—	—	—	—	—	—
Latin America/Caribbean	—	—	171	67.6%	102	43.6%
<i>Andean Community</i>	—	—	—	—	—	—
<i>Central America</i>	—	—	—	—	—	—
<i>MERCOSUR</i>	—	—	99	39.0%	96	41.3%
Offshore Centers	—	—	—	—	—	—
Other	—	—	82	32.4%	131	56.4%
Total	—	—	253	100.0%	233	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Suomen Pankki.

Table 40. France: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1998	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	384	13.0%	1,436	19.9%	2,744	20.1%
Bolivia	—	—	—	—	—	—
Brazil	1,345	45.7%	3,743	51.9%	7,618	55.9%
Chile	377	12.8%	326	4.5%	135	1.0%
Colombia	9	0.3%	—	—	—	—
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	216	7.3%	371	5.1%	676	5.0%
Nicaragua	—	—	—	—	—	—
Paraguay	3	0.1%	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	41	1.4%	—	—	—	—
Venezuela	113	3.8%	60	0.8%	49	0.4%
Latin America/Caribbean	2,489	84.5%	5,936	82.3%	11,222	82.3%
<i>Andean Community</i>	<i>122</i>	<i>4.1%</i>	<i>60</i>	<i>0.8%</i>	<i>49</i>	<i>0.4%</i>
<i>Central America</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
<i>MERCOSUR</i>	<i>1,773</i>	<i>60.2%</i>	<i>5,179</i>	<i>71.8%</i>	<i>10,362</i>	<i>76.0%</i>
Offshore Centers	429	14.6%	975	13.5%	1,467	10.8%
Other	27	0.9%	300	4.2%	942	6.9%
Total	2,945	100.0%	7,211	100.0%	13,631	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banque de France.

Table 41. Germany: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1998	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	1,136	12.4%	1,470	8.5%	2,290	9.9%
Bolivia	5	0.1%	3	0.0%	4	0.0%
Brazil	4,443	48.6%	8,626	50.2%	8,922	38.7%
Chile	135	1.5%	526	3.1%	685	3.0%
Colombia	163	1.8%	383	2.2%	542	2.3%
Costa Rica	23	0.3%	21	0.1%	30	0.1%
Dominican Republic	3	0.0%	6	0.0%	10	0.0%
Ecuador	24	0.3%	39	0.2%	43	0.2%
El Salvador	17	0.2%	45	0.3%	54	0.2%
Guatemala	30	0.3%	59	0.3%	90	0.4%
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	4	0.0%	4	0.0%
Jamaica	2	0.0%	—	—	—	—
Mexico	1,795	19.7%	2,088	12.1%	5,119	22.2%
Nicaragua	—	—	—	—	—	—
Paraguay	5	0.1%	36	0.2%	23	0.1%
Peru	48	0.5%	29	0.2%	50	0.2%
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	39	0.4%	60	0.3%	100	0.4%
Venezuela	84	0.9%	133	0.8%	463	2.0%
Latin America/Caribbean	7,953	87.1%	13,527	78.7%	18,429	79.9%
<i>Andean Community</i>	324	3.5%	586	3.4%	1,102	4.8%
<i>Central America</i>	70	0.8%	130	0.8%	178	0.8%
<i>MERCOSUR</i>	5,623	61.6%	10,192	59.3%	11,335	49.2%
Offshore Centers	1,168	12.8%	3,537	20.6%	4,280	18.6%
Other	13	0.1%	130	0.8%	345	1.5%
Total	9,135	100.0%	17,194	100.0%	23,054	100.0%

Note: Values refer to aggregated and consolidated primary and secondary direct investment. Primary direct investment constitutes the direct capital links arising from German interests in enterprises abroad. Secondary direct investments comprise the indirect capital links arising from German interests in foreign enterprises but via dependent holding companies domiciled abroad.

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Deutsche Bundesbank.

Table 42. Italy: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1998	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	1,483	22.8%	1,712	15.1%
Bolivia	—	—	9	0.1%	11	0.1%
Brazil	—	—	2,432	37.4%	2,827	25.0%
Chile	—	—	35	0.5%	67	0.6%
Colombia	—	—	35	0.5%	51	0.5%
Costa Rica	—	—	14	0.2%	10	0.1%
Dominican Republic	—	—	12	0.2%	6	0.1%
Ecuador	—	—	6	0.1%	6	0.1%
El Salvador	—	—	3	0.0%	2	0.0%
Guatemala	—	—	6	0.1%	8	0.1%
Guyana	—	—	0	0.0%	1	0.0%
Haiti	—	—	0	0.0%	0	0%
Honduras	—	—	0	0.0%	0	0%
Jamaica	—	—	0	0.0%	2	0.0%
Mexico	—	—	67	1.0%	356	3.1%
Nicaragua	—	—	2	0.0%	3	0.0%
Paraguay	—	—	4	0.1%	4	0.0%
Peru	—	—	63	1.0%	82	0.7%
Suriname	—	—	4	0.1%	5	0.0%
Trinidad and Tobago	—	—	0	0.0%	1	0.0%
Uruguay	—	—	19	0.3%	23	0.2%
Venezuela	—	—	170	2.6%	206	1.8%
Latin America/Caribbean	—	—	4,365	67.2%	5,383	47.6%
<i>Andean Community</i>	—	—	284	4.4%	356	3.1%
<i>Central America</i>	—	—	25	0.4%	26	0.2%
<i>MERCOSUR</i>	—	—	3,937	60.6%	4,566	40.4%
Offshore Centers	—	—	—	—	5,358	47.4%
Other	—	—	2,134	32.8%	570	5.0%
Total	—	—	6,499	100.0%	11,312	100.00%

Note: In 1999, Italian FDI stock in Brazil amounted to \$4,096 million and in Argentina \$1,908 million.

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the *Ufficio Italiano dei Cambi*.

Table 43. Japan: FDI Stock in Latin America and the Caribbean*(Outward stock, millions of U. S. dollars)*

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	—	—	—	—
Bolivia	—	—	—	—	—	—
Brazil	—	—	—	—	4,687	26.2%
Chile	—	—	—	—	—	—
Colombia	—	—	—	—	—	—
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	—	—	2,152	12.0%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—
Venezuela	—	—	—	—	—	—
Latin America/Caribbean	—	—	—	—	6,839	38.2%
<i>Andean Community</i>	—	—	—	—	—	—
<i>Central America</i>	—	—	—	—	—	—
<i>MERCOSUR</i>	—	—	—	—	4,687	26.2%
Offshore Centers	—	—	—	—	—	—
Other	—	—	—	—	11,053	61.8%
Total	—	—	—	—	17,891	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the Bank of Japan.

Table 44. Netherlands: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	399	5.4%	1,117	9.2%	1,500	11.3%
Bolivia	—	—	—	—	—	—
Brazil	952	12.9%	2,101	17.4%	5,120	38.5%
Chile	182	2.5%	279	2.3%	753	5.7%
Colombia	—	—	—	—	—	—
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	369	5.0%	260	2.2%	971	7.3%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	93	1.3%	114	0.9%	179	1.3%
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—
Venezuela	29	0.4%	460	3.8%	-99	-0.7%
Latin America/Caribbean	2,115	28.6%	4,468	36.9%	8,666	65.2%
<i>Andean Community</i>	121	1.6%	597	4.9%	142	1.1%
<i>Central America</i>	—	—	—	—	—	—
<i>MERCOSUR</i>	1,351	18.3%	3,218	26.6%	6,620	49.8%
Offshore Centers	4,665	63.1%	6,563	54.2%	3,887	29.2%
Other	618	8.4%	1,071	8.9%	742	5.6%
Total	7,398	100.0%	12,102	100.0%	13,295	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by De Nederlandsche Bank.

Table 45. Norway: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1997	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	-	-	-	-	-	-
Bolivia	-	-	-	-	-	-
Brazil	-	-	-	-	173	18.3%
Chile	-	-	-	-	131	13.9%
Colombia	-	-	-	-	-	-
Costa Rica	-	-	-	-	-	-
Dominican Republic	-	-	-	-	-	-
Ecuador	-	-	-	-	-	-
El Salvador	-	-	-	-	-	-
Guatemala	-	-	-	-	-	-
Guyana	-	-	-	-	-	-
Haiti	-	-	-	-	-	-
Honduras	-	-	-	-	-	-
Jamaica	-	-	-	-	-	-
Mexico	-	-	-	-	-	-
Nicaragua	-	-	-	-	-	-
Paraguay	-	-	-	-	-	-
Peru	-	-	-	-	-	-
Suriname	-	-	-	-	-	-
Trinidad and Tobago	-	-	-	-	-	-
Uruguay	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-
Latin America/Caribbean	-	-	-	-	304	32.2%
<i>Andean Community</i>	-	-	-	-	-	-
<i>Central America</i>	-	-	-	-	-	-
<i>MERCOSUR</i>	-	-	-	-	173	18.3%
Offshore Centers	-	-	-	-	-	-
Other	-	-	-	-	642	67.8%
Total	-	-	-	-	946	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Norges Bank.

Table 46. Portugal: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	—	—	31	0.5%
Bolivia	—	—	—	—	—	—
Brazil	—	—	—	—	5,907	94.5%
Chile	—	—	—	—	2	0.0%
Colombia	—	—	—	—	0	0.0%
Costa Rica	—	—	—	—	0	0.0%
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	—	—	138	2.2%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	10	0.2%
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	3	0.1%
Venezuela	—	—	—	—	4	0.1%
Latin America/Caribbean	—	—	—	—	6,095	97.5%
<i>Andean Community</i>	—	—	—	—	14	0.2%
<i>Central America</i>	—	—	—	—	0	0.0%
<i>MERCOSUR</i>	—	—	—	—	5,941	95.1%
Offshore Centers	—	—	—	—	154	2.5%
Other	—	—	—	—	—	—
Total	—	—	—	—	6,249	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banco de Portugal.

Table 47. Sweden: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	—	—	—	—
Bolivia	—	—	—	—	—	—
Brazil	—	—	1,352	100.0%	1,525	41.0%
Chile	—	—	—	—	—	—
Colombia	—	—	—	—	—	—
Costa Rica	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—
El Salvador	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	—	—	436	11.7%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	—	—	—	—
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	—	—	—	—
Venezuela	—	—	—	—	—	—
Latin America/Caribbean	—	—	1,352	100.0%	1,961	52.7%
<i>Andean Community</i>	—	—	—	—	—	—
<i>Central America</i>	—	—	—	—	—	—
<i>MERCOSUR</i>	—	—	1,352	100.0%	1,525	41.0%
Offshore Centers	—	—	—	—	704	18.9%
Other	—	—	—	—	1,056	28.4%
Total	—	—	1,352	100.0%	3,720	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Sveriges Riksbank.

Table 48. Switzerland: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	427	2.1%	823	3.2%
Bolivia	—	—	—	—	—	—
Brazil	—	—	3,811	18.5%	3,153	12.4%
Chile	—	—	785	3.8%	476	1.9%
Colombia	—	—	480	2.3%	728	2.9%
Costa Rica	—	—	104	0.5%	113	0.4%
Dominican Republic	—	—	—	—	—	—
Ecuador	—	—	156	0.8%	235	0.9%
El Salvador	—	—	—	—	—	—
Guatemala	—	—	46	0.2%	91	0.4%
Guyana	—	—	—	—	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—
Mexico	—	—	1,249	6.1%	2,445	9.6%
Nicaragua	—	—	—	—	—	—
Paraguay	—	—	—	—	—	—
Peru	—	—	83	0.4%	164	0.6%
Suriname	—	—	—	—	—	—
Trinidad and Tobago	—	—	—	—	—	—
Uruguay	—	—	70	0.3%	273	1.1%
Venezuela	—	—	202	1.0%	435	1.7%
Latin America/Caribbean	—	—	7,413	35.9%	8,935	35.1%
<i>Andean Community</i>	—	—	920	4.5%	1,562	6.1%
<i>Central America</i>	—	—	150	0.7%	203	0.8%
<i>MERCOSUR</i>	—	—	4,309	20.9%	4,249	16.7%
Offshore Centers	—	—	12,917	62.6%	16,290	64.0%
Other	—	—	304	1.5%	239	0.9%
Total	—	—	20,635	100.0%	25,464	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by Banque Nationale Suisse.

Table 49. United Kingdom: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	332	1.6%	705	2.9%	1,227	5.1%
Bolivia	—	—	14	0.1%	—	—
Brazil	2,410	11.8%	3,601	14.8%	4,256	17.6%
Chile	399	1.9%	1,032	4.2%	1,738	7.2%
Colombia	—	—	1,871	7.7%	1,579	6.5%
Costa Rica	—	—	11	0.0%	48	0.2%
Dominican Republic	—	—	73	0.3%	—	—
Ecuador	15	0.1%	23	0.1%	-16	-0.1%
El Salvador	—	—	—	—	—	—
Guatemala	—	—	39	0.2%	—	—
Guyana	—	—	14	0.1%	—	—
Haiti	—	—	—	—	—	—
Honduras	—	—	—	—	18	0.1%
Jamaica	291	1.4%	431	1.8%	1,521	6.3%
Mexico	781	3.8%	543	2.2%	1,673	6.9%
Nicaragua	—	—	3	0.0%	—	—
Paraguay	—	—	39	0.2%	—	—
Peru	15	0.1%	60	0.2%	399	1.7%
Suriname	—	—	—	—	—	—
Trinidad and Tobago	104	0.5%	47	0.2%	—	—
Uruguay	21	0.1%	45	0.2%	134	0.6%
Venezuela	133	0.6%	209	0.9%	810	3.4%
Latin America/Caribbean	4,502	22.0%	8,759	35.9%	13,387	55.4%
<i>Andean Community</i>	164	0.8%	2,178	8.9%	2,772	11.5%
<i>Central America</i>	—	0.0%	53	0.2%	66	0.3%
<i>MERCOSUR</i>	2,763	13.5%	4,390	18.0%	5,617	23.3%
Offshore Centers	13,579	66.3%	13,931	57.2%	12,372	51.2%
Other	2,414	11.8%	1,676	6.9%	-1,612	-6.7%
Total	20,495	100.0%	24,366	100.0%	24,147	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by the United Kingdom Office for National Statistics.

Table 50. United States: FDI Stock in Latin America and the Caribbean
(Outward stock, millions of U.S. dollars)

	1990		1995		1999	
	US\$ million	% distr.	US\$ million	% distr.	US\$ million	% distr.
Argentina	—	—	7,660	5.8%	14,187	6.4%
Bolivia	—	—	300	0.2%	204	0.1%
Brazil	—	—	25,002	19.0%	35,003	15.7%
Chile	—	—	6,216	4.7%	9,886	4.4%
Colombia	—	—	3,506	2.7%	4,029	1.8%
Costa Rica	—	—	921	0.7%	1,646	0.7%
Dominican Republic	—	—	330	0.3%	952	0.4%
Ecuador	—	—	889	0.7%	1,202	0.5%
El Salvador	—	—	150	0.1%	722	0.3%
Guatemala	—	—	233	0.2%	453	0.2%
Guyana	—	—	111	0.1%	132	0.1%
Haiti	—	—	14	0.0%	56	0.0%
Honduras	—	—	68	0.1%	56	0.0%
Jamaica	—	—	1,287	1.0%	2,469	1.1%
Mexico	—	—	16,873	12.8%	34,265	15.4%
Nicaragua	—	—	88	0.1%	167	0.1%
Paraguay	—	—	83	0.1%	229	0.1%
Peru	—	—	1,335	1.0%	2,532	1.1%
Suriname	—	—	83	0.1%	59	0.0%
Trinidad and Tobago	—	—	673	0.5%	1,094	0.5%
Uruguay	—	—	345	0.3%	614	0.3%
Venezuela	—	—	3,634	2.8%	6,750	3.0%
Latin America/Caribbean	—	—	69,801	53.1%	116,727	52.3%
<i>Andean Community</i>	—	—	9,664	7.4%	14,717	6.6%
<i>Central America</i>	—	—	1,460	1.1%	3,044	1.4%
<i>MERCOSUR</i>	—	—	33,090	25.2%	50,033	22.4%
Offshore Centers	—	—	61,156	46.6%	105,909	47.5%
Other	—	—	420	0.3%	546	0.2%
Total	—	—	131,377	100.0%	223,182	100.0%

Source: IDB/IRELA, *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid, 1998), and data provided by United States Department of Commerce/Bureau of Economic Analysis.

In the 1990s, the economic environment in Latin America and the Caribbean changed markedly. The countries of the region underwent a process of stabilization and economic reform that encompassed fiscal consolidation and the privatization of state-owned enterprises, as well as market deregulation and trade liberalization. These developments increased the region's attractiveness for foreign direct investment (FDI), which rose to unprecedented levels towards the end of the last decade.

Foreign Direct Investment in Latin America provides an overview and analysis of the increased presence of European investors in Latin America. As flows grew rapidly from a number of countries, particularly Spain, overall European FDI flows to the region rose more than eight times in the second half of the 1990s relative to the first. The European investor countries covered are Spain, the United Kingdom, France, Germany, Italy, Portugal, the Netherlands and Switzerland. A separate chapter by Professor John Dunning reviews the process of "Latin Americanization" of European companies. The book also presents the results of a survey carried out in the major European investor countries with a view to analyzing corporate investment strategies in Latin America.



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1300 New York Ave., N.W.
Washington, D.C. 20577
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