

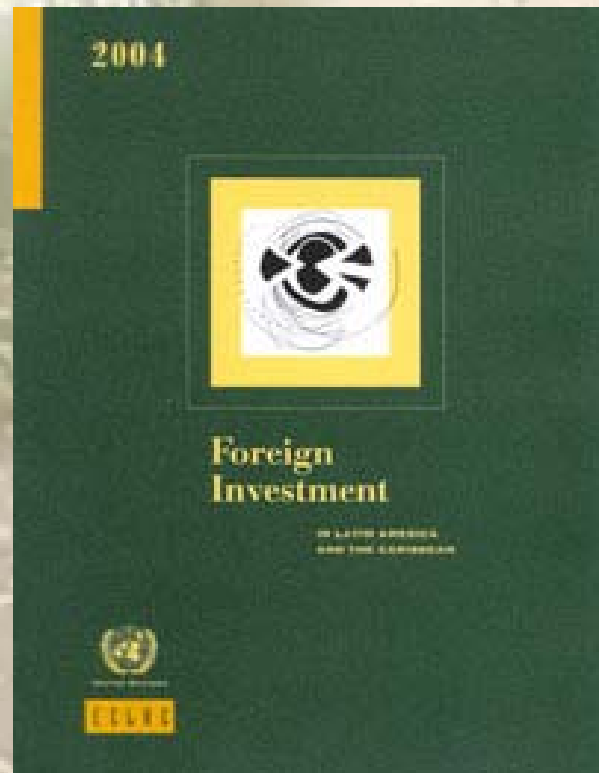


# The Policy Framework For Investment (PFI) in Latin America & the Caribbean (LAC)

Michael Mortimore

UN-ECLAC  
United Nations Economic Commission for  
Latin America and the Caribbean

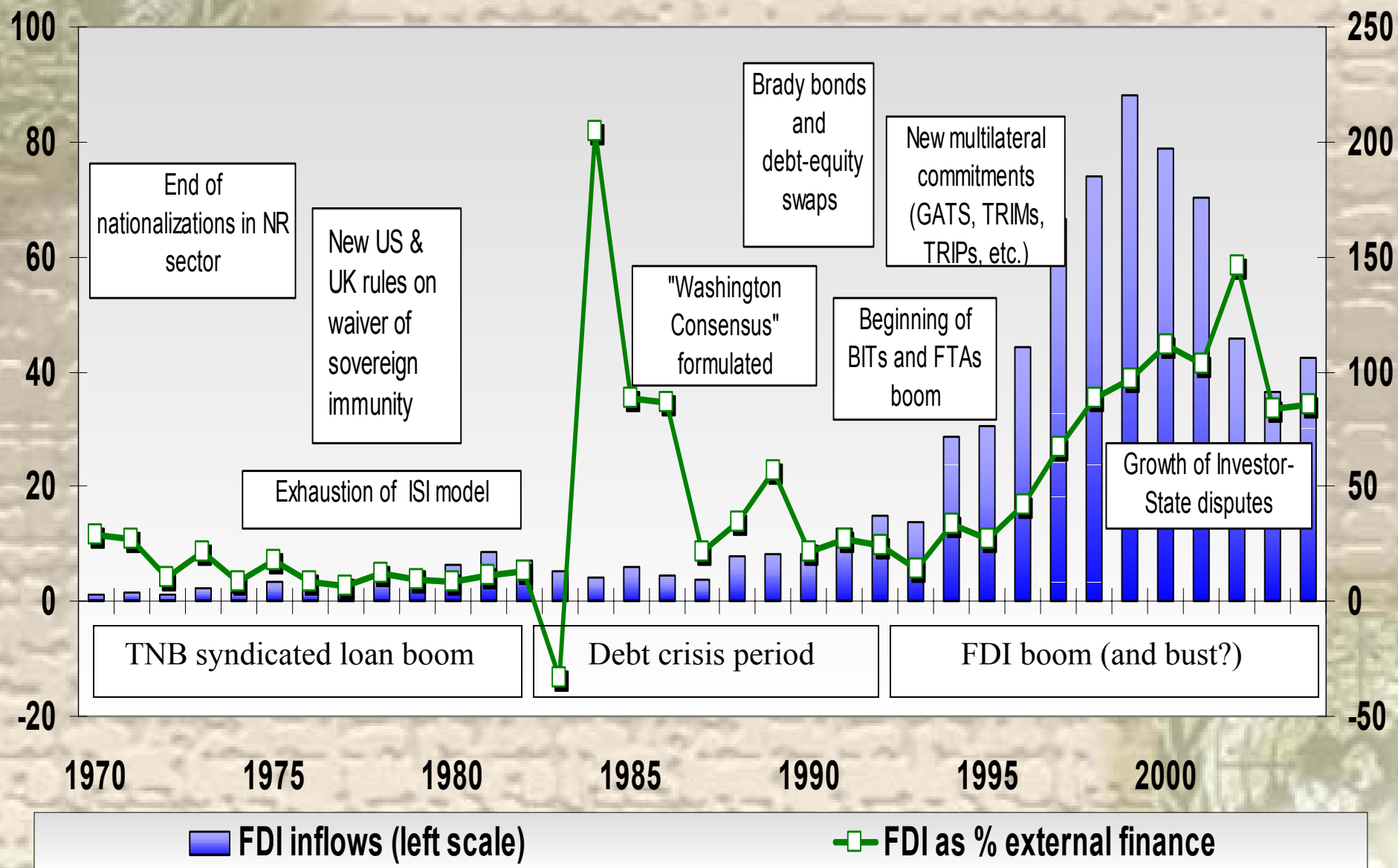
27 October 2005



- **Chapter 1: regional panorama** (recent situation for FDI inflows, TNC operations, TNC strategies)
- **Chapter 2: experience of a FDI recipient country** (Brazil-twice, Mexico, Argentina, Chile, Andean Community, Costa Rica, Dominican Republic, Honduras and Jamaica)
- **Chapter 3: experience of a sector in which FDI is important** (electric power in the Southern Cone, automotive (twice), apparel, telecom, banking, petroleum and gas)
- **Others: experience of an investor country** (United States, Spain, European Union, Japan)

# LAC: context of the FDI boom

(billions of dollars and % of external financing)



# FDI strategies of TNCs in Latin America and the Caribbean

Corporate strategy and sector	Natural resource-seeking	Market-seeking (national or regional)	Efficiency-seeking for foreign markets	Technological assets-seeking
<i>Goods</i>	<p><i>Petroleum/gas: Andean Community, Argentina, Trinidad and Tobago</i></p> <p><i>Mining: Chile, Argentina, Andean Community</i></p>	<p><i>Automotive: Mercosur</i></p> <p><i>Chemicals: Brazil</i></p> <p><i>Food products: Argentina, Brazil, Mexico</i></p> <p><i>Beverages: Argentina, Brazil, Mexico</i></p> <p><i>Tobacco: Argentina, Brazil, Mexico</i></p>	<p><i>Automotive: Mexico</i></p> <p><i>Electronics: Mexico and Caribbean Basin</i></p> <p><i>Apparel: Caribbean Basin and Mexico</i></p>	
<i>Services</i>	<p><i>Tourism: Mexico and Caribbean Basin</i></p>	<p><i>Finance: Mexico, Chile, Argentina, Venezuela, Colombia, Peru, Brazil</i></p> <p><i>Telecommunications: Brazil, Argentina, Chile, Peru, Venezuela</i></p> <p><i>Retail trade: Brazil, Argentina, Mexico</i></p> <p><i>Electricity: Colombia, Brazil, Chile, Argentina, Central America</i></p> <p><i>Gas distribution: Argentina, Chile, Colombia, Bolivia</i></p>	<p><i>Administrative services: Costa Rica</i></p>	

**Traditional**  
**New (1990s)**

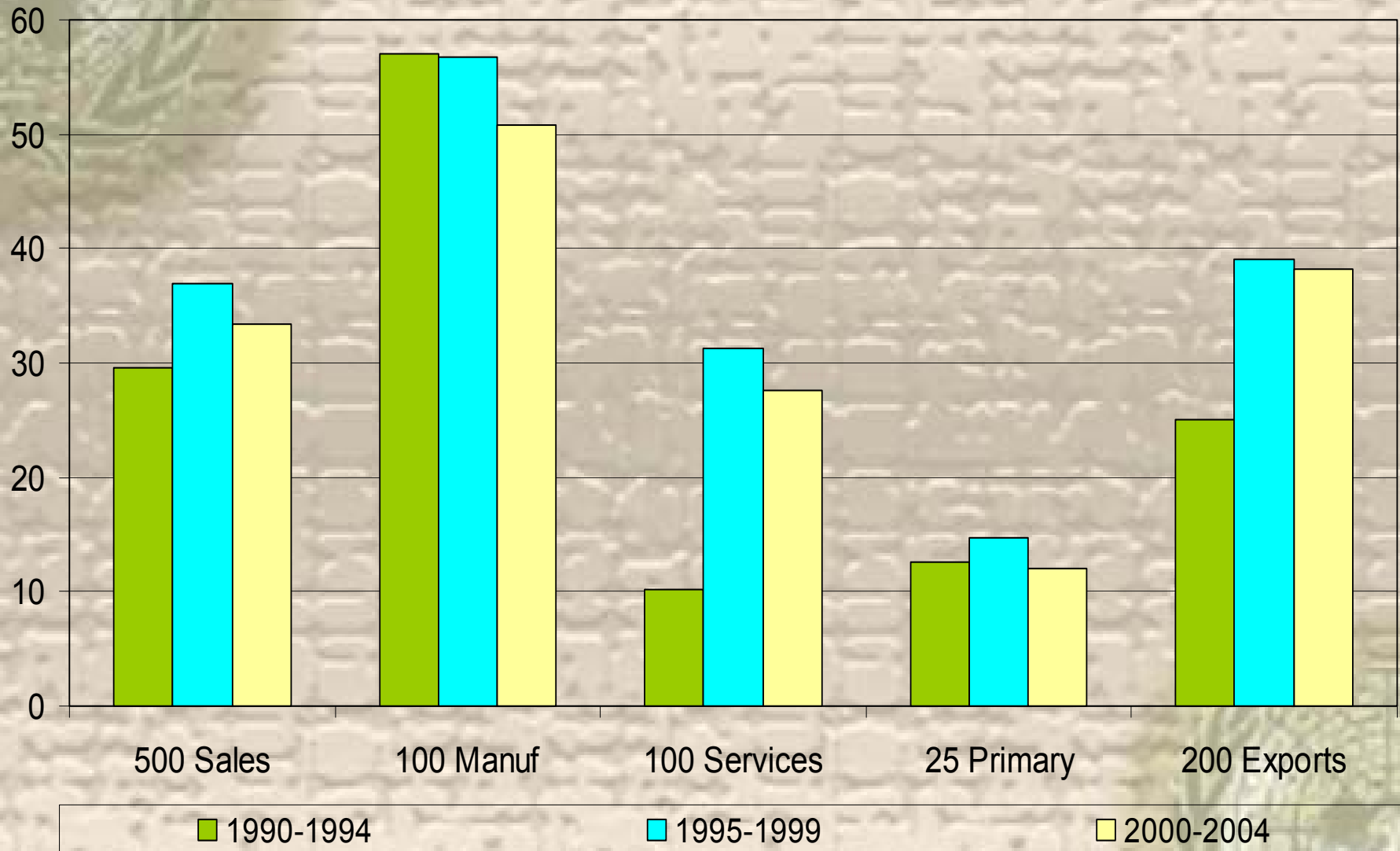
# The principal TNCs, by sales in the region, 2003

(Consolidated sales of the top TNCs)

	<b>Firm</b>	<b>Country</b>	<b>Sector</b>	<b>Sales in LAC (billions of dollars)</b>	<b>LAC share of global sales (%)</b>
1	General Motors Corp.	US	Automotive	14.3	7.3
2	Telefónica	Spain	Telecom.	14.1	44.7
3	Wal-Mart Stores	US	Commerce	12.0	4.6
4	Volkswagen AG	Germany	Automotive	10.5	10.6
5	DaimlerChrysler AG	Germany	Automotive	10.1	6.5
6	Delphi Automotive Systems	US	Auto parts	10.0	35.7
7	Repsol YPF	Spain	Hydrocarbons	7.4	17.5
8	Endesa	Spain	Electricity	7.3	38.7
9	Ford Motor Co.	US	Automotive	7.2	4.4
10	Telecom Italia SpA	Italy	Telecom.	6.8	19.2

# TNCs have increased their presence in LAC

TNC % share of each group of LAC's largest firms



... although the local firms have made a comeback recently

# Two **Different** Latin Americas?

...in terms of the **characteristics of FDI**:

## 1. Mexico and the Caribbean Basin

- efficiency-seeking (mostly manufactures)
- United States is the main source of FDI
- mainly involves the creation of new assets
- impact: increases export capacity, international competitiveness

## 2. South America

- market-seeking (mostly services)
- Europe (especially Spain) is the main source of FDI
- mainly involves the purchase of existing assets (acquisitions and privatizations)
- impact: strengthens systemic competitiveness

# LAC: a bittersweet experience

Corporate strategy	Potential benefits	Possible problems
<b>Efficiency-seeking FDI (export platforms)</b>	<p>Increased exports of manufactures;            Improved international competitiveness;            Transfer and assimilation of foreign technology;            Training of human resources;            Creation and deepening of production linkages;            Local entrepreneurial development;            Convert an export platform into a manufacturing center.</p>	<p>Low value-added trap;            Focus on static not dynamic local comparative advantages;            Dependence on imported components;            Lack of industrial agglomeration;            Crowding out local companies;            Race to the bottom in salaries, labor and environmental standards;            Race to the top in TNC incentives.</p>
<b>Market-seeking FDI (national or regional)</b>	<p>New local economic activities;            Increased local content;            Creation and deepening of production linkages;            Local entrepreneurial development;            Improvement of local services and national systemic competitiveness.</p>	<p>Internationally-competitive goods and services not achieved;            Crowding out local companies;            Regulatory problems in services;  <b>Investor-State disputes arising from international commitments on investment.</b></p>

# Some indicators of I-S problems

- **Argentina:** the surge (about 40) in ICSID and other investor-State disputes. As bad as it can get?
- **Mexico:** the questions raised by the NAFTA Chapter 11 experience with investor-State disputes (i.e. the right to regulate, transparency, procedures, frivolous claims by TNCs, etc.).
- **Brazil:** 14 BITs negotiated but not ratified.
- **Chile:** the disconnect between different institutions implementing elements of the FDI policy (i.e. DIRECON's negotiating of international commitments vs CORFO's implementation of more targeted policies to attract high-tech FDI, etc.).

# Lessons from the LAC experience

1. TNCs are the principal agents driving trade, investment and technology, however, “one-size fits all” FDI policies do not work and FDI benefits for recipient countries are anything but automatic;
2. Governments can take advantage of TNCs. This should complement efforts to strengthen domestic enterprise capabilities and focus on the corporate strategies relevant for their developmental aspirations;
3. The LAC experience has been bittersweet: massive FDI inflows and increased presence of TNCs have not produced *proportional* benefits and serious problems have arisen;
4. Active FDI policies clearly should form part of an integrated policy package that connects to a clearly defined national development strategy. In other words, **the OECD PFI is relevant for LAC.**
5. These FDI policies should encompass promotion, the negotiation of international commitments, the targeting of specific TNCs and the evaluation of results of those policies in order to make adjustments.

## The Bottom Line:

investment protection AND developmental impact

- Governments must understand that TNCs will continue to make use of the legal guarantees and protections accorded them under IIAs. Governments must therefore negotiate their international commitments (BITS, FTAs and multilateral agreements) with an eye to possible consequences not simply as a way to attract foreign investment.
- TNCs must understand that governments in recipient developing countries want to see concrete developmental benefits from the inward FDI. TNCs must therefore be amenable to more active public policies that seek to obtain such benefits.