

FOREIGN INVESTMENT IN LATIN AMERICA AND THE CARIBBEAN 2002 REPORT



United Nations

ECLAC

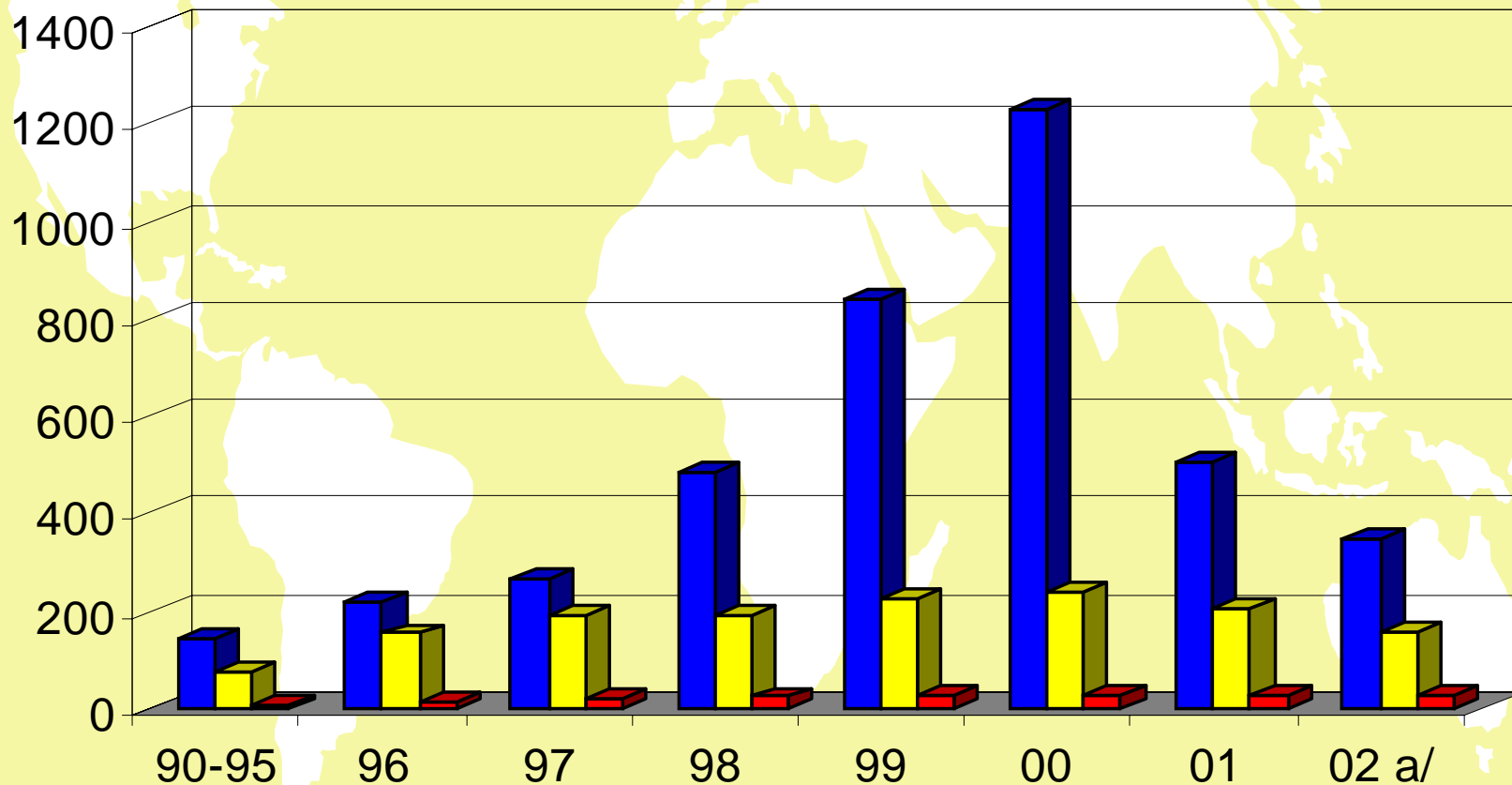
Structure of the 2000 Report



- Chapter I: Regional Overview
- Chapter II: Andean Community
- Chapter III: International Banking
- Final Conclusions

NET INFLOWS OF FDI TO DEVELOPED COUNTRIES, DEVELOPING COUNTRIES AND TRANSITION ECONOMIES OF CENTRAL AND EASTERN EUROPE

(US\$ billions)



■ Developed countries ■ Developing countries ■ Transition economies

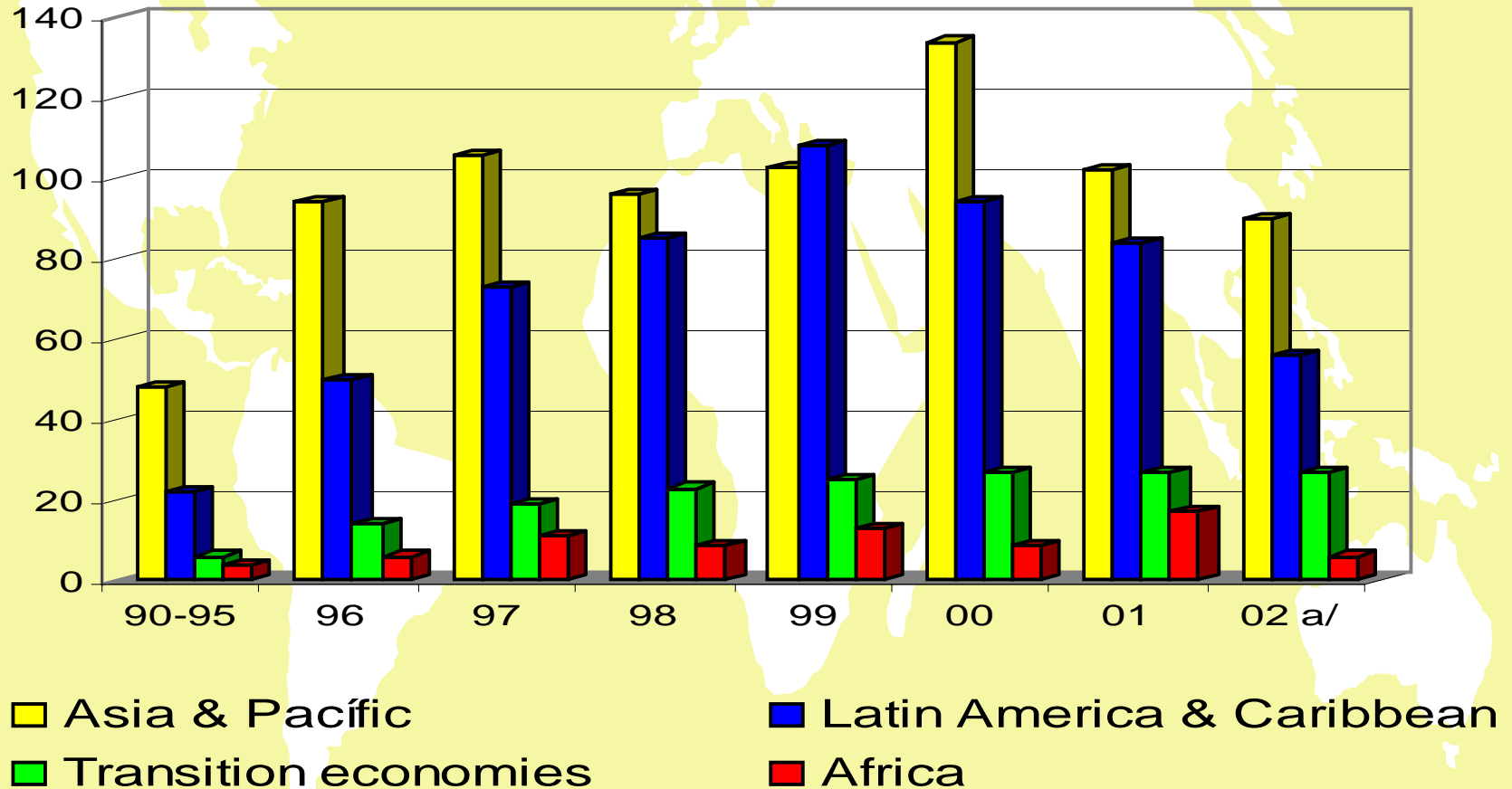
a/ Preliminary estimates

FACTORS INFLUENCING THE DECLINE IN FDI FLOWS

- Uncertainty about the economic growth prospects
- Crisis in activities associated with the “new Economy” (ITC)
- Decline in the profits and stock markets
- Strong reduction in number of mergers and acquisitions
- Increased risk perception, increased risk aversion
- Increased difficulties of companies in obtaining financing
- Reduced investments by companies

NET INFLOWS OF FDI TO DEVELOPING COUNTRIES AND TRANSITION ECONOMIES

(US\$ billions)



a/ Preliminary estimates

NET INFLOWS OF FDI TO LATIN AMERICA AND THE CARIBBEAN

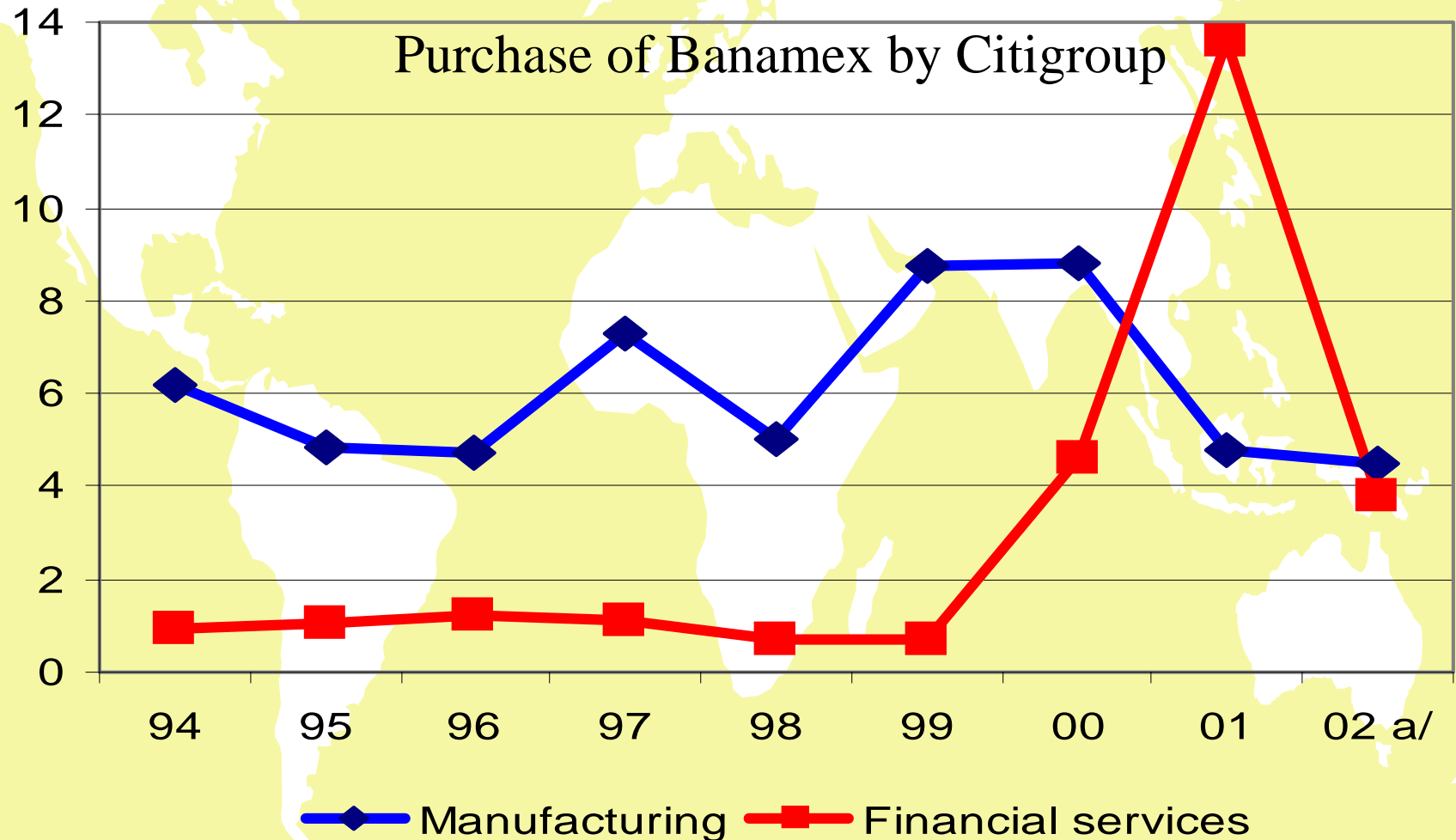
(Millions of dollars)

	1995-2000	2001	2002 ^a
South America	47 366	39 555	27 146
(Argentina)	10 776	3 214	1 500
(Brazil)	21 496	22 636	16 566
(Chile)	5 854	4 476	1 603
(Andean Community)	9 630	8 832	7 229
Mexico, Central America & Caribbean	15 735	29 465	17 753
(Mexico)	11 685	24 731	13 626
Financial Centers	10 571	14 993	11 788
Total	73 672	84 013	56 687

^a Estimates

MEXICO: FDI IN MANUFACTURING AND FINANCIAL SERVICES


(US\$billions)



a/ Estimates

A CHANGED GLOBAL FDI ENVIRONMENT

	1990s	After 2000
Global Context	<ul style="list-style-type: none">• Economic expansion• Explosion of FDI• “New Economy” boom• Mergers and Acquisitions upswing	<ul style="list-style-type: none">• Prolonged economic slowdown• Sharp decline in FDI• “New Economy” crisis• M & A collapse
Regional Context	<ul style="list-style-type: none">• Recuperation and growth• Macroeconomic stability• FDI linked to privatizations	<ul style="list-style-type: none">• Recession• Macroeconomic instability• Near end of privatizations cycle



**ADAPTATIONS OF TNC
STRATEGIES TO NEW SITUATION
IN LATIN AMERICA AND THE
CARIBBEAN**

LATIN AMERICA AND THE CARIBBEAN: PRINCIPAL TNC STRATEGIES

Corporate Strategy / Sector	Natural resource seeking	Market access seeking (national or subregional)	Efficiency seeking	Strategic element seeking
Primary	<p><i>Petroleum/gas:</i> Venezuela, Colombia, Argentina</p> <p><i>Minerals:</i> Chile, Argentina, Peru</p>			
Manufactures		<p><i>Automotive:</i> (Mercosur)</p> <p><i>Chemicals:</i> Brazil</p> <p><i>Food products:</i> Argentina, Brazil, Mexico</p> <p><i>Beverages:</i> Argentina, Brazil, Mexico</p> <p><i>Tobacco products:</i> Argentina, Brazil, Mexico</p>	<p><i>Automotive:</i> Mexico</p> <p><i>Electronics:</i> Mexico & Caribbean Basin</p> <p><i>Apparel:</i> Caribbean Basin & Mexico</p>	
Services		<p><i>Finance:</i> Brazil, Mexico, Chile, Argentina, Venezuela, Colombia, Peru</p> <p><i>Telecommunications:</i> Brazil, Argentina, Chile & Peru</p> <p><i>Retail trade:</i> Brazil, Argentina, Mexico y Chile</p> <p><i>Electrical energy:</i> Colombia, Brazil, Chile, Argentina & Central America</p> <p><i>Gas distribution:</i> Argentina, Chile, Colombia</p>		

LATIN AMERICA & THE CARIBBEAN: INTERNATIONAL COMPETITIVENESS, BY SUBREGION, 1985-2000

(world import market shares in percentage)

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

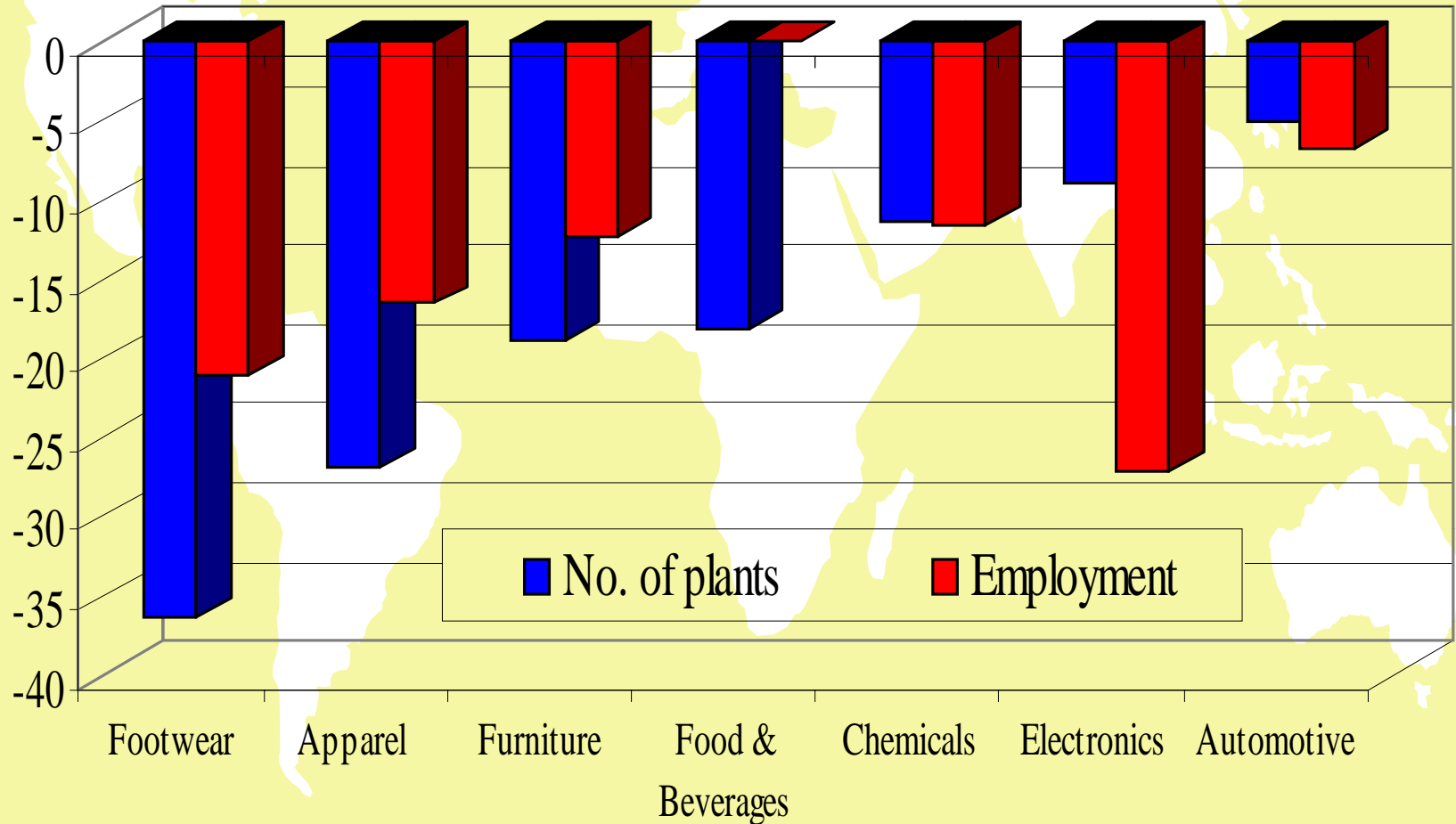
EFFICIENCY-SEEKING STRATEGIES

(including *maquiladoras* in Mexico and export processing zones in Central America and the Caribbean)

- In Mexico, maintenance of historic levels of FDI inflows
- Change in tendency with regard to low tech activities (mainly assembly)
 - Reduced working hours, firings and lay-offs and plant closures
 - In some cases, plant plant transfers to Asia, especially China, plus plant repositioning in subregion

MEXICO: IN-BOND EXPORT INDUSTRY (*MAQUILADORA*), CHANGE IN NUMBER OF ESTABLISHMENTS AND EMPLOYEES, JANUARY 2001 – OCTUBER 2002

(Percentages)




MARKET ACCESS SEEKING STRATEGIES



- **Manufacturing sector (South America):**
 - Reorientation of exports to markets beyond Mercosur
 - Expansion of companies with regional capital
- **Public Services (South America):**
 - Reduction of expansion plans
 - Some evidence of exit strategies
 - Stopped payments (Argentina)
- **Financial Services:**
 - Consolidation in South America
 - Expansion in México

NATURAL RESOURCE-SEEKING STRATEGIES



➤ **Mining (Andean Community and Chile)**

- Persistently low international mineral prices slow big investment projects. Antamina (copper and zinc) in Peru was last megaproject.

➤ **Hydrocarbons (Andean Community and Argentina)**

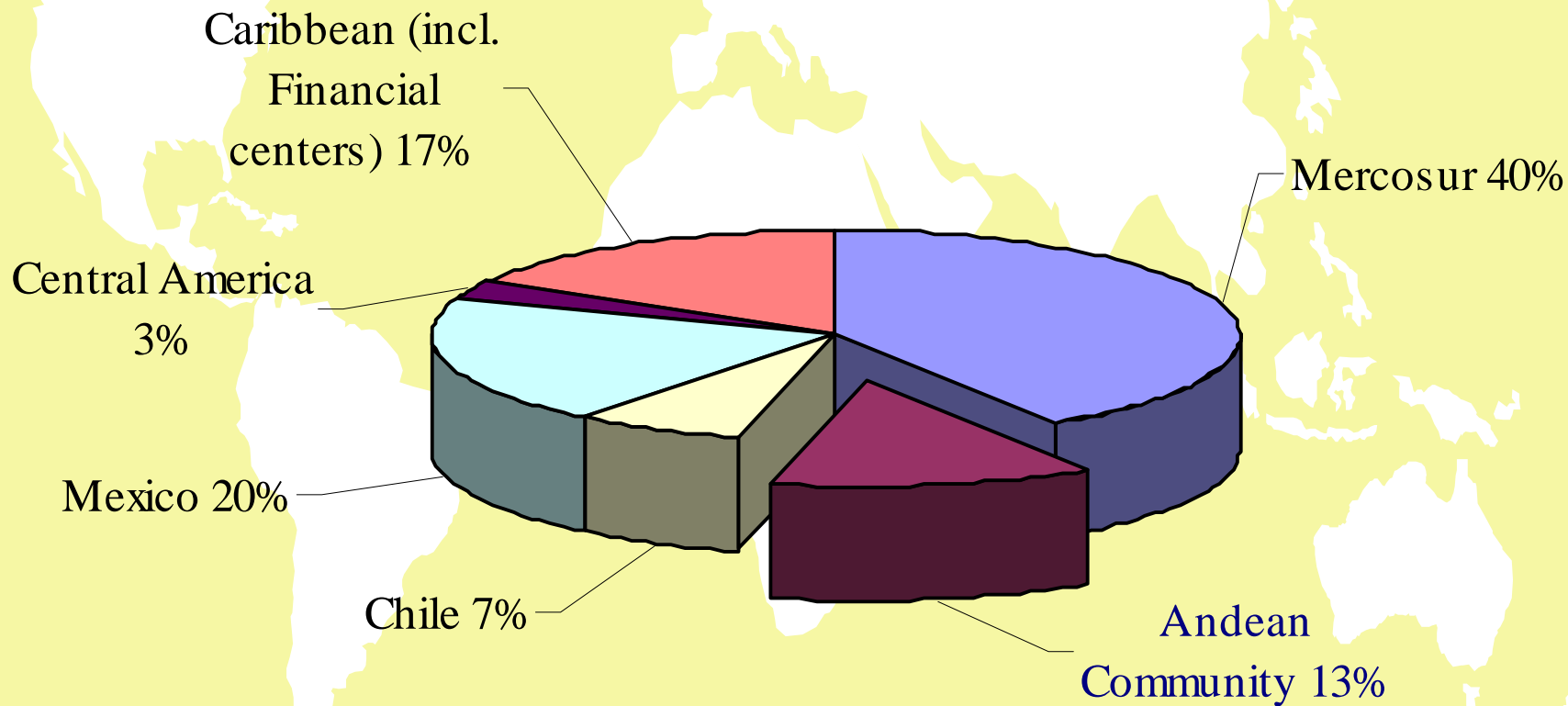
- Important projects in the Andean Community continue.
- Petrobras acquires Pérez Companc in Argentina.

A world map with a light blue background. The landmasses are shown in white. A yellow highlight covers the Andean region, including Colombia, Venezuela, Ecuador, Peru, and Bolivia. The text is centered over this highlighted area.

**CHARACTERISTICS OF FOREIGN
CAPITAL IN THE MEMBER
COUNTRIES OF THE ANDEAN
COMMUNITY**

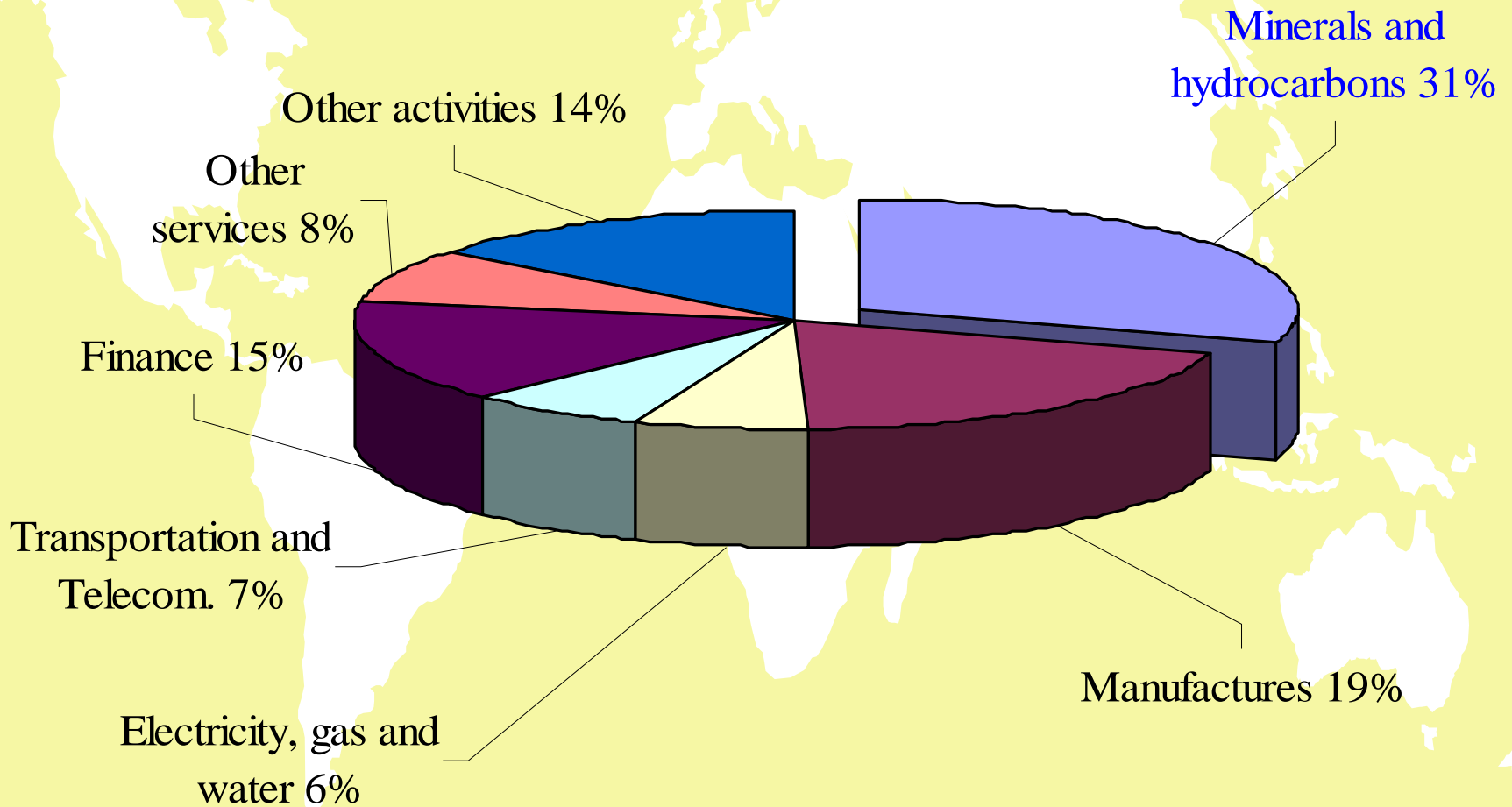
THE ANDEAN COMMUNITY'S SHARE OF FDI INFLOWS TO THE LATIN AMERICA AND THE CARIBBEAN, 1990-2001

(Percent)



ANDEAN COMMUNITY: ACCUMULATED FDI INFLOWS, BY SECTOR, 1992-2001

(Percent)



ANDEAN COMMUNITY: ACCUMULATED INFLOWS OF FDI, BY SECTOR, 1992-2001

(Percent)

	Colombia	Venezuela	Peru	Bolivia	Ecuador
Minerals and hydrocarbons	17.9	34.4	7.8	53.6	81.7
Manufactures	21.2	28.9	6.3	9.1	6.2
Electricity, gas and water	17.1	0.8	9.1		
Transportation and telecom	10.1	2.1	15.9		2.3
Finance	24.3	17.8	9.1		
Other services	9.4	3.4	4.8	43.9	9.7
Other activities		12.5	47.0	-6.7	
	100.0	100.0	100.0	100.0	100.0



Increased diversification and importance of manufactures

NATURAL RESOURCE-SEEKING

- The Andean countries possess important petroleum and mineral reserves
- During the last 100 years, TNCs and national State companies have alternated as the dominant agents extracting these natural resources.
- During the 1990s, reforms were implemented that facilitated private capital, especially foreign capital, to different segments of these activities

LOCAL MARKET ACCESS-SEEKING IN SERVICES AND INFRASTRUCTURE

- The economic reforms and especially the privatization of State assets led to a much increased presence of private capital in services
- The pioneers were Peru and Venezuela, followed by Colombia and Bolivia
 - Telecommunications
 - Fixed-line telephony (Bolivia, Peru y Venezuela)
 - Mobile telephony (Bolivia, Colombia, Ecuador, Peru y Venezuela)
 - Electrical energy (Bolivia, Colombia y Peru)
 - Other infrastructure (Colombia, Ecuador y Peru)
 - Financial sector (Colombia, Peru y Venezuela)
 - Retail trade (Colombia y Peru)

CONCLUSIONS

- At beginning of 1990s, the Andean economies underwent profound reforms => the State withdrew from the majority of productive operations and lifted most restrictions on FDI
- In spite of political and economic difficulties, the Andean Community attracted over 13% of the total FDI inflows to Latin America
- This FDI was motivated primarily by natural resource-seeking (especially, hydrocarbons) and local market access-seeking (services and infrastructure strategies)
- To an important degree, the decisions taken by the investing TNCs were unrelated to the Andean Community integration scheme itself, and to the political and economic problems encountered.



**INTERNATIONAL BANKING:
INVESTMENT AND CORPORATE
STRATEGIES IN LATIN AMERICA
AND THE CARIBBEAN**

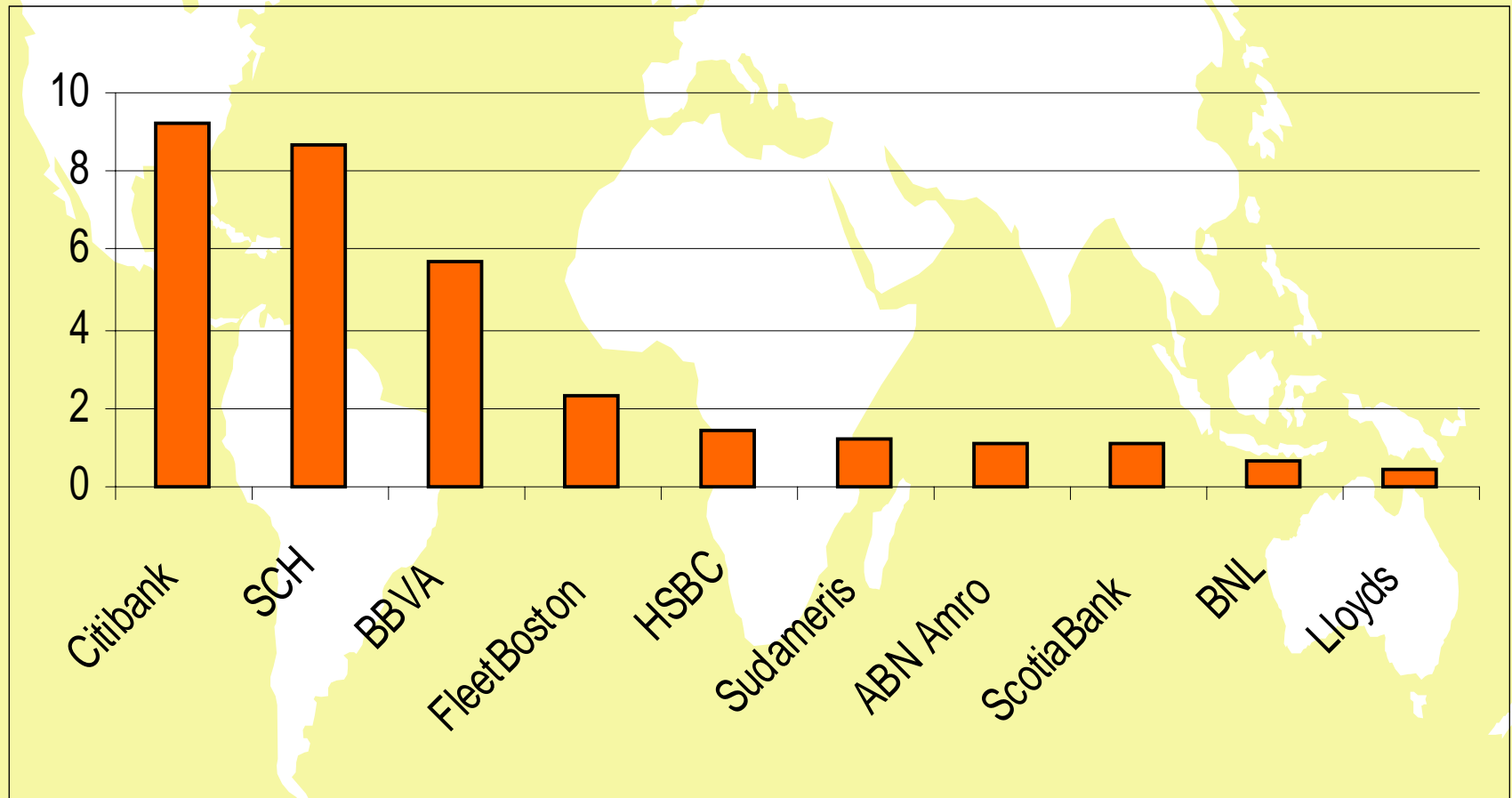
FOREIGN BANK SHARE OF TOTAL BANK ASSETS IN LATIN AMERICAN COUNTRIES

(percent)

	1990	1994	1999	2000	2001
Argentina	10	18	49	49	61
Brazil	6	8	17	23	49
Chile	19	16	54	54	62
Colombia	8	6	18	26	34
Mexico	0	1	19	24	90
Peru	4	7	33	40	61
Venezuela	1	1	42	42	59

THE BIGGEST FOREIGN BANKS IN LATIN AMERICA, 2001

(% share of lending)



PERFORMANCE INDICATORS: INCREASED OVERALL EFFICIENCY

(Percentages)

	Local banks		Foreign Banks	
	1997-2001	2001	1997-2001	2001
Profitability (return on)				
- return on assets	0.9	1.4	0.6	0.6
- return on capital	9.4	7.9	8.3	8.7
Efficiency				
- overdue loans / all loans	7.2	8.3	4.7	4.5
- operational expenses / total income	88.5	65.0	92.7	62.0

ACTIVE INTEREST RATES AND MARGINS ON PASSIVE RATES:

LOWER, BUT NOT ENOUGH

	Margins		Active rates	
	1997	2002	1997	2002
Argentina	2.1	10.8	9.2	56.2
Brazil	43.3	36.2	78.2	61.5
Chile	3.3	3.8	15.7	7.9
Colombia	8.1	6.8	34.2	16.5
Mexico	8.6	6.3	24.5	9.3
Peru	13.0	10.2	30.0	14.7
Venezuela	7.8	5.9	23.7	36.9
Simple average Latin America	14.5	14.0	32.8	31.3
Weighted average Latin America	21.6	18.4	45.0	36.3
Simple average OECD		3.7		3.8
Simple average Asia		3.5		5.4

THE STABILITY OF THE BANKING SYSTEM HAS NOT IMPROVED TO THE EXPECTED EXTENT

What was expected from the foreign banks

- Improved risk administration practices
- Less vulnerability to local downturns
- Unconditional support of the headquarters company: insurance against systemic risk

What actually happened

- Conservative policies
- More vulnerability to local and foreign downturns
- Regulatory restrictions of home country reduced assistance to local subsidiaries with problems

CONCLUSIONS

- For foreign banks, their entry into Latin America has been successful
- The new competition created by the aggressive expansion of the foreign banks in the region elevated the efficiency of the local bank system, taken together
- But, this has not translated into greater microeconomic efficiency or macroeconomic effectiveness:
 - Foreign banks adapted to the local system more than local banks adopting international norms
 - Less instability
 - Less systemic vulnerability




FINAL CONCLUSIONS

CONCLUSIONS

- Sharply changed tendency for FDI inflows (downward)
- Both conjunctural and structural factors influence FDI inflows, both global and regional
- End of up cycle of huge and easy FDI inflows: more countries now actively compete for smaller quantities of FDI
- FDI attraction policies based on low salaries and fiscal incentives have not proved both effective and sustainable in facing increased competition from Asia.

FDI POLICY MUST REFLECT DEVELOPMENTAL PRIORITIES

- 
- Requirements to move from horizontal and passive to focused and active FDI attraction policies:
 - Define national priorities
 - Identify sectors and activities to be promoted
 - Identify and contact relevant TNCs
 - Regulatory framework and institution building
 - Requirements to move from a macroeconomic (balance of payments) to a more microeconomic focus:
 - Promote and measure productive linkages between foreign enterprises and with national ones
 - Promote and measure technology transfers
 - Upgrade national skills of workers, technicians and managers
 - Improve enterprise development