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Region Fails To Attract High Quality Foreign Investment

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The UN's Economic Commission for Latin America and the Caribbean (ECLAC) published the region's foreign direct investment (FDI) figures for 2006 in May, showing that, while the numbers are up in absolute terms, they are down by world standards and that, while some sectors are profiting handsomely by capital inflows, the poor are seeing little or no benefit. The neoliberal idea that foreign investment will lift the region out of poverty finds no confirmation in these statistics, but the numbers do reveal some of the fault lines in the theory.

Panama and Costa Rica topped the list of FDI recipients on the isthmus, seeing inflows of US $2.6 billion and US$1.4 billion, respectively. The largest share of investment to Panama came by way of British bank HSBC's purchase of local bank Grupo Banistmo. At US$1.77 billion it was the largest foreign investment deal ever for Panama. ECLAC noted that the banking sector was Central America's number one draw for foreign investment. The financial sector in Costa Rica also attracted money, as did electronics, real estate, infrastructure, and tourism in both countries.

The rest of the isthmus has experienced modest FDI gains, with the exception of El Salvador, where it dropped. ECLAC said the textile industry has been the main attraction there. New sectors expected to see some growth there are software, telecoms, and call centers. Nevertheless, El Salvador received just US$204 million, significantly less than the US$517 million in 2005. Nicaragua and Honduras, also tied to textiles, have fared slightly better. Guatemala, with potential in chemicals, lags the positive growers.

The UN Conference on Trade and Development (UNCTAD) ranks countries on their attractiveness to FDI based on measures of performance and potential. It then classifies the countries as "front-runners," those with high marks in both categories, "above potential," those with low potential but high FDI performance, "below potential," those having high potential but low performance, and "underperformers," those scoring low on both counts.

According to the UNCTAD scheme, Panama is the only front-runner in Central America. Costa Rica, Honduras, and Nicaragua are above potential, and El Salvador and Guatemala are underperformers. These last two suffer from high energy costs, poor infrastructure, and, most notoriously, violence. Honduras is not far behind in this category.

In 2006, Guatemala's human rights organization Grupo de Apoyo Mutuo (GAM) reported 55.5 murders per 100,000 in El Salvador, 40.6 in Honduras, and 37.5 in Guatemala. Various agencies have reported on the extent to which this endemic violence discourages foreign investment. In addition to the mayhem, the lack of educated workers is also a drag on investment and development for the lower-performing countries.

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The International Labor Organization (ILO) reported that 42% of the region's workers have not completed elementary school. In some rural areas, the figure is 62%, and, for the region as a whole, 13% have no education. The most educated work forces are in Panama and Costa Rica; the least in Guatemala and El Salvador. This limits investment to cheap labor, while quality investment goes elsewhere. Investment quality generally follows the preparation of the work force. Education is highest in Panama and Costa Rica, lowest in Guatemala and El Salvador. But in none of these countries has FDI done to any significant extent what ECLAC says it has the potential to do: generate employment, raise productivity, transfer skills and technology, enhance exports, and contribute to long-term development.

Passivity responsible for low-quality investment

The ECLAC report points to specific reasons for this kind of outcome, emphasizing that "active and integrated FDI attraction policies linked to national development strategies are necessary to secure quality FDI." These policies are quite different from "the more passive and disconnected FDI attraction policies evident in Latin America and the Caribbean."

Panamanian economist Maribel Gordon said that Central America with its poor infrastructure, unskilled workers, and violence uncritically and desperately opens its doors to any type of FDI that comes along, while more successful regions, like Asia, have far more selective policies that set stricter conditions for foreign investors and channel the inflows to specific areas of the economy. This trend appears true for Latin America as a whole, where capital inflows have gone up, but only by an anemic 1.5%, while the global rise was 34%.

The region's share has been trending downward (see NotiSur, 2006-05-19). ECLAC started tracking these capital movements in the early 1960s, when Latin America and the Caribbean were getting 17%. In 2006, it got 8%. The figure is the second-lowest for the hemisphere in 15 years. The previous year was the lowest.

Multinational companies have turned to emerging markets in China, India, Asia, and Eastern Europe. Telecoms and oil companies have scaled back or abandoned the region. Of the reduced amounts coming this way, Mexico, Brazil, and Chile accounted for 60% of the total. In dollars, Mexico was first with US$18.94 billion, Brazil next with US$18.78 billion, and Chile attracted US$8 billion. As a proportion of GDP, however, Nicaragua, Colombia, Ecuador, Honduras, Panama, and Trinidad & Tobago topped the leaders in splitting the US$72.4 billion total.

Venezuela had net outflows of FDI because of the renationalization of CANTV and the electricity company (see NotiSur, 2007-05-18). These are anomalous figures because the Venezuelan government paid out dollars to foreign shareholders. If the same companies had been taken over by foreigners, the deals would have counted as inflows.

This is just one example of the numbers not painting the full picture. For the isthmus, there is another. As the poor go begging, Central America's nearly US$5.2 billion in FDI was actually 61% better than the prior year.

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