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For Fourth Year Investment in Latin America Declined

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Foreign direct investment (FDI) into Latin America and the Caribbean approached US$36.5 billion in 2003, a sharp decline of 19% compared with the previous year. It is the only region of the world where such a drop occurred, reaching a level considerably lower than the historic peak of US$88 billion that came into the region in 1999. The decline in recent years particularly affects South American countries, especially those from the Southern Cone Common Market (MERCOSUR), where the steepest drops in FDI have occurred.

ECLAC report: South America sees steepest drop

These figures come from the 2003 Report on Foreign Investment in Latin America from the Economic Commission on Latin America and the Caribbean (ECLAC). The report states that capital flows to Mexico and the Caribbean Basin have remained relatively constant, in contrast with the drop in business investment in South American nations.

Foreign businesses are investing less in the region, but the dividends sent abroad have not dropped, with their total fluctuating at about US$20 billion since 1997. Between 1992 and 2002, the service sector brought in about 57% of total FDI, followed by manufacturing (28%), and the primary sector (15%).

ECLAC officials say that the evolution of foreign capital flows has followed the dynamics of the service sector, whose behavior explains both the strong expansion recorded in the 1990s and the abrupt decline afterwards. Beginning in 2001, the FDI in services began to diminish, with a significant descent in 2002, a tendency that continued through 2003.

The US is the main investor in the region, with a share of 32%, followed by Spain at 19%, the Netherlands (8%), France (4.5%), and the United Kingdom (3%), according to statistics from the 1996-2002 period. A mere six countries received 88% of net FDI flows into Latin America and the Caribbean (excepting financial centers), during this same period: Brazil (35%), Mexico (23%), Argentina (12%), Chile (8%), Venezuela (6%), and Colombia (4%). Regional leaders like Brazil's President Luiz Inacio Lula da Silva have been seeking stronger economic ties with Asian nations, particularly China, to lessen their dependency on the US and European Union (EU) for foreign investment (see NotiSur, 2004-05-28).

Jose Luis Machinea, executive secretary of ECLAC, said that FDI "has transformed Latin America, modernizing industrial sectors and improving many of its services and part of its infrastructure." As examples, Machinea mentioned export platforms in Mexico and Costa Rica dedicated to assembling automobiles and microprocessors, respectively, in competitive conditions, Brazil's much improved telecommunications network, Argentine financial services, and the highway networks and airport services in Chile, among others.
Despite the decline in FDI flows, the presence of transnational firms remains important and is apparent in the "enormous" strength of the region's economy, said the ECLAC report. At the beginning of the year, various economic prognosticators anticipated a 4% growth rate for Latin America in 2004. From 2000-2002, 39% of the sales of the region's 500 largest firms, 55% of the sales of the 100 largest manufacturing companies, 38% of the 100 main service companies, 42% of the exports of the 200 main exporters, and 37% of the assets of the 100 largest banks were all controlled by transnational firms.

The study said that Latin America and the Caribbean benefited from the rise in FDI during the 1990s but, when the investment began to fade, problems arising from the business strategies that made this boom possible began to deepen. ECLAC analysts concluded, "Receiving countries not only must attract foreign direct investment, they must also pay attention to its benefits and costs."

Regional exports up 8.3% Regional exports, in contrast to declining foreign investment, grew by 8.3% in 2003 and rose by 17% in the first quarter of 2004, stated another ECLAC report. Better prices and higher-volume sales for basic goods like copper, oil, soy, coffee, cotton, wool, and sugar contributed most significantly to the export growth, while the prices of manufactured goods went up more slowly. High demand from the US, EU, and the developing nations of Asia, particularly China, kept trade growth moving at a brisk pace.

Exports among Latin American nations also recovered in 2003, after experiencing a fall in the two previous years, though imports remained low when compared with 2000 values. Regional countries have accumulated a surplus for the first time in 13 years, with a surplus of about US$25.5 billion in goods and services and an account surplus of around US$2.8 billion.

"The recovery in exports and intraregional trade is an encouraging sign. Now we must seek ways to develop an export base with higher value added that builds on our revealed comparative advantages, is capable of incorporating new technologies, and has a stronger impact in terms of job creation," said Machinea at the presentation of the annual report Latin America and the Caribbean in the World Economy, 2002-2003, in Santiago. The region's basic products saw significant price rises in 2003.

Argentina, Brazil, and Uruguay expanded their farm exports on the strength of higher prices for soy and its byproducts (see NotiSur, 2004-02-27). Coffee exports from Colombia, Brazil, and Central America were boosted by a better price, and Paraguay and Uruguay benefited from higher cotton and wool prices. The extraordinary rise in the copper price, which crossed the US$1.30 cent/lb barrier in February, favored Chile and Peru.

The biggest boost for Central America and the Caribbean was the recovery in the price of sugar, the main item in its export basket. Belize, Colombia, Ecuador, Mexico, and Trinidad and Tobago all saw growth of more than 20% in their mining and oil sectors, thanks to the better prices.

In 2003, trade within Latin America reached US$60 billion, still 4% below its highest level in 2000. The pro-cyclical trend in intraregional trade was once again in evidence; it expanded alongside the increase in the regional product, after contracting in previous years.
Last year saw a reactivation of 26% in exports among the member states of MERCOSUR, 6.8% in the Mercado Comun Centroamericano (MCCA), and 12% within the Caribbean Community (Caricom). This is in contrast with the contraction of 5.5% in trade among the members of the Comunidad Andina de Naciones (CAN). In relative terms, however, intraregional trade is well below its 1997 level. Latin American and Caribbean nations are participating in several international-trade negotiations.

In the multilateral sphere, the most prominent was the Fifth Ministerial Conference of the World Trade Organization (WTO), in Cancun, which ended inconclusively because of the lack of progress on farm issues and the reservations of some developing countries regarding negotiating matters such as investment, competition policy and trade facilitation (see NotiSur, 2003-10-10). In the negotiations on the Free Trade Agreement of the Americas (FTAA), the Eighth Trade Ministerial Meeting in November decided to throw out the scheme of the "single commitment," which would have kept negotiations on all topics together (see NotiSur, 2003-12-05).

ECLAC says it recognizes the advantages of access to North American markets, but warns that fragmentation of the negotiation agenda "could work against the interests of countries with less negotiating ability." After a critical review of nearly four decades of government policies aimed at promoting and developing the export of goods and services by Latin American and Caribbean nations, ECLAC notes that there is still no consensus on the effectiveness of the strategies used and that the region has been characterized by abrupt institutional changes that hinder its success.

The ECLAC study shows that the most recent diversification of exports in these countries owes more to the decisions of foreign companies and the preferential access to the US market than to the traditional tools of export promotion and development. Export promotion in recent years appears to center on negotiations for market access, say the authors.

**More than 227 million Latin Americans live in poverty**

Earlier this year, Machalea said that 227 million Latin Americans, or 44% of the regional population, live in poverty. At the inauguration of the meeting of the board of directors for ECLAC's Special Committee on Population and Development, he said the social advances had come to a standstill in the region, and, since 1997, the number of poor Latin Americans had increased by 20 million.

Machalea, former minister of finance for Argentina, added that, of that, 100 million people live in extreme poverty, which represents 20% of Latin America's population. He says the extensive poverty in the region constitutes the main obstacle to the UN's Action Plan on Population and Development.

The February meeting of the special committee was convened on the tenth anniversary of the International Conference on Population and Development (ICPD), held in Cairo in 1994, which served as a landmark in dealing with the issue. Machalea said that recent economic conditions have created an unfavorable climate for fulfilling the goals of the ICPD's action plan. He said regional unemployment figures included as much as 10.7% of the economically active population (EAP), two points higher than the numbers recorded in 1997.
Nonetheless, Machinea thinks the economic prospects for the near future are "cautiously optimistic," which would allow better progress toward the ICPD's goals. At the inaugural session, the director of the Latin American and Caribbean division of the UN Population Fund (UNFPA), Marisela Padron, said that enormous challenges and obstacles remain, despite advances.

"Many of those obstacles are related to severe fiscal restrictions which have resulted from the burdens associated with external debts," said Padron, of Venezuela. She said that, in this restrictive context, social spending, even in cases where certain growth has been experienced, has been insufficient to adequately satisfy the basic necessities of large segments of the population.

Padron said 33% of the region's inhabitants live on less than US$2 a day and, for this group, "daily life is an exercise in struggling for survival." Padron called on Latin American governments to redouble their efforts to overcome the enormous backlog of social needs and to advance toward the fulfillment of the goals established a decade ago in Cairo.

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