FOREIGN DIRECT INVESTMENT FROM LATIN AMERICA WITH SPECIAL REFERENCE TO ARGENTINA AND BRAZIL

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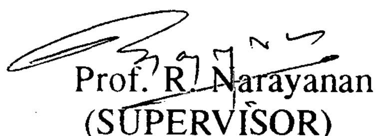

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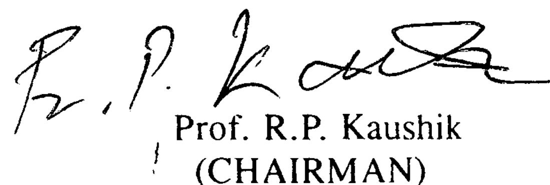

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CONTENTS

Page No.

Acknowledgement

Preface i-x

Chapter-I FDI FLOWS FROM DEVELOPING COUNTRIES 1-40

- Theoretical Bases of FDI Flows
- Salient Features and Motivations of FDI Flows from LDCs
- Impact of FDI on the Host and the Home Countries

Chapter-II FDI FROM LATIN AMERICA 41-69

- Historical Background
- Magnitude of Latin American FDI
- Geographical and Sectoral Distribution of FDI from Latin America

Chapter-III FDI FROM ARGENTINA 70-93

- Origins of Argentina's FDI Activity
- Post-Second World War Period
- Sectoral Distribution and Direction

Chapter-IV FDI FROM BRAZIL 94-122

- Antecedents
- Direction and Sectoral Distribution
- Recent Trends

Chapter-V CONCLUSION 123-130

BIBLIOGRAPHY 131-137

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PRITI SINGH

PREFACE

Foreign direct investment (FDI) and the internationalization of capital through the modality of what is commonly described as the transnational corporations (TNCs) have been one of the significant economic phenomena especially during the second half of the 20th Century. Such investments through the TNCs have been identified mostly as capital flows from the developed to the developing countries. Literature on the motivations, characteristics, functioning as well as the implications of these developed countries' TNCs both for the countries of their origin (home country) and for the countries of their location (host country) abounds. Protagonists of this kind of TNCs have depicted their role as harbingers of the much-needed capital and technology to the less industrialised or industrialising countries of the developing world. Critics, on the other hand, have described these TNCs as exploitative and therefore contributing further to the dependency-domination syndrome between the developing and developed countries.

It is not as if the resource flows by way of capital investment through the TNCs have been only one-sided i.e., from developed to the developing countries. The increasing flow of foreign direct investment through TNCs of less industrialised and industrialising countries is now widely

recognised. Such FDIs through TNCs of developing countries, although not substantial in volume, have nevertheless occurred and have moved into both the developed and developing countries. According to the estimates made by the United Nations Centre on Transnational Corporations, FDI "undertaken by corporations parented in developing countries amounted in 1985 to less than 3 per cent of the world's outward stock of FDI". Again, not that such investments by enterprises from the developing countries is a new phenomenon. Some of Argentina's manufacturing firms became transnational in their operations in the early part of the present Century. Also, many large enterprises from newly industrialising countries set up trading branches overseas before the Second World War. Nevertheless, the real spurt of what may be described as developing country TNC expansion had occurred since the 1960s. These TNC-sponsored FDI have taken the form of a significant commitment of human, financial and technical resources to productive activities both in developed and developing countries. In this sense, the phenomenon is new, marking the emergence of a new stage in the development of international industrial, trading and financial relations.

In the current context of globalising trade and capital flows across the countries of the world, the emergence of developing countries' TNCs is a trend that, however insignificant, deserves attention for a number of

reasons. For one, in the larger context of diminishing proportion of total world FDI that flows from developed to developing countries, the emergence of developing countries' TNCs is a welcome new source of capital and technology. More so, since the developing countries' TNCs given their orientation to less sophisticated and, in some specific instances, labour-intensive manufacturing technology, are a major additional benefit to the host countries of the developing world. Above all, the emergence of developing countries' TNCs implicitly at least signifies the success of economic development and structural transformation in some parts of the developing world, and perhaps, augurs well for further liberalisation of the world economy and an improvement of the general climate of FDI flows. Also, there are instances, as in the case of the newly industrialising countries of Asia as well as the liberalising economies of Latin America, where the rise of TNCs have become useful catalysts for broader regional integration among the developing countries.

While these may be the perceived benefits of the developing countries' TNCs to the host countries, there are nevertheless some issues of significance to the countries parenting these TNCs. FDI flows through TNCs could have a negative impact on their domestic economies raising in turn a number of questions to policy-makers. Important among

them are--should countries presumably short of capital resources be investing part of their scarce resources abroad?; do such FDI flows also export jobs, especially from labour-intensive activities when there is still unemployment and under-employment at home?; does investment abroad deprive the parent/home country of skills?; does it displace exports at a time when the home countries are seeking larger exports for a variety of reasons including importantly their external debt obligations?; and, above all, is it likely to retard industrial restructuring when most of these countries themselves have adopted policies aimed at basic restructuring of their economies?

Published literature on the role and functioning of developing countries' TNCs is sparse while studies on developed countries' TNCs are abundant and still growing. The reasons for this are not far to seek. As has been mentioned earlier, given that investments through developing countries' TNCs are insubstantial in terms of volume, and that they are confined to a few developing countries only--East Asian countries such as Korea, Singapore, Taiwan, and Hong Kong, importantly India in South Asia, and Argentina, Brazil and to a lesser extent, Mexico in Latin America--studies are far and few. What is more, empirical evidence in the shape of vital statistical

data relating to the volume of such FDIs, their destination and distribution in respect of the different sectors into which such flows have occurred are not easily available.

Even so, some attempt at a comprehensive analysis of the role of developing countries' TNCs have been made in the 1980s. Leading among them is C.Oman whose edited volume on *New Forms of Overseas Investments by Developing Countries*, published in 1986, contains a series of essays giving a description of the activities of important developing countries' TNC overseas. Admittedly, these essays offer a catalogue of information especially on the sectoral distribution of investment of these TNCs. What however is inadequately analysed is the scope and objective of such investments. Sanjaya Lall's *The New Multinationals: The Spread of Third World Enterprises* (1983) is more comprehensive as it provides a historical analysis in respect of the growth of such investments over the years and tends to focus on the distribution of these investments between the developed and developing countries. Lall's work is based on extensive research undertaken by him on a variety of issues relating to developing countries' TNCs and their emergence as a significant phenomenon in post-Second World War years in global FDI flows. Himself an authority on transnational corporations with special reference to aspects such as transfer pricing, technology transfer by TNCs, Lall's book highlights on these very

issues in relation to developing countries' TNCs. In addition to this edited book, Lall has written a number of research articles in leading journals such as *World Development* and *Oxford Bulletin of Economics and Statistics*, in which he has discussed the impact of Third World TNCs on the host country. Krishna Kumar's *Multinationals from Developing Countries* (1981) is more focussed on the emergence of TNCs of East Asian newly industrialising countries of Korea and Taiwan and mostly on their investments in manufacturing units in Southeast Asia and elsewhere.

One common feature of these works is their emphasis on the impact of developing countries' TNCs on the host countries i.e. the countries into which their investments flowed. Yet another aspect that they have dwelled on relates to the establishment of joint ventures in the host countries for manufacturing for third countries. So much so, they underline the importance of Third World TNCs on their unique contribution to developing countries, not only as an important source of capital but also as a provider of technologies and other productive resources to the price and factor conditions in the host country. On that basis they assert that foreign direct investments by these TNCs could become a catalyst for broader regional integration

among developing countries i.e. lateral cooperation between "south-south" countries.

Against this background, an attempt is made in the proposed monographic study to examine at some length the role and functioning of the Latin American TNCs. Mention has already been made of countries such as Argentina, Brazil and Mexico in this region from where FDI flows have occurred over the past decades. Of these Latin American countries, such investments have been mostly from Argentina and they go back almost to the beginning of the 20th Century. As of today, of the 17 large TNCs of developing countries, Brazil and Mexico alone account for two each as the home of these TNCs.

No doubt, the magnitude of their operations is insubstantial. But, what really makes the study important is, that despite problems of attracting FDI inflows, these developing Latin American countries are parenting TNCs with operations abroad. A second feature of importance in the context of the TNCs of these countries is that these investment flows are both towards developed and developing countries. According to the United Nations Centre on Transnational Corporations (UNCTC) report published in 1988, Petroleos de Venezuela owns 50 per cent of the stock of one oil company in the Federal Republic of Germany known

as Ruhr Oel Gmbh, and two oil companies in the United States called the Citgo Petroleum Corporation and Nynas Petroleum, whereas the Petrobras of Brazil has set up affiliates in 8 other developing countries to market its expertise in petroleum exploration. A third feature of interest is FDI flows from Argentina into the member countries of Mercosur for developing manufacturing units. What it actually suggests is that the motivations of the Latin American TNCs seem to be varied--an aspect that needs a closer scrutiny.

Although some preliminary studies have been made regarding the functioning of Latin American TNCs, these limited studies have largely been confined to their activities in the host countries, be it in terms of capital investment or technology transfer, without looking into the implications these emerging TNCs have on their home countries.

What is of interest to the present study is to examine the domestic implications of TNCs for the home country in addition to their impact on host countries. The question assumes considerable significance especially in the present context where the Latin American countries have adopted basic economic restructuring and liberalisation with a view to attract capital and technology from outside. Again, as

part of their liberalisation policy, currently Latin American countries are also engaged in what is commonly described as regional economic cooperation.

With these objectives in view, the present study begins with a descriptive survey of FDI flows from all developing countries highlighting their characteristics, motivations and the impact that such flows have on both the home and the host countries. Following this general outline of FDI flows from developing countries, the monograph focusses on the Latin American region specifically and attempts a descriptive history of FDI flows from Latin America. The subsequent two parts of the monograph attempts country-specific study on Argentina and Brazil. For, these are the two major Latin American countries which among others have had a longer history and a more substantial role in such investments both within and outside Latin America. The final part of the monograph attempts a summary and draws some conclusions on the implications of FDI flows from Latin America and the impact these have made on the home country or the country of origin.

The monograph is a preliminary study on the FDI flows from Latin America. What is attempted is a descriptive analysis of FDI from Latin American countries with special reference to Argentina and Brazil. On the basis of studies

and reports on the few TNCs of Argentina and Brazil and the statistical data made available by World Bank reports as well as UNCTC, a survey of the Latin American TNCs is made. The study is by no means definitive as it is largely based on secondary source material.

CHAPTER I

CHAPTER I

FDI FLOWS FROM DEVELOPING COUNTRIES : AN OVERVIEW

In recent years, the flow of foreign direct investments (FDIs) has substantially increased. Much of these flows, according to available data, has been directed towards less developed countries (LDCs) as against developed countries (DCs). A recent report of the United Nations Economic and Social Council (UNESCO) states that FDI "flows into developing countries continue to increase... in contrast to a decline in investment flows into developed countries."[1] Factors contributing to these "differing trends", according to the UNESCO report include "recession or slow growth in developed countries and the decline of international mergers and acquisitions, contrasting with good economic performance, the implementation of privatization programmes and the emergence of open equity markets, which increased the opportunities for transnational corporations in developing

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1. United Nations Economic and Social Council, Commission on Transnational Corporations, 20th sess., *Transnational Corporations in the World Economy and Trends in Foreign Direct Investment to Developing Countries in Particular, Including the Interrelationship of Investment, Trade, Technology and Development*, E/C.10/1994/2, 11 March 1994, p. 1.

countries."[2] The UNESCO report further states that the flow of FDI into developing countries "is likely to be sustained in light of their economic conditions favourable to private sector development, combined with efforts of transnational corporations to obtain cost-competitive locations for production and new markets."[3]

The *World Investment Report 1995* of the United Nations Conference on Trade and Development (UNCTAD) presents FDI inflows and outflows from both developed and developing countries. According to these figures the FDI inflows to developed countries have increased between early 1980s to 1994 by nearly three times whereas inflows to developing countries have increased more than four times. The FDI inflows into developed countries increased from US $43 billion during 1982-1986, reached a high of $176 billion in 1990 and ever since precipitously fell and levelled off around $135 billion. In contrast, FDI inflows to developing countries have steadily been increasing from $19 billion during 1982-1986 to $84 billion in 1994. The increasing significance of developing countries as host countries for FDI although has not been uniformly felt in the LDCs of all the regions. While the regions of Asia,

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2. ibid.

3. ibid.

the Pacific, Latin America and the Caribbean were the significant recipients of such FDI inflows, Africa has remained conspicuously marginalised. Also, there appears to be a direct proportional relationship between the extent of economic liberalisation launched by the countries of these regions and the volume of FDI inflow into these countries.[4]

Pari passu the substantial flows of FDI from DCs to LDCs, the flow of investment resources from LDCs to other LDCs and DCs have also increased. The *World Investment Report 1995* highlighting this currently-felt trend in FDI flows states:

> While small in the global context, FDI outflows from developing countries as a share of world flows have doubled in importance from 5 per cent in 1980-1984 to 10 per cent in 1990-1994. In 1994, in fact, 15 per cent (or $33 billion) of world FDI outflows originated in developing countries.[5]

Although FDI flows from developing countries have assumed considerable significance, neither the volume of

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4. For data and analysis see United Nations Conference on Trade and Development, Division on Transnational Corporations and Investment, *World Investment Report 1995: Transnational Corporations and Competitiveness, Overview*, UNCTAD/DTCI/26 coverview), (New York: United Nations Publication, 1995), pp. 8-10.

5. ibid., p. 15.

such flows is as yet substantial nor its geographical dispersion in terms of origin is uniform. According to *World Investment Report 1995*: "Most investments originate[d] from a small number of newly industrialising economies in Asia (and Latin America)". Again, a growing share of the FDI outflows from these LDCs is, according to the same *Report* "directed to the DCs, [with] most outflows tak[ing] place in a regional context within Asia and Latin America."[6] These regional flows are significant especially in Asia where in nine important Asian developing economies the share in total inward FDI stock rose from 25 per cent in 1980 to 37 per cent in 1993.[7]

While Asian LDCs dominate in terms of such FDI outflows the major Latin American countries such as Argentina, Brazil, Chile and Mexico are no less important. According to the *World Investment Report 1995* of the top 25 transnational corporations (TNCs) based in developing economies, two of the Latin American countries -- Brazil and Mexico -- have at least five TNCs with substantial foreign assets.

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6. ibid.

7. ibid.

In the current phase of globalisation with more and more economies across the world becoming increasingly open and competitive in the world economic environment, the performance of these economies depends significantly on the links they forge with the rest of the world. In this process, FDI and non-equity modes of participation in international production create opportunities for countries to strengthen their capacities not only to produce and market their products but also to restructure their economies to changing global economic environments. Truly, therefore, FDI has come to play a vital role as an engine of growth in the developing countries. It is for these considerations, among others, an attempt is made in the present Chapter to identify the motivations of FDI, and assess, if any, distinctions, that exist between FDI outflows from the DCs and the LDCs. Also, an attempt is made to describe the characteristics of the FDI outflows from the developing countries and assess their impact on both the host as well as the home countries.

Theoretical Bases of FDI Flows

Studies on FDIs originating from LDCs through their TNCs, though not very substantial, nevertheless offer some significant insights regarding the features and patterns of such flows as well as on their growth and impact. Of

these, Diaz-Alejandro's analysis highlights the Latin American TNCs.[8] Other major studies such as that of Sanjaya Lall and Khushi M. Khan discuss, on the basis of empirical analyses, direct investment by LDCs as a form of technology export.[9] Although these studies are sketchy and largely descriptive, they do shed light on some of the salient features of LDCs' FDIs.

As against these studies, according to Sanjaya Lall, a most comprehensive analysis of LDC TNCs is being offered by Louis T. Wells (Jr.) of the Harvard Business School. In

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8. See his "Foreign Direct Investment by Latin Americans", in T. Agmon and C. Kindleberger eds. *Multinationals From Small Countries* (Cambridge, Massachusets: MIT Press, 1977), pp. 167-195.

9. Sanjaya Lall has made several studies focussing especially on the transnational Corporations of LDCs. his earliest paper is "Transnationals, Domestic Enterprises and Industrial Structure in Host LDCs: A Survey", *Oxford Economic Papers*, 1978, pp. 217-48. Subsequently he wrote "Developing Countries as Exporters of Technology ", in H. Giersch (ed.), *International Economic Development and Resource Transfer* (Tubingen: J.C.B. Mohr, 1979), *Developing Countries in the International Economy*, (London: Macmillan, 1981), "The Export of Capital from Developing Countries: India", in J. Black and J.H. Dunning (eds), *International Capital Movements* (London: Macmillan, 1982). In 1983 he co-authored a book entitled *The New Multinationals: The Spread of Third World Enterprises* (New York: John Wiley and Sons, 1983) in which in addition to a study on multinationals from India he has attempted to give a theoretical framework to LDC MNCs. Khushi M. Khan's edited volume entitled *Multinationals of the South: New Actors in the Internaional Economy* (New York: St. Martin's Press, 1986) also dicusses aspects such as emergence, patterns and issues of TNCs from the developing world.

Well's view, the LDC TNCs are different from the transnationalized corporations of advanced economies for, they are not endowed with the monopolistic advantages either in terms of production, technology or marketing. As Wells states:

> Their advantages were not those of `high technology'...rather...they had a knowhow that enabled them to produce at low cost with small production runs and inexpensive labour.[10]

Where technology offered them an advantage, according to Wells, is in countries less developed than themselves. And these TNCs of LDCs seldom "met...challenge from the firms of rich countries as long as they stayed on this turf."[11] Perhaps, what gave these TNCs an edge in the global market is price competition rather than product differentiation.

Be that as it may, `conventional wisdom' based primarily on the advanced industrial countries' TNCs, suggest that FDI outflows are directly proportional to the

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10. United Nations Economic and Social Council, Commission on Transnational Corporations, 20th sess., *Transnational Corporations in the World Economy and Trends in Foreign Direct Investment to Developing Countries in Particular, Including the Interrelationship of Investment, Trade, Technology and Development*, E/C.10/1994/2, 11 March 1994, p. 1.

11. ibid.

size, spread and intangible assets possessed by the firm. These intangible assets are proprietary assets of the firm which include patents or technical knowledge, copy rights, trademarks or even management `know-how' and reputation of the firm. These knowledge-based assets are likely to lead to FDI as they can be easily transferred at low costs. Thus, transnationalization is associated with high technology, marketing and organizational skills and communication networks. These advantages account for the large size of the firm which, in turn, facilitates direct investments. The conventional theories on direct investments have drawn upon Hymer's pathbreaking thesis which argued that

> the same forces that make for larger firm size and greater market concentration within developed countries...provide the advantages that are exploited overseas. Thus, technological leads, product differentiation, managerial skills, scale economies and capital market imperfections enable certain firms to grow at the expense of others....It is generally assumed that an advantage developed in the home country yields a *net* advantage over similar firms abroad. [12]

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12. Quoted in Sanjaya Lall, "The Emergence of Third World Multinationals: Indian Joint Ventures Overseas", *World Developing* (Oxford), vol. 10, no. 2, 1982, p. 128.

The conventional determinants for the outflow of direct investments seem to be irrelevant for LDCs who do not appear to be "on world frontiers of technology, marketing, size or organizational sophistication."[13]

Literature on LDC TNCs has proliferated in the 1980s and they express doubts about the applicability of conventional theories to LDCs. These theories are related to the nature of ownership advantages possessed by foreign investors.

John H. Dunning's investment-development path theory discusses how inward and outward FDI flows go through various stages with the development of a country's economy. The net FDI position is a result of the interplay of three sets of advantages: ownership, location and internalization (OLI).

An ownership advantage is one to which another firm does not have any access be it something tangible like a patent or a blue-print or something intangible like a trademark or reputation.

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13. See United Nations Transnational Corporations and Management Division, Department of Economic and Social Development, *Transnational Corporations from Developing Countries: Impact on their Home Countries*, ST/CTC/133, (New York: United Nations Publication, 1993), p. 4.

A location advantage makes it profitable for the firm to produce in a foreign country rather than producing at home and then exporting it. Tariffs, quotas and transport costs are avoidable in such a case.

Internalization advantages are those which push a country to produce abroad rather than sell blue-prints to a foreign firm or provide it with a licence for production.

Keeping these influences in mind, Dunning identified five stages in the evolution of a country's net FDI position. From low levels of investments countries move towards higher inward investments as incomes rise and infrastructure improves. In the third stage, countries have reached an intermediate level of industrialization with most developing countries having significant FDI outflows. The fourth and final stages of outward investment exceeding inward investment are by a reconvergence of outward and inward investment.

Though Dunning's theory places the developing countries in an evolutionary context, with a few of them even having reached the fourth stage, it is too general in its outlook.

Conventional theories have established the necessity of possessing intangible assets for firms to become

transnational but they fail to account for the lack of such assets in firms from developing countries which appear to have neither advanced proprietary technology nor brand names with advanced marketing and organizational skills. It is not even as if the investments from developing countries are going to other developing countries. Empirically, in fact, "a significant and growing proportion flows to advanced industrial countries."[14]

There have been two kinds of approaches to explain this phenomenon. One approach views the "internationalization of developing-country firms simply as a stage in the product-life-cycle or technological-gap models to explain trade and investment flows."[15] The majority of manufacturing investments by LDCs are in a `pecking order' or `down stream' from the more industrialized to the less industrialized developing countries which would be facing the same problems that the industrialized countries had faced earlier. "[C]hanges in the product do not appear to be a very important factor for developing-country firms. The critical change appears to

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14. ibid., p. 8.

15. See Louis T. Wells, Jr. "The Internationalisation of Firms from Developing Countries", in Agmon and C.P. Kindleberger eds., *Multinationals from Small Countries* (Cambridge, Massachussets, 1977), p. 145.

be manufacturing technique....Thus, although the "pecking order" continues, there is a shift in the source of competitive edge that investors exploit."[16]

This kind of a competitive edge cannot be matched by a developed country because of two characteristics of technological progress viz. "the localization of technical change at the micro-level and the `irreversibility' of such change."[17] Neo-classical theories do not consider the localization of technical knowledge to be possible, as it assumes perfect market information and that every firm is aware of all technologies. In practice, "[f]irms only know and understand a very limited range of techniques, and to shift to a different one requires considerable cost and effort".[18] And since technological advance incorporates a range of linked industries, the process becomes irreversible.

This theory of technological `trickle-down' suggests that developing-country TNCs will specialize in labour-intensive, low skill and low technology activities with cost advantage arising from lower wages and lower

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16. ibid., p. 147.

17. Taken from Sanjaya Lall, n. 10, p. 4.

18. ibid.

prices. But it too does not explain why a large proportion of FDI of the developing countries is in highly capital and skill-intensive activities and why developing country investment is flowing to DCs.

A second approach to explain this phenomenon focusses on technological capabilities which are gradually built up with accumulation of skills and information. According to Sanjaya Lall: "Wells concludes that third world MNCs show strength mainly in sectors marked by price competition rather than product differentiation....However, a few export-oriented firms have developed international marketing networks that enable them to compete"[19]. Elsewhere, Sanjaya Lall goes to elaborate that "LDC firms appear to be entering much `higher' levels of skill, size, capital intensity and technological capability than current thinking allows for, and the line between them and the `real' MNCs should be drawn more carefully."[20] LDC MNCs have made independent contributions to technology based on their own skill and research work. "The nature of the effort is very sensitive to the policy regime and to the local availability of the necessary technical skills, infrastructure, science and technological support...Thus,

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19. ibid., p. 11

20. See Sanjaya Lall, n. 12, p. 128.

different settings and regimes produce very different sets of competitive capabilities."[21]

Salient Features and Motivations of FDI Flows from LDCs

The characteristics of transnationals from developing countries are likely to show some diversity as well as certain similarities among themselves. Just as developed country firms responded to the conditions of their domestic market (high income, labour scarcity) by producing sewing machines, automobiles etc., the LDCs have reacted to the peculiarities of their own national markets and environment. These national market environments may broadly be classified into following:

(a) Technology and Marketing Skills

To assess the nature of technological capabilities of LDCs, it is essential to understand technology in terms of tangible and intangible assets. Tangible assets such as hardware and knowledge or software are transferable whereas intangible assets such as reputation of the firm, marketing knowledge and product and process designs are not. Initially, a developing-country firm acquires technology which is transferable. Subsequently, it adapts the

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21. Quoted from n. 13, p. 9.

technology to suit its need and circumstances, thus developing its own intangible knowledge. As one writer states:

> Current trade theory assigns LDCs a role at the bottom of the ladder of skills and technology....[T]he poorest countries have a natural comparative advantage in the production and export of the lowest skill and simplest technology products....Production knowhow is adapted in such a way it becomes a unique asset...to suit LDC conditions; the process is adapted to smaller scales, to particular raw materials or to particular skills...older techniques or machines are used which other firms cannot operate efficiently.[22]

This implies that there is room for all kinds of innovations to serve small scale markets to reduce costs. Another writer feels that, "adaptation to small scale manufacture generally results in a technology that is more labour-intensive...[and] small scale technology may be competitive only where labor rates are relatively low. In addition, the machinery...tends to be simpler, requiring fewer specialized repair personnel".[23] Second-hand machinery is often accessed and converted to suit their needs. Many firms design their products to reduce need for

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22. n. 12, p. 129.

23. See n. 15, p. 140.

imported inputs. He further adds that a "firm from [a] developing country is likely to be at a serious disadvantage in competition with multinational firms with sophisticated marketing skills and trade names that are already well known."[24] Thus LDCs are said to specialize in undifferentiated products because price is the main consideration, and their comparative advantage is said to depend on the ability to provide low-priced products to particular markets.

This low technology profile of LDCs with little or no marketing skills has, according to a United Nations *Report*, "begun to change as such firms have acquired...knowledge that permits them to compete with developed-country TNCs."[25] However, the *Report* states that "this expansion into differentiated marketing-intensive goods has been achieved not through the creation of ownership advantages, but through their acquisition by technology-seeking FDI".[26] Also, the kind of technology adopted by LDCs has to be industry-specific. For example, industries such as petrochemicals are not labour-intensive.

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24. ibid.

25. See n. 13, p. 16.

26. ibid.

(b) Distribution

LDC TNCs are more likely to be concentrated in other developing countries as there is a tendency for investors to move into countries geographically or culturally close to them. According to an observer,

> new multi-nation are characterized by a heavy regional concentration. Firms from Hong Kong, Taiwan, South Korea and India, for instance, have preferred the neighbouring countries of Indonesia, Malaysia, Thailand...when choosing areas for the location of their direct foreign investments. In Latin America, the bulk of Argentinean firms' direct foreign investment has gone to Brazil, Peru and Uruguay. [27]

As stated earlier, investing firms move to neighbouring countries not only because of the presence of ethnic minorities and cultural links with the host country but also due to certain programmes for regional economic integration. The choice of host country is also influenced by motivation of FDI. For example, a resource-seeking investment would move towards a country richly-endowed with the required raw material. This can be termed as "pull" factor. There are distinct "push" factors as well which

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27. See Khushi M. Khan, n. 9, p. 5.

may reflect the rising costs or political risks at home.

While these factors still play important influential roles "[a] significant part of investments now flow to less proximate or ethnically linked areas....This spread of FDI by TNCs from developing countries is a natural evolutionary process [and is]...related to the increased familiarity of overseas markets to the investors".[28] For instance, East Asian firms set up operations in Africa, South Asia and Latin America. In fact, developing countries like Brazil, China and Republic of Korea invested "nearly half their total overseas stock in developed countries by the late 1980s."[29] Thus, it is safe to presume that as the risk associated with FDI is reduced, outward investments will become more far reaching.

(c) Size of Flows

Compared to the DCs, LDC TNCs tend to be smaller in size and spread due to their late entry into industrialisation and internationalisation. But according to Wells, investment flows from one LDC to another is important. He states that in Indonesia, "Asian LDC investors together account for more investment than either

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28. Quoted from n. 13, p. 17.
29. ibid.

Japanese, North American, or European investors."[30]

(d) Forms of Investment

Though developed countries too go in for joint ventures, the preference of LDCs for joint ventures is taken as a distinguishing feature of the investment strategies pursued by them. Comparing developed country joint ventures to those of the developing countries, Paul W. Beamish felt that the former "were created because each partner needed the other's skills" whereas the latter did so mostly "as a result of government requirements" and political reasons.[31]

Various reasons have been advanced for the propensity of LDC investors to form joint ventures. These include, scarcity of financial resources, less ability to bear a risk and advantages based on experience and adaptation rather than proprietary technology or brand names. Some developing countries allow no export of capital except machinery and, moreover, foreign exchange control make it difficult for investors to gain a large portion of shares

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30. See n. 15, p. 133.

31. Paul W. Beamish, "The Characteristics of Joint Ventures in Developed and Developing Countries", *Columbia Journal of World Business* (New York), vol. 20, Fall 1985, pp. 13-14.

in an overseas project. And, as has been stated: "Local partners' knowledge of local conditions, access to distribution channels, capital, management and political connections are some additional advantages."[32] Large firms from LDCs investing in DCs, especially from Republic of Korea, however, are moving towards the option of majority ownership. As stated by the United Nations Centre for Transnational Corporations (UNCTC): "Among developing country firms in service...wholly owned subsidiaries are much more common perhaps because of the greater need to control operations, the smaller size of the operations and greater willingness of host Governments to accept foreign control."[33]

e) Specialization by Industry

There are interesting differences in foreign investments specialization by LDCs. Firms from LDCs with larger diversified economies and industries are generally involved in a broader range and number of activities. Firms from Argentina, Brazil, India, Republic of Korea and the Taiwan province of China are more proficient in activities involving scale, skill and technological

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32. Khushi M. Khan, n. 9, p. 6.

33. See n. 13, p. 18.

complexity. Hong Kong, on the other hand, has a tendency towards production of light consumer goods.

The propensity of firms to become international differs from country to country. Brazil can be taken as a good example. In spite of a well developed industrial base, Brazilian manufacturers do not have a respectable standing abroad. Most of its FDI (non-financial) is concentrated in oil exploration, construction and other services. It could be due to a variety of reasons—Brazil's own market attractions or simply a late start in the internationalization process. Moreover, diversification in activities is not an indication of high competitive levels. Technological lag and a want of managerial and marketing skills may lead to inefficiency in LDC TNCs.

Having identified the salient features of FDI flows from developing countries, it may be appropriate to consider at this juncture, the basic motives of such flows.

Most analysts argue that whereas FDI are made for a number of reasons, its flow is primarily governed by the locational advantages offered by the country in which it seeks such investments together with economic climate determined by the country's policies. FDI can be firm-specific, in cases where larger firms would have

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different motives for moving abroad than smaller ones. On the other hand, FDI may even be industry-specific concentrating on securing raw materials or markets for their industry. Analysts have felt that the difficulties faced by countries in licensing leads to countries going in for FDI despite various costs involved. Problems like information asymmetry and moral hazard can manifest themselves in many ways. For example, "[t]he firm may know a great deal about the product or the process...but the licensee recognizes that the firm may not have an incentive to reveal the products quality truthfully".[34] It is also noted that "[t]he multinational enterprise is reluctant to build a foreign plant without information about whether sales will be high or low."[35] Apart from these general considerations, the FDI of developing countries can be broadly categorized as follows:

(a) **Market-seeking FDI**

According to an observer, "[t]he first consideration of investment abroad comes from an actual or perceived need by the firm to protect foreign markets previously developed

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34. Taken from James R. Markusen, "The Boundaries of Multinational Enterprises and the Theory of International Trade", *Journal of Economic Perspectives* (Nashville, TN), vol. 9, no. 2, Spring 1995, p. 182.

35. ibid.

through export activity."[36] This kind of FDI is further driven by the locational advantages arising from the need to avoid barriers to trade through protectionist policies. It is further observed that:

> The need for increased exports in itself might have been hastened by demand constraints, related to the size of the home market, but if government policies restrict expansion of firms beyond a specific size...the defensive character of foreign investment by firms from the South comes into the forefront....Another major motive for firms from developing countries to invest abroad seems to have been the desire to reduce risk through a diversification of the market in the locational sense.[37]

In general, foreign investments from LDCs like India, China, Brazil and Argentina, tend to be geared to the host-country markets while those from South Korea, Taiwan province of China and Hong Kong tend to be more export-oriented in host developing countries than the developed countries.

(b) Export-Oriented FDI

As costs rise at home, exporters seek to invest in more economical bases to service their export markets.

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36. See Khushi M. Khan, n.9, pp.2-3.
37. ibid, p.3.

These investors move abroad in search of lower costs, especially labour costs. It may be pointed out that

> Hong Kong firms were investing in Mauritius, the Philippines and Thailand, where wage levels were five to six times lower than in Hong Kong....[D]ifferences in wage levels in themselves have not induced firms to invest abroad. It was always the resulting pressure of competition in export markets, based on lower costs of labour, which forced firms from developing countries to extend their operations abroad.[38]

The most vigorous investors in export-oriented manufacturing facilities are the East Asian countries, particularly Hong Kong and Taiwan province of China.

(c) Resource-Seeking FDI

The need for raw materials as a reason for moving abroad is not unknown. This kind of an investment activity is led by resource-poor newly industrializing economies in need of vital industrial supplies at home and has provided a challenge to LDC firms similar to that faced by firms from industrialized nations.

(d) Technology-Seeking FDI

These investments are found to be in a range of activities from manufacturing, designing, research-

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38. ibid.

and-development, hotel management and oil exploration. The more industrially advanced developing countries such as Brazil, Hong Kong, South Korea and Taiwan province of China have the more sophisticated ventures, and are even embarking on joint research-and-development with firms from the developed world. Strict technology import controls at home may lead to foreign ventures by developing countries in order to acquire new technology.

(e) Efficiency seeking FDI

Such investment is directed at achieving economies of scale or scope through vertical or horizontal integration. This is done to maximize profits and minimize costs by fully exploiting the comparative advantage in operations in various host countries. Such investments are associated with advanced or developed countries and is not very common in developing country TNCs.

Impact of FDI on the Host and the Home Countries

An attempt is made, in this section of the Chapter, to evaluate the impact of the outward FDI from developing countries both on the host and the home countries. Although it is difficult to calculate the direct effects of FDI, these investments are deemed to contribute to an overall enhancement of economic performance of both the

investor and the recipient countries.

The Host Country Effects

The *Third Survey* published in 1983 by the United Nations describes the trends in the policies of host countries as follows:

> The policies of host countries have evolved in the light of the experience gained in dealing with transnational corporations,..the growing number of transnational corporations interested in investment opportunities, the wider range of arrangements acceptable to them and the greater responsiveness of transnational corporations to the policies and requirements of host countries. As a result, some developing countries became more confident of their ability to negotiate mutually advantageous business arrangements with transnational corporations.[39]

The host countries receive FDI in the form of a package consisting of capital, technology and organizational and managerial skills which enhance economic performance of countries. According to the *World Investment Report*, 1995 "[a]lthough the wealth-creating assets that are part and parcel of FDI may be acquired separately,...it is precisely because it comes as a package

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39. United Nations Centre on Transnational Corporations, *Transnational Corporations in World Development: Trends and Prospects*, ST/CTC/89, (New York: United Nations Publications, 1988), p. 314.

that FDI is increasingly welcomed by all countries"[40]. Not only does the capital stock increase, output and employment also show an upward swing. Although inward FDI forms only a small portion of the total domestic capital formation, it is becoming increasingly important for developing countries, be it in terms of productivity or efficiency. FDI through privatization too benefits the host country if the domestic firms which are taken over become more competitive. The *World Investment Report* has further stated that "[g]iven the dominant role of TNCs in the innovation of new products and processes, inward FDI...are an important source of new and advanced technologies and skills."[41] Innovatory capabilities along with research and development are strengthened.

FDIs may also act as a catalyst for new ideas and improvements in the organization of the indigenous firms as they have to become more competitive. The efficient organizational and managerial practices by units of TNC systems help improve productivity. Market opportunities are also increased especially for suppliers of parts and components, and also for others as intra-firm networks and links are built up.

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40. n. 4, p. 20.

41. ibid., p. 21.

Khushi M. Khan discusses the relevance of LDC TNCs to other developing countries or the advantages for developing countries to act as the host of FDI from other developing countries. According to him:

> One of the major advantages for the host developing country is the considerable reduction in the burden of foreign exchange: heavy royalties normally need to be paid to firms with more advanced technology from developed countries. Another is less technological dependence on traditional multinational corporations....The technological adaptations by the new multinationals are not only related to the size of markets in the developing countries and to the need to produce efficiently in small markets but also to the products in terms of local and environmental conditions.[42]

Moreover, the fact that LDC multinationals show a preference for lower equity participation as compared with the majority ownership by developed country TNCs, is looked upon favourably by the host developing countries. As regards the nature of technology, LDC technology is more likely to be small scale and labour-intensive. Thus unemployment problems are dealt with more effectively. It is also more probable that overall costs of a project from

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42. Khushi M. Khan, n. 9, p. 8.

a developing country would be less as the personnel required would cost less. And finally, LDC TNCs would be more sensitive to the political problems of business in developing countries.

It may, however, be pointed out that host countries have to face certain disadvantages as well with LDC investments. It would be unlikely that they get hold of the latest advanced technology while the workers employed in the project would receive a much lower salary. Sometimes, contacts for LDC investments are provided through ethnic ties and are perceived as contributing to the strength of a locally unpopular minority group.[43]

Home Country Effects

An analysis of the effects of the outward flow of FDI on the domestic economy of the home country is essential. However, this monograph is mainly concerned with developing countries and so the discussion will centre around the impact of the outflow of investments and capital from LDCs which are themselves capital scarce. A key question which

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43. For more details see n. 13, pp. 16-17 and John Cantwell and Paz Estrella Tolentino, "Technological Accumulation and Third World Multinationals", Discussion Papers in International Investment and Business, 1990.

has been raised, time and again, is whether these investments are undertaken at the expense of the domestic investment in the country. Does outward FDI lure away investments meant for the home country? More so, it has been seen that not all the outward FDI is directed towards other LDCs but also towards industrially advanced developed countries. How does the home country hope to benefit from this kind of an investment? These are some issues which need to be examined.

(a) Effect on Balance of Payment

The impact of outward FDI on the home country in terms of its balance of payments has been the most controversial of concerns. This debate has largely been confined to developed countries though lately developing countries have also been included.

The outflows of capital invested overseas and the imports undertaken from the affiliates can be regarded as the debit on the balance of payments of home countries, while the credit includes exports to the affiliates, payment of royalties and fees to the parent and the repatriation of dividends, equity interest and loan principal.

Several studies on the effects of TNCs from the United States on the country's balance of payments have concluded that the overall effect was positive in terms of dividend, royalty and fee payments. Other similar studies concluded that exports were not displaced from the home country, nor were they added to it.[44] On the other hand, outward FDI has also been criticised mainly by the labour movement in the United States which argued that foreign production displaces exports and also amounts to the export of jobs and loss of employment for export activity at home.

A more balanced view was provided through the product-life-cycle theory of Raymond Vernon relating outward FDI with a dynamic process of innovation, imitation and diffusion of technology. According to this theory:

> ...production and exports first occurred in the home country where, despite high labour costs, the availability of skills, technological infrastructure and large markets made the exploitation of new technologies economical. As technology matured and competitors emerged

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44. Research on the Transnationals of the United States by Scholars like Fred Bergsten, Thomas Horst and Theodore H. Moran in *American Multinationals and American Interests* (Washington D.C: Brookings Institution, 1978) Gerald C. Hufbauer and Frank M. Adler have written on *Overseas Manufacturing Investment and Balance of Payments* (Washington DC: U.S. Treasury Department, 1968).

> overseas, the producer lost its trade edge abroad and tended to replace exports with FDI -- which implies no net export displacement.[45]

Nevertheless, there would still be a displacement if the decision to invest abroad was made before it became more economical to do so. Thus the motives and objectives of TNCs in choosing a different location for investment could differ from the national interests of their home country. But it is difficult to establish that locational decisions of the TNCs leads to a significant displacement of domestic exports.

For instance, a developing country may invest abroad even when domestic production is more viable, to escape Government regulations on growth or diversification. A similar study of the effects of outward FDI on the balance of payments of developing countries carried out by J.P.Agarwal on India shows a positive effect for India. According to him:

> It is unrealistic to think that foreign exchange reserves are going to be drained off through foreign direct investments on a large scale....Cash transfers for financing FDI will...enable Indian investors to broaden their fields of activities and invest...in those areas in which they cannot draw on a supply of

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45. n. 13, p. 61.

> technology from home country firms. This would also enable them to invest in countries striving for a higher level of technological sophistication and to use the experience gained there in domestic plants in India.[46]

Unlike the developed countries, LDC FDI is not usually the result of international wage competition as wages tend to be on the lower side in developing countries. The study on India reveals that the high levels of subsequent exports are associated with FDI. Though this cannot be generalized for other developing countries (as the Indian economy is more inward-oriented and protected than the others), it is seen that overall exports and competitiveness is promoted and foreign earnings are likely to be enhanced.

According to the *United Nations Report* on Transnational corporations, 1993:

> Foreign direct investment in technology-seeking ventures may provide balance of payments benefits if the ventures earn economical returns...and/or if the technological feedback strengthens the home country's competitive position in export-promoting or import-substituting activities.[47]

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46. J.P. Agarwal, "Third World Multinationals and Balance of Payments Effect on Home Countries: A Case Study of India", in Khushi M. Khan ed. *Multinationals of the South: New Actors in the International Economy* (New York: St. Martin's Press, 1986), p. 193.

47. n. 13, p. 65.

The *Report*, examining developing country FDI concentrated in areas such as marketing and banking, states that "there seems little reason for concern about the balance of payment effects of such investment...if anything, they are probably strongly positive,"[48] and related to promotion of domestic exports. In no case has outward FDI seemed to have adversely affected the balance-of-payment of a country suggesting that the effects are usually positive.

(b) Impact on Employment and Income

As discussed above the FDI-outflow effects on employment and income are as difficult to quantify as those of the balance of payment. Similarly, labour in developed countries have raised the issue of the "export of jobs" arising from outward FDI. But this question arises only if there were investments abroad in spite of the activity having remained competitive at home.

As stated by the *United Nations Report on Transnational Corporations From Developing Countries*:

> the real employment problem posed by FDI-related structuring is not net job loss, but rather the

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48. ibid.

> cost of work force adjustments. In a slow-growth economy that is losing competitiveness, restructuring and FDI may release labour which can only be reabsorbed at lower wages in less skilled jobs. In this case, the costs are borne directly by the workers....In a high-growth economy that is creating new jobs, the labour released can be absorbed at higher wages, but only if it is trained in the new skills needed...this cost is usually borne by the firm.[49]

Work force adjustments in the developing countries arise mainly for the newly industrializing economies which are phasing out their labour-intensive operations and moving in for technology-intensive activities result in extensive job movements. FDI overseas by inward-oriented economies are usually marginal would in any case have a minimal impact on employment at home.

(c) Impact on Technology of the Home Country

One of the main arguments against outward FDI is that the technology being transferred through FDI to affiliates may easily leak out to competitors and that overseas research and development may not benefit or result in a feed-back into the technological progress of the home country.

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49. ibid., pp. 68-69.

But as has been argued by James R. Markusen, foreign direct investment is preferred precisely because of difficulties in licensing. According to him, "...a firm may not want to reveal its process or product technology to a potential licensee...[who] could reject a deal and go and copy the technology at little cost."[50] Moreover, as argued by Richard E. Caves, Mansfield *et al*, "although FDI also can result in technological leaks..., the loss of knowhow is more limited when the technology is complex and difficult to transfer without long term training and when local technological capabilities are relatively underdeveloped."[51]

On the other hand, intense competition abroad, is likely to stimulate the growth and efficiency of the developing countries and they can even tap the research and development processes in the host countries. In fact, TNCs from LDCs can promote economic and technical cooperation among themselves and move significantly towards their development.

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50. n. 34.

51. n. 13, p. 71.

(d) Impact on the Domestic Industrial Structure

In the case of developed countries, it has been established that internationalization strengthens the domestic market position and the profitability of firms. In fact, profitability is taken to be directly proportional to the FDI position of a country. Transnational corporations through greater horizontal and vertical integration can maximize their profits which are bolstered by tax advantages and locational advantages.

The same may be said about developing countries with large, oligopolistic firms. But, as has been stated by the *United Nations Report on Transnational Corporations from Developing Countries* "anti-competitive consequences in home developed countries are held in check by free access to imports and inward FDI, a strengthening of local market power may have more pronounced anti-competitive results in developing countries which place controls on imports and FDI inflows".[52]

As a result of increased interaction and access to technology, resources and markets, a country moves towards restructuring its economy which leads to higher

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52. ibid., p. 74.

productivity and income. Restructuring could mean a change in the composition of economic activities across sectors, industries or within an industry. It could be a shift from a primary sector like agriculture through manufacturing to services, a shift from low to high technology within an industry or from labour intensive, low productivity to capital intensive, high productivity industries. Transnational corporations facilitate such restructuring by introducing new industries and technologies. According to the *World Investment Report Overview 1995* : "This role can be seen particularly in Indonesia, Malaysia, the Philippines and Thailand but increasingly also in China and Vietnam. But even in countries that are considered textbook cases of successful restructuring and development based principally on indigenous capabilities -- Japan, the Republic of Korea and Taiwan Province of China -- TNCs have played a role."[53] Reliance on TNC controlled assets is higher in countries with limited capabilities. Developing countries in Asia that successfully restructured eventually have given rise to their own TNCs which began to undertake FDI to regional countries and then to developed countries as well. This kind of an example can be drawn from the Japanese and the newly industrialising countries (NICs) of

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53. n. 4, p. 29.

East Asia. These economies have linked the process of restructuring within the region by shifting assets from the home to host countries. Initially, the link started between Japan and the NICs and then between the NICs and the other Asian countries. This is referred to by some, as the "flying geese" formation.[54]

(e) Government Revenue Effects

Though specific studies on the revenue effects of outward FDI on developing countries are non-existent, it can be generally said that even if TNCs are said to be capable of minimizing their tax burdens, FDI does not imply

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54. The "Flying Wild Geese" is a conceptual framework which sees growth and technological progress in Asia in terms of the image of the arrow-shaped formation of migrating waterfowl, in which there is a lead goose which flies ahead of the flock and leads the way. In Asia, that role is played by Japanese industry (more technologically sophisticated), which spins off investment-driven industries (intermediate and capital-intensive goods) to the more advanced developing countries of the region. Thus the newly industrialsing Asian countries (Korea, Taiwan, Hong Kong and Singapore) occupy positions in the flying geese pattern immediately behind Japan, and members of the Association of South-East Asian nations (Indonesia, Malaysia, Philippines and Thailand) follow by picking up labour-intensive activities spun off by the Asian NICs. For more details see Michael Morti more, "Flying Geese or Sitting Ducks? Transnationals and Industry in Developing Countries", *Cepal Review* (Santiago), no. 51, December 1993, pp. 15-34. Terutomo Ozawa, "The Dynamics of Pacific Rim Industrialization: How Mexico Can Join the Asian Flock of "Flying Geese"" in Riordan Roett (ed.), *Mexico's External Relations in the 1990s* (Boulder and London : Lynne Rienner, 1991).

a net loss of revenue, if it results in the increase of national income, trade or employment.

(f) Socio-political Cooperation

Flows of FDI can be a very effective method of linking countries economically, socially and politically , as stated by the *United Nations Report on Transnational Corporations from Developing Countries*. FDI may be used to win political acceptance and friends abroad and to maintain social links.

South-South cooperation among developing countries has highlighted the role of FDI. According to Khushi M. Khan, "certain recent negative developments in the international economy have further highlighted the role which multinationals of the South can play in creating better conditions for development. These negative developments include declining terms of trade..., high interest rates...[and] increasing protectionism in the industrialized countries....[T]he new multinationals offer some new possibilities for international solutions."[55]

There is also an increasing awareness of the concept of globalization. The Asian economies have been encouraging liberalization, restructuring and outward FDI in an effort to become part of an international production system.

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55. See Khushi M. Khan, n.9.

CHAPTER II

CHAPTER II

FDI FROM LATIN AMERICA

Developed countries have established themselves as major sources of FDIs in world investment flows. Although much attention is now being focussed on developing countries' investments, the main emphasis and focus is mostly on Asian NICs. The sceptics still need to be convinced that the phenomenon of Latin American firms going increasingly international is an important one. A common explanation for the absence of systematic analysis of outward FDI by the Latin Americans is, that it has not as yet become significant in comparison to FDI outflows from other regions. Very few scholars have examined Latin American outward investments or transnationals.[1] Even the national and international statistical data compilations have concentrated more on FDI inflows rather than the outflows, "despite the fact that most of the early incidents of investments [abroad]... can be documented for"

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1. Apart from Sanjaya Lall, Khushi M. Khan and Louis T. Wells who have talked about Latin America along with other developing countries' FDIs, scholars like Carlos F. Diaz - Alejandro, Eduardo J. White, Simón Teitel and Francisco Colman Sercovich among others have worked specifically on Latin America.

in Latin America.[2]

It is difficult to quantify the value, direction and composition of foreign direct investment flows from Latin America. Not only do a part of the flows go unreported, a large share of FDI from the part which is reported, originates in tax havens and can be ultimately traced to investors from developed countries. According to an agency report: "As much as 70 per cent of the FDI stock from Latin America and the Caribbean is estimated to be from tax-haven countries and territories."[3]

Most of the investments abroad originate from the more industrialized countries in Latin America thus substantiating supporting the theory that the magnitude of FDI outflows is directly proportional to the level of development of the country. By most accounts, Latin American countries are ranked in the second group of home countries with a sizeable outward FDI among LDCs, the first group being the newly industrializing countries (NIÇs) of

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2. United Nations Conference on Trade and Development, *World Investment Directory Volume 4: Latin America and the Caribbean 1994,* (New York: United Nations Publications, 1994), p.53.

3. Transnational Corporation and Management Division, Department of Economic and Social Development, *Transnational Corporation from Developing Countries: Impact on their Home Countries*, ST/CTC/133 (New York: United Nations Publications, 1993), p.21.

East Asia - Hong Kong, Singapore, Taiwan province of China and Republic of Korea. Of the Latin American countries, Brazil is the leading investor followed by Argentina, Venezuela, Mexico, Colombia, Chile and Peru. According to the **World Investment Report,1995**, " Chile is perhaps most advanced among the principal outward investors in terms of liberalising outward FDI, rivalled only by Mexico; there are no ceilings on the amount of capital allowed for outward FDI projects, nor are there any restrictions with respect to the financing of such investments."[4] Before examining the country-specific studies on FDI activities, an attempt is made here to give a broad thumb-nail sketch of FDI activities from the larger Latin American region in terms of its historical evolution, and geographical and sectoral dispersion to provide a background to the two subsequent chapters.

Historical Background

The phenomenon of the `internationalization´ of LDC firms began around the turn of the century with overseas activities initiated by Argentinian firms. Prior to the

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4. United Nations Conference on Trade and Development, Division on Transnational Corporations and Investment, *World Investment Report 1995: Transnational Corporations and Competitiveness Overview*, UNCTAD/DTCI/26 (Overview), (New York: United Nations Publications, 1995), p.43.

Second World War, Argentina was a leading investor and produced a number of TNCs. "In fact, the first recorded Third World TNC was an Argentine textile manufacturer, Alpargatas, which set up a manufacturing affiliate in Uruguay in 1890, followed by the establishment of a similar plant in Brazil."[5] This was followed by yet another Argentine firm Siam di Tella which began to export metallurgical products to Uruguay, Brazil and Chile during the 1920s, and then by Bunge y Born which initially was set up as a grain dealing firm but turned subsequently into a TNC specializing in diversified trade and manufacturing, before Siam di Tella. Later, however, Alpargatas became a small shareholder in its major operations in Brazil; Siam di Tella went into government ownership after large losses; and Bunge y Born shifted its base to Brazil. During the 1950s several Argentine firms set up plants elsewhere in Latin America, particularly in Brazil which included Bago, Grassi, Wobron, Sibra etc. As has been observed:

> There is a shadowy borderline between non-FDI forms of foreign interests (exporting, financial, marketing, and commercial agencies abroad) and FDI proper, but it is likely that unusual LA entrepreneurs and their firms, such as the Bolivian Patiño interests and the Cuban Bacardi Company, also engaged in the latter before the

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5. See n.3, p.46.

Second World War, particularly within countries of the region.[6]

Between 1930 and 1960, the inward-oriented development strategies adopted by the Latin American countries with stress on import-substitution and restrictions on capital outflows, may have discouraged outward FDI. The region attracted foreign manufacturing investments into protected import-substituting activities and in spite of efforts at export promotion never really succeeded in convincing TNCs to export in significant volumes from their local operations whereas the Asian NICs shifted their industrialization policies from import substitution in the early 1960s towards export promotion in the late 1960s thus making a clear transition to outwardly-oriented policies leading to FDI in export oriented manufacturing. The Latin American countries adopted a policy of passive reliance on foreign technology, mainly in the form of direct MNC presence and in the licensing of local producers. These local producers, being small, could not compete or venture abroad.

The Great Depression of the 1930s proved to be a major

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6. Carlos F. Diaz-Alejandro, " Foreign Direct Investment by Latin Americans," in T. Agmon and C.P. Kindleberger eds., *Multinationals from Small Countries* (Cambridge: MIT Press, 1977), p.170.

blow to most of the Latin American economies. The international markets experienced a collapse and the protectionist policies adopted by the industrialised nations resulted in a dramatic decline in the export earnings of the Latin American countries. This in turn led to a diminishing ability to import. The prices of the Latin American exports were decreasing faster than their imports. Foreign investors rather than investing in Latin America were taking their investments back home.[7]

The Depression of the 1930s caused a redirection of domestic demand from imports to domestic sources, resulting in a stimulus to industrial growth particularly in Argentina, Chile, Brazil and Colombia. Modern consumer goods could no longer be imported sufficiently and even the upper-income class had to turn to local sources. These consumer goods included durables like automobiles, radios and household appliances, processed foods, tiresand nylon textiles. Production of these goods involved large scale plants, complex technologies and higher capitalization. The firms producing specifically for the higher income groups made the greatest contribution to the centralisation process. Foreign-owned firms were important in these

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7. Frederick Stirton Weaver, *Class, State and Industrial Growth*, (Connecticut: Greenwood Press, 1980), p. 121.

product lines, particularly after the middle of the decade.

By the end of the 1950s and the beginning of the 1960s industrial growth was an important consideration in the policy planning and implementation of almost all the Latin American countries. Through the Economic Commission for Latin America (ECLA), the policy of import-substituting industrialisation was launched. This implied subsidies to industrial enterprises through high tariffs on imports of consumer goods and low tariffs on imports of machinery and intermediate goods by the government.

The 1960s were a period of accelerated growth in Latin America. "Real output increased by over 7 per cent annually between 1965 and 1973 and the national economic structures experienced important transformations, leading to an increased participation in industrial activities."[8] The import-substitution policies of the governments showed results with the whole region growing "at an average rate of 6.9 per cent in the decade 1960-1970."[9] Soon however,

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8. United Nations Centre for Transnational Corporations, *Measures Strengthening the Negotiating Capacity of Governments in their Relations with Transnational Corporations*, (New York: United Nations Publications, 1983), p.18.

9. ibid.

the constrictions of small national markets reoriented the Latin American countries towards promotion of manufactured exports instead of the earlier industrial strategy.

As has been stated by an analyst, "the bulk of LA FDI within the region seems to have arisen during the early 1960s, and its expansion appears to have accelerated during the 1970s. Between 1930 and about 1960, exchange controls and inward looking foreign trade policies no doubt hampered the development of this phenomenon."[10] There was heavy participation of the subsidiaries of transnational corporations in the export of Latin American manufactures, but a large share of the trade originated in national enterprises. The accelerated penetration of transnational corporations into the industrial sectors during the 1960s did not affect, in any substantial way, the important role of domestic firms in medium-sized branches of industries such as food, textiles, metal working sector and also basic sectors as steel and petrochemicals, where state participation is very important.[11]

The changing conditions of the external environment too played an important role in the changing trends of

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10. n.6, p.171.

11. n.8, p.19.

Latin American foreign direct investments. The region's balance of payments situation had improved considerably. For example, "the net international reserve holdings of Colombia increased from $95 million in 1966 to $800 million in 1976, owing to continued improvement of the trade balance.... Similarly, the remarkable rise in Argentine capital invested abroad since 1977 is clearly related to the gradual accumulation of reserves which in 1979 amounted to more than 10 billion."[12] Simultaneously, the overvaluation of local currency was a strong stimulus for investments abroad, along with slackening of domestic demand. A typical example is that of Brazil where the government put in huge investments in large scale infrastructural projects in the 1970s,giving rise to local consulting and engineering firms. The slackening of domestic demand and the rise of inflationary pressures, led these companies to compete in other countries of Latin America, Africa and West Asia. The need to exploit new materials abroad which had earlier been imported was another contributing factor.

Apart from these factors which contributed to the internationalisation of Latin American firms, the changing political circumstances also need to be taken into account. In developing countries like those of Latin America, the

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12. ibid, p.20.

growth of investments abroad is directly proportional to the deterioration of business climates due to political conflicts and changing public policies. Examples of such instances are found in the cases of Argentina and Chile, in the early 1970s.

Gradually the attitudes of the governments became more flexible. Argentinian, Brazilian and Mexican legislatures introduced new incentives for technology exports as well. The most generous incentives were granted by Brazil. A decree of 1975, extended tax exemptions applicable to export of equipment to the local sale of goods and authorised risk guarantees, covering the failure of the Brazilian suppliers *vis-a-vis* the foreign client. Interbras, a trading company was created by the state oil corporation of Brazil and it helped local engineering and consultancy companies to obtain 14 foreign contracts worth $1.4 billion in the period 1976-1978. Latin America on the whole underwent a change of former restrictive attitudes towards the transfer of capital to other countries. Colombia was the first country, in 1968, to "legitimise" such operations, with the condition that they should have a direct impact on the growth of exports. In 1976, Argentina set up a special department under the Ministry of Economy to deal with proposed investments abroad. In 1978, Brazil made special credit lines available for the organisation

of foreign subsidiaries and branches considered useful for the promotion of international Brazilian business. In 1977, Peru granted the first approval of proposed investments in other countries, and in 1979, Chile authorised creation of foreign subsidiaries and branches, subject to regulations and participation in companies in other countries.

Magnitude of Latin American FDI

As has been briefly discussed earlier it is difficult to quantify and evaluate the magnitude, geographic and sectoral distribution of outward FDI from LDCs. Available data is inconsistent and unreliable due to different definitions and requirements of making estimates of investment outflows in the home countries. Firms may show a tendency to avoid reporting FDI to escape exchange restrictions and regulations on capital outflow. On the other hand, data available also fail to differentiate investment outflows of firms with parents being traced ultimately to a developed country. For example, according to a United Nations Transnational Corporations and Management Division report, "the total stock of FDI from developing countries in 1980 was estimated in a broad range from $ 5 billion to $10 billion in one source, while a

UNCTC study put the total at $ 15.3 billion."[13] Moreover not all home countries pay attention to the collection and publishing of data on FDI.

It is seen that many developing countries have direct investments in their neighbouring countries but only a few emerge as international investors of some significance. Among those which can be identified are Singapore, Hong Kong, South Korea, Taiwan, Philippines, India and Malaysia in Asia, the oil exporting countries in West Asia, Nigeria in Africa and Latin American countries such as Brazil, Mexico, Chile, Colombia and Venezuela. Taking a look at the inward and outward flows of FDI the Asian and Latin American countries roughly from the years 1967-1983, it can be safely concluded that "not only is the real value of outward investment increasing, but that it is increasing faster than inward investment."[14] (See Table 1)

The outward FDI stock of developing countries in 34 host countries was estimated at $50 billion in 1985, with about $36 billion invested in developed countries and the rest in the developing nations. By 1990, the outward FDI

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13. n.3, p.23.

14. Khushi M. Khan (ed), *Multinationals of the South: New Actors in the International Economy* (New York: St. Martin's Press, 1986), p.24.

Table 1
Changing Intensity of Outward Flows of Foreign Direct Investment from Selected Asian and Latin American Countries, 1967-83

Asian Countries
Average Annual Flow ($ Millions)

Time	Outward(a)	Inward(b)	Relative Intensity (a/b) (%)
1967-9	21.2	207.3	10.2
1970-2	64.3	596.5	13.0
1973-5	118.5	893.6	13.3
1976-8	197.8	984.9	20.1
1979-80	272.3	726.4	37.5

Latin American Countries

Time	Outward(a)	Inward(b)	Relative Intensity (a/b) (%)
1967-9	0.8	103.5	0.8
1970-2	6.4	225.0	2.9
1973-5	30.3	569.8	5.3
1976-8	73.5	778.5	9.4
1979-80	134.3	889.8	15.1
1981-3	142.2	1,194.5	11.9

Source: United Nations Centre on Transnational Corporations, New York (Various reports on FDI); *IMF Balance of Payments' Yearbook.*

stock of developing countries had risen to $109 billion. As far as the Latin American countries are concerned, the outward flow of investments into 58 host countries in the year 1980 was $ 3,308 million going upto $8,545 million by 1990.[15] (See Table 2)

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15. n.3, p.23.

Table 2

Stock of Foreign Direct Investment from Latin America in 58 Host Countries

	1980				1990			
	Developing countries stock		Developing countries as % of total stock		Developing countries stock		Developing countries % of total	
	Total	Excluding FDI from tax haven	Total	Excluding FDI from tax haven	Total	Excluding FDI from tax haven	Total	Excl FDI tax haven
Latin America	3 308	1 324	9	3	8 545	4 079	9	4
Argentina	239	101	4	2	411	148	16	2
Bolivia	63	35	15	8	140	59	17	7
Brazil	1 741	448	10	3	2 722	745	7	2
Chile	146	97	16	11	1 795	553	29	9
Colombia	181	94	17	9	330	157	9	5
Ecuador	200	133	28	19	349	203	26	15
El Salvador	39	13	25	8	52	23	25	11
Guatemala	23	8	52	20	23	9	33	13
Mexico	42	-	1	-	1708	-	6	-
Panama	16	-	4	-	33	-	7	-
Paraguay	111	-	45	-	93	-	37	-
Peru	139	52	15	6	287	91	23	7
Uruguay	96	49	29	15	120	79	26	17
Venezuela	276	122	17	8	482	177	13	5

Source: Based on *World Investment Directory 1992: Volume IV Latin America and the Caribbean* (New York: United Nations Publications, 1992)

Even though the share of FDI originating in developing countries is growing faster, Latin America's share of developing-country FDI is falling. Latin America and Asia, "accounted for almost the same share in the 1970s, but Latin America's share... [had fallen] from 36 per cent in 1970-1975 to just 7 per cent in 1986-1991."[16] In spite of declining shares, the total volume of outward FDI from Latin America has been rising. Brazil, in fact, has shown considerable increase from a $288 million in 1977 to $2,397 million by 1990. Another observation that can be made is that in the case of Argentina, Brazil and Mexico a larger chunk of its outward FDI flows to developed countries rather than developing ones. In the case of Venezuela, it is observed that by the late 1980s, it had placed more than one-half of its investments in developed countries. (See Table 3)

However, the developing countries continued to attract substantial portions of investments from these countries as well. For example, 40 to 45 per cent of outflows from Brazil was accounted for by the developing countries as is evident from Table 3.

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16. ibid.

Table 3

Outward Stock of Foreign Direct Investment from Latin America (Millions of Dollars and Percentage)

		Host Countries					
		Total		Developed Countries		Developing Countries	
Home Country		Volume	Share	Volume	Share	Volume	Share
Latin America							
Argentina	1980	990	100	859	87	131	13
	1990	960	100	753	78	206	21
Brazil	1977	288	100	243	84	45	16
	1980	652	100	483	74	169	26
	1990	2397	100	1296	54	1101	46
Chile	1990	201	100	23	11	178	89
Colombia	1975	43	100	12	28	31	72
	1980	136	100	30	22	106	78
	1990	402	100	99	25	303	75
Mexico	1980	185	100	143	77	43	23
	1990	720	100	670	93	50	7
Peru	1980	3	100	-	-	3	100
	1990	64	100	13	20	51	80
Venezuela	1980	185	100	26	14	160	86
	1990	837	100	679	81	156	19

Source: Based on UNCTC, *World Investment Directory 1992: Volume IV, Latin America and the Caribbean,* (New York: United Nations Publications, 1992).

On the whole, Latin America and the Caribbean have not yet become a significant source of outward FDI from developing countries despite the fact that among the first Third World TNCs on record, was an Argentina textile manufacturer Alpargatas and a food manufacturer Bunge y

Born. What led to a stagnation or a decline in the growth of investment outflows could perhaps be explained by the "earlier inward-oriented development strategies adopted by the region, often emphasizing import-substitution and restrictions on capital outflows..."[17] Comparing Latin America to Asia, the shift in the industrialization policies from import substitution in the early 1960s towards export promotion in the late 1960s in Asia, could have led to its growth of trade in manufactured products and later to FDI in export-oriented manufacturing.

Though average annual FDI outflows from Latin America and the Caribbean was four times higher in 1990-1991 than during 1975-1977, there was a steep decline in the share of outflows from developing countries between the periods 1980-1985 and 1986-1990, from over 28 per cent to 9 per cent.[18] Slow growth between the first and the second half of the eighties was due to external debt crisis, high inflation and a decline in the growth rate of real per capita GDP throughout the region. The refusal of the foreign bank loans, government measures of austerity and monetary discipline led to an acceleration of economic slowdown.

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17. n.2, p.55.

18. ibid.

Within Latin America and the Caribbean, the outward foreign direct investment has been largest, relative to the size of home country investments, in Venezuela, where it amounted to over 3 per cent of gross domestic capital formation (GDCF) and second largest in Brazil, at about 2 per cent of GDCF during the period 1990-1991.[19]

Geographical and Sectoral Distribution of FDI from Latin America

As is evident from available data, most of the Latin American countries' outward FDI is invested within the region itself. In fact, the trend in the past has been overwhelmingly in favour of other developing countries. Taking just the intraregional investments into consideration, it is seen that the main source countries vary among the recipient countries. (See Table 4) Argentina was found to rank first in Brazil but second in Ecuador, Mexico and Venezuela; Brazil was found to rank first in Bolivia and Chile; Venezuela first in Colombia and Peru and Chile in Argentina.

The direction of flows seems to depend on various factors: the absolute size and degree of development of the recipient countries, their rate of development and the

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19. ibid, p.56.

Table 4

Intraregional direct foreign investment in Latin America, registered accumulated flows, latest available data
(Thousands of dollars)

	Host Country									
Home Country	Argentina (August 1976)	Bolivia (1976)	Brazil (June 1978)	Colombia (December 1978)	Chile (August 1978)	Ecuador (December 1977)	Mexico (December 1977)	Peru (December 1978)	Venezuela (December 1978)	Total
Argentina	-	441	20 031	1 062	662	10846	986	1 771	2 058	37 857
Bolivia	2 605	-	17	5	133	-	-	431	49	3 240
Brazil	16 889	1 301	-	2 404	13 969	4 752	734	949	338	41 336
Colombia	22 043	-	244	-	50	10 347	-	695	1 499	34 878
Chile	355	271	273	195	-	11 097	218	1 240	82	13 731
Ecuador	-	-	148	17 620	100	-	-	825	21	18 714
Mexico	762	-	7 650	4 142	2 552	4 771	-	1 156	8 846	22 879
Paraguay	-	-	1	-	-	-	-	-	77	78
Peru	8	594	14	1 719	47	1 186	133	-	193	3 894
Uruguay	7 930	-	16 475	1 110	300	-	-	2 256	3 811	31 883
Venezuela	10 090	-	13 333	26 123	5 697	5 525	1 205	2 011	-	63 984
Other Central America	-	-	194	278	82	9 776	-	30	933	1 525
Total	60 682	2 607	58 380	54 659	23 592	58 300	3 276	11 372	10 907	273999

Source: United Nations Centre for Transnational Corporations, *Measures Strengthening the Negotiating Capacity of Governments in their Relations with Transnational Corporations*, (New York: United Nations Publications, 1983), p. 18.

geographical proximity. The weakness of the Latin American countries to invest within the region could be explained by the latter reason along with other factors like close cultural links and presence of regionally integrated markets.

Going by what has been said so far, it would seem as if it is only the developing nations which act as hosts for the Latin American FDI. But this is not entirely true. Though the geographical scope of firms from countries like Chile, Colombia and Peru has been somewhat narrow given their limited financial resources and less industrialised structure, they too have come up, as will be discussed later, specially in the case of Chile.

As regards the other countries, in terms of size and distribution of their investment abroad, Argentina and Brazil are the most important home countries.

In the case of Argentina, "its long history of industrial development which dates back to the end of the nineteenth century, explains the early expansion of its firms, which were for a long time the only example of international expansion within Latin America."[20] Regional flows occupied an important position, though now the

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20. n.8, p.10.

investments are increasingly moving to developed countries as well, even outside Latin America. According to a study, in the period of 1973-82, "almost all exports of **industrial projects** went to Latin American countries, and that 65% of them went to neighbouring countries.... A very large proportion of **infrastructure projects** also went to Latin America..."[21] Apart from these projects, **technical assistance and consultancy projects** also went mostly to Latin America and other developing countries. Looking at the latest trend of the nineties, it is seen that Argentine FDI has moved into the European and North American countries as well. For example, Trapiche UK, a subsidiary of the Argentine Company Peñaflor, was established in England from 1991 in the field of marketing. In fact, Argentine multinationals have moved out to Italy and Russia as well. Bridas specialising in the petroleum field established a subsidiary from 1992 in Russia where as Techint (industrial equipment) started its activities in Italy from 1990.[22]

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21. Simón Teitel and Francisco Colman Sercovich, " Latin America" *World Development* (Oxford), vol.12, no.5/6, 1984, p.650.

22. Embassy of the Argentina Republic, *Argentina: An Economic Profile* (New Delhi: Embassy of Argentina, 1994), p.52.

Most of the Brazilian penetration took place during the recent period of expansion, which was characterised by industrial growth and export of manufactures. The share of Brazilian outward FDI in developing countries was much lower at less than 50 per cent, according to the World Investment Directory, as compared to the other Latin American countries such as Chile, Colombia and Peru. "North America remains the most important host for Brazilian FDI, accounting for 48 per cent of outward FDI stock by 1985; by 1990, however, the considerable growth of Brazilian FDI in Western Europe resulted in a diminished, although still substantial, importance of North America at over 36 per cent."[23]

These moves abroad seem to have been motivated by the Brazilian TNCs in order to gain access to advanced technology along with the desire to increase European investments by Brazilian TNCs. This does not mean that the region itself is not important for investments. Out of the 46 per cent of Brazil's stock of FDI in 1990, almost 96 per cent was in other countries of Latin America and the Caribbean. 16 per cent of the outward FDI stock within the region was directed to the member states of MERCOSUR.

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23. n.2, p.57.

Mexico, a large country of the region, had quite a few investments in Central America in various sectors ranging from fertilizers to steel and glass manufacturers, but small participation in the rest of Latin America. The geographical destination of the FDI has now widened, in a number of cases including developed countries. Vitro, a Mexican firm acquired the Anchor Glass Corporation of the United States while Cementos Mexicanos has also invested in cement companies in Texas and California.

Venezuela had ranked first in Colombia, Mexico and Peru as an investor within the region. Venezuela has also moved abroad sometimes through acquisition. For example, the major acquisition by Petroleos de Venezuela of the United States petroleum company, CITGO.[24]

For Chile, Colombia and Peru, a greater share of their outward FDI was hosted by other developing nations. By 1990, 75 per cent of total Colombian FDI world-wide was directed to other developing countries, of which 95 per cent was in Latin America and the Caribbean basin. Similarly, for Peru, 80 per cent went to other developing nations of which 93 per cent went to Latin America and Caribbean. There was growth both in absolute and relative

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24. ibid, p.58.

terms of outward FDI stock from Colombia to the developed areas, after the 1980s. Most of it was directed to the United States in real estate and other service industries where it doubled from $42 million to $83 million between 1985 and 1990.

Chile's outward FDI within Latin America and the Caribbean was US $209 million in the years 1974 to 1983, while being US $ 1,067 million to North America and US $641 million to Europe during the same period. Just for the year 1994, the figures had risen to US $676 million for Europe, US $ 1,492 for North America while remaining more or less the same at US $ 141 million for the Latin American and Caribbean region.[25] (See Table 5)

Having delineated the geographical distribution of Latin American FDI outflows, an attempt is made here to briefly sketch the broad economic sectors into which Latin American investments have so far been made.

It is mainly in the secondary and tertiary sectors that the outflow of FDI from the Latin American and Caribbean countries has taken place. Given the natural resource endowments of these countries, outward FDI in the primary sector is not very common

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25. Foreign Investment Committee, *Chile Investment Review: Foreign Investment Indicators* (Santiago), December 1995.

Table 5

Chile's Foreign Investment by Region

Country	1974-'83	1984-'88	1989-'93	1994	1995	Total
AFRICA	27	15	117	84	219	462
South Africa	27	15	116	84	219	461
Others	0	0	1	0	0	1
EUROPE	641	585	1,354	676	576	3,832
United Kingdom	129	127	508	38	93	895
Finland	0	0	89	461	245	795
Spain	183	333	200	19	55	790
Netherlands	86	44	123	10	40	303
Switzerland	53	2	144	48	4	251
France	76	18	82	27	26	229
Germany	46	16	40	2	56	160
Luxembourg	8	27	65	10	1	111
Lichtenstein	9	5	42	9	33	98
Others	51	13	61	52	23	200
L. AMERICA AND THE CARIBBEAN	209	95	499	141	208	1,152
Argentina	21	6	79	63	42	211
Cayman Island	4	2	111	16	54	187
Panama	78	47	43	4	3	175
Bermudas	11	10	103	0	39	163
Brazil	58	16	39	10	20	143
Uruguay	12	9	19	24	16	80
	2	1	56	3	16	78
Others	23	4	49	21	18	115
NORTH AMERICA	1,067	818	2,984	1,492	1,936	8,297
U.S.A.	1,012	708	1,959	998	1,535	6,212
Canada	55	110	1,025	494	401	2,085
ASIA	52	47	397	71	43	610
Japan	47	32	357	60	16	512
China	0	0	26	3	23	52
Hong Kong	2	7	6	3	2	20
Others	3	8	8	5	2	26
OCEANIA	6	413	553	36	28	1,036
Australia	6	73	462	16	24	581
New Zealand	0	340	48	19	4	411
Others	0	0	43	1	0	44
INT.ORG.	1	35	93	18	11	158
TOTAL	2,003	2,008	5,997	2,518	3,021	15,547

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Source: *Chile Investment Review*, Foreign Investment Committee, Santiago, Chile, December 1995.

except in mining, petroleum exploration and agriculture. Though the sectoral orientation of Latin American direct foreign investment is diversified over a wide range of economic activities, manufacturing investments clearly predominate.

As has been stated by the United Nations World Investment Directory, "[t]he larger and more industrialized countries such as Argentina, Brazil, Chile, Mexico and Venezuela have concentrated their FDI in developing areas in the secondary sector, particularly in low-or medium-technology manufacturing and some natural resource-based manufacturing.... By contrast, almost 90 per cent of Colombia's FDI are concentrated in food beverage and tobacco industries..."[26] In the developed countries, FDI in manufacturing has been varied. For instance, in the United States, 95 per cent of Venezuelan FDI has been concentrated in petroleum refining, Mexican FDI largely in non-metallic minerals while Brazilian FDI on the production of motor vehicle parts. There has been an increasing outward FDI in the tertiary sector. This may be due to the growing importance of services, their lesser tradability and the trend towards liberalization, deregulation and privatization of services industries thus opening them to

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26. n.2, p.59.

international competition. The new expansive and encompassing outlook of the major semi-industrialized Latin American countries and the growing servicing needs of their exporting firms have further given an impetus to this trend. These investments are particularly notable in finance and insurance. Particularly so in the case of Latin American banks which have been projecting great dynamism in their expansion abroad. "Many are flocking to international money centers, such as London, Panama and the Bahamas, as well as to other Latin American countries."[27]

But it is not only the private banks which can be categorized as dynamic and outgoing. The publicly owned Banco do Brasil has been listed among the top fifty international banks and is ahead of the well-known banks such as the Lloyds Bank and the Bank of Tokyo. Another publicly owned bank, the Banco de La Nacion of Argentina too has substantial interests abroad. Venezuelan banks as well as the Banco do Brasil competes actively with US banks in the Chilean market and there are cases of Colombian banks being active in Ecuador and Panama.

Taking the example of Colombia and Peru to show the increase in activity in the tertiary sector, it is seen that:

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27. n.6, p.175.

> In 1980, the stock of outward Colombian FDI equalled $136.5 million, of which 85 per cent was in the tertiary sector. By 1990, that stock had reached $402 million, and tertiary sector investments-reached $301 million. The primary sector accounted for a small share of outward FDI stock, at less than 3 per cent in 1980 and less than 6 per cent in 1990. Similar trends are evident in Peru where more than 87 per cent of the country's total outward FDI stock in 1990 were directed to the tertiary sector. This represents a substantial growth from a share of less than 6 per cent in 1980.[28]

The tertiary sector has also dominated outward FDI of Chile accounting for close to 92 per cent of the stock of that country by 1992. According to given statistics in the year 1995, Chilean foreign investments in the financial services, insurance and real estate was $354 million as compared to $44.6 million in manufacturing $17.3 million in mining, $76.5 million in construction and $79.7 million in electricity gas and water.[29] (See Table 6). In the period 1975-1994, US $1082.3 million was invested in financial services and insurance and real estate whereas US $195.4 million was invested in manufacturing and US $39.3 million in mining. In fact, the Argentine firms Servicios

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28. n.2, p.60.

29. n.25.

Table 6

Chilean Foreign Investment by Sector
(in US $ millions)

	Outward Jan-Dec.1995			Outward Total 1975-1995		TOTAL
Economic Sector	Formal Market	Informal Market	Total	Formal Market	Informal Market	
Agriculture, Livestock, Fishing, Forestry	0.0	0.0	0.0	0.0	0.1	0.1
Trade	18.3	23.1	41.4	37.0	64.0	101
Construction	76.5	0.0	76.5	76.7	1.1	77.8
Electricity, Gas and water	61.8	17.9	79.7	85.3	189.9	275.2
Financial Services, Insurance, R.Estate	143.1	210.9	354.0	473.2	963.1	1436.3
Manufacturing	18.8	25.8	44.6	88.7	159.3	248
Mining	5.2	12.1	17.3	31.3	25.3	56.6
Personal Service	0.0	1.7	1.7	0.1	7.1	7.2
Transport and Communicatons	11.3	17.7	29.0	289.5	76.4	365.9
TOTAL	335.0	309.2	644.2	1.081.8	1,486.3	2568.1

SOURCE: *Chile Investment Review*, Foreign Investment Commit-tee Santiago, Chile, December 1995.

Electricos del Gran Buenos Aires, Distribuidora Electrica and Central Puerto are now largely owned by Chilean firms.

Telecommunications is another area of strength for the Chileans. For example there has been participation by Compania de Telefonos de Chile in bids to install cellular telephone systems in Colombia and Ecuador.

Having examined at length, Latin Amercian FDI activity highlighting the geographical and sectoral distribution as well as the magnitude, in the subsequent two chapters a more detailed analysis of foreign investments by the two leading countries -- Argentina and Brazil, is made.

CHAPTER III

CHAPTER III

FDI FROM ARGENTINA

In the introductory chapter an attempt was made to sketch in brief the theoretical underpinnings of foreign direct investment (FDI) outflows in general. The primary focus of the analysis was on the patterns and motivations of the FDI activities of the less developed countries. The second chapter was devoted to a descriptive analysis of the FDI flows from the countries of the Latin American region. Though insubstantial in volume compared to the other less developed regions such as Asia especially since the emergence of the so called Asia's newly industrialized countries (NICs), what however distinguishes Latin America is that its FDI activities had begun much earlier, some going as far back as the end of the last century.

With the process of economic restructuring and liberalization gaining modest momentum in the Latin American region since the mid-1980s, there appears to be a renewed, though not as yet a concerted effort on the part of some of the major Latin American countries seeking to promote FDI activities. Notwithstanding such obvious constraints as paucity of capital resources for investment overseas, the evolving trend towards regional economic integration is admittedly offering opportunities for the

countries of the region to promote FDI activities. Keeping these developments in view, an attempt is made in the following two chapters to examine the growth and expansion of FDI activities in the two major continental-sized countries of the region viz. Argentina and Brazil.

Origins of Argentina's FDI Activities

Argentina's early economic expansion compared to that of the other countries of Latin America had doubtless given the country a headstart in respect of its foreign direct investment. Although Argentina's economic development was largely based on its agricultural exports, the process of such development also involved industrial growth essentially to supply growing internal markets for wage-goods as also to processing the country's agro-exports. In fact, at the beginning of the 20th century Argentina was not only the world's third largest exporter of wheat but was also Latin America's largest producer of manufactures accounting for nearly 15 per cent of the country's gross national product.[1]

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1. For details of Argentina's early industrial growth see Carlos Diaz Alejandro, *Essays on the Economic History of Argentina Republic*, (New Haven, Conn : Yale University Press, 1977); Laura Randall, *An Economic History of Argentina in the 20th Century*, (New York : Colombia University Press, 1977) and Frederick S. Weaver, *Class, State and Industrial Structure: The Historical Process of South America's Industrial Growth,* (West Port, Conn. : Greenwood Press, 1980).

Argentina's early industrial expansion was by no means the result of a well conceived or concerted "policy nor was it assisted by credit or industrial training."[2] On the contrary, the process of incipient industrialization received set-backs in "events like the 1914-18 War [which] created supply bottlenecks for industrialisation."[3] Even the existing tariff structures which could have "afforded protection" to domestic industries did not, because it "depended on lagging customs' reference prices which reduced [the] duties paid."[4] In the subsequent decades "industrialisation received further momentum from exchange controls and other limitations to foreign imports ... and discrimination against exports."[5] Yet, against all such odds a group of pioneering Argentine industrial firms took the initiative to "investing abroad... since the end of the 19th century."[6]

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2. Ricardo J. Soifer, "Argentina", *World Development*, (Oxford), vol. 12, no. 5/6, 1984, p. 632.

3. ibid.

4. ibid.

5. ibid.

6. ibid, p.629.

Historically, it has invariably been countries which had an early head start in the industrialisation process together with some positive features of an open economy that had pioneered outward foreign direct investments. Available data suggest that by the decade of 1940, Argentina generated nearly over a quarter of the total Latin American manufactures and accounted for more than a third of the region's total output, a lead that Argentina maintained until 1950 after which it dropped to a quarter till recently. (see Table 1)

Table 1

Gross Domestic Product in Manufacturing (in millions of dollars at 1970 US Prices)

Year	Argentina	Latin America	Argentine's Participation in Latin America
1940	2,321.6	6,186.6	37.5
1950	3,351.3	11,557.4	29.0
1960	5,013.8	21,389.0	23.4
1970	8,672.0	41,666.2	20.8
1976	10,525.8	62,024.0	16.9

Source: Reproduced from Sanjaya Lall (ed.), *The New Multinationals: The Spread of Third World Enterprises*, (New York: John Wiley & Sons, 1983), p. 167.

Leading Argentine industries that contributed to this substantial share in the 1940s and 1950s were

manufacturers of foodstuffs, beverages, tobacco, textiles, paper printing as also chemicals, petroleum, rubber and non metallic minerals (see Table 2).

Table 2

Sectoral Distribution of the Relative Shares in the Manufacturing Output in Percentages Percentage of Manufacturing Output

Sector	1925-29	1937-39	1948-50	1958-60
Foodstuffs, Beverages and Tobacco	37.4	38.0	26.1	20.3
Textiles and other Fabrics	16.3	17.0	22.3	17.3
Wood and Furniture	3.2	2.1	2.1	2.1
Paper and Printing	11.7	7.6	5.6	4.6
Chemicals, Petroleum and Rubber	7.3	10.1	12.1	14.9
Non-Metallic Minerals	6.9	4.3	5.1	4.1
Steel and Other Basic Metals	4.5	6.4	6.5	4.3
Metallic Products and Machinery	2.9	6.7	11.6	27.1
Other Industries	9.6	7.9	8.7	5.2

Source : Reproduced from Sanjaya Lall (ed.), *The New Multinationals: The Spread of Third World Enterprises*, (New York: John Wiley Sons, 1983, p. 166.

Not surprisingly, therefore, among the countries of the Latin American region, Argentina began early in FDI activities. By the decade of 1930 such Argentine plants

operated by Alpargatas, Bunge y Born and Siam di Tella were internationally acclaimed. Studies on FDI outflows from developing countries even describe Argentina's Alpargatas as the "first recorded Third World MNC."[7] A textile manufacturing firm, Alpargatas set up a production unit in adjacent Uruguay as early as 1890, followed by similar ventures in Brazil too. Founded in the year 1883, Alpargatas began manufacturing textiles and shoes.[8] Leading most others, Alpargatas controlled 85 per cent of the jeans market and 50 per cent of the footwear market. Having exhausted the domestic demand and at the same time, desirous of exploiting the markets of the adjacent countries which were otherwise well protected, Alpargatas moved first into Uruguay and subsequently into the larger Brazilian market. Of the several fortuitous circumstances that encouraged Alpargata's early forays into neighbouring countries, its competitive edge in respect of know-how and

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7. United Nations Transnational Corporations and Management Division, Department of Economic and Social Development, *Transnational Corporations from Developing Countries: Impact on Their Home Countries*, ST/CTC/133, (New York: United Nation Publications, 1993), p. 46.

8. Until 1970 Alpargatas based its strategy primarily in diversifying within the textile industry at the same time seeking vertical integration into producing raw materials. Subsequently, it diversified by purchasing majority shares in the banking sector as also in insurance. Through a partnership with a Spanish firm, Alpargatas went into fishing. Later, it bought share in a sugar mill and even moved into petroleum.

its strong financial and managerial position against firms of other countries, were no less important. In fact, in the beginning, it operated in Uruguay on a joint-venture basis with a local group holding minority control and with licences granted by different MNCs. Eventually it tilted the balance wholly in its favour. Alpargatas adopted the same strategy in Brazil too, subsequently.

Founded in 1884, Bunge y Born is a household name in foodstuffs like flour, rice, oil as also in grain trade, cloths and chemicals.[9] By 1920s Bunge y Born moved abroad into Brazil and eventually proliferated into other Latin American countries like Chile, Paraguay, Peru, Uruguay and Venezuela and partially into USA, Spain and Australia. These overseas investments were dictated by several considerations, important among them being securing steady supply of raw materials and targetting export markets, as well as the constraints it faced at home on account of the country's chronic economic instability. What facilitated its overseas ventures was its home country's (Argentina)

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9. Nicknamed *pulpo* (octopus), Bunge y Born initially set up grain-milling and oil-producing plants and soon moved into `arpillera bags', the much needed input in grain export trade. Next was cotton which the firm covered vertically all the way from plantation to cloth manufacturing. Simultaneously, it entered into the rice market. Then followed its entrance into canning plants, forestry and plywood.

importance as a world grain producer, its wide experience in the international market as also highly trained technical and managerial professionals, high quality capital equipment and, above all, the strong financial position that it enjoyed. Apart from being associated with MNCs in a few instances, Bunge y Born more often operated without local partnership.

The third, in the rank of early starters of overseas investments in Argentina is Sociedad Industrial Americana di Maquinaries in short Siam di Tella. Founded in 1910, Siam di Tella went international in the next decade.[10] Acting on the basis of tie-ups, it gradually controlled the partners and operated on a joint venture basis with MNCs that licenced their product and production technology. Its motivations for moving overseas included blocking third partners from patenting their products, consolidating their

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10. Siam di Tella is the brain child of an Italian immigrant, Torcuato Di Tella endowed with unusual entrepreneurial drive. The early bread-making machinery that the firm marketed were De Tella's own design. Soon after its venture in bread-making machinery it diversified into other equipments including gasoline pumps in early 1920s. During the depression years, with the Westinghouse licence, Siam di Tella manufactured refrigerators. With these early ventures into machinery and equipment by 1950s it went into production of motorcycles and in the following decade, manufacturing of automobiles. In the second half of 1960s Siam di Tella ran into serious difficulties largely on account of a drastic devaluation of Argentine peso and its loss of share in the local market, all of which led Siam di Tella to go into government ownership.

export market for final products, taking advantage of local contacts in order to operate as a monopoly trader, taking advantage of economies of scale, exploiting internal markets and exhausting the domestic demand. The technological superiority it enjoyed in certain specific manufactures, importantly bread-making machinery and the association with MNCs from which it obtained technical licence along with wide entrepreneurial experience of its founder gave Siam the edge that it needed over others.

Post Second World War Period

Studies on Argentina's overseas investments generally divide the post Second World War period into two phases. The first beginning from the late 1960s and the second coinciding with the advent of the military regime in the country.

During the European hostilities as well as since, at least till mid-1950s, Argentina adopted a concerted economic strategy based on import-substitution industrialisation. Consequently, neither the government nor the private sector felt the need for a policy package for encouraging foreign investments. With the overarching role of state in economic development coupled with nationalisation of prime economic sectors and the public sector units being sought to buy only domestic inputs — all of which offered adequate opportunities for the

investing community within the domestic confines. This policy direction was intensified even after the fall of Juan Peron, the architect of the inward looking policy. As a consequence, the Argentine economy became increasingly dependent on the importation of capital and intermediate goods with no perceptible positive trends with respect to overseas investments.

The mid 1960s ushered in a new era of an economic and monetary policy which particularly made a strong impact on the financial markets, especially on account of the significant overvaluation of the peso, coupled with a low degree of incentives for domestic investment projects. This policy in turn pushed Argentine investors' potential outside. By now, thanks to the inward looking policy initiatives which among others, contributed to development of scientific and technological research and application, placed such of those units which took advantage of the availability of indigenous technology to seek investments overseas.(For data on Argentina FDI classified by different sectors, see Table 3). So much so, it is believed that the decade of 1960 constitutes the golden years of mechanical engineering production. As one writer states :

> An advanced and diversified metal-working sector involving production of equipment, machinery and transport material [gave Argentina] production

process experience in those industrial branches... mastery of capacities in the metal-working sector.... proficiency in equipment design [and] potential for supplying complete plants, and for starting similar production abroad.[11]

Table 3
Government-authorised Argentine Foreign Investment, Classified by Recipient Sectors (1965-June 1981)

Recipient Sector	Value (US$)	%	No. of Projects
Agricultural	3,335,939	3.8	5
Petroleum	26,030,000	29.9	4
Manufacturing Industry	45,443,843	52.5	61
Building	6,981,088	8.0	20
Trade	3,046,555	3.2	22
Transport	1,065,541	1.2	6
Services	1,228,333	1.4	4
Total	87,131,299	100.0	122

Source: Reproduced from Sanjaya Lall (ed.), *The New Multinationals: The Spread of Third World Enterprises* (New York: John Wiley and Sons, 1983), p. 141.

The sudden supremacy in mechanical engineering that Argentina attained in comparison to the other countries of the region placed the country at an advantage for technology exports. Although in the beginning, instances of such exports were largely confined to simple technology exports like cattle-raising techniques, meat-packing and cold storage plants, in time, more sophisticated

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11. See n.2.

engineering industries began to establish beach-heads in adjacent countries where Argentina had already established its credentials as an advanced industrial country. The patterns of overseas movements however, varied. There are instances when firms exported a complete manufacturing facility and later became involved in FDI activities. There are also other instances where firms interested in FDI activities began by exporting a manufacturing plant. Two leading engineering companies Wobron and Yelmo are examples of both the patterns. Founded around early 1950s, Wobron manufacturing automobile clutches and Yelmo making household appliances chose to fan out into countries of the region and by 1970s dotted the entire length and breadth of Latin America.[12]

Initially it moved into Uruguay, Chile and Venezuela and Peru though it was not very effective in Peru. Preventing the entry of another firm that could export to

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12. Wobron has since been selling about 40 different types of automobile clutches in the domestic market, resulting in small production runs and subsequent high costs. Its production technology has been "scaled down" to adapt to local market requirements, and so have product designs. Wobron has given partial capital access to Borg Warner, Fichtel and Sachs, in order to get in exchange a fluid transfer of technical information. Thus, Wobron constitutes a clear case of a firm having to develop its own less automated `discontinuous' production technology as a substitute for the highly capital intensive `in-line' technology employed by its foreign licensor.

Argentina, taking advantage of the Latin America free trade complementation agreements, making use of credit advantages including incentives provided by the recipient country and at the same time capturing new market avenues were some of the factors that facilitated Wobron's foreign forays.

The other engineering firm, Yelmo, founded in 1950 moved overseas around the same time to Ecuador, Venezuela and Uruguay.[13] Its ventures included tying up with host countries' companies or third country multinationals.

In the second phase of FDI activities from 1975, the accent of FDI activities moved into other specialised sectors including importantly, petroleum, pharmaceuticals and consumer non-durables. Yacimientos Petroliferos Fiscales (YPF) is illustrative of the change in the sectoral composition of FDI outflows since 1975.[14] Founded in 1922 it went international only in mid 1970s. A major

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13. Yelmo developed strong market positions, both in the internal as well as the neighbouring markets on the basis of trademarks, supported by publicity and promise of after-sales maintenance networks of recognised efficiency.

14. Recently the YPF has been very active behind the Aquila project. This is a petrochemical complex set up under Agreement N6 of Industrial complementarity within the framework of the Andean Pact. The complex includes participation of the governments of Argentina, Colombia and Bolivia through their respective state petroleum companies. This programme, significantly, confirms a long history of collaboration between public Latin American enterprises in the petroleum field.

entity in the petroleum sector of Argentina, over the years it evolved ample proprietary technology. Largely engaged in the sale of raw materials and purchase of final products, YPF moved into other oil producing Andean countries such as Bolivia, Ecuador and Peru establishing joint ventures with local firms and raising funds from a regional financial organization for its overseas activities.

Similarly, Bago, a leading pharmaceuticals founded in 1930, moved overseas to Bolivia, Chile, Honduras, Mexico and Uruguay in 1978. Sixth largest world producer of pharmaceuticals, Bago ranks as the first in Latin America. Its primary motivation to move beyond into other countries of Latin America included spreading its R&D expenditures on a larger market, and its acquaintance with recipient countries' market environment in pharmaceuticals and keeping sale of raw materials through its ventures overseas.[15]

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15. During its initial years, Bagó was primarily a producer of ethical drugs, moving back towards raw materials or active components production sometime during the early 1960s. Now it operates a modern R&D laboratory proceeding recently into experimental and clinical pharmacology. Technical knowledge and expertise, accumulated over the years, has permitted the firm to move into construction, startup and operation of complete pharmaceutical plants. It has so far exported a number of such plants in the form of `turnkey' operations. Bago's international involvements include exports of finished drugs, as well as export of intermediate active components or raw materials along with exports of technical assistance, engineering design services and FDI activities.

Sectoral Distribution and Direction

To analyse the flow of foreign direct investments from Argentina is by no means an easy task. No official data exist. Data on FDI inflows in host countries offer some basis for assessing Argentina's outward investment flows. Based on that, quantitatively speaking, Argentine FDI outflows is of little significance in the domestic economy and far less so in the Latin American economy. Argentine FDI, compared with total investment in host countries accounts for less that 1 per cent except in the case of Ecuador where it is 0.5 more than the general average. It may however be added, that it is not simply the volume that counts as, at the level of specific industries or countries, it may well be important. Keeping these in view, in this section a brief description is offered of the sectoral distribution of Argentine FDI activities.

Companies involved in the construction sector, carried out various civil engineering projects including engineering designs, site preparation, construction and supervision. These companies exported locally generated technology and the projects were heterogeneous in

character, ranging from railway facilities in Bolivia, oil pipe-lines in Ecuador, residential complexes in Venezuela and recreational centres in Brazil. Related to construction engineering are the FDI activities that concentrated on purchase of real estate property overseas and developing them for services. In this regard the Argentine venture in Uruguay, the summer resort of Punta de Este is a good example.

As is evident from Table 4, FDI activities in the sector of agriculture, animal breeding and food processing constitute an important chunk in Argentina's FDI activities. Mention has already been made of the activities of giants like Bunge y Born. That apart, there are innumerable instances of land based entrepreneurs who have acquired ranches close to borders of adjacent countries engaged in a variety of agrobased industrial activities.

In the service sector, most Argentine FDI both from public and private sectors like in the case of Brazil, have gone into banking and related services. The leading public sector Banco de La Nacion Argentina, operates throughout Latin America, United States, France, Britain and Japan. Private banks such as Galicia, Credito Argentino, Ganadero and Español are the major units of a

banking consortium with world wide networks. Besides, Banco Provincia de Buenos Aires, Mercantil Argentina and Banco Nacional de Desarrollo are examples of other private banks (some public ltd) engaged in banking activities.

Petroleum and its byproducts have provided yet another sector for Argentine FDI activities. Mention has been made of YPF's overseas activities in some Latin American countries. Besides direct investment activities, YPF has also encouraged its subcontractors to venture abroad, of which Bridas won a contract to set up oil platforms in a joint venture with a French group. Since 1992 Bridas has even gone beyond into Russia, with petroleum as its major activity.[16] Yet another example of an Argentine company, Perez-Companc, has gone into overseas activities. Begun in 1940s, as a shipping company, Perez-Companc rapidly diversified into petroleum, paper, banking, building and communication.

Where the Argentine FDIs are strong and extensive is in the manufacturing sector. Reasons for their strong position in this sector are importantly, two. Mention has been made of the early headstart that Argentine industrialisation process enjoyed. An additional

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16. Embassy of Argentina, *Argentina: An Economic Profile* (New Delhi, 1994), p. 52.

overriding factor is that the size of the domestic market, at least since 1970 has proved to be insufficient forcing these industries to move out. As is evident from Table 4, between the late 1960s and early 1980s a total foreign investment of US $ 87 million was distributed over 122 instances of manufacturing units set up by Argentine firms.

Table 4

Government-authorised Argentine Foreign Investment, Classified by Recipient Manufacturing Industry and Country (1965-June 1981)

Sector Industry (according to C.I.I.U.)	Investments (in US $)	Country
3115 Oils and Fats	5,770	
	4,970	USA
	800	Uruguay
3119 Sweets and Jams	3,327	
	1,825	Brazil
	885	Uruguay
	417	Paraguay
	200	Chile
3121 Foodstuffs	250	
	250	Italy
3132 Wine	1,040	
	1,040	Colombia
3412 Packing Materials in Cardboard and Paper	1,060	
	1,060	Paraguay
3420 Publishing	2,630	
	1,500	Brazil
	600	Chile

Table 4 Contd...

Sector Industry (according to C.I.I.U.)	Investments	Country
	530	Spain
3511 Chemicals	492	
	388	Paraguay
	100	Venezuela
	4	Brazil
3522 Pharmaceuticals	2,100	
	650	Mexico
	450	Bolivia
	300	Chile
	290	Honduras
	210	Uruguay
3523 Toiletries	250	
	250	Brazil
3560 Plastics	1,306	
	900	Bolvia
	397	Paraguay
	9	Uruguay
3692 Cement and Clay	111	
	111	Paraguay
3710 Steel Industry	10,741	
	6,000	Mexico
	3,621	Chile
	1,129	Brazil
3819 Metallic Products	1,495	
	595	Bolivia
	500	Ecuador
	400	Brazil
3822 Agricultural Machinery	4,037	
	2,000	Uruguay
	1,317	Peru
	475	Brazil
	245	Bolivia
3824 Construction Machinery	235	
	135	Costa Rica
	100	Brazil

Table 4 Contd...

Sector Industry (according to C.I.I.U.)	Investments	Country
3829 Machinery and Equipment	2,360	
	1,090	Brazil
	854	Uruguay
	316	Venezuela
	100	Chile
3831 Electrical Equipment	416	
	416	Uruguay
3843 Vehicles	7,815	
	5,353	Uruguay
	2,462	Chile
Total	45,444	

Source : Sanjaya Lall (ed.), *The New Multinationals: The Spread of Third World Enterprises*, (New York: John Wilef and Sons, 1983), p. 144.

Table 5 offers a glimpse of the geographical distribution of Argentina's overseas investments. Nearly 88 percent of Argentine foreign investments flows into its neighbouring countries such as Bolivia, Brazil, Chile, Paraguay and Uruguay. Of this, the bulk of it has long been going into Brazil. Of this, the bulk of it has long been going into Brazil. It is not surprising that such a trend has remained steady over the years. Given the size, diverse resources, relatively inferior technology and skills in specific sectors and above all, proximity, all have prompted Argentina's interest in foreign direct investment

in Brazil.[17]

In terms of volume and importance, the next major country in which Argentine FDI is well entrenched is USA, which has absorbed about 10 per cent of Argentine foreign investments. While Argentine companies have moved across the Atlantic, in Europe it is dispersed in Spain, Germany and Italy, all put together constituting little more than 1 per cent.

In recent years, beginning in 1990, Argentina's outward FDI stock is valued at $ 1 billion. The bulk of it is today concentrated in banking and financial sectors located in developed industrial countries heralding a shift in the sectoral as well as geographical distribution. Instances of subsidiaries of Argentine parent companies are moving beyond their traditional destinations into newer pastures. Mention in this connection has been made of Brida's venture in Russia. Notwithstanding these shifting trends, prospects appear to be strong and pronounced in the neighbouring Latin American countries. With heightened activity of economic integration leading eventually to a

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17. For an analysis of factors encouraging Argentine FDI into Brazil, see Khushi M. Khan, "Multinationals From the South: Emergence, Patterns and Issues," in Khushi M. Khan (ed.), *Multinationals of the South: New Actors in the International Economy*, (New York: St. Martin's Press, 1986), p. 5.

common market among the *cono sur* countries — Argentina,

Table 5

Government-authorised Argentine Foreign Investment, Classified by Region and Ranked According to Size (1965-June 1981)

Region	Value (US$)	%	No. of Projects
Latin America	76,718	88.0	104
Neighbouring Countries	39,484	45.3	75
Brazil	14,256	16.4	18
Uruguay	11,389	13.1	22
Chile	8,297	9.5	14
Bolivia	2,790	3.2	8
Paraguay	2,752	3.2	13
Other LA Countries	37,234	42.7	29
Peru	21,543	24.7	8
Mexico	6,850	7.9	2
Venezuela	3,896	4.5	6
Ecuador	1,565	1.8	3
Colombia	1,133	1.3	4
West Indies	1,000	1.1	1
Panama	812	0.9	2
Honduras	300	0.3	2
Costa Rica	135	0.2	1
USA	8,351	9.6	8
Spain	920	1.1	2
Germany	480	0.6	2
Italy	350	0.4	2
Belgium	97	0.1	1
Portugal	70	0.1	1
France	20	-	1
Others	125	-	1
Total	87,131	100.0	122

Source : Sanjaya Lall (ed.), *The New Multinationals: The Spread of Third World Enterprises*, (New York: John Wiley and Sons, 1983), p. 142.

Brazil, Paraguay and Uruguay — it appears that Argentine FDI would considerably increase in its adjacent countries.

Also, the other regional groupings such as Grupo Andino and NAFTA are likely to attract Argentine FDI by way of joint ventures. Already there are indications that suggest this likely trend for, many local firms have established themselves in joint ventures with national enterprises of the constituent recipient countries of the regional groups. Although small in size and lacking financial strength, there is however a clear trend towards these local firms attaining majority control after years of operation. For instance, Argentina's Dalmine took a minority share in the largest Mexican firm manufacturing seamless tubes. They jointly worked out a production scheme under which they specialised in different types of tubes and traded among themselves. Arcor, adopted a different pattern in adjacent Brazil and Chile. It took over small local companies on the basis of which it expanded at a very rapid pace, now to move into Uruguay. Sometimes as in the case of Siam di Tella, Argentine companies accept large MNCs of third countries as their partners.

From the foregoing descriptive analysis certain salient features emerge distinguishing Argentina from Brazil, the other country of whose FDI activities is dealt with in the following chapter. Of these, Argentina is a forerunner in foreign investment forays in Latin America, perhaps as claimed by some writers among the Third World

countries. However, its record has been somewhat uneven. Its early headstart could not be sustained because of its interlude into inward oriented economic development for nearly four decades (1930-1970). A third salient feature is that when it reemerged in respect of its FDI in 1970s Argentina's accent was more in manufacturing and a judicious mix of specialised skills and technology.

What attracted Argentine FDI abroad, was the likelihood of securing access to critical raw material (expansion of Grassi Hnos. to Brazil to capture a share in the country's output of manganese), capturing a potential market mostly in answer to the import-substitution strategy of protectionism (Bago in Bolivia and Alpargatas in Brazil and Uruguay), exploiting joint production possibilities (Dalmine which bought participation in Tamsa SA in Mexico), developing export activities for third markets (expansion of Peñaflor to Puerto Rico to use it as an export platform to reach USA and Central American wine market), capturing scale economies through regional integration programmes (Siam di Tella in San Pablo with the idea to integrate its production of bread-making machinery to capture economies of scale), reducing local production costs (Cabsha in Costa Rica because of the low cost of cocoa there) and so on. Thus structural factors such as a small domestic market and the rate of expansion led to this natural trend in Argentine FDI activities.

CHAPTER IV

CHAPTER IV

FDI FROM BRAZIL

The upsurge of FDI from Brazil is a recent phenomenon going back to mid 1970s. Its overseas investments largely made by the construction and engineering private firms and the mega public sector Petrobrás have earned reputation in building a steel mill in Paraguay and setting up the shopping mall in Chile and the supermarket chain in Portugal. Although modest in comparison to that of the Argentine companies going multinational, yet these overseas investments have at least to some extent influenced the course of the development process in Brazil. For, in less than a decade, Brazil's defence industries manufacturing aircrafts and fire arms have made a mark in the world. According to descriptions, "Brazil... has the world's sixth largest arms industry with exports valued at an estimated $ 1 billion ... Embraer, the Brazilian aircraft manufacturer ... supplies planes to four US regional airlines and about half of its exports each year go the US."[1]

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1. Heidi Vernon- Wortzel and Lawrence H. Wortzel, "Globalizing Strategies for Multinational from Developing Countries," *Columbia Journal of World Business* (New York), Spring 1988, pp. 27-28.

Given its long tradition of development strategy which was both inward looking and import-substituting, it is not surprising that neither the private sector nor the government, initiated any efforts to encourage foreign direct investments. However, what is noteworthy of Brazilian foreign investments is, notwithstanding its delayed venturing into going overseas, once it began, in the wake of the so called years of the Brazilian economic miracle between the second half of the 1970s, Brazilian investments at least until recent years have overshadowed other Latin American countries. It is against this background, an attempt is made in the present chapter to sketch the brief history of Brazil's foreign investment ventures and offer a modest analysis of the recent forays that Brazil's FDIs have made in the different parts of the world and also in the different major economic sectors.

Antecedents

As has been mentioned earlier, Brazil until recent years, has not adopted any explicit policies or legislations to foster and encourage national companies making overseas investments. Indeed, frequent chronic balance of payment (bop) problems, on the other hand had led to the government adopting regulatory controls over exports of capital. Also, to meet the bop crisis the

government had instead adopted policies geared to promote exports of Brazilian manufactures. As a fallout of its export promotion strategy of tax concessions and subsidized credit dispensation, private firms chose to invest abroad but such investments were no more than modest. Given the tradition of Brazilian policy making which, as has been succinctly stated as "permeable and segmented with different parts of the state apparatus responding differentially to divergent private interests", it is interesting to note that different manufacturing units have indulged in overseas investments for different considerations more or less during a given period.[2] This is what perhaps explains why Braspétro, created in 1972 to help its parent company for strategic considerations, went eventually commercial overseas. In contrast to Braspetro, Brazilian firms engaged in construction and engineering activities made forays into overseas economies largely protected on the strength of the export-promotion incentives provided by Brazil. But whenever those incentives were withdrawn on account of their governments stop-go monetary fiscal policies, these firms in respect of

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2. Peter B. Evans and Paulo Bastos Tigre,"Going Beyond Clones in Brazil and Korea: A Comparative Analysis of NIC Strategies in the Computer Industry," *World Development* (Oxford), vol. 17, no. 11, 1989, p. 1752.

their overseas investments could not sustain themselves. In the process, even during these initial years, Brazilian foreign investment in terms of its direction and volume remained largely insignificant. (See Table 1)

Table 1

Chronology

Year	Company	Country	Activity Initiated
1968	Eluma	Argentina S. Africa	Auto parts joint venture(JV)
1970	Pao de Acucar	Portugal	Supermarket JV
1971	Eluma	Colombia Venezuela	Auto parts JV
	Marcopolo	Venezuela	Assembly of bus bodies
1972	Petrobras	Iraq	First oil exploration contract abroad
1973	Pao de Acucar	Angola	Opened supermarket
1974	Caloi	Bolivia	Bicycle JV
	Gradiente	Mexico	Stereo equipment subsidiary
	Marcopolo	Ghana	Assembly of bus bodies
	Petrobras	Algeria	Oil exploration
1975	Pao de Acucar	Spain	Supermarket franchise
	Tenenge	Paraguay	Engineering subsidiary
1976	Copersucar	USA	Bought Hills' Brothers Coffee
1977	Inepar	Chile	Electrical control equipment JV
	Villares	Chile	Elevator subsidiary
1978	Caloi	Colombia	Bicycle JV
	Cotia	Nigeria	Civil engineering JV
	Inbrac	Paraguay	Cable JV
	Villares	Colombia Uruguay	Elevator subsidiaries
1979	Cica	Argentina	Canned foods subsidiary
	Cotia	Nigeria	Auto parts JV
	CPRM	(Africa)	Began mineral prospection abroad
	Gradiente	UK	Bought Garrard
	Securit	USA	Opened showroom and assembly point in Houston, Texas

Table Contd...

Year	Company	Country	Activity Initiated
1980	Caloi	Guyana	Royalties agreement for bicycles
	Villares	Mexico	Elevator subsidiary
1982	Caraiba	Chile	Aborted JV to mine copper
	Petrobras	South Yemen	Began oil exploration
1983	Embraer	Egypt	$181 million contract to build Tucano military train ers in Helwan, Egypt
	Petrobras	China India	Began oil exploration
1984	Petrobras	Norway	Formed oil services JV
	CPRM	Angola	Gold prospection contract
	CVRD	USA	Bought 25% of steel mill at Fontana, California
	Paranapanema	Guyana	Gold prospection JV
1985	Bardella	USA	Bought 50% of Schuler Inc., a capital goods maker
	Cacique	China	Formed instant coffee JV
	Embraer	UK	$ 150 million contract to build Tucano trainers in N.Ireland
	Globo	Italy	Bought Telemontecarlo TV station
	Inbrac	Ecuador	Cable JV
	Labra	Portugal	Bought pencil factory for $130 million
	Nansen	Colombia	Formed electricity meter JV
	Petrobras	Angola	$8 million oil services contract
1986	Grendene	Argentina	Formed joint ventures with Argentine partner to produce plastic shoes
		Colombia Mexico	
	Hering	Argentina	Cotton knitwear licensing agreements
	Vacchi	UK	Bought British tannery
1987	Brahma	Argentina	Malt JV at Puan
	Petrobras	USA	Oil exploration JV with Texaco to work in Gulf of Mexico
1988	Hering	Portugal	Plans textile mill
	Incasa	Chile	Plans iodine JV
	Metal Leve	USA	Opened R&D center in Ann Arbor
	Odebrecht	Portugal	Bought construction firm

Source : Reproduced from Christopher Wells, "Brazilian Multinationals", *Columbia Journal of World Business* (New York), Winter 1988, pp.13-23.

By the second half of the 1980s Brazilian overseas investments had come of age. Not only the rate of expansion of FDI outflows accelerated, a larger number of Brazilian national companies went multinational. And the peak of their going multinational was between 1984 and 1988. If investments prior to 1984 were characterized by the inability of Brazilian firms exporting their manufactures and therefore intended essentially to enhance Brazilian exports, the post 1984 overseas investments have largely been triggered by such factors as superior technological and managerial skills that Brazilian firms had acquired.

Direction and Sectoral Distribution

As is the case with most countries, the official Brazilian statistics on foreign investments are grossly understated and thus estimates are difficult to make. The Banco Central can register only the foreign exchange bought and remitted at the official exchange rate. Quite a few firms start their operations with a small investment overseas which is recorded at the Banco Central, but subsequently proceed through reinvestment of profits which are not registered. Reinvestment are also made through the firms' subsidiaries in the Bahamas or Panama, well known tax havens. Therefore, it is mainly the state companies like Banco de Brasil, Banco do Estado de Sao Paulo and

Petrobrás and the Brazilian private commercial banks which have officially registered foreign investments.

Figures of Brazilian investment overseas taken from the Central Bank of Brazil for the year 1965 to 1985, show that total investments worth US $ 1,315.8 millions were made.[3] Out of this, a massive 46.3 per cent was directed towards the United States. Another 9 per cent was accounted for by other OECD countries like the United Kingdom, France, West Germany, Spain, Japan and Austria while developing countries like Argentina, Paraguay, Chile, Uruguay, Bolivia, Venezuela, and the Ivory Coast received 20.3 per cent.

A sectoral classification of Brazilian foreign investments by the regions or countries reveals the following : (a) Investments in the banking sector were directed to the United States, Western Europe, Latin America and Africa; (b) in the oil exploration and production sector to Iraq, Libya, Algeria, Angola and Latin America; (c) in construction sector to Iraq, Mauritania, Algeria, Tanzania, Venezuela, Colombia, Peru, Chile and Uruguay; (d) in the engineering sector to Latin America, Nigeria, Tanzania, Algeria and the West Asia; and (e) in the manufacturing sector to the United Kingdom, Bolivia,

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3. Christopher Wells,"Brazilian Multinationals," *Columbia Journal of World Business* (New York), Winter 1988, p. 15.

Colombia, Argentina, Mexico and Nigeria.

Table 2

Distribution of Brazilian Investment Overseas Registered with Central Bank, 1986 (in millions)

Total Investment Non-Offshore Destinations	Us $ 1,315.8	100.0%
United States	$608.7	46.3%
Other O.E.C.D.		
United Kingdom	$45.2	3.4%
France	$22.1	1.7%
West Germany	$15.2	1.2%
Spain	$14.8	1.1%
Japan	$10.0	0.8%
Austria	$10.0	0.8%
Subtotal Other O.E.C.D.	$117.3	9.0%
Subtotal O.E.C.D. Including US	$726.0	55.3%
Developing Countries		
Argentina	$74.1	5.6%
Paraguay	$55.7	4.2%
Chile	$52.9	4.0%
Uruguay	$36.1	2.7%
Bolivia	$21.5	1.6%
Venezuela	$15.3	1.2%
Ivory Coast	$11.6	0.9%
Subtotal Developing Countries	$267.2	20.3%
Total Non-Offshore	$993.2	75.6%
Offshore Destinations		
Cayman Islands	$82.0	6.2%
Netherlands Antilles	$78.9	6.0%
Bahamas	$39.1	3.0%
Panama	$23.7	1.8%
Luxembourg	$17.0	1.3%
Bahrain	$13.0	1.0%
Singapore	$11.4	0.9%
Leeward Islands	$11.0	0.8%
Total Offshore	$276.1	21.0%
Other	$46.5	3.4%

Source : Central Bank of Brazil, These figures represent all registered capital invested by Brazilian companies outside of Brazil from 1965 to 1985.

(a) **Banking**

Brazilian foreign direct investments have been made in both the financial and the non-financial sectors. While the non-financial sector investments are more known, in reality Brazilian commercial banks abroad probably constitute the best example of the country's multinational experience. Both the public and the private Brazilian banks had branches established mostly after 1974. Banco do Brasil with 78 branches and the Banco de Estado de Sao Paulo with 25 branches are two outstanding examples of public banks. The Banco Real is the largest and most forceful Brazilian private bank abroad with 55 overseas branches. The Banco Real del Paraguay and the Banco Real del Uruguay are the third largest banks in the country and the Banco Real de Colombia is among the first ten banks in that country.[4]

(b) **Oil Exploration and Production**

Apart from the Brazilian financial FDI which account for the bulk of the countries' foreign investments, there also exists the non-financial FDIs out of which oil

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4. Annibal V. Villela," Multinationals from Brazil," in Sanjaya Lall (ed)., *The New Multinationals: The Spread of Third World Enterprises* (New York: John Wiley and Sons, 1983), p.222.

exploration and production is the most important. Petrobrás, the non-financial state owned firm, through its subsidiary Braspetro, is the company that has had by far the most expansive experience overseas.[5] Braspetro was created in 1972 more because of strategic priorities than commercial interest. Brazil, a major importer of petroleum, felt the need to secure supplies abroad through risk contracts and close relations with OPEC countries. Braspetro's first discovery was the Majnoon field in Iraq which was later devastated by Iranian forces in the Gulf War. It also discovered the giant oil field of Nahr Umr in Iraq. Since 1972, Braspetro has expanded its production to Angola, Algeria, Libya, Guatemala, China, Iraq, Trinidad

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5. Petrobras is a state group, the largest in the country and the second largest in South America. It is composed of twenty-three companies in the field of oil exploration, extraction, processing etc.; production of petro chemicals, fertilizers; distribution of oil products; a trading company and Braspetro, a subsidiary that operates mainly in oil exploration. Braspetro is, beyond a supplier of technical services, also a heavy risk capital investor abroad. It has subsidiaries and branches in ten countries and drilling activities in eight of them. In 1972 it won a contract with the Iraq National Oil Company whereby it committed US $12 million in oil exploration, evaluation and development. Actual investment was many times that figure. In 1976 it invested US $48 million abroad, in mostly risk contracts. In 1978 it was carrying out seismic exploration and drilling programmes in Algeria, Colombia, Iraq, Lebanon and Guatemala. It was also involved in technical assistance. Other state-owned companies received training and technical support from Braspetro aimed at developing their own skills in exploration and drilling.

and Tobago, Nicaragua, India, South Yemen and Congo.[6] "By March 1987 Braspetro won two bids to explore in the Norwegian Zone of the North Sea in two consortia with oil majors such as Shell and Exxon."[7] Braspetro in fact, is seeking to expand its revenue from oil production and now sells its expertise in the construction and installation, of oil rigs, refineries, storage systems and pipelines.

(c) Construction

With a slowdown in government spending in the 1980s due to domestic glut on major infrastructure projects, companies such as Mendes Junior, Camargo Correa and Bardella have looked abroad. As one analyst points out "Among private companies with foreign investments Mendes Junior stands out. In 1980 it was ranked thirteenth among the 250 largest world construction companies....In that year the company's billing reached about US $ 1.5 billion, that is half of its total billing."[8] In Uruguay Mendes Junior worked on completing a US $ 120 million highway; in Iraq as a contractor for the construction of or US $ 1.2 billion railway over 1000 Km long between Baghdad and

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6. Petrobras, Annual Report, 1985, (Rio de Janeiro)

7. n.3, p.18.

8. n.4, p. 226

Akashat and on an express way of cost US $ 380 million. According to yet another study, "Mendes Junior in the mid-eighties was earning more than a third of its revenue abroad".[9]

Camargo Correa is a large heavy construction company involved in the construction of the Gury Hydroelectric plant in Venezuela along with two other international firms.

Construtora Rabello, a medium-sized light and heavy construction company has been active in Algeria since the early 1970s, when through its subsidiary Rabello International it designed and built the University cities of Constantin and Algier. It also won a US $200 million contract for the construction of an irrigation dam with financing from the Banco de Brasil. ECISA, yet another Brazilian firm, is engaged in the construction of a highway in Tanzania. Two others, ESUSA and SISAL are engaged in hotel networks in Iraq and Angola.

The number of projects and suppliers is the highest in hydroelectricity, followed by highways and urban construction. Urban construction and communications occupy a more important position outside Latin America than inside

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9. n.3, p. 18.

it and seems to be linked with the levels of development of recipient countries. The value distribution of contracts too is skewed. The two largest contracts have been concluded in oil-exporting countries. These countries account for 60 per cent of total contract value through only 25 per cent of the total number of contracts.

A few leading Brazilian construction companies along with those from semi-industrial countries like India and Korea, have emerged as contenders in the international market as has been discussed above already and has been based mainly on a number of non-price competitive advantages requiring organizational and managerial skills.[10]

(d) Manufacturing

Brazil, despite its political and economic turmoil, has demonstrated its capacity to produce internationally competitive, manufactured exports in high technology industries such as aircrafts and armaments. In fact,

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10. Organizational and managerial skills included the conduct of labour relations where labour force amounted to thousands of unskilled workers employed in a single site for a non-permanent job under tough environmental conditions; the scheduling of large assignments in the most efficient manner; organizing of procurement from a large number of sources coming in from different locations.

Brazil's defence industry has shown a strong export orientation. On average, the industry exports 80-95 per cent of its total domestic production. Military hardware in all categories from subsonic combat air planes to firearms is exported.[11] Four main firms are engaged in export of defence hardware: Avibras, Embraer, Engesa and Bernardini. Embraer is a state owned enterprise whereas Avibras and Engesa are private Brazilian firms.

Embraer is the largest state owned enterprise in the defence industry. Though it started production of planes with a low technological content, by 1985 it was ranked the sixth largest manufacturer of airplanes in the world.[12] In 1991 Embraer was designing and producing a whole set of advanced aircrafts extending from agricultural planes to combat jet fighters. It also manufactures a number of single and twin engine piston planes under an industrial

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11. The Brazilian marketing strategy includes a high degree of flexibility in hardware design, accomodating the customers as much as possible as well as the exploitation of non-price advantages. Cultural affinities and a non-imperial status figures prominently in the promotion of arms deals.

12. The 1970s saw Embraer acquiring large-scale assembling technology from the Italian company Aermachi, sales techniques from Piper, and inputs such as landing gear from the French firm, Eran. Embraer's success lay in its competence in making these acquisitions through a number of licensing agreements and joint-ventures and from its flexibility in designing products which may be used for either military or civilian purposes.

agreement with Piper, a United States firm. The Tucano EMB-312, a fighter trainer, is the World's best-selling aircraft of its category, surpassing similar Swiss, British and Australian aircraft.

The private sector too plays a meaningful role in the defence industry. The number of firms in the industry in 1989 exceeded 600 but the two most important ones, as has been stated above, are Avibras and Engesa.

Avibras was established in 1961 and was engaged in a wide range of research in the aerospace field creating sets of air-to-ground and surface-to-surface weapôns systems and a family of scientific rockets.[13] In the 1970s it diverted its technology and skills and over the years vertically integrated its operations, with subsidiaries in space research and in the fields of electronics, chemicals, spatial research and communications.

Engesa-Engenheiros Especializados started by producing oil-field pumps but later developed a unique suspension system for vehicles. It went on to produce a full line of armoured vehicles and has grown to be the second largest exporter of wheeled armoured fighting vehicles in the

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13. Raul de Gouvea Neto, "The Role of Transnational Companies in the Brazilian Defence Tripod", *Journal of Latin American Studies* (Cambridge), vol.23, 1991, p.584.

world.[14] The company's main products are : main battle tanks (MBT), wheeled armoured vehicles, utility military vehicles, tank transporters, weapons systems, ammunition, communication systems and electronic hardware. Engesa's most popular products, the EE-9 Cascavel and EE-11 Urutu are exported to 35 countries. Most of its hardware is exported through Engexco, its trading company.

Another manufacturing field in which Brazil made some headway is the motor vehicle sector. By 1980, this sector was the eighth largest industry in the world, producing more than a million units annually, a fact that undoubtedly ranked it as the "most important consumer durables industry in the Third World".[15]

Other manufacturing firms worth mentioning are Gradiente Electronica, Calói, Securit, Cotia Comércio and

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14. Engesa's success story began in 1968, when the Army, impressed by the four-wheel drive vehicles Engesa was manufacturing, made a contract with the firm to convert 100 of its army trucks. Engesa has maximized on its reputation for ruggedness, low cost, ease of operation, and adaptability to LDC terrain and climates, and it exploits market segements neglected by major arms exporters by 'tropicalising' its technology.

15. Mark Stephens and William E. Cole, "The Brazilian Motor Vehicle Industry ; A Holistic Approach to Project Evaluation", *Journal of Economic Issues* (Lincoln), vol.22, no.1, March 1988, p.381. In 1907, a Brazilian firm Grassi, assembled the first automobile in Brazil, a Fiat. By 1910, Grassi was also manufacturing bus bodies for imported chassis.

Copersucar.

Gradiente Electrónica is the country's largest manufacturer of sound equipment with approximately 50 per cent of the domestic market. It invested in an assembly plant in Mexico which imports components from the company's factory in Manaus Free Trade Zone. In 1979 it bought, from Plessey, the full control of its subsidiary Garrard, with a factory in Swindon, United Kingdom, closed it with the announcement that its products would be manufactured in the factory at the Manaus Free Trade Zone.[16] The Garrard distribution network in Europe and the United States would be selling and servicing Sound equipment with the trademark made in Brazil.

Calói, the country's largest manufacturer of bicycles had joint ventures in Bolivia and Colombia to produce bicycles.

Securit, a manufacturer of metallic office equipment, started an assembly operation in the United States in 1982 with parts and components imported from Brazil.

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16. Its main objective was to become the owner of a world-known trademark as well as of its distribution network in various countries.

Cotia Comércio Exportacao Importacao SA, a trading company, was founded by the group Paulo Brito, a family company owning cattle ranches and cold storage facilities for meat in Sao Paulo. Identifying good investment opportunities in Nigeria, they put in a bid to build a national cold storage network there, and won it. They further entered joint ventures with local businessmen in a nail-making factory, in a plant for bottling guaraná (a traditional Brazilian drink, the syrup for which was imported from Brazil, and in cold storage and meat packing activities. The trading company imported a good portion of the machinery and equipment for these factories from Brazil.

Copersucar, a co-operative formed by seventy of the largest sugar producers in Brazil bought Hills Brothers in 1976.[17] They wanted to invest in a well-known firm that could also market Brazilian products like cocoa and sugar in the USA.

(e) Consulting Engineering

Engineering and consulting firms play an important role as conducts of technology transfers particularly in

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17. Hill Brothers was a firm in San Francisco, California, found in 1874, had developed a system of vacuum packing of coffee, had two plants for processing and blending of coffee and a large marketing network.

sectors such as pulp and paper and display active participation when technical experience and knowledge is transferred in process industries. Four broadly defined industries comprise nearly 70 per cent of the operation : machinery, equipment and components, sugar and alcohol, steel, food, beverages and tobacco. According to an observer, "[O]verall, engineering consulting and technical assistance services are the most frequent channel for transfers of industrial technology followed by the sale of turnkey plants and, in the last place, licensing agreements".[18] This dynamic sector of services has performed exceedingly well by "spearheading construction companies in Third World countries and by exporting Brazilian machinery and equipment".[19] The four important Brazilian engineering companies are the following: Hidroservice Engenharia de Projetos Ltda., Promon Engenharia SA; IESA - Internacional de Engenharia SA, and Themag Engenharia Ltda.

Having briefly sketched the sectoral distribution as well as the geographical dispersion of Brazilian investments through its firms, it may be worthwhile to make

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18. Francisco Colman Sercovich, "Brazil", *World Development* (Oxford), vol.12, no.5/6, 1984, p.579.

19. n.4, pp.228-29.

some general remarks in terms of their distribution. In most instances, geographical dispersion seemed to have been influenced largely by physical as well as cultural proximity of the host countries. This feature is particularly writ large in instances of Brazilian overseas construction investments. Presumably, Brazilian investors have moved mostly into the Latin American region because as one observes, from the Brazilian point of view, these countries constitute" a more stable and, to some extent, secure market".[20]

While the physical and cultural proximity factor has largely directed Brazilian investments in and around the region of Latin America, historical linkages had led Brazilian investments to move into such of the African countries as Angola and Mozambique. Interestingly, even ethnicity seemed to have been a factor in Brazilian overseas investments, the best example of the expanding Brazilian investments into Nigeria. Brazilian investments in West Asian countries have largely been on considerations of bilateral economic reciprocity. While instances of Brazilian investments within the confines of the Latin American region are numerically large, yet Brazilian investments are more substantial outside the Latin American

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20. n.18, p.582.

region. As one analyst observes:

> In Latin America, three neighbouring countries (Paraguay, Bolivia and Uruguay) account for almost 70% of the total number of contracts. In other developing regions, three countries (Nigeria, Algeria and Iraq) account for 58% of the total number of deals there. Just one Latin American country (Paraguay) has granted more contracts than all non-Latin American developing countries together.[21]

Recent Trends

Mention has already been made that the Brazilian FDI outflows began to assume significance especially since the mid 1980s. A number of factors explain the recent spurt in Brazilian overseas investments. Brazil unlike the other countries of the region is endowed with certain built in advantages which, among others, explain why Brazilian investment today ranks first in Latin America.

Before attempting the recent trends and the future prospects of Brazilian overseas investments, an attempt is made to identify some of the advantages that Brazil has in terms of promoting further its investments overseas.

One decisive advantage that Brazil has is in respect of its technology and of its applicability in a large

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21. ibid.

number of countries. This is not to suggest that Brazilian firms have created new technology. Instead they have mastered to adapt whatever technology they have acquired to suit the environment of countries overseas. Often described as "tropicalized technology" the suitability of Brazilian technology is more widespread than other developing country technology. As one observer states: "tropical technology has become a popular buzzword to describe the success of Brazilian exports to the developing world."[22] Yet, at the same time, it has advantaged Brazil especially in investments relating to construction projects. So much so, very few construction multinationals do have an edge over the Brazilian counterparts.[23]

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22. n.3, p.20.

23. Examples demonstrating the technology advantage that Brazilian construction companies enjoy abound. For instance, Mendes Junior, in 1974 had won a contract to build a highway of 606 Km in Mauritania. It was discovered only later that the area did not have any stones. To import stones, would have made the project unfeasible due to the delay and rise in costs. The discovery by its engineers that the broken stones could be replaced by sea shells abundant in Mauritania, not only lowered the cost of the project but enabled them to complete the work four months in advance. Similarly another company managed to build hydroelectricity generating plants in the deepest Amazon. It was possible for Braspetro, the subsidiary of Petrobras, to enter risk investments and render technical services in eight countries, due to its experience of twenty years in oil and gas explorations, geophysics and drilling. Gradiente (sound equipment) and Caloi (bicycles) stated that they have 'tropicalized' their acquired technologies improving the quality of their products and are using these adaptations, overseas. Other examples include Marcopolo's body making of passenger buses and Cotia's soft drink bottling operation in Nigeria.

Abundance of natural endowments, both minerals and commercial agricultural resources have greatly facilitated Brazilian investments overseas wherever the need for continuous and steady supply of raw materials has occurred in respect of Brazilian multinationals. These raw mateals range from iron ore, forestry to agricultural crops such as coffee. For instance Brazilian companies ---- Cacique and Copersucar, with the assurance of a steady supply of coffee are able to forge a joint venture for the production of Chinese instant coffee as well as supply its Hills Brothers subsidiary in San Francisco. Low cost iron ore supplies from Brazil has been an important ingredient for companies like Companhia Vale do Rio Doce (CVRD) to forge their tie ups with steel mills such as Fontana in California.

Having secured a foothold in the United States, CVRD by drawing on cheap ore with its own shipping fleet has been able to bring down the cost of Fontana Steel. Similarly, Brazils' Labra factory in Portugal is able to draw a steady supply of the needed forestry resources and sells its manufactures at a competitive price using the advanced European technology and cheap labour of Portugal and Brazil.

Besides the aforementioned advantages that had helped facilitate Brazilian overseas investments in sectors which require the kind of tropical technology that Brazil has evolved and the kind of basic raw material resources which Brazil has in abundance, certain other factors too have given Brazil a competitive edge in respect of its overseas investments in comparison to other Latin American countries. These are by way of acquired experience which Brazilian firms have gained in recent years. These relate to essentially marketing and managerial skills of the Brazilian companies. The national Brazilian company, Gradiente is a good example of how the acquired experience of marketing could help the company go overseas. Gradiente, by buying off a British company Garrard inherited the latter's distribution network in Europe and the United States and produced Garrard's traditional products in the Free Trade Zone in Manaus. Thus what was actually bought was Garrard's trademark and reputation as nothing would be manufactured in Britain itself.

Management techniques and managerial skills are factors that explain Brazil's technology exports overseas. As has been pointed out, the uniqueness of technology dissemination, in effect, is the ability to "offer management of sophisticated technology in the socioeconomic setting of a developing ---- or even developed ----

country".[24]

The management skills of technologically sophisticated projects such as offshore drilling rigs and ferro-alloy plants are sufficiently developed to compete with developed countries. Here again, a number of Brazilian companies such as Mendes Junior, Engevix and their forays overseas have to be noted.[25] As one study shows, this process of technology dissemination through the managerial skills has been gradual. As Francisco Sercovich has put it, the main "Know-how involved in civil engineering works has been gradually accumulated over decades of learning by doing -- although a number of specific, transferable

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24. n.3, p.19.

25. Mendes Junior, after its success with the highway in Mauritania won many bids for construction jobs in Iraq. It takes a sophisticated management structure to mobilize over 15,000 workers, and build a 1040 Km railway through the desert. Engevix, a leading consultant engineering firm is capable of designing a part of the Baghdad subway system using the experience gained when it helped a French company Sofre, rail plan the Sao Paulo Metro in the late seventies and after adapting it to Iraq. Tenenge, another engineering firm, with subsidiaries in Chile and Paraguay can deliver refineries through a combination of former licencing arrangements and its own technology and at a lower cost than developed-country competitors due to the difference in the salaries of their engineers whereas the success of Caloi's bicycle is partly due to the firms familiarity with small-scale production, a management skill which they had developed since its founding in 1889 when they had to respond to a small home market.

technologies, ... have been learned along the way."[26]

What distinguishes Brazilian overseas investments through the country's national firms as against other countries of the region, and in that sense what is comparable between the Brazilian multinationals and the Asian NICs' is the manner in which factors such as technology and managerial skills have been used judiciously in their foreign ventures. In a sense, management and technology have gone hand in hand to make Brazilian firms seek a firm footing in the world of multinationals. Even of these two factors, management techniques and managerial skills seem to hold the key for Brazil's overseas forays. As an analyst succinctly puts it, the "two proprietary advantages that characterize Brazilian MNCs are technology, management, and the former is highly conditioned [however] by the latter".[27]

It is thanks largely to the fortuitous factors, Brazilian overseas investments have in recent years become prominent, though in value terms still insubstantial. Curiously enough, the macroeconomic instability that had riddled Brazil since the Second World War, and more

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26. n.18, p.582.

27. n.4, p.242.

intensely, since the so-called years of economic `debacle' of the 1980s has also been a catalysing influence on Brazilian overseas investments. High rates of inflation and foreign exchange rate gyrations have resulted in capital flight indirectly, thereby inducing foreign productive investments.

What in fact makes the prospects for Brazilian overseas investments bright, is the economic liberalisation and restructuring measures carefully crafted and assiduously implemented with the onset of civilian democratic regime in Brazil. The circumstances leading to these far-reaching and fundamental policy initiatives is beyond the scope of the present study. Suffice it to say, the recent macroeconomic crises largely a fallout of the ubiquitous debt crisis especially since the beginning of 1980s, as has been argued, has led to diminished domestic demand resulting in excess or underutilized capacity. Under these circumstances Brazilian firms with linkages overseas have shifted their underutilized domestic capacity seeking market outlets outside. Perhaps, among other factors, this explains why Brazil's outward foreign direct investment has escalated from a modest $ 300 million in

late 1970s to a all-time high of $2.4 billion in 1990.[28] What, however, needs to be underlined is that in this expanded volume of FDI more than one-half (54 per cent) are directed towards advanced industrial countries, with the US alone accounting for about one-third of the total. Available data, nonetheless, suggest that there is an incremental increase in the share of the less developed countries which from 16 per cent in 1977 has gone up to 46 per cent in 1990, except that nearly two-thirds of this increase in share has been made in tax-haven countries. Adjacent countries such as Argentina, Chile, Paraguay and Uruguay have been the beneficiaries of this enhanced flow of investments from Brazil.

In addition to firms which had gone multinational in the 1970s and 1980s, newer ones have joined the ranks, important among them being, the Sao Paulo based Metal Leve, S.A. manufacturing diesel engines, Petropar of Pórto Alegre dealing in soyabeans to petrochemicals to textiles, Toga Embalagens specialising in food packaging ---- all proliferating all over the world. One of the American directors of a joint-venture with a Brazilian firm

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28. United Nations Transnational Corporations and Management Division, Department of Economic and Social Development, *Transnational Corporations from Developing Countries : Impact on Their Home Countries*, ST/CTC/133, (New York : United Nations Publication, 1993), p.46.

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commenting on these new Brazilian multinationals quipped : "These [Brazilian firms] are not Third World, they are world class.... who could come to us with technology and capital."[29]

Admittedly it appears, the Brazilian firms have come of age to become mature multinationals. In an era of regional economic integration leading to eventual globalisation, Brazil seems to be on the right track "to be entering a new phase of internationalisation as they have begun to pursue a global strategy."[30]

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29. Joel Millman, "The Brazilians are Coming", *Forbes* (New York), 22 June 1992, p.79.

30. n.28, p.48.

CHAPTER V

CHAPTER V

CONCLUSION

On the basis of a descriptive survey of the trends and patterns of foreign direct investment from major developing countries, and by examining the competitive advantages such investments have offered to two developing countries of the Latin American region viz. Argentina and Brazil, the present study sought to highlight the evolving phenomenon of developing countries' transnational corporations and their role performance which have a bearing on the countries in which they are functioning as also in the countries of their origin. With the onset of what is often described in contemporary literature as the inevitable and irreversible process of economic liberalisation witnessed in almost all countries of the world, which proponents of economic restructuring claim would help hasten globalisation, questions pertaining to capital investments across borders have assumed considerable significance both among scholars and policy makers. In this fast changing global scenario, the capital resource needs of the developing countries have become at the same time acute and critical. So much so, for the countries hosting such capital investments, the emergence of developing-country transnationals is a welcome development as they constitute

a new and additional source of the much-needed capital, technology and related skills requirements.

Be that as it may, the recent phenomenon of developing countries' transnationals raise an array of related questions. At a time when these countries themselves are engaged in the massive task of restructuring their domestic economies, should they be investing part of their scarce resources overseas? Do foreign direct investments from developing countries strengthen domestic industrial structure, foster economic restructuring and promote exports of both the host and home countries in the developing world? Also, by exporting capital, technology and skills do the host countries deprive themselves of these critical inputs which could diffuse their precious technologies to potential competitors?

While these and other related issues are the major concerns of the present study, admittedly not all of them have been tackled as adequately. The study began with evolving a framework somewhat theoretical in nature that could explain the phenomenon of FDI outflows from developing countries. Factors that have catalysed FDI outflows have been enumerated on the basis of traditional foreign direct investment theories. Aspects of the advantages and the disadvantages of FDI outflows for the

developing countries also have been identified on the basis of the experiences of some of the leading countries in Asia and Latin America. The chapters following, focussed on the historical trends and patterns of such outflows specially from countries of the Latin American region describing at some length the record of two specific countries Argentina and Brazil.

The rationale for the choice of the two country-specific studies is obvious. Argentina and Brazil are, in the region of Latin America, the two leading continental-sized countries endowed with diverse resources and having experienced comparable economic development trajectory.

On the basis of the foregoing study it is possible to delineate certain significant trends which offer insights for comparative analysis. Although early industrialisation offered opportunities for Argentina to engage in foreign investments much ahead of Brazil, subsequent development strategies coupled with the desultory economic progress experienced by Argentina, place it at a disadvantage in sustaining its early headstart. As a consequence, both Argentina and Brazil began their forays in respect of foreign direct investments, more or less at the same time in the post-Second World War years. The currently felt

accent on foreign direct investments seems to have been largely influenced by their efforts to forge closer links globally. In parenthesis, it may be added that by no means the transnational companies of both Argentina and Brazil in terms of their size, markets they cater to and the technology and skills they disseminate, is substantial in comparison to that of Asia's newly industrialising countries (NICs) such as, importantly, Hong Kong, Korea, Singapore, Taiwan and Thailand. Besides, the geographical dispersion of the foreign direct investments of both Argentina and Brazil are not as extensive as that of the Asian NICs. Suffice it to say, the role performance of Argentina and Brazil in terms of FDI outflows is by no means comparable to that of the Asian NICs today.

Having stated that, perhaps an explanation could be proffered for the less significant role, relatively speaking, of the FDI outflows from Argentina and Brazil. Whereas the Asian NICs began with an avowed and a pronounced policy of export-promotion which before long made it imperative for their investments overseas, Argentina and Brazil at least until mid 1970s assiduously followed an inward looking policy based on import-substitution industrialisation.

While the FDI activities of Argentina and Brazil is spread over a broad spectrum and embodies a substantial amount of indigenous know-how and capital goods, given the inward orientation of the countries from where they flow, they are generally speaking, not oriented to developing world markets nor driven to exploit locational advantages in respect of the raw materials that go into the production process as in the case of the Asian NICs. On the other hand, instances abound where firms of these two countries have established marketing networks overseas and over a period of time vertically integrated to take advantage of the abundant supply of raw materials and labour available at relatively lower prices from their host countries.

Lacking the competitive push as well as the technological base, the transnationals originating from either of these two countries, display less dynamism. While there are instances, as in the case of Argentina's mechanical engineering technology exports which have generally accounted for the competitive edge that Argentina evolved since the 1950s, enabling its firms specialising in this kind of technology to invest overseas, most other FDI activities of Argentine and Brazilian origin have largely depended on obtaining licenses from third country multinationals. In other words, unlike in the case of the Asian NICs, most of whom are engaged in resource-seeking

foreign direct investment, use their technology exports to set up transnationals. On the other hand, what distinguishes Argentina and Brazil from the Asian NICs in this respect is that their FDI activities are based less on resource-seeking considerations and determined more by considerations of markets and exports.

Reasons for the differing considerations governing the FDI activities of the Asian NICs, on the one hand, and the leading Latin American countries, on the other, are not far to seek. One, as has been stated earlier, unlike the Asian NICs, Argentina and Brazil are resource-rich countries, and therefore, their FDI activities have primarily been motivated by seeking market outlets for their primary sources in processed manufactures.

These countries' FDI activities are primarily market and export-seeking because of their resource-endowment which is both an opportunity and a constraint. That it is an opportunity needs no elaboration. The steady and continuous supplies of resources through vertical integration of these transnational firms poses no threat to their overseas activities. Licencing patents and technology from third-country multinationals and adapting the same to the specific needs of the host countries have facilitated the proliferation of Argentine and Brazilian

firms overseas. Between them, Brazil has an edge over Argentina because its "tropicalised" technology has enabled Brazilian firms to seek opportunities in a larger number of countries. Incidence of Brazilian foreign investments beyond the Latin American subcontinent, into Africa -- West and Central as well as in West Asia is largely explained by this factor.

Nevertheless, the FDI activities of these countries spurred largely an account of their need to seek market outlets primarily for their raw materials has also been a constraint for these countries. Though there are instances of Brazilian investments dotting the different continents of the world, in volume and value terms it is still insubstantial outside Latin America. The major thrust of the FDI activities of both Argentina and Brazil are both largely confined to the Western Hemisphere most of which is concentrated in the underbelly regions of the two countries. Except the instance of one of the Brazilian firms (Copersucar) which bought off an American coffee manufacturing company, most firms of both Argentina and Brazil had not moved beyond Latin America.

With the onset of the debt crisis in the 1980s, a new imperative has surfaced encouraging FDI activities by these two countries. Rapid devaluation in the currency coupled

with the domestic markets of these countries slowing further down leading to excess capacity, has pushed the national firms of these countries into going transnational. At the same time, the economic liberalisation policies adopted both by Argentina and Brazil in the wake of the debt crisis, with a view to increase export earnings is providing an opportunity for FDI activities. Together, the regional economic integration process consummating in the setting up of a common market among *cono sur* countries Argentina, Brazil, Paraguay and Uruguay has further facilitated FDI activities by the leading firms of Argentina and Brazil.

The new phase of internationalisation into which both Brazil and Argentina are entering have helped their national firms to pursue a global strategy. That this global strategy would stimulate further flows of FDI into the neighbouring countries and beyond, cannot be gainsaid.

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