Pergamon
www.elsevier.com/locate/worlddev
World Development Vol. 28, No. 9, pp. 1611–1626, 2000

0305-750X/00/$ - see front matter
PII: S0305-750X(00)00048-6

Corporate Strategies for FDI in the Context of Latin America's New Economic Model

MICHAEL MORTIMORE
Economic Commission for Latin America and the Caribbean, Santiago, Chile

Summary. — The NEM in Latin America radically altered foreign direct investment inflows to the region. Previously restrictive national policies became ones that facilitated foreign direct investment (FDI) in the context of new business opportunities. Transnational corporations (TNCs) took a new look at the region in the context of their evolving corporate strategies, examples being efficiency-seeking corporate strategies in the automotive (Mexico) and the apparel industry (Caribbean Basin) and the market access strategy for services in the telecommunications and electrical energy industries (Brazil). Two interrelated problems arose: (a) TNC objectives were often attained but those linked to national development goals often were not, and (b) national policies did not channel FDI to priority development activities.

Key words — Latin America, foreign direct investment, automobile industry, apparel industry, privatization

1. INTRODUCTION

According to the NEM, foreign direct investment (FDI) in Latin America and the Caribbean was to assume a more predominant role with respect to the region's growth and development. The statistics for FDI inflows suggest that it did. Figure 1 indicates that the volume of FDI inflows recently reached unprecedented levels. In 1997–98, the average annual inflow was approximately US$70 billion, whereas the average annual inflows previous to the 1990s never surpassed 10 billion and during 1991–95 reached only about 23 billion.

Such a rapid surge in FDI inflows made its presence felt in terms of certain economic indicators (Table 1). FDI inflows jumped from the equivalent of 1% to over 4% of Gross Domestic Product (GDP) between the 1980s and 1997. That impact was even more pronounced in the smaller countries of the region (Central America). In terms of Gross Fixed Capital Formation (GFKF), the indicator for the 1980s increased by a factor of more than 4 to 18.6% in 1997. Again, the situation was more pronounced in the smaller countries. Measured in this fashion, FDI is now playing a far more important role in the economic activities of the region.

Another interesting aspect of the new reality for FDI in Latin America is that after decades of losing ground to developing Asia—in terms of the proportion of the total FDI flow to developing countries that each region received—Latin America finally began to close the gap in the mid-1990s (Table 2). It is true that Latin America had received the lion's share previous to the 1990s, when the volume of FDI inflows was extremely small in comparison to the 1990s. It was left behind, however, by developing Asia in the early 1990s, when inflows to developing countries became very significant (US$74.6 billion a year during 1991–95). In 1996–97, when FDI inflows to developing countries surpassed $138.6 billion a year, Latin America increased its share from 31% to 40%. While still behind developing Asia, it was rapidly closing the gap.

Making policy changes to attract much greater flows of FDI to Latin America and facilitating a much more central role for FDI in the region's growth and development were important aspects of the implementation of the NEM in the region. The above indicators of the level and presence of FDI in the region suggest that this was the case. As shall become apparent, however, the burst of FDI in the 1990s has *not* generally achieved key host government goals related to converting FDI into a

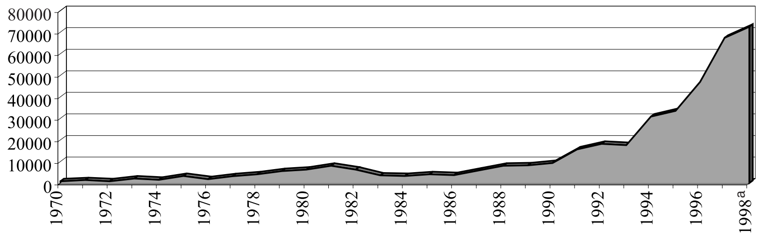

Figure 1. *Latin America and the Caribbean: net FDI inflows, 1970–98 (millions of dollars) ECLAC.* [a] *ECLAC estimate as of August 1999. (Source: ECLAC, Information Center of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information from the International Monetary Fund (IMF) or the relevant country's balance of payments.)*

Table 1. *Latin America: FDI/GDP and FDI/GFKF indicators, 1970–97 (%)*[a]

	1970	1980	1990	1997
(1) *FDI/GDP*				
LAIA countries[b]	0.4	1.0	0.7	3.9
Central America countries	1.7	3.1	1.7	5.8
Latin American countries[c]	0.1	1.0	0.9	4.2
(2) *FDI/GFKF*				
LAIA countries[b]	–	3.7	3.9	17.3
Central American countries	–	15.2	3.8	29.9
Latin American countries[c]	–	4.0	3.8	18.6

[a] *Source*: ECLAC, Information Center of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information from the International Monetary Fund (IMF) or the relevant country's balance of payments.
[b] The 11 larger countries of the Latin American Integration Association.
[c] Excludes Caribbean countries.

Table 2. *Total FDI to developing countries, 1971–97 (Percentages and US billions of dollars)*[a]

	1971–75	1976–80	1981–85	1985–90	1991–95	1996–97
Developing Asia	20	19	17	39	63	57
Latin America	63	71	57	37	31	40
Others	17	10	26	24	6	3
Total annual inflows ($billions)	3.1	5.8	10.6	18.0	74.6	138.6

[a] *Source*: ECLAC, Information Center of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management.

significant new engine of growth and development. While the objectives of corporate strategies were for the most part met, the growth and development goals of the host countries were not. Corporate and country strategies did not seem to coincide.

This paper analyzes the new corporate strategies for FDI in Latin America. It is based on the best statistical information available on FDI in Latin America, that of the Information Center of the ECLAC Unit on Investment and Corporate Strategies, coupled with the results of an extensive research program on this subject carried out over the last decade. [1] Generally, the research was based on formal questionnaires administered to representative samples of foreign firms in different countries of the region, especially those that had distinguished themselves in terms of improving their international competitiveness.

This paper is organized in three sections. The first defines aspects of the new operating envi-