

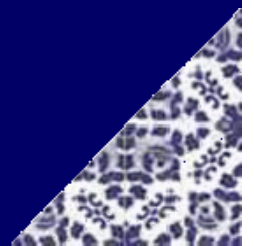
Economic liberalization and inward
internationalization in Latin America:
any chances for sustained development?

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Guide

- Development: ideas, regularities and trends
- LA competences
- Inward internationalization
- Challenges and policy implications

Development: ideas, regularities and trends



Ideas and regularities

- What is “development”? : growth, structural change, wealth distribution and learning
- Partial source of “development”: competition cum innovation
- Successful corporations: networking and increasing competences to explore expanding markets
- Role of State: pro-active participant in processes of transformation

Trends

- Closing the loop between science, innovation and production
- Economic liberalization: dominant feature of national regimes of incentive and regulation
- Acceleration of international flows of capital, goods, services and technologies

Latin America competences

Performance

- 1930/82:
 - High growth
 - Low contribution of technical progress
- Last 20 years:
 - Instability
 - Low rythm of structural change
- The 1990s/2000s
 - External vulnerability (trade, capital flows)
 - Product and services updating but assymetric modernization

Private structure and competences

- Willingness to do business
 - But, propensity for the generation of low skilled jobs
- Companies good in routines; weak in search activities:
 - But, low local technological effort
 - But, extensive use of external technologies
- National x transnational: occupation of different spaces

Structure and framework conditions

- Natural resources and wide markets, strong inequalities
- Infrastructure: insufficient and concentrated
- Low investment and dependence on foreign resources
- Economic liberalization as the emerging regime of incentives and regulation

Evolution of Economic Reforms - 1976/95

	1976-1979	1980-1985	1986-1990	1991-1995
CHILE				
Import liberalization	R	S	S	R
Export promotion			P	
Exchange liberalization				R
Deregulation of capital account	P			
Deregulation for FDI	R			
Deregulation of exchange rate	R			
Privatization	R			P
ARGENTINA				
Import liberalization	R	A	G	R
Export promotion		R	S	
Exchange liberalization	R	A		R
Deregulation of capital account	R	A	S	R
Deregulation for FDI	R			
Deregulation of exchange rate	R			
Privatization				R
MEXICO				
Import liberalization			P	
Export promotion	R		S	
Exchange liberalization		R		
Deregulation of capital account				R
Deregulation for FDI		R		
Deregulation of exchange rate		R		
Privatization		G & P		R
BRAZIL				
Import liberalization			G	R
Export promotion				S
Exchange liberalization				R
Deregulation of capital account			G	
Deregulation for FDI				G
Deregulation of exchange rate				
Privatization				G & P

Note: **R**: Radical reform; **G**: Gradual reform; **P**: Partial reform, **S**: Suspension; **A**: Reversion of process

Source: CEPAL (1996b)



Inward internationalization

FDI: a desired object

Item	1991	1995	2000
N. countries that introduced changes in their investment regimes	35	64	69
Number of regulatory changes, of which:	82	112	150
more favourable to FDI	80	106	147
less favourable to FDI	02	06	03

The economic importance of FDI

Item	1982	1990	2000
World FDI inflows	57	202	1,271
Cross border M&A	na	151	1,144
Sales of foreign affiliates	2,465	5,467	15,680
Employment of foreign affiliates (thousand)	17,454	23,721	45,587
Exports of foreign affiliates	637	1166	3,572
Exports of goods and non-factor services (world)	2,124	4,381	7,036
Gross product of foreign affiliates	565	1,420	3,167
GDP at factor cost (world)	10,612	21,475	31,895

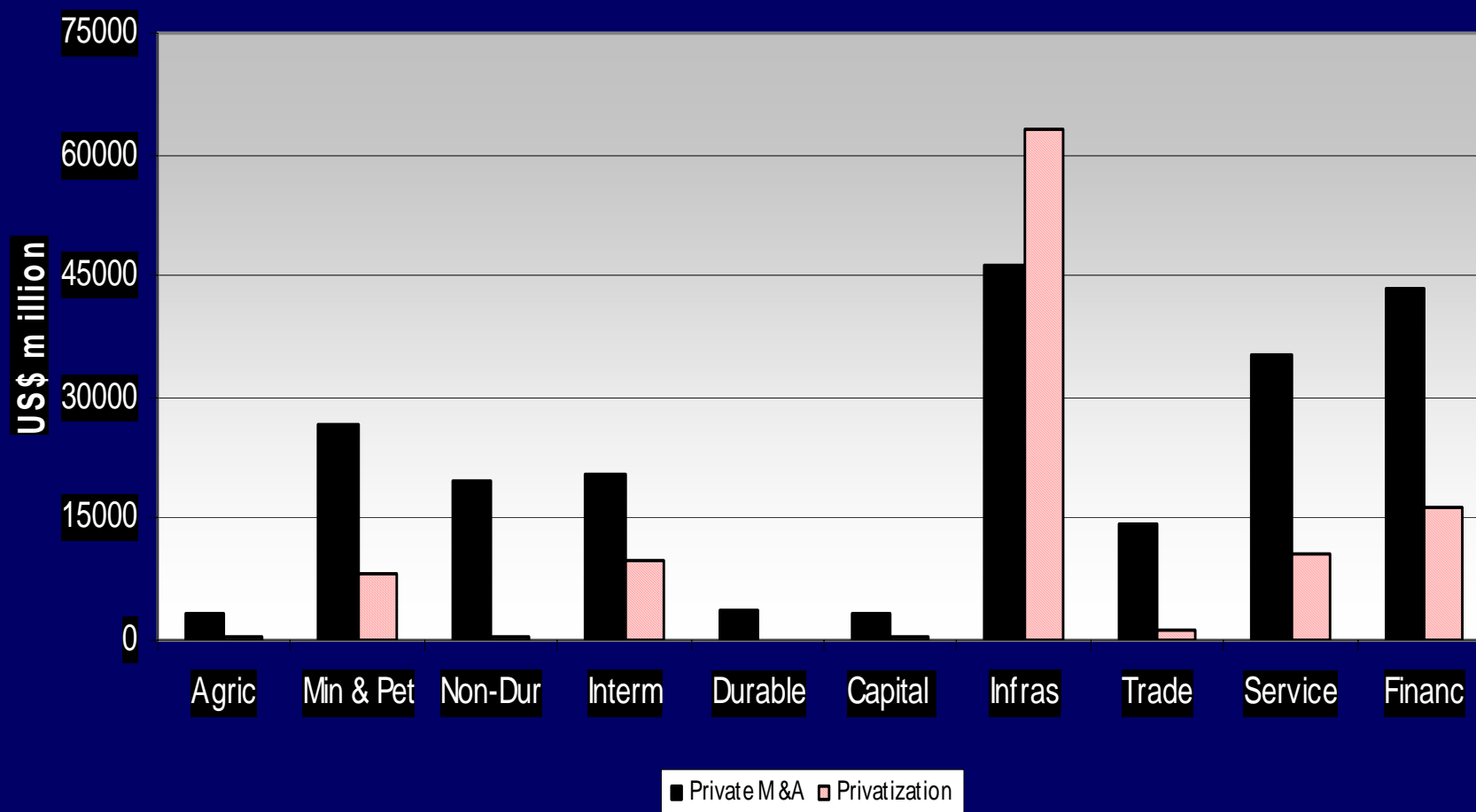
Privatizations: 1990-99

Country	Number of Transactions	Number of transactions with declared values	Total value of Transactions (US\$ billion)
Argentina	98	95	23.385
Brazil	113	113	61.568
Chile	17	15	2.070
Mexico	101	96	22.837
Total	329	319	109.860

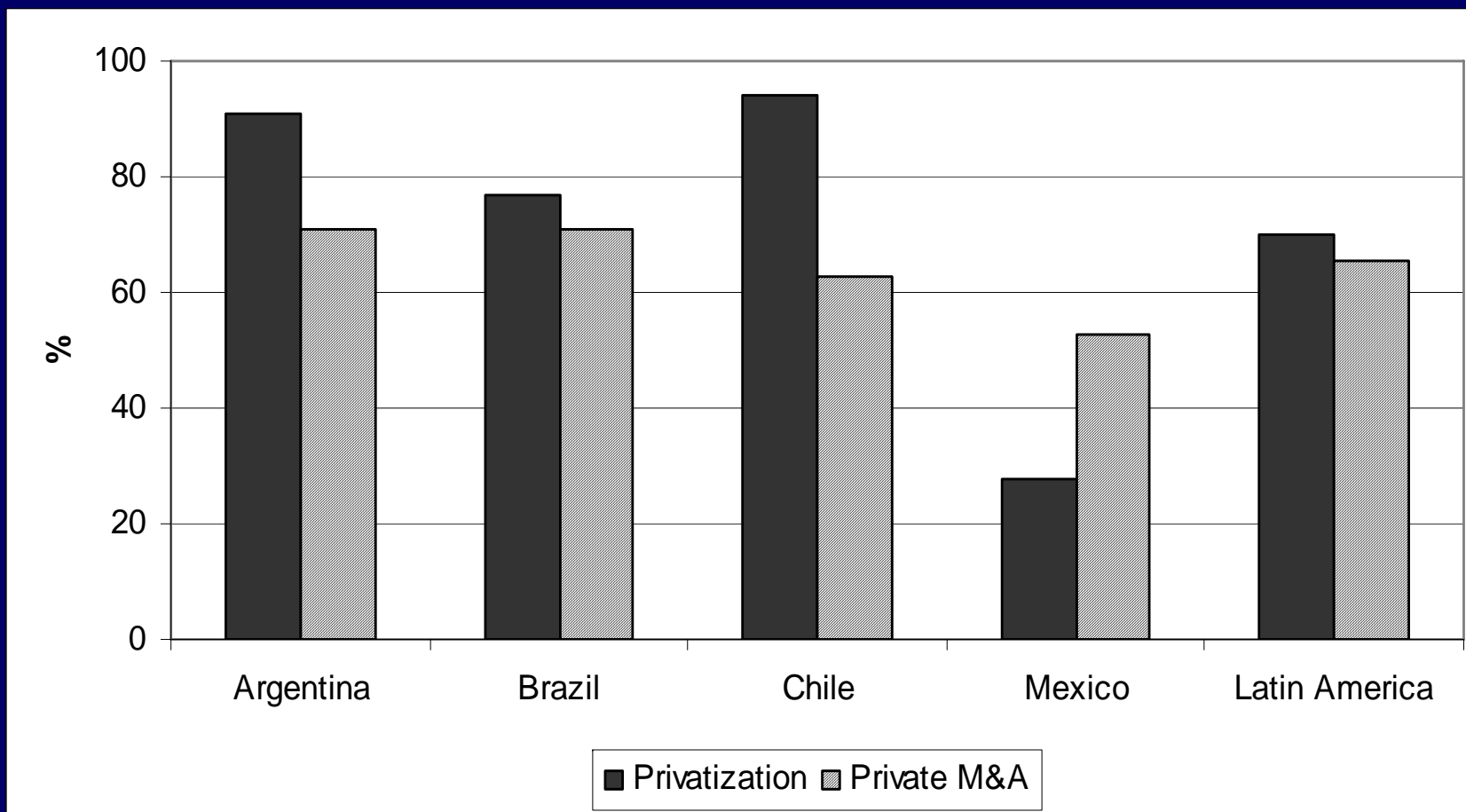
M&A: 1990-99

Country	Number of Transactions	Value of Transactions	
Argentina	939	72.224	
Brazil	1055	67.892	
Chile	366	25.832	
Mexico	725	52.037	
Total	3085	217.987	

M&A and Privatization, by Sector, 1990-99



FDI in M&A and privatizations, 1990-1999 % over transactions value, by country



Sales of the 500 largest corporations in LA (billion dollars)

	1990-1992		1994-96		1998-2000	
	Value	%	Value	%	Value	%
Number	500	100.0	500	100.0	500	100.0
Foreign	149	29.8	156	31.2	231	46.2
Local	264	52.8	280	56.0	231	46.2
State	87	17.4	64	12.8	38	7.6
Sales	361.0	100.0	601.7	100.0	686.7	100.0
Foreign	99.0	27.4	193.3	32.1	285.6	41.6
Local	142.2	39.4	246.7	41.0	259.7	37.8
State	119.7	33.2	161.7	26.9	141.3	20.6

Inward Internationalization

Manufacturing Industry in Brazil:

Share of foreign capital in total sales

1980	1995
28%	43%

Concentration in activities with high income elasticity and high technology opportunities

US affiliates in 1999: sales	\$ 55.2 billion
investment	\$ 3.7 billion
R&D	\$ 300 million

Challenges and policy implications

Balance

- Instability as regularity
- Risk minimization behaviour
 - Low propensity towards R&D investment
 - Reliance on foreign technology
- Ownership change and inward internationalization

Foreign firms in LA

- Long and extensively established
- Compared to local peers, similar capabilities
- Compared to international benchmarks
 - Good and improving production capabilities
 - Regular on export
 - Low local innovation capabilities
- Expanding presence
 - Superior market power - acquisition of best assets

Ownership change and internationalization

- Duration of process of ownership change?
- Local reproduction of international capabilities and practices?
- Reinvestment or remittance?

Policy challenges

- Fact 1: Development has been associated with local innovation capabilities
- Fact 2: Development has been associated with proeminent role for local capital

Policy challenges

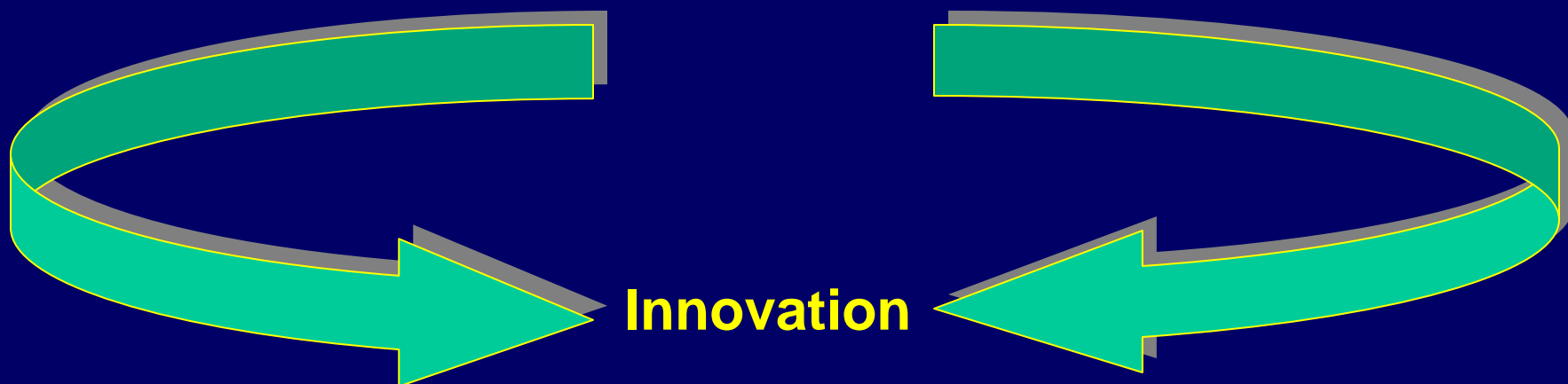
How to?

- Attract investment generating qualifying occupations
- Strength local capabilities
- Improve policy-making capabilities

Promoting attractiveness

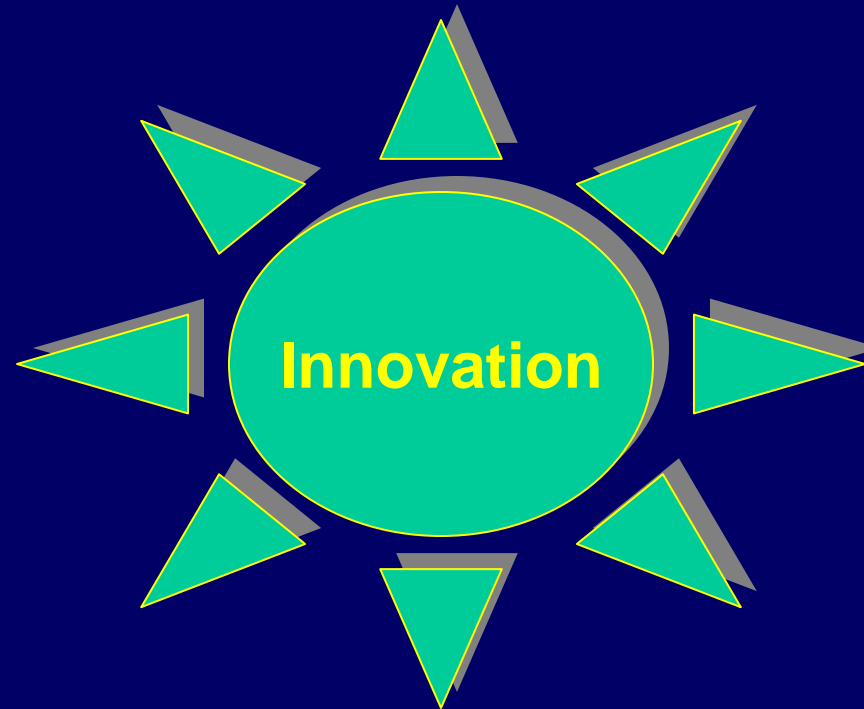
- Pincers and focus
- Policy-making innovations

Pincers



- Long term investment in S&T infrastructure
- Productive and technological modernization

Focus

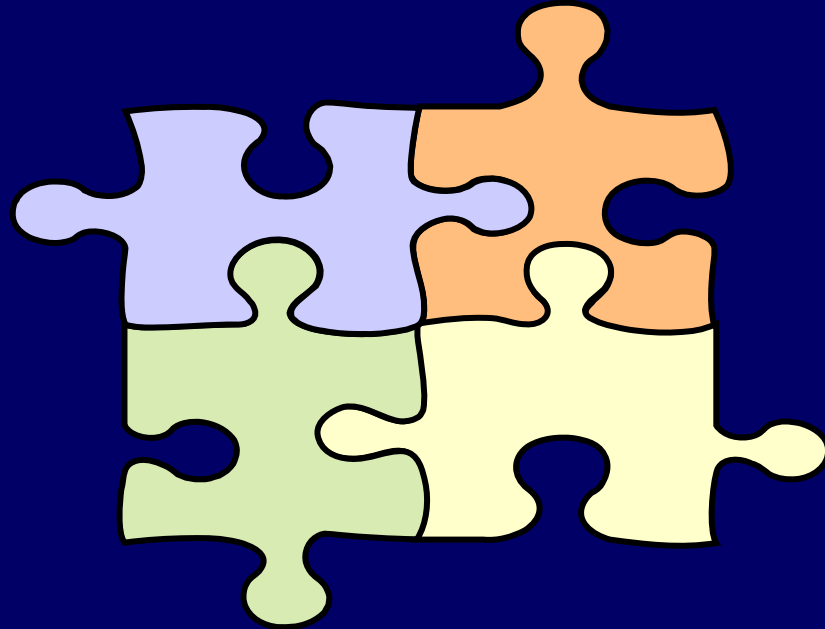


Firms/sectors/clusters:

- Intensive in technological linkages
- High income elasticity of demand

R&D concentration: USA largest 50 firms = 50% of private R&D

Policy-making innovations



- Innovative instruments
- Consultation and articulation among agents
- Investment in policy-making capabilities
- Support against performance benchmarks

Permanent challenge

- “Selling” goals for society
 - Aim objective and ambitious goals
 - Tenacity
 - Permanent mobilization



Beware: we are sailing against the wind!