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Foreign direct investment and regional integration: the case of Mercosur

- Some results of a BID-Intal/RedMercosur Research Program -

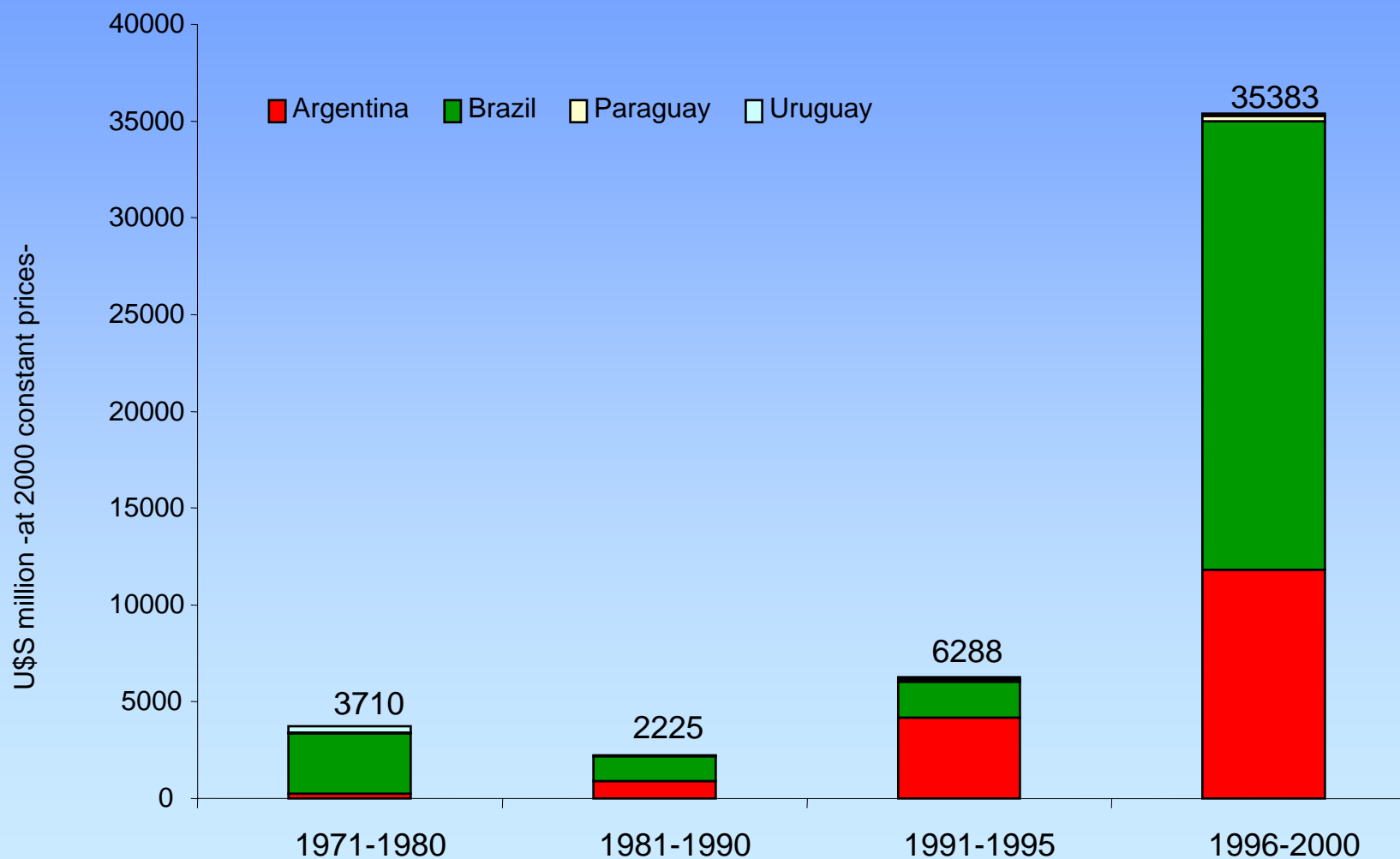
IPEA, Rio de Janeiro, 2003

- The main features of the FDI boom in MERCOSUR countries in the 90s
- The determinants of FDI inflows
- The impact of FDI on foreign trade
- FDI outflows from MERCOSUR countries and the role of “MERCOSUR TNC”

The Mercosur's FDI boom in the 90s



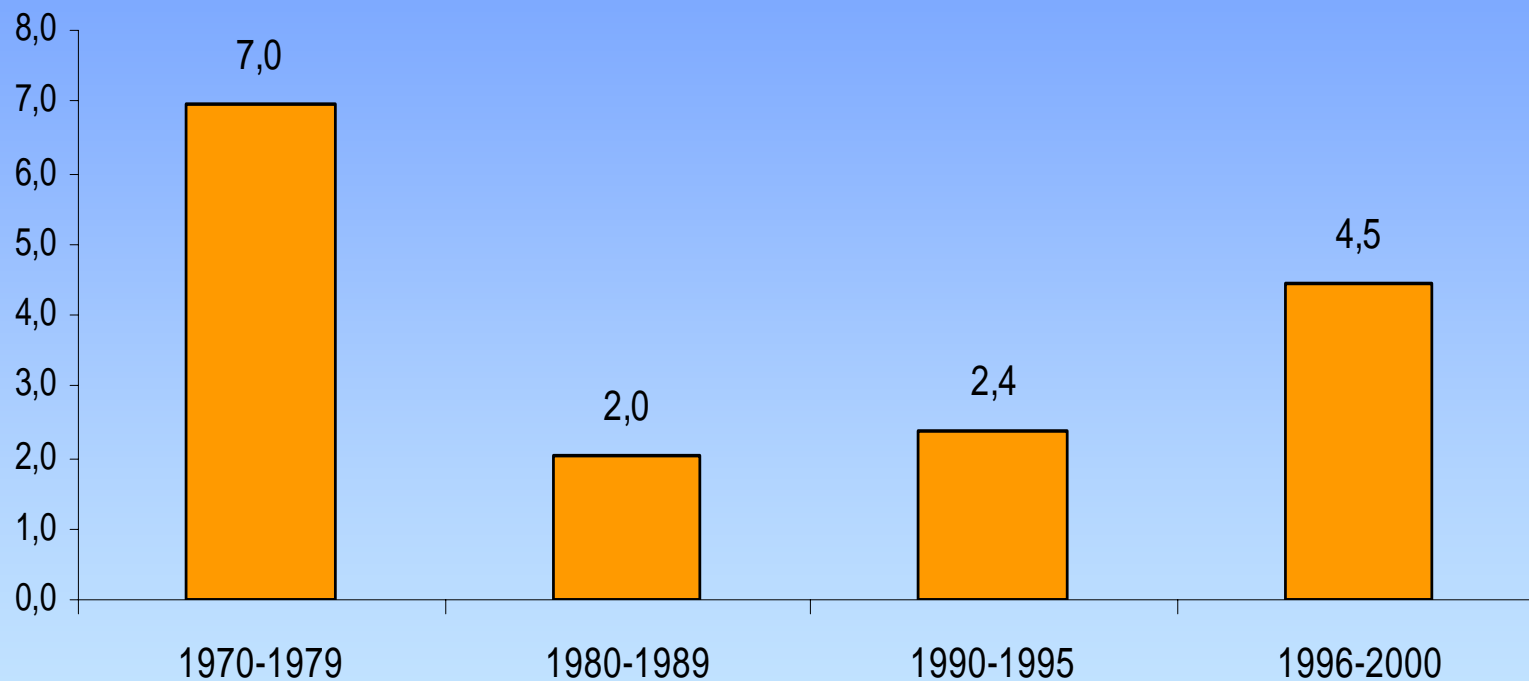
FDI inflows towards MERCOSUR countries. 1971-2000 (annual averages)



The share of MERCOSUR countries in global FDI inflows



Mercosur FDI inflows as a percentage of world FDI inflows, 1970-2000



The evolution of the FDI stock in MERCOSUR countries



FDI stock/GDP (%)

	1980	1990	1999
Argentina	6,9	6,4	22,1
Brazil	7,4	8,0	21,6
Uruguay	7,2	12,0	10,5
Paraguay	4,9	7,5	20,6

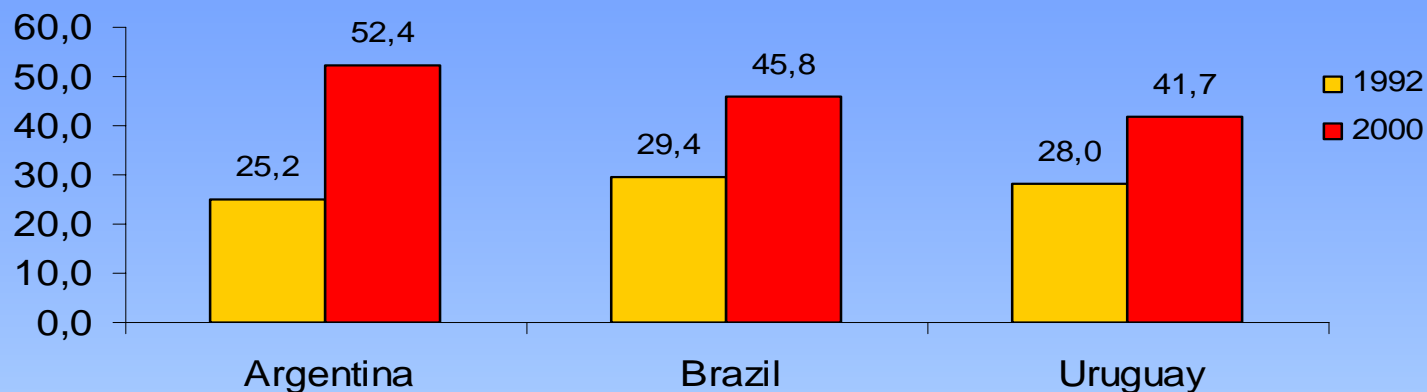
The distribution of FDI stock in MERCOSUR (%)

	1980	1990	2000
Argentina	22,5	19,1	26,7
Brazil	73,5	78,0	71,8
Uruguay	3,1	2,1	0,8
Paraguay	0,9	0,8	0,6
Mercosur	100,0	100,0	100,0

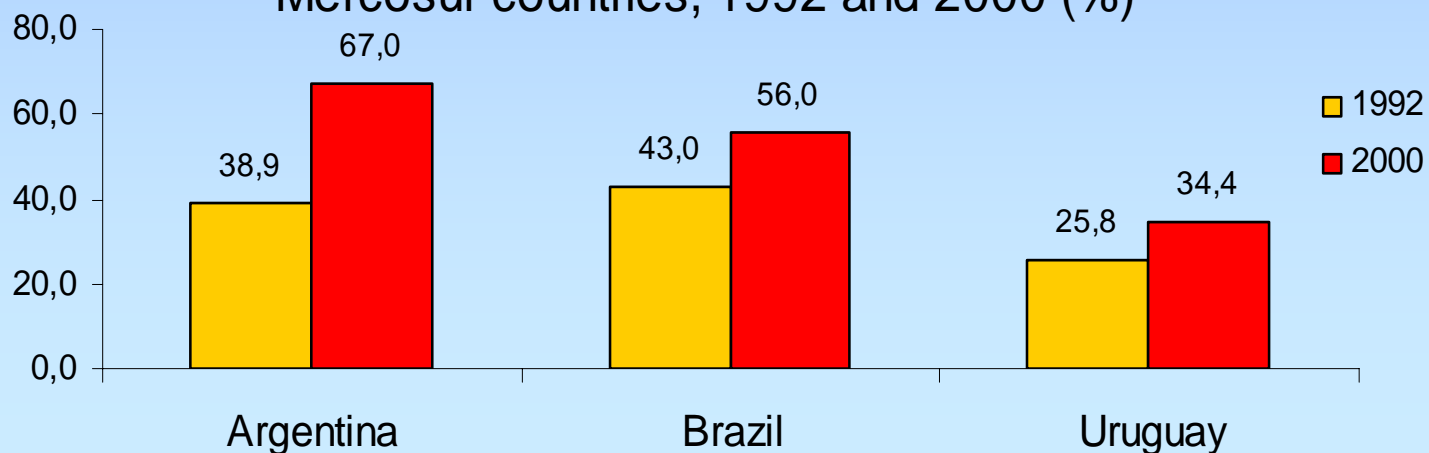
The growing presence of TNC in Mercosur countries



TNC share among the leading firms in MERCOSUR countries, 1992 and 2000 (%)



TNCs share in the sales of the leading firms in Mercosur countries, 1992 and 2000 (%)



The origin of FDI inflows in the 90s

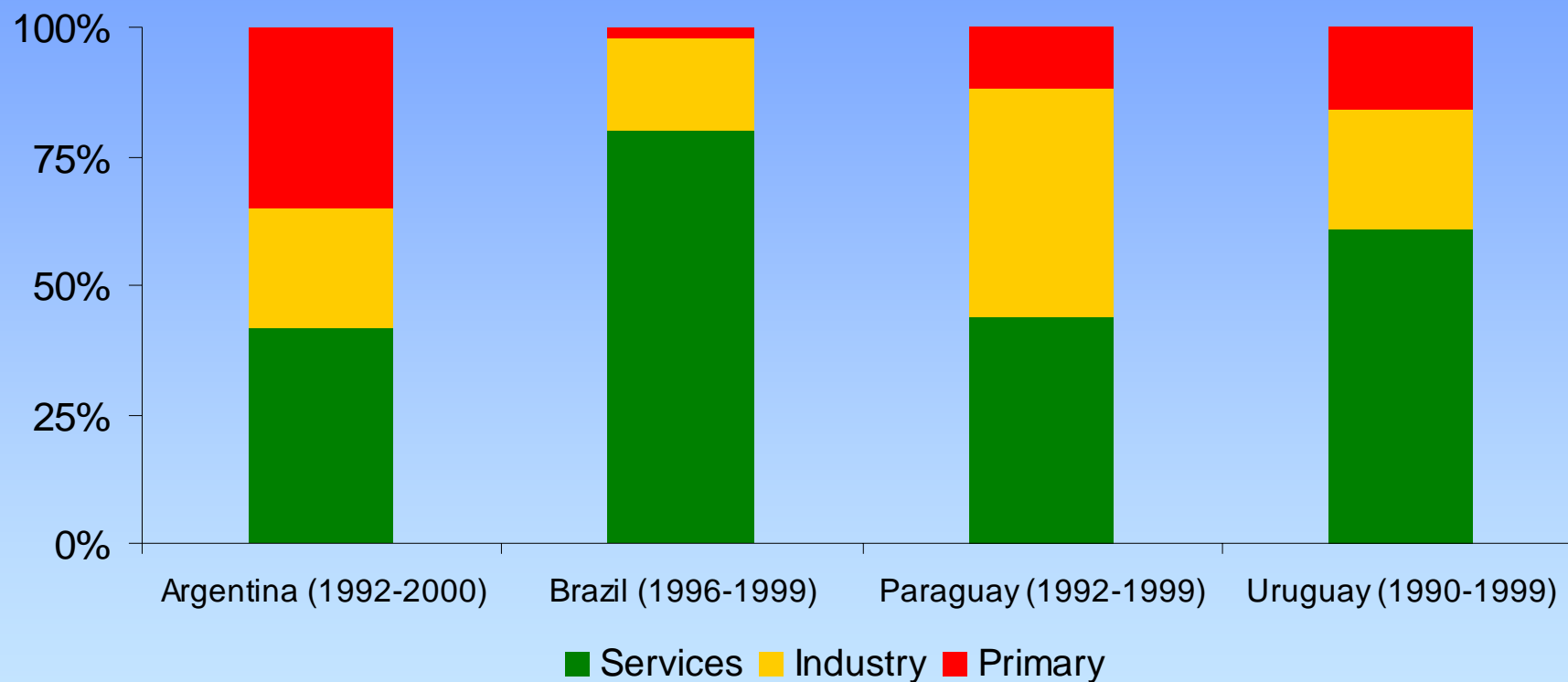


- US and Europe were the main sources of FDI in MERCOSUR
- There were significant FDI inflows from Spain and Chile
- MERCOSUR countries contributed with nearly 1% of FDI inflows in Argentina and Brazil
- FDI inflows from MERCOSUR countries reached 40 per cent of total FDI in Paraguay and 20-25% in Uruguay

FDI destination sectors



FDI inflows by destination sectors (%)



- Most FDI has been “horizontal” and “market seeking”
- “Vertical” FDI is concentrated in natural resources
- “Efficiency seeking” (differentiated goods) FDI is relevant in some sectors (i.e. automobiles)

- Macroeconomic stability
- Economic growth
- Trade liberalization and privatization
- FDI deregulation
- Natural resources
- Investment Incentives
- MERCOSUR

- In Argentina and Brazil Mercosur was important for investment decisions by TNC, among other factors
- Little influence both on FDI in services as well as in resource intensive sectors

Share of TNC in Regional Trade



TNC among manufacturing leading firms in Mercosur: trade Growth Rate by country, 1992-1997 and 1997-2000

In %

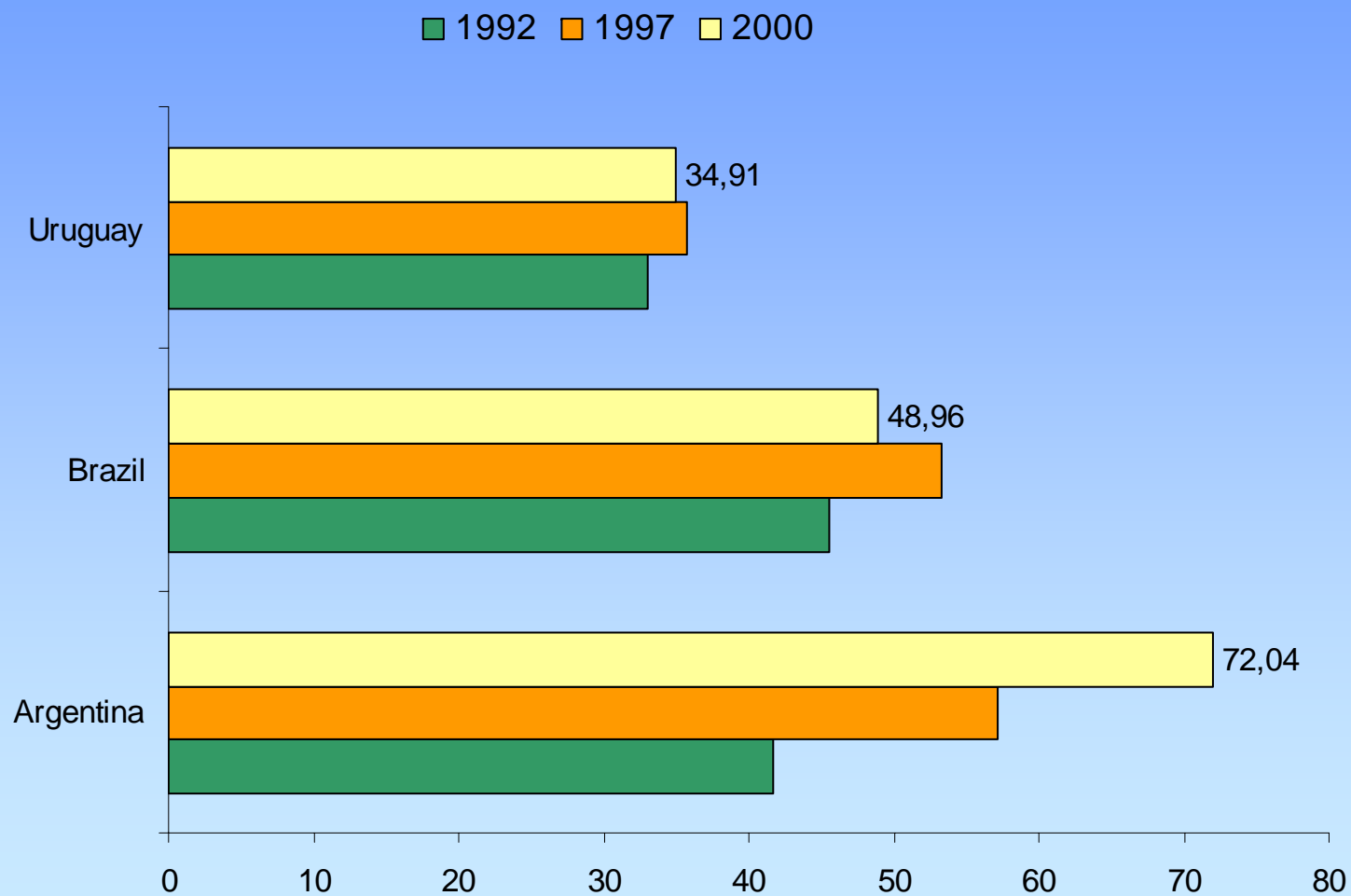
Exports	1992-1997			1997-2000		
	TNC	NAT	Total	TNC	NAT	Total
Argentina	22.8	8.8	15.4	0.2	-13.2	-5.2
Brazil	12.1	0.9	6.9	1.5	8.0	4.1
Uruguay	15.8	8.9	11.1	-4.6	-3.8	-4.1

Imports	1992-1997			1997-2000		
	TNC	NAT	Total	TNC	NAT	Total
Argentina	na	na	na	-2.3	-13.1	-4.8
Brazil	29.5	18.5	25.5	-2.3	-9.1	-4.3
Uruguay	15.0	3.8	8.6	-7.2	7.0	0.4

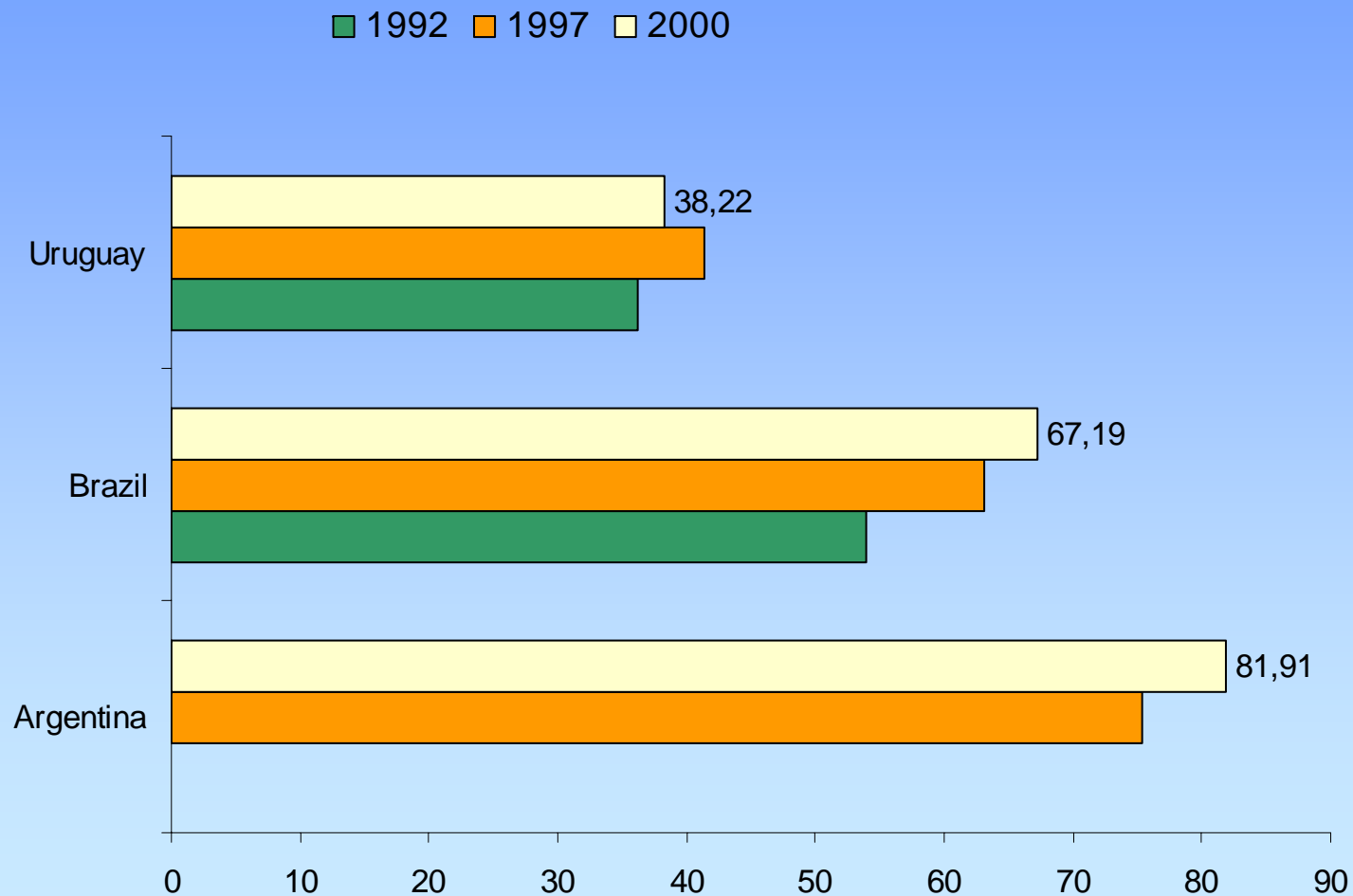
Share of TNC in Regional Trade



TNC share among leading firms exports, 1992, 1997, 2000



TNC share among leading firms imports, 1992, 1997, 2000



Share of TNC in Regional Trade



Mercosur: manufacturing leading firms Trade Balance, 1992-1997 and 1997-2000

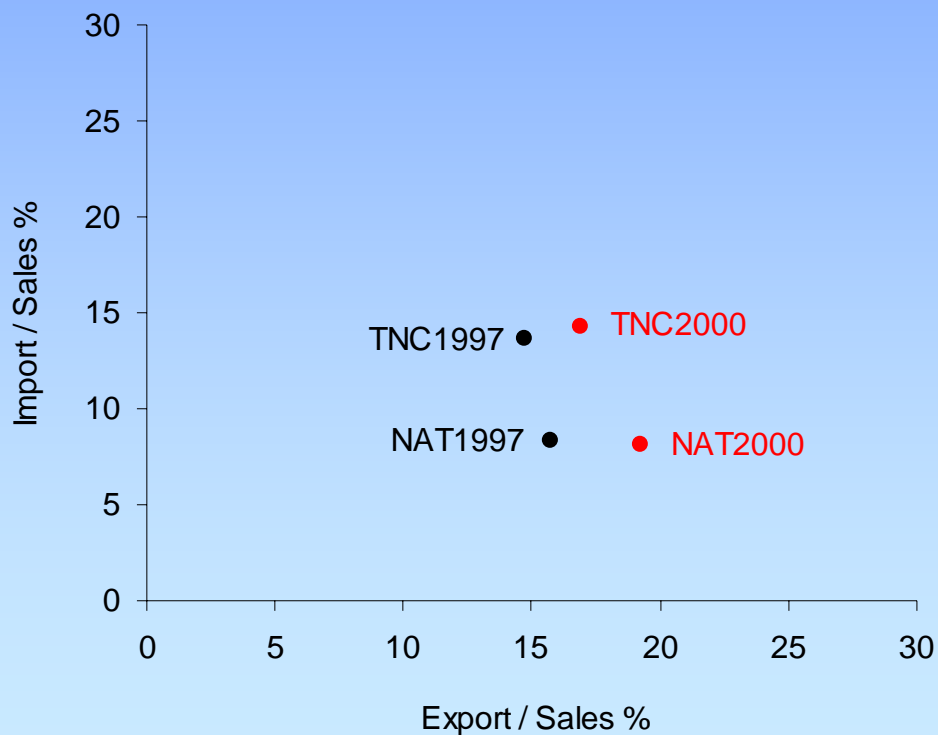
1,000 US\$

	1992		1997		2000	
	TNC	NAT	TNC	NAT	TNC	NAT
Argentina	na	na	2,596,724	5,368,740	3,174,080	3,512,245
Brazil	3,237,515	4,860,410	-1,035,837	1,854,897	421,567	5,288,438
Uruguay	30,633	288,781	81,024	585,456	107,19	344,91

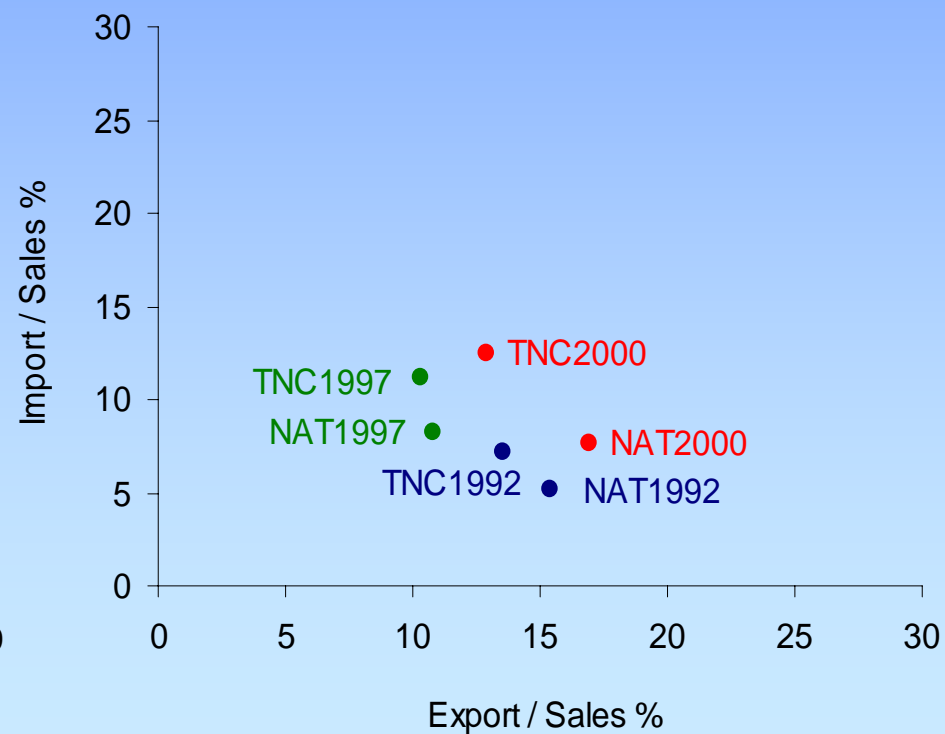
Leading Firms in Mercosur Trade Ratio, 1992, 1997, 2000

In %

Total Leading Firms



Manufacturing Leading Firms



Share of TNC in Regional Trade



Mercosur Share in manufacturing leading firms by country, 1992, 1997 e 2000

in %

Exports	1992			1997			2000		
	TNC	NAT	Total	TNC	NAT	Total	TNC	NAT	Total
Argentina	19.8	15.0	17.0	44.6	26.5	36.7	nd	nd	nd
Brazil	22.7	7.6	14.9	27.1	14.4	22.2	20.4	7.6	14.9
Uruguay	43.4	26.8	31.6	56.3	51.1	52.9	44.9	31.4	36.1

Imports	1992			1997			2000		
	TNC	NAT	Total	TNC	NAT	Total	TNC	NAT	Total
Argentina	nd	nd	nd	27.5	23.9	26.6	37.4	37.2	37.3
Brazil	10.8	14.8	12.4	14.4	6.7	12.1	10.2	14.9	11.4
Uruguay	51.6	40.0	44.4	54.6	1.1	27.9	45.8	45.6	45.7

- Mercosur's share in world FDI outflows: 0,5% (1995-2000)
- Mercosur's share in Argentinian FDI outflows: 10%-20%
- Mercosur's share in Brazilian FDI outflows: 10%
- Most FDI outflows are horizontal and market-seeking
- Global players: Techint, MarcoPolo, Gerdau, CSN
- Competitive pressures from regionalization-globalization processes fostered outward FDI
- Internationalization strategies through FDI have been part of the restructuring process of domestic conglomerates

Competitiveness and FDI policy:

- Impact on Trade Balance and Balance of Payments
- Impact on local efficiency and spillovers
- Impact on Regional Integration, including FTAA
- Mercosur´s TNC and Internationalization improvement

- The impact of regional crisis on:
 - FDI inflows and outflows
 - TNC affiliates operations and strategies
- The impact of the FDI boom on:
 - Spillovers from TNC
 - Market competition in MERCOSUR countries
 - Employment and income distribution
 - Environmental management and performance
 - Infrastructure cost and availability
- The future trajectory of “MERCOSUR TNC”