

The Impact of TNC Strategies on Development in Latin America and the Caribbean

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The Limited Focus of the Paper

- ❖ No direct contribution to FDI impact on income inequality and poverty reduction (too many intervening variables)
- ❖ Attempt to contribute something on the more direct impacts (technology transfer, human resources, production linkages and enterprise development) of TNCs
- ❖ Novelty: comparing similar corporate strategies (especially, efficiency-seeking and market seeking for services) with regard to FDI motivations
- ❖ This presentation will focus primarily on the impacts of the efficiency-seeking corporate strategy in Latin America and the Caribbean

1. Structure of the Presentation

1. Spillovers and Corporate Strategies
2. Efficiency-seeking Corporate Strategies
3. Evidence from Latin America & the Caribbean
4. Conclusions

1. The Limited Relevance of the Spillovers Debate and the Importance of Corporate Strategies

- **not** theory: the macroeconomic vision assumes what it should prove (i.e. FDI produces positive spillovers)
- **not** the evidence: the meso- or microeconomic visions provide quite mixed evidence
- **but** suggests what is relevant and should be measured: technology transfers, human resource capabilities, productive linkages and enterprise development
- **however**; this does not take us very far unless we compare like cases from the perspective of the specific corporate strategies driving their FDI

The Principal Corporate Strategies of TNCs, by Sector

Strategy / Sector	Natural resource seeking	Market seeking (national or regional)	Efficiency seeking	Strategic aspects seeking
Primary	<i>Petroleum / gas Minerals</i>			
Manufactures		<i>Automotive Food products Tobacco Beverages</i>	<i>Automotive Electronic Apparel</i>	<i>Pharmaceutical</i>
Services		<i>Finance Telecom Retail trade Electrical energy</i>	<i>Logistics Regional HQ</i>	<i>R & D Centers</i>

Economic Determinants of Corporate Strategies of TNCs

Type of FDI	Key determinants
Natural resource-seeking FDI	Abundance of natural resources Access to natural resources International commodity price movements
Market-seeking FDI (national or regional)	Market size, growth and purchasing power Level of tariff protection Barriers to entry Market structure (competition) Local regulatory and supervisory requirements
Efficiency-seeking, export-oriented FDI	Access to export markets Quality and cost of human resources Cost of physical infrastructure (ports, roads, telecom) Logistics Quality of suppliers, clusters, etc. International trade and investment commitments
Strategic asset-seeking FDI	Presence of firm-specific assets Science and technology base Logistics

Economic Benefits of Corporate Strategies of TNCs

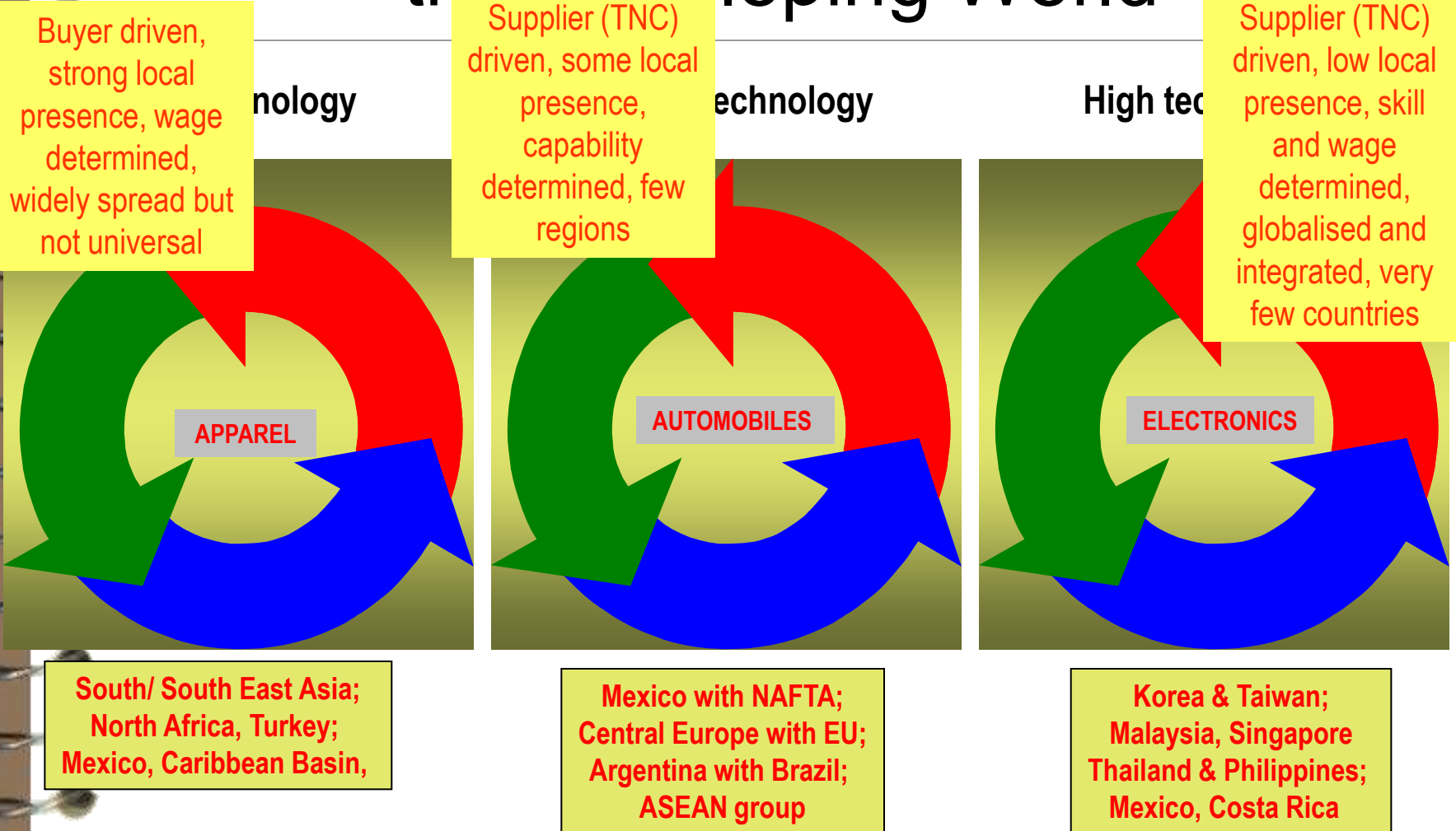
Type of FDI	Key benefits
Natural resource-seeking FDI	Exports of natural resources High local content Employment in non-urban areas
Market-seeking FDI (national or regional)	Local activities Systemic competitiveness Increased local content New production linkages Enterprise development
Efficiency-seeking, export-oriented FDI	Export competitiveness for manufactures Transfers of technology Improved human resources Deeper production linkages Enterprise development Advance from assembly to manufacturing
Strategic asset-seeking FDI	Science and technology infrastructure Logistics development

Economic Problems of Corporate Strategies of TNCs

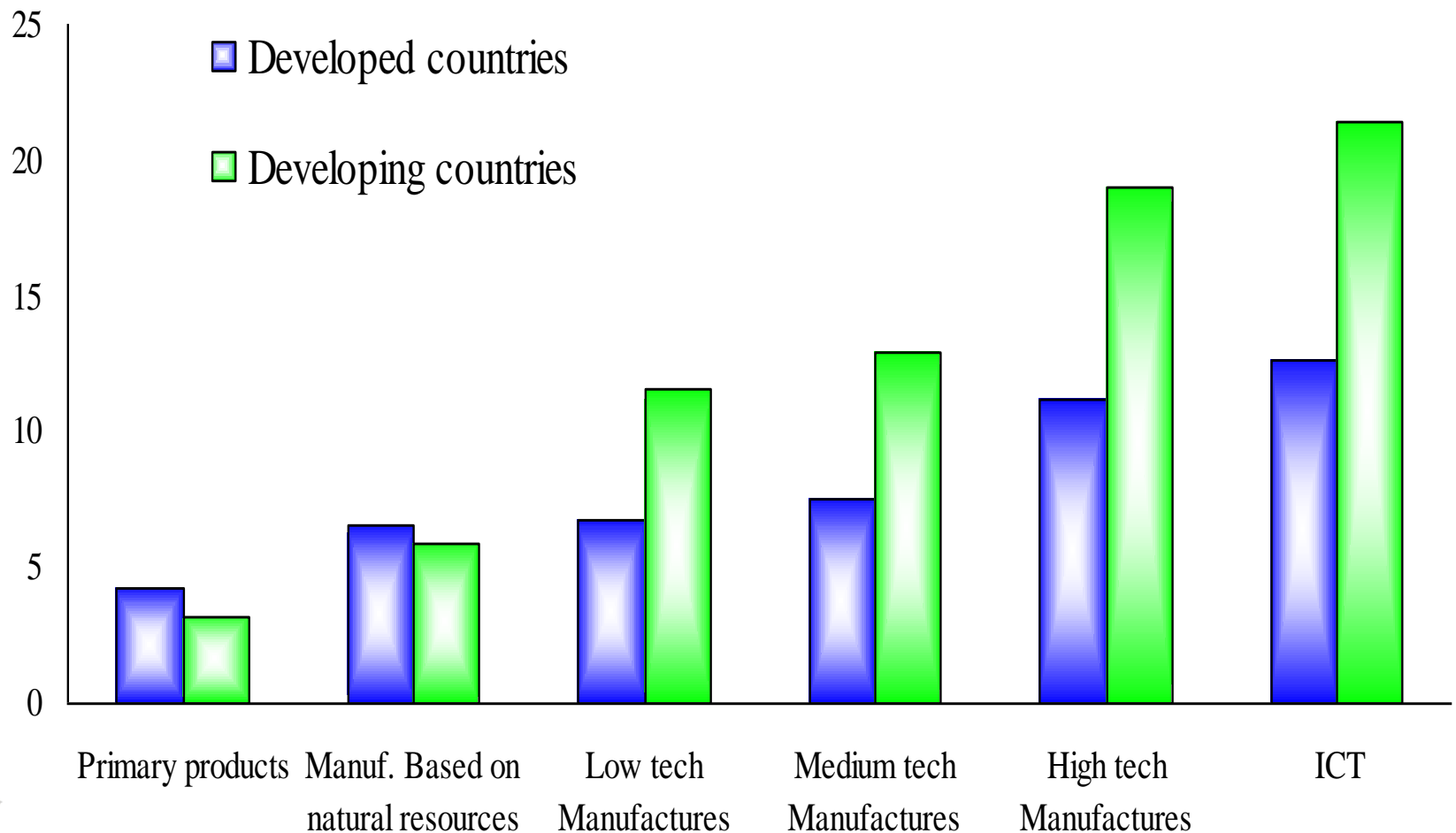
Type of FDI	Principal problems
Natural resource-seeking FDI	<p>Enclave activities not integrated into local economy</p> <p>Low level of local processing</p> <p>Cyclical in relation to international prices</p>
Market-seeking FDI (national or regional)	<p>Higher cost production or service provision</p> <p>Weak international competitiveness</p> <p>Not world class</p> <p>Regulatory problems for services</p> <p>Crowding out of national companies</p>
Efficiency-seeking, export-oriented FDI	<p>Getting stuck in low wage assembly, no upgrading</p> <p>Focus on static not dynamic advantages</p> <p>Limited production linkages: import dependent</p> <p>No advance toward clustering</p> <p>Crowding out of national companies</p>
Strategic asset-seeking FDI	<p>Stagnates at certain level</p> <p>Outcompeted</p>

2. Efficiency seeking TNC activities

Three Major TNC Export Systems in the Developing World



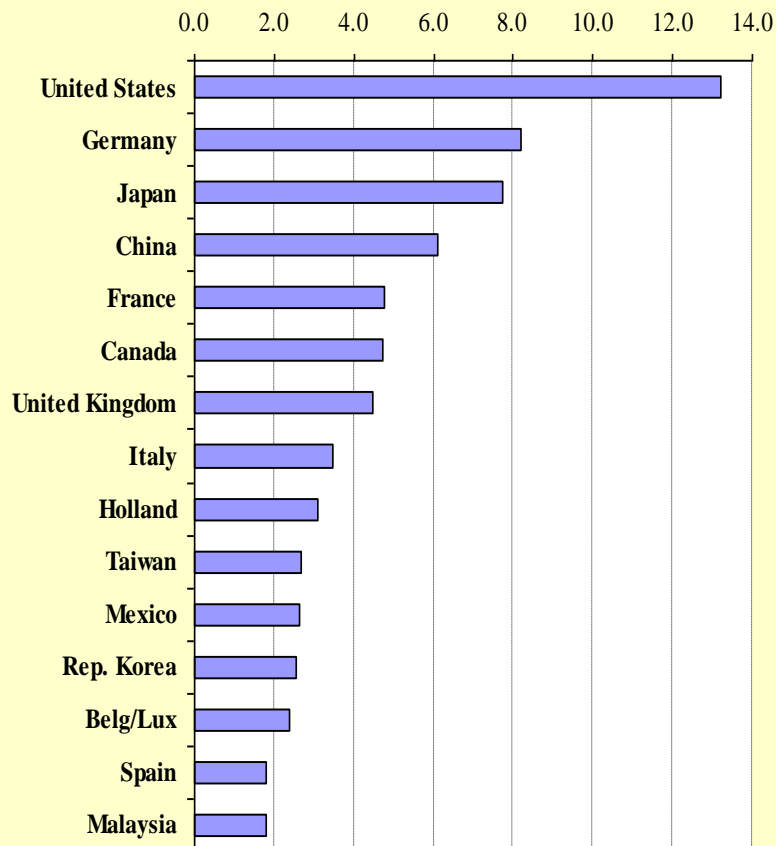
Growth Rates of World Exports, by Technology Intensity of Product Groups, 1985-2000, % annual average



International Market Shares of World Trade, 2000 and Increments during 1985 - 2000, (percent and percentage points)

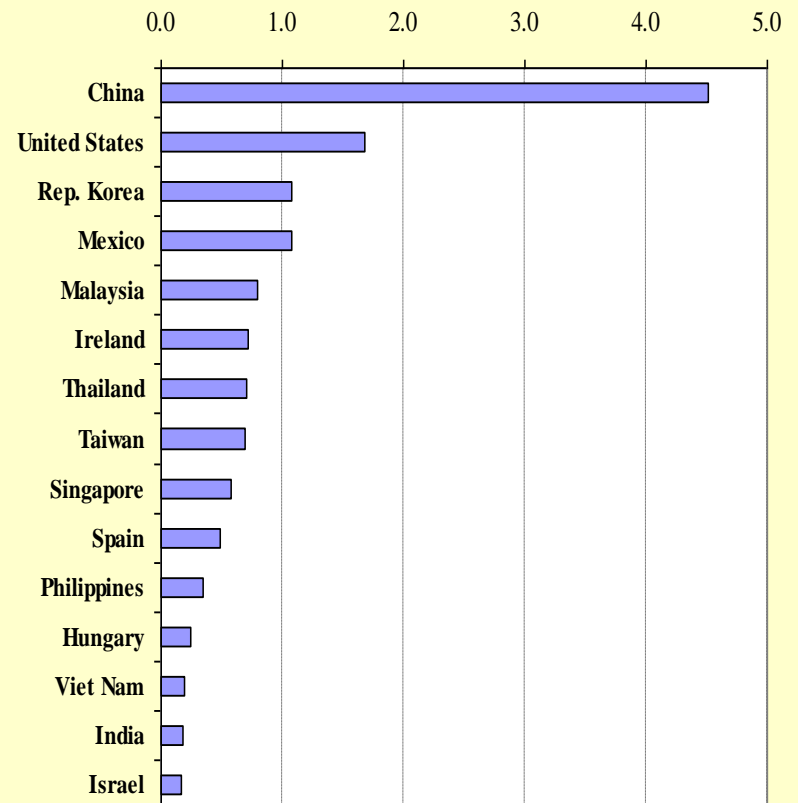
15 countries with largest market shares, 2000

(percent)



15 countries with largest increments during 1985-2000

(percentage points)



The Big Opportunity in World Trade

- During 1985 – 2000 the world export market share of developed countries in
 - ✓ total exports: declined from 69% to 63 %
 - ✓ exports of non-resource-based manufactures dropped precipitously from 82% to 67%

Some effects:

- Mexico: gained in the North American market
- Central and Eastern European countries: gained in the European market.
- Asian “winner countries”: gaining in *all* markets

Foreign Affiliates' Share of Exports

by country, manufacturing only, latest year

Economy	Share of foreign affiliates
Ireland	90%
Hungary*	86%
Philippines	68%
Poland	52%
China	50%
Costa Rica	50%
Mexico	50%
Malaysia	49%
Czech Republic	49%
Rep. Korea	15
United States	14

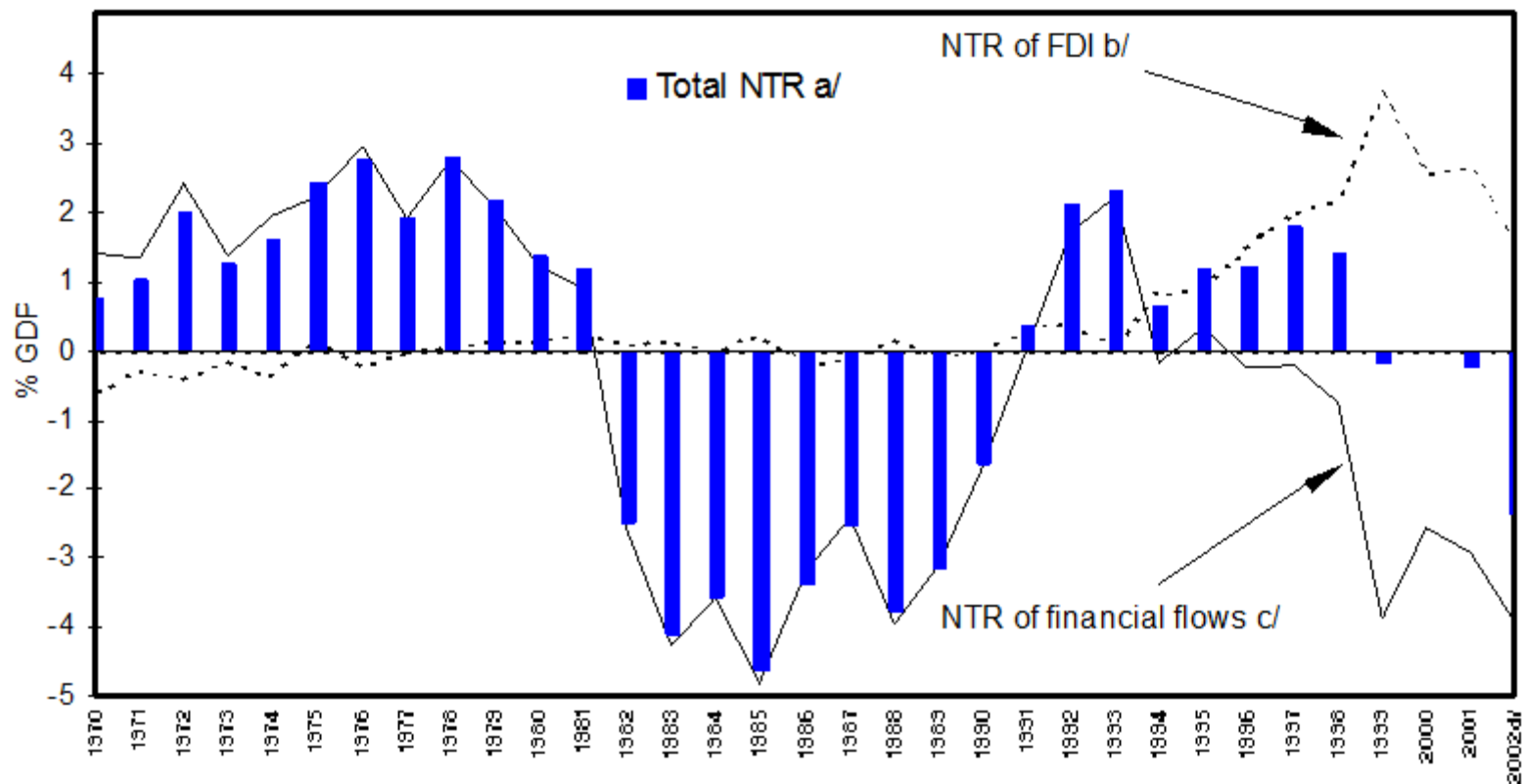
- Foreign affiliates account for high and rising shares in many countries that have seen increased export market shares.
- Especially in ISIPs in the electronics and automotive industries.

The Role of TNCs in the Exports of Some Winner Countries

Country (Year)	Total Exports 2000 (US\$ billion)	Foreign Affiliates' Share (%)	Three Principal TNC Exporters, 2000	Exports 2000 (US\$ billions)
China (2001)	279.6	50	Samsung Electronics IBM Nokia	1.5 1.5 1.1
Costa Rica (2000)	6.7	50	Intel Dole Food Del Monte	1.7 0.2 0.1
Hungary (1999)	25.5	86	Volkswagen IBM Philips Electronics	3.2 2.2 2.0
Ireland (1998)	52.5 ^a	90	Intel Dell Computer Microsoft	4.8 4.3 2.4
Mexico (2000)	180.4	50	DaimlerChrysler General Motors Volkswagen	6.9 6.7 5.2
Rep. Korea (1999)	150.4	15	Amkor Technology Nokia Chip PAK	4.7 2.4 2.4

3. Latin America and the Caribbean

Latin America and the Caribbean: Net Transfer of Resources (NTR)



a/ The net transfer of resources is equivalent to the net inflow of capital (including net errors and omissions) less the balance in the factor payment account (profits and net interest payments). Negative figures indicate transfers to the exterior. b/ Equivalent to the net inflow of FDI less profit remittances. c/ Equivalent to the net inflow of other capital, different from FDI, less the net payment of interest. d/ Preliminary estimates.

Source: ECLAC

Latin America and the Caribbean: Net Inflows Of FDI By Subregions, 1990-2002 a/ (millions of dollars)

	1990- 1994 ^b	1995- 1999 ^b	1999	2000	2001	2002 ^c
1. Mexico, Central America & the Caribbean	6,846	15,229	17,984	18,263	29,465	17,409
2. South America	8,956	45,375	70,236	57,320	39,555	28,032
-Southern Cone	6,114	35,590	61,881	48,468	30,723	19,969
-Andean Community	2,843	9,786	8,355	8,852	8,832	8,063
3. Financial centers	2,506	8,914	19,810	18,855	14,993	12,000
Total	18,308	69,518	108,030	94,438	84,013	57,441

a/ Net inflows (gross inflows – capital remittances by the same foreign enterprises) b/ Annual average c/ Estimates

Differences by subregion: volume, volatility and dominant corporate strategies

The Principal Focal Points of FDI in Latin America and the Caribbean According to the Corporate Strategies Driving Them

Corporate Strategy / Sector	Natural resource-seeking	Market (national or regional) -seeking	Efficiency-seeking	Strategic element-seeking
Natural Resources	<p><i>Petroleum /natural gas:</i> Argentina, Venezuela, Colombia, Bolivia and Brazil</p> <p><i>Minerals:</i> Chile, Argentina and Peru</p>			
Manufacturing		<p><i>Auto industry:</i> Brazil and Argentina</p> <p><i>Agro-industry:</i> Argentina, Brazil and Mexico</p> <p><i>Chemicals:</i> Brazil</p>	<p><i>Auto industry:</i> Mexico</p> <p><i>Electronics:</i> Mexico and Caribbean basin</p> <p><i>Apparel:</i> Caribbean basin and Mexico</p>	
Services		<p><i>Financial Services:</i> Brazil, Mexico, Chile, Argentina, Colombia Venezuela, and Peru</p> <p><i>Telecommunications:</i> Brazil, Argentina, Chile and Peru</p> <p><i>Retail trade:</i> Brazil, Argentina, Mexico and Chile</p> <p><i>Electricity:</i> Colombia, Brazil, Argentina and Central America</p> <p><i>Gas distribution:</i> Argentina, Brazil, Chile and Colombia</p>		

The Transnationalization Process in Latin America and the Caribbean

	(percent)	1990-92	1994-96	1998-00
<i>Sales of the 500 Biggest Companies</i>				
Foreign companies		27.4	32.1	41.6
National private companies		39.4	41.0	37.8
State-owned		33.2	26.9	20.6
Total		100.0	100.0	100.0
<i>Sales of the 100 Biggest Manufacturing Companies</i>				
Foreign companies		53.2	59.3	61.7
National private companies		42.6	38.6	37.6
State-owned		4.2	2.1	0.7
Total		100.0	100.0	100.0
<i>Exports of the 200 Biggest Exporters</i>				
Foreign companies			29.2	43.2
National private companies			35.9	30.3
State-owned			34.9	26.3 ₂₀
Total			100.0	100.0

Latin America and the Caribbean: Aspects of its International Competitiveness in World Imports, 1985-2000

(import market shares in percentage)

	1985	1990	1995	2000	Change 1985-2000
<i>MEXICO AND THE CARIBBEAN BASIN</i>					
Overall market shares	2.39	1.96	2.40	3.35	40.2
1. Natural resources	5.01	3.56	3.28	3.54	-29.3
2. Manufactures based on natural resources	2.09	1.82	1.86	2.10	-
3. Manufactures not based on natural resources	1.34	1.55	2.33	3.57	166.4
- Low technology	1.25	1.53	2.48	3.92	213.6
- Medium technology	1.27	1.64	2.51	3.68	189.8
- High technology	1.66	1.40	1.91	3.19	92.2
4. Others	2.06	2.01	2.37	3.27	58.7
<i>SOUTH AMERICA</i>					
Overall market shares	3.40	2.76	2.76	2.62	-22.9
1. Natural resources	6.82	7.16	8.33	8.50	24.6
2. Manufactures based on natural resources	5.55	4.66	4.93	4.93	-11.2
3. Manufactures not based on natural resources	1.24	1.14	1.12	1.03	-16.9
- Low technology	1.96	1.75	1.66	1.42	-27.6
- Medium technology	1.20	1.21	1.34	1.27	5.8
- High technology	0.47	0.36	0.29	0.45	-4.3
4. Others	2.10	1.15	1.35	1.56	-25.7

Mexico and the Caribbean Basin: Factors Behind the Efficiency-Seeking FDI

- US industries undergoing restructuring due to strong competition from Asian exports: **ISIPs** in automotive, electronic and apparel.
- Convenient production costs (for efficiency-seeking FDI), plus geographic proximity.
- Most active agents: **US corporations**.
- Significant structural change process: financial and trade opening plus export incentives (*maquila* and export processing zones)
- Concrete **trade mechanisms** for facilitating access to US market (NAFTA rules of origin for Mexico, production sharing for Caribbean Basin).
- Trade agreements (NAFTA, Caribbean Basin Initiative, Trade and Development Act 2000)

South America: Factors Behind the Market-Seeking (Services) FDI

- New global strategies of TNCs initiating their internationalization process and entering South America for the first time.
- Impressive process of **acquisitions** of private companies in South America.
- Profound process of liberalization, **privatization and deregulation** of state assets in South America.
- Principal industries affected: energy, telecomunicaciones, banking, commerce.
- Most active agents: **European corporations**, especially Spanish ones.
- Trade and investment liberalization and opening up of extractive industries, such as petroleum and mining.
- Further development of manufactures based on natural resources in which there are static comparative advantages (industrial commodities), particularly in the Southern Cone countries.
- Application of new **WTO agreements** promoting trade in services: telecommunications and financial services

The New Context for Corporate Strategies in Latin America and the Caribbean

- the new developmental context: **collapsing** levels of FDI inflows
- **transnational corporations**: new principal actors in Latin America
- **two distinct worlds** of corporate strategy:
 1. *Market access seeking*: -Mercosur and Chile
 - telecom, electricity, retail trade, banks
 - mainly European (esp. Spanish) FDI
 - mainly purchase of existing assets
 - improved systemic competitiveness
 - downside: BoP pressures
 2. *Efficiency-seeking FDI*: -Mexico and Caribbean Basin
 - autos, electronics, apparel
 - mainly US FDI
 - mainly in creation of new assets
 - huge increase in exports (IC)
 - downside: few linkages

The Impact on Mexico

- Winner country in global export competitiveness but only in North American market
- Autos: some TT, significant HR, some linkages, some ED
- Electronics: some TT, significant HR, few linkages, little ED
- Apparel: little TT, limited HR, few linkages, some ED (“full package” providers)
- NAFTA rules of origin increase national benefits
- Reduced ISIP benefits do to passive, horizontal policies

The Impact on the Caribbean Basin

- Winner countries in regional export competitiveness but only in US market
- Apparel: buyers' contracts more than FDI; minimal TT, some HR, virtually no linkages, limited ED
- US production sharing mechanism minimizes local benefits
- Tendency toward “low road” and “race to bottom”
- Stuck in Export Processing Zone mentality
- WTO ACT challenge (Asian countries, esp. China)
- Effect CBTPA / CAFTA unclear
- Reduced ISIP benefits do to passive, horizontal policies

The Exceptional Case of Costa Rica

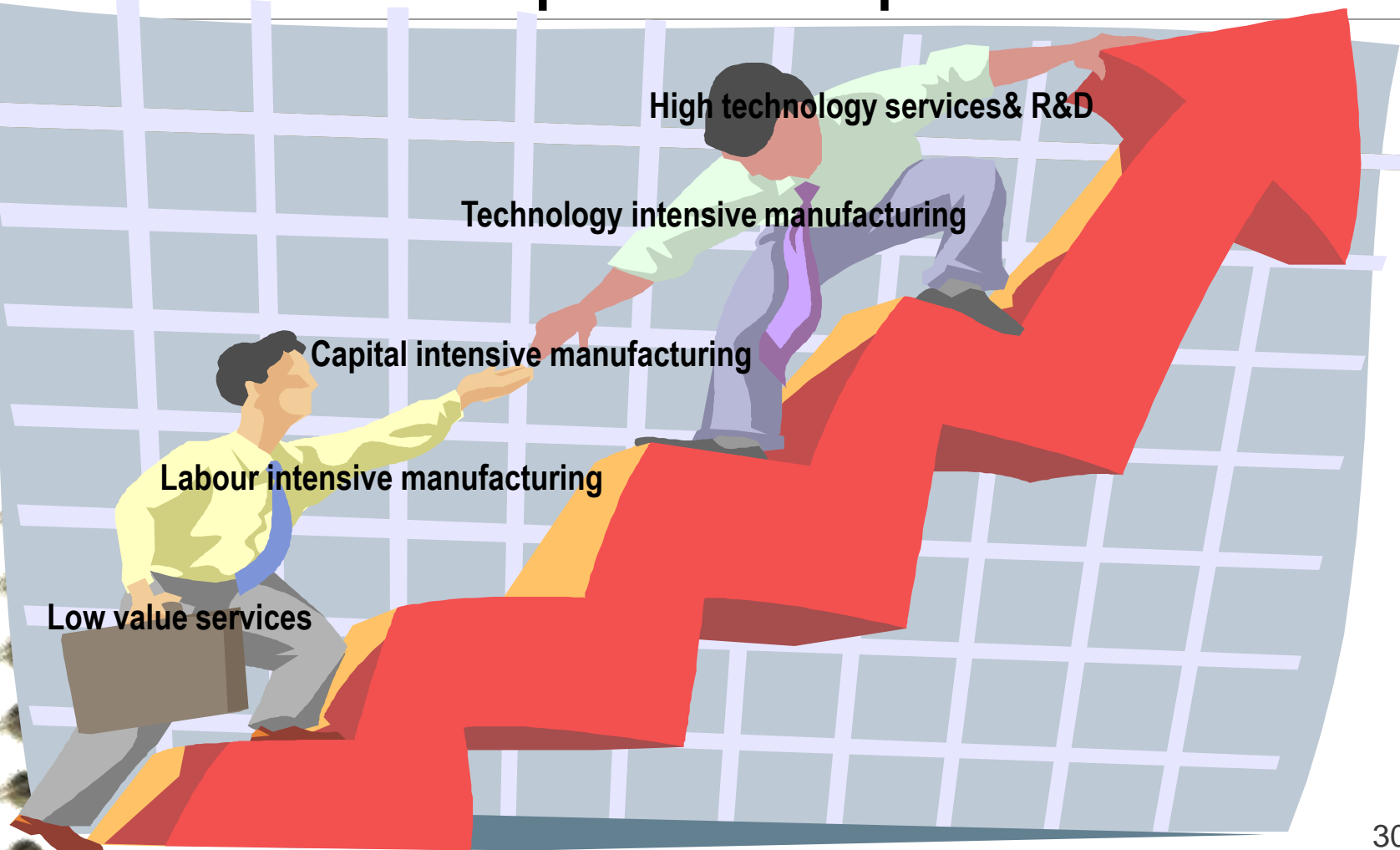
- Designed and implemented new development strategy: upgrade from apparel to electronics
- Active, focused FDI policy to target the TNCs that would produce desired benefits
- Electronics: some TT, significant HR, some linkages, some ED
- Intel-centric success to date, more needed
- National linkage and training policies promote shift from static to dynamic advantages
- National policy influences production impacts
- Role of CINDE

Conclusions

Policy challenge: to take advantage of TNC strategies

- ☞ TNCs following efficiency-seeking strategies can provide significant benefits to a host country, but they are not automatic
- ☞ “The more, the better” FDI policies based on passive, horizontal policies (opening up, liberalization, deregulation and privatization) are not good enough
- ☞ National benefits are reduced when corporate strategies are not guided by policies indicating national development priorities. FDI policy must move from “quantity” to “quality”
- ☞ FDI is not the goal but a means to developmental goals
- ☞ National policy can assist TNCs upgrade from static to dynamic advantages
- ☞ Proactive, focused FDI policies targeting the TNCs that can provide the desired developmental impact are required

FDI policy must reflect developmental priorities



Source: S. Lall, Oxford