

CEPAL

Review

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The transnational corporations in the Chilean economy

*Eugenio Lahera**

The objective of this article is to analyse the presence and impact of the transnational corporations on the Chilean economy during the period 1974-1979. It is based to a large extent on a previous study made by the author which presents the empirical evidence and the methodology used in greater detail (Eugenio Lahera, *Presencia y participación de las empresas transnacionales en la economía chilena*, (E/CEPAL/R.235), August 1980). A substantial part of the statistical data, however, was especially updated for this article, which consists of three sections. In the first section, the author briefly analyses the guiding principles behind government policy on foreign investments; in the second, he considers the variations undergone by direct foreign investment in Chile between 1974 and 1979; and in the third section he deals with the repercussions of the transnational corporations on the economy of the country. This section is followed by the conclusions, among which the author lays particular stress on some which contrast with generally held views on this matter. Thus, for example, although the policies on foreign investments applied by the government during the period under consideration were very liberal, the average flow of direct foreign investment was smaller than that recorded in previous years and its accumulated total did not reach the levels of the late 1960s. Moreover, this investment has been concentrated in a few economic units, has been used primarily to purchase local enterprises or to strengthen existing foreign enterprises, and has been oriented towards the internal market. In short, it has not assumed an important role in the economic development of the country and indeed, on the contrary, could help to aggravate certain problems such as that of the external bottleneck.

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I

Government policy of foreign investment

The policy on foreign investment followed by the present Chilean Government is based, with a few significant exceptions, on three main guiding principles.¹

The first of these principles is equality of treatment for both foreign and local investors, which results in extreme simplification of the rules on foreign investment. There are practically no special obligations for foreign investors, but they do have some advantages: free remittance of profits and repatriation of capital after three years, without any subsequent time limit; maintenance of a constant tax rate for a prolonged period; and other advantages regarding taxation.² Furthermore, since the conditions offered to foreign investors are ratified by agreements with the Chilean State, they offer a high degree of security that they will not subsequently be changed. Foreign investors have access both to domestic credit and to State contracts, as well as being eligible for all the regional or sectoral incentives already existing or to be adopted in the future. They may also be affected, however, by the present legislation on restrictive practices.

The second principle is that of the free access of transnational corporations to the various economic sectors of the country: they are no limitations regarding their participation in particular areas. Such exceptions as there are to this are generally of minor economic importance, and in those cases where they are important—gas, oil and uranium—exploration and operating contracts can be signed with the State.³

¹For comparisons with previous periods see Eugenio Lahera, *Latin American Public Policies of Foreign Investment: The Cases of Argentina and Chile 1870-1970* (doctoral thesis), Princeton, 1979.

²It should be noted that in the case of foreign investment in the copper industry, the present government reduced the tax rates below the levels in force in the late 1960s.

³The 1980 Constitution states that the mines are of the property of the State, but at the same time recognizes the ownership by natural or legal persons of the land where mines are situated. In any case, mines can be the subject of

There are no requirements as regards nationality to prevent an enterprise from carrying out any normal economic activity, although there are some limitations of a personal nature, nor are there any restrictions on the purchase of public or private domestic enterprises by the transnational corporations.

There is no mechanism or principle aimed at subjecting transnational corporations which apply to enter or reinvest in the country to any form of selection, nor does the Government do anything to actively seek transnational corporations with particular characteristics for specific reasons. Nor is any limitation on the percentage of the mineral reserves which can be controlled by foreign enterprises, unlike other countries in Latin America.

The third general principle is that of non-intervention by the State with regard to the activities of foreign investors in the national economy. The Chilean Government has not followed the example of other countries and groups of countries in Latin America which have developed specific policies regarding transnational corporations, in some cases in order to discourage tactics considered to be prejudicial, such as the fixing of transfer prices, and in others to promote beneficial potential features of the activities of such corporations, such as exports. Indeed, a step has been taken in the opposite direction by limiting, through articles 9 to 11 of the Investment Statute, the very possibility of any special policy, since these articles guarantee the foreign investor freedom from discrimination, against which (if it should ever exist) he can have recourse to the courts of law.

exploration or operating concessions (article 19, No.º 24). Such concessions will be regulated by the new Mining Code (second transitory clause).

There is no law along the lines of 'buy national' in Chile, and recently the very possibility of centralized public purchases by the Dirección de Aprovechamiento del Estado has been eliminated, while there is no law on the transfer of technology, either. Moreover, the Government has limited its own rights as regards fishery policy.⁴

Government control activities are restricted to a few obligations imposed on foreign investors—mainly the obligation to report on some movements of capital—and there is no provision for punishment if these are not complied with.

In contrast, the Government has engaged and continues to engage in considerable activity regarding foreign investment in other respects. It followed an active policy of coming to agreements with nationalized transnational corporations in the preceding period, and paid a total of US\$ 330 million in respect to compensation between 1974 and 1979, while it still owes US\$ 180 million. The Government also actively promotes foreign investment in the country: both CORFO and ODEPLAN and, more recently, PROCHILE, carry out studies and publicize investment opportunities in Chile. In the process of transferring public sector enterprises to the private sector, a significant number of such enterprises have been sold to foreign investors, while the Government has also signed some agreements with foreign firms to carry out joint ventures, especially in the mining sector. It also intervenes in the signing of foreign investment contracts, which are of a public nature and are binding on the State.

⁴See the 1981 Budget Law.

II

Variations in direct foreign investment in Chile in recent years

1. Inflow and accumulated value of direct foreign investment⁵ between 1974 and 1980

According to the estimates made for this study, the total value of direct foreign investment accumulated in Chile up to the end of 1980 was US\$ 960 million⁶ (see tables 1 and 2). Compared with previous periods, there have been considerable changes in the volume of such investments, since in money at constant value it went down to a quarter between 1967 and 1973 but rose again by 67% between the latter year and 1979. Even so, the accumulated direct foreign investment at the end of 1979 was equivalent to only 40% of that corresponding to the end of 1967 (see table 3).

Table 1

ACCUMULATED VALUE OF DIRECT FOREIGN INVESTMENT IN CHILE, 1974-1980 (Millions of dollars)

Year	Accumulated value
1974	355
1975	465
1976	435
1977	450
1978	665
1979	890
1980	960

Source: Estimates prepared for this study on the basis of the data in table 2.

⁵For details of the concepts of direct foreign investment, accumulated value and inflows used, see the Annex.

⁶In order to estimate the evolution of this value between 1974 and last year, two base years were used which made it possible to fix the range in which to locate the accumulated value: 1973, using information from the Committee on Foreign Investments, and 1977, using information from the Organization for Economic Co-operation and Development (OECD). Subsequently, variable annual depreciation was deducted from these figures for the accumulated value: 10% for 1974 and 1975, 15% for 1976 and 1977; and 17.5% for 1978, 1979 and 1980, after which the annual reinvestments and inflow of capital were added

The rate of recovery of the previous levels of direct foreign investment speeded up considerably in 1978, when such investment increased by almost 50%, but it declined in 1979, and it fell abruptly in 1980, when the growth amounted to only 8%.⁷ Of course the materialization of some of the big mining projects could easily alter the situation in a positive sense.

2. Variations in the sectoral distribution

For many years, up to 1970, most of the accumulated direct foreign investment in Chile was concentrated in the mining sector, while the industrial sector had only a small share of the total. Thus, in 1967 the investments in the mining sector, at US\$ 550 million, represented almost 60% of the total, followed by public services, with more than a quarter of the total, and manufactures with only 10%. The share of commerce was less than 5%, and that of the financial sector did not even come to 1% of the total (see table 4).

The foreign investment policies adopted as from 1970 caused direct foreign investment to go down and helped to alter its distribution significantly, since they had a different sectoral emphasis. The share of mining went down to less than 20%, fundamentally as a result of the

on. The first of the latter two terms is understood here as the capitalization of profits and credits, while the second term includes the direct foreign investment made under the Investment Statute and article 14 of the Foreign Exchange Law. The results of the operations in question are to be seen in table 2. In addition, in order to confirm the values a further estimate was made: the direct foreign investment was added up enterprise by enterprise, giving an accumulated value of US\$ 806 million for 1979. The difference with the total given earlier is to be explained by the exclusion of those firms which are not joint stock companies. The result therefore confirms the values determined.

⁷Indeed, the inflow of direct foreign investment was smaller in 1980 than in 1979.

Table 2

ESTIMATED ACCUMULATED VALUE OF DIRECT FOREIGN INVESTMENT IN CHILE
(Millions of dollars)

	1974	1975	1976	1977		1978		1979		1980	
				a	b	a	b	a	b	a	b
Accumulated value in the previous period	370.0	354.5	464.1	435.7	410.0	461.0	439.2	617.7	654.8	897.6	883.6
Depreciation (-)	37.0	35.5	69.6	65.4	61.5	80.7	75.8	117.4	114.8	157.1	154.6
Subtotal	333.0	319.0	394.5	370.3	348.5	380.3	363.4	554.3	540.3	740.5	729.0
Reinvestment (+)	0.0	32.2	13.4	15.0	15.0 ^c	1.6 ^c	7.6	6.8 ^d	6.8	228.8	228.8
Capital inflow (+)	21.5	112.9	27.8	75.7	75.7	283.8	283.8	336.5	336.5		
Annual total	354.5	464.1	435.7	461.0	439.2	671.7	654.8	897.6	883.6	969.3	957.8

Source: Prepared on the basis of information supplied by the Committee on Foreign Investment and the Central Bank of Chile.

^aBased on data of the Committee on Foreign Investments for 1973.

^bBased on OECD data for 1977.

^cReinvestment/capital inflow split based on a sample including 93.3% of the total.

^dReinvestment/capital inflow split based on a sample including 90.1% of the total.

Table 3

ACCUMULATED VALUE OF DIRECT FOREIGN INVESTMENT IN CHILE
(In 1978 dollars)

Year	Accumulated value
1953	1 618.1 ^a
1967	2 014.6
1973	474.5
1975	556.2
1977	484.0
1978	665.0
1979	791.2

Source: 1953: Central Bank of Chile, Research Department, *Inversiones Extranjeras en Chile*, Santiago, 1956; 1967: OECD/DAC, *Stock of Private Direct Investment by DAC Countries in Developing Countries, End 1967*, Paris, 1972; 1973-1979: tables 10 and 11 of the present article.

^aThe definition of direct foreign investment used by the Central Bank of Chile differs from that used in the present study, as it includes only those enterprises where more than 50% of the capital is foreign-owned. The OECD study, for its part, only includes the DAC countries.

nationalization of the large-scale copper industry, while that of the industrial sector rose to over half the total direct foreign investment in

the country; the share of services went down sharply, and that of the financial sector also diminished; there was only one foreign bank left in the country in 1973.

The estimate of the sectoral distribution of accumulated direct foreign investment at the end of 1979 is only approximate, since it corresponds solely to direct foreign investment companies⁸ organized as corporations, thus tending to over-represent the industrial sector. This sector, as can be seen from table 4, accounts for two-thirds of the total (US\$ 580 million), followed a long way behind by commerce, finance and mining. Within the sectors, the biggest share was that of food products—which increased their importance in respect to 1973—and the manufacture of metal products, machinery and equipment, with nearly 15% of the total each; these are followed by non-metallic mineral products and paper manufactures (both of which increased their shares) and chemical products (which suffered a considerable fall since 1973), the share of each of them being 10%.

Finally, it is interesting to analyse the sectors to which the flow of direct foreign investment has gone between 1974 and 1979, and

⁸For the concept of direct foreign investment company used, see the Annex.

Table 4
 SECTORAL DISTRIBUTION OF ACCUMULATED DIRECT FOREIGN
 INVESTMENT AND CAPITAL FLOWS, 1974-1979
 (Percentages)

Date	Mining sector	Non-mining sector	Industry	Public and private services	Finance	Commerce	Other	Agriculture	Fisheries
Accumulated direct foreign investment:									
at 31-12-1967	57.0	43.0	9.7	20.9	0.5	4.7	7.1	0.2	ND ^a
at 30-6-1973	17.0	83.0	54.9	—	28.1	—	—	0.1	0.1
at 31-12-1979 ^b	4.8	95.2	65.8	0.0	4.9 ^c	12.8	7.2	0.6	3.9
Flow of direct foreign investment 1974-1979									
	49.6	50.4	27.5	2.3	7.9	5.7		0.3	2.8

Source: 1967: OECD, *Stock of Private Direct Investment by DAC Countries in Developing Countries, End 1967*, Paris, 1972; 1973: calculations by the author on the basis of data supplied by the Committee on Foreign Investments; 1978: calculations by the author on the basis of data supplied by the Superintendent of Limited Companies, Insurance Companies and Stock Exchanges.

^aND = No data available

^bBased on the sectoral distribution of direct foreign investment companies organized as joint stock companies.

^cDoes not include insurance.

although the figures for this are not strictly comparable with those on the accumulated value, they nevertheless faithfully reflect the preferences of foreign investors. The sectoral distribution of the direct foreign investment which was made between 1974 and 1979 differs considerably from the distribution of accumulated foreign investment at the end of 1973, and is closer to that of 1967.⁹ The main change to be noted is in the renewed importance of the mining sector in investments as a whole: almost half of the flow of the direct foreign investment went to this sector, but even so its significance is less than that which it had in the accumulated investment at the end of the 1960s (see table 4).

More than a quarter of the flow of new

direct foreign investment has gone to the industrial sector, which is equivalent to almost three times its share in the total accumulated value in 1967. In this sector, the new foreign investment has been concentrated in the manufacture of non-metallic mineral products—fundamentally cement—, food products and tobacco, and the manufacture of rubber products. It should be noted that in two of these three cases it was mainly a matter of the acquisition of assets, while in the third it involved the purchase of shares of the transnational corporation itself.

In the financial sector, new investment came to 8%, while in the commerce and fishery sectors the percentages were smaller.

3. Characteristics of the new direct foreign investment

The new direct foreign investment showed a notable degree of concentration in a small number of local enterprises: a single direct for-

⁹The basic information used here derives from a sample which included 90% of the accumulated direct foreign investment between 1974 and 1979. Of the total included in the sample, 1.4% did not correspond to direct foreign investment according to the concept used here. This percentage corresponded to three transactions involving foreign investment in locally controlled firms.

Table 5

CHILE: SECTORAL CLASSIFICATION OF DIRECT FOREIGN INVESTMENT OPERATIONS OF
OVER ONE MILLION DOLLARS CARRIED OUT BETWEEN 1974 AND 1979

ISIC division	Number of enterprise	Value in thousands of dollars	Percentage distribution
Forestry and logging	1	2 299	0.36
Fishing	4	17 996	2.82
Metal ore mining	9	316 788	49.64
<i>Manufacture of food, beverages and tobacco</i>			
Food manufacturing	3	11 899	1.86
Beverage industries	1	2 522	0.40
Tobacco manufactures	1	31 052	4.87
			7.13
<i>Textiles, wearing apparel and leather industries</i>			
Manufacture of textiles	3	5 802	0.91
Manufacture of leather and fur, except footwear	2	5 884	0.92
			1.83
<i>Manufacture of paper and paper products, printing and publishing</i>			
Manufacture of paper and paper products	1	9 197	1.44
Printing and publishing	1	1 434	0.22
			1.66
<i>Manufacture of chemicals and chemical, petroleum coal, rubber and plastic products</i>			
Manufacture of other chemical products	6	7 903	1.24
Manufacture of rubber products	2	17 453	2.73
Manufacture of plastic products not elsewhere classified	2	11 488	1.80
			5.77
<i>Manufacture of non-metallic mineral products, except products of petroleum and coal</i>			
Manufacture of pottery, china and earthenware	1	1 839	0.29
Manufacture of other non-metallic mineral products	4	59 426	9.31
			9.60
<i>Manufacture of fabricated metal products, machinery and equipment</i>			
Manufacture of fabricated metal products	1	1 600	0.25
Manufacture of electrical machinery, apparatus, appliances and supplies	3	6 575	1.03
Manufacture of transport equipment	1	1 200	0.19
Construction	1	1 043	0.16
Wholesale trade	7	33 130	5.19
Retail trade	2	3 478	0.55
Land transport	1	1 250	0.20
Water transport	1	8 243	1.29
Financial institutions	14	50 201	7.87
Business services, except machinery and equipment rental and leasing	1	1 186	0.19
Machinery and equipment rental and leasing	2	3 847	0.60
Activities not adequately defined	2	23 429	3.67
<i>Total</i>	<i>77</i>	<i>638 164</i>	<i>100.00</i>

Source: Prepared on the basis of data from the Committee on Foreign Investment.

eign investment company received one-third of the total foreign investment between 1974 and 1979, and the top five accounted for over half of the total.¹⁰

A novel feature of the direct foreign investment carried out during this period was the magnitude of the purchases of the assets of local public or private enterprises by the transnational corporations. Such sales, which represented 11% of the total¹¹ between 1964 and 1968 (years for which information is available), increased considerably in importance, since half of the direct foreign investment in the period 1974-1979 corresponded to such transfers and to subsequent investments in the same enterprises.

Moreover, according to the sample in question, only 22% of the investment took place in respect of new enterprises, the remainder corresponding to already existing firms,

and out of the total investment in new enterprises, 30% was used to install banks and one finance institution. With regard to the number of enterprises, it may be noted that 40% of the new firms are financial institutions.

4. Composition of the new direct foreign investment

The flow of new direct investment consists to an overwhelming extent of capital in the form of foreign currency, since physical capital goods barely represented 6% of the total (see table 6). The small share of such goods contrasts strikingly with the share which it traditionally had in the direct foreign investment arriving in Chile in the past, for between 1954 and 1970¹² these goods represented over half of the total of such investment.

Table 6

ANNUAL AND ACCUMULATED FOREIGN INVESTMENT MADE UNDER DECREE LAW 600, BY INDIVIDUAL COMPONENTS (In thousands of US dollars of each year)

	1974	1975	1976	1977	1978 ^a	1979 ^b	1980
<i>Income</i>							
Foreign exchange	9 589	19 032	6 377	35 846	93 746	253 536	ND ^c
Physical capital goods	400	1 679	1 228	12 293	4 776	18 948	ND
Capitalization of profits	-	25 781	6 851	11 904		5 113	ND
Capitalization of credit and debts	-	6 383	6 504	3 124		1 804	ND
Other	-	1 183	5 108	1 620	154 699	21 354	ND
<i>Total for year^c</i>	9 989	54 058	26 068	64 787	260 871	300 755	201 055
<i>Accumulated total</i>	9 989	64 047	90 115	154 902	415 773	716 528	917 583
<i>Outgoings</i>							
Remittances of profits and dividends and amortization of credit and interest payments	-	1 011	9 409	16 869	27 079	15 125	ND
Balance	9 989	53 047	16 659	47 918	233 792	285 375	ND

Source: Prepared by the author on the basis of information supplied by the Committee on Foreign Investments.

^aEstimated distribution based on the projection of a sample including 93.3% of the total.

^bEstimated distribution based on the projection of a sample including 90% of the total.

^cND = No data available.

¹⁰The 76 most important direct foreign investment companies accounted for 90% of total investment, while the rest of the firms received direct foreign investment totalling less than US\$ 1 million during this period.

¹¹ODEPLAN, *Antecedentes sobre la economía chilena 1960-1970*, Santiago, 1972.

¹²CORFO, *Análisis de las inversiones extranjeras en Chile amparadas por el Estatuto del Inversionista*, 1972, p. 162.

The capitalization of profits and dividends, together with that of credits and debts, which together represent the reinvestments made by foreign investors or, in this particular case, also the entry into the foreign investment régime of local funds, made up more than half the flow of direct foreign investment in 1974 and 1976, but since then their importance has steadily gone down until they amounted to only a little over 2% of the total in 1979. Their absolute value in the latter year is in notable contrast with the remittances abroad made by the direct foreign investment companies, which are two and a half times greater: for every dollar reinvested in Chile, these enterprises remitted two and a half dollars abroad, solely under the terms of the Investment Statute.

From another point of view, it should be noted that more than half the direct foreign investment authorized up to the end of 1979 was in the form of loans. Moreover, the net balance of the credits made under the terms of the Investment Statute at the end of the same year amounted to one-third of the total income under that Statute during the period 1974-1979.¹³ The funds in question are not risk capital of the firms themselves, but financing obtained by them on the international financial market.

5. Investment authorized compared with that actually made

The number of investment projects approved between 1974 and 1980 is much larger than the number of projects approved by the Committee on Foreign Investments between 1954 and 1970—530, compared with 300—which would appear to indicate more diversified and massive interest by foreign investors in Chile.¹⁴ However, the average annual inflow of direct foreign investment between 1974 and 1979 was equivalent to only 70% of the corresponding inflow for the period 1964-1968.¹⁵

¹³Central Bank of Chile, *Deuda externa de Chile al 31 de diciembre de 1979*, table 3, 1980.

¹⁴Almost one-third of the projects approved between 1974 and 1980 are in respect of expansion of capital, however.

¹⁵However, if investments in the large-scale copper mining industry are excluded, the average annual inflow for

Since Chile was at the beginning of a wave of expansion of direct foreign investment in its economy, it was only to be expected that the inflow of such investment should exceed the outflow of capital by a wider margin than that recorded in previous periods. Thus, the annual average net inflow in 1974-1979 was twice that of 1954-1958 and almost three times that of 1964-1968, all in money of the same value.¹⁶

The investments approved are very concentrated in mining. Of the total foreign investment authorized between 1974 and 1979, 84% was for this sector, followed by industry with 9% and services with 5%. From another point of view, however, the latter sector registers the largest number of projects (43% of the total), followed by industry with 36%.

The proportion of the total authorized investments actually carried out by the end of 1980 was slightly over 20%. Withdrawals by foreign investors amounted to 12% of the total authorized value at the same date.

The rates of authorization and materialization of new investments speeded up significantly in 1978 and 1979, when 75% of the total foreign direct investment for the period 1974-1980 was approved and 60% was materialized; in 1980, however, only 6% of the total was approved, while 22% of the total for the period as a whole was materialized.

6. Origin of direct foreign investment in Chile

The participation of the various countries of origin of direct foreign investment in Chile varied substantially between the late 1960s and the end of the following decade: whereas the United States provided over 90% of such investment in 1967, its level of participation fell to only 40% of the total by 1979, mainly as the result of the nationalization of enterprises belonging to that country during the previous

1974-1979 is more than twice that of the previous period, in money of the same value.

¹⁶Figures for 1954-1958 and 1964-1968 taken from Ricardo Ffrench-Davis, *Políticas económicas 1954-1970*, CIEPLAN, 1973. For 1974-1979 see Eugenio Lahera, *Presencia y participación de las empresas transnacionales en la economía chilena*, op. cit.

period.¹⁷ It should be noted, however, that this is the country whose direct investment has been growing most rapidly in recent years: its share in the direct foreign investment actually made between 1974 and 1978 came to two-thirds of the total, while its share of total authorized direct foreign investment came to 80% of the total as at December 1980.

The share of the European countries, which came to only 5% in 1967, had increased by 1978 to 48%, whereas Japan and Canada maintain a relatively unimportant presence. The share of Europe in the direct foreign investment actually made up to 1978 came to 18%, while its share of authorized direct foreign investment up to December 1980 was 6.4%. These figures thus show a downward trend in participation by Europe.

The transnational corporations originating from the United States have the most diversified presence, since they operate in two-thirds of the ISIC groupings in which there are transnational corporations, followed a considerable distance behind by those originating from the United Kingdom.¹⁸

The economic significance of the direct investments made in Chile with respect to the total foreign direct investment of various countries is relatively small. Its share in the accumulated direct foreign investment in Latin America and the Caribbean, according to OECD estimates, dropped from 5% to 1% between 1967 and 1975, and remained at this level in 1976 and 1977. This share must have gone up slightly in 1978 and 1979 and gone down again in 1980.¹⁹ In the case of the United States, the share of Chile in the direct investment from that country in developing America was less

than 1% in 1979, while in the world total it came to only 0.15%.²⁰ In the case of the Federal Republic of Germany, Chile's share came to 1.2% in developing America and only 0.17% of the world total in 1978.²¹

The situation at the enterprises level is not very different. Taking a sample of firms from the 500 largest non-financial enterprises of the United States, the sales of their Chilean subsidiaries generally did not exceed 0.5% of the total in 1978, and in only one case were the sales over 1%.²² Of course this situation may vary, and the importance of their investments in Chile may increase for some transnational corporations, especially in the extractive sector, as happened in the past with copper, for example.

The information regarding direct investment policies in Chile, broken down by countries of origin, is rather incomplete, but it may be said in general that in the past a cautious attitude has been noted on the part of some governments with regard to investments in Chile.

Thus, the Netherlands Government withdrew official support for a US\$ 63 million investment project approved in 1976, which was the seventh largest project up to the present.

Moreover, during the previous administration the United States Government did not renew the authorization for OPIC (Overseas Private Investment Corporation) to continue to insure investments to be made in Chile, but the situation may be expected to change with the present United States administration.

In the case of the Federal Republic of Germany, the State insurance company Hermes does not grant insurance against economic and political risks in respect of direct investments in Chile, and in the case of exports of industrial plants the maximum amount authorized is DM 2.5 million.²³

¹⁷Based fundamentally on data regarding joint stock companies.

¹⁸The groupings which display the participation of foreign direct investment companies from the largest number of countries are those in the areas of chemical products and wholesale trade (9), followed by retail trade (6), and food products and metal products excepting machinery and equipment (5).

¹⁹Chile's share in the flow of direct foreign investment to the region came to 3% of the total between 1975 and 1979. See IMF, *Balance of Payments Yearbook*, Washington, 1980.

²⁰*Survey of Current Business*, Washington, August 1980.

²¹Ministry of the Economy of the Federal Republic of Germany, *German Investments Abroad*.

²²*Fortune*, 7 May, 1979.

²³*Cámara*, magazine of the Cámara Chileno-Alemana de Comercio, Santiago, July 1979, p. 16.

III

The transnational corporations and the Chilean economy

1. Significance of the transnational corporations with respect to some macroeconomic variables

The accumulated total direct foreign investment in Chile represented nearly 3% of the total capital of the country in 1979, and when added to the share of local capital in the direct foreign investment companies, this investment was close on 4% of the national total during the same year.^{24, 25} What is surprising is both the low level of this participation and the difficulty in explaining this in view of the high participation of the transnational corporations in other variables such as profits and sales.²⁶

The contribution of the transnational corporations to the generation of employment is rather small: the nearly 40 000 workers employed by these enterprises represented only 1.4% of the total number of employed persons in the country in 1979.²⁷ The transnational corporations have an average number of workers higher than the national average, which includes a large number of small enterprises, but they generate less employment than domestic firms for a comparable level of product. This explains why their share of sales is generally higher than their share in the number of workers.

The operating income of the direct foreign

investment companies in Chile came to US\$ 2 750 million in 1979, and since it increased more than the national average with respect to the previous year there was also an increase in the share of these firms in total sales, which rose by 0.5% to 23%. This share increases if only the larger enterprises are considered, since for the 100 largest private firms it came to 38% in the same year. Purely by way of information —since the figures for sales are not comparable with those for the national product— it may be noted that the operating income of the transnational corporations came to rather more than 13% of the gross domestic product expenditure in 1979.²⁸ This confirms that the contribution of the transnational corporations to the product is significantly higher than their contribution to employment and investment.

The profits obtained by the direct foreign investment companies during 1979, which came to US\$ 140 million, gave these firms an average rate of return of 12% on their capital, which was more than twice the overall average of only 5%; these percentages correspond, however, to different types of enterprises because of the average size of the units involved. The rate of return of the United States-owned transnational corporations was slightly higher than that of the transnational corporations as a whole, but it was below the Latin American average, which came to 14% in 1979.²⁹

An interesting detail is that the concentration of profits in the transnational corporations with the biggest profits exceeded that of domestic firms in 1978. The four top transnational corporations received almost one-third of the total, while the rest of the firms received the remaining 68%. In the case of the domestic

²⁴The capital/product ratio in Chile has traditionally been defined at around 2.5.

²⁵Using an exchange rate of US\$ 1 = CH\$ 37.25.

²⁶The participation of the direct foreign investment companies within the total number of enterprises organized as corporations in Chile is rather unequal as regards the various variables which may be taken into consideration. Thus, they constitute 9% of the total number of enterprises and control 10% of the total worth and 12% of the total assets; their participation in employment is higher, since it amounts to 15% (the difference between the variables for worth and employment is probably due to the many holding companies in the domestic private sector). Their share in total sales and profits, however, is considerably higher than the proportions in question, amounting to 23% in both cases (see table 7).

²⁷The figure for the total number of employed persons was taken from the *Compendio Estadístico 1980*, published by the National Institute of Statistics.

²⁸According to provisional figures from ODEPLAN, the gross domestic product expenditure in 1979 was CH\$ 762 128.9 million.

²⁹United States Department of Commerce, *Survey of Current Business*, Washington, August 1980. In fact, the rate of return in Chile departed from the average in 1979, after having come closer to it in 1978.

Table 7

DOMESTIC AND FOREIGN CORPORATIONS: SHARES IN SOME MACROECONOMIC VARIABLES, 1979

	Domestic companies	%	Trans-nationals	%	Total
Number of enterprises	1 819	90.9	181	9.1	2 000
Worth ^{a, b}	390 245	84.8	44 398	10.2	434 643
Total	646 772	88.1	87 397	11.9	734 169
Number of workers	219 179	84.6	39 894	15.4	259 073
Sales ^a	339 273	76.8	102 660	23.2	441 933
Profits ^a	17 217	76.9	5 174	23.1	22 391

Source: Prepared by the author on the basis of *Chile: Sociedades Anónimas*, School of Administration, Department of Systems Engineering and Computer Sciences Centre, Catholic University, Santiago, 1980.

^aFigures in millions of Chilean pesos.

^bIf foreign banks are included the figures are: domestic enterprises 421 164 Chilean pesos; transnational corporations 46 692 Chilean pesos; total, 467 856 Chilean pesos.

firms, in contrast, the top four firms concentrated 24% of the profit.

With regard to the participation of transnational corporations in investment, the existing references only cover investments in fixed capital by direct foreign investment companies in which there is majority participation by United States investors. The share of these investments in gross domestic investment in fixed capital dropped from 4% to 2% between 1978 and 1979,³⁰ and the projections for 1980 do not indicate any significant increase in their absolute value, so that an even larger fall in their share is to be foreseen.³¹ The renewed role of United States direct investment in Chile did not give grounds for expecting this result: the explanation is to be found in the composition of the direct foreign investment in recent years, in which physical capital goods were of little significance.

In general terms, and although this corresponds to a variable which is difficult to quantify, it may be noted that the transnational corporations have made a significant contribution to élitist and luxury consumption, the existence of which has been pointed out by various ana-

lysts. They acted as suppliers of imported goods and of credits to finance such imports, and they also carried out publicity campaigns and either acted as intermediaries or even as direct vendors of such goods to the public.³²

2. The external sector

(a) Domestic and external credit

Since external credit was cheaper than domestic credit during the period considered, the transnational corporations gave preference to the former. Their share in private domestic credit did not even amount to 5% in 1978, whereas their share in external credit for the private sector channelled through article 14 of the Foreign Exchange Law³³ came to 10% in 1979. In addition —according to the existing partial evidence— the transnational corporations secured average interest rates below the prevailing average level in international financial markets.

The participation of the transnational corporations in the accumulated national external debt in respect of financial credits to the private

³⁰The provisional figures for the gross domestic investment in fixed capital are taken from ODEPLAN.

³¹It should be noted that the period in question was one of depressed investment, followed by recovery of past levels.

³²On this topic, see the article by Arturo Núñez del Prado elsewhere in this issue of *CEPAL Review*.

³³Of the accumulated debt in respect of credit to the private sector at the end of 1979, 85% corresponded to this manner of entry of external credits.

sector may be estimated at around 15% and consists of three items: credits associated with direct foreign investment, and credits which came in under articles 14 and 15 of the Foreign Exchange Law. Moreover, it is necessary to add the pending commitments in respect of compensation payments for the nationalization of transnational corporations, which amounted to US\$ 181.9 million at the end of 1979, together with the share of the direct foreign investment companies in various external debt items, including short-term credit lines, supplier credits to the private sector, and the traditional external debt, regarding which there is not much information available. It may be added that the high volume of credits included under the contracted direct foreign investment may considerably increase the share of the transnational corporations in the external debt in the future.

From another point of view, it may be noted that the flow of direct foreign investment has been considerably smaller than the flow of capital in the form of loans. Thus, the former was equivalent to only 8% of the total loans which entered the country in the period 1974-1979.

(b) *External trade*

The share of the transnational corporations in the external trade of Chile is concentrated, small, and shows a deficit. The imports made by these firms were almost double their exports in 1979, so that the latter financed only half the former. The situation is still worse if the mining industry is excluded (see table 8). Of the total number of direct foreign investment companies participating in the country's external trade, only 12% had a surplus, whereas the overwhelming majority helped to aggravate the Chilean trade deficit.

Making exports does not seem to be an important objective for the great majority of the transnational corporations, since only 23% of them did so—most of them only in small amounts—and barely 10% of their total sales went abroad in 1979. Their main objective is the domestic market, where they make 90% of their sales.³⁴ Because of this, and in view of the international trade openness of Chile in these years, it is not surprising that the imports of the

direct foreign investment companies should be so high: they include not only inputs, but also finished products for local sale.

The information on the destination of the exports of transnational corporations indicates that—at least in the case of the United States transnationals—these exports are not for the most part to the countries where the parent firms are located. The share of exports to the United States in the total exports by enterprises originating from that country was between 21% and 23% between 1974 and 1976, while the rest of the exports went to third countries. It does not therefore seem that the direct foreign investment companies make an effective contribution to penetration of the markets of their home countries. Indeed, the exports made by affiliates of United States transnational corporations in Chile amounted to only 5% of total Chilean exports to that country in 1977.³⁵

The exports made by the transnational corporations from Chile display a noteworthy degree of concentration. The top five firms were responsible for 60% of the total, and two transnational corporations alone were responsible for 46% of it in 1979, through their local enterprises in various sectors, while the ten most important transnational importers, for their part, carried out one-third of the total imports made by these firms, representing in both cases a higher degree of concentration than the national average. Such concentration would greatly facilitate any external trade policies of these firms.³⁶

(c) *The external sector as a whole*

The participation of the transnational corporations in the income and outgoings of the Chilean external sector has shown a balanced general situation. These firms made quite

³⁴In 1976, the latest year for which information is available, the United States transnational corporations in Chile exported a still smaller share of their total sales: only 7%. See US Department of Commerce, *Survey of Current Business*, March 1978.

³⁵A. Eric Calcagno, *Informe sobre las inversiones directas extranjeras en América Latina*, Cuadernos de la CEPAL series, No. 33, January 1980, pp. 60-61.

³⁶Eugenio Lahera, *Agentes del comercio exterior en América Latina*, External Trade Division, December 1980 (unpublished report).

Table 8

TRADE BALANCE OF THE NATIONAL ECONOMY AND THE
TRANSNATIONAL CORPORATIONS, 1979
(In millions of dollars)

	Exports	Imports	Balance
National total	3 821.1	4 442.7	-621.6
Transnational corporations	284.3	518.3	-234.0
Share of transnational corporations in the total	7.4%	11.7%	37.6%
National total excluding mining	1 509.5	3 297.5	-1 788.0
Transnational corporations	171.1	505.4	-334.3
Share of transnational corporations	11.3%	15.3%	18.7%
Share of mining in the external trade of the transnational corporations	39.8%	2.5%	

Source: Transnational corporations: data prepared by the author on the basis of information provided by the Central Bank. Totals: *Boletín del Banco Central*, March 1980, p. 528.

small exports, but brought in a relatively large volume of capital, while their capital outflows were relatively scanty but were combined with a high level of imports.

Table 9 shows, in a simplified and in some cases tentative form, the various aspects of the participation of the direct foreign investment companies in the external sector. In the merchandise account, the contribution of the transnational corporations was clearly negative, and its contribution to the merchandise services account must also have been negative, although few details are available on this. As regards credits, the data are incomplete, but the inflow of credits associated with direct foreign investment, together with the inflow requested by the transnational corporations, exceeds the amortization and interest payments on prior credits. The high flow of capital had as its counterpart a low level of repatriation of capital and remittances of profits and dividends. Finally, the payments in respect of compensation for nationalization may also be taken into account in making the overall balance regarding the participation of the direct foreign investment companies in the external sector.

3. The industrial sector

Far from diminishing, the importance of the

transnational corporations in the Chilean industrial sector is in the process of going up: their share of total industrial sales, which was a little less than 19%³⁷ in 1967, amounted at the end of 1979 to 28%.³⁸ Various factors have influenced this result. On the one hand, both the industrial policies of 1970-1973 and the recession of 1975 and its results found the transnational corporations in a better position to withstand them than most of the domestic private enterprises. While many of the latter went bankrupt or had great difficulty in keeping their heads above water, the transnational corporations, by using their resources, remained in the market and improved their share in it. Moreover, the purchasing of assets which they carried out in the more recent period, which, as we have seen, was of a considerable scale, had the simultaneous double effect of reducing the

³⁷The estimate for 1967 is from Ernesto Tironi, *Economic Integration and Foreign Direct Investment Policies: the Andean case* (doctoral thesis), MIT, Cambridge, Mass., 1976. This author defined as firms with foreign capital those where the share of foreign capital was over 20%. This leads to overestimation of the share of the transnational corporations in sales, as it includes the capital of foreign natural persons living in Chile. Moreover, it does not include sales under US\$ 200 000.

³⁸Their participation in 1979, for its part, was higher than that in 1978. This means that the point of balance has not yet been reached.

Table 9
**THE TRANSNATIONAL CORPORATIONS
 AND THE CHILEAN EXTERNAL
 SECTOR IN 1979**
(Millions of 1979 dollars)

Item	Income	Outgoings
— Exports	284.3	
— Imports		518.3
— Royalties	(1.0) ^a	(15.0)
— Other services	ND ^b	ND
— Credit under article 14	100.0	(36.6)
— Credits associated with direct foreign investment	70.0	35.0
— Other credits	ND	ND
— Inflow of direct foreign investment	342.6	
— Repatriation of direct foreign investment		21.1
— Profits and dividends		41.9
— Payments in respect of nationalization		56.8
Total	798.4	724.7

Source: External trade, table 8.

Royalties: estimates based on data from the Central Bank.

Credits: estimates based on data from the Central Bank.

Movements of direct foreign investment: Committee on Foreign Investments and Central Bank.

Nationalization payments: Central Bank.

^aEstimates.

^bND = No data available.

share of domestic enterprises and increasing that of the transnational corporations. Such was the case, for example, in motor tyre production and cement production, which changed hands in recent years.

The share of the transnational corporations in total industrial sales in 1979 was almost half of the total in metal products, machinery and equipment, in non-metallic mineral products, and in chemical products. It was over a quarter of the total in food products, but was smaller in paper, textiles and the timber industry.³⁹

The research revealed that the structure of supply in the Chilean industrial sector is rather

concentrated, since the weighted share in sales of the ten largest firms in the sector was 60% in 1979. This raises the interesting point of whether the transnational corporations contribute to or reduce this concentration. For this purpose a calculation was made of the shares of the ten largest private domestic firms and the direct foreign investment companies, by sales and by sectors. The results of this exercise clearly show that only in the minority of cases is the contribution of the transnational corporations to the concentration of industrial sales greater than that of the domestic enterprises. This was so in the case of tobacco, construction of transport equipment, rubber products (related with the foregoing), the manufacture of non-metallic mineral products, and the leather, plastics, metal products and food products industries. In the rest of the groups, however—except for the manufacture of electrical machinery, where there was equal participation—the 'motor' of concentration was the domestic enterprises (see figure 1).

With regard to employment in industry, the share of the transnational corporations is relatively low; it amounted to 8% for industrial enterprises with over 50 workers in 1977, but differs depending on the size of the establishments, being less than 5% for those employing less than 100 workers and 22% for those employing over 1 000.

The contribution of the transnational corporations to the creation of new jobs in the industrial sector has also been slight. For a sample of 71 transnational corporations—which in 1978 generated almost 80% of the total industrial employment by such firms—the increase in the number of their workers between 1976 and 1978 was only 3.3%, which was well below the national total of 5.7%.⁴⁰

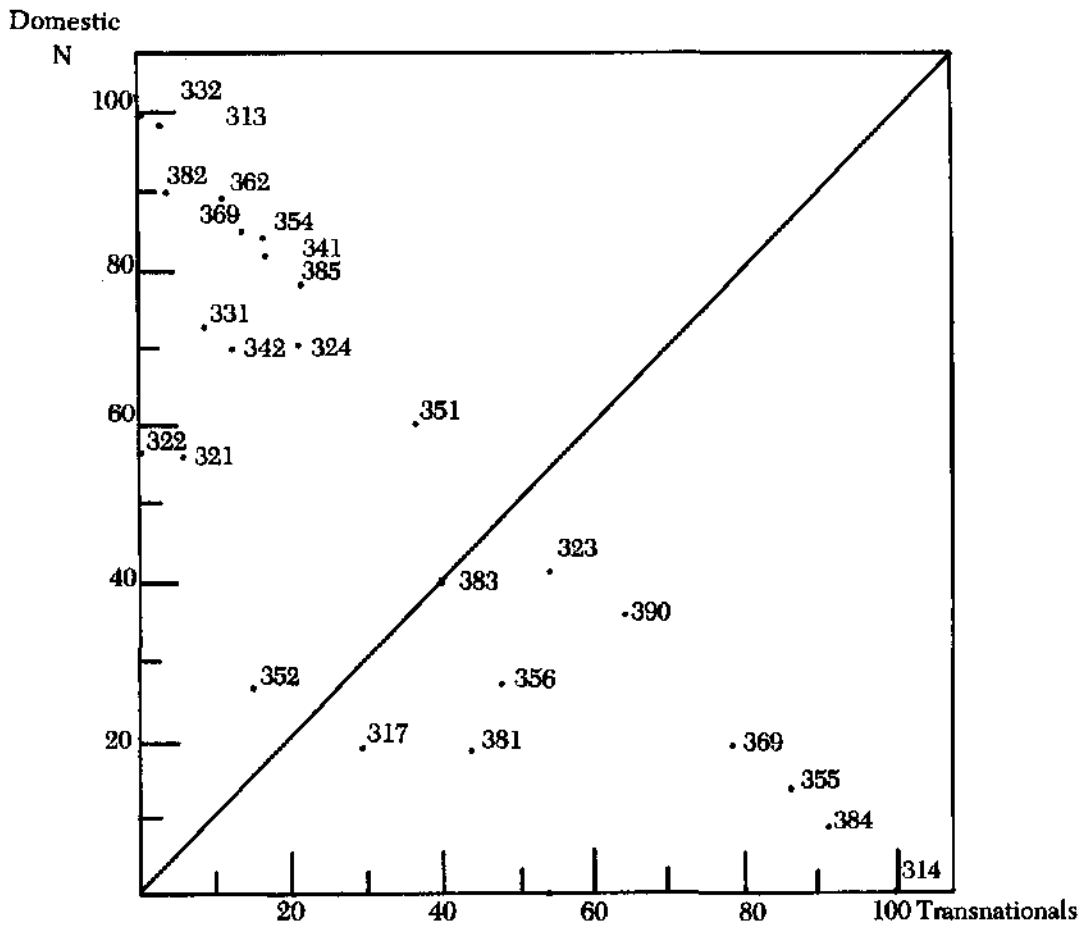
The contribution of the transnational corporations to industrial exports has been quite limited, amounting to only 12% of the total in

³⁹The exact figures are: metal products, machinery and equipment and non-metallic mineral products, 55%; chemical products, 47%; food products, 26%; paper and textiles, 15%; and timber industry, 6%. These figures refer only to joint stock companies.

⁴⁰The national variation was taken from the November 1977 to November 1978 figures given by the National Institute of Statistics in its *Compendio estadístico 1979*.

Figure 1

SHARE OF THE 10 LARGEST FIRMS IN TOTAL SALES, BY ISIC GROUPS



Source: Prepared by the author on the basis of Chile Sociedades Anónimas, School of Administration, Catholic University, Santiago, 1980.

1978.⁴¹ This contribution was concentrated in 16 firms, the largest of which was responsible for more than one-third of the total. It should also be noted that the trade balance of even the biggest exporters showed a deficit, and their exports were equivalent to only 44% of their imports.

The domestic market is undoubtedly the main objective of the transnational corporations in the industrial sector, since in 1979 only 8% of their total sales corresponded to exports.^{42, 43}

As regards the destination of exports, the direct foreign investment companies do not appear to be an efficient channel for penetrating into the markets where their parent firms are located in the case of the industrial sector either, since the share of industrial exports to the United States within the total exports by United States transnational corpora-

sales in each of the ISIC groups. The share of exports in their sales had dropped since 1978, when it had been equivalent to 10%.

⁴³The share of exports in the total sales by United States transnational corporations in Chile was higher in 1976, when it amounted to 13% (United States Department of Commerce, *Survey of Current Business*, March 1977).

⁴¹Based on a sample which included 90% of total exports.

⁴²Based on a sample which included all the transnational corporations (a total of 30) among the 10 firms with the largest

tions dropped from 20% in 1974 to 15% in 1975-1976.⁴⁴

The 30 transnational corporations included in the sample in question had a ratio of imports to exports of 4.3 in 1978 and 4.4 in 1979, which points to a growing import coefficient. The transnational corporations thus required imports which were more than four times as large as their exports in these years. Moreover, these imports represented around one-third of their operating costs, excluding administration and sales costs.

The fixed capital investment by United States majority-owned transnational corporations—the only ones for which there is information—went down in 1979 to less than half the figure for the previous year (from US\$ 24 million to US\$ 10 million), and the projections for 1980 indicate a further drop, this time to US\$ 6 million.⁴⁵

4. The financial sector

The foreign banks have still not recovered the importance which they achieved at the end of the 1960s, when the diversified nature of their presence and activities constantly increased their significance. The legal obligation to make an initial investment of US\$ 4 million has given them a share of almost 4% in the total bank capital.⁴⁶ The level of their participation in other indicators is lower, however. On the other hand, the number of foreign banks—13, out of a total of 33 banks in the country—is more than double that of 1970.⁴⁷

The share of foreign banks in placements is relatively low, only 3.5%, and is notably lower than the share of these banks in 1970, when this came to 7.5% in current money and 5.6% in foreign currency.⁴⁸ The same situation is to be observed as regards receipts of deposits and investments, where their share came to only 2.4% in 1980, whereas at the end of the 1960s

the figures had been almost 10% in current money and 24% in foreign currency.⁴⁹ Finally, although the share of foreign banks in external loans is slightly higher than their share in locally-obtained loans, even so both figures are of little significance, being around 4.5%.

5. Mining

Direct foreign investment in the mining sector came to a considerable amount between 1974 and 1979, since it totalled over US\$ 400 million. This went fundamentally to the copper industry, in which 70% of State investment in large-scale mining was made in 1978-1979.⁵⁰ A considerable part of the direct foreign investment, however, consisted of transfers of assets or purchases of land or rights, rather than real increases in national production capacity. According to estimates by the Chilean Copper Commission, the reserves under the control of foreign enterprises came to 17.4 million metric tons in 1980, or roughly 20% of national reserves.⁵¹ In this respect, it is interesting to note the presence of three transnational corporations traditionally associated with the production and distribution of petroleum in this sector, to which they have now diversified their interests.⁵²

So far, the largest withdrawal which has taken place from an investment project is that made by a transnational corporation in this sector, Noranda Mines, which had a contract for US\$ 350 million signed in July 1977. The investment actually made by this firm up to 1980, however, barely exceeded US\$ 1 million, and it has been suggested that among the probable reasons for its withdrawal have been the persistence of a fixed exchange rate and the mining

⁴⁹*Ibid.*

⁵⁰The investment by the transnational corporations was around US\$ 210 million, whereas public investment in the copper industry may be estimated at around US\$ 300 million, according to The Economist Intelligence Unit, *Quarterly Economic Review of Chile*, third quarter of 1979, London.

⁵¹*El Mercurio*, 18 March 1981. The reserves of fine copper are over 87 million tons, to which may be added 47 million tons of copper contained in ore which it is not economic to exploit in the present circumstances.

⁵²One of the comparative advantages of Chile in the copper industry has been the high level of technology already existing, which has been attractive to the transnational corporations.

⁴⁴*Ibid.*

⁴⁵United States Department of Commerce, *Survey of Current Business*, September 1978.

⁴⁶All the figures for shares correspond to September 1980.

⁴⁷As at February 1980, there were also 27 offices representing foreign banks and 53 foreign financial entities had been authorized to carry on activities in the country.

⁴⁸*Boletín del Banco Central*, December 1970.

concessions régime laid down under the 1980 Constitution.

The contribution of the mining exports made by the transnational corporations to the total mining exports was only 5% in 1979, although this could increase substantially in the future if the present level of production of copper by the State continues and production begins on the part of various direct foreign investment companies which are at present in

initial stages of exploration, construction of civil engineering works, or preparatory work for exploitation activities. Chile's production of gold will probably treble in 1981 due to the activity of a direct foreign investment company.

From another point of view, it has been stated officially that Chile may declare open to offers its share in a deposit of nodules said to exist opposite the Juan Fernández Archipelago.

Conclusions

The policies on foreign investment were very liberal during the period under consideration, and the transnational corporations operated with total liberty within the Chilean economy; the few problems which they encountered were due to the application of more general policies than those regarding foreign investment. The policies on such investment are probably the most liberal in the recent history of the country, and international investors' organizations have described them as being among the most liberal in Latin America.⁵³ In the final analysis, the State policy has been not to intervene at all in this sector once it has fixed the basic rules of the game for it.⁵⁴

The reluctance of the State to exercise its capacity to formulate public policies whether of guidance or of negotiation with respect to the transnational corporations, seems to some extent to be unfounded if we compare it with the results obtained up to now, especially considering the concentration in a few firms observable in the participation of the transnational corporations in the various indexes: a situation making it easy to apply selective policies which would be relatively simple to administer and would not have serious foreseeable distorting effects.

The accumulated direct foreign investment has still not recovered the levels of the late 1960s, and Chile's share of the accumulated direct foreign investment in Latin America as a whole is the lowest ever recorded, although both indexes are displaying some tendency to recover. The new direct foreign investment has been concentrated in a small number of enterprises, and half of it has gone to the purchase of local enterprises, while a quarter has gone to existing transnational corporations; out of the truly new firms, a large proportion are financial institutions. The contribution of direct foreign investment in terms of capital goods has been minimal, the inflow of foreign exchange being the main component. Over half the direct foreign investment authorized has been in the form of loans, and not risk capital.

The transnational corporations do not appear to have made any novel or significant contribution to the national economy—with a few exceptions—but appear rather to have been marking time and to have simply adapted themselves to the new liberal conditions prevailing.

The accumulated direct foreign investment in Chile represents only a small proportion of total capital, and the contribution made by the transnational corporations to investments and the generation of employment is small and shows signs of decreasing. The rate of profits of these firms is over twice the national average, and their share of total sales is relatively high. The share of the transnational corporations in the external trade of the country, however, is concentrated, low, and shows a deficit. Over the medium term, the contribution of the extractive sector to exports is likely to

⁵³See, in this respect, the reaction of Business International Corporation with regard to the new Foreign Investment Statute, in *Business Latin America*, New York, 30 March 1977 p. 103.

⁵⁴With regard to public policies and policies of omission, see E. Lahera, "Evaluación instrumental de políticas públicas", in *Revista de Administración Pública*, Faculty of Economics and Administrative Sciences, University of Chile, No. 6, December 1980.

grow, but in the other sectors the main objective of these enterprises is the domestic market, and indeed some of the policies followed during this period have probably heightened the propensity of the transnational corporations to import. Their share in domestic credit is relatively low, but their share in external debt is fairly significant and growing. The importance of the transnational corporations is higher in the industrial sector, where they are responsible for 28% of the total sales by corporations, although their contribution to employment and investment have been low in this sector. These firms have appeared to promote concentration in some industrial sectors, but in most they have merely followed a tendency towards concentration imposed by the domestic firms. The foreign banks have not yet recovered the importance which they had at the end of the 1960s, although their importance has been steadily increasing because of the diversified nature of their presence and activities. Direct foreign investment in the copper industry was equivalent to 70% of State investment in the

large-scale mining industry in 1978-1979, but a considerable part of this direct foreign investment consisted of purchases of land or rights. As a result of this, at the beginning of 1981 the transnational corporations controlled 20% of the copper reserves of the country.

To sum up, the impact of the transnational corporations on the Chilean economy has been uneven. It has been of only slight significance in the case of some variables, but of fundamental importance with regard to certain sectors, and any policy on the matter should take this fact into consideration. Its overall importance has gone down, it is true, as a result of the nationalization of the large-scale copper mining industry and the consolidation of a powerful and united domestic private sector, but the transnational corporations nevertheless control sectors which are of great importance for the industrial development of the country and in the very near future they could once again be responsible for generating a significant part of the country's foreign exchange revenue from mineral exports.

Annex

Concepts used

Direct foreign investment is considered to be that investment which comes from outside the country and is intended to establish or increase some type of permanent participation in an enterprise located within the national territory. Such participation must be sufficient to ensure the foreign investor effective influence or control over the management of the enterprise, and this control or influence is defined here, for conventional purposes, as ownership of at least 10% of the share capital by a foreign enterprise.⁵⁵ Ignoring instances of foreign investors who are natural persons, who in any case represent a very small part of the total in Chile.

There are three important exceptions to the definition given in the previous para-

graph, and accordingly the following were not considered as direct foreign investment for the purposes of this study: (a) investments made by foreign enterprises controlled in their turn by investors residing in Chile;⁵⁶ (b) investments resulting from relatively small participation by foreign financial entities in the equity of the recipient enterprises in non-financial sectors; (c) enterprises where State participation predominates.

Direct foreign investment companies are those local firms in which direct foreign investment, as defined above, is equal to 10% or more of their capital. Agencies are direct foreign investment companies by definition. Direct foreign investment companies form part of a transnational corporation, and in the case of a particular country they may be called indifferently

⁵⁵This corresponds to the minimum participation fixed by the International Monetary Fund in its *Balance of Payments Manual* and to that used by the Department of Commerce of the United States; other countries use smaller percentages.

⁵⁶Such investors, without actually being foreign residents, benefit from the conditions and guarantees enjoyed by foreign investment; moreover, these operations permit the 'whitewashing' of capital.

transnational corporations or direct foreign investment companies, except in those cases—which are of little significance in Chile—of foreign enterprises which are not transnationals. It should be noted that three-quarters of the direct foreign investment companies constituted as corporations in Chile, and 80% of such enterprises in the industrial sector, have a direct foreign investment share equal or superior to 50%. In half the firms this share is over 80%, so that the local participation tends to be on a minority basis.

The accumulated value of direct foreign investment includes the capital belonging to foreign investors in the direct foreign investment companies and outstanding obligations to these investors. This value is generally measured at the end of the calendar year and corresponds to the effective value of the foreign

participation according to the books of the direct foreign investment companies, this value being determined by adding together the total book capital plus the capitalized reserves, the retained profits and the results of the corresponding financial year.

The flows of direct foreign investment are made up exclusively of the income and outgoings between the foreign investor and the direct foreign investment company, the difference between these two constituting the net flow. Income may consist of income from abroad, capitalization of credits or debts, local credit, and in some cases expenditure abroad. The outgoings, for their part, may consist of repatriation of capital, remittances of profits and dividends, or amortization of credits or interest payments.