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THE ECONOMIC RELATIONS OF LATIN AMERICA WITH EUROPE

III. DIRECT PRIVATE INVESTMENT

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CONTENTS

III. DIRECT PRIVATE INVESTMENT

A. Record and trends 1/

Direct private investment by the United States continues to predominate in the world, although European investment already accounts for a very large share of the total. Nearly 38 per cent of the accumulated total of direct foreign investment in the world in 1971 originated in European countries, compared with 52.1 per cent in the United States. A further indicator of the preeminence of investment by United States enterprises is that the latter invested 23,581 million dollars in continental Europe in 1973, while investment by continental Europe in the United States amounted to 6,595 million dollars.2/

The considerable importance achieved by the European enterprises is reflected in some significant data as well as in the percentage quoted above. Of the world's 650 largest industrial enterprises in terms of total sales, 185 are European, according to a United Nations report based on figures published by Fortune.3/ According to the same source, 21 of the 50 largest enterprises in the world are European. Of these 21 enterprises, 4 have annual sales exceeding 10 thousand million dollars. The total sales of Royal Dutch Shell, the biggest of these enterprises, amount to 36 thousand million dollars, i.e., practically the gross domestic product of Venezuela, and exceed the GDP of all the Latin American countries except for the 3 largest (Brazil, Mexico and Argentina).

1/ This and the following section include elements and information from Alfredo E. Calcagno, "Las inversiones Extranjeras Directas en América Latina", mimeographed, January 1976. Some of the data, concepts and proposals in this chapter also reflect preliminary results of the work of the joint CEPAL/CTC Unit.

2/ United States Department of Commerce, "Survey of Current Business".

3/ "Multinational Corporations in World Development", United Nations Department of Economic and Social Affairs, 1973.

/The predominance

The predominance of United States enterprises is linked, inter alia, to the role of the dollar in the international monetary system, and the great effort to create technology made by the United States with major government support, as a result of which its enterprises hold a vanguard position in very dynamic sectors of international manufacturing. It should also be stressed that the 228 subsidiary companies of continental European enterprises operating in the United States and the 905 subsidiaries of United States companies operating in continental Europe deal predominantly with the same branches of industry, and that the majority of the enterprises in both cases are in the electrical machinery and chemicals sectors.

The situation seems, however, to be changing to the advantage of Europe. The importance of the manufacturing subsidiaries of major European companies compared with those of the United States increased substantially as from the 1970s, once the reconstruction of Europe was progressing and European enterprises were being consolidated, aided by the creation of the European Economic Community. More than half the subsidiaries of European enterprises existing in the world in 1971 had been established after 1965. According to available data, up to 1970, the proportion of such subsidiaries established after 1965 was 67 per cent in the case of France, 55 per cent in the Netherlands, 53 per cent in the Federal Republic of Germany and Belgium and Luxembourg, 47 per cent in the United Kingdom, 41 per cent in Sweden, 38 per cent in Switzerland and 37 per cent in Italy. In the case of the United States, however, this percentage was only 18 per cent, i.e., the majority of the subsidiaries had already been established prior to 1965.4/

4/ These proportions are based on the number of affiliates established prior to 1970 (a total of 5,567 for the European countries referred to and 9,127 for the United States). This indicator is less representative than the capital invested in these affiliates or their output, but in any case it gives an idea of the relative importance of the growth of the European transnational corporations compared with those of the United States before and after 1965. The data have been taken from Lawrence G. Franco, "The European Multinationals", London, 1976.

/If the

If the group of developing countries is considered as a whole, and the situation in 1967 is compared with that of 1976,5/ it may be observed that the share of the United States in the total direct private investment of the countries members of the Development Assistance Committee (DAC) in the total number of developing countries increased from 50 to 52 per cent, while that of Japan increased from 2 to 5 per cent. Europe's share, however, dropped from 44 to 39 per cent, basically owing to the decline in the United Kingdom's share from 19 to 14 per cent, and to smaller decreases in those of France and the Netherlands. Among the European countries, Germany's share increased sharply (from 3 to 7 per cent).

Europe's performance in the developing countries as a whole is therefore different from its performance in the world as a whole and in Latin America, as will be seen below. In the first case, the relative importance of Europe decreased. In the other two, it increased. This may apparently be explained by the different relative weight of Great Britain in the two cases, and by the ground lost by that country.

A Community press bulletin (17/78 of 11 May 1978) refers to the stagnation of the global flow of investment by the European Community in the developing countries, and to a dramatic drop in long-term investment, especially in the mining sector, where the surveying expenses of the European firms in the Third World accounted from only 13 per cent of the total, compared with 57 per cent in 1961.

5/ Data prepared by the Joint CEPAL/CTC Unit, on the basis of OECD data, see annex table I.

/1. European

1. European direct private investment in Latin America

Total accumulated direct private investment from all sources in Latin America increased from around 17 thousand million dollars to around 30 thousand million dollars between 1967 and 1976.6/

An indicator of the presence of foreign capital in the different Latin American countries may be obtained by noting the proportion of the gross domestic product of the Latin American countries accounted for by the transnational corporations in 1975. If Venezuela is omitted from the calculation, owing to the distortion caused by the presence of large-scale investment in petroleum in that country, this indicator was an average 5.5 per cent in 1975. Brazil and Panama were above this average, and Chile well below it. Somewhat below it were such countries as Argentina and Colombia, while Mexico and the majority of the remaining countries showed values closed to the regional average.

For the years *following* 1967 there are no complete data by countries of origin and destination.7/ This restricts the analysis, makes it necessary to use sources which are not uniform, and also means that caution must be observed with the conclusions. With these remarks in mind, developments from 1967 to 1976 and the situation at the beginning of the latter year may now be considered.

6/ Alfredo E. Calcagno, Informe sobre las inversiones directas extranjeras en América Latina, mimeographed, January 1978. The data used were taken from OECD, Les Actifs correspondant aux investissements directs du secteur privé des pays du CAD dans les pays en voie de développement - état à la fin de 1967, Paris 1972; and data supplied later by OECD. These data correspond to the 20 countries of Latin America, excluding Cuba, plus Guyana, Jamaica, Surinam and Trinidad and Tobago. The subsequent OECD data referred to were taken from the publication Cooperation pour le développement-examen 1977. Among the issues of this publication corresponding to data for 1974 and 1975 a decrease instead of an increase may be seen in the accumulated amount of investment. It is assumed that this must be interpreted as the stagnation of this investment, and not as being due to methodological causes.

7/ For these data and others, information supplied by the Joint CEPAL/ Centre for Transnational Corporations Unit has been used.

/Between those

Between those two dates, the market economy countries of Europe witnessed an increase from 23 to 26 per cent in their share of direct accumulated investment in Latin America. The share of the United States, on the other hand, dropped from 66 to 61 per cent, and that of Canada from 6.5 to 4 per cent. Japan's share increased substantially, from 2.4 to 4.8 per cent. In short, the share of the United States decreased, that of Europe increased and that of Japan doubled.

Within Europe as a whole, some countries witnessed an increase in their share in the accumulated total of foreign investment in Latin America, while for others this indicator dropped substantially. Although there is no standard information to determine the comparable shares of the countries of Europe, that of the Federal Republic of Germany can be said to have increased substantially (its percentage increased by approximately 50 per cent of what it was in 1967), as did the shares of Switzerland (which more than doubled) and France, where there was a moderate increase. The relative share of the Netherlands dropped substantially (its percentage of the total dropped to approximately half of what it was in 1967), and that of the United Kingdom decreased moderately.

It is useful to observe the evolution of European private investment in Latin America in a long-term historical perspective. Up to 1914, the United Kingdom controlled nearly half of total direct private investment from all sources in Latin America, followed by the United States, France and Germany in that order.

This means that Europe had a far higher percentage than the United States. Between the end of the First World War and the end of the Second, the share of the United States increased considerably, and came to exceed that of the United Kingdom, becoming the region's top investor; as far back as 1945 the United States was ahead of all the European countries together. In the same period, the European countries came to a standstill. Of the latter, France substantially decreased its direct private investment in Latin America, even in absolute terms. From the end of the First World War until the mid-1960s, the predominance of the United States increased, although from the mid-1950s Europe had resumed an upward curve in absolute terms, although continuing to decrease in proportion to the whole for some years more. It

/was from

was from the mid-1960s that Europe began to increase its share compared with the United States, as pointed out above. This increase in the relative importance of the European countries between 1967 and 1976 represents a partial recovery of the loss which they experienced in previous periods and especially during the immediate postwar period.

An analysis based on a differentiation by the number of affiliates established as opposed to investment shares similar to that made at the beginning of the section for the whole world, leads to similar conclusions.

2. Latin America in the world total of direct European investment

The other question which should be asked is what weight Latin America had in total private investment of European origin in the whole world. Using data on the number of affiliates,8/ it may be observed that in 1971 the majority of European manufacturing subsidiary companies were situated in the European developed countries themselves and in the United States. It may be seen from table 16 that 59 per cent of the subsidiaries of seven European countries,9/ were located in the developed countries of Europe, the United States and Canada. Of the total number of subsidiary companies of the same seven European countries located in developing countries, the percentage established in Latin America (15 per cent) was larger than that established in Asia and Oceania, and in Africa and the Near East. The case of the United Kingdom is different from that of the above seven countries; the majority of its subsidiary companies are located in Asia, Oceania, Africa and the Near East, as may also be seen from this table.

8/ J.W. Vaupel and J.P. Curhan, "The World's Multinational Enterprises: a Sourcebook of Tables", Graduate School of Business Administration, Harvard University, Boston, 1973.

9/ These seven countries are: Federal Republic of Germany, Belgium and Luxembourg, France, Italy, the Netherlands, Sweden and Switzerland.

/Table 16

Table 16

GEOGRAPHICAL DISTRIBUTION OF THE MAJOR MANUFACTURING SUBSIDIARY COMPANIES

(Percentage)a/

Country or region of the parent company	Region in which the subsidiary company is intalled						
	United States and Canada	Developed Europe b/	Less developed Europe c/	Latin America	Asia and Oceania	Africa and the Near East	Total number 100%
United States	13	35	4	27	15	7	4 246
Developed Europe excluding the United Kingdom	12	47	9	15	8	8	2 599
United Kingdom	13	26	3	6	27	25	2 265
Japan	5	1	2	18	65	9	479

a/ For the United States: data at 1 January 1968. For other countries: data at 1 January 1971.

b/ Including: Federal Republic of Germany, Belgium and Luxembourg, France, Italy, the Netherlands, United Kingdom, Sweden and Switzerland.

c/ Including: Spain, Portugal, Greece and Turkey.

United States subsidiary companies also tend to be located in developed countries: the United Kingdom and the other developed countries of Europe (48 per cent); in the developing world, in this case too, the largest share corresponds to Latin America (27 per cent). The case of Japanese subsidiary companies is different; the majority are located in Asia and Oceania (65 per cent), but in this case again more are located in Latin America (18 per cent) than in Africa and the Near East (9 per cent).

The same conclusion emerges from the data, incomplete though they may be, available for accumulated investment. In fact, the amount of European investment in Latin America appears to be similar to the total amount of European, Japanese and Canadian investment in Africa. Assuming that Japanese and Canadian investment in the latter continent is not very large, it may be deduced that Latin America accounts for a rather larger (although not very different) share of investment of European origin than Africa, and very probably Asia, where it may be assumed that European investment accounts for a smaller sum than Africa.

3. The situation in Latin America by countries

Of the total sum of direct private investment in Latin America from all sources accumulated at the beginning of 1976, the largest proportion was to be found in Brazil (31 per cent), Mexico (16.4 per cent) and Argentina (6.8 per cent); the rest of the countries together absorbed the remaining 45.8 per cent.10/ If Venezuela, whose situation is special owing to petroleum investment, is excluded, the figures change but the order of magnitude is maintained.

Brazil substantially increased its relative importance between 1967 (22.1 per cent) and 1976 when it reached 31 per cent.

If each of the countries of Latin America with the largest shares in direct total private investment from all sources is considered, and European investment in each of them is compared with that from other sources, the following situation emerges.

10/ A.E. Calcagno, *op. cit.*

/In Brazil,

In Brazil, European investment substantially increased its share of accumulated total private investment from 31 per cent in 1969 to 42.7 per cent in 1976 (see table 17). In the latter year, total investment from all sources amounted to around 9,000 million dollars (annex table II) according to the source indicated. Particularly outstanding among the European countries, on account of the increase in their relative importance and especially because of the considerable weight they thus acquired in the whole, were the Federal Republic of Germany (from 10.3 per cent in 1969 to 12.4 per cent in 1976) and Switzerland (from 6.1 per cent to 10.9 per cent in the same years). Investment by France, Luxembourg, the Netherlands and Sweden also increased more than proportionally. However, Belgium and Great Britain lost relative importance, while Italy maintained its share in the whole.

Among non-European developed countries, the relative decrease in the share of the United States from 47.7 per cent in 1969 to 32.2 per cent in 1976 (owing to less rapid growth than others) and in that of Canada is noteworthy. Japan, however, which accounted for only 0.3 per cent of total external direct private investment in Brazil in 1969, rose to 11.2 per cent in 1976.

More than half of total direct investment made in Latin America in 1974 and 1975 by DAC countries went to Brazil, with the addition of Mexico and Peru, 90 per cent of the total is accounted for.

In Mexico (see table 17) the share of the main European countries 11/ in the accumulated total of external direct private investment increased from 14.8 per cent to 19.6 per cent between 1970 and 1975. In any case, this percentage was still much smaller than that of Brazil. The share of the United States, on the other hand, despite having dropped from 79.4 per cent to 72.2 per cent in the same years, was still overwhelming.12/

11/ These countries are the Federal Republic of Germany, Great Britain, Switzerland, the Netherlands, France and Italy.

12/ See annex table III.

/Table 17

Table 17

SHARE OF COUNTRIES OF ORIGIN IN TOTAL DIRECT FOREIGN INVESTMENT

(Percentages)

	Brazil		Argentina	Mexico	
	1969	1976	1969	1970	1975
Germany	10.4	12.4	9.0	3.4	5.8
Great Britain	6.4	4.7	15.7	3.3	4.7
Switzerland	6.1	10.9	...	2.7	4.2
Netherlands	0.5	2.6	...	1.8	1.9
France	2.0	3.6	10.8	1.6	1.5
Italy	0.9	0.9	8.8	2.0	1.5
Belgium	2.2	1.2	...	...	...
Luxembourg	1.0	2.8	...	...	...
Sweden	1.0	2.4	...	...	...
Total Europe	31.0	42.7	44.3	12.8	19.6
United States	47.7	32.2	51.2	79.4	72.2
Canada	9.8	5.4	...	1.6	2.0
Japan	0.3	11.2	...	0.9	1.9
Total	100.0	100.0	100.0 a/	100.0 a/	100.0 a/

Source: Annex table XIII, based on the Bulletin of the Banco Central do Brasil, December 1977.
Annex tables XIV and XV, based on A.E. Calcagno, "Las inversiones directas extranjeras en América Latina", mimeographed, January 1978, tables 17 and 20.

a/ The total used to determine the percentages is the sum of the countries for which data exist.

/With regard

With regard to Argentina, data are available only for 1969 (see table 17), corresponding to direct private investment in manufacturing. In that year, four European countries 13/ accounted for 44.3 per cent of total foreign investment, while the United States controlled 51.2 per cent. This means that although only four countries are considered, Europe accounted for higher percentages of the total than in the cases of Brazil and Mexico. It is probable that these proportions have not changed substantially since then.

In the case of Venezuela, of total accumulated direct investment in 1967, 73 per cent was accounted for by the United States and 23 per cent by Great Britain and the Netherlands together - mostly in the oil industry. After the nationalizations it is estimated 14/ that 85 per cent of total investment was made by the United States, i.e., the majority of investment other than in oil in Venezuela originated in that country.

Panama is a special case because of its position as an international financial centre, which explains how in 1975 it came to have accumulated 2,300 million dollars of direct private investment. Of this sum, it is estimated that 80 per cent came from the United States.

4. Foreign investment in Latin America by sectors of economic activity

Considered in the long-term, the sectors in which direct foreign investment in Latin America has been located have changed substantially, with a very large decrease in mining, petroleum and services, and a proportionally large increase in manufacturing. Although data are not available for investment from all sources, information on investment by the United States shows that between 1929 and 1976 the share of mining and smelting decreased from 21 per cent to 8 per cent of the total, that of petroleum from 17 per cent to 10 per cent and that of the other sectors (including public services, trade, agriculture and other sectors) from 55 per cent to 32 per cent. Investment in manufacturing, however, increased over the same period from 7 per cent to 50 per cent.15/

13/ These countries were Great Britain, France, the Federal Republic of Germany and Italy (see annex table IV).

14/ A.E. Calcagno, "Informe sobre las inversiones directas extranjeras en América Latina", January 1978.

15/ A.E. Calcagno, table 11. Information for 1976 excludes the Bahamas, Bermuda and other dependent territories where investment in services is proportionally much greater than in other countries of the region.

/The decrease

The decrease in the proportion of direct investment devoted to mining and oil activities has been partly influenced by the nationalization processes carried out during various stages in many Latin American countries.

The substantial reduction of investment in public services, which was very considerable up to the Second World War, was also due to fairly widespread nationalization processes in the region. The share of trade and finance in some cases increased, and in particular investment in manufacturing activities, both in absolute and relative terms, rose substantially. The larger part of this investment was devoted to production for the domestic or sub-regional markets; only recently was some investment devoted to producing for export, especially in the case of United States enterprises in what are kown as the maquila industries (export industries using imported input) in Mexico.

In manufacturing, the relative importance of foreign enterprises compared with national public and private enterprises was generally greater in sectors with vigorous demand and more modern technology. In the case of Brazil, foreign enterprises had a particularly large share in the ownership of assets in the electrical (61 per cent), transport equipment (63 per cent), machinery (46 per cent), rubber (61 per cent), and non-metallic minerals (35 per cent) industries in 1974; their share in the tobacco (99 per cent) and food (31 per cent) industries was again considerable.16/ Recent capital inflows have also shown a strong preference for chemical industries.

In the case of Mexico there are no recent data on the proportion of investment in specific sectors in the hands of foreign enterprises. However, data on the sectoral destination of the investment of United States enterprises in that country also show a predominance of manufacturing, and within this sector, of the chemicals and machinery industries which constituted half the accumulated investment in manufactures from this source. The maquila industries are important in this country.

In the case of Argentina, European enterprises mainly devoted themselves to the motor-vehicle and steel industries (France), to buses and trucks, tractors, electrical articles and tobacco (Germany), and to motor-vehicles,

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16/ Calcagno, op. cit., table 11 of the Annex.

/rail equipment,

rail equipment, rubber articles (especially tyres), electrical and office articles and steel (Italy). The United States enterprises for their part, covered the motor-vehicle, metal, chemicals, rubber, food and textile industries.

Progress in the integration process in the countries of the Cartagena Agreement may take the form of a relative increase in investment in the metal manufactures and machinery and chemicals industries, to judge by the interest shown by foreign enterprises in taking part in the development of sectors where the programming has already been decided upon (motor-vehicles, metal manufactures and machinery and petrochemicals).

B. Interest of European private investment in Latin America 17/

For the international operations of the transnational corporations as a whole, the output of affiliates located in countries other than the home country represents a very important element of expansion. A United Nations document 18/ contains 1971 estimates for the transnational corporations of the United States, the United Kingdom, France, the Federal Republic of Germany and Japan. In that year, exports by these enterprises from their home countries amounted to around 150,000 million dollars; the output of their affiliates situated in foreign countries was estimated at around 260,000 million dollars for the same year. Export figures from the home country and production figures for affiliates abroad can only be compared with reservations and only for certain specific aims. Despite this, however, the fact that for these countries the output of the affiliates was 1.75 times 19/ the exports made by the transnational corporations from their

17/ The reasons for this interest which will be analysed here generally apply to private investment from all sources (Europe, United States and Japan); notwithstanding, investment from other countries tends to be more enterprising and prepared to accept different conditions, as is explained in another section of this chapter.

18/ United Nations, Multinational Corporations in World Development, (ST/ECA/190), New York, 1973.

19/ For the United States of America and the United Kingdom this ratio is even greater than this average.

/home countries,

home countries, illustrates the importance of this output for growth potential, the obtaining of profits and the achievement of economies of scale in the effort to create technology, both for the transnational corporations themselves and for their home countries.

A similar conclusion is reached if the case of 50 major enterprises in the United States in 1970 is considered.20/ Among these enterprises are to be found some of the largest producers of motor-vehicles, capital goods (electrical and non-electrical machinery), electronic and computing equipment, chemicals, petroleum, foodstuffs, etc. For 35 out of these 50 enterprises, sales abroad accounted for between 30 and 65 per cent of the total; for 22 of them, sales abroad accounted for 40 per cent or more of the total.

Information on profits is available for 30 of the enterprises; in 23 of them, profits obtained abroad accounted for between 30 and 98 per cent of the total; in 17 of the 30 enterprises, profits obtained abroad were equivalent to or greater than 40 per cent of the total.21/

In the case of Latin America, exports by the developed countries of Europe as well as the United States and Japan to the region reflect only very partially and inadequately the magnitude of the interest of these developed countries and their enterprises in Latin American markets; in the case of several sectors which are very dynamic for European countries, such as motor-vehicles and transport equipment, capital goods and chemical products, the production of the Latin American countries themselves with direct and large-scale participation by European enterprises is greater than the exports of

20/ A.E. Calcagno, op. cit., based on, Report of the Sixth meeting of members of Congress and of the European Parliament, September, 1974, The Multinationals: their functions and future, Washington, 1974.

21/ According to the same source, the proportion of profits obtained abroad is generally greater than the proportion of sales abroad in relation to total sales. This would apparently indicate that the operations of the affiliates are, proportionally, economically more profitable, although this observation should be considered carefully because it may be affected by the quality of the data. In a study published by the United States Department of Commerce (Survey of Current Business, US Direct Investment Abroad in 1975, by Obie G. Wichard and Julius N. Friedling), August, 1976, p. 40 onwards, there is a fact which points to a similar conclusion: for the group of enterprises considered, the declared rate of direct investment in manufacturing in 1975 was greater in Latin America (14 per cent) than in the developed countries (11 per cent); in this case too there may be problems due to the quality of the data, the different risks involved in operations in different countries, and the different sectoral structure.

/those same

of those same enterprises to Latin America from their home countries. However, production in the Latin American countries with large-scale participation by these transnational corporations also induces the purchase of parts and spares and equipment from the home countries of the corporations.

The share of European private investment in Latin America, then, compared with investment by other developed areas, is substantial and on the increase; furthermore, Latin America absorbs a very large proportion of total European investment in the developing world, comparatively more than other areas; it clearly constitutes the most important area for many of the more dynamic manufacturing activities. These conclusions emerge from section A of this chapter, and raise two questions which will be dealt with below. They are:

1. How can the great interest of private investment and the transnational corporations in operating in Latin America be explained?

2. What significance does this interest have for the countries of Latin America?

1. Factors which explain the interest

Among the important factors affecting this interest, the following may be highlighted: (a) size of the market; (b) cost of labour; (c) degree of manufacturing development, education and training of labour; (d) natural resources; (e) environment. These factors are discussed in the next few points, after considering the degree of interest of the affiliates' operations for those of the transnational corporations as a whole.

(a) Size of the market

Simplifying the question in order to discuss it in general terms, three main cases may be distinguished here, although exceptions and qualifications are called for:22/

(i) goods requiring simple and practically changeless technology, generally non-durable consumer goods;

(ii) consumer goods requiring medium- or high-level technology, mainly consumer durables;

22/ The groups presented here are similar to those identified in Chapter V, although in the interests of this analysis some sectors are omitted and the division of the groups is not quite equal.

/(iii) basic

(iii) basic capital and intermediate goods, mainly chemicals.

With regard to the goods in the first group, a large proportion of Latin American demand is covered by domestic production. The domestic market for these goods is already considerable in Latin America and will grow a great deal more as the large percentage of the population which is at present marginal is incorporated into the labour and consumer markets. Foreign investment and the transnational corporations generally speaking have little direct share in the production of these sectors in the Latin American countries, with exceptions, as in the case of tobacco.

Consumer goods of intermediate or high-level technology, generally consumer durables (motor-vehicles, domestic appliances, etc.) and some non-durables, are in demand among the intermediate and high-level income strata. Bearing in mind the size of the population and the proportion of it which belongs to the intermediate strata,23/ the Latin American market for these goods already has a position of considerable importance among all the regions of the world. Taking the region as a whole, the size of its market for these goods is smaller than that of the developed and some developing regions. However, bearing in mind population growth projections, a reasonable hypothesis would be that the size of the combined Latin American market for these goods will increase more rapidly than that of other regions and will be smaller only than that of Southeast Asia and China, and larger than that of each of the main developed areas and of the other developing areas.24/ Of course, Latin America does not operate as a single market insofar as it is not integrated: but neither are the other developing areas with which it can be compared, while in contrast the United States, the EEC, Japan, China and CMEA do operate in an integrated manner. In Latin America 4 major units at least must be

23/ See Chapter I, section 10.

24/ France, Ministère de l'Industrie et de la Recherche, Spécialization Internationale du Travail et Redéploiement Industriel, pp. 73 to 76. This research study distinguishes 15 areas of the world: black Africa, Latin America, East Asia, Australia, New Zealand and South Africa, Canada, European Economic Community, China, Scandinavia, United States, European countries with centrally planned economies, Mediterranean Europe, Japan, the Arab world, Alpine countries and the Soviet Union. The measurement of the future size of the market exclusively based on population is a simplification, which means that these conclusions of the study must be taken only as approximate indications.

/distinguished: Brazil

distinguished: Brazil, Mexico, the Andean Group and Argentina. To increase the real demand for these goods, a large share of national savings is mobilized through credit machinery in order to acquire them. Advertising, the demonstration effect of consumption in more developed countries and the action of the transnational corporations themselves are also important elements in expanding demand in these sectors. The potential Latin American market would be still greater in comparison with developed areas if its problems of marginality could be overcome and the 600 million inhabitants which the region will possess towards the end of the century could really be incorporated into the market.

The level of protection afforded to national industry by Latin American countries, which has declined but will continue to be significant and on average greater than in the developed countries over the next decades, contributes to ensuring a large market for the domestic production of this type of goods.

The real future participation of transnational corporations in Latin American production in these sectors will possibly continue to be substantial; naturally, the modes of participation at present differ from one case to another and may evolve, in the future, from direct production in the hands of the transnational corporations to their participation in specific aspects of the production, marketing and distribution cycle, such as the supply of technology.25/

The increase in the domestic output of the two groups of consumer goods mentioned and others not explicitly considered here generates the market for the goods of the third group, i.e., capital goods and chemicals. In this group the Latin American market at present and for the next 10 years may be calculated as being smaller than that of several of the main developed areas to judge by the comparison made in the above mentioned study.26/ However, the size of the regional market for these goods compares favourably with several others in the 14 areas mentioned in the study. In this case too the size of the Latin American market varies according to whether one may assume a real

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25/ See section C of this chapter.

26/ France, Ministère de l'Industrie et de la Recherche, op. cit.

/and substantial

and substantial integration of the whole of the region, or alternatively, the continuation of the present division into four major units and other smaller ones. In any case, each of these four major units very probably compares favourably with a fair proportion of the units which make up effectively integrated markets in Asia or in Africa.

In this third group too, the level of protection of domestic or regional production will presumably continue to be significant, and effectively ensure a market for domestic output.

In this group, the interest of foreign investment and the transnational corporations is considerable compared with other developing areas. It should increase as the region grows and these industries develop from the levels already reached.

(b) Cost of labour

This cost is generally considerably greater in developed countries than in the Latin American countries. Comparisons of this type should be cautious owing to the difficulties inherent in the differences in quality and significance of the information available for different countries, and because the data used here refer to the years 1970 and 1972 in some cases, since which time the situation may have changed. Furthermore, productivity in physical units is generally greater in developed countries than in Latin America, which may offset wholly or in part, and even obviate, the differences in the cost of a unit of labour. For this reason the data given below are only useful as indicators to show the apparent existence of an important phenomenon.

In table 18 it may be seen that for manufacturing on average, the cost of an hour's work in Great Britain, France, Belgium-Luxembourg, Federal Republic of Germany, Canada and the United States, was between 2.9 and 7.1 times that of Brazil. Comparing these developed countries with Mexico, also for the average of the manufacturing industry, an average hour's work in Great Britain, France, Belgium-Luxembourg, the Federal Republic of Germany, Canada and the United States costs between 3.3 and 8.3 times that of Mexico.

/Table 18

Table 18

COST OF AN AVERAGE HOUR'S WORK IN INDUSTRIES IN DEVELOPED COUNTRIES COMPARED WITH SOME LATIN AMERICAN COUNTRIES a/

	Average for industry 1970 b/		Operations of General Motors at end of 1972 c/ and d/			Average wages per hour in assembly plants e/			Manufactures			
						Electronics	Machinery	Semiconductors				
	Brazil	Mexico	Argentina	Brazil	Mexico	Mexico	Mexico	Mexico	Mexico	Costa Rica	Honduras	Trinidad and Tobago
United States	7.1	8.3	6.3	5.6	2.9	4.0	6.3	4.2	4.3	6.7	5.0	6.3
Canada	6.1	7.2	1.0									
Federal Republic of Germany	4.6	5.4	4.1	3.6	1.9							
Australia			2.8	2.4	1.3							
Belgium-Luxembourg	3.8	4.4										
France	3.4	3.9										
United Kingdom	2.9	3.3	2.3	2.1	1.1							
Japan			2.3	2.1	1.1							

a/ Number of times greater the average cost of hour's work is in each developed country than in each of the Latin American countries, prepared on the basis of A.E.Calcagno, op.cit., table 6.

b/ Committee on Finance, United States Senate, Russel B. Long, Chairman, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labour, Report to the Committee on finance of the United States Senate and its Sub-Committee on International Investigation, Nº 332-69, under section 332 of the Tariff Act 1930.

c/ Source: Hearings before the sub-committee on international trade of the Committee on Finance, United States Senate, Multinational Corporations, Washington, February and March 1973.

d/ Total cost per hour including complementary benefits, local currencies converted into dollars at the rate of exchange at 20 February 1973.

e/ Source: United States Tariff Commission, Economic Factors Affecting the use of the Items 807 000 and 806.30 of the Tariff Schedules of the United States, Washington, September 1970.

/If the

If the comparisons are made for the operations of a single enterprise in particular (General Motors), large differences may also be seen. In comparison with Argentina, an average hour's work cost between 2.3 and 6.3 times more in Japan, the United Kingdom, Australia, the Federal Republic of Germany and the United States. In comparison with Brazil, it was between 4.1 and 5.6 times greater in the five countries mentioned. In comparison with Mexico, an hour's work cost between 1.1 and 2.9 times more in the same five countries.

Taking average wages per hour in different assembly plants in some sectors, wages in the United States were 4 times higher in electronics, 4.2 times greater in semi-conductors and 6.3 times greater in machinery than in Mexico.

In the clothing industry, average wages per hour in the United States were 4.3 times those of Mexico, 5 times those of Honduras, 6.3 times those of Trinidad and Tobago and 6.7 times those of Costa Rica.

The differences were still greater in comparison with South Korea, Hong Kong, Singapore and Taiwan, although in these countries wages have apparently tended to increase in recent years.

Although a more profound analysis of this question would be out of place here, it is well known that a similar phenomenon is found in connexion with other developing countries, particularly North Africa and some Asian countries. There are still large differences in the cost of labour between the more industrialized countries of Europe and some Meditarrenean countries of the same continent, especially in the more depressed regions of the latter.

The difference in the cost of labour offer an incentive for the transfer of some sub-sectors or operational sectors which are highly labour-intensive, using skilled or unskilled labour, from developed to some developing countries. This process has expanded considerably in recent years using a variety of methods: co-production, sub-contracting, transfer of plants (especially medium- or small-sized), and association between capital from developed and from developing countries to produce specific goods in the latter, etc.

/This trend

This trend will also be affected by a further three factors: (i) more intensive competition among transnational corporations, especially among those from different developed countries, could accentuate it; (ii) the economic difficulties of developed countries and uncertainty about the world economy could slow it down in the short- and medium-term, as has already begun to happen; (iii) the different degrees of industrial development, labour skills and education in the different developing regions could influence to some extent the direction of the trend, depending on the level of skill and technology requirements in each sector of production. The first two factors mentioned are dealt with in section C of this document. The third is considered below in this section.

The difference in the cost of labour, in conjunction with the different levels of per capita income, has also produced labour movements from countries with lower income levels towards more developed countries. This is the case of migration from Mediterranean countries to more developed countries in the North of Europe and from Latin America to the United States. According to a recent study by UNCTAD, 20,296 experts and professionals emigrated from Latin America to the United States, Canada and the United Kingdom between 1961 and 1972; 80 per cent of them went to the United States.27/ These migratory processes are not devoid of problems; the loss of professionals and skilled workers which they represent for Latin American developing countries would perhaps not occur to the same extent if industries or labour-intensive processes were transferred from developed to developing countries on a greater scale.

(c) Degree of manufacturing development, education and training of labour

Although these elements could be dealt with separately, they are presented here as a group because they are closely related from the standpoint of this analysis.

27/ A.E. Calcagno, based on: UNCTAD "La transferencia inversa de tecnología: dimensiones, efectos económicos y cuestiones de política", Geneva, 1975.

/Reference has

Reference has already been made in Chapter I to the considerable degree of development achieved or about to be achieved by industry in many Latin American countries, with the appropriate differences depending on countries and sectors. This development takes the form of a diversified manufacturing structure, an industrial environment suitable for the establishment of new activities, the fairly considerable experience of entrepreneurs, experts and workers in the operation of plants, production under efficient conditions, the solution of problems of marketing and financing of enterprises, etc. The gradual reduction of protection and the growing move outwards to win external markets which took place in the recent years are certainly linked with this development, in the form of a greater ability to produce under competitive conditions of costs and qualities.

The general improvement in the level of education and in particular the training of labour at all levels are another aspect of this development. This topic was dealt with in Chapter I in connexion with skilled labour. As was observed, in Latin America a large proportion of the population is already, in terms of training and experience, in a position to undertake the management of enterprises, professional activities and skilled manual work; a very large and growing number can be found in the cities devoted to urban work in industry, commerce and other services.

According to the study already referred to,28/ in terms of these factors too, the Latin American countries are in a less favourable position that the developed areas in the world. Of course, these are averages made up of very different situations according to countries and sectors.

There also exists in the region a still limited but significant capacity of technological innovation and adaptation also referred to in Chapter I.

In brief, the "acquired" comparative advantages have been changing and continue to change over time for the countries of Latin America, in accordance with the development of each industrial sector. In manufactures, where efficiency is closely linked to the above-mentioned availability of skilled labour and entrepreneurial capacity, experience in the production and

28/ France, Ministère de l'Industrie et de la Recherche, op. cit.

/handling of

handling of plants, capacity for technological innovation and the existence of an industrial environment, the very process of installing and developing many manufacturing sectors which produce consumer durables and capital and intermediate goods has definitely helped to improve the comparative advantages of these countries for producing goods of this kind. Costs, quality and even the innovative capacity of Latin American countries, have improved substantially over the last decade; as a result, these countries are at present in a position to produce on a competitive basis even goods which require skilled labour and relatively advanced technology. The comparative advantages can only be consider dynamically and not statically, if it is hoped to avoid a halt in manufacturing progress and even reverses.

Another way of expressing these factors is that Latin American countries have external economies which favour the continuing development of many of the sectors of industry already in existence, and open up the possibility of developing new sectors.

These factors enable a large number of Latin American countries to export manufactures, including metal manufactures and machinery and chemical products, and stimulate the interest of foreign investment in coming to the region and contributing to its production and exports. As has been said in another section of this document, the possibility of exporting manufactures, the production of which requires a considerable and increasing degree of skilled labour, in turn conditions the possibility of increasing the proportion of the population which will come to form part of those strata, and of maintaining the improvement in living standards of those who already belong to them. It is therefore not only possible but also necessary for the transnational corporations in Latin American countries to adapt to the shift towards exporting manufactures employing more advanced technology.

(d) Natural resources

The availability of abundant and varied natural resources - including energy resources - in Latin America, has traditionally been an important element in attracting foreign private investment. In recent years, pessimistic projections of the future supply of some of these fasic commodities for developed countries, and the effects of the rise in oil prices, have

/increased the

increased the interest of such countries in ensuring a stable supply of mineral and energy resources in particular, and thus in associating with Latin American countries for the production and processing of these goods.

The traditional forms of participation of foreign private investment in the domestic production of minerals and energy have lost importance, and in some cases have tended to disappear because of nationalization and the interest of many Latin American governments in claiming sovereignty over their natural resources.

Interest in obtaining technology and capital from abroad for the extraction and processing of natural resources stimulated the search for new forms of co-operation in keeping with the degree of maturity achieved by the Latin American economies and their needs. This is manifested, *inter alia*, in the methods which tend to be used to associate national public or private capital and foreign capital, and basically in the fact that in many cases - as in those where production or processing have been nationalized - certain services are bought without relinquishing any or all ownership of the production process to foreign hands. Long-term sales contracts to developed countries, in some cases in connexion with the provision of certain technological and other services, have also been introduced. This topic is dealt with below in section C of this chapter.

(e) Environment

Pollution of the environment has become important for industrial policy on a world scale and the location of economic activities over the last few years. The importance which the developed countries attribute to the problem and how to tackle it varies from country to country. However, in all of them the need arises, to a variable degree, for more investment and higher costs in some sectors, and this affects the comparative advantages of these countries *vis-à-vis* developing countries. The latter, of course, also face problem of pollution which causes considerable concern. However, its relative importance and how it is dealt with may be different, bearing in mind the other serious problems of mass poverty which they face.

/The favourable

The favourable conditions discussed in this section and their probable intensification in the future should strengthen the bargaining position of the region in negotiating the conditions of its relations with foreign private investment and with the developed countries which best answer its development needs. The extent to which this power can be used is another problem.

It should be mentioned that future developments in foreign private investment will also depend on what happens in the developed countries. In Chapter V consideration will be given to several factors which may determine the future international division of labour between Latin America and Europe.

2. Possible contribution of direct foreign investment

What can Latin America obtain from direct private investment in general, and from European investment in particular? Without attempting to expand this topic beyond the scope of the present document, some points may be mentioned briefly.

Firstly, it is indispensable that this investment should contribute effectively to promoting the development strategy measures defined by each Latin American country, which will in turn take into account the needs and priorities of its current stage of development.

Furthermore, direct private investment and the transnational corporations must adjust to the rules and modes of action defined by the governments in each case; progress in the preparation of a code of conduct at the international level will ensure that the treatment the corporations receive will meet mutually acceptable standards of uniformity and moderation.

More specifically, three main contributions may be expected from direct private investment and the transnational corporations: (i) technology, (ii) better access to external markets of manufactures, including those employing more advanced technology; (iii) organizational skills. The first two appear to be particularly important, bearing in mind that they are vital to the present stage of development of many Latin American countries, and that in both the external contribution is fundamental. The question of access to external markets not only concerns direct foreign investment and the transnational corporations, but is also closely linked to the trade policies of the developed countries and to their policies for the restructuring of their industry. The fact that the spheres of influence of the decisions made

/by governments

by governments and private enterprises in developed countries are to some extent separate should not be grounds for preventing these questions from being dealt with and settled jointly. The interaction between governments and enterprises in developed countries for the purposes of winning external markets, including those of developing countries, is very effective in many important respects; in Latin America, the use which governments make of their bargaining power will determine whether there is joint consideration of questions involving the transnational corporations and the policy of governments of developed countries with regard to exports of manufactures. As for the financial contribution of foreign direct private investment, while it is not negligible it does not appear to be the most important contribution from the point of view of Latin American countries. Of course, no general assertion can be made on this score since the situation differs according to countries and sectors. Some medium- and small-size countries in Latin America, with inadequate capacity for domestic savings and limited access to international public and private loans, may still attach considerable importance to this contribution. Indeed, both for these and larger countries, the scope of this financial contribution is of some relevance, particularly in the case of sectors which involve large investment, large-scale immobilization of capital and high risk. The relatively ready access which foreign direct investment enjoys with respect to international financial resources of origins different from that of the investing enterprise itself is also important. In any case, the financial contribution of the enterprises themselves and their countries of origin is usually of limited interest to recipient countries, at least in recent experience, in the average transnational affiliate.29/

C. Norms and modes of operation of direct foreign investment including the activities of the transnational corporations

The question which will be dealt with in this section is to what extent significant changes are taking place or may take place in the norms which govern private investment and the transnational corporations, and in their modes of operation, in response to Latin American development needs.

29/ A.E. Calcagno, op. cit.

Many countries in the region have three chief preoccupations: (a) to avoid all interference by foreign investment in internal political matters; (b) to ensure that this investment adapts its actions to the development strategy and policy orientations of each country; (c) to ensure that the modes of operation of foreign private investment are those which are most appropriate to the country's situation and needs.

Reference will be made at a later stage to the first and second of these questions. The third will be the central topic of the rest of this section.

With regard to the first question, the operation of transnational corporations has political implications which may be of importance. The report of a group of experts convened by the United Nations, in referring to their forms of action, states that "in home countries, they may attempt to influence foreign and domestic policy by utilizing their broad financial power and their often close relationship with government cadres. They can lobby for or against governments of host countries, depending on whether or not they receive specially favourable terms of treatment. In host countries, the affiliates of multinational corporations can seek to influence government policies in undesirable ways. Being closely connected with domestic groups favouring foreign investment, they can use their own or their parent company's resources to support particular political parties of their choice, and they can rally against groups advocating social reforms".30/ The sensitivity of governments and public opinion to these problems has increased in recent years.

The co-operation which the Latin American countries require from foreign investment with regard to technology, access to external markets and administration of enterprises and plants, is indispensable for their development Interest in finding formulae and machinery to avoid possible problems and ensure that this investment is in keeping with the development policies being followed has thus been clear and has increased.

30/ United Nations, Department of Economic and Social Affairs, "The impact of multinational corporations on development and on international relations", ST/ESA/6, New York, 1974, page 45.

With regard to the second point - the adaptation of foreign investment to the development policies and strategies of the countries - the first requirement is for the governments themselves to establish clear policies and communicate them to the transnational corporations. For the sectors of industry which, for reasons of economy of scale, can develop more efficiently on the basis of subregional or regional markets, the definition of measures for co-ordinating policies among several countries is very desirable so that it is the transnational corporations which can adapt their activities to the guidelines established by the governments, rather than on the contrary they which in fact define the development criteria and orientations of the sector. In this connexion it is useful to compare in Latin America the cases of LAFTA and the Andean Group. In the former, progress with regard to complementarity agreements was very limited and in some cases practically non-existent, with the result that the transnational corporations chiefly had the initiative. However, in the case of the Andean Group, in the sectors reserved for programming, which are new and generally contain economies of scale, it is the countries themselves which define the development guidelines of each sector, the siting of plants and the specialization of each of the countries. The governments thus retain the initiative, and transnational corporations wishing to operate in that market adapt their actions by negotiating with each of the governments on the basis of the guidelines agreed upon by the five countries. The examples of the metal manufactures and machinery, motor-vehicles and petrochemicals sectors are cases in point. One very important aspect of the adaptation to official development strategies and policies is the concern of governments, especially in recent years, regarding the impact of transnational corporations on the balance of payments. Balance-of-payments problems have once again converted the external sector into a limiting factor of development, and the effects of foreign investment on it have come under close scrutiny.

In the first place, transnational corporations influence imports. These corporations generally operate in sectors of industry where the import coefficients are higher than the manufacturing average. Their presence promotes the development of these sectors and in many cases encourages an increase in the consumption of goods with a high import content, which aggravates the

/tendency towards

tendency towards a trade deficit in the recipinet countries. Meanwhile, their export coefficient is very small. The transnational corporations in the majority have been reluctant to export, except where the investment has been conditioned on the export of part of production. Tendencies of transnational corporations to export from Latin American countries are still incipient, despite their recent trend towards greater flexibilities and despite the new modes and policies which will be discussed below. In the case of the United States transnational corporations which operate in Latin America, for example, half of their accumulated investment in 1973 corresponded to manufactures, and during the period 1973-1976, 94 per cent of their sales were destined for the Latin American domestic market and only the remainder was sent abroad.31/

Secondly, there are the effects of intra-company trade and the problem of transfer prices, referred to later in this chapter, which may adversely influence the balance of payments, although it is difficult to evaluate this factor exactly. There are also the payments of profits, interest and royalties. For an idea of the impact of this type of payment, the example may be taken of United States investment in Latin America, which during the period 1966-1976 gave a negative balance on current account of 7,300 million dollars, resulting from the net outflow of capital from the United States to a value of 7,500 million and of net income to that country of 14,800 million in terms of dividends and interest.32/

With regard to the adaptation of the transnational corporation to the development strategies of the countries, the case of the foreign banks operating in the region is important; they collect the national savings of the countries in which they act and serve as channels for granting them credits

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31/ A.E. Calcagno, Informe sobre las inversiones directas extranjeras en América Latina, January 1978; Fernando Fajnzylber and Trinidad Martínez Tarrago, Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana, Mexico, D.F., 1975; Daniel Chudnovsky, Empresas multinacionales y ganancias monopólicas en una economía latinoamericana, Siglo XXI, Buenos Aires, 1974.

32/ Source: US Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1977, vol. 57, N° 8, page 32 and squ. US Direct Investment Abroad in 1975, Obie Wichard.

With regard to third aspect mentioned - modes of operation, in some countries of Latin America and in the rest of the world - there have been developments in at least three directions referred to here: (a) regulation of foreign direct private investment by means of general or specific legal provisons; a possible code of conduct agreed upon internationally and prescribed legal provisions issued at the level of a country or group of countries; (b) the definition of some areas in which the action of foreign private investment is admitted, excluded or admitted subject to conditions; (c) negotiation and action on a case-by-case basis with specific foreign enterprises and the use of incentives to ensure that their modes of operation are more in keeping with national development objectives. An exhaustive review of developments in these fields in Latin America is beyond the scope of the present document; in particular, there is the problem of a lack of data, which can only be obviated by basic research. But the elements available do allow preliminary review from which some tentative conclusions may be drawn. As will be appreciated, not only has the form in which these three elements (regulation, definition of sectors and case-by-case bargaining) have been used varied from one country to another, but the relative weight given to each in relation to the rest has also been different. In some countries or groups of countries, governments appear to have attached greater weight to legal regulation rather than case-by-case bargaining. In others this individual bargaining was apparently used to a larger extent than legal regulation. Naturally, in most cases, the three types of instrument were used; they are of course complementary and not mutually exclusive.

One of the main aims of these three complementary forms of guiding the activities of foreign investment in Latin America is to bring about the use of some of the new modes of co-operation between foreign investment and recipient countries worked out in recent years which may respond better than the traditional methods to the region's requirements.

Here the Latin American countries have potential advantages deriving from certain factors which will be highlighted in the course of this section: (i) the forms of operation of the transnational corporations are not static; on the contrary, they are evolving throughout the world, and there is a notable emergence of new modes and types of arrangement; (ii) the "newcomer"

/enterprises, in

enterprises, in attempting to increase their presence in a particular region of the world, tend to be more flexible and offer more favourable conditions for penetrating oligopolistic markets: they usually carry along with them the already-established enterprises which must also become more flexible in order to compete with the new enterprises; (iii) a tendency to play a more active role vis-à-vis the transnational corporations through regulations, nationalization and individual negotiations, may be observed in the governments of many developing countries, so that the action of the former will be more favourable to them; (iv) co-operation among countries in some cases has increased their bargaining power and capacity to operate vis-à-vis the transnational corporations; (v) the inflationary recession in the developed countries and the uncertainty of the world economy influenced the policies of transnational corporations with regard to investment in developing countries the energy crisis and the problems of the environment modified these policies and the sectoral pattern of investment; (vi) in some cases, public enterprises, with greater scope and economic and financial capacity, and with government support, are in a better position than medium-sized or small private enterprises in Latin America to bargain with the transnational corporations on an equal footing; a deliberate and more energetic policy by the State to support Latin American private enterprise, and the setting-up of transnationals among several countries of the region, will no doubt reduce the shortcomings of local private enterprises. Naturally, the use made of these new trends depends on the resolution with which each government defines and applies clear policies in keeping with the new opportunities.

The remainder of this chapter will start by examining these new modes of co-operation and then go on to describe the forms of action which the Latin American countries are using to orientate the activities of foreign private investment.

1. Modes of co-operation and the experience of Latin America

In the world in general and in the developing countries in particular, especially in Latin America, there are different modes of co-operation with foreign private investment and the transnational corporations. Without attempting to cover all the types, the following are presented here:

/(a) Co-production

(a) Co-production and specialization agreements between plants sited in developed countries and plants belonging to local enterprises in developing countries;

(b) Sub-contracting;

(c) Co-operation arrangements limited to aspects of technology and marketing;

(d) Joint ventures.

(a) Co-production and specialization agreements

This is an important and frequently used mode of co-operation. An analysis of it is of considerable potential interest to Latin American countries, both because it may become very widespread and because its characteristics lend themselves to making arrangements which respond to the requirements of Latin American countries. It consists in a plant belonging to a foreign enterprise located abroad and a national or regional public or private enterprise, or an affiliate of the same foreign enterprise located in a developing country, sharing out the components or the types and models of a specific good, each one of them producing and marketing a part. A basic feature of this mode of operation is that the developing country imports certain of the sector's goods which it does not produce, but also exports others in which it specializes with the co-operation of the transnational corporation which facilitates those exports. Where - and this is extremely common in Latin America with the import substitution process - the enterprise or affiliate in the developing country only produces for the domestic market, this cannot in fact be considered co-production since it does not permit exports.

Where, under the terms of the arrangement, the transnational corporation exports exclusively to regional markets involved in integration processes, this again constitutes co-production, but in limited form, it does not allow the developing country to penetrate the markets of developed countries.

Two cases may be distinguished within this mode of co-operation: co-production and specialization. In the case of co-production, both parties produce and trade among themselves components which are incorporated into the final article assembled by one or both of them. The foreign enterprise supplies part of the production equipment, licences and technical assistance.

/Once the

Once the plant located in the developing country is operating, the foreign enterprise supplies from its own country or another developed country the parts of the article which call for more advanced technology. In turn, the plant in the developing country prepares components whose technology and production are within the scope of this country's level of development, in some cases in the metal-transforming industries (production of capital equipment, motor-vehicles, etc.) components with fairly demanding requirements are produced competitively in third world countries. The parts produced in developing countries will be those with the highest labour component and advantage is taken of the lower labour costs in these countries compared with the developed countries. The assembly of the finished article is carried out in the developed or the developing country according to the technological requirements involved and the relative labour and capital content of the process.

In recent years, significant examples of this type of co-operation have begun to appear in Latin American countries. This is the case of Fiat and Volkswagen in Brazil and Nissan in Mexico; parts and components are produced in these countries and exported outside the region for incorporation in the production of the home countries of these transnational corporations, or for distribution by their marketing network. In a way, this is an extension of the form in which the motor-vehicle industry is organized in each developed or developing country: a large number of plants produce parts and components at a very specialized level and they are then incorporated into the final good in the assembly plants or used as spares. A similar form of organization can be used in other metal-transforming industries such as those producing capital goods. In Japan, extensive use has been made of this method, linking large enterprises with medium and small ones.

In the case of co-production, the foreign enterprise generally continues to contribute the new technological changes which take place in the production of the good, when the initial installation period is over.

In the case of <u>specialization</u>, instead of distributing the production of the components among the plants situated in both countries, it is the production of the types or models of the final good which is distributed. As i the previous case, the types or models involving higher technological

/requirements, or

requirements, or those which because of their higher quality and cost require more expensive labour, are produced in the plant located in the developed country. The plant in the developing country, however, produces other models, the production of which is in decline or has been discontinued in the developed countries. This type of arrangement has been made recently in a few cases between Latin American countries and European transnational corporations in the motor-vehicle industry. Volkswagen in Brazil has produced a car model and Mexico a Jeep for export outside the country and outside Latin America. In the case of Argentina, Peugeot continued to produce a car model for export outside the country and outside the region. In these cases too, lower labour costs in the developing country make it possible to continue for a time the production of models which might not otherwise be competitive in the international market.

Cases of co-production and specialization where a leading role has been played by transnational corporations, and production has been distributed among different developed countries, have been frequent.

Plants installed in developing countries under these arrangements may remain in a situation of dependence upon the foreign enterprise possessing the technology and the access to the external markets. However, these problems can be handled through negotiation, especially if the developing country has a large domestic market and productivity advantages, some degree of industrial development, cheaper labour than developed countries, etc., all of which carry weight in the negotiations. Of all these factors, the most important in achieving greater bargaining power is the size of the market the country can offer to the foreign enterprise as well as the security it offers, in the form of some degree of protection vis-à-vis the exterior and, in the case of integration schemes, tariff or non-tariff area preferences. Comparing these arrangements with the sub-contracting arrangements discussed below, it must be concluded that co-production and specialization are definitely better; the degree of dependence upon the foreign enterprise is less and it is easier to avoid its consequences; the favourable effects of the plants on the rest of industry are greater (dissemination of technology, creation of new activities, labour training, export of more value added in manufactures).

/(b) Sub-contracting

(b) Sub-contracting

A firm in a developing country produces parts or components for a firm in a developed country, for incorporation in a final good in the country of origin of the latter; or else the former carries out some stages of production, in which case the good is transferred from the developed to the developing country at a certain point in production, the agreed state of production is incorporated into it, and it is re-exported to be finished in the developed country. The stages carried out in the developing country are generally low-skilled and labour-intensive. The technical specifications are set by the foreign enterprise, which also provides technical assistance and equipment.

This type of arrangement is also made within both developed and developing countries between large enterprises and medium and small ones.

In Latin America sub-contracting has acquired importance in recent years mainly in Mexico, with the *maquila* industries which have resulted in the installation of clothing, electronics and other plants, especially near the frontier with the United States. In 1975, the value added by such industries in Mexico amounted to 468 million dollars. The gross value of exports of these manufactures in that year was 1,020.6 million dollars, or 26.3 per cent of the country's total exports and 46 per cent of total exports of manufactured products.33/ These operations have been facilitated in the case of United States tariff items 806-30 and 807-00 where the basis for payment has recently been established as the estimated value added abroad and not the total value of the import, in order to make sub-contracting possible through the transfer abroad of a part of some productive processes to take advantage of cheap labour.

The advantages of these arrangements for countries with surplus under- or unemployed manpower are clear in terms of providing employment and generating foreign exchange. From another point of view, the activities located in developing countries are in a very vulnerable position *vis-à-vis* the foreign

33/ Economic Commission for Latin America, "La exportación de manufacturas en México y la política de promoción", CEPAL/MEX/76/10, August 1976.

/enterprise which

enterprise which at any moment may decide to transfer production to another country. Investment in the developing countries is generally minimal. In a great majority of cases, only low-skilled, low-wage labour is used. There is very little in the way of dissemination of technology and stimulus for the creation of other industries, i.e., external economies, since the semi-processed goods used are imported entirely from a developed country, with the sole aim of incorporating a labour-intensive process and re-exporting them. These limitations have led in the case of Mexico to an attempt to induce these industries to acquire other inputs in the country, and to locate them not only on the frontier but also in other regions so that they may be better integrated with the rest of the manufacturing sector.

(c) Co-operation arrangements limited to aspects of technology and marketing

These arise out of the tendency to break down private investment package into its main components. It should be recalled that this investment mainly contributes technology, access to markets, organizational skills and financing. Traditionally, almost until the end of the 1960s, these elements came in a single investment package - the foreign enterprise was the owner or had a majority share of the capital and management of the plants established in developing countries with its participation. The new trend subsequent to this date in the majority of the developing countries, especially in those reaching a stage of semi-industrialization, consists in breaking down this package, and obtaining separately and independently the elements which each country requires. The ownership and management of the plants is thus no longer exclusively, or principally at least, in the hands of the foreign investor. On the contrary, means are being sought of obtaining specifically those elements which the developing country does not have. Even the technology is broken down into its different parts or components, in an attempt to find in each case a source of supply which is cheaper and more suited to the conditions of the country, in terms of making more use of domestic resources for production, in order to promote the creation of a national capacity which will help to close the technological gap and at the same time gear production more specifically to local conditions.

/These arrangements

These arrangements also avert or reduce some of the drawbacks observed in the case of exports made through intra-company transactions. As is well known, a large proportion of the exports made in the world by transnational corporations is composed of transactions between affiliates of the same enterprise or between these and the parent company. The fact that the same enterprise is both buyer and seller means that it is more difficult to check that the prices fixed really correspond to those of the competitive market for the goods, and that the developing country really obtains earnings corresponding to the value added by the activities of the enterprise in its territory and pays fair prices for the same goods imported by the enterprise itself. The known examples of prices being set at lower or higher levels than normal for the goods exported or for the inputs and equipment imported, have made developing countries sensitive about checking that the earnings they receive as exporters and the prices they pay as importers are correct. Although the data should considered as such indicative, due to difficulties in judging its quality, the fact that intra-company transactions account for large proportions of exports of manufactures by transnational corporations must be significant; in the case of the United States, this proportion is nearly 50 per cent; and in 1972, it was 73 per cent in Brazil and 82 per cent in Mexico.34/

34/ On intra-company trade, see, United States Senate, Committee on Finance, Implications of multinational firms for world trade and investment and for US trade and labour, op. cit., p. 314 et seq. With regard to transfer prices (in particular possible undervaluations of imports and exports), see: United States Senate, Committee on Foreign Relations, Multinational corporations in Brazil and Mexico: structural sources of economic and non-economic power, op. cit., p. 19 et seq.; Constantine Vaitsos, Intra-country income distribution and transnational enterprises, Oxford University Press, 1974; Daniel Chudnovsky, Empresas multinacionales y ganancias monopólicas en una economía latinoamericana, Siglo XXI Editores, Buenos Aires, 1974; Ronald Muller and Richard Morgenstern, "Multinational corporations and balance-of-payments impacts in less developed countries: an econometric analysis of export pricing behaviour", in Kyklos International Review for Social Sciences, Vol. XXVII, 1974 (reproduced in El Trimestre Económico, Mexico, July-September 1974, N° 163, pp. 665 et seq.). In this last-mentioned article, an estimated undervaluation of some exports by transnational corporations in Argentina, Brazil, Mexico and Venezuela is given, ranging on average between 40 and 45 per cent of the prices paid in the open market.

/In light

In light of the above, the countries of Latin America and other developing countries frequently prefer spedific co-operation arrangements in technology and marketing. In such cases the developing country in question must have adequate knowledge of the alternative sources available in the world to obtain these elements, as well as the capacity to analyse the different alternatives bearing in mind its specific needs and decide between them from a technological, economic, financial, etc., standpoint.

In some cases an attempt is made to transfer technology to national enterprises, or to firms whose capital or management is to a majority degree in local hands, so as to combine this transfer with technical assistance in management and the training of personnel. In other cases, the transfer of technology is arranged without the provision of other services. These methods allow national enterprises access to forms of transfer of technology which were traditionally reserved by the transnational corporations for their own affiliates or for situations in which they held a dominant position. In this case, the national enterprise shares production, export markets and the creation and adaptation of technology. In Brazil, some examples of new modes of transfer of technology involve petrochemicals, computers and aircraft construction. One case concerns the design and manufacture of civilian aircraft; the foreign enterprise provides technical assistance for the production of parts, assembly, quality control, etc.; that enterprise has the right to export; the Brazilian State enterprise can also export, probably using the distribution network of the foreign enterprise. Mexico, too, has achieved, together with a greater national technological capacity, a more selective and disaggregated incorporation of foreign technology. For example, in synthetic fibres, competition was encouraged between foreign enterprises of different origins, and the final selection took into account the provision of technical assistance both at the start and in the future and also the right to acquire separately the different technological components. In these and similar cases an endeavour is made to make the agreements for the transfer of technology more flexible for the developing country, to reinforce its capacity for the national generation of technology and improve its position for bargaining and selecting technologies.

The methods of transfer of technology range from being very systematic and complete, such as the "product-in-hand" agreements,35/ to more partial examples of sales of technical services or patents. We refer here, of course, to cases in which the national enterprise is free to export all or part of its production abroad. If production is only for the domestic market of the developing country, this is again the traditional case of sales of technology which did not allow exports; the analysis of such a case does not concern us here.

"Product-in-hand" agreements generally consist of the foreign enterprise selling the plant on a turn-key basis to the national enterprise - public or private - and initially training the technical staff and a certain proportion of the skilled labour, and later providing advisory services during the first years of operation of the plant, until it is in a position to be run entirely by the developing country. This method may be of interest for relatively less developed countries when they tackle sectors where they have not only the necessary technological grounding, but also the degree of general industrial development which would provide the environment and external economies to tackle such production by themselves. Naturally, this mode of operation will presumably prove more expensive for the country and for the national enterprise involved, with the result that they will not choose it when they are in a position to avoid doing so. Its consequences have some important features in common with the case where an affiliate of the transnational corporation, rather than a public or private national enterprise, is set up in the developing country, with a majority share of its capital and management in foreign hands, to produce specific goods.

In the other case of the sale of specific technical services or patents, the enterprise which is mainly nationally-owned acquires from foreign enterprises on a selective basis those aspects of technology which are not available in the country. This case is more interesting because it may prove cheaper and also opens up the possibility of selecting and combining technologies of different origins, in accordance with characteristics and conditions of the developing country and the sector in question.

35/ A.E. Calcagno, op. cit., p. 99.

In Latin America cases along these lines have been common, but only for production for the domestic market. In the dealings between transnational corporations and European centrally-planned economies, on the other hand, there have been some cases in recent years where the agreement to sell technology also includes arrangements regarding sales of a part of the production outside the market of the producer country.

For the countries of Latin America which are reaching a stage of semi-industrialization, arrangements for the selective purchase of technology are also more advantageous in that they allow the development of a national capacity for design and engineering, which is essential for continued progress in the creation of competitive conditions for the export of manufactures. It is worth mentioning the case of Japan, which by law forbids United States engineering firms to operate in its territory. However, co-operation between external and national engineering firms in developing countries makes it possible to train nationals of the country and develop the latter's potential.

The examples already given for Brazil and Mexico indicate the beginning of a new stage for Latin America.

Specific co-operation in marketing and distribution in external markets may form part of a wider arrangement which also includes co-operation in production, or alternatively, may take the form of an agreement which only concerns exports to international markets. For those machinery and chemical sectors where the developing countries also need to buy technology, there is generally combined co-operation in the production and marketing of certain parts and components produced by national enterprises or by affiliates in the developing country, which are distributed over the network of the foreign enterprise in external markets, or are incorporated in goods finished in and sold by the developed country.

/The second

The second case, restricted to marketing, may occur for more traditional sectors (food, clothing, etc.) where the developing country possesses no substantial technological shortcoming for production, but where transnational corporations have trade marks, new forms of presentation, advertising machinery or distribution networks which make it possible to penetrate the markets of developed countries. For the developing country, an international distribution arrangement with a transnational corporation, or alternatively selling on its own account, which may require the setting-up of a special enterprise or distribution network in some markets of developed countries, constitute options; the choice between which depends on the developing country's capacity, the competitive or oligopolistic characteristics of the markets to be conquered, and the marketing margins of the goods in question.

In Latin America these modes of specific co-operation in marketing are fairly recent. The examples quoted above for Brazil and Mexico illustrate these trends.

(d) Agreements between two or more parties to carry out joint ventures

They usually include capital, technology and management skills from one or more foreign enterprises and even from different developed countries, combined with national elements from the developing country. In some cases, none of the parties has a majority share in the capital or management. The foreign enterprises supply the more advanced technology and facilities for export. Financing may be obtained externally and internally by means of joint efforts. National participation is increasing, even in cases requiring technology of some importance.

/Agreements constituting

Agreements constituting mixed-economy companies with shared ownership signed by Governments or public enterprises of Latin American countries with transnational corporations are increasingly frequent.36/

2. Instruments of orientation

Bearing in mind these modes of co-operation among developing countries and foreign enterprises in the world and in Latin America, consideration may now be given to the instruments and methods which the governments of countries in the region are using to achieve forms of activity more in accordance with their needs and policies. They are of three kinds:

36/ Among these mention may be made of the agreements made by the Government of Brazil: (a) in the metal-transforming sector, constituting Usiminas Mecânica, with Gutehoffnung (Germany) and Nippon Steel (Japan); (b) in the iron and steel industry, Industria Metal N.S. Aparecida, with Thomas First and John Brown (United Kingdom); Usiminas, with Nippon Steel; Forja Acesita, with Sumitomo (Japan); (c) in petroleum, Petrocoque; (d) in aluminium with ALCAN (Canada); (e) in chemicals, Ciquine do Nordeste, with Adela (Luxembourg) and Royal Dutch Shell (United Kingdom-Netherlands); Ultrafertil S.A. with International Finance Co., (United States) and private Brazilian groups; Cía. Brasileira de Estirenos, with Koppers (United States) and Huels (Federal Republic of Germany); Oxiteno S.A., with IFC (United States) and local groups; Cía. Química do Reconcavo, with Morton Norvish (United States); Nitriflex S.A., with Goodyear (United States); Isocianatos do Brasil, with E.I. du Pont (United States); Salgema Industria Química, with E.I. du Pont (United States) and a private Brazilian group; Ciquine, with Mitsubishi (Japan) and a local group; Politeno S.A., with C. Itoh (Japan) and a private Brazilian group; (f) in mining, Termisa Terminais Salineros, with Morton Norvich (United States); and for bauxite, with ALCAN (Canada); (g) in telecommunications; Rio Grandense de Telecomunicaçoes, Ericsson (Sweden) and the State Government of Rio Grande do Sul; (h) in automobiles: Fiat (Italy) and the State of Minas Gerais; (i) in electronics: the agreement with Ferranti (United Kingdom); (j) in atomic energy, with Urangesellschaft (Federal Republic of Germany). In other Latin American countries, cases include in Venezuela, the agreement of the Corporación Venezolana de Guyana, Reynolds International (United States), Mitsubishi and Sumitomo (Japan), on aluminum. In Ecuador, CEPE (State) and Texaco-Gulf (United States) for producing petroleum; and the Corporación Financiera - Comisión de Valores, a State company, and a Swiss group, for the watch industry. In Trinidad and Tobago, the Government, Kawasaki and Mitsui (Japan) and Este N.V. Hoesch Hoogorem (Netherlands), for the steel industry (A.E. Calcagno, "Informe sobre las inversiones directas extranjeras en América Latina", p. 98).

(a) Regulations

(b) Definition of areas

(c) Negotiation on a case-by-case basis.

(a) Regulations

Apart from certain restrictions common to all transactions with the exterior, especially in connexion with foreign exchange controls, up to the Second World War foreign investment was not, generally speaking, subject to any particular rules. Specific legislation began to appear after the war, including restrictions which ranged from the prohibition of investment in certain sectors of the economy (publishing, domestic transport, public services, etc.) to the prior authorization required to set up an enterprise (Chile, Mexico, Argentina). In Mexico, the Government reserved the right to grant this authorization on condition, in certain cases, that at least 51 per cent of the shares were in the hands of nationals of the country.

A period of relative liberalism followed in the acceptance of foreign investment, during which the companies slowly adapted to the import substitution process set in motion in the majority of Latin American countries.

At the end of the 1960s, there was renewed discussion on the need for regulations to govern foreign investment, which led to various examples of legislation which will be commented on briefly.

In the framework of the Cartagena Agreement, the member countries adopted unified legislation in 1970, contained in Decision 24 of the Agreement and modified by Decisions 37 and 37A of 1971 and 103 of 1976. The text defines a foreign enterprise as one in which national investors possess less than 51 per cent of the shares, or where foreign investors, even when national investors possess 51 per cent or more, control the management of the enterprise, either technically, financially, administratively or commercially. It is established that an authorization is required for all new investment, re-investment, contracts for the transfer of technology, external credits, external payments for remittances of profits, royalties or the repatriation of capital. The authorization is granted insofar as the investment, which must be specified in detail, meets certain conditions aimed at protecting national industry.

/Other elements

Other elements contained in the text provide for:

- a limit of 5 per cent (increased to 7 per cent in 1976) on reinvestment of profits;

- a limit of 14 per cent (increased to 20 per cent in 1976) of invested capital for the remittance of profits in convertible currency in any one year (this provision may be repealed by the governments of the member countries);

- access to domestic credit restricted to short-term credit only (in 1976 the maximum term was set at 3 years);

- the participation of foreign enterprises in the benefits of the tariff liberalization programme of the Cartagena Agreement was conditioned upon their transformation into mixed enterprises (that is, an enterprise in which between 51 and 80 per cent of the capital belongs to national investors) within the limit of 15 years (20 for Bolivia and Ecuador) as from 1 January 1974.

It is interesting to note that the foreign enterprises which devote 80 per cent or more of their production to exports outside the Andean region were exempted from all the above restrictions. In 1976, this exemption was extended to the enterprises operating in the tourism sector.

The regulations of the Cartagena Agreement are among the most complete in Latin America and are certainly those which have had the greatest impact on public opinion.

The Mexican law on foreign investment of 1973, in view of the free exchange system existing in that country, does not place any restriction on the repatriation of capital or on remittances of profits.

All foreign investment which acquires control of more than 25 per cent of the capital of an enterprise or 40 per cent of fixed assets, or which leads to control of the effective management of an enterprise, requires prior authorization by the Comisión Nacional de Inversiones Extranjeras (set up by this same law). Except in specific cases authorized by this commission, foreign investment cannot exceed 49 per cent of a firm's registered capital, and participation in administrative organs cannot exceed the share of the capital.

All foreign investment must be registered in the Registro Nacional de Inversiones Extranjeras and the shares in foreign hands must be nominative.

Partial restrictions were laid down for foreign investment in specific sectors (mining, secondary petrochemicals, and parts for motor-vehicles) and total restrictions for hydrocarbons, public services and basic petrochemicals.

Mention should also be made of Mexico's law on the transfer of technology of 1972, under which the purchase of foreign technology must receive prior authorization and be recorded in a national register of the transfer of technology of all contracts.

In Argentina a law governing the participation of foreign investment in the economy was in force between 1973 and 1976. It provided inter alia for:

- compulsory authorization and registration subject to certain conditions to safeguard national interests, including a prohibition on the purchase of domestic enterprises and even of shares belonging to national investors;

- prohibition or restriction of foreign investment in certain specific sectors;

- the possibility that the government may require the transformation of foreign enterprises into mixed or national enterprises over the short period of three years;

- fixed annual limits for the repatriation of capital and remittances of profits.

This law has since been replaced by another with a much more liberal régime for foreign investment. It classifies new foreign investment in three categories:

(a) investment requiring prior approval by the government, with no period of time fixed for granting such approval (article 4);

(b) investment registered automatically (article 5);

(c) other investment requiring the prior authorization of the government, which must be granted within a fixed period (article 6)...

With regard to the right to permit profits and distribute capital, three situations are distinguished:

(a) periods of free exchange (international); when there are no restrictions on the purchase, sale or transfer of foreign currency, naturally both registered and non-registered investors have this right;

/(b) periods

(b) periods of exchange controls: only registered investors have this right;

(c) periods of exchange controls and of difficulties in external payments: the right of registered investors to remit profits and repatriate capital may be suspended. Only in the case of remittances of profits will the foreign investor be given bonds and debentures expressed in foreign currency (articles 11, 12 and 13). Thus the repatriation of capital may take place when there is no ostensible difficulty in the external payments.

A special tax applies to registered foreign investors in conjunction with:

(a) payments of profits in excess of 12 per cent of the capital registered;

(b) the surplus product of the investment realized, in excess of the capital which can be repatriated (article 15).

It governs the relations between the foreign mother company and its subsidiary in the country, and:

(a) recognized them provided they respect normal market prices and practices;

(b) imposes restrictions on this principle in the case of loans and contracts coming under the law on the transfer of technology (article 20).37/

In the case of Brazil, there are different legal provisions which define the treatment of foreign investment. They establish:

- total or partial prohibition on interference in certain specific sectors;

- obligation to use the register of the Central Bank through FIRCE (Fiscalización de Registros de Capitales Extranjeros), which issues a certificate of registration which records investment, reinvestment, changes in money values authorized by law, remittances of profits and other movements of funds;

- restriction of remittances of profits deriving from activities producing goods and services to an annual 8 per cent of the registered capital.

37/ CEMLA, Boletín Mensual, Mexico, vol. XXIII, N°2, March-April, 1977, pp. 96-105.

In the case of Brazil, compared with other Latin American countries, a relatively wider use has apparently been made of negotiation on a case-by-case basis rather than regulations to obtain from foreign investment and transnational corporations activities which are favourable to national development objectives. This will be discussed below. A possible interpretation of this fact is that the government wishes to maintain greater flexibility in applying its policy.

In addition to the regulations mentioned, some countries (Brazil and Mexico) have modified their legislation on patents and trade marks, by reducing the period of protection on unused patents.

(b) Definition of areas

With regard to the areas in which the participation of foreign capital is admitted, excluded or admitted under certain conditions, the provisions contained in the laws of Mexico, Argentina and Brazil were mentioned above.

Apart from regulations, nationalization was the main instrument used in the shift from the freedom existing before the Second World War to the present situation in which foreign investment is often restricted or prohibited in certain sectors.

Two main periods of nationalization may be distinguished - one immediately after the war (1945-1954) and the other at the end of the 1960s and the beginning of the 1970s (1968-1975).

Up to the 1960s, foreign investment in Latin America was principally directed to public services and the mining industry. These activities were the target of the nationalizations carried out following the Second World War.38/ Possessing substantial amounts of foreign currency accumulated during the war and through favourable conditions in international trade, in this period many countries (especially Argentina, but also Brazil, Chile, Colombia, Mexico, Uruguay and Venezuela) nationalized the greater part of their public services owned by foreign companies (railway, telephone and electricity companies).

38/ The expropriation of the Mexican oil companies in 1938, which preceded the process analysed here, should be mentioned.

/In the

In the same period a movement to control the primary industries (generally mining) developed in the region, which in a few cases took the form of nationalization (as in the case of the tin mines in Bolivia in 1952 or the expropriation of the United Fruit Company begun in Guatemala in the same year).

In addition to the very special case of Cuba, the second wave of nationalizations in Latin America began around 1968 and were aimed almost exclusively at forein investment in the mining sector. In Peru, mining enterprises almost entirely belonging to the United States, including the International Petroleum Corporation, Gulf Oil, Cerro de Pasco and Marcona Mining, were nationalized. In Chile, in 1971, the copper mining industry, which accounted for around one-third of the United States' total mining investment other than in oil in the region, was nationalized. The main companies affected were Kennecott and Anaconda. In the same year the bauxite mining industry in Guyana was nationalized.

In the petroleum sector, Argentina nationalized the production and refining of petroleum in 1964, but three years later it returned part of the assets to the foreign enterprises and increased their share in the sector. As from 1 January 1976, Venezuela nationalized all the assets of the petroleum enterprises. The governments of Trinidad and Tobago in 1974 and Ecuador in 1977 acquired the property of the main petroleum companies in both countries.

As a result of these measures, the share of the mining and petroleum sectors in the total sum of foreign investment in Latin America has diminished notably. In the case of the United States, this percentage, had already dropped to 19 per cent in 1975, from 49 per cent in 1960 and very probably has decreased sharply in the last two years as the result of the nationalization process in Venezuela.

This does not mean that direct foreign investment in the region's mining sector is going to disappear, since investment of some importance is taking place, such as Japanese investment in Brazil, or United States investment in Chilean copper.

/These nationalizations

These nationalizations in the public services and mining sector were accompanied, particularly in the last fifteen years, by very large increases in investment in sectors of industry where, with few exceptions, the countries of the region allowed foreign investment, whether regulated or otherwise.

(c) Negotiation and incentives on a case-by-case basis

Negotiation and action on a case-by-case basis for each sector of production or each foreign investment, and the use of incentives, are important instruments whose effectiveness is linked to, although not exclusively dependent on, the bargaining power of each country as determined by the factors analysed in the last section of this chapter, in particular the size of the domestic market. From this standpoint the larger economic units of Latin America, such as Brazil, Mexico, the Andean Group and Argentina, are in a better bargaining position than the other groups and individual countries; a co-operation policy covering the whole region which by no means of preferential trade agreements, would provide a reasonably dependable access to the Latin American market as a whole, would further increase this bargaining power.

With regard to European private investment in particular, it may be recalled that: (i) in recent years private investment by European enterprises throughout the world, and apparently in Latin America too, has increased more rapidly than that of the United States, which would indicate that European enterprises have achieved a larger share of external markets; (ii) since the beginning of the 1970s, rising wage levels in these countries to levels approaching those of the United States, and the falling value of the dollar in relation to some European currencies, have tended to reduce the competitiveness of the exports of some of these European countries, and to increase their interest in setting up subsidiaries in developing countries; (iii) in Latin America, these European enterprises are still generally in a minority position compared with those of the United States. In view of the above, credence may be given to the frequent affirmation that the attitudes of the transnational corporations and European private investment are generally more flexible, in that they accept more favourable conditions for the Latin American countries so as to gain entry to them or increase their

/share in

share in their markets. The newcomers must offer more favourable conditions in order to penetrate oligopolistic markets. Not all European countries have the same attitude to winning of markets: some, like Germany, are more active than others, for example Great Britain. The fact is that the transnational corporations of the United States are no longer dominant in some sectors, especially in increasing foreign investment. In order to protect themselves from growing competition from the newcomers, the transnational corporations of the United States must also increase their flexibility and accept new conditions, which will be more favourable for Latin American countries. This, of course, varies from one sector to another. These new conditions include: exports of a part of production towards markets outside Latin America; association with Latin American capital; a better disposition towards accepting the breakdown of the private investment package into its components of technology (and this in turn into its different parts), marketing, management and financing; better conditions for the transfer of technology, etc.

These negotiations and incentives are generally aimed at procuring a better adaptation of the activities of private investment and the transnational corporations to the development strategies and policies of each country, and obtaining modes of operation more in accordance with each country's characteristics and needs.

Incentives and other similar forms of activity have been applied to an increasing extent. In Brazil, in a case in the motor-vehicle industry, as part of the negotiations to allow the establishment of a plant in the country, the foreign enterprise undertook to make a specific sum of exports per year; another enterprise in this same sector located the production of a forerunner of the latest model in Brazil for export to the international market. Also in Brazil the amounts exported by each of the main foreign enterprises, compared with their import requirements, are published periodically; some enterprises can obtain special benefits in exchange for exporting each year an amount which offsets the outflow of foreign currency which the enterprise itself generates through imports, royalties and remittances of profits. In any case, the mere publication of these amounts constitutes a form of influencing the conduct of the enterprise through public opinion.

/In Mexico

In Mexico too a foreign motor-vehicle company was induced through negotiation to export parts and components to the home country. Something similar took place in Argentina with another motor-vehicle company which set up production of a successful model which still had a market and had ceased to be produced in the home country.

The growing preference of Latin American countries for foreign capital to function in association with public or private national capital, and not alone, also stems from the desire to achieve a greater degree of national control over important economic decisions and to increase local participation, so as to be able to progress in the acquisition of a basic technological and industrial capacity in order to operate on a competitive basis. This association has mainly been obtained through negotiations at the moment when the foreign investment enters the country or when a project is started, or by means of regulations, as in the case of the Andean Group. The examples of mixed enterprises quoted above for Brazil were obtained, generally speaking, through negotiations on a case-by-case basis.

These instances of negotiations on a case-by-case basis and of regulations are recent; they are proving positive not only because they facilitate the development of national technological capacity but also because of their excellent effects on the balance of payments and the country's decision-making capacity. The national enterprises are strengthened and modes of operation are achieved which are better suited to the needs of these countries. A growing predisposition may be observed on the part of the transnational corporations towards flexibility in relation to these trends and to acceptance of changing conditions within certain limits, since the benefits they obtain are wholly acceptable and the arrangements are much more stable, which clearly reduces the economic and political risks they run.

3. The special case of minerals

While investment in mineral resources has features in common with the above case, it also presents a number of special characteristics.

Up to the Second World War, the main form of producing and processing minerals in Latin America was long-term concessions and package investment in which financing, technology, organization of production and marketing

/were all

were all provided together; the minerals were frequently exported with a low degree of processing. Faced with the policies of Latin American governments aimed at nationalizing the ownership of natural resources and increasing the degree of processing in their countries, external private investment showed flexibility towards new modes of operation which were more in keeping with these new policies. The interest of Latin American countries in exporting minerals with a higher degree of processing, and in taking a greater part in their international transport and distribution, is clear, bearing in mind that at present the Latin American exporter countries only obtain a fraction - sometimes rather small - of the final price which the consumer pays.

By dividing up the investment package, the transnational corporations provide Latin American enterprises or governments with modern technology for mining or processing; draw up risk contracts for surveying in such a way that the remuneration of the foreign enterprise is dependent on the discovery of resources; take part in the international marketing of raw or processed mineral resources; and make long-term purchase contracts sometimes tied to the provision of technology or to the association of foreign investment in the production or processing of the resources, sharing in transport utilizing specialized technology. The interest of the developed countries in ensuring a regular supply of certain mineral resources encourages these new forms of co-operation, which in some cases take place with the direct or indirect participation of their governments.

The conditions of co-operation have been changing not only with respect to the moment when production begins, but also during its operation. Before the nationalization of the foreign oil enterprises, the governments of Venezuela and of other oil-exporting countries progressively increased the share of the final price which remained in the producer country. In some cases, this was done by applying taxes or other policy measures adopted by the government of the developing country, bearing in mind the specific factor which at any given moment influenced the real possibility of modifying the above proportions.