Foreign Direct Investment in Argentina and Brazil. Developmental and environmental impacts

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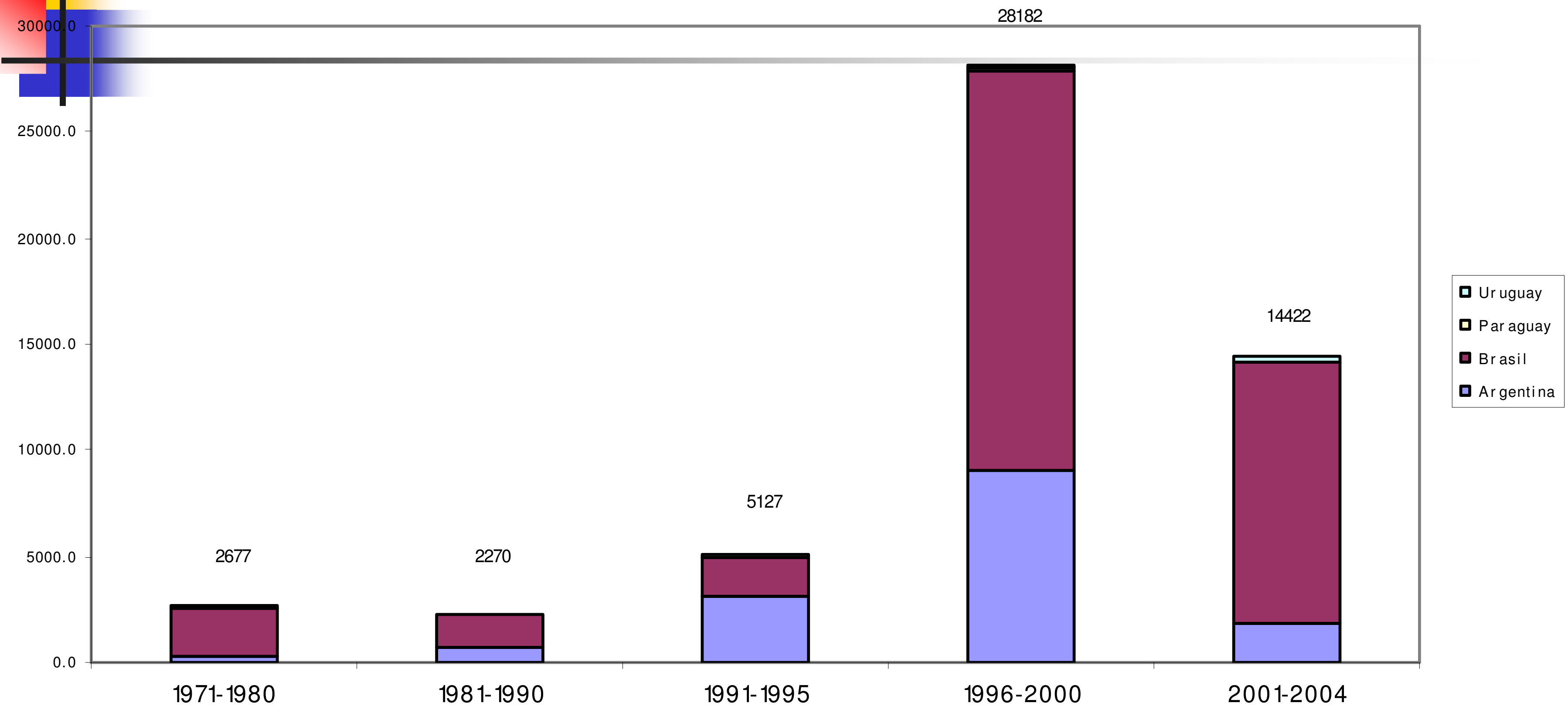
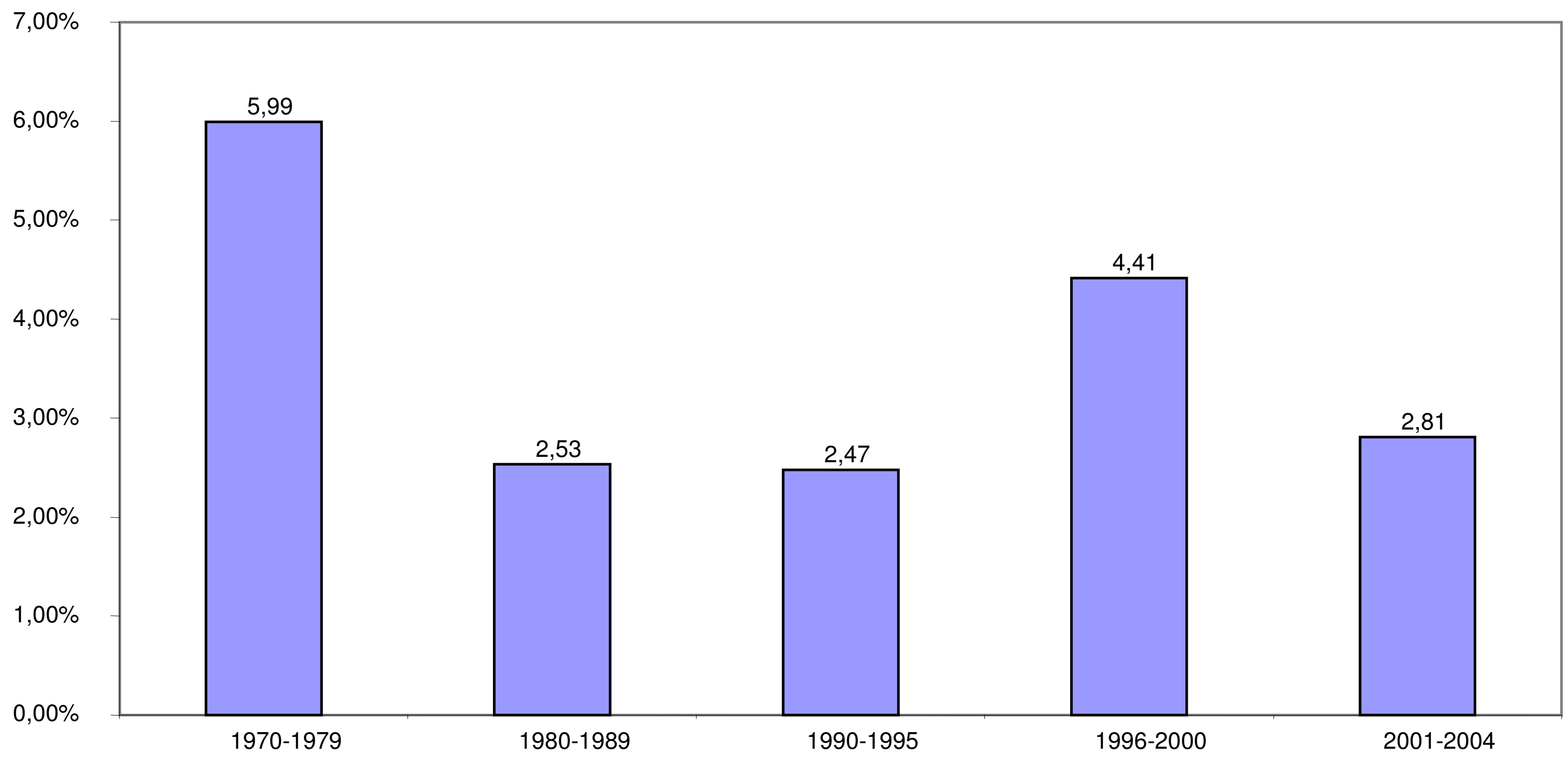
Presentation of the report Foreign Investment and Sustainable Development: Lessons from the Americas

June 19 2008, Washington DC

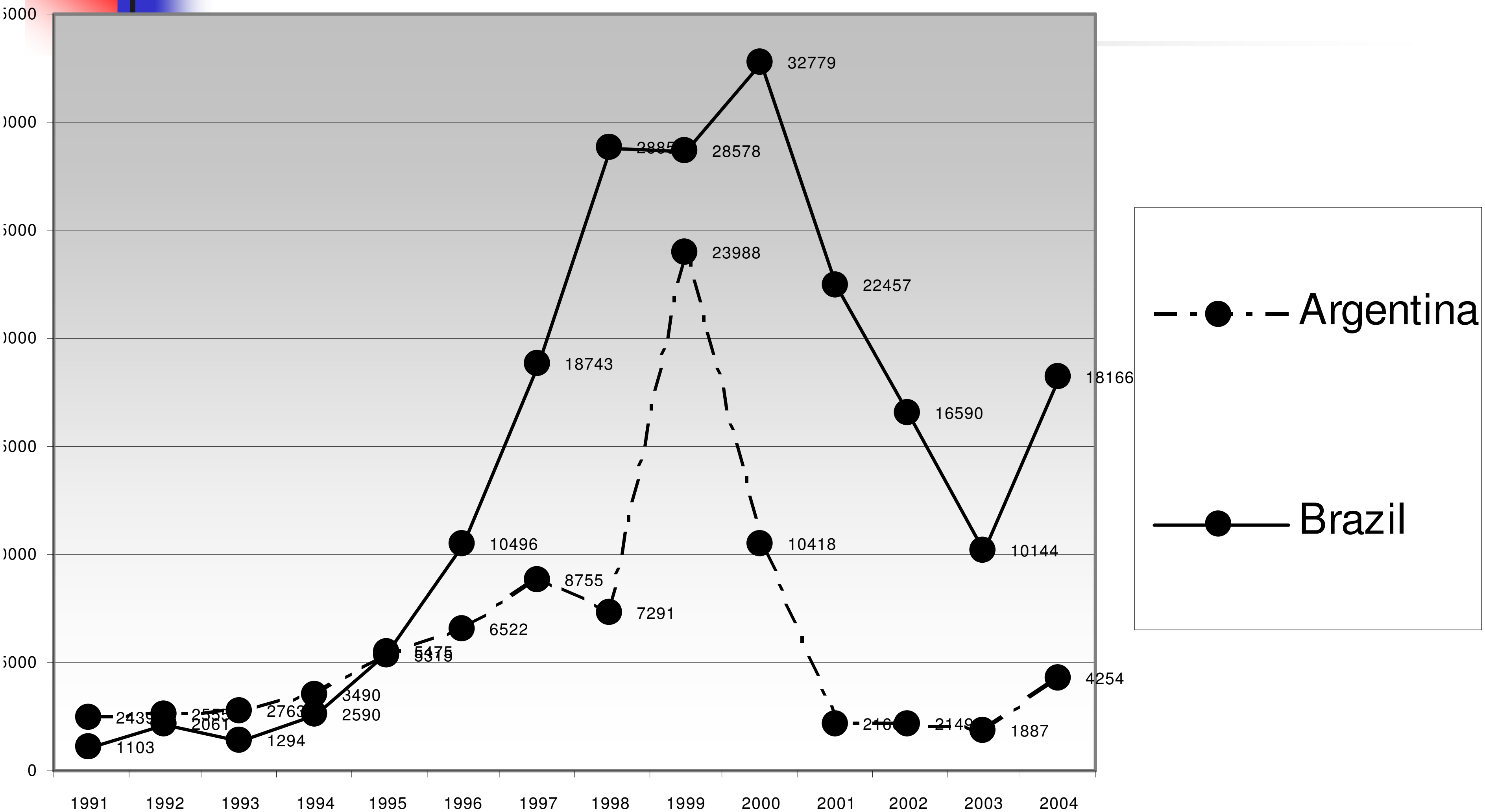
FDI inflows in MERCOSUR countries



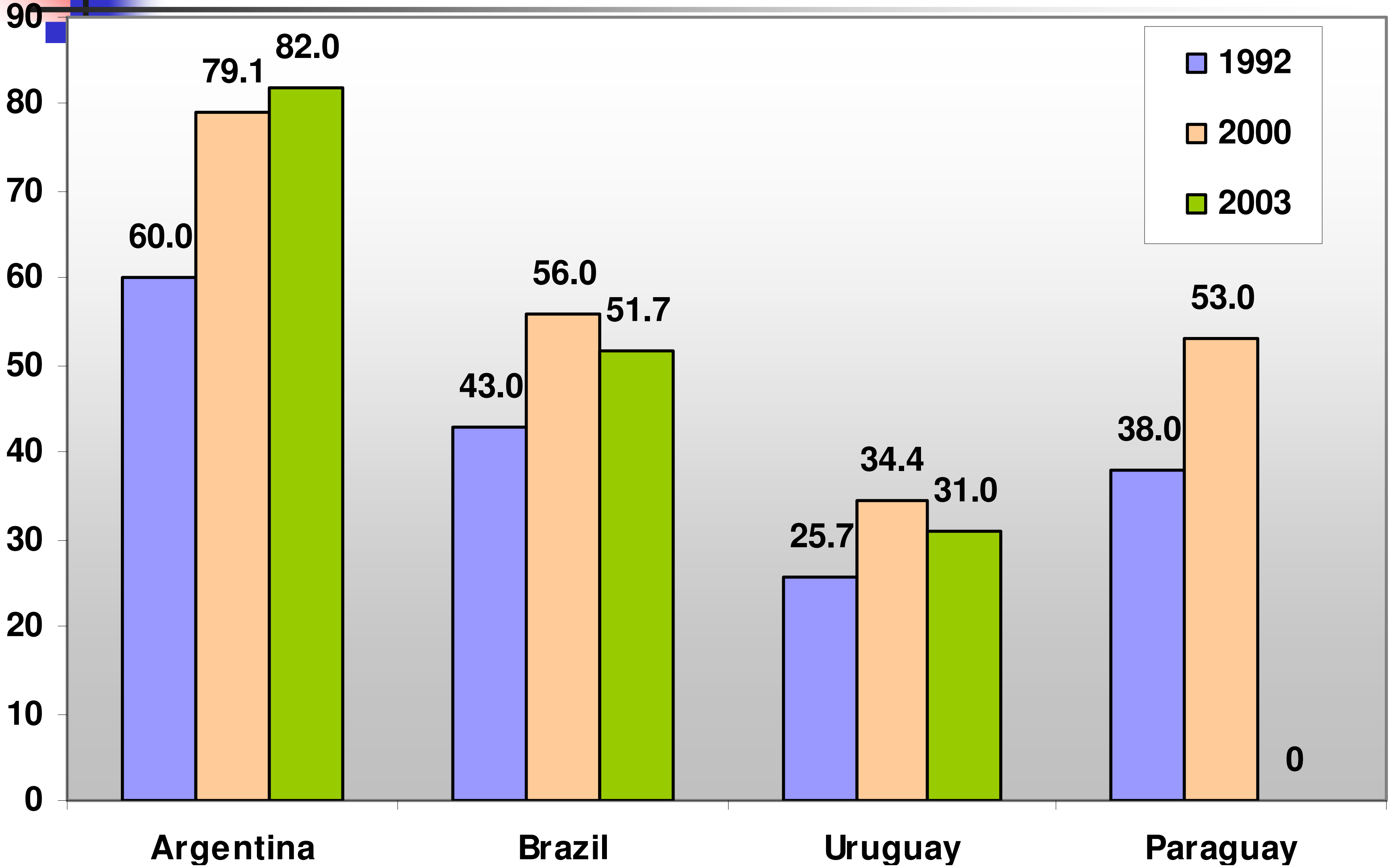
MERCOSUR's share on total world FDI flows. 1970-2004



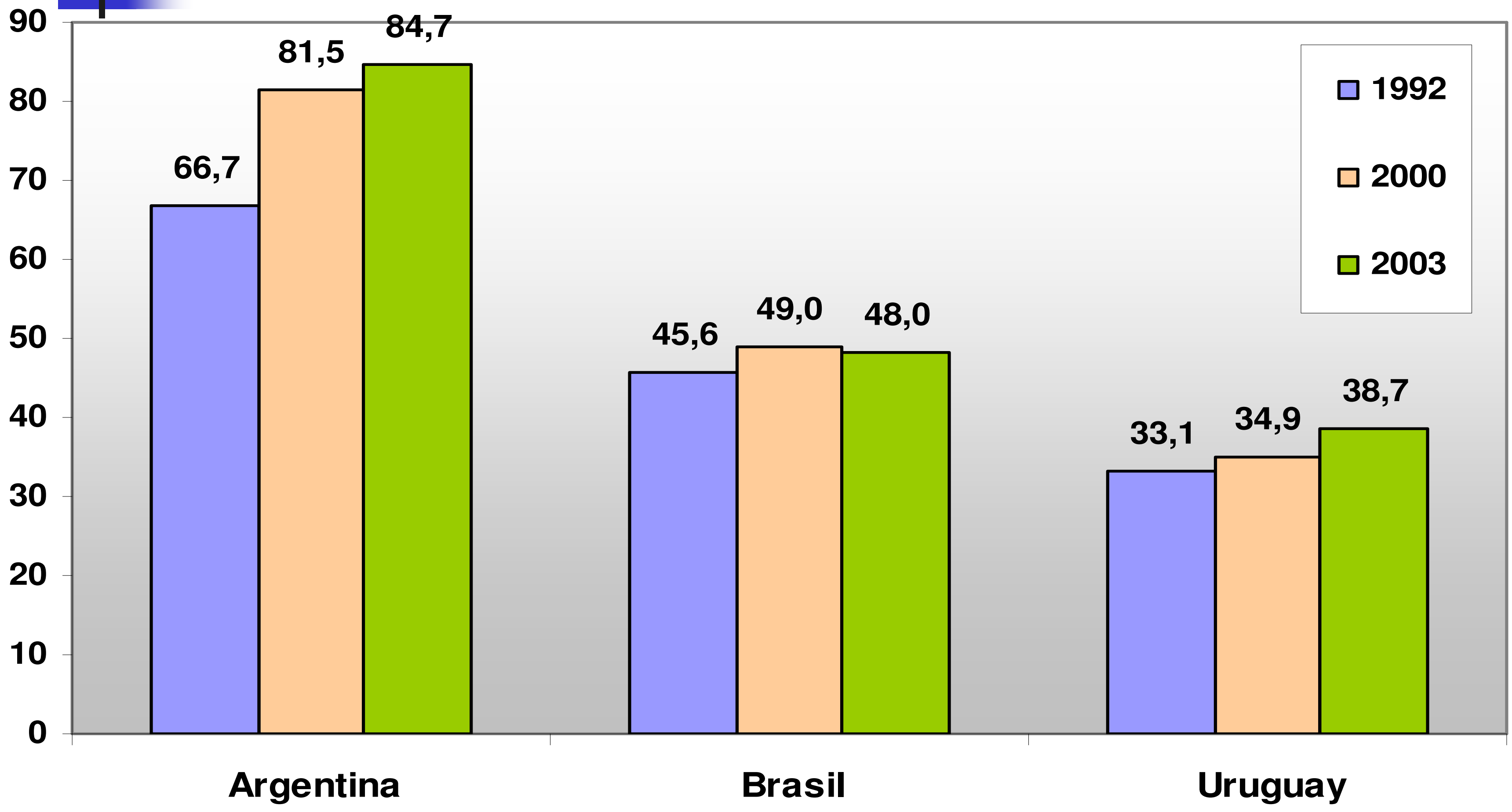
FDI inflows in MERCOSUR 1991-2004 (Argentina-Brazil)



TNCs share on total sales of leading firms in MERCOSUR countries -1992, 2000 y 2003- (%)



TNCs share on total exports of leading firms in MERCOSUR countries -1992, 2000 y 2003- (%)



Origins and destinations

- FDI in Argentina and Brazil came mainly from the US and Europe
- Services was the main destination sector, specially in the 90s (privatizations, market liberalization)
- Natural resources (specially oil and mining) attracted large amounts of FDI in Argentina
- The main investment modality was F&As

Some evidence on FDI impacts

- TNCs affiliates are generally more productive, trade more and are more innovative than local firms (although they do not spend more on R&D). They also pay higher wages to white collar workers
- While neither Argentina nor Brazil are pollution havens, TNCs environmental conducts are not systematically different from those of local firms
- No impact of FDI on growth, investment or employment

The indirect impacts

- Spillovers to domestic firms take place only in a few cases, are of small order magnitud and have heterogeneous signs
- In Brazil largest national companies that compete directly with foreign companies in the domestic market receive negative spillovers related to loss of scale and the shift to activities with a lower value added potential.
- Small low productivity firms competing in niche markets reap positive spillovers

The indirect impacts

- In Argentina positive backward spillovers exist on innovation output (meaning that firms that supply to sectors where a foreign takeover has taken place may have been induced to launch new products and processes).
- Domestic firms with high absorption capabilities reap positive productivity spillovers
- Market seeking FDI may generate negative spillovers for domestic firms
- No export spillovers were found in Argentina and Brazil

The role of foreign affiliates in Argentina and Brazil

- Affiliates established in MERCOSUR receive most of their imports from their parent TNCs' home countries, while their main export destination is the regional market. Affiliates tend to import from their home countries products, inputs, and components that are highly technology-intensive, which results in significant differences between exports and imports flows not only in value, but also in terms of technological profile.
- Few affiliates in Brazil receive global mandates to produce and develop products in the most important stages of the corporate value chain. In Argentina this trend is even more pronounced.

Policy suggestions

- Although FDI may contribute to productivity increases and technological change in host countries, specific policies are needed to reap its potential benefits (e.g. linkages with domestic suppliers, inducing TNCs to undertake innovation activities, etc.)
- FDI per se does not contribute to change the trade specialization pattern of host countries (although it may help if proper policies are in place in that regard). The same goes for the environmental performance
- FDI is not a substitute for policies oriented to improve the productive and environmental performance of domestic firms.