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## Broad Investment Opportunities in Latin America

Interview with Miguel S. Wionczek, Mexico City \*

Expropriation of US enterprises and growing nationalistic tendencies have evoked uncertainty about the future prospects of foreign direct investment in Latin America. Sr. Wionczek from the Centre of Latin American Monetary Studies analyses the demands of the Middle and South American countries with regard to foreign direct investment.

**QUESTION:** The increasing conflicts between Latin American states and the foreign investors are again and again traced back to the strength of Latin American nationalism. In Europe, the term "nationalism" is largely connected with negative ideas. Is the nationalism in Latin America of a different nature and how do you judge it?

### Nationalism in Latin America

**ANSWER:** All Latin American societies are permeated with strong feelings of political and economic nationalism. But as US Senator J. W. Fullbright put it, "nationalism, which is pre-eminently a state of mind rather than a state of nature, has become a dominant and universal state of mind in the twentieth century". That economic nationalism persists in Europe as well can be seen from the present tribulations in the European Economic Community and the ample literature of Servan-Schreiber's "Le défi américain" variety.

In Latin America and in other developing regions, nationalism must be looked upon as the strongest single force integrat-

ing societies faced with severe social and economic tensions. In that sense, it has many characteristics of the extreme nationalistic attitudes that developed in the advanced countries during the period of the Great Depression of the thirties. Nationalism of the tension-ridden developing societies will not disappear by itself. Only accelerated economic development can, in the long run, alleviate internal tensions to which these regions are presently exposed and might bring their nationalistic feelings to manageable proportions. Strong nationalism seems to represent a response to social and economic frustrations.

**QUESTION:** Could this nationalism not be overcome; e.g. would regional integration movements strengthen the Latin American position vis-à-vis the advanced capital exporting countries and thus make room for a more open-minded attitude?

**ANSWER:** The economic growth of Latin America is hampered not only by internal social backwardness and technological inefficiency but by

many present economic policies of industrial nations. Regional integration movements might help to accelerate the growth and thus provide some room for the peaceful modernisation of Latin America, but obviously they do not offer a magic solution for all the ills of the area.

If the advanced countries are interested in the attenuation of nationalistic feelings in our part of the world, they must, first, proceed with the overhaul of international aid mechanisms as proposed lately by the Pearson Commission, and, secondly, introduce far-reaching changes in the world trade practices which—as can be seen from any GATT annual report—are still ridden with restrictions aimed at Latin American actual and potential exports. Under the present conditions, it is difficult to decide who gets more benefits from aid—the "donors" or the recipient countries.

**QUESTION:** The US Department of Commerce study about the role of US direct investment in Latin America for the

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year 1955, came to the conclusion that Latin America has received large net benefits from US direct investment. Should the effects of those investments on the internal development of the individual economies indeed be judged positively, or were the structural imbalances created by these investments harmful to the region?

#### Effects of Direct Investment

**ANSWER:** There is no doubt that, independently from their origin, some foreign direct investments have brought considerable benefits to Latin American countries in terms of foreign exchange earnings, fiscal receipts or newly-created employment. But it does not necessarily follow from this statement that each and every foreign investment act, as its apologists claim, represents an unmixed blessing for the host country. In many cases foreign direct investment, whose natural objective is the maximisation of profits, has resulted in the appearance of activities positively harmful to the development objectives of low-income societies. I have in mind the creation by foreign manufacturing firms of artificial needs for highly sophisticated consumer goods that—from the social viewpoint—many Latin American countries simply cannot afford. In other cases, foreign-owned enterprises dedicate themselves just to assembling manufactures from wholly imported inputs, creating thus serious balance of payments problems for the host countries. The experiences of the Central American Common Market illustrate well this particular point. There are other situations in which foreign investors come to the area with little capital of their own for the purpose of getting control over scarce domestic financial resources of the host countries and putting them at the disposal of powerful multinational cor-

porations. This is the case of the most recent invasion of Latin America by foreign banks.

Putting the problem in simple terms of whether foreign private investment is good or bad for Latin America only confuses a very complicated issue. Some forms of foreign private investment may be beneficial, but other forms may be harmful. Moreover, the economic effects of the presence of foreign-owned enterprises cannot be divorced from political effects. Most of the opposition in Latin America against the unregulated entry of foreign private enterprises arises not only from the fear of competition felt in domestic private sectors but also from the generalised fear that the undue concentration of foreign investment in certain fields like natural resources exploitation or manufacturing leads to the serious curtailment of the possibilities to implement autonomous political and economic policies that belong to the legitimate domain of a sovereign state.

**QUESTION:** Can favourable effects of foreign direct investment on the balance of payments of Latin American countries be discerned?

**ANSWER:** A clear answer to this question with regard to Latin American countries and to the region as a whole is unfortunately impossible. While literature on foreign investment in Latin America is very voluminous, it consists mostly of ideological tracts of two sorts. Authors from the capital exporting countries tend to insist that foreign private capital represents an important balance of payments aid. The majority of Latin American economists and political scientists sustains that foreign direct investors are bleeding out the area through exports of profits. Only when objective scholarly studies like

those elaborated lately in Australia, Canada or Great Britain are available in our part of the world, one will be able to come to a reasonably correct conclusion in respect to the short and long-run effects of foreign direct investment upon Latin American balances of payments.

#### Transfer of Know-how

**QUESTION:** When thinking of foreign direct investments, one usually attaches to them the transfer of techniques, know-how and progressive management. Are there any doubts in this respect in Latin America?

**ANSWER:** Foreign direct investment does involve transfer of technology, know-how and progressive management. But this subject should be studied at least on two levels. The first question is whether transfers from the advanced to the low-income societies involve technology and know-how suitable to economic and social conditions prevailing in Latin America. Are, for example, technologies developed in the economies in which labour represents the scarcest factor of production adequate for those suffering from chronic unemployment and under-employment? The second question is that of the cost of the transfer of technology and know-how. There is a growing suspicion in Latin America that foreign private investors often sell to the host countries for exorbitant prices technologies and know-how otherwise freely available. Consequently, in many countries of the region attempts are made to acquire technology and know-how divorced from capital control. The experiences of Japan in this respect are being watched with growing interest in most of Latin America.

**QUESTION:** Do you consider the training of Latin American workers and employees in foreign enterprises as a positive

contribution to the economic development of the host countries?

**ANSWER:** Training of local labour force in foreign-owned enterprises represents clearly a positive aspect of foreign private investment in Latin America. But until very recently many foreign companies were showing little enthusiasm for training local high-level personnel. Only restrictions on the use of foreign personnel implemented for many years in countries like Mexico and Brazil led to a change in the attitudes of many foreign firms. A clear analysis of the reasons for the opposition of large foreign corporations toward "Latin-Americanisation" of top management of their subsidiaries can be found in a pioneering study by John C. Shearer from Princeton University entitled "High-level Manpower in Overseas Subsidiaries—Experiences in Brazil and Mexico".

#### **Stronger Control of Foreign Investment**

**QUESTION:** It is presumably thought that the foreign investors have made many mistakes in Latin America in the past. Do you think that there is a possibility or need to control foreign direct investment more intensively, e.g. according to the proposal of the Chilean foreign minister, Gabriel Valdés, to allow direct investment to go only into structurally underdeveloped sectors?

**ANSWER:** What the Chilean foreign minister most probably had in mind is that foreign private investment should not attempt to enter the fields either reserved to the State or endowed with technologically advanced and relatively efficient local enterprises. One of the major conflicts between foreign and local interests in Latin America arises from the practices of large foreign corporations to buy out

local concerns, particularly in manufacturing, distribution and banking.

Behind the proposals such as the one made by Mr. Valdés, there are, however, many major political and economic policy considerations. Some may be worth mentioning here. A situation in which foreign investors intend to take over local manufacturing and distribution activities is politically unacceptable to most of Latin America. There is little enthusiasm for foreign investment projects whose contribution in terms of capital and new technology is very limited. Foreign investors who try to finance themselves through access to local financial resources or bring expendable technology aimed at producing luxury consumption goods are not particularly welcome. Finally, in view of Latin America's need to expand and diversify its export base, the highest priority is being given to investments in manufacturing not only for domestic consumption but for exports as well.

**QUESTION:** Would not such restrictive measure lead to a stopping of the flow of new foreign direct investment, as there are hardly any profit opportunities in these sectors?

**ANSWER:** There is no proof whatsoever that no profit opportunities exist in the still underdeveloped productive sectors such as processing of raw materials and manufacturing for exports. Most available studies of foreign investment profitability in Latin America are either based upon incomplete and faulty information or are openly biased. Anyone having the first-hand knowledge of the region knows that profits of all—except most inefficient—business enterprises are extremely high. It is due, among others, to high protective barriers, quasi-monopolistic situa-

tions, faulty fiscal systems, and all kind of incentives offered to the private sector by the State. Actual annual profits of local enterprises, although often undisclosed, are very often of the magnitude of 20 p.c. over the investment value. To accept, as some widely circulated foreign official surveys insist, that profits of foreign enterprises in the region are lower than elsewhere would amount to accusing these firms of gross inefficiency and mismanagement. Since this is not the case, the few existing studies of profitability of foreign-owned ventures in Latin America cannot be treated seriously. If these ventures bring only pitiful profits, why do most subsidiaries of foreign corporations refuse to disclose their balance sheets to the Latin American public? And why do the home-offices publish as a rule only consolidated loss and profit statements covering all their international operations?

#### **Broad Investment Opportunities**

**QUESTION:** Do you think that European firms will be prepared to invest in Latin America directly more than they have done up to now?

**ANSWER:** With very few exceptions, European firms have been very successful financially and otherwise in Latin America, particularly in Argentina, Brazil and Mexico. According to official West German figures, direct investments of German enterprises in the region rose from zero at the end of the last world war to an estimated sum of DM 1,900 mn at the end of 1968. Italian, French and Japanese direct investments in Latin America are expanding also considerably, proving that the feelings of hostility in Latin America against foreign investment as such are highly exaggerated and that broad investment opportunities exist.