Foreign direct investment from Latin America and the Caribbean*

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This article examines patterns of outward foreign direct investment (FDI) from Latin America between 1980 and 2004. Despite rising levels of FDI worldwide, little research has been undertaken to study FDI from Latin America. We used data on 910 Latin American firms to conduct both macro and micro-analyses. Latin America's share of outward FDI declined steadily after 1980 to less than 2 per cent of the world's total in 2002. Few Latin American firms operate foreign affiliates outside Latin America. Most Latin American transnational corporations have invested in geographically close markets through acquisition rather than greenfield investment, primarily to serve the market when exporting is not feasible. We also found that inward FDI often stimulates outward FDI. Using Dunning's investment-development path framework, we conclude that Latin American countries straddle stages two and three of the model. From a policy perspective, countries may gain advantages by encouraging firms to develop capabilities to operate internationally, particularly through regional expansion.

Key words: Investment development path, internalization theory, foreign acquisitions, Latin America.

1. Introduction

The ongoing debate over the positive and negative effects of foreign direct investment (FDI) on host and home economies

* The authors gratefully acknowledge the assistance of Masataka Fujita at UNCTAD for his valuable assistance with our data collection and analysis efforts.

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has continued to generate interest in FDI as a topic of research among academics, government policy makers and practitioners alike. Despite rising levels of FDI during the past 25 years, we still know relatively little about FDI from developing countries or the relationship between FDI flows and transnational corporations (TNCs) from developing countries. The historical dependence of developing countries on incoming FDI flows may partially explain the lack of attention given to FDI outflows from these countries. In this article, we examine patterns of outward FDI from Latin America and the relevance of traditional theories of FDI to explaining them. Furthermore, we suggest how Latin America could benefit more from current globalization trends.

We also examine and compare the phenomena of regional and global FDI flows. Over the past several decades, Latin American countries have pursued FDI policies with a view to assisting both the regionalization and globalization of their firms. On the one hand, one of the objectives of regional economic integration has been to promote intra-regional FDI. On the other hand, Latin American economies have increasingly promoted strategies that improve their TNCs' ability to participate in global markets (Trevino, 1998). However, research suggests that Latin American governments have recently shifted policies towards stimulating greater global inflows of FDI, even though regional Latin American FDI flows during the 1990s increased significantly (Garay and Vera, 1998; Rugman and Verbeke, 2004).

2. Historical overview

Although the economies of most Latin American countries grew rapidly from the post-Second World War era through to the early 1980s, the lack of international competition set the stage for the eventual and abrupt decline in economic growth. By limiting imports and placing severe restrictions on inward FDI, governments in many Latin American countries created an economic environment that did not promote innovation. Domestic and foreign manufacturers within Latin America had few incentives to create internationally competitive products when they faced little international competition in Latin America. As a result, many export products became uncompetitive. Thus, few Latin American companies possessed or were in a position to develop the core competencies necessary to vertically or horizontally extend their operations internationally. In addition, foreign exchange shortages became critical in the region during the 1980s, further inhibiting outward investment by Latin American companies.

The 1980s in Latin America were characterized by debt accumulation, external debt servicing problems and debt restructuring. High levels of inflation and low rates of real growth discouraged investors in developed countries from investing in production facilities in Latin America. High inflation and currency devaluation resulted in capital flight as individuals invested in hard currency assets. Debt accumulation also motivated Latin American banks to establish foreign affiliates, particularly in the United States, as a means of soliciting funds for debt servicing. Lacking sufficient hard currency, many Latin American governments began to open their markets and to transform their roles in the world economy. In particular, many government agencies began delegating economic decision making to the private sector and allowing market forces to drive competition.

By the late 1990s, the largest countries in Latin America, such as Mexico and Brazil, had stabilized their economies by implementing policies that brought inflation and foreign exchange fluctuations largely under control. Increased economic stability attracted larger FDI inflows from the United States, Europe and Asia. Inward FDI, as we discuss later, may have provided an important stimulus for outward FDI and the development of TNCs in Latin America. Some Latin American companies responded to these new competitive conditions by clinging to "traditional" strategies such as cost-plus pricing which, while successful under the previous operating environment, were fatally flawed in the new environment. Other firms, however, did respond by restructuring their businesses to increase competitiveness. Some of these firms developed into fully integrated TNCs.

Policy makers were interested in patterns of Latin American FDI during the 1980s because of their effect on short-term debt repayments, trade balances, growth rates and foreign exchange earnings. The initial examination of FDI from Latin America into the United States during the 1980s indicated that flows were not entirely consistent with standard business motives that explained FDI (Krug and Daniels, 1994). Few investments appeared to have been initiated by Latin American TNCs to exploit firm-specific advantages. Of the 579 Latin American investment cases in the United States between 1980 and 1988, 373 (64%) were in real estate. Of these, almost 79% were in the State of Florida, while 50% of the non-real estate investments were in either Florida or New York. In addition, one-third of the non-real estate investments were in banking. Finally, more than 70% of all investments between 1980 and 1988 were made before 1984.

Krug and Daniels (1994) suggested that the lower rate of investment from Latin America after 1983 had two primary causes. First, many Latin American governments reacted to the large outflows of capital during the early 1980s by implementing a variety of new restrictions on outward capital flows to preserve scarce foreign exchange. These restrictions heavily influenced the decline in capital flows from Latin America to the United States during the mid- to late-1980s. Second, the accumulation of debt in many Latin American countries prompted most United States banks to slow lending activities in the region by 1984. This partially explains the complete absence of new banking offices opened in the United States after 1983, since United States-based banking offices were no longer able to raise funds effectively from United States banks for businesses and government agencies in Latin America.

3. Data and methodology

We utilized both macro- and micro-economic data in our study. We first searched for macro data on global FDI flows rather than data that were specific to Latin America. Second, we searched for firm-specific data that would provide information on individual foreign transactions, in order to gain insight into the motivations of Latin American TNCs as they evolved from local to global investors. The use of United States Department of Commerce data enabled Krug and Daniels (1994) to identify specific Latin American foreign investment transactions within the United States. These data, however, did not allow analysis of FDI patterns or motivations beyond the United States (United States Department of Commerce, 1985, 1985-1990). In the present study, we could not follow specific transactions in the United States because the United States Department of Commerce no longer reports them. Nevertheless, we were able to examine outward Latin American FDI data for a wider range of recipient countries.

For global FDI flows, we used data from the United Nations Conference on Trade and Development (UNCTAD, 2003). These data provided a country-by-country breakdown of FDI flows from Latin America between 1980 and 2002. We believe these data are fairly complete and allow us to analyse general FDI flows without being restricted to particular investment destinations. However, there were measurement and reporting issues that needed to be considered. The fact that the data had been compiled using country reports presented a variety of problems that complicated comparisons among countries. In particular, countries use different data collection techniques and definitions of FDI. Therefore, the accuracy and consistency of data can be problematic.

Another problem is that investment made through intermediate countries may obscure the source of ultimate national ownership, e.g. when a German company establishes a Panamanian company that subsequently invests in the United States. Teléfonos de Mexico, for example, although headquartered in Mexico, estimates that close to 90% of its trading activity takes place in the United States through American Depository Receipts (ADRs) (Shearer, 2001). Another potential problem is that most Latin American countries have fairly small amounts of outward FDI on an annual basis. As a result, a large investment or divestment in any one year will create lumpiness in the time series data of FDI stock and flows. Further, some investment may be short-lived. For example, Grupo Mexico's 1998 acquisition of Asarco in the United States for a reported $1.2 billion caused Mexican FDI figures for that year to jump substantially. In the following year, however, Grupo Mexico divested Asarco's American Limestone division for $250 million as well as the specialist chemicals division for $503 million, in order to reduce debt that it had incurred from the original acquisition (Shearer, 2004; Tellechea, Gonzalez and Cooper, 1999). Since our approach was to examine broader patterns over longer periods to identify trends, our analysis was less affected by these data problems.

The second step in the data collection process was to construct a list of Latin American TNCs. We first identified a list of large Latin American firms using the *Thomson ONE Banker* database, which includes companies from Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. We then used the *LexisNexis* database to identify which of these companies had established foreign affiliates outside their home countries. The *LexisNexis* database enabled us to access corporate information on each firm from a variety of sources, such as *Hoover's Company Records*, *The Major Companies Database*, *Nelson's Public Company Profiles*, *International Institutional Database*, *Thomson Extel Cards Database*, *Foreign Companies in Emerging Markets Yearbook*, *Worldscope* and *United States Institutional Database*. Using these sources, we identified companies with foreign affiliates, examined each firm's business profile and determined the location of foreign affiliates. Of the 910 firms we examined, we identified 79 firms (9%) with foreign affiliates. Although the *Thomson ONE Banker* database included more Brazilian companies (332) than companies from any other country, only about 4% of these had foreign affiliates. Mexico (21%) and Chile (11%) had the greatest share of firms with foreign affiliates. We identified three or fewer firms with affiliates in the cases of Colombia, Peru and Venezuela.

4. World and Latin American FDI stocks

Table 1 shows the ownership of FDI stock by region from 1980 to 2002. Most striking is the increased importance of outward FDI from Europe. Outward FDI from the United States and Canada also increased significantly during this period, but their share of global FDI ownership decreased substantially. In aggregate, the stock of FDI owned by developing country TNCs increased at an average annual rate of 12.4% compared to an annual increase of 12.0% for developed country TNCs. However, the Middle East and Asia regions, especially Hong Kong (China) between 1993 and its transfer from the United Kingdom to China in 1997, accounted for a large part of this growth. In table 1, we excluded Bermuda, the British Virgin Islands, the Cayman Islands, Panama and the Netherlands Antilles from the Latin American region because these countries serve largely as registration havens for investors located elsewhere. Although the remaining Latin American countries more than doubled the value of FDI stock between 1980 and 2002, their share in global FDI stock fell from 8.9% to 1.7%.

Table 1. Foreign direct investment stock by region of the world, 1980-2002
(Millions of dollars)

Region of Ownership	1980	%Total	1990	%Total	2002	%Total	Annual Growth Rate (%)
Europe	237 694	42.1	874 369	49.6	3 771 452	54.9	13.4
United States	215 375	38.2	430 521	24.4	1 501 415	21.9	9.2
Canada	23 783	4.2	84 837	4.8	273 719	4.0	11.7
Australia & New Zealand	2 788	0.5	36 905	2.1	98 781	1.4	17.6
Japan	19 610	3.5	201 440	11.4	331 596	4.8	13.7
Israel	141	0.0	1 189	0.1	10 783	0.2	21.8
Developed Countries	499 391	88.5	1 629 259	92.4	5 987 746	87.2	12.0
Africa	6 871	1.2	20 777	1.2	43 574	0.6	8.8
Latin America	49 976	8.9	56 905	3.2	113 948	1.7	3.8
Middle East & Asia	6 193	1.1	48 868	2.8	632 114	9.2	23.4
Oceania	13	0.0	85	0.0	588	0.0	19.0
Other [a]	1 553	0.3	6 453	0.4	59 240	0.9	18.0
Developing Countries	64 606	11.5	133 088	7.5	849 464	12.4	12.4
Eastern Europe	0.0	0.0	616	0.0	29 152	0.4	n/a
World	563 997	100.0	1 762 963	100.0	6 866 362	100.0	12.0

Source: UNCTAD, Division on Investment, Technology and Enterprise Development, Geneva.

[a] Includes Bermuda, British Virgin Islands, Cayman Islands, Panama and Netherlands Antilles.

5. Patterns of outward FDI from Latin America

Tables 2 and 3 summarize the outward FDI flows and stock of Latin America between 1980 and 2002. Historically, a substantial portion of outflows from Latin America have come from tax-haven countries. For instance, in 2002, 39.1% came from the Cayman Islands and Panama. Anecdotal evidence suggests that a large portion of this FDI originates from countries outside Latin America and is re-routed through these countries, which serve merely as investment-entrepôts (Bjorvatn, 1999). Table 4 supports this view, showing that FDI outflows are particularly large in comparison with these countries' GDPs; for instance, FDI outflows from the Cayman Islands are almost twenty times the size of its GDP. In the following sections, we describe the outward FDI from the four countries for which we found a significant number of TNCs – Chile, Brazil, Argentina and Mexico.

Table 2. Foreign Investment Outflows from Latin America 1980-2002
(Millions of dollars)

Region	1980-1990	%Total	1991-2002	%Total	1980-2002	%Total
Argentina	-2	0.0	13 440	22.7	13 439	20.7
Brazil	2 866	49.2	11 127	18.8	13 992	21.5
Chile	134	2.3	15 139	25.6	15 273	23.5
Colombia	453	7.8	3 771	6.4	4 224	6.5
Jamaica	37	0.6	830	1.4	867	1.3
Mexico	1 040	17.8	8 285	14.0	9 325	14.3
Peru	2	0.0	626	1.1	628	1.0
Venezuela	1 156	19.8	4 568	7.7	5 724	8.8
Other	141	2.5	1 414	2.3	1 559	2.4
Subtotal	5 831	100.0	59 200	100.0	65 031	100.0
Cayman Islands	694		19 332		20 026	
Panama	3 378		12 668		16 046	
Subtotal	4 072		32 000		36 072	
TOTAL	9 903		91 200		101 103	

Source: UNCTAD, Division on Investment, Technology and Enterprise Development, Geneva.

Table 3. Foreign Investment Stock from Latin America, 1980-2002
(Millions of dollars)

Region	1980	%Total	1990	%Total	2002	%Total
Argentina	5 997	12.0	6 106	10.7	19 407	17.0
Brazil	39 601	79.2	42 101	74.0	53 227	46.7
Chile	42	0.1	178	0.3	13 439	11.8
Colombia	136	0.3	402	0.7	3 830	3.4
Jamaica	5	0.0	42	0.1	872	0.8
Mexico	3 589	7.2	4 628	8.1	12 425	10.9
Peru	3	0.0	122	0.2	730	0.6
Venezuela	23	0.0	2 239	3.9	6 807	6.0
Other	590	1.2	1 108	2.0	3 223	2.8
SUBTOTAL	49 986	100.0	56 926	100.0	113 960	100.0
Cayman Islands	5		694		20 026	
Panama	811		4 188		7 768	
SUBTOTAL	816		4 882		27 794	
TOTAL	50 802		61 808		141 754	

Source: UNCTAD, Division on Investment, Technology and Enterprise Development, Geneva.

Table 4. Foreign Investment FDI Stock % of Gross Domestic Product in Latin America, 1980-2002

Region of Ownership	1980	1985	1990	1995	2002
Cayman Islands	5.6	39.0	140.3	258.4	1,967.4
Panama	21.3	40.8	78.8	62.5	69.1
Bahamas	21.3	6.6	19.8	37.2	27.6
Chile	0.2	0.6	0.6	3.7	20.2
Argentina	7.8	6.7	4.3	4.2	19.0
Brazil	16.9	18.2	9.1	6.5	11.8
Jamaica	0.2	0.2	1.0	6.4	11.2
Belize	-	-	-	2.0	7.7
Venezuela	0.0	0.3	4.6	5.1	7.2
Trinidad and Tobago	-	0.2	0.4	0.5	6.6
Colombia	0.4	0.9	1.0	1.1	4.7
Paraguay	2.5	4.0	2.6	2.0	3.0
Uruguay	1.7	3.8	2.0	1.0	2.3
Mexico	1.6	2.2	1.8	2.1	2.0

Source: UNCTAD, Division on Investment, Technology and Enterprise Development, Geneva.

Chile

If we exclude FDI from the Cayman Islands and Panama, Chile accounted for the largest share of outward FDI from Latin America (more than 24% of Latin America's total) during the 1990s and early 2000s. Interestingly, Chile was also Latin America's most successful attractor of FDI between 1988 and 1999 (Trevino *et al.*, 2002). Of the 21 Chilean firms we identified as having foreign affiliates, 19 have affiliates in either Peru or Argentina and eleven have affiliates in both (see table 5). About half of them have affiliates in South American countries other than Peru or Argentina. Few firms have foreign affiliates outside South America: two in the United States, two in Europe and three in Latin American investment-entrepôt countries. Our findings closely parallel those from UNCTAD data, which indicate that more than 90% of Chilean FDI is directed to Argentina. Thus, geographic proximity appears to be a leading factor in determining where Chilean firms invest.

No single industry dominates Chile's FDI activities. Rather, firms from a variety of industries have made foreign investments, including the machinery, metals, gypsum products, furniture and fixtures, metal containers, bottles, food, chemicals, cosmetics, animal feed, iron, steel, construction and fishing industries. We now describe some of these investors and their FDI activities.

The Corporacion Nacional del Cobre de Chile (Codelco) is Chile's largest corporation and the world's leading producer of copper. It controls 17% of the world's copper reserves and accounts for almost 20% of Chile's exports. It has joint development partners in Canada, Mexico and the United States and owns large trading offices in Germany and the United Kingdom. However, the role of its trading offices is primarily to support export sales rather than to undertake foreign production. Smaller firms, such as Madeco, with fewer than 3,000 employees, have made greater inroads with outward FDI in manufacturing. Madeco produces copper wire and cable (building wire and fibre-optic telecommunications cable) abroad for the construction and telecommunications industries in

Table 5. Major Latin American Transnational Corporations

Country	Company	Employees	Firm	Business Description	Foreign Affiliates
Argentina	Acindar	4,000	Mfg	Steel pipe, tubing	Brazil, Uruguay.
Argentina	Aluar Aluminio	1,790	Mfg	Aluminium products	United States, Europe, Asia
Argentina	Atanor	768	Mfg	Chemicals	Brazil, Uruguay
Argentina	Grupo financiero Galicia	6,035	Serv	Banking	United States, Brazil, Caymans, Uruguay
Argentina	Repsol	9,750	Mfg	Oil and gas exploration	Chile, Peru
Brazil	Aco Altona	600	Mfg	Metal products	Venezuela
Brazil	Banco Bradesco	75,000	Serv	Banking	United States, Argentina, Bermuda, Luxembourg
Brazil	Banco do Brasil	80,000	Serv	Banking	30 offices in 25 foreign countries
Brazil	Bicicletas	310	Mfg	Bicycles, fitness products	United States, Bolivia, Paraguay, Uruguay
Brazil	Duratex	5,815	Mfg	Furniture, fixtures	United States, Argentina, Netherlands
Brazil	Embraer	5,931	Mfg	Aircraft	United States, Australia, France
Brazil	Gerdau	20,160	Mfg	Long-rolled steel	United States, Canada, Chile, Uruguay
Brazil	Metodo Engenharia	490	Mfg	Building construction	Uruguay
Brazil	Petrobras	48,798	Mfg	Petroleum producer	United States, Argentina, Bolivia, Colombia, Angola, Nigeria
Brazil	Petroflex	594	Mfg	Chemicals, rubber	Uruguay, Virgin Islands
Brazil	Potobello	1,658	Mfg	Ceramic tiles	United States, Argentina, Chile
Brazil	Suzano		Mfg	Paper and pulp	United States, Portugal,Caymans
Brazil	Tupy	3,965	Mfg	Iron and steel foundries	United States, Germany
Brazil	Unibanco	27,625	Serv	Consumer banking	Caymans, Paraguay, Luxembourg
Brazil	Votorantim	4,500	Mfg	Paper and pulp	United States, Belgium, Germany, Singapore
Chile	AES Gener	446	Serv	Electricity generation	Argentina, Caymans, Colombia
Chile	Agricola Nacional	553	Mfg	Machinery	Peru
Chile	Besalco	3,270	Mfg	Highway construction	Argentina, Peru
Chile	Chilectra	1,659	Serv	Electricity generation	Argentina, Brazil, Colombia, Panama, Peru
Chile	CINTAC	520	Mfg	Metal processing	Argentina, Peru
Chile	Volcan	335	Mfg	Gypsum, plaster board	Brazil
Chile	Companias CIC	1,030	Mfg	Furniture	United States, France, Spain, Argentina, Peru, Uruguay
Chile	CORESA	773	Mfg	Metal containers	Argentina, Peru
Chile	Embotelladora Andina	4,124	Mfg	Bottles	Argentina, Brazil, Uruguay
Chile	Empresas Iansa	2,277	Mfg.	Sugar, food, animal feed	France, Brazil
Chile	Enaex	804	Mfg	Explosives, chemicals	Peru
Chile	Enersis	11,156	Serv	Electricity generation	Argentina, Brazil, Chile, Colombia, Peru
Chile	Farmacias Ahumada	2,685	Mfg	Cosmetics, drugstores	Brazil, Chile, Mexico, Peru
Chile	Forestal Terranova	3,608	Mfg	Lumber, wood products	United States, 10 Latin American countries
Chile	Iansagro	2,180	Mfg	Feedstuffs, fertilizers	Peru
Chile	Industria Nac. de Alimentos	958	Mfg	Noodles, dry pasta, oils	Argentina, Chile, Peru
Chile	Invercap	606	Mfg	Iron, steel	Argentina, Bahamas, Peru
Chile	Inversiones Campos	2,159	Serv	Insurance	Peru
Chile	Madeco	2,788	Mfg	Copper wire, cable, brass	Argentina, Brazil, Chile, Peru
Chile	Parque Arauco	212	Mfg	Construction	Argentina
Chile	Sipsa	8	Mfg	Fishing, shipping	Argentina

Table 5 (concluded)

Country	Company	Employees	Firm	Business Description	Foreign Affiliates
Colombia	Banco de Bogota	7,400	Serv	Commercial banking	United States, Bahamas, Caymans, Panama
Colombia	Interconexion Electrica	927	Serv	Distribution of electricity	Ecuador, Peru, Venezuela
Mexico	Alfa	37,895	Mfg	Steel, auto parts	United States, Europe, Japan, Mexico, South America
Mexico	América Móvil	24,860	Serv	Wireless phone service	Subscribers in 8 Latin American countries
Mexico	America Telecom		Investor	Wireless phone service	United States, Spain, 6 Latin American countries
Mexico	CEMEX	25,965	Mfg	Cement, concrete	United States, Egypt, Mexico, Philippines, Spain, L.A.
Mexico	Cia Cementos Mexicanos		Mfg	Stone, clay, concrete	United States
Mexico	Coca Cola Femsa	56,841	Mfg	Soft drinks, beverages	Argentina. Brazil, Colombia, Mexico, Venezuela
Mexico	Controladora Milano	2,776	Serv	Retail clothing stores	United States
Mexico	Copamex	6,800	Mfg	Facial tissue, paper	United States, Costa Rica, Nicaragua
Mexico	Corporacion Durango	7,587	Mfg	Wood, paper, packaging	United States
Mexico	Corp. Interamericana	10,891	Serv	Event producer	Argentina, Brazil, Spain
Mexico	Cosorcio Comex		Mfg	Chemicals	United States
Mexico	DESC	16,324	Mfg	Auto parts, chemicals	United States
Mexico	Editorial Diana	171	Mfg	Publishing	Spain, Argentina, Chile, Colombia, Venezuela
Mexico	Edoardos Martin	1,140	Mfg	Garments, clothes, fabrics	Colombia, Cost Rica, El Salvador, Guatemala
Mexico	Empresas ICA	9,604	Mfg	Bridge construction	Portugal, Spain, Argentina, Guatemala, Venezuela
Mexico	Fomento Economico	86,136	Mfg	Beer brewer	9 Latin American countries
Mexico	Grupo Bimbo	70,000	Mfg	Bread, tortillas, snacks	United States, Czech Republic, 6 L. American countries
Mexico	Grupo Carso	67,849	Serv	Department stores	United States
Mexico	Cementos de Chihuahua	1,478	Mfg	Cement, concrete	United States
Mexico	Grupo Comercial Chedraui	7,500	Serv	Grocery, clothing stores	United States
Mexico	Grupo Elektra	20,012	Serv	Retail stores	Guatemala, Honduras, Peru
Mexico	BBVA Bancomer	30,090	Serv	Banking	United States
Mexico	Grupo Gigante	36,000	Serv	Food, apparel	United States
Mexico	Grupo La Moderna	3,800	Mfg	Pasta, soups, biscuits	United States, Central America, Caribbean
Mexico	Grupo Mexico	20,817	Mining	Copper, silver, zinc, lead	United States, Peru
Mexico	Grupo Minsa	1,143	Mfg	Flour, baking mixes	United States
Mexico	Grupo Posadas	6,561	Retail	Hotel operator	United States
Mexico	Jugos del Valle	4,198	Mfg	Juice, nectar.	United States
Mexico	Mexichem	1,330	Mfg	Chemicals	United States
Mexico	Multivalores Financiero	293	Serv	Security Brokers	United States
Mexico	Nacional Financiera	1,180	Serv	Bank	United States, United Kingdom, Caymans
Mexico	US Commercial Corp.	14,220	Serv	Computer, software stores	United States
Peru	Credicorp	7,530	Serv	Bank	Bolivia, Chile, Colombia, Peru, Switzerland, United States
Venezuela	Corimon	1,244	Mfg	Paints, coatings, resins	United States, Argentina, Colombia, Caribbean
Venezuela	Petroleos de Venezuela	45,683	Mfg	Petroleum refining	United States, Belgium, Germany, Sweden, United Kingdom, Caribbean
Venezuela	Siderurgica Venezolana	2,388	Mfg	Steel, wire products	Colombia

Argentina, Brazil and Peru. It also makes brass products (pipes, bars and sheets) and flexible packaging (aluminium foil) in Argentina.

The Terranova Group produces and markets lumber, mouldings, doors, particleboard and other solid wood products. It has a highly integrated operation with forest resources, sawmills, board and moulding plants and sales offices in Argentina, Brazil and Venezuela. It produces doors in Venezuela and mouldings in the United States. It operates foreign affiliates in ten Latin American countries and sells in 45 locations in Asia, Africa, Europe and Latin America. Another firm with wide ranging activities is Embotelladora Andina, which produces and bottles a range of soft drinks and mineral water. Its Brazilian operations distribute Coca-Cola products and branded beer products such as Bavaria, Kaiser, Heineken and Santa Cerva. Its Argentine operations distribute Coca-Cola products and ready-to-drink fruit juices such as Kapo and Hi-C. It controls more than 50% of the soft drink market in Argentina and Brazil.

Few Chilean firms have developed affiliates outside the Americas. An exception is Compañias CIC, the country's largest furniture manufacturer. It sells office and home furniture and operates affiliates in Argentina, France, Peru, Spain, the United States and Uruguay. Another example is Empresas Iansa, a producer of agricultural goods and processed foods. It has production facilities in Brazil and Peru that serve as suppliers to food processing firms in Europe, Japan and the United States. It has also developed strategic alliances with numerous foreign firms to manufacture products in Chile for exporting back to the foreign partner's home market. Examples include alliances with United States firms (McCauley's, horse feed; Cargill, fruit juice concentrate), a Dutch firm (Skal, tomato paste) and a French firm, (Bonduelle, processed vegetables). It also distributes the Heinz brand in Brazil. In summary, firms in a wide range of industries are developing the capabilities to operate as TNCs. In many cases, these TNCs' international activities are combined with alliances with foreign firms to develop markets within Chile. Therefore, inward and outward FDI flows are often associated with the same firms.

Brazil

Brazil's outward FDI stock represents slightly less than 50% of the total FDI stock held by Latin American TNCs (table 3). Most of this was in place before 1980. Of the 15 Brazilian TNCs we identified, 11 have FDI in neighbouring countries, especially Argentina and Uruguay, and 11 have affiliates in the United States. Brazil has also established strong FDI positions outside the Americas, particularly in Europe. The countries outside Latin America host a greater portion of Brazilian outward FDI than those countries within. Important locations are Canada, Portugal and the United States. Brazilian companies have also successfully developed strong positions in industry segments outside agriculture, including banking (Banco Bradesco, Banco do Brasil and Unibanco), petroleum refining (Petrobras), steel products (Gerdau and Tupy) and aircraft (Embraer).

Petrobras is Brazil's largest company and the twelfth largest oil company in the world. Petrobras has oil and natural gas exploration operations in Angola, Argentina, Bolivia, Colombia, Nigeria and the United States. In most of these markets, it has developed vertically integrated positions in four business segments: (1) oil exploration and production; (2) oil refining, transportation and trading; (3) gas distribution through service stations; and (4) natural gas distribution. In Argentina, it has made a series of acquisitions of oil drilling blocks, pipelines, fractioning plants, natural gas separating plants, tank storage, dispatch facilities for export and gasoline service stations. In Bolivia, it operates a lubricant plant that markets the Bolivian brand leader (YPFB) and exports Lubrax brand products to Brazil. In the United States, it extracts and distributes oil to refining companies located along the Gulf of Mexico. It also distributes oil to thermoelectricity plants that generate power for the New York, Miami and Puerto Rican markets and to gasoline distributors. An important objective has been to develop a strong market position in each local market as well as to develop products for exporting back to Brazil.

Brazil has also established strong positions in the steel and aircraft industries. Gerdau, for example, is Brazil's largest producer of long-rolled and laminated steel products with a 50% share of the Brazilian market. It operates integrated steel mills, rebar fabrication facilities and scrap collection and processing plants in Argentina, Canada, Chile, the United States and Uruguay. Another firm, Tupy, manufactures smelted iron and steel parts for the automobile industry in Germany and the United States. Embraer, the world's fourth largest aircraft company, produces jet and turboprop aircraft for the military and passenger airline markets. It has affiliates in Australia, Canada, China, France, Portugal, Singapore and the United States.

Brazil's outward FDI stock has, however, recently grown at a slower rate compared to Argentina and Chile. Brazil's slower pace in developing outward FDI may partially be explained by its large domestic market. Like the United States, its large domestic market has provided greater opportunities for local firms to expand domestically before moving abroad. It also provides economies of scale benefits, which enables them to export competitively. Larger domestic markets may, therefore, have the effect of slowing internationalization by domestic firms.[1] With the possible exception of banking, those Brazilian companies that have widely established foreign affiliates are in industries requiring international expansion to remain competitive. Vertical integration in the oil and steel industries, for example, is an important determinant of competitiveness. In the aircraft manufacturing industry, high development costs and local content requirements also make FDI an important strategic decision.

Argentina

Between 1986 and 2002, FDI outflows from Argentina represented 20.7% of all outflows from countries in Latin America (table 2). Our search of the *Thomson ONE Banker*

[1] Brazil's large market has also been an important factor in attracting a large amount of inward FDI in industries like automobiles, earthmoving equipment, farm machinery and processed foods, since foreign firms can serve both the large Brazilian market as well as other parts of South America from a Brazilian base.

database revealed only five firms with foreign affiliates. It is possible that Argentina's strong outward FDI position is accounted for by investment from a larger number of smaller firms that are not reported in this database. The UNCTAD data indicate that Argentina's outward FDI stock was roughly equally distributed among Brazil, Chile, the United States and Venezuela. Data for Uruguay are missing, but it is known that the country hosts a large amount of Argentine investment. Of the 30 largest foreign affiliates of Argentinean TNCs, 20 are in Brazil or Uruguay. Examples of the affiliates in Brazil are Arcor do Brasil (food), CCA Tecnologia em Componentes Automotivos (motor vehicles), Firenze Acabamentos em Couro (leather and leather products) and Enterpa Ambiental (recycling). Examples of affiliates based in Uruguay are Enicor (food), Establecimientos Colonia (food), Roemmer (pharmaceuticals) and Coasin Uruguaya (trade). Argentine TNCs, therefore, appear to have a much stronger dependence on Latin America than we find for Brazilian TNCs. In particular, it is noted that there is little Argentinean FDI in Europe.

Mexico

Excluding Panama and the Cayman Islands, Mexico has accounted for 14% of all FDI outflows from Latin America since 1980 (table 2). Table 5 shows 32 Mexican firms with foreign affiliates. Of these, 23 (72%) have affiliates in the United States. Interestingly, 16 of the 32 firms have established foreign affiliates only in the United States. The industries represented are varied and include firms in manufacturing (e.g. cement, concrete, paper products, chemicals, auto parts and food processing), services (e.g. banking, retailing of computers and clothing, department stores, groceries, hotel operations and securities firms) and mining (e.g. copper, zinc and stone). These findings are consistent with the UNCTAD data, which indicate that almost 98% of Mexico's outward FDI stock is in the United States. In addition, 26 of the 30 largest foreign affiliates of Mexican TNCs are in the United States. Three factors largely explain the tendency of Mexican firms to expand into the United States: geographic proximity, the large United States market and the North American Free Trade Agreement (NAFTA), which has eliminated trade barriers between Canada, Mexico and the United States since 1994.

After the United States, Mexican firms have the greatest tendency to expand south into Central America, followed by expansion into South America. For example, América Móvil, an earlier spin-off from Teléfonos de México, is the largest mobile phone company in Latin America. It has holdings in Argentina, Brazil, Colombia, Ecuador, El Salvador, Guatemala and Nicaragua. Copamex is one of Mexico's largest consumer paper companies. Its primary foreign operations are in Costa Rica, Nicaragua and the United States. Edoardos Martin produces clothing and textile products, which it sells in 235 company-owned and franchised stores in Colombia, Costa Rica, El Salvador and Guatemala.

Several Mexican TNCs have established a strong worldwide presence. The most notable is CEMEX, which produces cement, concrete and aggregates. It has foreign affiliates in 30 countries and sells in more than 60 markets. Through a series of acquisitions, CEMEX has leading market positions both inside Latin America (Colombia, Costa Rica, the Dominican Republic, Mexico, Panama and Venezuela) and outside (Egypt, Indonesia, the Philippines, Spain and the United Kingdom). Another example is Empresas ICA, Mexico's leading construction firm. It builds bridges, highways and tunnels, operates toll roads and water supply systems and, develops real estate. It has foreign operations in Argentina, Guatemala, Panama, Portugal, Puerto Rico, Spain and Venezuela, among others.

6. Outward flows related to theories of FDI

In this section, we discuss our findings in relation to the theories of investment-development paths, the internationalization process (especially relative to regional trading agreements) and FDI motivation and stimulation from inward FDI. In each sub-section, our analysis is based on the secondary data we examined.

Investment development paths

Dunning (1993) proposed a four-stage investment development path to describe how countries' inward and outward FDI positions evolve as local firms develop TNC capabilities. In stage one, there is little movement toward undertaking FDI, except to support trade in products that incorporate few firm-specific capabilities or competencies. In stage two, there is still little movement toward outward investment. The outward investment that does occur is also most likely to support trade, but it is increasingly designed to support products that require larger scale production and more capital. In stage three, as the economy matures, companies seek to benefit from their distinctive capabilities and competencies. Outward investment may be driven by either resource- or market-seeking motives. Finally, in stage four, the post-industrial or services stage, outward FDI depends more on capabilities through knowledge creation and the blurring of the distinction between products and services.

We must be careful how we place countries within this framework. It is safe to assume that no Latin American country has reached stage four.[2] Most Latin American economies, however, have strong elements of dual development in that they have both pools of unskilled labour that attract inward FDI and pockets of skilled technicians that are capable of turning out competitive research-intensive products and services that help stimulate outward FDI.

We found a significant number of TNCs only in the largest economies (Argentina, Brazil, Chile and Mexico). The fact that these economies have a significant number of TNCs with FDI, especially in manufacturing rather than simply in sales offices, indicates that they have passed stage one. It is, however, uncertain whether they are currently in stage two or have moved to stage three. We can point to TNCs like América Móvil,

[2] In fact, only a few countries – those that spend heavily on technology creation and diffusion – have reached this stage.

Embraer and Chilectra, which compete abroad on the basis of a high degree of technical competence. These examples however, seem to be the exception rather than the norm. Thus, Latin American economies are most likely to be between stages two and three. We must be even more careful when examining smaller Latin American economies, since our analysis of the published data revealed so few examples of TNCs. That should not, however, imply that these countries have no TNCs. For example, driving between the capitals of El Salvador and Guatemala shows that the Guatemalan-based supermarket chain, Paiz and the Salvadoran-based department store chain, Simon, are in both countries. In spite of these information voids, it is probably safe to say that the remaining Latin American countries are in either stage one or two.

Internationalization theory and regional trading agreements

According to the internationalization theory, managers are risk averse and they perceive that operations abroad are riskier than those within their home markets. Therefore, when expanding abroad, firms take steps to minimize risks. Firms could reduce risk by investing in markets that are close in terms of geography or culture and by entering foreign markets through acquisition rather than greenfield investment. Evidence suggests that this is the case for Latin American TNCs. As noted above, TNCs from Argentina, Brazil, Chile and Mexico have more foreign affiliates in neighbouring countries than in any other parts of Latin America or the world. This relationship is most pronounced for Chilean investments in Argentina and Mexican investment in the United States. With the exception of Chile, this link with neighbouring countries has been strengthened through trading blocs such as Mercosur and NAFTA. Since these trade agreements increase incentives to trade with other member countries, they result in increased trade flows that, in effect, create conditions suggested by international investment theory (e.g., testing markets before investing in them, rationalizing production to reduce costs within a larger market area and displacing competitors in a member country). As member countries of a trading bloc usually share borders and are often culturally similar, the formation of a trading bloc tends to work in tandem with the geographical and cultural factors postulated by internationalization theory (Buckley *et al.*, 2003).

The only country with TNCs having significant investment outside the Americas is Brazil. In some ways, Brazil may be viewed as an exception because it is the only Portuguese-speaking country in the region. It is not surprising, therefore, that a significant portion of Brazilian FDI is in Portugal and the Portuguese-speaking countries in Africa. The role cultural affinity plays can also be inferred from the fact that Brazil is the largest location for Portuguese FDI (Castro, 2004). The large amount of Latin American FDI in the United States at first seems like an anomaly. On closer examination, however, this may be explained by the rapid growth of the Hispanic population in the United States during the past ten years. Many Latin American firms are undoubtedly making investments in the United States to serve the Latin American communities in the United States. Thus, cultural distance may also explain the many instances of investment in the United States by Latin American firms.

Outward FDI from Latin America in the manufacturing sector has been overwhelmingly via acquisition, a method that reduces the short-term risk of failure. Latin American companies have made several intra-regional acquisitions valued at over $100 million. Examples include Petrobras's (Brazil) acquisition of PeCom Energía (Argentina), Cervecería Bavaria's (Colombia) acquisition of Backus Johnston (Peru) and América Móvil's (Mexico) acquisition of Telecom Américas (Brazil). Of the 100 largest foreign affiliates in Latin America, however, Latin American companies own only two. Both are from Mexico: Grupo Minero Mexíco's Southern Peru Copper and CEMEX's Cemex Venezuela (United Nations, CEPAL/ECLAC, 2003). On a global basis, only two Latin American companies (CEMEX from Mexico and Petroven from Venezuela) are among the top 100 foreign direct investors in terms of foreign assets (UNCTAD, 2002, 2003). Both companies have expanded internationally, largely through acquisition.

Investment Motivation

FDI decisions are primarily driven by market- or resource-seeking motives. A large portion of outward FDI from Latin America during the past two decades can be explained by market-seeking behaviour, especially when exporting is impractical. Some investments have clearly been designed to establish vertically integrated operations, in order to create internal sales outlets for raw materials the firm produces (e.g. gasoline distribution, copper wire production). We also found examples of FDI that were designed to secure resources, such as petroleum. However, we found no examples of investments to secure either knowledge or cheap labour.

Stimulation from Inward FDI

One of the many controversies surrounding FDI is whether inward investment by foreign TNCs enhances or weakens host-country companies (Aitken and Harrison, 1999; Keng and Lee, 1997). On the one hand, TNCs may take away local business opportunities that otherwise would have been performed by domestic firms. In addition, it is often alleged that FDI by larger foreign TNCs destroys local cottage industries, thereby eliminating local entrepreneurship that is vital for development. On the other hand, TNCs may serve as role models to local firms, transfer technology to local partners, and purchase inputs from local suppliers. Furthermore, when companies from developing countries compete successfully against foreign TNCs in their home markets, they develop capabilities, experience and confidence that enable them to compete against the same foreign TNCs abroad.[3] In other cases, inward FDI may improve the productivity of local suppliers. Unfortunately, the limited availability of information on individual investments in Latin America makes it difficult to determine whether Latin American companies that serve as collaborators or competitors to foreign TNCs in their home

[3] This may help explain why Chile has been the most successful country in attracting both inward FDI and undertaking FDI abroad.

markets are any more likely to make subsequent foreign investment.[4]

The establishment of affiliates by foreign TNCs may also operate as a springboard for additional operations in other Latin American countries. For example, PepsiCo (United States) established an Argentine affiliate, which in turn established PepsiCo Snacks Uruguay, one of Uruguay's largest companies. Whirlpool (United States) established a foreign affiliate in Brazil, which in turn established Whirlpool Pontana, one of Argentina's largest industrial companies. Whirlpool's Brazilian operation began as a partnership with the Brazilian company, Brasmotor S.A., which has production facilities in Brazil, China, Italy and Slovakia. Since Brasmotor remains locally owned and managed, the joint venture's investments in the Southern Cone are both Brazilian and United States owned. These examples indicate that the benefits of inward investment may be far more extensive than previously thought. Not only are there potential benefits to the local economy in terms of technology transfer and learning but FDI may also help local affiliates develop TNC capabilities that can subsequently be used to make investments in other developing countries.

7. Possible future scenarios

Inward FDI will continue to be an important source of capital and technology needed for Latin America's development. Outward FDI, however, will also be important because it strengthens Latin American companies by enabling them to acquire and develop operating advantages commonly attributed

[4] Although further investigation is necessary before definitive conclusions can be drawn, there is some evidence that inward FDI by foreign TNCs has assisted the development of Latin American TNCs. For example, the joint venture between the Mexican supermarket chain Grupo Gigante and the French chain, Carrefour, enabled Grupo Gigante's management to learn significant managerial expertise from Carrefour's management, which it leveraged to successfully compete, at least initially, with Wal-Mart in Mexico. Grupo Gigante's management also became confident that it could compete with Wal-Mart outside Mexico and subsequently expanded its supermarket operations into the United States (Millman, 2002).

to international operations. In addition, it enables them to develop learning capabilities abroad (Svetlicic, Rojec and Trtnik, 2000). With the rise of globalization and the demise of import substitution policies, there has also been some fear that developing countries will receive less technology transfer than in the past. Thus, there are reasons to be concerned about Latin American development if its companies' participation in global FDI continues to diminish in relation to FDI growth by TNCs from other regions (Daniels, 2000). The emergence of regional trading blocs has been motivated in part by the assumption that member countries will gain from the dynamic effects that FDI may produce. Consider, for example, the dynamic effects of efficiency from new competition. Trade produces such effects, but only for tradable goods. For non-tradable goods, foreign production may be necessary. Similarly, cost savings through the rationalization of production may require the type of tight control that is more characteristic of FDI than in contractual arrangements.

In the absence of programmes designed to stimulate outward FDI, we expect recent FDI trends to continue. Given that only 9% of the companies we studied have foreign affiliates, there are certainly ample opportunities to expand abroad. FDI by Latin American companies should continue to grow, albeit at a slower rate than FDI for the world as a whole. In the short run, this may enable companies to invest more heavily at home, thereby contributing to domestic growth. In the long run, however, limited development of international operations by Latin American companies may put them at a disadvantage relative to TNCs from outside the region. Experienced TNCs with worldwide investments can gain cost advantages through increased scale, scope and rationalized value chains. They also gain efficiency from tight ownership and control of a network of vertically and horizontally connected affiliates in different countries. In fact, TNCs headquartered outside Latin America appear to be integrating supply chains across Latin America to a significantly greater degree than Latin American TNCs. Examples include those of retailing arrangements within NAFTA and manufacturing integration within Mercosur.

Recent trends are not necessarily indicative of the future. Some conditions may signal an even slower future growth rate for Latin American TNCs. At the macro level, these conditions include economic and political problems that create difficulty for arranging finance for foreign expansion, such as large currency depreciations and/or the imposition of capital controls. They also include inward looking policies introduced as a result of a backlash against globalization. At the micro level, almost all Latin American companies are small compared with their counterparts in industrial countries and the newly industrialized countries of Asia. Most companies lack the resources needed to promote successful international expansion. During the 1980s and early 1990s, most Latin American companies grew under import protection policies. It is only in recent years that they have been forced to develop the types of capabilities necessary to compete with foreign TNCs (Trevino, 1998). Many of the larger Latin American companies are commodity producers, which may gain few advantages from international horizontal expansion and have little expertise for international vertical expansion. Finally, a large share of Latin American companies are family-owned and managed, which may, in the long run, restrain growth in foreign markets.

Several conditions favour the future growth of TNCs from Latin America. First, although the difficulties encountered by regional groupings, such as the Central American Common Market and the Latin American Free Trade Association, have naturally made Latin American managers cautious about making investments to integrate their operations with those in trade-group countries (Echandi, 2001), economic integration, whether regional or bilateral, now appears to be a reality. We see evidence of this with the recent growth of Mexican investment in the United States and Costa Rican investment in El Salvador. For instance, Grupo Dina from Mexico has acquired operations in the United States and Canada to integrate bus-building operations (DePalma, 1993). Second, current literature in business strategy suggests that companies should limit unrelated product diversification and concentrate on their core competencies. Thus, the divestment of these unrelated businesses by large TNCs from outside Latin America gives Latin American companies more alternatives to expand abroad through acquisition. For example, the Mexican company, Savia, bought Asgrow Seed after the United States firm, Upjohn, divested it. Savia is now the world's largest producer of vegetable seeds and has investments in India, the Republic of Korea and the United States (*Mergers & Acquisitions*, 1995). Lastly, the United States now has the world's second largest native Spanish-speaking population. This has created a significant opportunity for Latin American companies to serve these market niches. Among the many examples are Pollo Campero from Guatemala and Churromania from Venezuela, which have invested in a combination of wholly owned and franchised units to prepare foods for the United States Hispanic population (Bennett, 2004; Frumkin, 2002). Each of these opportunities should help Latin American companies to develop transnational capabilities over time.■

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