

THE OPPENHEIMER REPORT

Latin America economic report shows small growth

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A new United Nations report on foreign investments in Latin America should sound alarm bells throughout the hemisphere. It warns that the region is falling behind the rest of the world in attracting capital, and that multinational companies are losing interest in the area.

At first sight, the report by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) doesn't look like bad news. Its May 3 press release is titled, "Foreign investment in Latin America and the Caribbean increased in 2006."

NOT SO FAST

Great! I thought. But first impressions can be deceiving. Once you start reading further down in the press release -- and in much more detail in the full report -- you find that while foreign investments in the region grew by 1.5 percent in dollar terms last year, at a worldwide level they grew by 34 percent.

According to the new figures, foreign direct investments in the region rose to \$72.4 billion last year, continuing a gradual recovery after a significant decline earlier this decade.

In dollar terms, the Latin American countries that got by far the biggest share of foreign investment were Mexico, Brazil and Chile, which together accounted for more than 60 percent of all foreign investments in the region. Measured in relation to the size of their economies, the biggest foreign investment recipients were Panama, Trinidad and Tobago and Uruguay.

But, after reading the full report, I could only conclude that it portrays a dire picture. Among its findings:

- Latin America and the Caribbean are getting an increasingly smaller share of worldwide foreign investments, which are mainly going to the industrialized world. In the early 1970s, the region got 17 percent of all world foreign investments. From then on, the percentage went down in the 1980s, rose to 16 percent in the late 1990s and has been declining since. In 2006, the region got only 8 percent of all world investments, the second lowest percentage in 15 years.
- The region's share of investments going to developing countries has fallen even more dramatically, as China, Southeast Asia, India and Eastern Europe are rapidly outpacing it. While Latin America received 47 percent of all foreign investments to the developing world in the early 1970s, its share dropped to about 27 percent last year.
- There is a "loss of interest by multinational companies in the region," the report says. Among the multinational firms that have left the region or significantly reduced their operations in several sectors, such as telecommunications and banking, the report cites France Telecom, Verizon, BellSouth, AT&T, Bank of America, Royal Dutch Shell and Total.
- While foreign investments to South America are generally aimed at the purchase of raw materials and foreign investments in Mexico and Central America are usually geared at producing manufactured goods more efficiently, there is very little investment anywhere in the region in industrial research and development aimed at producing higher-value-added goods.

My conclusions: It's hard for Latin America to attract foreign investments -- or, perhaps more importantly, lure back home the more than \$400 billion that its own citizens have deposited in offshore banks or real estate abroad -- when most of the headlines coming out of the region talk about nationalizations and other measures that scare away investors.

NATIONALIZATION

On the same day that ECLAC released its foreign investment report, the top news item from the region was Venezuela's narcissist-Leninist leader Hugo Chávez's announcement that he may soon nationalize the banking and steel industries, following similar measures that he took with the oil, electricity and telecommunications industries.

But while Chávez is benefiting from sky-high oil prices and can temporarily afford to scare away investors to feed his megalomania, leaders of countries with lesser incomes -- such as Bolivia and Ecuador -- are crazy to echo his rhetoric. Today, they are enjoying high popularity rates, but without investments their nations will soon go bankrupt, and poverty rates will go up.

Latin American leaders should read the U.N. report carefully and follow the lead of countries from across the political spectrum -- including communist China and Vietnam and socialist India -- that are drawing record amounts of foreign investment, creating jobs and reducing poverty like never before. As the report shows, they are eating Latin America's lunch.