Brazil Is World's Fifth in Growth of Foreign Investment, Ahead of China

Contributed by Alexandre Rocha
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After three years dropping, the world foreign direct investment (FDI) flow returned to growth in 2004. This information is in the World Investment Report 2005, published yesterday September 29 by the United Nations Conference on Trade and Development (Unctad). According to the study, total FDI last year was US$ 648 billion, or 2% more than in 2003.

According to the Unctad, the return to growth was pushed by a "strong increase" in foreign direct investment flows to developing countries, which reached US$ 233 billion in 2004, a growth of 40%, whereas investment of the kind in developed countries experienced a 14% drop. As a result, the share of developing countries in FDI rose to 36%, the highest level since 1997.

In the evaluation of the Unctad, among the factors generating this performance is the intense competition between companies so as to win the foreign market, which causes them to seek ways of becoming more competitive. One of the strategies used by the companies is expansion of their business to emerging countries.

Brazil

One of the examples mentioned in the report is that of the auto industry in the Mercosur, the customs union that includes Brazil, Argentina, Paraguay and Uruguay, with special focus to Brazil and Argentina.

According to the study, the devaluation of the Brazilian real, in 1999, and of the Argentine peso, in 2002, "increased the export competitiveness of both countries." This made carmakers transform their local units, formerly turned to the regional market, into platforms for export outside the South American bloc.

Brazil was, in fact, the country in the Latin American and Caribbean that attracted the greatest volume of FDI in 2004, US$ 18 billion, whereas the country received US$ 10 billion in 2003.

Brazil was in fifth among the nations that presented the greatest growth in FDI in absolute terms last year, behind the United Kingdom, United States, Australia and Hong Kong, and ahead of China and Mexico.

After four years dropping, the total investment in Latin America and the Caribbean grew 44% last year, reaching US$ 68 billion. Brazil, Mexico, Chile and Argentina received two thirds of this value.

The Unctad stated that the main factors for this attraction were the recovery of the economies in the region, greater growth in the world economy and an increase in commodity prices. Industry and the exploration of natural resources received a greater share of this capital than the service sector.

Arab Countries

In the evaluation of the Unctad, the price increase of various commodities was another factor to generate growth of FDI inflow all around the globe. In the case of the western region of Asia, for example, where various countries that produce oil are located, total FDI rose from US$ 6.5 billion in 2003 to US$ 9.8 billion in 2004.

In this bloc, Saudi Arabia (US$ 1,8 billion) and Syria (US$ 1.2 billion) are among the countries that received the greatest volume of funds, losing only to Turkey. Other Arab nations in the region, like Bahrain, Jordan and the United Arab Emirates, also attracted more funds in 2004.

Asia was the developing region that received the greatest volume of FDI in 2004, US$ 148 billion in total, US$ 46 billion more than in 2003. China was the Asian country, and the developing one, that received the greatest volume of funds, US$ 61 billion.

In Africa, although the FDI inflow remained stable in 2004, at US$ 18 billion, the search for natural resources, powered by high ore and oil prices, provided incentives to investment in the primary sector.

Angola, Equatorial Guinea, Nigeria and the Arab Sudan and Egypt attracted almost half of these funds. Apart from Sudan and Egypt, the capital flow also grew to other countries in North Africa, like Algeria and Tunisia.

The United States, however, is still the country that attracts the greatest volume of investment in the world, at US$ 95.8 billion in 2004, against US$ 56.8 billion in the previous year.

According to the Unctad, other factors for this increase in FDI flows last year was the increase of mergers and acquisitions of companies and the growth of investment in new projects. Companies based in developing nations were, by far, the largest sources of FDI.

Technology in Emerging Countries

Apart from the investment flow, the Unctad also stated that transnational corporations are installing more and more product research and development (R&D) units in developing nations. This is happening, according to the study, due to the internationalization of companies, and to the need of allocating services "where they can be performed most efficiently."

One of the examples mentioned by the Unctad is that of the General Motors research center in the city of São Caetano, in the metropolitan region of São Paulo, in southeastern Brazil.

Established in the 1960's "as a small unit to adapt ("tropicalize") GM autos and parts to Brazilian conditions," the center became, according to the report, a great laboratory at the end of the 1980's.

During the 1990's, the unit started designing local versions of GM models such as the Corsa sedan, the Corsa pickup and the Astra sedan.

Later the center went on to developing totally national cars, like the Celta and the Meriva minivan. Currently, "General Motors (GM) in Brazil competes with other GM affiliates in the United States, Europe and Asia for the right to design and build new vehicles and carry out other core activities for the global company," according to the study.

Another example mentioned is that of STMicroeletronics, a company registered in the Netherlands and headquartered in Switzerland, which installed part of its semiconductor research department in Rabat, the capital of Morocco.

The unit, which designs systems for electronic products, currently employs 170 people, but this number should rise to 700 in 2009, according to the Unctad. The company also inaugurated a training center, the first of the kind in the country. "Innovative activity is essential for economic growth and development," says the study.

Forecast

The report also says that perspectives for the global flow of FDI are "favorable" in 2005 and that in 2006 they may grow even further, "if economic growth is consolidated and becomes more widespread, corporate restructuring takes hold, profit growth persists and the pursuit of new markets continues". The Unctad says that perspectives are good for the countries of Asia, Latin America and Africa.

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