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Transnational Corporations Strategies and Foreign Trade Patterns in MERCOSUR Countries in the 1990s.

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Abstract

In the recent foreign direct investment boom in Mercosur countries, it was found that market seeking strategies predominate among TNCs, though they are combined with pro-efficiency measures. In the trade performance of TNCs affiliates, a sort of "asymmetric integration" is clearly visible: they produce for the internal market and, to some extent, for the regional one, while import inputs and final goods from developed countries (and a significant part of these trade flows is "intra–firm"). Thus, even if affiliates have obtained productivity gains, they haven't yet been reflected in a significant increase in exports, and even less in extra-zone exports.

Key Words: Foreign Direct Investment-Multinational Corporations- Regional Integration-Trade

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TNCs strategies and foreign trade patterns in MERCOSUR countries in the 90s

Daniel Chudnovsky and Andrés López[i]

The share of MERCOSUR member countries (Argentina, Brazil, Paraguay and Uruguay) in world's foreign direct investment (FDI) inflows increased from 1.4% in 1984-89 to 5.9% in 1997-99. This share is much higher than that exhibited by MERCOSUR in terms of world's GNP (below 4%) or trade (nearly 1.5%). Hence, it seems that one of the main assets of this new trade agreement has been its capacity to attract FDI.

As a result, transnational corporations (TNCs)[ii] have become the most dynamic agents in these economies–most notably in Argentina and Brazil-, displacing State enterprises –which have mostly been privatized in both countries- and, to a lesser extent, big domestic conglomerates[iii].

This FDI boom took place simultaneously with other two major changes in the region: i) the adoption of structural reforms programs (including State enterprises privatization, trade and capital flows liberalization[iv], market deregulation, etc.); ii) the beginning and deepening of the regional integration process within MERCOSUR.

In fact, the FDI arrival to MERCOSUR –especially in Argentina and Brazil -was mainly conceived as a fundamental factor for the success of the structural reform program. FDI contributed not only to finance the balance of payments deficit but also to the productive and technological modernization of the host economies. This modernization should have led, among other things, to a growth in both exports and imports.

This is not the first time in the history of MERCOSUR countries that FDI is conceived as a fundamental factor for economic development objectives. TNCs were key agents in the import substitution industrialization (ISI) process especially in Argentina and Brazil, where a significant stock of FDI and a strong presence of TNCs in the manufacturing sector was already observable well before the FDI boom.

Although in the ISI period TNCs exhibited a better performance –in terms of productivity, technological assets, etc.- than domestic firms, their main motivation was to take advantage of the highly protected domestic market ("tariff jump"). Expectedly, several studies (e.g. Sourrouille *et al*, 1984) have shown that during the ISI foreign affiliates in the region had a poor export performance and that technologies used by TNCs were far below the international frontier. This is not surprising since in that period TNCs operated in an environment with relatively few incentives for technological progress and efficiency gains.

The FDI boom took place in a different context. Argentina and Brazil, and to a lower extent Paraguay and Uruguay, carried out deep structural reforms close to the recommendations of the so-called "Washington Consensus". These processes began and spread differently in each country. In any case, their most notorious consequence was the formal ending of the ISI regime, which in fact had been exhausted since the beginning of the 80s.

With the new "rules of the game" in force in the 90s, when MERCOSUR economies were more open to trade, capital and technology than in the past, TNCs affiliates would supposedly show strategies and behaviors different from those exhibited during the ISI period and contribute more to the economic development of the host countries.

At the same time, it would be useful to find out whether TNCs and domestic firms reacted differently in terms of strategies and behaviors in the new economic environment. In particular, it is relevant to know whether TNCs affiliates took advantage of their technological assets and their access to foreign markets to modify their previous mostly "inward oriented" strategies more rapidly than their domestic counterparts.

Last but not least, TNCs affiliates, due to the reasons mentioned above, are supposed to positively contribute to the improvement of host countries competitiveness, a fact which should be reflected in more exports to an increasing number of destination markets.

On the basis of these research objectives, the main questions that are addressed in this paper are as follows:

i) What type of strategies and behaviors have TNCs affiliates shown in the 90s?

ii) To what extent these strategies and behaviors differed from those exhibited during the ISI period?

iii) In what ways have TNCs affiliates differed from domestic firms in their behavior?

iv) What has been the impact of TNCs behavior on the foreign trade patterns of MERCOSUR countries?

After presenting a brief background of the main features of the FDI boom in MERCOSUR[v] in the next section, these questions are dealt with in section II[vi]. The conclusions are presented in the final section. In answering all these questions an attempt is made to shed light on the main differences found among the various MERCOSUR countries in relation to the issues under study. The main source of information for this paper are the findings of a research project made in each one of the MERCOSUR countries[vii] in 1999 and 2000 with a similar approach: Chudnovsky and López (2001) –Argentina-, Laplane *et al* (2001) –Brazil-, Masi (2001) –Paraguay- and Bittencourt & Domingo (2001) –Uruguay-. Whenever other sources are employed, they are explicitly quoted.

I. FDI and TNCs in the MERCOSUR countries in the 90s: main features

The FDI boom took place in a context where stabilization plans and market oriented structural reform programs were applied in the region (specially in Argentina and Brazil). The latter were based on trade liberalization, privatization of state owned firms and the deregulation of several economic activities. Actions directed to eliminate restrictions and conditions for FDI arrival and to deregulate TNCs affiliates activities were part of the reforms. At present, there are few sectoral restrictions for FDI entry into the MERCOSUR countries.

Both in Argentina and Brazil the regulatory regime of the ISI period disappeared, giving place to new rules of the game with higher degrees of competition in each domestic market and a reduced role for the State. In turn, reforms were slower in the smaller countries. Although Paraguay and Uruguay liberalized their trade and capital accounts, the privatization of state owned firms has not been as relevant as in the bigger partners of MERCOSUR.

Argentina and Brazil started the regional integration process by the mid 80s, and were joined by Paraguay and Uruguay in 1991, when MERCOSUR was officially created. The process aimed at creating a custom union in 1995. Although some restrictions to intra-zone trade still exist, and the trade policies of the member countries are not always consistent –that is why MERCOSUR is considered to be an "imperfect" custom union - the integration process has led to a substantial increase in intra-regional trade flows. However, the difficulties in facing the "deep integration" issues and the absence of macroeconomic coordination and a dispute settlement system introduced turbulences in the relationship among partners, especially since the Brazilian devaluation in 1999.

In this scenario, a significant growth in FDI inflows took place. From almost U$S 1600 million in 1984-1989, MERCOSUR received more than U$S 40 billion on annual average between 1997 and 1999. As a result, the FDI/ GDP ratio strongly increased in all MERCOSUR countries.

While Argentina was the main destination country until mid 90's, Brazil took the lead from then on. These trends were mainly related to the different timing of the privatization process In Argentina this process was undertaken almost entirely in 1990-1993, while in Brazil most privatizations were made in the late 90s. In both cases, M&As, not only related with public but also with domestic private firms, was the main form of entry of FDI in the 90's.

In comparison with the past, there has been a shift in the destination of the investment flows. The main change in this connection is that the manufacturing industry lost share *vis a vis* the services sector. While the manufacturing sector received almost 50 per cent of FDI inflows between 1976 and 1989 in Argentina, its share fell to 32 per cent between 1992 and 1999. In Brazil, while the share of the manufacturing sector in the FDI stock in 1989 was 71 per cent, that sector attracted only 20 per cent of FDI inflows between 1996 and 1999.

In the nineties, within the manufacturing sector, some branches -such as automotive, chemicals, food, beverages and tobacco- prevail both in Argentina and Brazil, though FDI in machinery and equipment was also relevant in Brazil. These sectors were also those receiving most FDI in manufactures during the ISI period in both countries. In turn, Paraguay and Uruguay exhibit a strong concentration of manufacturing FDI in food, beverages and tobacco.

The increasing share of services in FDI inflows is explained not only by the privatization of utilities and other State companies, but is also accounted by sectoral deregulation and/or lifting of previous FDI entry barriers in areas such as banking and insurance, the increasing importance of private supply in health and education and the changes in the pension systems. Besides, it must also be noted that the share of the manufacturing industry in the GDP of MERCOSUR countries actually fell during the nineties, while services increased their presence.

As a logical consequence of the FDI massive arrival to the economies of the region, the presence of TNCs in those economies strongly augmented in the 90s. Between 1990 and 1998 the share of foreign affiliates in sales increased from 34 to 59% in Argentina (considering the 1000 largest firms), from 41 to 51% in Brazil (considering the 500 largest private firms), from 36 to 51% in Paraguay (considering total sales) and from 26 to 38% in Uruguay (considering 300 largest firms)[viii,ix]. The same trend is also observed when analyzing other economic variables, such as valued added, investment and employment. In this way Argentina and Brazil have reached very high levels of TNCs presence, only comparable to those found in some East Asian countries which are widely open to foreign investment like Malaysia and Singapore.

TNCs have also increased their share in foreign trade flows. While in 1990 TNCs affiliates absorbed 32% of total exports in Argentina, their share reached 54% in 1998. In Uruguay the TNCs share passed from 26 to 30% between 1992 and 1998, in Paraguay from 32 to 54% in the same period and in Brazil from 48 to 53% in 1989-1997[x]. A similar trend is found in the case of imports. TNCs increased their share in imports from 62 to 72% in Argentina, from 53 to 63% in Brazil from 6 to 11% in Paraguay and from 22 to 24% in Uruguay[xi].

II. TNCs strategies in the 90s

a) A taxonomy of TNCs strategies

The analysis of TNCs strategies in MERCOSUR during the 90s is mainly based on the framework derived from the so-called "eclectic paradigm" of FDI (Dunning 1988 and 1994). FDI is here classified in four types, according to its motivation: resource seeking, market seeking, efficiency seeking, and strategic asset seeking. Resource seeking are those investments attracted by the abundance, cost and/or quality of natural and human resources. The availability of these factors is, in this case, the main locational advantage of the host countries. These investments are generally export oriented and they often operate as enclaves within host countries.

Market seeking investments are aimed at exploiting the host country's market (and, eventually, neighbor countries' markets). The size and growth prospects of the market, the existence of physical barriers and/or high transport costs, and the host country's economic policies –including specially, but not only, the degree of protection for domestic production- are key influences for this type of FDI, which became the predominant motivation for TNCs during the ISI process.

Sequential investments made by already established TNCs affiliates aimed at increasing the efficiency of their activities by integrating assets, production and markets to better exploiting economies of scale and scope are called "efficiency seeking" (or "rationalized") investments. These investments usually take place as a result of changes in the competition conditions within host countries (due to trade liberalization, economic integration with neighbor countries, the appearance of new competitors, etc.), but could also be the fostered by changes in the global or regional strategies of TNCs. According to the received literature, this kind of investments has an increasing relevance *vis a vis* the traditional forms of FDI (i.e., resource or market seeking) –Dunning, 1994-. Regional integration processes, the reduction in transport costs and the new developments in telecommunications and information systems do favor this type of strategies, since they are usually materialized through productive, technological and commercial complementation within the network of affiliates of each TNC.

Finally, an increasingly widespread form of FDI is termed "strategic asset seeking". Its main purpose "is to acquire resources and capabilities that an investing firm believes will sustain or advance its core competences in regional or global markets. These assets may range from innovatory capability and organizational structures to accessing foreign distribution channels and better appreciation of the needs of consumers in unfamiliar markets" (Dunning 1994, p.36).

Changes in FDI aims and strategies have modified the role of affiliates within the TNCs structures. In the past, market seeking strategies derived in "stand alone" affiliates, that were to some extent a lower scale replica of the parent firm organization -with the exception of R&D activities which tended to be concentrated in the country of origin of the firm- (UNCTAD 1994).

As competition via costs becomes widespread in certain industries, national consumption patterns converge and transport costs are lowered, many TNCs adopt "simple integration" strategies. In these cases, the affiliates specialize in certain segments of the value chain – in the case of affiliates in developing countries, those segments are usually labor intensive- under intra-sourcing frameworks defined by the corporation. This strategy tends to increase foreign trade flows generated by FDI in developing countries, not only through affiliates' exports, but also because those kinds of affiliates often operate with a low degree of local vertical integration.

A third type of strategy is termed "complex integration" (UNCTAD, 1994). In this case, TNCs search for more effective ways of organizing and governing the wide range of assets they own in different locations. This shift to a more complex corporate integration scheme requires a breakdown of the value chain into discrete functions –assembly, procurement, finance, research and development, etc.- and their location wherever they can be carried out most effectively in the light of the overall needs of the firm as a whole.

What has happened with TNCs strategies in MERCOSUR? We have established a taxonomy of the affiliates' strategies based on their foreign trade performance (see table 1 for details on the samples employed in each country to build this taxonomy).

Here Table 1

Market seeking strategies have prevailed in Argentina, Brazil and Paraguay in the nineties (table 1)[xii]. In contrast, in Uruguay resource seeking strategies have been predominant in terms of investments amounts, although market seeking strategies have prevailed if one considers the number of foreign firms involved in each kind of strategy and their market shares. No FDI operations have been identified as being mainly motivated by efficiency seeking or strategic asset seeking objectives, although both kinds of objectives are present, to some extent, in many recent investments in MERCOSUR countries.

In certain cases -mostly in the services sector- market seeking strategies have been "pure", in the sense that foreign affiliates do not export (or if they do, exports are not made on a regular basis). This type of strategy is, in relative terms, dominant both in Argentina and Uruguay, while it was less relevant in Brazil[xiii]. This is a reflection of the fact that most recent FDI inflows in MERCOSUR have gone to the services sector. With the exception of Paraguay, TNCs operating in these sectors exhibit lower import coefficients than the average for the whole of foreign affiliates; in fact, in the case of Brazil the affiliates in these sectors make almost no imports. The differences between countries may be accounted by the different sectoral composition of the investments included in this category. In the case of Paraguay, a great part of pure market seeking investments correspond to commercial affiliates which distribute imported goods from MERCOSUR and mainly from non-MERCOSUR countries; hence, they exhibit a very high import coefficient. In Argentina, besides privatized public utilities –which make significant capital goods and inputs imports-, there are many TNCs affiliates that have been established to distribute imported electronics products, computers, telecommunications equipment, etc. that are not made in the country. In contrast, Brazil has managed to build up an electronics industry; hence, those TNCs affiliates do not appear in this category, which is mainly composed by firms operating in retail and wholesale trade as well as in sectors such as construction, transport, etc. Besides, note must be taken that public utilities privatizations had not been made in Brazil in 1997 yet.

In any case, evidence indicates that stand-alone schemes prevail within this group of firms in the four countries under study, and that strong inter-affiliate integration or specialization strategies (neither intra nor extra-regional) are not usual (or at least, those strategies, if they exist, are not reflected in foreign trade flows of goods).

Market seeking strategies also prevail in the manufacturing industry, although foreign affiliates in industrial sectors, even if primarily oriented towards domestic markets, also undertake export activities. We have divided market seeking strategies within the manufacturing sector in two groups: I) low export-orientation: the sectors included in this category are those whose export/sales ratios are lower than the average of the host economy. iii) moderate export-orientation: the sectors included in this category are those whose export/sales ratios are higher than the average of the host economy. It is important to highlight the fact that even within the latter group, it is hard to find firms with export coefficients above 25%. In other words, TNCs affiliates within the manufacturing sector have not engaged in "export oriented" investments in these countries.

It is important to highlight the fact that sectoral composition of each group is not the same in all countries. Sector such as information technology equipment and telecommunications and non-metallic minerals have a low export orientation both in Argentina and Brazil. Likewise, rubber, plastics and automotive sectors show a moderate export orientation in both countries. In contrast, the production of food, beverages and tobacco has a low export orientation in Argentina, but a moderate one in Brazil. The contrary occurs for clothes, machinery and electrical equipment (low export orientation in Brazil and moderate in Argentina). This suggests that sectoral dynamics has a direct influence on TNCs strategies in some cases, but that national environments also play an important role in that connection.

Foreign affiliates operating with market seeking strategies with low export orientation exhibit an export coefficient much lower on average than their import propensity. Hence, it is not surprising that this group of affiliates, as a whole, operate with strong trade deficits in the four countries under study. Sectors linked to high-tech activities (electronics, information technology and telecommunications equipment) tend to show the highest import coefficients and/or the larger difference between import and export propensities, at least in Argentina and Brazil.

MERCOSUR is a significant destination for this group's exports; extra-zone exports represent only 2.3% of the sales of market seeking TNCs with low export orientation in Argentina, 2.6% in Brazil and 1.8% in Paraguay. In turn, MERCOSUR is much less important as a region of origin of imports than as an exports market (table 1).

On the basis of these evidences, it can be argued that foreign affiliates within this group have a sort of "asymmetrical" integration with the international market -and also within their corporations-. While there is a strong integration on the imports side (acquiring inputs, components, equipments and final products from non-MERCOSUR countries, and specially from developed countries –see below-), integration seems to be much weaker from the exports side, and is strongly concentrated within MERCOSUR.

The "market seeking with moderate export orientation" strategy accounted for more than 50 per cent of TNCs sales in Brazil; in contrast, their sales were hardly over 25 per cent of total TNCs sales in Argentina and around 15 per cent in Uruguay. Since Brazilian industry is the most competitive among MERCOSUR countries, it is no surprise to find that TNCs in that country are more-export oriented than those of Argentina and Uruguay.

TNCs within this group operate with much lower export coefficients in Argentina and Brazil (16 and 13% respectively) than in Uruguay (24%). In turn, affiliates in Argentina and Uruguay exhibit much higher import propensities (29% and 25% respectively), than in Brazil (10%). Hence, affiliates within this group operate, as a whole, with a strong trade deficit in Argentina (and to lesser extent in Uruguay), but with a surplus in Brazil. Although affiliates operating with this kind of strategy often show a great degree of integration with their counterparts in other MERCOSUR countries (this is most notably reflected in the automotive sector), they also exhibit a far higher extra-MERCOSUR export-ratio *vis a vis* those affiliates with a low export orientation (table 1). The fact that these affiliates do not only export more than those in the "low export orientation strategy" but are also more prone to export to non-MERCOSUR countries would suggest that they are have attained higher competitiveness levels vis a vis the other group.

Furthermore, the type of integration between these affiliates and the rest of the world is less asymmetric that in the case of the group with low export orientation, particularly in Brazil's case. Additionally, the import coefficient is lower for Brazilian foreign affiliates than for Argentine ones. This might be a consequence, among other factors, of the fact that the Brazilian industrial complex is more articulated (i.e., linkages are more widespread) than the Argentine one and/or that the import de-substitution process has been more intense, in the nineties, in Argentina than in Brazil. However, in spite of the apparent higher competitiveness of the Brazilian affiliates, it will be seen below that their exports of those products pertaining to high-tech sectors, or for which quality and technological requirements are more significant, are still concentrated in Latin America.

Have trade liberalization and MERCOSUR contributed to reduce the weight of the market-seeking orientation of foreign affiliates in the manufacturing sector? To answer this question we only count with information on the Argentine case. Foreign manufacturing affiliates in that country increased their average export coefficients between 1992 and 1997. However, the ratio of extra-zone exports on sales actually fell in the same time period[xiv]. This means that, in fact, those affiliates are more market-seekers than in the past, since they have partly reoriented their sales towards Brazil –which can be now considered, to a certain extent, as a part of Argentina's firms domestic market, at the expense of extra-zone as well as of purely domestic sales.

Regarding resource seeking strategies, their weight is low in Brazil, while they are relatively more important in Argentina, Paraguay and particularly in Uruguay (in the three countries agricultural resources account for the bulk of these investments, but in Argentina oil and mining investments have also been very important in the nineties). Resource seeking TNCs operate in the four countries with high export propensities (more than 70% in Argentina and Uruguay[xv] and almost 50% in Brazil) and low import coefficients. Exports are mainly directed to extra-zone markets. In turn, imports from MERCOSUR countries are not significant.

As said before, TNCs investments in the 90s have included both efficiency as well as strategic asset seeking components. However, in both cases these components have almost always been a complement of the primary motivation –i.e., market seeking-. Efficiency seeking strategies of TNCs affiliates in MERCOSUR are analyzed below (point c of this section).

In turn, asset seeking objectives have been present in M&As, mainly in Argentina and Brazil. In general, the asset that has been looked for by TNCs is the domestic market share of the acquired firm, rather than its equipment, human resources or technological capabilities. This means that the assets sought by TNCs in MERCOSUR countries are "strategic" in relation to the firm's performance at the national or regional level (i.e. brands, distribution channels, consumers loyalty, etc.), but they are rarely seen as strategic for the corporation's global performance. The exception to this rule is basically observed in Brazil, where TNCs have acquired domestic firms that had already gone through significant learning processes that resulted not only in the possession of valuable technological assets and high efficiency and quality levels, but that had also allowed some Brazilian firms to install productive facilities in the U.S. and Europe to attend those markets –the cases of the automobile part makers Metal Leve and Cofap are the most important in this regard-[xvi].

b) What is new in TNCs strategies?

Are there any differences between the strategies adopted by TNCs in the 90s and those prevailing during the ISI period?

During the ISI, TNCs main investment motivation was to exploit the domestic market through stand-alone subsidiaries that were small-scale replicas of their headquarters. Import propensities were low, since high tariffs and local content requirements induced TNCs affiliates to buy from local suppliers. In turn, export propensities were also low and generally lower than import propensities. A survey made to 42 TNCs in different Latin American countries in 1981 showed that only 8 of them exported more than 10 per cent of their sales (Sourrouille et al, 1984). Hence, these affiliates were not closely integrated with the rest of the corporation.

Furthermore, since TNCs affiliates in the ISI stage operated in markets which were highly protected, even if they were more efficient, in average, than domestic firms, they often had technologies and scales which were far from the international frontier, specially in Argentina.

As already noted, the main motivation for FDI in the 90s has been the same than in the ISI, i.e., market seeking. However, there are three significant differences between these two periods.

First, trade liberalization has allowed TNCs affiliates to significantly increase their imports of capital goods, inputs and final goods. Hence, TNCs domestic linkages are smaller than in the ISI stage. In turn, affiliates have been able to gain economies of specialization (since now they complement local production with imported final goods), upgrade their plants (due to the access to modern foreign capital goods) and reduce their costs (by replacing local suppliers by foreign ones –this replacement may also allow quality gains-).

Second, for TNCs affiliates "domestic market" is not only the market of the country in which they operate (as it happened in the ISI), but MERCOSUR as a whole. Regional integration agreements like MERCOSUR facilitates the search for economies of specialization and scale –and therefore for efficiency gains– through efficiency seeking strategies. This opportunity is particularly important for foreign affiliates in Argentina and Uruguay, and to lesser extent for Brazilian foreign affiliates, given the differences among the respective domestic markets.

Third, since MERCOSUR economies are currently more open to international trade than during the ISI stage, market seeking strategies must include "rationalization" initiatives, aimed at reducing costs and improving the productivity of TNCs affiliates' through vertical disintegration, outsourcing, personnel reduction, etc.

Pro-efficiency actions will not necessarily materialize as "efficiency seeking" strategies in the sense of Dunning's eclectic paradigm, since those actions do not necessarily include arrangements aimed at taking advantage of the common governance of productive and commercial facilities in different countries through complementation and specialization of the TNCs affiliates. However, *strictu sensu* "efficiency seeking" strategies are gaining importance, specially at a MERCOSUR level.

In fact, in the 90s many TNCs operating in tradable sectors have adopted strategies in which each MERCOSUR affiliate tends to specialize in certain products or production lines, exporting the resulting products to the other MERCOSUR countries and importing inputs and final products from those countries or from other locations. Exports and imports of this kind are usually of an intra-firm nature.

Efficiency seeking strategies are more widespread in sectors such as electrical domestic appliances, petrochemicals, food and beverages, pharmaceutical, cleansing and personal care products, tires and, most notably, in the automotive industry. Efficiency seeking strategies are generally deployed within MERCOSUR, and specially between Argentine and Brazilian firms, which have tended to specialize in certain complementary product lines. Specialization has thus led to increasing trade flows between affiliates in both countries. In contrast, MERCOSUR affiliates have seldom integrated within efficiency seeking networks with other affiliates in developed countries.

The spreading of efficiency seeking strategies goes hand in hand with the gradual abandonment of the "stand alone" model -that was typical of the ISI stage- and the adoption of simple and, less frequently, complex integration schemes. The available evidence suggests that, differently from what happens with affiliates in developed countries, the reinforcement of integration schemes within the TNCs networks have hardly ever involved the transfer of corporate strategic functions to affiliates in MERCOSUR countries. For instance, MERCOSUR affiliates rarely undertake R&D or product and process design activities (in general, only adaptive tasks are carried out, and these are mainly concentrated in Brazilian affiliates), since these functions are centralized in their parent company or in affiliates located in developed countries. The same goes for activities such as market development and marketing.

Nonetheless, even at the MERCOSUR level, the adoption of efficiency seeking strategies and of intra-corporation integration schemes still seems to be in its infant stage, and is yet very dependant on macroeconomic fluctuations in Argentina and Brazil. In fact, it is only in the automotive industry –which, as said before, was favored by specific sectoral policies that have been in force both in Argentina and Brazil- where the adoption of efficiency seeking strategies has led to the establishment of "strong" integration schemes. The international strategies of automotive industries are increasingly based on the settlement of sub-regional production and distribution centers, where vehicles, parts and pieces are mutually exchangeable among the different affiliates. MERCOSUR has become one of these centers. As a consequence, investment projects are envisaged for the regional market as a whole, and production plans articulate the activities of the different affiliates of the corporation through complementary specialization schemes. Firms seek to reduce the number of platforms used in each plant and assign only one or two models to each plant, usually as a "product mandate" for the MERCOSUR region, to reach efficient scale ranges. Domestic supplies are complemented through intra-affiliate trade (mainly with intra-zone ones). Imports and exports flows among MERCOSUR TNCs affiliates in this industry have thus grown considerably.

What happens with TNCs affiliates in the smaller MERCOSUR countries? Uruguayan foreign affiliates –specially those created during the ISI- are being relegated to a marginal position in the regional structure of the corporations as a consequence of the spreading of efficiency seeking strategies. Hence, they are gradually turning into commercial affiliates –importing final products from other MERCOSUR countries and from other affiliates- or have even been dismantled in some cases.

c) TNC and domestic firms export/import propensities

In Argentina, TNCs affiliates import and export more than domestic firms in relation to their respective sales. However, the exports/sales ratio of domestic firms is higher than their imports/sales ratio, while the opposite is found for TNCs (figures 1 and 2)[xvii]. While TNCs as a whole exhibit negative foreign trade balances (and this is specially visible in the manufacturing and services affiliates), domestic firms as a whole generate a positive contribution to the country's trade balance.

Here Figures 1 and 2

In Brazil, export propensities are similar for TNCs and domestic firms while the import propensity of TNCs is quite higher and has grown faster *vis a vis* those of domestic firms.

Foreign affiliates as a whole exhibit positive trade balances, but the same does not happen with industrial affiliates, which passed from a surplus in 1989 to a deficit in 1997. Both in Argentina and Brazil, trade deficits are relatively more important in research-intensive manufacturing branches (information technology, telecommunication equipment, pharmaceuticals) as well as in the automotive sector.

In the case of Uruguay, a decrease in both the import as well as in the export propensity has been found. While in 1992 the export propensity of foreign affiliates was higher than their import propensity (and TNCs affiliates as a whole exhibited a positive trade balance), both things had changed by 1998. The above-mentioned consequences of the implementation of efficiency seeking strategies for Uruguayan affiliates could be one of the reasons for this change[xviii]. In turn, domestic enterprises operate with positive trade balances in both years and with higher propensities to export than to import. Thus, while in 1992 TNCs affiliates export propensity was significantly higher than that of domestic firms, this difference had almost disappeared by 1998.

Statistical exercises based on the "matched pairs" technique were carried out in Argentina, Brazil and Uruguay with data for 1997. These exercises showed that the differences found between TNCs and domestic firms in relation to their import propensities were statistically significant, while no statistical significance was found when analyzing the differences in their export propensities.

The study for Paraguay only provides information on export and import propensities for TNCs and for the country as a whole. TNCs affiliates export/sales ratio is higher than their import one. The opposite occurs for the country as a whole. TNCs generated foreign trade surpluses during the nineties, in contrast to what happened at the country level. However, if affiliates in agricultural sectors are excluded, the remaining TNCs exhibit, as a whole, a trade deficit.

d) TNCs foreign trade geographical pattern[xix]

To what extent have TNCs contributed to increase the diversification of exports market (and specially the access to markets in developed countries) of the MERCOSUR countries?

In Brazil TNCs affiliates exports are more concentrated in MERCOSUR countries than Brazilian exports as a whole. 28% of the exports of TNCs affiliates were directed to MERCOSUR in 1997 (table 2), while sales to MERCOSUR reached 17% of total Brazilian exports in the same year. In contrast, MERCOSUR has been the origin of 13% of total

TNCs imports, against 16% for Brazil's total imports. Hence, foreign affiliates show a trade surplus with MERCOSUR and the rest of Latin America, and a deficit with NAFTA and the European Union.

Here Table 2

In the case of Argentina, the geographical pattern of TNCs foreign trade is quite similar to that of the country as a whole. In both cases it is observed a significant increase of MERCOSUR's presence, both as origin of imports as well as a destination for exports, along the decade. In fact, TNCs exports show a higher concentration in MERCOSUR than the Argentinean exports as a whole (the inverse situation is observed in the case of developed countries markets). It is important to note that TNCs affiliates exports to their home countries are low, while their imports tend to be strongly concentrated in their home countries and/or regions.

In the case of Uruguay, in 1998 half of TNCs imports and exports were done within MERCOSUR. However, and contrary to what happens in Argentina and Uruguay, the concentration of exports in MERCOSUR is slightly below the national average (the opposite occurred in the case of imports). While imported inputs originate mainly in developed countries, final products are imported mostly from Argentina and Brazil. As it was found in the cases of Argentina and Brazil, the share of home countries/regions in the foreign trade flows of TNCs affiliates is higher in the case of imports than for exports. However, the trade pattern of TNCs is less related to the home countries/regions of the affiliates than in Argentina and Brazil. This finding is attributed to the fact that most Uruguayan affiliates operate as subsidiaries of the Argentinean affiliates.

In turn, TNCs affiliates in Paraguay have re-oriented their sales towards MERCOSUR during the nineties. This re-orientation has been more pronounced than in the case of domestically owned firms. Contrary to what has been found in the other three countries under study, MERCOSUR is more important as origin of imports than as an exports destination for Paraguayan TNCs affiliates. This could be related to the fact that many affiliates have their headquarters in Argentina and Brazil, and operate mainly as distribution centers for products exported from those countries.

Summing up, TNCs affiliates have not contributed to substantially improve the access to new exports markets for MERCOSUR countries; in fact, TNCs exports are more concentrated in MERCOSUR markets than domestic firms exports in the cases of Argentina, Brazil and Paraguay.

Comparing TNCs affiliates foreign trade flows among the four countries under study, we find that MERCOSUR is less relevant as an export market (and as an import origin) for Brazilian TNCs, while their relevance is highest in Paraguay and Uruguay. In turn, it is in Brazil where the share of manufactured products within TNCs exports is highest. The weight of manufactured products is lowest in the case of Paraguay.

In this regard, it must be noted that in the four countries under study TNCs affiliates export manufactured products (and specially those scale or R&D intensive) to MERCOSUR as well as to other Latin American countries, while they mostly sell primary and agro-industrial products to developed countries, from where they import inputs, final goods, parts, etc. which are not produced locally due to technical and/or scale restrictions.

In this scenario, within MERCOSUR a sort of "hierarchy" is visible among the four countries, with Brazil being the location chosen by TNCs for producing and exporting those products where scale economies or R&D activities are more relevant. Brazil has also attracted most recent FDI operations in those sectors. This trend may be explained by the fact that Brazil already was, prior to the creation of the MERCOSUR, the country where the industrialization process has advanced further both in quantitative as well as in qualitative terms.

III. Conclusions

The recent FDI boom in MERCOSUR has taken place in a very different scenario from that prevailing during the ISI, when TNCs, specially in Argentina and Brazil, became the leading agents of the industrialization process.

At the international level, the 90's have been characterized by the spreading of the so-called globalization, which, among other features, has led to a rapid growth in cross border capital and merchandise flows. At the regional level, instead of the typical economic policy regime of the ISI –inward oriented and with a strong presence of the State- MERCOSUR economies have been substantially liberalized and deregulated.

Nevertheless, when analyzing the TNCs strategies and behaviors in the 90's, a *deja vú* impression appears. In fact, while the motivation and performance of TNCs are different from the ones found in the ISI, the changes observed are not so radical. In the 90's the basic determinants for FDI have been, likewise the ISI period, the domestic market and their growth perspectives. The only difference lies in that national markets are now complemented by the perspectives of accession to other MERCOSUR countries.

The domestic market has been a decisive factor not only for services –that have attracted most FDI flows in the 90's-, but also for the bulk of the FDI in manufacturing industry. Hence, market seeking strategies have prevailed. Relatively significant export flows only appear in some manufacturing sectors, though they are strongly MERCOSUR-oriented.

Although the predominance of market seeking strategies introduces an element of continuity with the ISI, it is true that these strategies are now combined with pro-efficiency measures aimed at competing in the new regional and global scenario. This new approach has often been materialized through what is termed in the received literature as "efficiency seeking" strategies. However, a sort of "asymmetric integration" is visible: MERCOSUR's affiliates produce for the internal market and, to some extent, for the regional one (including the rest of Latin America), while import inputs and final goods from developed countries (and a significant part of these trade flows is "intra–firm"). Thus, even if affiliates have obtained productivity gains through specialization and restructuring, these gains haven't yet been reflected in a significant increase in TNCs affiliates exports, and even less in an increase in extra-zone exports.

Only in Brazil, and in some specific cases, TNCs seek strategic assets that are important for the corporation's global competitive position. In turn, even if M&As are partly motivated by asset-seeking motivations, the kinds of assets which TNCs look for when they acquire domestic firms are mostly related with the market share of the domestic firm that is bought (i.e, brands, distribution channels, etc.).

On the other hand, only in Uruguay resource seeking investment, which are highly export oriented, have had a prevailing role in the recent FDI boom.

TNCs do not seem to have made a greater contribution than national firms to the growth of exports in the countries of the region, although they show a higher propensity to import compared to local enterprises. They haven't either contributed to expand the market diversification (in fact they are more "MERCOSUR oriented" than national firms).

Anyhow it is important to note that the FDI sectoral distribution and the TNCs trade patterns reflect the existing structural differences among MERCOSUR countries. Brazil clearly appears as the country that attracts more FDI to scale intensive and high tech sectors. However, the bulk of goods with higher value added and/or technological sophistication are exported to MERCOSUR –and to the rest of Latin America-. At the same time, similar, but presumably more complex, goods are imported –as parts, components, capital goods, inputs or final goods- from industrialized countries.

In this scenario, it can be concluded that the FDI boom to MERCOSUR in the 90s has not yet generated a significant contribution to the enhancement of the competitiveness level and the upgrade of the trade and production structure of the host countries. In fact, it may be thought that the sequence goes from domestic policies aimed at "creating assets" in host countries (i.e., human capital, technological infrastructure, etc.), to the attraction of FDI inflows that, in this hypothetic and more favorable environment, could eventually contribute more to the economic development of MERCOSUR countries. In any case, the findings of this paper suggest that FDI cannot be, *per se*, a tool for economic development if other and more fundamental conditions are not present in host countries.

Finally, the various factors accounting for the trade performance of the TNCs studied in this paper are worth exploring in further research. A more detailed examination of the strategies of the TNCs affiliates taking into account the different sectors in which they operate, the technological gaps with overseas facilities, their country of origin, age, the intra-corporation markets allocation strategy, etc. should shed more light on the endogenous factors accounting for the high reliance on imports and the relatively poor export performance. In turn, evaluating the various domestic policies in force that may have an impact on TNCs exports as well as some events that took place after the period considered in this paper –such as the devaluation of the real in Brazil in 1999 and the current crisis in Argentina- should contribute to the analysis of the influence of exogenous factors. Finally, both exogenous and endogenous factors should be better assessed with a longer time frame than that covered in the present paper.

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TABLE 1

TNCs strategies in MERCOSUR[a] (Percentages)

COUNTRY		*Resource seeking*	*Pure market seeking*	*Market seeking with low export orientation*	*Market seeking with moderate export orientation*	TOTAL
ARGENTINA 1997	% of total TNCs sales[b]	12,2	38,1	23,4	25,8	100,0
	Average exports/sales ratio	71,8	0,8	6,7	15,9	15,0
	Average imports/sales ratio	2,1	16,2	16,6	29,0	18,8
	Mercosur's exports share[c]	22,5	12,6	62,0	59,8	50,6
	Non-Mercosur's exports share[d]	59,2	0,7	2,3	6,1	9,3
	Mercosur's imports share[c]	8,0	11,0	27,7	19,9	19,5
BRAZIL 1997	% of total TNCs sales[b]	1,6	20,1	25,7	52,6	100,0
	Average exports/sales ratio	48,3	2,5	3,9	13,1	9,2
	Average imports/sales ratio	4,7	0,5	13,9	10,0	9,0
	Mercosur's exports share[c]	7,6	28,5	32,6	27,0	26,1
	Non-Mercosur's exports share[d]	44,6	1,8	2,6	9,5	6,8
	Mercosur's imports share[c]	1,2	15,3	4,3	21,4	14,4
PARAGUAY 1998	% of total TNCs sales[b]	25,5	29,6	44,9	--	100,0
	Average exports/sales ratio	96,4	1,1	7,9	--	28,4
	Average imports/sales ratio	5,0	42,5	9,3	--	18,0
	Mercosur's exports share[c]	50,3	0,9	76,7	--	53,0
	Non-Mercosur's exports share[d]	48,4	1,0	1,8	--	13,4
	Mercosur's imports share[c]	89,3	26,9	59,9	--	38,9
URUGUAY 1998	% of total TNCs sales[b]	21,2	45,8	18,1	14,9	100,0
	Average exports/sales ratio	75,2	0,0	3,4	23,6	16,9
	Average imports/sales ratio	10,2	8,1	27,2	24,7	14,3

(a) Data on this table are based on samples that include the leading 140 and 154 TNCs operating, respectively, in Paraguay and Uruguay. In the case of Argentina and Brazil, the samples include TNCs belonging to the top 1000 and 500 firms operating, respectively, in each country. Information on sales was obtained from specialized publications in each country, except for Paraguay, where they were provided by the Central Bank. Information on foreign trade was obtained from different official as well as private sources in each country. The sales of the 1000 leading firms in Argentina represented almost 50 per cent of the GDP in 1997. In Brazil, the sales of the leading 500 firms represented 41 per cent of GDP in the same year. In Uruguay, the 154 TNCs selected contributed with 90 per cent of the investments made by all the TNCs operating in the country. In Paraguay, the TNCs whose data are included in this table represent the bulk of the foreign investment made in the country.

(b) The share of each group in total TNCs sales in each country.

(c) Exports (imports) to (from) MERCOSUR over total exports (imports).

(d) Exports to non-MERCOSUR countries over total sales.

Source: Own elaboration based on Chudnovsky and López (2001), Laplane *et al* (2001), Masi (2001) and Bittencourt & Domingo (2001).

TABLE 2

Exports and imports: geographical pattern. 1997

Percentages

Region	Exports							
	ARGENTINA		BRAZIL		PARAGUAY		URUGUAY	
	TNCs	Total	TNCs	Total	TNCs	Total	TNCs	Total
TOTAL	**100**	**100**	**100**	**n.a.**	**100**	**100**	**100**	**100**
LAIA [a]	9,0	11,9	11.7	n.a.	1.1	6.5	4.8	6.2
MERCOSUR	41,2	35,9	28.3	n.a.	56.5	52.3	52.1	55.2
Brazil	36,9	30,9	--	--.	35.3	34.4	32.7	34.0
Paraguay	1,7	2,2	n.a.	n.a.	--	--	1.9	3.0
Uruguay	2,6	2,8	n.a.	n.a.	6.7	2.8	--	--
Argentina	--	--	n.a.	n.a.	14.5	15.1	17.5	18.2
NAFTA	3,9	9,3	16.6	n.a.	8	8.2	4.1	7.0
East Asia [b]	8,3	10,4	12.3	n.a.	0.9	1.8	13.4	6.8
European Union	13,1	14,9	18.5	n.a.	31.1	28.1	19.3	16.6
Others	24,5	17,6	12.6	n.a.	3.6	3.1	6.5	8.2

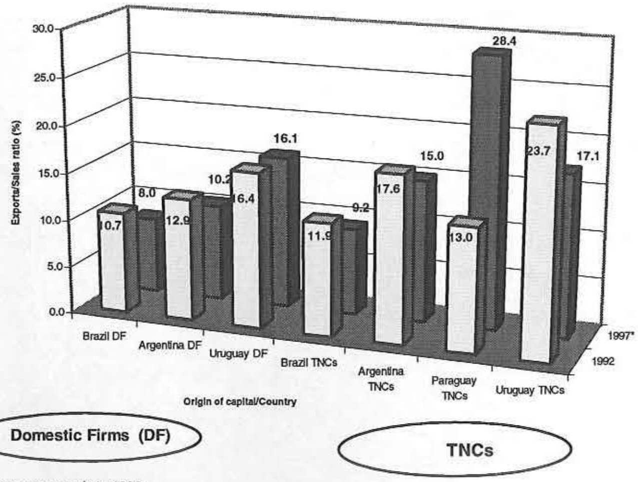
Region	Imports							
	ARGENTINA		BRAZIL		PARAGUAY		URUGUAY	
	TNCs	Total	TNCs	Total	TNCs	Total	TNCs	Total
TOTAL	**100**	**100**	**100**	**n.a.**	**100**	**100**	**100**	**100**
LAIA [a]	2,5	3,7	1.2	n.a.	2.4	1.1	2.3.	4.0
MERCOSUR	24,6	25,3	12.7	n.a.	63.0	50.6	52.7.	43.3
Brazil	23,9	23,0	--	--.	19.9	29.9	20.0.	20.8
Paraguay	0,0	1,1	n.a.	n.a.	--	--	1.0	0.4
Uruguay	0,7	1,3	n.a.	n.a.	3.8	2.9	--	--
Argentina	--	--	n.a.	n.a.	39.2	17.8	31.7	22.0
NAFTA	21,5	23,3	27.7	n.a.	15.5	11.0	15.5	13.8
East Asia [b]	5,9	12,5	14.6	n.a.	5.6	24.8	4.8	9.9
European Union	31,9	27,5	36.0	n.a.	11.8	10.6	17.0	20.7
Others	13,5	7,7	7.8	n.a.	1.7	1.8	7.7	8.3

(a): Latin American Integration Association (excluding MERCOSUR countries and Mexico).

(b): China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

Source: Own elaboration based on Chudnovsky and López (2001), Laplane *et al* (2001), Masi (2001) and Bittencourt and Domingo (2001).

Figure 1
Exports/sales ratios by type of firm. 1992 and 1997



(*) Information for Uruguay and Paraguay corresponds to 1998.
Source: Own elaboration based on information from Chudnovsky and López (2001), Bittencourt and Domingo (2001), Masi (2001) and Laplane et al (2001).

Figure 2
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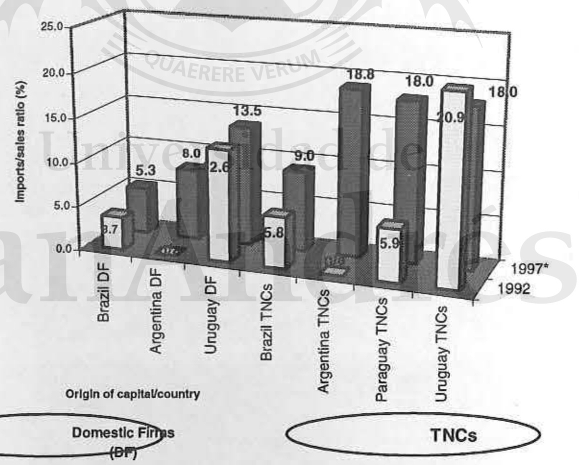

(*) Information of Uruguay and Paraguay corresponds to 1998.
Source: Own elaboration based on information from Chudnovsky and López (2001), Bittencourt and Domingo (2001), Masi (2001) and Laplane et al (2001).

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[ii]. In this study, TNCs are firms that have made outward direct investments, irrespectively of the number of their affiliates.

[iii] It is interesting to take into account that most domestic conglomerates that survived TNCs massive expansion in the 90s became increasingly transnationalized themselves (see Chudnovsky and López, 2000).

[iv]. It must be noted that, even in this scenario, a few sectoral policies have been put in place. This is most notably the case of the automotive sector, which has remained relatively closed to the competition of imported vehicles. Automotive policies both in Brazil and Argentina have aimed at stimulating local production through trade-related investment measures (see Bastos Tigre *et al*, 2000 for an analysis of these regimes).

[v]. In this paper the impact of regional economic integration within MERCOSUR on FDI volume and patterns (i.e., the kind of study made in Dunning, 1997) is not dealt with. However, when analyzing TNCs strategies attention will be paid to the role played by MERCOSUR in the definition of those strategies.

[vi]. The estimates for foreign trade activities of TNCs affiliates correspond to the period previous to the devaluation of the real in 1999, which had a strong impact on the trade patterns of MERCOSUR countries.

[vii]. These studies have been published in a book form (Chudnovsky *coord*, 2001). They were carried out within the Red MERCOSUR of Research Centers with the financial support of the International Research Center of Canada.

[viii]. Only non-financial firms were considered in all cases, except for Paraguay. It is worth noting that foreign presence in the banking system has significantly increased in the four countries under study.

[ix]. The sales of the 1000 largest firms in Argentina represented 49% of GDP in 1998. In Brazil the 500 largest firms represented 40% of Brazilian GDP in 1997, while the corresponding figure in Uruguay for 1998 was 59%. These data clearly show that the samples employed for these estimates are highly representative.

[x]. In the case of Argentina, the figures were estimated for the 1000 largest exporters, which amounted to 90% of total exports in 1998. In Brazil the data were obtained from a sample of the 500 largest firms, which contributed with nearly half of total exports in 1997. Both in Paraguay and Uruguay, the figures are based on data from country's total exports.

[xi]. The basis and time periods for these estimates are the same than those informed for export's shares estimates in Brazil, Paraguay and Uruguay. In the case of Argentina, the 1000 largest importers were taken into account, which amounted 63% of the country's total imports in 1998. The time period considered in this case was 1995-1998.

[xii]. This finding is consistent with the fact that different surveys made to foreign affiliates operating in the region show that the size and dynamism of domestic markets have been the key factors of attraction for FDI both in Argentina and Brazil.

[xiii] However, it must be taken into account that this analysis is done on the basis of 1997 data for Brazil, while privatizations undertaken between 1998 and 2000 might have considerably increased the incidence of this strategy.

[xiv]. Although a composition effect might be influencing this result, the available data show that it cannot be the main determinant, since extra-zone exports coefficients fell in 11 out of the 13 manufacturing sectors into which the foreign affiliates sample was classified in Argentina.

[xv]. Excluding the tourism sector, which can be considered, at least in Uruguay, as part of the resource-seeking strategy.

[xvi]. The perception that Brazil may offer valuable strategic assets for TNCs is in line with the findings of a survey whose results are reported in Dunning (1996), who points out that Brazil has been considered by several TNCs as a source of "created" assets (both technological and managerial) that might contribute to maintain or improve the corporation's competitive position at the international level.

[xvii]. The data for these figures are based on samples for the largest firms in terms of their sales in each country. These samples included 1000 firms in Argentina, 500 in Brazil, 142 in Paraguay and 300 in Uruguay.

[xviii]. It is worth noting that the tourism industry, where TNCs play a relevant role, generates significant incomes for Uruguay. These incomes have not been taken into account for these estimations (since they are based on trade in goods only) but should be considered when analyzing TNCs contribution to the Uruguay's balance of payments.

[xix]. Data on this section are based on estimations for all foreign affiliates in Uruguay and Paraguay and on samples in the cases of Argentina and Brazil. The Argentina's sample includes 140 affiliates whose exports represented 33% of total exports and 21% of total imports in 1997. Additionally, the sample represented 71% and 36% of TNCs total imports and exports respectively in the same year. The sample for Brazil is composed by 100 affiliates whose total sales represented 20% of Brazilian international exchange, 48% of the international exchange of the 500 largest firms in the country and 84% of total the international exchange of those TNCs included in the 500 largest firms.