WHERE FDI IS NOT PANACEA

CAR

Touted as a key economic development policy by many neoliberal economists, foreign direct investment (FDI) in Central America continues its upward trend - but is failing to lift most of the isthmus' inhabitants out of poverty. This is one of the central conclusions that can be drawn from a recent report into FDI by the Economic Commission on Latin America and the Caribbean (ECLAC).

Titled "Foreign Investment in Latin America and the Caribbean 2006", the report shows that in 2006 FDI to the region continued its upward trend, reaching over US$72 billion, up 1.5% from 2005. FDI inflows to Central America alone totaled US$5,200 million in 2006, up 61 % from 2005.

Panama and Costa Rica are the isthmus countries attracting the highest levels of FDI - US$2,560 million and US$1,436 million respectively, whereas El Salvador and Guatemala have lagged behind over the past decade. Economists have attributed El Salvador and Guatemala's failure to attract higher FDI inflows to various factors, such as high energy costs, poor infrastructure and violence– the latter now endemic in both countries.

FDI to Costa Rica mainly focused on the electronic, real estate and financial sectors, while in Panama increased FDI was mainly due to the purchase of local bank Grupo Banistmo by British bank HSBC in July 2006. The US$1.77 billion purchase was the largest foreign investment deal in Panama's history (CAR XXXIII, 30). The infrastructure, real estate and tourism sectors also benefited from increased FDI inflows in 2006.

According to ECLAC, over the past year the banking sector has been the number one recipient of FDI in Central America.

While FDI to El Salvador has fallen significantly, ECLAC analysts are confident that the situation will improve. They point out that although FDI to the country has traditionally focused on the textile industry, new sectors have started to attract foreign investment and offer potential for growth - including software, telecoms and call centers.

Meanwhile, the remaining isthmus countries have experienced modest FDI increases since 2005. Foreign investment to Honduras and Nicaragua centered on the textile industry, while in Guatemala the highest FDI recipients were the chemical industry and the telecoms sector.

According to the United Nations Conference on Trade and Development (UNCTAD), in 1990 FDI to Belize, Guatemala and Panama represented a significant percentage of their Gross Domestic Product (GDP). But fifteen years later, Panama is the only country with the highest FDI inflows in Central America while Belize, Nicaragua and to a certain extent, Honduras, have attracted a modest but steady increase in FDI and Guatemala has lagged behind.

FDI to Panama, Nicaragua and Belize currently amounts to 50% or more of their total GDP.

While some economists believe that the report's most significant finding is that FDI is by no means a pro-poor development policy, the main message pushed by the report's authors is more upbeat. They argue that countries can only attract "quality foreign investment" by adopting "active and integrated policies to attract FDI, linked to broader national development strategies."

Many analysts agree with the report's findings but say that Central American governments, in their eagerness to increase FDI to the region, have adopted an approach that favors quantity over quality. According to the said analysts, these "aggressive FDI attraction policies," far from benefiting host countries, have increased existing inequalities and had little impact on overall economic development. □□□

—Third World Network Features