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WASHINGTON UNIVERSITY

University College
International Affairs

Attracting Foreign Direct Investment to Countries of Latin America:

A Comparative Study

The Cases of Brazil, Costa Rica, Mexico, Venezuela and Cuba

By

Beatriz Schiava

A thesis presented to the
Graduate School of Arts and Sciences of
Washington University in partial fulfillment of the
requirements for the degree
of Master of Arts

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Saint Louis, Missouri

*“The whole art of
government consists
in the art of being
honest”*

Thomas Jefferson

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EXECUTIVE SUMMARY

Foreign Direct Investment (FDI) brings benefits to host countries' populations, using job creation, opportunities for education, training, and technology. The host country benefits from FDI inflows, improving its economy, introducing new technology, organizational and managerial skills that help domestic companies while improving its political institutions. This author chose five countries of Latin America with different political systems and economic policies: Brazil, Mexico, Venezuela, Cuba and Costa Rica. The goal of this thesis is to find out what kind of political systems and social environments in Latin America are best for attracting FDIs, and what are the obstacles those Latin American countries in non-democratic and authoritarian governments confront when trying to attract FDI.

This author researched data and multiple surveys with MNCs from public, private and non-governmental organizations. The findings of this thesis show that despite the violence and criminality in these countries, Brazil and Mexico are the top ranked countries in attracting the most FDI inflows. It was evident that MNCs prefer democratic governments, such as Brazil, Mexico and Costa Rica over authoritarian governments because the political and economic stability that democratic governments offer. Latin American countries with democratic institutions, free market regulations and an educated, technological trained work force are better prepared to attract FDI. MNCs avoided countries with socialist-authoritarian regimes, such as Cuba and Venezuela, for fear of expropriations, lack of contract enforcement or protection to the

investor. Latin American countries must be aware that raising their social and economic outcomes will help them to attract FDI inflows.

CHAPTER I

INTRODUCTION

Foreign Direct Investment (FDI) brings benefits to host countries' populations, using job creation, opportunities for education, training, and technology. The host country benefits from FDI inflows, improving its economy, introducing new technology, organizational and managerial skills that help domestic companies while improving its political institutions.^{1,2} MNCs promote competition among domestic companies, teaching better technological and managerial skills that are needed to compete with Transnational Companies (TNCs).³ FDI inflows benefit the host economy by making it more resilient to economic crisis, and adding a much needed source of funding in developing countries.⁴ Despite the global economic crisis, FDI inflows grew as much as 40%, with respect to 2009, in Latin America and the Caribbean, a total of \$113 billion.⁵ Host government policies are improved allowing MNCs to have stable government regulations and a favorable environment for domestic companies and MNCs to grow and prosper together.⁶

While a stable political environment, fair regulations, infrastructure and the location of the host country are important factors when trying to attract FDI, human capital is, in the view of this author the most important asset of a host country. Human capital achieves two goals, enhanced productivity and steady economic growth (Lucas, R. 1988).⁷ Human capital that can innovate and develop new technology is necessary for steady economic growth that benefits the host country in the long term.⁸ This author argues that relying only on natural resources and FDI inflows is a bad strategy when trying to create

economic independence. Countries that have democratic governments and invest in education, training, and developing technologies have increased opportunities to attract FDI.⁹ MNCs that increase internal productivity and economic growth are vital to the host. MNCs also contribute to a better standard of life, social and political stability.¹⁰

I.I. Research Questions and Hypothesis

I.II. The aim of the Research

The author of this work wants to underline the relationship between the type of political and economic system, human capital, social environment and the capacity of countries of Latin America to attract FDI and grow their economy while improving the standard of living of their citizens.

I.III. Research questions

This work answers the questions of what kind of political systems and social environments in Latin America are best for attracting FDIs, and what are the obstacles those Latin American countries in non-democratic and authoritarian governments confront when trying to attract FDI.

I.IV. Hypothesis

My intent here is to illustrate that a democratic, stable political environment and investment in human capital through education and technology are the most important factors that host countries have, not only to attract FDI, but also, to promote steady and

long term growth of their economy. Countries with good political and judicial institutions and an educated work force are better prepared to attract FDI.

CHAPTER II

METHODOLOGY

In Chapter III, through a literature review, the author intends to clarify what democracy is in Latin America, and how their emerging markets are growing in a globalized economy. This study defines and briefly reviews the problem of the process of democratization and emerging markets (EMs) in Latin America. The author of this thesis gives examples of different countries in Latin America, showing the close relationship between political systems, social problems like poverty, corruption, social inequality and the way they affect FDI inflows. In this study the author defines terms like democracy, emerging markets, social and economic indicators that help us to study the political, economic and social reality of countries in Latin America.

This author chose five different countries of Latin America with different political systems and economic policies. Brazil, a democratic country with free market policies, and great natural resources, oil and natural gas;¹¹ Venezuela, a country that is passing from a consolidated democracy to a socialist authoritarian populist regime. Like Brazil, Venezuela has a big territory and it is an oil producing country;¹² Mexico, a medium size country that has not yet consolidated its democracy. It is also an oil producer;¹³ Cuba, a Caribbean island, with an authoritarian socialist regime, produces oil for its own

consumption and is beginning to open its economy;¹⁴ finally, Costa Rica, also a Caribbean country with a consolidated democracy, recipient of FDI in the technological manufacturing industry, agriculture, and ecotourism.¹⁵

To study the social economic and political systems of these countries, this work relies on public governmental sources and international organizations that have conducted research and surveys of MNCs working inside the countries studied. To better study economic, social or political statistics the author uses international organizations, public and governmental source data, as updated and accurate as possible. Many countries of Latin America, have different time tables in reporting the statistical information of their countries, and in those cases, the author takes the most updated information available, even if the information is several years behind.

This author researched data and surveys of MNCs from private sources such as the 2011 index of Economic Freedom of the Heritage Foundation and the Wall Street Journal, the Economist Intelligence unit, Economic Watch, World bank “Doing Business,” World Investment Report 2010, Transparency International, CIA World Fact Book, Boyden Report: Brazil, World Economic Forum, United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF), World Bank, the Economic Commission for Latin America (ECLAC or CEPAL in Spanish) and the United Nations Human Development index. Data from these private, public and non-governmental organizations help us to find out the social and economic outcomes that MNCs are looking for when investing and consolidating their industries. The study also reviews other economic and social reports, academic peer review papers and newspapers on the subject.

For the purposes of this study we estimated minimum wages per day (Table2) using the most updated data from official governmental sources, poverty rates (Table1) of selected countries and when needed more comparison we use other methodologies to measure poverty rates, such as the United Nations Human Development Index. The author selected the Latin American countries' Corruption Perceptions Index instead of the World Corruption Perceptions Index (Table3). The author uses data from ECLAC for ranking FDI inflows (Table 4), Growth of Gross Domestic Product (Table 5) and Inflation trends of Brazil, Mexico, Costa Rica and Venezuela (Tables 7-10). The inflation rate in Cuba is negligible (-0.5), since Cuba's government control prices and rations food. Thus, Cuba's inflation was not charted. The author also studies, the literacy rate, life expectancy, infant mortality rate, as part of the United Nations Human Development index of each of the five countries studied. The author studied social and health indicators and the United Nations Human Development Index, to estimate the human development of the countries studied.¹⁶ These are social indicators that many private and non-governmental organizations use to advice MNCs for investing in a country and to help host countries to improve social and economic policies to attract FDI.

In Chapter IV, this author compiles the information on the different organizations studied showing the social, political and economic profile of each country. The author analyses the results using the data of the Economic Commission for Latin America and the Caribbean, Economic Watch, the 2011 Economic Freedom index, The Central Intelligence Agency, the U.S. Department of State, and Export and Development Canada (EDC), the author researched and compared total Growth of Gross Domestic Product (total growth of GDP), unemployment, GDP per Capita, GDP, and Real Urban minimum

wage (table 5), of the five countries studied, Brazil, Mexico, Costa Rica, Venezuela and Cuba. The author contrasted these countries economic growth and other global economic indicators (Table 6 and 7). In Chapter IV, section VI, this author discusses the results of the organizations that conducted surveys with MNCs and draws her conclusions and recommendations for the Latin American countries studied.

CHAPTER III

THEORETICAL BACKGROUND

III.I. Democracy, Authoritarian Regimes, Political Institutions and FDI

Inflows

A country is a political community, a political regime with a form of government (Huntington, 1996). In democratic societies there is a strong consensus among the people about the legitimacy of their particular political regime when well-built political institutions serve the public interest.¹⁷ Democracies are market oriented, supporting economic and political plurality while giving citizens freedoms by offering them a variety of choices, and interests.^{18,19}

Democracy, as a type of popular government, is defined in so many different ways, that David Collier and Steven Levitsky have called it, the "Democracy with adjectives."²⁰ The term democracy has been applied to other political systems, such as "social democracy," or "liberal democracy," "Christian democracy," with federalism or without, with democratic politic institutions or not.

To define a democratic political system has to gather the following conditions: firstly, a popular elected executive, with a popular elected parliament; Secondly, "universal suffrage and fair elections by secret ballot" (O'Kane, R. 2004);²¹ and thirdly, the control of the military is in hands of civilians. However in Latin America there is no clean cut democracy, neither gathers all the conditions stipulated for a democracy. Many countries have retained the old non democratic political institutions and are burdened with a huge bureaucracy of their old socialist authoritarian regimes. They may have elections that are much disputed, and sometimes fraudulent, using clientelistic practices, stuffing the ballot box or manipulating the electoral registering list. Many of these countries have candidates that once they attain the presidency, attempt changes to the constitution, centralizing the political institutions and work to stay in power like President Hugo Chavez in Venezuela.

Authoritarian regimes in Latin America formed as a process of transition from colonization to military caudillos (militaries that were dictators themselves). Later, countries of Latin America were governed by oligarchies that repressed the population at large so as to monopolize the countries' resources.²² In the 1950's dictators controlled the military in Latin America, using it to prevent emancipation, socialist ideologies or separatist movements that threatened the interests of the oligarchy (Lowly, M., Sader, E.1985) Examples of countries with past military regimes are Brazil, Argentina, Chile, El Salvador, Guatemala, Haiti, Honduras, Dominican Republic, Bolivia, Venezuela, Paraguay, Panama, Uruguay, among others.²³ The waves of militarization and demilitarization marked different transitions in Latin America. For example, a military official, President Juan Domingo Perón, after ascending to a first term to the presidency

of Argentina (1946-1952), was legally re-elected in 1951 as president and later deposed by a military regime in 1955.²⁴

Influenced by the cultural relativism of the 1970's, and the emergence of the new world order, the economic and social modernization of Latin America gave place to a pluralistic more integrated society. With the liberalization of the economy the power remained in the hands of dictators, or as in Mexico, the official party, the Revolutionary Institutional Party, (*Partido Revolucionario Institucional* or PRI) which governed Mexico for seven decades with different presidents, but always with the same authoritarian, centralized government.²⁵

In the 1980's many Latin American countries such as Mexico, and Argentina began the liberalization of their economies while trying to holding on to old political institutions and authoritarian regimes. Living between authoritarian political regimes and neoliberal economic policies kept them detached from full-fledged democratic institutions, and challenged the preconditions for a democracy (Lyn, Karl T., 1990).²⁶

These military regimes had military leaders as presidents, but the regimes were really a hybrid form of dictatorship and free market policies. This was the case of Chilean President Augusto Pinochet during the 1970's and continuing through the 1990's. These military dictatorships did not propose to create a new state, or to hold a specific ideology. In the case of Chile, it was the protection that Pinochet offered against the socialist agenda of President Salvador Allende. Thus, the United States tacit support for Pinochet during the Cold War era.²⁷

The memories of relatives and grandparents compel Latin Americans to reject, vehemently, the return of authoritarian regimes, the military dictatorships and ruling parties of the 1970's. However, it is evident for many people, that abuses of human rights, inequalities and economic disparities are driving the growing support of the PRI in Mexico, an implicit rejection to the *Partido Acción Nacional* in Mexico (National Action Party or PAN), the party of incumbent President Calderón.²⁸

According to a study of the Center for the Americas at Vanderbilt University called "Latin American Public Opinion Project," 75% of Latin Americans believe in democracy in normative terms such as freedom, liberty of expression, movement and choice. They think that democracy is equivalent to human rights, equality, "the power of the people," (Seligson, 2008)²⁹

Many Latin Americans are weary of the term democracy because repeatedly, in different Latin American countries elected presidents have abused their power, eroding the foundations of their political institutions and citizens' fundamental freedoms.³⁰ In other instances, citizens of Latin American countries have witnessed the coup d'état of their elected president by a military leader, cancelling all human rights and freedoms. An example of this is the attack by the armed forces, under the leadership of General Augusto Pinochet, in September 11, 1973 of La Moneda Palace, offices of the democratically elected President Salvador Allende, a socialist.³¹

Chile had a history of democratic governments lasting for 130 years until Pinochet's coup d' état.³² Pinochet's military attack culminated with the death of President Allende, and a dictatorship that lasted until 1990, when the transition towards democracy started. Under Pinochet, citizens lived in a police state. Pinochet's regime was plagued with

massive violations of human rights and more than five thousand people dead,³³ many of whom were never found. Yet, the Pinochet regime did liberalize the economy³⁴ in order to attract FDI. His neoliberal free market policies and his fight against communism in his country during the Cold War era helped him to obtain some legitimacy to his regime and attract FDI inflows, despite flagrant violations of human rights.³⁵

The United States provided economic and military aid to Pinochet's regime.³⁶ In the Post Cold war era, in an increasingly globalized world, dissidents were outspoken about human rights violations, torture and the assassination of thousands of dissidents and victims. President James "Jimmy" Carter began to distance the U. S. from this brutal regime. The U.S. voted against Export- Import Bank loans and condemned Chile's violations of human rights in the United Nations. After Carter, the U.S. continued its policy of refusing to help his regime, and this sustained pressure eventually forced Pinochet to step down, opening Chile to democracy without damaging Chile's economic gains.³⁷

Many Latin Americans are suspicious of the term democracy and the political process to achieve democracy.³⁸ For many, the term democracy implies a first- world countries intervention and the exploitation of Latin American natural resources.³⁹ They zealously protect the sovereignty of their countries.⁴⁰ Many cherish the dream of having a country where there is no poverty, with free education, health and equality.⁴¹ They want to avoid the exploitation and colonization of past times.⁴² In their view, socialist systems uphold those ideals. However, there is a dominant tendency to authoritarianism and paternalism, with a constitutional government (Foweraker, J. 2003).⁴³ There is a great divide in many

countries of Latin America between democracy and authoritarian regimes that uphold socialist ideals.⁴⁴

In some countries of Latin America, the appearance of the government would be that of a democratic country, but in reality, it is that of an authoritarian government.⁴⁵ Even when Latin American countries have republican and constitutional governments, more or less democratic elections, some of these Latin American countries retain authoritarian governments with centralized political institutions and little political freedoms or human rights. Furthermore, political conflict in Latin American countries is also the result of the divide between conservatives and liberals. Through the nineteenth century and still today, conservatives have supported the union of state and Church, economic protectionism, monopolies and oligarchies, while the liberals pressed for separation of Church and state, a secular state, and open economies to international trade.⁴⁶

The political systems of Latin America can hardly be compared to those of the United States or European countries. Modern nation-states, as is the case of Latin America countries, have confronted three central problems: Firstly, one central authority figure that unites the population despite external pressures and internal divisions; secondly, the growth of state's authority in response to mass politics, and thirdly, the state's reforms as a consequence of international and domestic politics (Foweraker J. 2003)⁴⁷

Born from colonialism, most Latin American countries experienced the caudillo government, the leaders that opposed foreign monarchies with the hope that they could unite the children of colonizers, uncivilized populations, tribes and rebel factions.⁴⁸ Thus, most Latin American countries have opposed monarchies and preferred constitutional governments and a republic form of government to claim their own sovereignty.⁴⁹

However, constitutionalism does not necessarily support the idea in Latin America of a liberal democracy.⁵⁰ Instead, some political actors choose populism and authoritarian governments in order to win their elections, and stay in power. Populism, a political ideology used in Europe in the nineteenth century to support peasant communal claims against western liberalism and corporations is a resource frequently sought in Latin America.⁵¹ The populist government programs were born from the need to unite and organize populations, and to garner support for the leader in power.⁵²

President Felipe Calderón highlighted the split between authoritarian and democratic political systems, when in the World Economic Forum in Davos, Switzerland Calderón said that Latin America is divided between countries turning to the past authoritarian or control system, and other countries of Latin America seeking democracy and free market to attract FDI inflows for economic growth:⁵³

“Many countries in Latin America have chosen to move towards the past and among their most harmful decisions are seeking nationalizations, expropriations, state control of the economy and authoritarianism; Mexicans have decided to look to the future and to strengthen democracy, markets and investment. Latin America nations must choose a path of democracy and free markets or risk falling behind competitors in the rest of the world,” Calderon said; “Several countries in Latin America are acting against foreign investors, but we are thinking all the day, every day, how can we attract more investment to Mexico”(Mexican President Felipe Calderon Hinojosa. Davos, Switzerland, 2007).⁵⁴

Some Latin American presidents while advocating socialist ideals are centrists, respecting MNCs and free market. This is the case of former Brazil President Luiz Inácio “Lula” da Silva, a leftist President of the Workers’ party. Lula da Silva consolidated Brazil’s free market but also implemented social programs to promote equality, giving money to the poor, subsidized housing loans, and raising the minimum wage.⁵⁵

In contrast, Bolivian President Evo Morales, a committed socialist with an ideology based on traditional Andean values and social organization, decided to seize more

government control of natural gas and other natural resources, reforming the constitution, and promising to increase the state's control of the economy.⁵⁶

Presidents in Cuba and Venezuela frequently give discourses on the gains of the revolution. The rhetoric of these Presidents in Latin America is designed to attract voters. It is a socialist, anti-imperialist and anti-capitalist rhetoric.⁵⁷ This is an excerpt of the speech of President of Venezuela Hugo Chávez Frías to the United Nations.

“The speech of the world “tyrant” President, (referring to President George W. Bush) cynic, full of hypocrisy. It is the imperial hypocrisy, the intent of controlling everything, they want to impose us the democratic model, democratic as they conceived it, the false democracy of the elites, and besides a very original democratic model imposed by bombs, by invasions, at gun point! What a Democracy! We should review the Aristotle's thesis and the first ones (philosophers), who talked somewhere in Greece of democracy, to see what kind of democracy is the one that is imposed through the marines, the invasions, the aggressions and the bombs” (Hugo Chavez, September 20, 2006).⁵⁸

Democratic Latin American countries, do not escape claims of electoral fraud, clientelism, and corruption. During the 1980's and 1990s in Mexico, scholars, observers, and journalists, claimed that the administration of elections was fraudulent.⁵⁹ Mexico has had a reputation for decades of clientelism, stuffing the ballot box, giving food boxes in exchange of votes, and fraudulent vote registers.⁶⁰ As of today, President Felipe Calderón's election in 2006 is still refuted. Some scholars argue that he was legally chosen as president and he won by a small margin.⁶¹ Manuel Lopez Obrador, the opposition leading candidate in 2006, and his sympathizers contested the election, arguing that there was fraud. Obrador called for street protest rallies and occupation of public plazas. Obrador contested the results claiming that there were many irregularities demanding recount of all the votes. The population wanted a recount of all the votes, but the electoral tribunal just recounted 9% of the votes, casting a shadow of distrust in the population.⁶²

President Calderón declared himself president in his headquarters with the electoral tribunal eventually giving the victory to Calderón. A big sector of the population still thinks that his claim to the presidency is illegitimate. The lack of transparency in recounting all the votes, the illegal campaigning of former President Vicente Fox in favor of Calderón, and ads paid for by businesses organizations, a practice illegal in Mexico, rested legitimacy and popular power to the presidency of Felipe Calderón.⁶³

Another example is Brazil. When Luiz Inácio 'Lula' da Silva from the *Partido dos Trabalhadores* (Workers' Party or PT) became president of Brazil in 2002, with strong popular support, the ideals of ethics, political transparency, and redistribution, that he and his party had held for more than two decades, appeared to have come finally to fruition. Nothing could have been farther from the truth. Lula, as he is popularly known, took office in 2003, and two years later, in June 2005, Roberto Jefferson, a house representative, denounced how the PT's high ranking members had regularly bribed members of the congress, the government coalition and "illegal off the books donations for campaigns"(Goldfrank, B. Wampler, B).⁶⁴ It was also found that they were using illicit public funds and contracts to get those donations.

Buying votes was not new. It was a practice seen before in Brazil, especially in the reelection of President Fernando Henrique Cardoso.⁶⁵ What Brazil's citizens found the most disappointing was that the workers' party had denounced unethical electoral practices and corruption for two decades. Yet, the PT was found responsible of the same bad behaviors they denounced so fervently in past administrations.⁶⁶

III.II. Latin America Emerging Markets

Emerging markets (EMs) are those situated in developing countries whose "income levels, GPD per capita, human development indices, market institutions, technological sophistication and production efficiencies have not reached the standards of a developed country" (Veliyath, R., Brouthers, L. 2010).⁶⁷ Grzegorz Kolodko⁶⁸ argues that an emerging market does not have mature institutional systems or a well delineated market development path like those of highly developed market economies. In general, EMs have rapid rates of economic growth and development, substantial domestic demand bases, the ability to absorb and assimilate technology, large human capital bases, and institutions that have the capacity to support market and economic expansion, (Veliyath, R, Brouthers, L. 2010).⁶⁹ Latin American countries like Brazil, Mexico, Chile, Argentina, and Costa Rica are making economic reforms, to attract FDI, to their emerging markets.

At the start of 1980's there were 32 EMs, with a worth of US\$70bn, 2.5% of the world market capitalization, (ECLAC, Foreign Direct Investment in Latin America and the Caribbean, Brief Paper, 2010).⁷⁰ Despite the financial crisis of 2009, in 2010 Latin American and Caribbean countries attracted US\$ 112.634 billion, receiving 40% more of FDI than in 2009 (US\$80.376).⁷¹

Natural resources, and domestic demand for services in countries of Latin America (especially in Brazil, Chile, Colombia, Mexico and Peru) drives the increase of FDI

inflows (table 4),⁷² not only from MNCs, but also from Transnational Latin American Corporations.⁷³

In addition, MNCs look at certain social and economic indicators that allow them to take their financial decisions. MNCs calculate the financial risk to invest in the host country. Financial risk is defined as “the exposure to adverse events that erode profitability and in extreme circumstances bring about business collapse” (Chapman, J.R. 16.1)⁷⁴ The financial risk is assessed by MNCs by the activity of the host market’s country, the price risks, currency risks, inflation, and contraction of the economy, as well as its growth, recessions or recovery (business cycle).⁷⁵

However, the political risk is equally important for MNCs when making a decision of where to invest and how much to invest. MNCs look at how easy or difficult is to start a business and to thrive in the host country. They look to the “easy to do business rank” that measures the time it takes to start a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across the borders, enforcing contracts, and how easy or difficult is to close a business (The World Bank, 2011).⁷⁶

Weston and Sorge’s definition of political risks as “actions of national governments which interfere with or prevent business transactions, or change the terms of agreements, or cause the confiscation of wholly or partially foreign owned business property” (As cited by Kobrin, S. 1979),⁷⁷ MNCs fear social and political instability. The fear of MNCs is that their assets be taken, whether by expropriation or regulatory measures (indirect expropriation).⁷⁸

CHAPTER IV

RESULTS AND DISCUSSION

The results and analysis of each country, Brazil, Mexico, Costa Rica, Venezuela and Cuba, is a compilation of data and surveys of MNCs from private, public and non-governmental, sources such as the 2011 index of Economic Freedom of the Heritage Foundation and the Wall Street Journal, the Economist Intelligence unit, Economic Watch, World bank “Doing Business,” World Investment Report 2010, Transparency International, International Monetary Fund, CIA World Fact Book, Boyden Report: Brazil, World Economic Forum, United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF), World Bank, the Economic Commission for Latin America (ECLAC or CEPAL in Spanish) and the United Nations Human Development index. This author’s intention is to show the economic, political and social profile of each country studied as related to the FDI inflows that MNCs are looking for when investing and consolidating their industries. The study also reviews other economic and social reports, academic peer review papers and newspapers on the subject.

IV.I. BRAZIL

IV.I.I. Brazil Natural Resources

Brazil, a democratic country, is one of the richest countries in the world in natural resources, agriculture (6% of the GPD), mining, manufacturing and service sectors.⁷⁹ It is a country rich in natural gas and oil. During the past decade, Brazil has been increasing

its production of oil and ethanol. PETROBRAS,⁸⁰ the oil, gas, and energy industry of Brazil is a publicly traded oil company, but with the Government of Brazil as principal stockholder.⁸¹

PETROBRAS is ranked second in reserves,⁸² after Venezuela, with around 14 billion barrels of proven oil reserves and is the third largest energy corporation in the world.⁸³ Brazil's rank in world oil reserves may change with the new discoveries of oil and gas in Brazil's pre-salt basins offshore of Brazil. There is a great possibility, according to the specialists, that oil in deep waters is yet to be discovered.⁸⁴ Thus, Brazil will, in the years to come, become a leading petroleum exporter.

In 2010, PETROBRAS produced 2.6 million barrels per day. This oil company has 16 refineries, 130, 200 thousand square kilometers of exploration area, 132 platforms, and 15,000 producing wells.⁸⁵ Brazil is leader in South America in science and technology for the exploitation of agriculture, biofuels, deep-sea oil production, and research on remote sensing (U.S. Department of State).⁸⁶

Moreover, the finding of an enormous natural gas field, Jupiter, off Rio de Janeiro's coastline, will help Brazil become independent in natural gas. At present time, Brazil buys this natural resource from Bolivia.⁸⁷ Furthermore, Brazil has great natural gas reserves in the Santos Basins, Campos, Espíritu Santo, and in other territories of Brazil in need of improving transportation. In the near future natural gas can become a substitute for the industrial sector, gaining domestic demand due to its lower price.⁸⁸ However, specialists argue that Brazil needs to be cautious on the profitability estimation of the new oil and gas fields. Reserves, like the one in Tupi, are located in a subsalt zone

approximately 18,000 feet below the ocean surface, areas of technical difficulty for the extraction and exploitation of the reserves (Energy Information Administration).⁸⁹

Private companies such as BG group and Petrogal, a consortium of Petrobras, have contributed to the exploration and findings of oil and natural gas reserves such as the Tupi field in 2007. The Government of Brazil maintains control of the biggest oil and Gas Company in Brazil, PETROBRAS. However, MNCs, such as Shell's project of Parque de Conchas and the Frade project operated by Chevron, produced as much as 100,000bbl/d and 68,000 bbl/d, respectively (Energy Information Administration, 2011).⁹⁰

Brazil exports (7.0.2% growth) have decreased when compared with 2010 (29.2%). The country exports transport, equipment, minerals (iron, ore, phosphates, manganese, uranium, copper, coal platinum). Agricultural products such as soybeans, maize, coffee, sisal, and tobacco are key exports for Brazil. This country also exports footwear and autos (The World Bank).⁹¹

IV.I.II *Brazil Economy*

As of June 2011, Brazil's economy is booming and growing. Brazil, a country with great human, natural and agricultural capital, is now attracting more new investors and MNCs than ever, all looking to profit from the natural resources, economic prosperity and a strong currency.⁹²With a GDP of \$2.0 trillion, GDP per capita \$10,514 (Tables 5 and 6), a control inflation of 4.9-6% (See table 7), and FDI inflows of 25.9 billion,⁹³ Brazil's economy is expanding at an incredible rate (economic growth around 4.5%).⁹⁴ Brazil is now the largest economy in South America.⁹⁵ Brazil's economy is stable and

growing steadily.⁹⁶ This country attracted the most FDI inflows in South America (87%). When compared with other regions of Latin America, Brazil and Mexico have attracted the most High-Tech jobs (ECLAC FDI Brief Paper 2010). Brazil attracted as much as US\$48.4 billion to its economy through FDI inflows (TABLE 4. Source: ECLAC 2010). Brazil exported \$202 billion while importing \$182 billion in 2010. Demand is growing in telecommunications, banking, commerce, computing, internet services, and energy (66% of GDP).⁹⁷ Tourism is a very important source of revenue.⁹⁸ Even when Brazil had a trade surplus of \$20.3 billion, the public debt of this country is 60% of the GDP,⁹⁹ and the external debt is \$310,800 billion.¹⁰⁰ Unemployment was 7, 8% and an inflation of 7.8%.

Six of Brazil's corporations are on the ten top list of the largest corporations: Petrobras, the first largest corporation in the field of Petroleum and Energy; The second largest is BR Distribuidora, a fuel wholesale corporation; Telemar, a telecommunications corporation is the third largest corporation in Brazil; Ambev, a beer and drinks company is the fifth largest corporation; Ipiranga, a fuel wholesale company is the sixth largest corporation; Brazil Telecom, a telecommunications company is the tenth largest corporation in Brazil. MNCs in the list of the top largest corporations are: Telefonica, a Spanish telecommunications corporation ranked the fourth largest corporation; Volkswagen, an automobile German company is the seventh largest corporation in Brazil; Shell, a UK/Holland fuel wholesale corporation is the eighth largest corporation in Brazil, and General Motors, an American automobiles corporation is the ninth largest corporation in Brazil.¹⁰¹

Most specialists believe that Brazil is in a period of swelling economic activity. The reasons are threefold: First, the country has great natural resources and is, after the United States and Canada, the third largest consumer of energy.¹⁰² Secondly, deep economic and social policies resulted in a strong currency and thirdly, an increasing number of young educated workers.¹⁰³ Moreover, Brazil has implemented social reforms, concentrating a great portion of public expenditures on three basic, but vital areas: education, health, and the creation of infrastructure (Vilmar E. Faria, 2002).¹⁰⁴

IV.I.III. *Brazil Human Capital*

Brazil's multiethnic population lives mainly in the South Central area of the country, the industrial areas of Sao Paulo, Rio de Janeiro, and Belo Horizonte. Brazil's population is 191.5 million, the largest in Latin America, and fifth in the world. This is a society with a majority of young people, young adults and middle aged people, as is typical with most of Latin America's population. This workforce is a growing sector of Economical Active Population, (EAP) between the ages of 15 and 64 they account for 67% of the population.¹⁰⁵ In the 1980's, the EAP increased by 25% as a result of the incorporation of women into the work force. Women have discovered, over the past thirty years, greater incentives and advantages to working and pursuing an education.¹⁰⁶

The minimum wage per day is \$10.89 (Table. 2). Brazilians have a life expectancy at birth of 68.97 for males and 76.27 for females years (as 2011), with a literacy rate of 88% and unemployment rate of 7%. However, Brazil still has great problems with poverty that affects many of the people. Thirty percent of the population is poor (Table 1), and the

infant mortality rate is high, (21.17 deaths/ 1000 live births). While education is free, the poorest parts of the country receive a lower standard of education, perpetuating inequality and poverty.¹⁰⁷ The Human development (HDI) index (Composite indices, 2011) of Brazil has a value of 0.699, below the HDI of Latin America and the Caribbean (0.706).¹⁰⁸

IV.IV ANALYSIS OF BRAZIL'S SOCIAL AND ECONOMIC OUTCOMES

The World Bank "Doing Business"¹⁰⁹ ranks Brazil in 127th place out of 183 economies, (Brazil ranked 124th in 2010).¹¹⁰ Brazil's democratic government and free market policies and regulations, permit the conditions for MNCs to find a variety of enterprises in services, oil and natural gas, minerals, and telecommunications. Yet, Brazil faces obstacles in attracting FDI such as a deficient infrastructure, inefficient bureaucracy, corruption, and the inability to trade across borders.¹¹¹ These factors play a role in holding back Brazil's economic growth, although infrastructure has doubled, Brazil still needs more FDI in infrastructure to keep the country's economic growth on its current upward path (MIGA, World Bank Group).¹¹² The World Bank's "Doing Business Rank," found that Brazilian administrative procedures take too long: 128 days to open a business, dealing with construction permits, 112 days, registering property 122 days, and closing a business 132 days. Doing business across borders and paying taxes are the most complicated problems that MNCs face in Brazil.

The political climate is difficult and represents a hurdle to create efficient, on time free market policies. The political environment reflects the struggles of the right and left, the congressional political ideologies in the nation, slowing the passage of important fiscal reforms. Moreover, the state is heavily bureaucratic, with high levels of corruption (graded 3.7 CPI. Table 3) and the judicial system is painfully slow.¹¹³ .

Despite the political, judicial environment and ongoing corruption, the economy of Brazil is prosperous. This is the result of economic and social policies carried out by President Cardoso and then continued by President Luiz Inácio Lula da Silva.¹¹⁴ Even though Lula da Silva was considered a leftist president, he adopted a centrist position, advocating for the free market policies of President Cardoso and advancing the liberalization of the economy. Thus, Lula da Silva put his face on the economic bonanza and the aggressive privatization reform initiated by President Cardoso. Advocating for the poor, while forwarding the free market, Lula da Silva sustained himself as a very popular president. During the 2009 global economic crisis, Brazil's economy experienced not only stability, but modest growth.¹¹⁵ Lula da Silva's approach of respect to foreign investments and contractual obligations, helped to attract private capital. It is expected that the incumbent president Dilma Rousseff will follow the same free market policies of Lula da Silva.

Social problems that Brazil has to confront are violence due to crime and insecurity (EDC Economics Brazil, 2010).¹¹⁶ Personal security and violence are a concern that may deter FDI inflows. 25% of the populations live under the poverty line, and there is high criminality in important cities of Brazil.¹¹⁷ Inequality expresses itself in discrimination and income disparities that divide this great country. The cash transfer programs of Lula da Silva, "Bolsa de Familia, resulted in social mobility to the middle class, giving hope to

30 million Brazilians. Infant mortality decreased below 23 deaths per 1,000 live births (21.17).¹¹⁸

Not only does Brazil need to attract FDIs to improve its economy, but also, it needs FDI inflows to obtain revenues for the gigantic security needs, combating drug trafficking, crime, homicide, and the increasing demand of social programs, especially in the areas of health and education. There is an increasing need to attract more FDI inflows, knowing that these inflows increase productivity, innovation and technology.

IV.II MEXICO

IV.II.I Mexico Natural Resources

Mexico, a democratic country, obtains a third of its budget revenue from Petroleos de Mexico (PEMEX), a government controlled oil and Gas Company with operations mainly in the east coast of Mexico. In 2008, the government of President Felipe Calderon tried to privatize the state oil monopoly, having massive protests from Mexican population who see oil exploration and exploitation as a national patrimony.¹¹⁹

The Mexican constitution (Article 27) keeps oil exploitation, exploration and sale of gasoline on the hands of the Government of Mexico. In 2009, Mexico's production of oil ranked seventh in the world and was the second largest oil provider to the United States. Mexico's production of oil has steadily declined, losing a quarter of its output capacity. The lack of modernization, investment, exploration of new oil fields, and the aging of existing fields, has taken its toll on a country that depends heavily on oil revenues. Oil

funds account for around a third of the governmental budget¹²⁰, helping to pay for Mexico's increasingly expensive social programs. PEMEX needs exploration and refineries if Mexico wants to remain competitive abroad and supply its domestic demand. Pemex has subcontracted services to private companies. After seven decades, Pemex has not explored more than 20% of the Mexican territory. While the U.S. has 149 oil refineries, Mexico has only six.¹²¹

Thus, Mexico has passed regulations permitting private partnerships, with the government keeping control of the company operations.¹²² In March, of 2011, Mexico had its first auction of oil field operating contracts that will give the right to private companies to reactivate and operate three small fields. This will bring revenues, expertise, and exploration to the oil fields of Mexico.¹²³ Other Mexican natural resources include silver, gold, copper, lead, zinc and timber.

IV.II.II. *Mexico Economy*

Mexico's economy is the 13th largest economy, in nominal terms, with a GDP of \$1.5 trillion. It is the 11th, largest purchasing power parity country (PPP, \$ 1,563 trillion in 2009).¹²⁴ Mexico has a GDP real growth rate (in 2010) of 5.5%, and a 5-year compound annual growth of 0.7% 5- year (Table 5 and 6). GDP per capita is \$13,900 (as 2010). Services contributed 62.5% to the GDP, 33% Industry, and 4.2% agriculture. Unemployment is 5.5%, a control inflation of 5.3% (Table 8).¹²⁵ Minimum wage is very low, 5.01 per day, comparable to Haiti (2011). Mexico's exports to U.S. were \$234.8 billion in 2008, falling to 184.9 billion in 2009 (Economic Watch). Mexico imported

\$306billion (2010 est.)¹²⁶ Mexico's ten top ranking corporations are: Pemex in first place, the state oil company; America Mobil, a Mexican telecommunications company is the second top ranked corporation; Walmart de Mexico from the U.S. This giant retail company is the third top ranked corporation; Comisión Federal de Electricidad, a Mexican Energy company is the fourth top ranked corporation; Cemex, the Mexican construction company is the fifth top ranked corporation; Grupo Alfa, a Mexican conglomerate is the sixth top ranked corporation; BBVA Bancomer, a Spanish financial corporation is the ninth top ranked corporation; and Ford Motor Company, an automobile corporation is the tenth top ranked corporation (CNN, Expansion 2011).¹²⁷

Mexico received money (remittances) from illegal immigrants in the U.S. in the amount of \$25 billion in 2008. It is the largest source of foreign exchange in the Mexican economy.¹²⁸ The total exports were affected by the American economic crisis and fell from US \$ 234 billion in 2008 to \$ 184 billion in 2009. Mexico imports were \$234 billion. Mexico is the greatest importer in Latin America.¹²⁹ Mexico external debt is 212,500 billion.¹³⁰ The public debt of Mexico is 41.5% of the GDP.¹³¹

IV.II.III Mexico Human Capital

Mexico's population is 107.6 million. Poverty in Mexico is between 30 and 40% of the population, there are 18.2% of people below the poverty line, and the minimum wage is inadequate to sustain the population (\$ 5.1 per day). Its acquisitive value for basic foods is completely eroded (Tables 1 and 2). Based on food-based definition of poverty by asset, poverty is 47%. The infantile mortality rate in Mexico is 17.29 deaths/ 1000 live births. The Life expectancy at birth in males was 73.65 years. Life expectancy in women

was 79.43 years.¹³² The literacy rate is 86.1% Mexico has a Human Development Index (Composite Indices 2010) of 0.750, above the region level. Homicide rate was 11.6/100,000 people (2010). There were 40,000 deaths attributed to the war on drugs during the past four years and a half.¹³³ Moreover, Mexico is a country with widespread corruption (graded 3.1 CPI, Table 3).

IV.II.IV. ANALYSIS OF MEXICO'S SOCIAL AND ECONOMIC OUTCOMES

Mexico is the second country, after Brazil that has attracted more FDI inflows. The reasons are threefold. Firstly, the liberalization of the economy since the 1980's, giving guarantees to MNCs of the continuance of the country's free market policies and process of democratization.¹³⁴ The World Bank "Doing Business" ranks Mexico in the 35th place out of 183 economies. Despite the violence and corruption in the country, the steady free market policies, democratic government, and friendly regulations have attracted FDI inflows estimated at \$17.2 billion. Certainly, the GDP and the loss of jobs have been affected by the rampant violence caused by the war on drugs instituted by Calderon's government.¹³⁵ Yet the study shows how consolidating the free market, and advancing the democratization process, makes a difference in how a country attracts FDI inflows.

Secondly, Mexico also has attracted FDI inflows because of its strategic location. This has been of paramount importance. The ease of transporting and trading across borders thanks to the North American Free Trade Agreement (NAFTA), signed in January 1994

between Canada, Mexico and the United States, had an impact in attracting FDI inflows.

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Thirdly, Mexico has kept the labor force inexpensive to attract FDI inflows. We can see how Mexico has kept the minimum wage very low (5.01 per day, table 2), compared to Brazil (10.77) and Costa Rica (15.94). Mexico has a cheap labor force similar to that of Haiti and Nicaragua helping this country to attract FDI. However, poverty and violence are rampant in Mexico.

President Felipe Calderon's war on drugs has cost jobs in major Industrial cities such as Ciudad Juarez. This city lost almost \$450 million dollars in investments.¹³⁷ Despite the social unrest in Mexico, President Calderon was able to pass judicial, social security and tax reforms necessary to forward the liberalization of the economy. The World Bank "Doing Business," ranks Mexico 35 of 183 economies. According to "Doing business," the problems that are experienced in Mexico when looking to invest are registering a property, paying taxes, and protecting investors.¹³⁸

President Felipe Calderon's social programs as those of former presidents have targeted poverty, education, health and medicines. Yet, these programs have been inefficient, and inequality has been increasing, despite the great investment of the Mexican government. For example, the budget for education in Mexico is 22% of public non-capital spending.

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Even when the education budget is excellent, the very powerful teachers' union in Mexico takes 80% of non-capital education spending in salaries leaving a very small budget to take care of the needs of each individual student and school infrastructure.¹⁴⁰ There is corruption in the pay rolls, teachers who do not exist, or are dead, imaginary

names, and some teachers have left their positions to relatives after retiring.¹⁴¹ The Union is the biggest in Latin America with 1.2 million members. However, the leader of the union, Elba Esther Gordillo backed up Calderon's close victory. When Calderon announced competency tests for teachers, the union responded with strikes.¹⁴² President Calderon insisted in reforming the education system despite the union, giving tax breaks for tuitions at private schools.¹⁴³ Mexico is ill equipped to attract more technological manufacturing MNCs because technological training and schooling is substandard.

Furthermore, the *Secretaria de Desarrollo Social* (The Secretary of Social Development, Sedesol) is reviewing as many as 19 large, costly social programs. According to United Nations Human Development, poverty increased 5%, the equivalent of 6 million people in 2009 despite all the social programs.¹⁴⁴

According to Transparency International in Mexico, the problem of corruption is getting worse. This agency has found that the cost of bribes for middle income families was as much as 14% of their income and for those earning minimum wage, 33% of their income. 200 million acts of corruption were identified when Mexican families needed to use public services provided by federal authorities or government employees.¹⁴⁵

However, Mexico has the most pressing problems of productivity, and failed social and economic policies of the three democratic countries studied. This country is the greatest importer of all countries of Latin America with \$334 billion, exporting \$230 billion; its public debt is 40% with a huge external debt of \$212,500 billion. Mexico's economy depends heavily on the economy of the U.S. The country needs to attract FDI inflows to be solvent.

Mexico's declining reserves of oil, falling remittances from the United States, institutional and judicial corruption, drug violence have combined to lower the GDP by 1.2 percentage points. A high poverty rate (30-40%), and very low minimum wage are good predictors that political and social instability will continue affecting the economy and all Mexicans' standard of living. Thus, Mexico will be forced to invest more in security and social programs. This is money Mexico does not have.

Mexico needs to improve the standards of education. It needs bilingual training beginning in elementary school. Mexico needs quality technical training to attract technological manufacturing corporations. The social and economic indicators help us to see that there is great economic disparity and inequality in the Mexican population. In Mexico, 30-40 % of the population controls the wealth of the country, while the majority lives in poverty or migrates to the United States. 10% of Mexico's population (10 million people) lives in the United States. Social and economic inequality is unacceptable for a country with a GDP of 1.5 trillion. Without reforms, Mexico runs the risk of creating more violence, uprisings and poverty that will affect its economy even more.

IV.III COSTA RICA

IV.III.I *Costa Rica Natural Resources*

Costa Rica has a consolidated democracy. Its greatest natural resources are hydroelectric power, forest (flowers and plants), and fishery products. The agricultural products of Costa Rica (6.5% of GDP), are pineapples, coffee, bananas, sugar, rice, fruits, corn, beans and potatoes. 25.5% of the GDP comes from the manufacturing and services

industries. Costa Rica has attracted high tech electronic components and medical equipment manufacturing MNCs. Leather, textiles, and apparel, tires, food processing, construction materials, fertilizer, and plastic products are important industries too. Commerce, ecotourism and services represent a large part of Costa Rica economy (68% of the GDP).¹⁴⁶

IV.III.II *Costa Rica Economy*

Costa Rica's GDP is \$1.5 trillion, (2010). For 2011, its Total Growth GDP is 3.0. Costa Rica's GDP per capita is \$13,628¹⁴⁷ (TABLES 5-6). Unemployment is 5.5% and Inflation 5.3% (Table, 9).¹⁴⁸ Costa Rica attracted \$1.3 billion in FDI inflows in 2009, and in 2010, Costa Rica received \$1.412 billion FDI inflows (Table 4). The exports of Costa Rica were \$10.1 billion (2010) and imports \$13.32 billion. The public debt of Costa Rica is 42.4 % of GDP (2010 est.). Costa Rica external debt is \$8,829billion.¹⁴⁹ Costa Rica has successfully attracted companies such as the Intel Corporation, which employs 3,200 people, Procter and Gamble which employs 1200 people, Boston Scientific, Allergan, Hospira, and Baxter Healthcare.¹⁵⁰ Costa Rica has business relationships with other American companies such as Del Monte, Dole and Chiquita for the processing of bananas and pineapples.¹⁵¹

IV.III.III. *Costa Rica Human Capital*

Costa Rica's minimum wage is US\$ 15.94 per day, the highest in Latin America, (Table 2) and the poverty rate is 18.6%. Costa Rica has been able to attract FDI, because its population has a literacy rate of 94.4%, with 9 years of compulsory schooling and attendance rates of 99%. Life expectancy for men is 74.61 years and women 79.94 years.¹⁵² Costa Rica has a human development index (composite indices) of 0.725 (as 2010), above the regional level. Costa Rica has had, in the past, a social safety net; this has worn out due to the economic constraints of a dedicated budget, of only 2% of the GDP.¹⁵³ Costa Rica, like other Latin American countries, has serious problems of government corruption, (Graded 5.3 CPI. Table 3). The homicide rate in Costa Rica is 8.3/100,000. This is a low homicide rate compared to Mexico, but high compared to Argentina (5.2).

Since the 1970's Costa Rica has invested in secondary education, computers in its 4000 schools, and obligatory English classes. The Country committed 28% of its budget in the 1970's to achieve the highest levels of literacy. There are four universities and a technological institute that teach science and technology. The training is focused on studies in technology, agriculture, mining, and administration.¹⁵⁴

IV.III.IV ANALYSIS OF COSTA RICA'S SOCIAL AND ECONOMIC OUTCOMES

Costa Rica, a country with a great tradition of democratic political institutions, is geographically small, but this country attracted FDI worth \$ 1.4 billion. It is ranked top eighth country in FDI inflows. Costa Rica grants tax incentives in the sectors that they consider are strategic, specifically in technological areas where the spillovers to the education and training of the employees are suitable for its citizens. This economic policy was based in Costa Rica's strategy of economic liberalization: Firstly, to improve the conditions necessary to participate in the global market through agreements with Mexico, Canada, Chile, and the CARICOM (Caribbean Community Secretariat) and later CAFTA (The United States- Dominican Republic-Central America Free Trade Agreement). Secondly, Costa Rica sought to attract FDI of greater quality (Cordero, 2008).¹⁵⁵ During the 1990's the increase in FDI was the result of liberalization of the economy, privatization, and utilities.¹⁵⁶ Costa Ricans are known for their vigilance concerning conservation of natural resources and ecotourism. Costa Rica decided not to exploit the oil resources of the country, but only natural gas.¹⁵⁷ Thus, Costa Rican President Laura Chinchilla has insisted that she will not allow oil exploration, only gas.¹⁵⁸ Costa Rica decided to look for high tech manufacture companies, in electronics and medical instruments.¹⁵⁹

Yet, Costa Rica struggles with an inefficient government bureaucracy that makes procedures time consuming and burdensome for trade (2011 Index of Economic Freedom). The World Bank "Doing business" ranks Costa Rica the 125 economy out of 183. Costa Rican bureaucratic problems are those of slow services, for example,

construction permits require as much as 131 days. Other issues for investors are problems related with the protection of investors, enforcing contracts and closing a business is time consuming (114 days).

Costa Rica is trying to attract FDIs in infrastructure and telecommunications. These are strategic areas for Costa Rica since its infrastructure is in disrepair and the demand for computing, and telecommunication services have increased. Thus, Costa Rica is in immediate need of FDI in services and infrastructure.¹⁶⁰

Costa Rica, like other Latin American countries, has serious problems of governmental corruption, (Graded 5.3 CPI.Table 3), combined with inefficient government bureaucracies that make procedures time consuming and burdensome for trade (2011 Index of Economic Freedom).

The most valuable asset of Costa Rica is the education of its people. Costa Rica has a 93% rate of literacy and educational standards are high.¹⁶¹ Yet Intel President, Graig Barret pointed out the need of more technological and bilingual education, especially the need for more engineers in a variety of fields.¹⁶²

IV.IV. BOLIVARIAN REPUBLIC OF VENEZUELA

IV.IV.I Venezuela Natural Resources

The Bolivarian Republic of Venezuela, better known as Venezuela, has a socialist government, and it is rich in natural resources. It has oil, natural gas, hydro electrical power, gold, iron, bauxite, and diamonds.¹⁶³ Venezuela has great natural gas and oil

reserves.¹⁶⁴ Venezuela was ranked the top ten oil producer in the world in 2009,¹⁶⁵ but ranked 13th in 2011.¹⁶⁶ Venezuela is very dependent on oil revenues; in fact, a third of its GDP comes from oil revenues. In 2006, President Hugo Chávez announced the nationalization of oil fields managed by foreign companies.¹⁶⁷ PDVSA (*Petroleos de Venezuela. S.A.*), the state oil company of Venezuela, was producing, in 1998, 3.2 million barrels per day. After a decade of Chavez's government, the production of oil had dropped 2.4 million barrels.¹⁶⁸ In June of 2011, the crude oil production rose to 2.78 million barrels a day.

IV.IV.II *Venezuela Economy*

The political and economic policies of President Hugo Chávez Frías, (incumbent president since 1999), have caused a negative GDP- real growth rate, (-1.9% in 2010 and -3.3% in 2009), and created adverse conditions for attracting FDI inflows \$-3100.00 million. The GDP is \$ 349.1 billion, Unemployment is 7.9%, and Inflation is as high as 29.792%¹⁶⁹ (Tables. 5, 6, 10). Exports were led by oil in 2009, accounting for \$60.9 billion, with imports in the amount of \$38.5 billion. PDVSA (*Petroleos de Venezuela. S.A.*), is the most important company in Venezuela. Chávez made the decision to nationalize many MNCs, companies like CEMEX, *Compania Anonima Nacional Telefonos de Venezuela* CANTV (Verizon Communications),¹⁷⁰ and foreign oil companies, have frightened other MNCs away from investing in Venezuela.¹⁷¹

IV.IV.III. *Venezuela Human Capital*

Venezuela's population is 28 million people, 50% of Venezuelans are under the age of 25. Poverty rate in Venezuela is 28.5% (Table 1). The minimum wage per day in Venezuela is \$10.7 (Table 2). Life expectancy in Venezuela is 73.58% (as 2007) and infant mortality rate was 16/1000live births. Literacy rate in Venezuela is 95% with 9 years compulsory education. The human development index (Composite indices) is 0.696, Venezuela human development index is below the regional level. Moreover, Venezuela has a high rate of homicide of 52.0/100,000 people. This is a very high homicide rate. It is even higher than Brazil, but not as high as Jamaica (59.5). Transparency international graded the level of corruption in Venezuela as 2.0 (on a scale of 1 to 10), making it the country with the least transparency in Latin America (CPI, table 3).¹⁷²

IV.IV.IV. ANALYSIS OF VENEZUELA'S SOCIAL AND ECONOMIC OUTCOMES

Venezuela is an example of how political instability and the sudden change in political systems, from capitalism to socialism, affects FDI inflows and the standard of life for the general population. Venezuela has been de-consolidating its democracy since Hugo Chavez achieved the Presidency in 1999. His socialist regime, expropriations, economic policies and regulations have damaged FDI inflows.¹⁷³ In most of the economic indicators Venezuela ranks low, or has descended into negative numbers (FDI inflows are

-\$3100.00). Table 5 shows the sharp contrast of total GDP growth, starting in 2008 when the government was still capitalist and FDI inflows totaled US\$ 349 million and falling to an inflow of US\$ -3.105 billion in 2009, seen mainly as a result of expropriations during 2009 (ECLAC, 2009).¹⁷⁴ Venezuela and Cuba are in a group of other world nations with less than \$0.9 billion FDI (UNCTAD. Ch. II, 2010, p.45).

Even while Chávez increased the minimum wage to \$10.7 per day, one of the highest in Latin America (Table 2), inflation soared to almost 30% (Table 10), remaining high from 2008 through 2011. The mean real remuneration (Table 6) fell to negative numbers in 2008, with no data available for 2009 or following years. However, we know that prices have more than doubled, from an index of 103.1 in 2008 to 235.3 in June 2011 (Central Bank of Venezuela Statistics),¹⁷⁵ with inflation of 30% (Table 10). Chavez claimed that the increase in the minimum wage was “remarkable, but not enough,” and added in April of 2011, that this minimum wage was the “highest in Latin America.”¹⁷⁶ This is not a reality anymore, (as June 2011). Costa Rica now has the highest minimum wage, followed by Argentina, Panama, Paraguay and Chile (Table 2).

President Chavez’ socialist authoritarian populist regime has control of the parliament, and the judicial system. Chávez has made changes to the constitution that allows him to abolish term limits. He wants to run for the presidency in 2012 and beyond. He also has made changes in the constitution to fit his vision of a 21st century socialist Venezuela and government control of the electoral institution (*Consejo Nacional Electoral CNE*), giving the illusion of a “Democratic” government.¹⁷⁷

Chávez does not escape the clientelism that has characterized many countries of Latin America. The government of Chávez redistributes the state resources among the poor

people of his country. He also brings in Cuban doctors to provide medical services in poor neighborhoods, assuring their allegiance and support for his presidency, allowing him to maintain control of all the political institutions and the private sector. His government is fashioned in the image of the Cuban government, and borrows the best clientelistic practices of the Mexican official party, the PRI, that stayed in power for seven decades.¹⁷⁸ President Chávez controls the media, restricting freedom of expression. Chávez has also restricted freedom of association and prosecuted political opponents. His government has undermined the judicial system, giving a free pass to illegalities and abuses of the executive power.¹⁷⁹ Chávez has supported only those unions that go along with his agenda, thus undermining worker's rights.¹⁸⁰

Chávez expropriated the banks and the unofficial foreign exchange market, agribusiness, oil foreign companies, construction and steel MNCs. His policies have caused a steep drop in oil production, electricity, and brought about a housing crisis. What allows Venezuela to survive without FDI inflows is its oil. Venezuela is highly dependent on oil revenues, yet oil production has failed to reach the 3.2 million barrels per day that the country was producing before Chavez's administration.¹⁸¹ President Hugo Chávez is raising state expenditures to fulfill his campaign promises, helping people out of poverty. Chávez wants to be reelected for third time, but the economy of Venezuela is in deep recession. Yet, Chávez has not been content to spend just oil revenues; he has increased borrowing from bond issues. It is estimated that this year the public debt will increase to \$112.6 billion, but according to *Ecoanalitica*, the public debt could amount to as much as \$134 billion in 2011. Venezuela devaluated its currency and increased taxes on oil companies in an effort to escalate the government's revenues.¹⁸²

Despite Venezuela's great energy resources and having the fourth most powerful river, the Orinoco, Venezuela has been rationing electricity and water for the past three years.¹⁸³ Chávez blames the drought in 2009 and consumer's overuse of electricity, but independent experts argue that the real cause is the lack of investment in infrastructure and maintenance.¹⁸⁴ In 2007, Chavez nationalized the private power industry. There is an ever increasing demand for electricity (up 4.5%) that the neglected thermal plants cannot supply.¹⁸⁵ Industries and commerce have been hurt by the many national blackouts.¹⁸⁶ The failure of the government to invest in infrastructure, the expropriations, and the government's freezing of the utility rates for political gain, have all been contributing factors for the decline in FDI inflows.¹⁸⁷

In 2010 President Chavez introduced economic reforms, abolishing taxes on financial transactions to attract FDI inflows. However, his political and economic policies, and his massive expropriations have scared foreign investors.¹⁸⁸ In Venezuela, the process of starting a business is challenging. The country has a negative ranking in protecting investors, registering property, trading across borders, enforcing contracts or closing a business (The World Bank, 2011).¹⁸⁹

Major concerns of foreign investors in Venezuela are policy and monetary instability, government expropriations, control of prices of goods and services, the lack of respect for contracts and property rights, corruption, and labor restrictions (2011 Index of Economic freedom).¹⁹⁰ The World Bank "Doing Business," has ranked Venezuela in the 172th place out of 183 economies (2011). The results of this rank are similar to those of Cuba, especially such issues as not respecting private property or honoring contracts. There is little protection for investors and it is time consuming to close or open a business. The

economic and political policies and regulations of Chávez have crippled the economy of his country.¹⁹¹

Attracting MNCs from western countries to Venezuela has become increasingly difficult mainly because of Chávez economic and political reforms. Chávez has extended trade agreements with a host of other troubled countries, including North Korea, Belarus, Syria, and Iran.¹⁹² Chávez signed several agreements with Iran in the oil, energy, industrial and commercial sectors.¹⁹³ The treaties with Iran drew U.S. sanctions that will undoubtedly affect the equipment and machinery necessary to maintain the oil industry.¹⁹⁴ In spite of the economic situation and hyperinflation that his country is experiencing, President Chavez still managed to purchase over \$4 billion in arms from Russia.¹⁹⁵ Experts of Latin America CEIC Database Team found that Venezuela's public debt could be as much as 62% of GDP at an exchange rate of 2.6 VEF/USD.¹⁹⁶ The external debt of Venezuela is \$55, 610 billion.¹⁹⁷

The standard of living in Venezuela has dropped considerably. The infant mortality jumped from 15 deaths, to 20.6 deaths/1000 living births.¹⁹⁸ The increase in the infant mortality talks of a deterioration of the health care and preventive medicine systems. Shortage of housing in Venezuela is triggered by the private property restrictions of the Chavez regime and expropriations in the construction sector.

Corruption in Venezuela is a serious problem. Critics claim that military and government officials are involved in acts of corruption and drug trafficking. Transparency international graded Venezuela 2.0, the country with the most corruption in Latin America (CPI, table 3).¹⁹⁹ There is evidence of judicial corruption associated to drug trafficking and money laundering²⁰⁰

IV.V. CUBA

IV.V.I. *Cuba Natural Resources*

Cuba, a socialist country has oil for its own consumption, natural gas and electricity. This is a tropical country that produces sugar, tobacco, citrus, coffee, rice, potatoes, and beans. Its industries are agricultural machinery, sugar, tobacco, pharmaceuticals, petroleum, and construction. The principal industry in Cuba is services (tourism), contributing 72.9% of its GDP.²⁰¹

IV.V.II *Cuba Economy*

GDP is \$ 110.9 billion, Growth is 1.4%, and GDP per capita is 9,700. Inflation is -0.5%. The government controls prices of goods and services. This is a country with government control of the economy. Cuba has an inefficient and corrupt bureaucracy. Moreover, the judicial system is based on governmental decisions.²⁰² Raul Castro announced measures to liberalize the economy, limiting the top political positions to a maximum of ten years and promised changes in the government. Cuba is trying to attract FDI inflows by privatization of land,²⁰³ and government- FDI joint ventures in different enterprises, especially in tourism.²⁰⁴ Castro declared that he was committed to eliminate the government food rationing program in order to promote domestic and FDI investment in agriculture.²⁰⁵ Cuba imports products from Venezuela, China, Spain and the United States (7% as of 2009). Cuba exports to China, Canada, Venezuela, Spain and the Netherlands (as of 2009). Cuba public debt in 2010 was 37.2% of the GDP (Economist Intelligence Unit),²⁰⁶ and the external debt of Cuba is about 19.750 billion.²⁰⁷ Small private businesses are not allowed in Cuba. Early in 2010, Raul Castro's administration made economic changes that will allow Cubans to own and operate small businesses.²⁰⁸

IV.V.III *Cuba human capital*

Cuba's population is 11,087,330 (July 2011 est.), poverty rate is 20% (Table1). Literacy rate is 99.8%, life education expectancy is a total of 18-19 years. Education expenditure is 13.6% of the GDP. Cuba has no unemployment or this is as low as 2%.²⁰⁹ Life expectancy at birth is 77.7 years, and infant mortality rate is 4.9 deaths/1,000 live births.²¹⁰ The human development index (Composite indices) is 0.760, one of the highest in Latin America, but not as high as Uruguay (0.765), Argentina (0.775) or Chile (0.783). Law enforcement in Cuba is one of the strongest in the world. The Human index development does not have data of homicide rate since Cuba does not release this data. CNN reported that crime is seen as "enemy of the revolution." Crime in Cuba is combated harshly and penalties are high. Crime has increased even if it remains one of the lowest rates in the world. The reason is drug trafficking but still Cuba is a very safe country.²¹¹ Moreover, Cuba has problems of corruption that affect how the country does business, (graded 3.7 CPI. Table 3).

IV.V.IV. ANALYSIS OF CUBA'S SOCIAL AND ECONOMIC OUTCOMES

Cuba is a socialist authoritarian country. While the economic situation in Cuba can be seen as the result of the U.S. embargo imposed on Cuba, we must also look at government control of the economy, control that does not allow free market and democratic political institutions. In 1960 Former Cuban President Fidel Castro, after overthrowing the Fulgencio Batista's dictatorship, seized private land, nationalized

international companies, including U.S. corporations, and overtaxed American products.

²¹²As a result half of the U.S businesses decided not to trade with Cuba.

Initially the Eisenhower Administration, imposed trade restrictions on Cuba. In 1962, as a result of Cuba's decision to expand its trade relations with the Soviet Union, the Eisenhower administration enforced the first embargo. ²¹³ Cuba's economy collapsed after the Soviet Union withdrew its support for the country. The U.S. strengthened the embargo in 1992 and in 1996 passed the Helms- Burton Act, preventing international trade with the U.S. and foreign countries; this was in retaliation for Cuba shooting down two U.S. civilian airplanes.²¹⁴

However, the Helms-Burton Act has been relaxed during several administrations, depending on the political environment. In 2001 the U.S. agreed to sell food to Cuba after the devastation caused by Hurricane Michelle.²¹⁵ This agreement has continued been in place, making the United States, the most important food supplier, with sales that reached in 2008, \$710 million (Suddath, 2009). ²¹⁶

In March 2009, Washington lifted restrictions on travel and remittances, relaxing limits on sale of food and medicine. Cuba major business partners are Venezuela, Bolivia, China, Russia, Brazil, Vietnam, The Netherlands, France outer territories, Canada and the United States.²¹⁷ Scholars agree that the Helms-Burton Act did not have the desired results of damaging Cuba's economy and opening the country to democracy. FDI in Cuba was \$2 million in 1990; after the passage of the Helms Burton Act, the FDI rose to \$74 million by 2000, in 2008 FDI reached 285 million (Bearden, T. 2011). ²¹⁸The global economic crisis, weak nickel prices and tourism decreased FDI inflows to 30.6 million in 2011.²¹⁹

The Cuban economic market is controlled by the state. It is bureaucratic, lacks efficiency, and is riddled with regulations and lengthy procedures, lacking transparency and openness. Obligated by the economic crisis that Cuba is living in, President Raul Castro has announced some small economic reforms.²²⁰ Cuba is trying to reform its economy, but how fast can changes come to combat its public and external debt? The process of democratization in Cuba is advancing at a slow pace. However, the conditioning of financial aid by the Council of the European Union has had an impact on the political and economic systems in Cuba.²²¹

The U.S. embargo, in place since the early 1960's did not help to make the necessary political and economic changes that Cuba needed. On the contrary, the embargo has contributed to the alienation of Cuba from the international community, radicalizing its position even further. More importantly, a combination of the U.S. embargo, hurricanes and droughts, and the deficiencies in food rationing of the inefficient Cuban socialist system contributed to shortages of food, medicines and other essential necessities of life, deteriorating their health and the Cuban population's standard of living, especially children's health.²²²

The lesson, in the case of Cuba is clear, when political actors refuse to act rationally, even long term sanctions like the U.S. embargo will not bring the democratic changes sought, and in the end cause extreme damage to the vulnerable population. Even if President Obama eased the sanctions on food and medicines the standard of life for the Cuban people will continue to suffer for many years. The embargo did not help Cuba to establish the credit that it surely needs. Cuba's government must pay everything with cash, creating situations of scarcity of basic foods and other necessities.²²³

Moreover, sanctions are usually imposed on poor countries.²²⁴ The ruling classes certainly will not live in a shack, but more likely in palaces. They will send their families overseas and will go to sleep after a splendid dinner.²²⁵ They will use their rhetoric against the nations or international organizations that sanctioned them, painting them as enemies of their country, to shift the attention from the problems of corruption, violations of human rights and abuse of power in their own countries.²²⁶ However, if the ruling classes see their pockets hurt, with their assets compromised, and they begin to suffer the scarcity of goods and food, if they are shamed by other nations, and other nations refuse to trade with them, dictators will modify their behavior and open themselves to economic liberalization, and democratization.²²⁷ They will begin to make changes in their political and economic systems gradually, as not to give the impression of defeat. However, once started, it is a snow ball in motion. They will arrive at the necessary changes to implement free market regulations in order to trade and attract FDI inflows.²²⁸

Cuba has many human development problems, with an infrastructure that is in disrepair, and scarcity of food and medicines. However, Cuba has the highest level of education (99.8%), and its public health system is one of the best in the world. The infant mortality rate is an indicator of the quality of health care in a country. Cuba infant mortality rate is low (4.9 deaths/1,000 live births). The infant mortality rate is comparable to first world countries like Switzerland, United Kingdom, and New Zealand.²²⁹

There is only anecdotal evidence of how much the minimum wage is in Cuba, the lowest of all (less than a dollar a day), but the economic indicators let us see that the real urban minimum wage is less than 1.5. If this minimum wage were not subsidized, we would infer that poverty on the island is widespread. However, housing, health care,

education, and food are all subsidized.²³⁰ Indirect evidence of poverty and malnourishment is found in the programs of the United Nations aimed to combat anemia, and hunger in Cuba.²³¹ FDI inflows are very low (\$30.6 million), the external debt is \$ 19,750 billion and continues growing. Even though Cuba is a small country, with such small FDI, the external debt seems huge.²³² Moreover, Cuba has problems of corruption that affect how the country does business, (graded 3.7 CPI. Table 3). Customs officials ask for bribes or confiscate the belongings of Cuban citizens returning to the island to visit. Reportedly, there have been convictions on the island for corruption.²³³ Rankings and reports on “Doing business” are not available because of the U.S. embargo. According to the 2011 Index of Economic Freedom of the Heritage Foundation, Cuba’s economy is inefficient, with heavy regulations, and property is severely regulated, imports and exports are dominated by the government.²³⁴

If Cuba finally decides to open itself to democracy and free the market, the people of Cuba are well prepared to learn new technologies. Educated citizens and Cuba’s public health system represent true assets for investment in the island. Cuba has the highest literacy rate (99.8%), followed by Costa Rica (94, 4%), Brazil (88%), and Mexico (86.1)²³⁵. If Cuba finally decides to look at the future, it would be wise to select the MNCs that suit most its needs, learning new technologies, managerial skills, and improving Cuba’s own domestic companies.

The Political system in Cuba is stable, but it is a closed society with few freedoms. The incumbent President Raul Castro is also president of the Council of State and President of the Council of Ministers since 2008. It is a communist government, there are no opposition parties. Raul Castro was elected by the unicameral National Assembly for a

five year term by unanimity. In reality Raul Castro inherited the position from his brother Fidel Castro who was in power for 47 years. The legislative branch is unicameral. There are neither opposition parties nor free universal suffrage.²³⁶ Despite accusations of violations of human rights, and denial of freedoms to the population (freedom of assembly, association, speech, movement, and the press),²³⁷ Cuba has been a United Nations member since 2000.

Cuba imports 80% of its food supplies, paying for them in cash, because Cuba does not have credit. Droughts, hurricanes, increases in food prices, the Cuban food rationing program, the global financial crisis and the U.S. embargo have led to malnourishment, hunger and scarcity of food, affecting the Cuban population, especially Cuban children. The living standard of Cubans has decreased considerably.²³⁸ Cuba receives support to combat hunger and anemia through the "National Plan on Prevention and Control of Anemia in the Five Eastern Provinces of Cuba" (World Food Programme).²³⁹

Even if Cuba's economic reforms are very low pace, the country is making an effort to open itself to privatizations and to a certain extent, the free market, trying to give the appearance of a democratizing government. Cuba knows that the country cannot survive outside the global economy. Cuba needs to become part of the international community and obtain the foreign aid that it needs. Cuba is a participating country in the Secretariat of the African, Caribbean and Pacific Group of States, (ACP), an ACP- European Union partnership.²⁴⁰

Cuba obtained from the ACP- European Union, economic resources, (€20 million for the period of 2011-2013) food support, environmental and climate change training (European Union, External Action, 2011).²⁴¹ The Council of the European Union

discusses with Cuba, "issues of mutual interest including the respect and promotion of human rights." The Council makes sure that Cuba understands and signs a commitment that prioritizes "principles of democracy, human rights and fundamental freedoms" (Council of the European Union, 10939/09; Presse 174).²⁴²

IV.VI. DISCUSSION

To successfully attract FDI, economic, political and social reforms must be stable and durable, regardless of the personal political ideology of the incumbent president. Uncertain political environments can be damaging to governments looking for foreign direct investment (FDI). Surveys taken of corporate executives (Deloitte & Touche, 2001, as cited by Stephen Cohen, 2007) on how they evaluate a market when looking to invest in a foreign location reveal that companies do not want pervasive corruption, or inconsistent regulation, political or social instability.²⁴³ Aside from the top factor of gaining access to customers, Multinational Corporations (MNCs) executives cited a stable social and political atmosphere, low crime, safety, and transparency in business regulations.²⁴⁴

The type of popular government is a consideration for FDI inflows.²⁴⁵ It has been the general consensus that MNCs prefer authoritarian governments because of the lower-cost workforce and "the lack of constraints of authoritarian regimes," favors MNCs operations in the host countries (Jensen, N. 2003)²⁴⁶ However, Li found that the free market of autocratic regimes is hurt when they adopt lower tax incentives, maintain restrictions and

tariff barriers and adopt an strategy of lower levels of incentives than those without restrictions (Li, Q, 2006).²⁴⁷ The 2011 Index of Economic Freedom found that rules, regulations and tariffs are burdensome in Venezuela and Cuba.²⁴⁸

In Latin America, the prevalence of authoritarian populist regimes and military governments poses a political and economic dilemma that cannot be explained by the positive association between socio-economic modernization and democracy (Collier, D, Cardoso F.H. 1979).²⁴⁹ The social, economic and political tensions caused by neoliberal policies, poverty, inequality, eroded minimum wages, and a dependent capitalism, is helping to bring back authoritarian regimes in Latin America. Expropriations, nationalization of private businesses, huge inefficient bureaucracies, a political and social environment that violates fundamental human rights are factors that discourage free trade.²⁵⁰

The Socialist, populist, authoritarian-democratic divide makes it especially difficult for MNCs to operate. The political and social environment toward MNCs can, at times be hostile. Multinational Corporations in Latin American countries are frequently accused of impunity and unlawful behavior that affects the friendly political environment needed to continue their operations in these countries.²⁵¹ Furthermore, the host governments are often accused of using preferential treatment and relaxed law enforcement to favor MNCs.²⁵²

While many countries of Latin America are striving to have strong political institutions, to apply their constitution and laws, building strong judicial systems and effective governments, populism and authoritarianism²⁵³ are present in Latin America, with negative effects on FDI inflows. MNCs find themselves in an unknown political

territory; they lack a frame of reference when trying to discern the political system and economic regulations in Latin America's authoritarian or democratizing countries. The approach of populist authoritarian countries concerning the economics of income redistribution while ignoring inflation, high public debt and external debt discourage FDI in Latin American countries.²⁵⁴

Different political systems and ideologies hinder MNCs, lowering the odds of their desired performance. Latin American countries demonstrate that not only is economics driving the markets, but the political institutions, their actors, economic and social policies, education, technology, the societies and their ideologies.²⁵⁵ MNCs can have different goals than those of the host country; this causes friction in their interactions. Political and economic instability, expropriation, and corruption are top concerns of MNCs when dealing with host countries under authoritarian regimes.²⁵⁶

The type of political system is a strong consideration when investing in a Latin American country. The political system of the host country influences the competitiveness to attract FDI inflows.²⁵⁷ Democratic political institutions attract more FDI inflows (Jensen, N. M., 2006).²⁵⁸ Nathan Jensen found that democratic governments attract as much as 78 percent more FDI than autocratic governments.²⁵⁹ Jensen found that Democratic countries attract as much as 70 percent more FDI as a percentage of GDP than authoritarian regimes.²⁶⁰ This is the case of Costa Rica, Brazil and Mexico, but also of countries like Chile, Argentina, Peru, Panama, and Colombia (ECLAC, Table 4).

Democracy has a positive effect on FDI inflows that more than balances out any negative effects. Millner argues that democracy is the political institutional change that drives free trade and the spread of democracy to other countries (Milner, 1999).²⁶¹

Diamond argues that considering a country has consolidated its democracy (Diamond, L. 1997), that country has to ensure more transparent, accountable, liberal and representative democratic structures; secondly, the country has to strengthen the political, judicial institutions and political parties; and thirdly, improvement of the political system, political institutions and economy (enforcement of law, combatting corruption, and respecting human rights and liberties).²⁶²

O'Rourke and Taylor found that the answer to the question "does democracy promote free trade is complex because it depends on the political and economic policies across countries."²⁶³ However, Democracy can have positive effects on attracting FDI if elections are perceived by the population as transparent and if there is a succession of power that encourages free trade.²⁶⁴ When political actors are elected freely by the population, the power goes to labor and free trade and does not stay in the elites or in the hands of the few.²⁶⁵ Free markets are not only business and profit. The spillovers of MNCs help people to have a better standard of living. MNCs create employment, bring new technologies and managerial skills necessary for the development of domestic enterprises. MNCs help to improve regulations and fair competition with domestic companies. FDI Inflows increase productivity and economic growth.²⁶⁶

MNCs are not only looking for a country with free trade policies, but they are looking for long term social and political stability to consolidate their industries; social and political stability is what democratic political institutions can provide. New Institutional theory points out that "institutional environments that provide strong political, social, and legal institutions reduce transaction costs, protect property rights, and lessen the

uncertainty of doing business on foreign soil,” attracting more FDI inflows (Martinez, A. C. 2008-2009).²⁶⁷

The new country profile of attracting FDI is not only free market regulations, but having social policies in place that promote social stability, infrastructure and educated, technologically able, healthy human capital.²⁶⁸ Multinational corporations consider socio-economic outcomes.²⁶⁹ Martinez found that governments with pro-social policies that decrease income inequalities, use public resources to combat poverty, providing a safety net with minimal welfare protection to their citizens, attract more FDI.²⁷⁰ In her study, Martinez uses social indicators like population, inflation, gender equality, equity of public resource use, building human resources, social protection and labor, environmental sustainability and economic indicators like GDP, GDP growth and inflation rate, FDI inflows.²⁷¹ Factors studied are open economy and oil producer.

Martinez used some of the social indicators used by the World Bank. No factor can be used by itself, but it is the sum of the different social indicators that predict social and economic stability.²⁷² For example, population is an indicator of market size. Large populations and higher GDP per capita, attract more FDI, because demand for services increases. A high and/or variable rate of inflation, weak currency, high public debt and low GDP growth are predictors of internal economic instability and increases the costs of exports. It is also an indication of the inability of the country to have consistent monetary policy (Martinez, A.C. 2008-2009).²⁷³

United Nations Conference on Trade and Development (UNCTAD),²⁷⁴ and World Bank²⁷⁵ stress education, social development and income equality as social factors that attract FDI, because MNCs are more interested in skilled man power than cheap labor

cost. The trends show that MNCs will be more interested in innovation and technology-intensive activities that require educated, technologically skilled human capital. It is no longer the trend, nor will it be again, directed only to the “most labor intensive, low value added components of the value chain” (UNCTAD 2010).²⁷⁶ MNCs are concentrating more on investing in developing countries in South East and South-East Asia, and to a lesser extent in Latin America, where they find a more technological educated working force, for example, Singapore is a very transparent country, with a representative democracy and technological educated working force. Another example is India, a democratic country with technological trained working force, and with increasing demand for services.²⁷⁷

To measure social-economic outcomes, private and non-governmental organizations are also incorporating the human development index into their database. The Human Development Index measures adult literacy, primary, secondary and tertiary school enrollments and living standards, (measured by GDP per capita), including poverty rate and homicide.²⁷⁸ Countries with consolidated democracies score very high in human development index. This is the case of Norway, Australia, New Zealand and the United States. In Latin America, countries like Chile, Argentina and Uruguay with strong democracies and free market policies score high in human development Index. Cuba scores high in human development. Costa Rica and Mexico score above the regional average, while Venezuela is below the regional average.

This is the same model of social-economic outcomes used by the International Monetary Fund, World Economic Forum, United Nations Conference on Trade and Development (UNCTAD), and the United Nations Human Development index to help

host countries to attract FDI by promoting social stability and human development. The information is also used by international investors to find a host country with the social and economic policies that decrease uncertainty and promote stability. The Economic Commission for Latin America (ECLAC or CEPAL in Spanish) an organization of the United Nations, helps Latin American and Caribbean countries to reinforce economic ties among countries, tracks the FDI inflows of each country and helps them to understand how to attract more FDI. The organization also promotes region social development (ECLAC).²⁷⁹

Non-governmental and private corporations that rank countries follow the same profile of social-economic outcomes and compile social and economic information to invest in a foreign country. Thus, this author used the information collected from non-governmental organizations, public and private organizations. Many of these organizations used economic and social indicators and multiple surveys of MNCs operations, to analyze the potential financial and politic risks for MNCs.

The Index of Economic Freedom uses information from experts and MNCs executives in the region, on the political and judicial system of the countries studied, research data on corruption, size of the population, economic indicators such as GDP, annual growth, GDP per Capita, unemployment, inflation and FDI inflows. The Index of Economic Freedom also analyses, economic regulation reforms, tariffs and social problems that affect FDI inflows.²⁸⁰ EDC Canada,²⁸¹ the World Fact Book,²⁸² Economic Watch²⁸³ and Economist Intelligence Unit,²⁸⁴ use information collected from MNCs operations, political and economic analysts in the region, and research collected by private and non-governmental sources, including social indicators.²⁸⁵

Many of these organizations take into consideration social problems that may affect directly MNCs. For example, MNCs view corruption as an additional cost “of doing business or a tax on profits,”(Al-Sadig, A. 2009).²⁸⁶ Corruption affects directly profit and every step of doing business in a foreign country. For example, open and closing a business, permits, investment licenses, police protection, and tax assessments.²⁸⁷

The 2010 Corruption Perceptions Index (CPI)²⁸⁸ is the most respected measure of domestic and public sector corruption. The CPI methodology comprises the surveys of respected worldwide institutions, including the World Bank, Economist Intelligence Unit, World Economic Forum, and Freedom House-Nations in Transit (Corruption Perceptions Index 2010, Long Methodological Brief, 2010).²⁸⁹ Denmark, New Zealand, and Singapore, are at the top of the scale with a grade of 9.3, or very transparent countries, followed by Finland and Sweden

(9.2). The study found that 176 countries were highly corrupt (five or less on a scale of 10).

Somalia (1.5), Myanmar, Afghanistan (1.4) and Iraq (1.5) have the highest levels of corruption.²⁹⁰ In Latin America, the countries with the highest levels of corruption are Paraguay, and Haiti. Venezuela is the least transparent country in Latin America, while the most transparent countries are Chile and Uruguay. Puerto Rico and Costa Rica are just above the level of high corruption (5.0), while the rest of Latin America exhibits high levels of corruption²⁹¹ (Table 3). When corruption occurs at the highest levels of government, it damages the public trust in the state political institutions, decreases the opportunities to attract FDI, causing a diversion of resources for infrastructure, education, health and housing.²⁹² Corruption has a devastating effect on the confidence that the

citizens of a country have in the political institutions. It undermines democratic governance, and fair competition, providing access to economic, political and governmental resources to some parties, but not to others, through bribes, violating the law, and thus losing the equality and openness central to a democratic government.²⁹³

There are cultural, social and economic factors that can either increase the levels of corruption or decrease them. Sandoz and Koetzle studied fifty countries, on the perceived level of corruption, defined as “the misuse of public office for private gain.” The variation in corruption levels are based on the host country and its political-economic structure, democratic policies and regulations, and international economy integration (Sandholtz-Koetzle, 2000).²⁹⁴ The authors took into consideration for their study, average income, and the degree of economic freedom, contrary to what it is found in government state control economies. Low incomes incentivize corruption because economic growth is minimal and will not create wealth for the population (Table 1).

Thus, for poor countries with economic insecurity and low incomes, individuals will need to find an income to supplement their salaries. A bribe may be worth paying, if the giver obtains more money as a result of the transaction. The person that receives the bribe also increases his income (Table 2).

Sandholtz and Koetzle found that levels of corruption are higher:

“ 1) the lower the average income; 2) the greater the extent of state control of the economy; 3) the weaker democratic norms and practices are, 4) the lower the degree of integration in the world economy, and 5) the smaller the share of the population with a Protestant affiliation” (Sandholtz-Koetzle, 2000).

Corruption can be immersed in the culture, society and the economy of the host country. Corruption is universal; it has been with us since ancient times.²⁹⁵ Corruption is what enables dictators to seize power, they rise by electoral fraud. Corruption fuels revolutions, violence, civil wars, stealing the assets of a country, leaving the majority of the population in poverty and indebted for generations. States with weak political institutions and corrupt officials have stolen the assets of these countries. Corruption occurs at every level of society.²⁹⁶

Many of private and non-governmental organizations collect data from the Corruption Perceptions Index to include them in the countries' profile. Corruption and political instability are considerations that MNCs investigate before embarking on investment in a country. Getz and Volkema define corruption as the "abuse of public roles and resources for private benefit or the misuse of office for nonofficial ends" (as cited by Robertson & Watson, 2004).²⁹⁷ Sandholtz and Koezle found that the level of corrupt behaviors decreases if, firstly, political and judicial institutions give people enough opportunities and incentives, or rewards and penalties (law enforcement). Secondly, the political culture of the country. Political culture is defined as a "repertoire of cognition, feelings, and schemes of evaluation that process experience into action" (Sandholtz and Koezle, 2000).²⁹⁸ If there is corruption, or a culture tolerant of corruption, upright law enforcement is required to sanction the corrupt individuals and to correct the behavior. When investing in a foreign country, law enforcement, a free market economy, strength of political institutions, and a long tradition of democratic ruling are positive signs towards investing in a foreign country.²⁹⁹

According to the World Bank, to attract FDI, host countries must be aware of the social and economic profile that MNCs want. Economic indicators most frequently used are Gross Domestic Product (GDP), per capita GDP, economic growth, total growth of GDP, exports and imports, outstanding external and public debt. Social indicators such as life expectancy, adult literacy rate, health, and unemployment, percentage of people below the poverty line (earning less than \$1 a day) education, quality of life, healthcare system, crime rates, and political instability are all important to assess.³⁰⁰ The estimation of the United Nations' human poverty index gives a better indication if the population does, or does not have the opportunities and basic needs that they need to have a "decent standard of life."³⁰¹

Another indicator that private, and non-governmental organizations use is whether if a country produces oil or not. If the host country produces oil there are more probabilities that the country receives higher FDI inflows.³⁰² However, many countries have made oil production the cornerstone of their income. This is the case of Brazil, Mexico and Venezuela.

"Dutch Disease," also known as the resource curse, this economic phenomenon explains the increasing exploitation of a natural resource, leaving other sectors of the economy underdeveloped (Montgomery Graham E. 2005).³⁰³ Mexico and Venezuela have relied so much on oil production, making their agriculture and manufacturing industries less competitive, and leaving oil as the major source of the economy. This may be beginning to happen in Brazil. This country has a strong agricultural sector but the eyes of investors are fixed on the new found reserves of oil. Governments ill with the

“Dutch disease”³⁰⁴ become wasteful; oil becomes the fuel of social programs and lavish spending for popular political support.

Mexico’s huge public spending joined with the bad management of PEMEX for the past seven decades, did little to alleviate poverty, or improve adult literacy rates to the levels of Costa Rica or Cuba. Thus, Michael Ross at University of California found that oil rich countries have more child mortality, and malnourishment as it is the case of Mexico, Venezuela and Brazil. There is a struggle over the oil that results in weak political institutions and less social growth and human development. The abundance of oil and the high revenues that its commercialization brings to the country creates, in private or governmental hands, corruption, rent seeking behavior, rapaciousness and even civil conflict.³⁰⁵ Thus a majority of investments will go to what it is perceived as the big catch, the oil exploitation, leaving underdeveloped the other industrial sectors such as agriculture and manufacturing. Since oil exploitation requires few unskilled and skilled jobs, the largest sector of the population will suffer a loss of human development. Oil produces great revenues without the need to educate the population. The volatility tied to the price of oil mostly hurts the poor, while the richness of the commodity is concentrated in the hands of the few.³⁰⁶

There is corruption in many oil companies controlled by the government, such as diverting revenues to private interests or giving contracts to friends and relatives. Thus, control of this resource stays in the hands of the few. We only have to look at the long list of repeated corruption scandals in the oil companies, PEMEX (Mexico),³⁰⁷ PETROBRAS (Brazil),³⁰⁸ and PDVSA (Venezuela) to see how wide spread the problem is.³⁰⁹

While the abundance of oil is producing great revenues, few countries open a fund for a foreseeable fall in oil prices or a scheme of stabilization. The government control oil companies do not dedicate a budget for repairs of the oil wells, machinery and infrastructure while there is oil in abundance. If they have such plan, some countries use the fund for other purposes.³¹⁰ However, oil revenues did not change the high levels of poverty in Mexico, Brazil and Venezuela.

IV.VI.I. CONCLUSIONS

The Conclusions of this study reveal that MNC's prefer Latin American countries with democratic governments and free market regulations. Contrasting Costa Rica and Cuba, Costa Rica attracted more FDI inflows, mainly because its strong democracy and free market policies. Cuba's economy is to some extent crippled by the U.S. embargo but its heavy economic regulations, investments conditioned to government participation, and inefficient bureaucracy hurt its economy. Despite outstanding literacy levels, health care, and the softened sanctions during the present U.S. administration, Cuba is confronting problems in attracting more FDIs. The reason for less FDI inflows is a combination of the U.S. embargo and Cuba's authoritarian regime and governmental control of the economy that hinders FDI.

Likewise, Venezuela's tight control of the economy, inefficient bureaucracy, expropriations and the lack of guarantees and protections to investors that characterized authoritarian or socialist governments reduced considerably FDI inflows. According to the World Bank "Doing Business" rank and the 2011 Economic Freedom Index, MNCs have problems investing in Cuba and Venezuela because of the restrictions on property

ownership, strict government control of the economy, high bureaucratization of the state, with inconsistent regulations, high taxes, and corruption.

Venezuela's political and economic reforms toward socialism have lowered the standard of living of their citizens, and increasing poverty related problems like homicide rate, and infant mortality. The centralization of the political and economic systems has caused inflation, scarcity of basic foods, control of prices and violations of human rights. Venezuela and Cuba need to open to democratization and free market policies if they want to attract FDI. Cuba and Venezuela need a more democratic and stable political and economic environment that offers guarantees to protect foreign investments and respect contracts.

Brazil and Mexico are the top ranked countries that attracted the most FDI inflows, despite the violence and criminality in these countries. It was evident from the analysis of the World Bank "Doing Business," and the 2011 Economic Freedom index that MNCs prefer democratic governments over authoritarian governments because the political and economic stability that democratic governments offer. Moreover, MNCs avoided countries with socialist regimes, and authoritarian regimes, for fear of expropriations, lack of contract enforcement or protection to the investor.

This author found that Mexico and Brazil need to privilege education for their citizens, accessible health services, human rights, clear political and social policies and strong democratic political institutions if they want to be competitive to attract FDI inflows. Even if cheap labor was an important factor for investors, the major considerations for MNCs were a democratic government, educated and healthy human

capital, small and efficient bureaucracies, free market regulations, enforcing contracts and protection of investors.

Brazil, Mexico and Costa Rica will have to depend less on FDIs, while increasing productivity, innovation and technology. These countries will need to implement efficient social programs. Costa Rica with fewer natural resources relied on its well educated human capital and ecotourism, to grow their economy, while Venezuela, Mexico, and possibly Brazil, may have contracted the “Dutch Disease,” or the resource curse. This economic phenomenon explains the increasing exploitation of a natural resource, leaving the other sectors of the economy underdeveloped.

All of the countries studied need less corruption, less bureaucracy, and more fiscal simplification to attract FDI and maximize FDI inflows to grow their economies and decrease the economic disparities among the population. The social and economic indicators demonstrate that Mexico, Brazil and Costa Rica, are not only supplementing their economies with FDI, but without FDI inflows these countries’ economies would barely survive.

The global economy is not black and white, but has many different tonalities. It has problems and advantages that are balanced according to the national interests of each country. The global economy exposes countries to virtual borders and interactions, to the exchange of peoples, with different nationalities and perceptions of their sovereignty. Even when there is an anarchical society of states, first world countries like the United States and those of the European Union have more leverage and give order to the international economic system. Economic interdependence is unavoidable.³¹¹ It is better to be in, than out, as Cuba and Venezuela are beginning to realize.

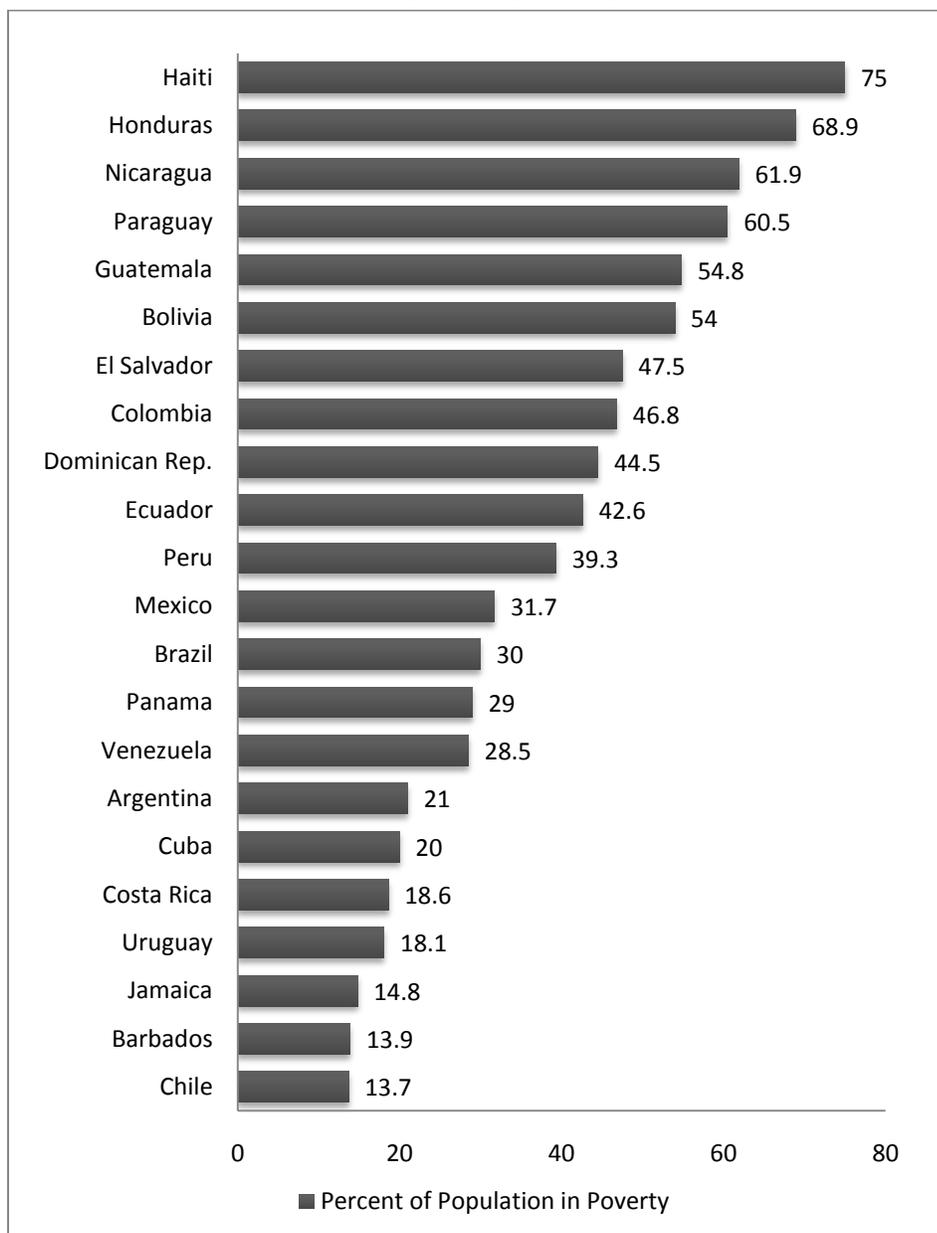
FDI helps host countries to diversify and invest in education, health care, infrastructure, and create more wealth for more people. When states enter to the global economy, they have to gear their political and economic systems to more transparency and accountability. International organizations are vigilant pursuers of violations of human rights and push for more democratic changes. The United States, and the European Union impose preconditions on states to promote democratic institutions and policies, to respect human rights, protect the environment, treat foreign and domestic companies on equal terms, making improvements in the health and education of its citizens. In exchange, countries obtain international aid, scholarships and grants to educate their citizens along with financial aid for programs that increase human development.

There cannot be effective liberalization of the economy and steady economic growth and development without political and social reforms. Economy is not just finances, but a free market is linked to social and economic outcomes. Economic indicators such as GDP, GDP per Capita, minimum wage, economic growth are taken into consideration when MNCs invest in a country. However, the main factors that attracts MNCs to invest in a country is democratic political institutions, educated working force, and free market regulations. MNCs prefer democratic governments that enforce contracts, and protect the investor. MNC want laws that are enforced and permit a good relationship with the host state.

Good economic policies cannot stand by themselves. Economic policies need good social policies to benefit the citizens of the host country and contribute to the development in technology and domestic businesses. Developing countries must be

aware that raising their social and economic outcomes will help them to attract FDI inflows.

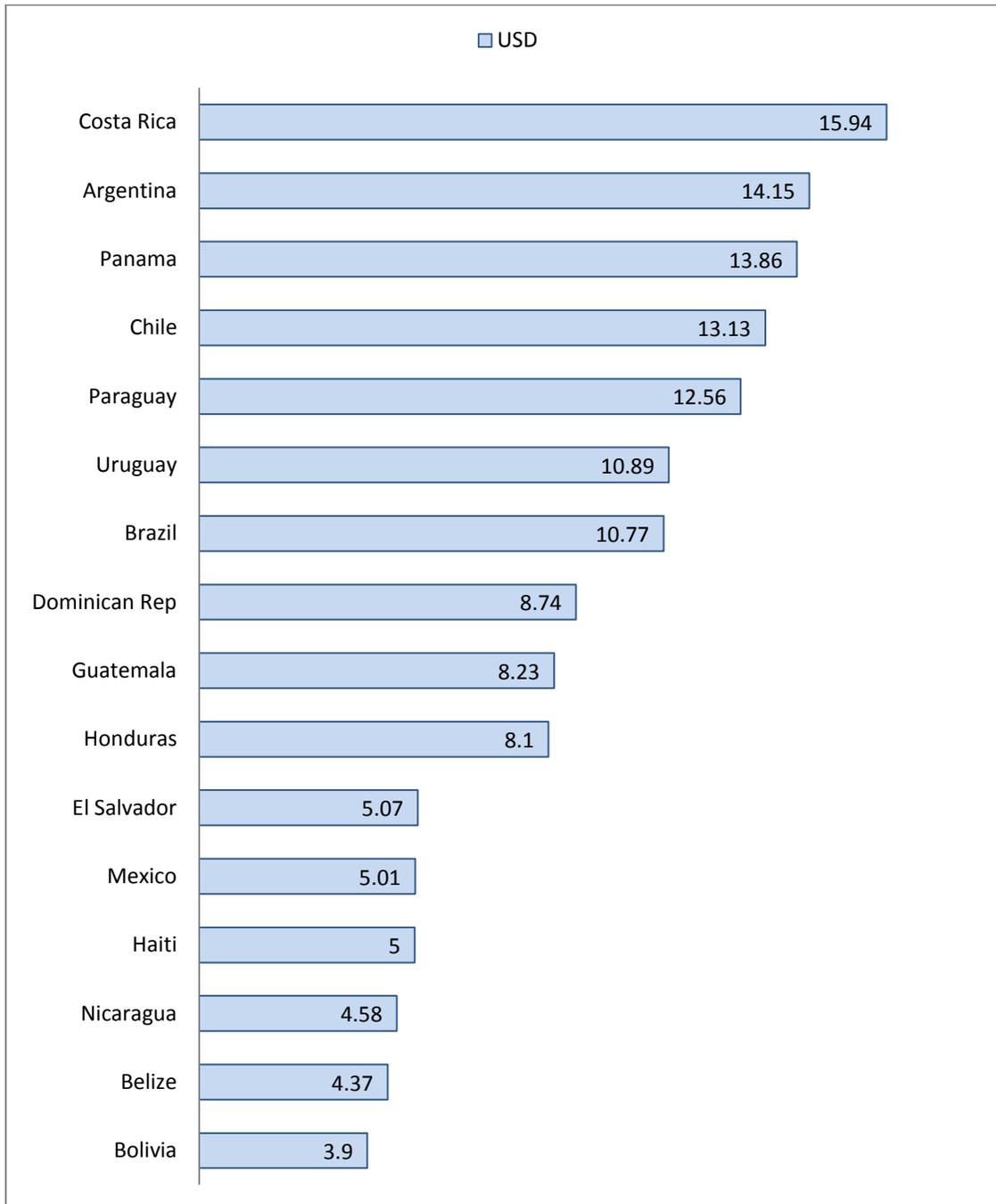
Tabl1. Poverty Rates, by Country, 2007*



*Source: American Dialogue. Social Policy Brief No. 1; November, 2009. The original source and note as cited by this publication: "ECLAC Social Panorama 2008, Table A1 p. 81 (Spanish edition); ECLAC Social Panorama 2007, Table I.3 p. 62 (Spanish edition)."

Note: "Data are for closest year available to year listed. Data for Argentina, Cuba, and Uruguay are for urban areas only. Data for Cuba refers to 'population at risk of poverty.'"

TABLE 2. MINIMUM WAGES IN COUNTRIES OF LATIN AMERICA
PER DAY IN U.S. DOLLARS*



*Conversion to USD Currency as July 13, 2011.

**Sources: Official web pages of the Latin American countries' governments mentioned, and newspapers.³¹²

Table 3. Corruption Perceptions Index 2010, Latin American Countries*

Country	Grade
Chile	7.2
Uruguay	6.9
Puerto Rico	5.8
Costa Rica	5.3
Brazil	3.7
Cuba	3.7
El Salvador	3.6
Panama	3.6
Colombia	3.5
Peru	3.5
Jamaica	3.3
Guatemala	3.2
Mexico	3.1
Dominican Rep.	3.0
Argentina	2.9
Bolivia	2.8
Guyana	2.7
Ecuador	2.5
Nicaragua	2.5
Honduras	2.4
Paraguay	2.2
Haiti	2.2
Venezuela	2.0

*Source: Transparency International.

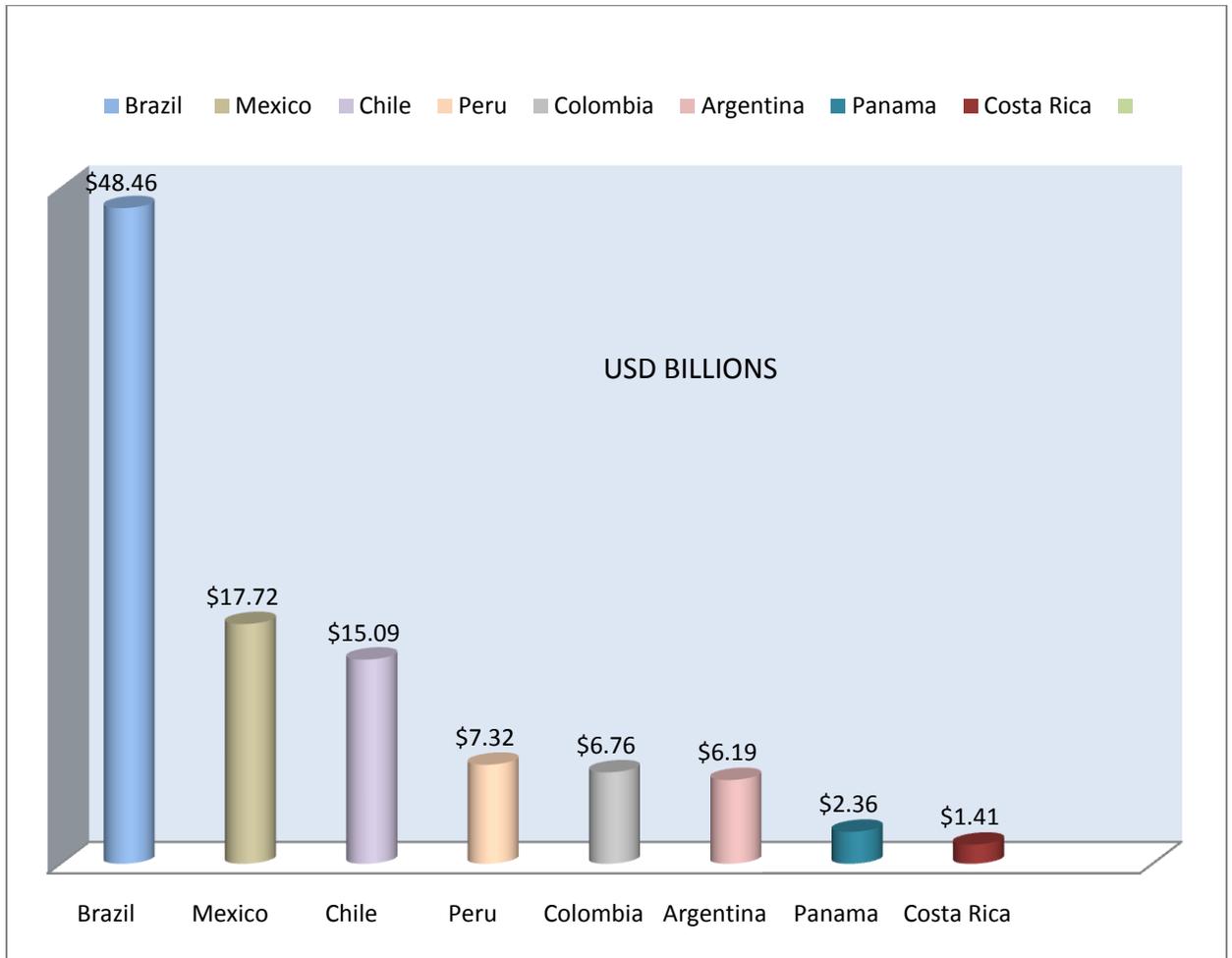
In the scale of 0-10. From 0-5, high levels of corruption

Blue: More Transparent

Pink: Borderline

Orange: High Levels of Corruption

TABLE 4. FDI INFLOWS IN LATIN AMERICA 2010*



*Source: United Nations. Foreign Direct Investment in Latin America and the Caribbean 2010. Economic Commission for Latin America and the Caribbean (ECLAC); Briefing Paper 2010.

Table 5. Total Growth of Gross Domestic Product*				
(Millions of dollars in constant prices 2000)				
Variation rates				
Countries	2008	2009	2010^a	2011^b
Argentina	6.8	0.9	6.8	4.5
Bolivia	6.1	3.4	4.5	4.0
Brazil	5.1	-0.2	7.6	4.5
Chile	3.7	-1.5	4.3	6.0
Colombia	2.7	0.8	3.7	3.0
Costa Rica	2.8	-1.1	4.0	3.0
Cuba	4.1	1.4	1.9	3.0
Ecuador	7.2	0.4	2.5	2.0
El Salvador	2.4	-3.5	1.5	1.5
Guatemala	3.3	0.6	2.0	3.0
Haiti	0.8	2.9	-8.5	7.0
Honduras	4.0	-1.9	2.5	2.0
Mexico	1.5	-6.5	4.1	3.0
Nicaragua	2.8	-1.5	2.0	2.0
Panama	10.7	2.4	5.0	5.0
Paraguay	5.8	-3.8	7.0	3.0
Peru	9.8	0.9	6.7	4.5
Dominican Republic	5.3	3.5	6.0	3.5
Uruguay	8.5	2.9	7.0	4.0
Venezuela	4.8	-3.3	-3.0	2.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC). On Line:
http://www.eclac.org/prensa/noticias/comunicados/4/40264/cuadroPIB_EE_ingles.pdf.

Chart modified for the purposes of this study.

^a Estimate

^b projection

Table 6. LATIN AMERICA AND THE CARIBBEAN: TRENDS IN SELECTED ECONOMIC INDICATORS, 1990-2009*

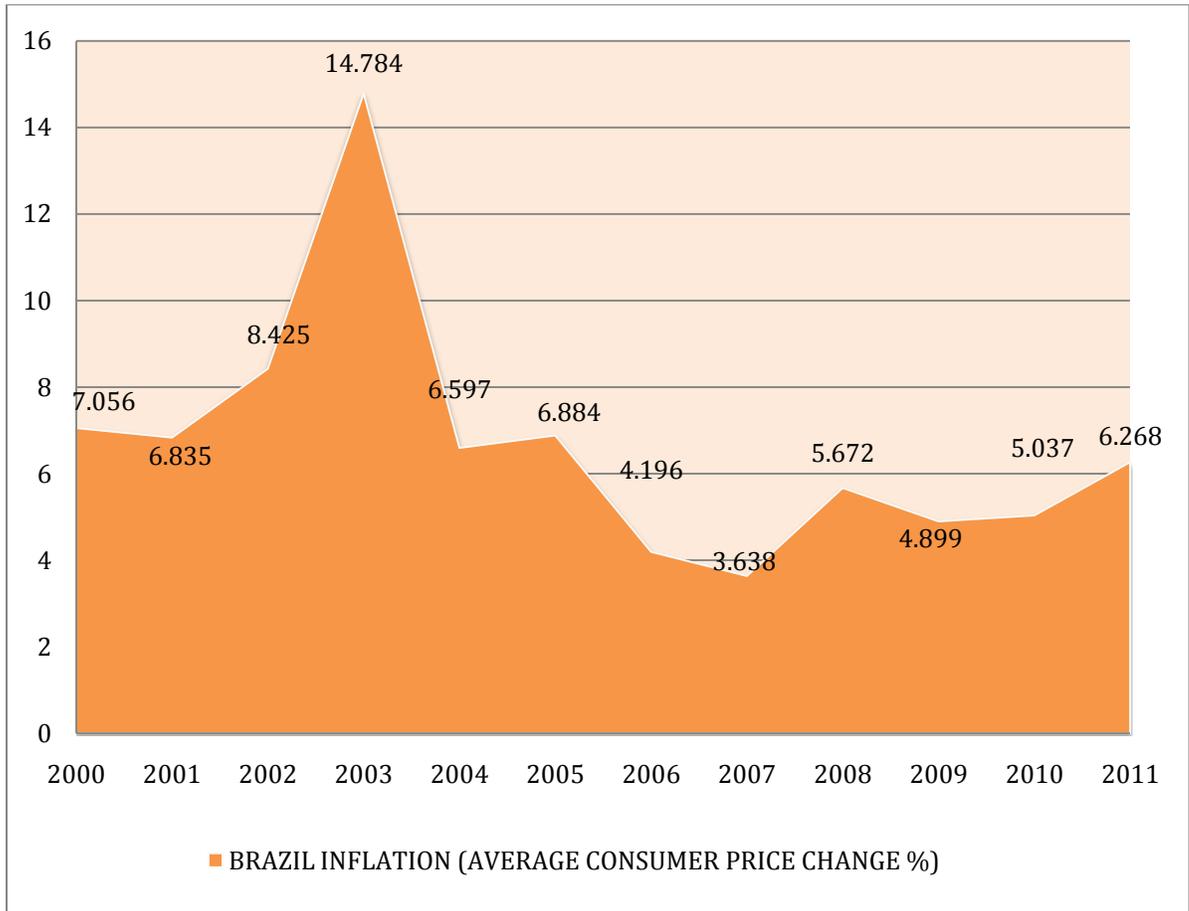
Country	Year	Per Capita GDP (in 2000 dollars)	Per Capita Income (in 2000 dollars) ^a	Unemployment %	Annual period Variation in consumer price Real Urban Index ^b minimum wage	Annual average variations in the				
						Period	Per capita GDP	Per capita Income ^a	Mean real remuneration	
Brazil	1990	869.8	3280.6	4.3	2101.3					
	1999	1005.6	3491.3	7.6	8.9	1990-	0.8	0.7	0.2	3.1
	2002	1010.5	3635.4	11.7	12.5	1999	1.2	1.4	-2.1	4.2
	2008	1173.3	4463.0	7.9	5.9	2002	4.1	4.5	2.1	3.9
	2009	1191.9	4399.1	8.1	4.3	2008	-1.1	-1.4	1.3	7.4
						2009				
Costa Rica	1990	3123.1	3034.9	5.4	27.3					
	1999	4078.2	3734.3	6.2	10.1	1990-	3.0	2.3	2.2	1.1
	2002	4049.3	3961.9	6.8	9.7	1999	0.8	2.1	4.1	-0.6
	2008	5206.4	4857.5	4.8	13.9	2002	1.5	2.0	-2.0	-1.3
	2009	5084.3	4687.8	7.6	4.0	2008	-2.3	-3.5	7.7	4.0
						2009				
Mexico	1990	5393.6	5235.6	2.7	29.9					
	1999	6121.8	6043.8	3.7	12.3	1990-	1.4	1.6	0.7	-4.1
	2002	6320.4	6265.3	3.9	5.7	1999	-0.5	0.1	1.9	0.7
	2008	7094.6	7269.3	4.9	6.5	2002	0.5	0.6	2.2	-2.1
	2009	6563.1	6657.3	6.7	3.6	2008	-7.5	-8.4	0.6	-1.5
						2009				
Venezuela (Bolivarian Republic of)	1990	4737.6	4431.4	10.4	36.5					
	1999	4631.5	4112.9	15.0	20.0	1990-	-0.3	-0.8	-3.9	-0.8
	2002	4276.5	3999.0	15.8	31.2	1999	-10.5	-10.3	-11.0	-5.4
	2008	5773.5	7298.5	7.3	31.9	2002	3.0	9.0	-4.5	-6.4
	2009	5493.2	6149.5	7.8	26.9	2008	-4.9	-15.7
						2009				
Cuba	1990	3340.9	...	5.4	...					
	1999	2613.0	2695.0	6.3	...	1990-	-2.7	...	-9.4	...
	2002	2873.8	2889.2	3.3	...	1999	1.2	1.3	9.3	5.3
	2008	4362.9	...	1.6	...	2002	4.1	...	0.1	-1.6
	2009	4426.2	...	1.7	...	2008	1.4	...	4.1	1.2
						2009				

*Source: Economic Commission for Latin America and the Caribbean (ECLAC): Social Panorama of Latin America 2010. Statistical Appendix. Chart modified for the purposes of this study.

^aReal per capita gross national income.

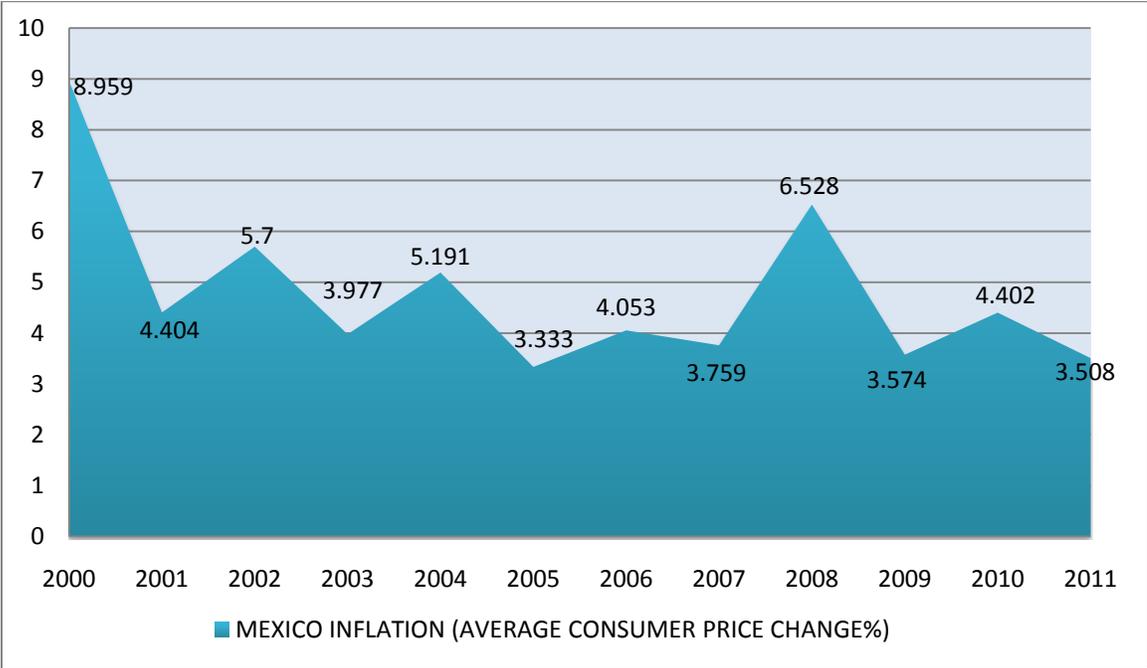
^bSimple average of December-to December variations for each year.

Table 7. BRAZIL INFLATION 2000-2011*



*Source Economic Watch.

Table 8. MEXICO INFLATION 2000-2011*



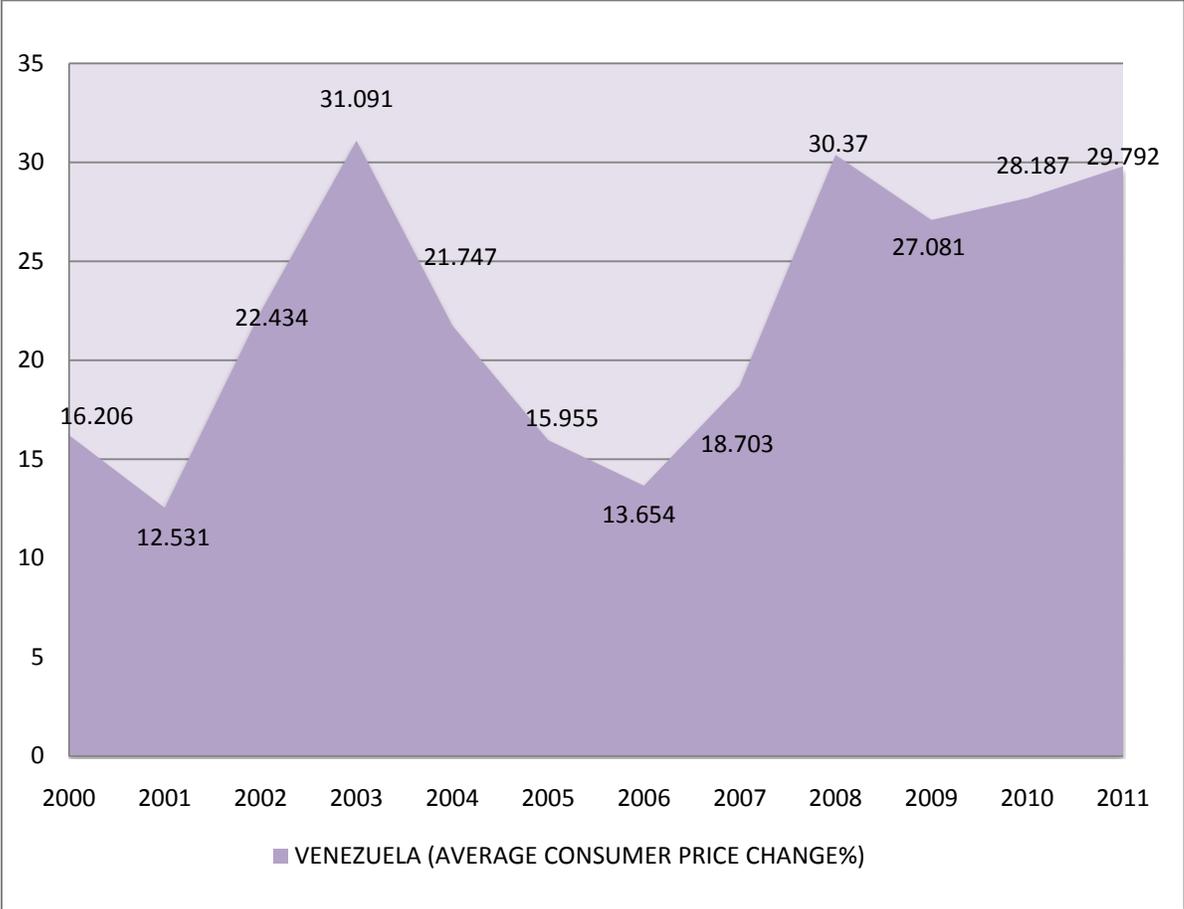
*Source Economic Watch.

Table 9. COSTA RICA INFLATION 2000-2011*



*Source Economic Watch.

Table 10. VENEZUELA INFLATION 2000-2011*



*Source Economic Watch.

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