UNIVERSITY OF VAASA

FACULTY OF BUSINESS STUDIES

DEPARTMENT OF MARKETING

Rocío Velásquez Riveros

FOREIGN DIRECT INVESTMENT LOCATION AND HOST COUNTRY INSTITUTIONS IN LATIN AMERICA

Master's Thesis in Marketing
International Business

VAASA 2013

TABLE OF CONTENTS **page**

LIST OF FIGURES

LIST OF TABLES

LIST OF ABREVIATIONS

BRICs	Brazil, Russian Federation, India, China
ECLAC	Economic Commission for Latin America
FDI	Foreign Direct Investment
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GNI	Gross National Income
LATAM	Latin America
MNC	Multinational Corporation
NYSE	New York Stock Exchange
SEC	Securities and Exchange Commission
SME	Small and medium-sized enterprise
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

UNIVERSITY OF VAASA
Faculty of Business Studies
Author: Rocío Velásquez Riveros
Topic of the Thesis: Foreign direct investment location and host country institutions in Latin America
Name of the Supervisor: Ahmad Arslan
Degree: Master of Science in Economics and Business Administration
Department: Department of Marketing
Major Subject: Marketing
Line: International Business
Year of Entering the University: 2009
Year of Completing the Thesis: 2013 **Pages:** 102

ABSTRACT

In this study, I look at how host-country competitiveness and the institutional environments in particular affect the location of FDI, in the case of Latin America. In the last years, the global economy has become more interconnected and decisions of internationalization are a commonplace for many companies around the world. This study is focused in the host-country institutional environment as a determinant of country competitiveness and as important determinant of FDI decision; I discuss about the existing literature related to institutions, national competitiveness, FDI and location. I present a general view of Latin America and the behavior of FDI in the region.

I use a logistic regression approach to estimate a model using information from a sample of Latin American companies and country-level data that help us to understand if higher levels of competitiveness augment the probability for foreign companies of investing and, if a strong institutional environment increases the preference of a Latin American MNC to invest in the host country.

The results show that most of the control variables used are significant. Large companies will invest in several markets; MNCs with many subsidiaries around the world are more likely to invest in neighbor countries; geographical distance reduces the probability of investment and the economic behavior in the host country is positively related with FDI decisions. The estimation shows that in the case of Latin America, competitiveness measured by GCI, is not relevant. On the other hand, the institutional environment is relevant for FDI decisions. An important message from the study is that managers need to look at the institutional environment in the host-country.

KEYWORDS: FDI location, Country competitiveness, Host-Country institutions, Latin America

1. INTRODUCTION

1.1. Background of the study

Nowadays, almost every company in the world may think in a global way. Markets are becoming more and more integrated and the possibility to reach new consumers and suppliers has increased due to the reduction in trade barriers, new information technologies and the increasing participation of emerging economies in the world exchange of goods and services. Even though a global trade agreement within the World Trade Organization (WTO) still lacks the successful conclusion of the Doha round[1], there are many bilateral and regional trade agreements[2] that have allowed a sustained increase in global trade during the last 60 years (Figure 1).

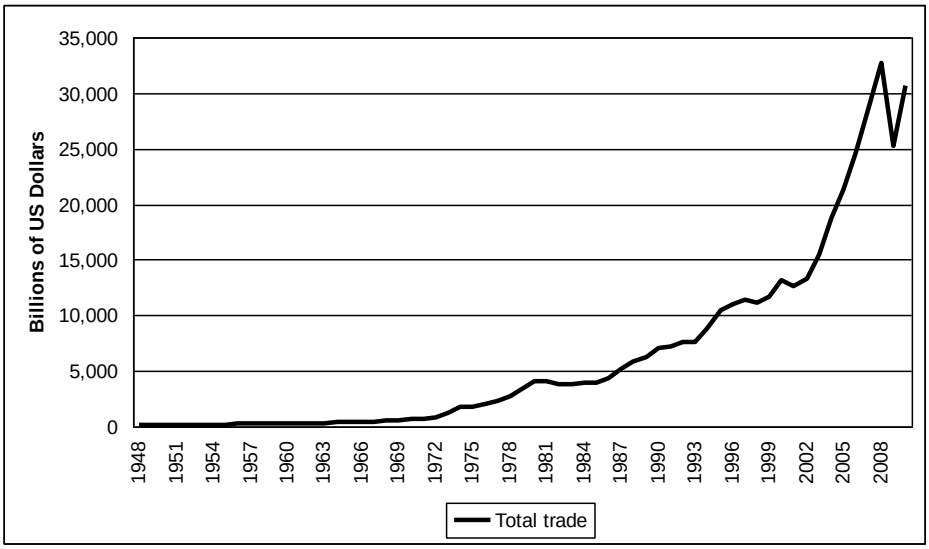

Figure 1. Global trade (1948-2008)
(Adapted from WTO 2011; data corresponds to total exports and total trade)

[1]The Doha Round is the latest round of trade negotiations among the WTO members. Its aim is to achieve major reforms of the international trading system through the introduction of lower trade barriers and revised trade rules. (WTO, 2012)

[2] According to the Regional trade agreements Information system from the WTO (2011), currently there are 219 regional trade agreements in force in the world.

Companies of all sizes have benefited from the increase in global trade; in the case of the United States, Multinational Corporations (MNCs) have participated with the major share in exports while Small and Medium Enterprises (SMEs) have represented around 30% of total exports during 1997 and 2007 (USITC 2010: 3-1); however, SMEs do not export directly and exports represent a small part of total SMEs GDP (USITC 2010: 2-14).

Globalization has forced companies around the world to consider other options to internationalize different than exports. MNCs have been boosting the process of globalization and integration of international markets through FDI, avoiding trade barriers and transport costs that exports involve (Gray 1998:19; Billington 1999:65). Already in the nineties, the WTO asserted that FDI originated from MNCs was the main force that has driven international market towards globalization; FDI has experimented an accelerated growth of flows from around $200 billion USD in 1989 to flows of $1 trillion USD in 1999; in 2007, FDI reached almost $2 trillion USD, the economic crises in early 2000 and 2008 are reflected in the FDI flows (Figure 2).

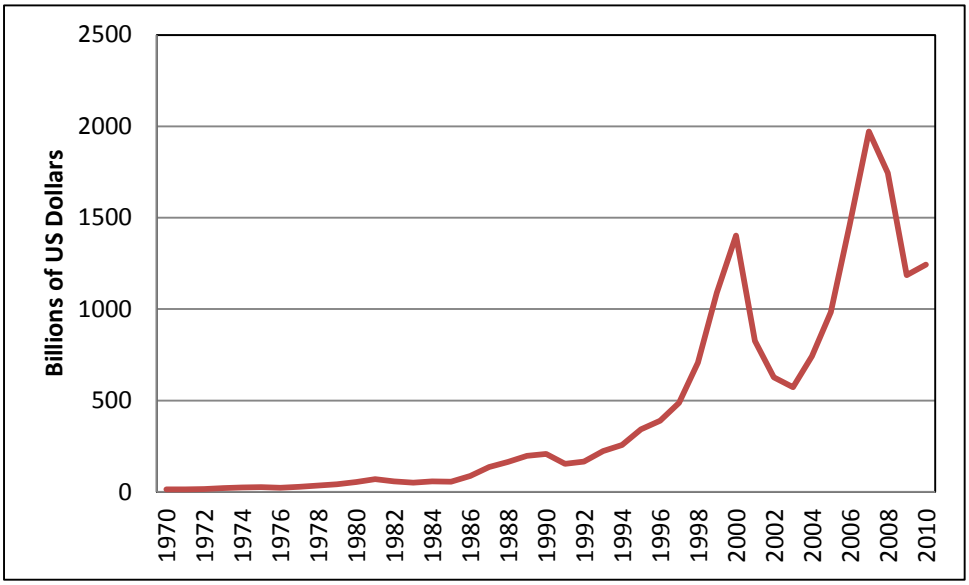

Figure 2. Global FDI flows (1970-2010)
(Adapted from UNCTAD 2012d ; data corresponds to total inflows).

The increase in FDI has not been symmetric in the inflows or the outflows; some years ago, location flows of FDI where mainly from north[3] to north. However, in the last few years emerging economies have had significant performance and growth, and FDI direction has changed from South[4] to North and South to South (Fleury & Fleury 2011:31, The New York Times 2010). During the last forty years the G7 nations have lost their participation in the total of inward FDI flows; while in the decade of 1971-1980, G7 countries received almost 60% of the worldwide FDI, in the first decade of the XXI century, those countries represented 36%; in the case of Latin America, the increase in FDI has been at lower pace than in other emerging economies, resulting in a decrease in the participation in the global FDI (Table 1).

Table 1. Inward and outward total FDI flows per decade (1971 – 2010)

	Inward					**Outward**				
	Billion of USD					Billion of USD				
Period	G7	BRICs	LATAM	Other	World	G7	BRICs	LATAM	Other	World
71 - 80	162	15	28	89	280	268	1	1	51	320
81 - 90	633	37	65	363	1082	820	7	9	292	1125
91 - 00	2392	499	439	2018	5216	3253	50	61	1822	5174
01 - 10	4112	1464	805	5231	11356	6175	674	225	4655	11660
Period	% of total					% of total				
71 - 80	58	5	10	32	100	84	0	0	16	100
81 - 90	59	3	6	34	100	73	1	1	26	100
91 - 00	46	10	8	39	100	63	1	1	35	100
01 - 10	36	13	7	46	100	53	6	2	40	100

G7: United States, Japan, Germany, United Kingdom, France, Italy and Canada.
BRICs: China, Russia, Brazil and India.
Latam: Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Dominican Republic, Cuba, Panama, Colombia, Venezuela, Ecuador, Perú, Bolivia, Chile, Brazil, Paraguay, Uruguay and Argentina.

(Adapted from UNCTAD 2012d)

Since the year 2000, world trade has more than doubled and participation of emerging and developing economies has grown (38% in 2008, 43% in 2009 and

[3] North: developed countries
[4] South: developing countries

46% in 2010), while developed countries have decreased their participation in global FDI flows (55% in 2008, 51% in 2009 and 48% in 2010). (UNCTAD 2012d).

Location of FDI is not decided lightly by companies; like Larimo and Mäkelä (1995) noted, once companies decide to internationalize, the following and maybe more important step is to decide about location. Location of FDI is determined by geographical context (Hood & Young 2000:39), it is necessary to consider diverse aspects such as the stage of development of home-country and host-country, infrastructure, institutions, etc., since they define the motives (resource- or market seeking) and determinants of the investment in a foreign market.

In the case of Latin America, during the last decades the region has seen a steady increase in the FDI inward flows (UNCTAD 2012d). Latin America represents a big and diverse region with almost no cultural differences; the five major economies in the region (Brazil, Mexico, Argentina, Venezuela and Colombia) represent a third of the US GDP and an enormous potential of growth based on a total population of around 425 million inhabitants (Appendix 1). Even though during the last forty years, Latin American average GNI has remained constant as percentage of the worldwide GNI, in the last five years it has increased substantially (Table 2).

Table 2. Participation in global GNI

	G7	BRICs	LATAM	Other
1971-1980	62.5%	6.2%	6.4%	27.1%
1981-1990	65.3%	6.2%	5.4%	25.1%
1991-2000	65.8%	7.5%	6.0%	22.9%
2001-2010	57.1%	12.5%	6.3%	26.4%
2006	57.5%	11.6%	6.3%	26.8%
2007	54.9%	13.3%	6.6%	27.7%
2008	52.3%	14.8%	7.0%	28.6%
2009	52.8%	15.8%	6.8%	27.4%
2010	50.2%	17.7%	7.7%	27.6%

(Adapted from World Bank 2012)

Latin America has always been a key recipient of FDI, thanks to its proximity to the largest economy in the world, and also the vast amount of natural resources

needed in developed economies; however, the rise of the emerging markets and the Chinese economy in particular have given a new impulse to FDI in the region accelerating the commercialization of raw materials; additionally, the upsurge of Latin American middle class have created new opportunities for well established companies in the world. In 2010, Latin American countries increased their participation in worldwide inward FDI flows from 4.8% in 2006 to 9.0% in 2010, of the total share of FDI. (UNCTAD 2012d).

The importance of Latin America in FDI flows is not only as a recipient but also as a source; in 2010, almost $50 billion USD of FDI were originated in Latin America, almost ten times the amount seen in 2001 (The New York Times 2010). On one hand, Latin American economic growth has been determined by the growth of world emerging economies that have increased the need of resources from Latin America (resource-seeking motive) (BBC News 2012); the growth of local economies such as Mexico, Brazil, Chile and Colombia (market-seeking motive) (Holtbrügge & Kreppel 2012:9,16) and the strong and constant economic growth of China which has started to be one of the main investors in Latin America (Gouvea & Kassicieh 2009:318; BBC News 2012; OECD 2011:5). On the other hand, Latin America as source of FDI may be considered as a new trend. MNCs from Brazil, Mexico, Chile and Colombia have started to internationalize due to different reasons such as search of new markets, economies of scale, international competition, mechanism to diversify risk, etc. (ECLAC 2011a; UNCTAD 2011).

According to ECLAC (2011a), regarding location of FDI, Latin America may be divided in two sub-regions depending on the major flows of investments each region attracts; the first region is South America that is focus of interest of companies that are seeking natural resources, facilitating the improvement of the market prices of Latin American products; the second region is Mexico and Central America where investors are focused on manufacturing and services, being US the major investor in this region (ECLAC 2011a:40). In each sub-region there is a large economy (Brazil and Mexico). Brazilian MNCs have performed better than other MNCs from Latin America not only due to size of the economy but mainly because the Brazilian government has been supporting the internationalization process through policies that encourage FDI outflows (ECLAC 2011a:55). The Mexican economy is specialized in manufacturing industries and FDI takes an important role because of its close commercial

relation with the US in many sector such as automotive, computer and electronic industry. (Wilska 2002: 110-111).

To explain the reasons behind changes in location of FDI within the international market, exist several theories; like Arslan (2011:21) mentions, FDI theories can be divided in those that look at the company level with emphasis in the interaction with market imperfections and those that are interested in international trade from a macroeconomic point of view; from the microeconomic view, companies need to assess their advantages and opportunities of investing in a foreign country in order to find the right market to expand, avoiding a costly disappointment; it is also important to define the type of entry mode that fits better for each target market. In that sense, it is expected that the characteristics of the economic environment will have some effect in the FDI decisions.

Hosseini (2005:531-534) presents a succinct review of the theories that explain foreign direct investment from the Hymer-Kindleberger paradigm to a broader view from the behavioral economics. Thus, FDI is initially explained by market imperfections; later, the eclectic paradigm by Dunning links FDI to three types of advantages for the Multinational Company (MNC): ownership, location and internalization. Of particular interest for this study is how institutional characteristics in the recipient markets affect the decisions of foreign companies to locate their investments.

Previous literature has been focused mainly in the success or failure of decisions based on market environment restrictions and managerial deficiencies. Lately some studies have focused instead in the lack of strong institutions in the host country as a cause for unsuccessful entry strategies. It seems correct to think that markets with hostile business environments will be avoided by companies, while firms in expansion will look for markets with strong growth potential. Then, the institutional environment of host country will affect investment attractiveness. Like Meyer, Esrin, Bhaumik and Peng (2009: 61) mention, "*…institutions are more than background conditions…*"; then, I should expect an active role of the institutional environment in the way companies decide to invest in foreign markets.
In this paper I propose to empirically analyze how the institutional environment and the competitiveness of the host-country affect FDI decisions. I

use the Global Competitiveness Index (GCI) and its institutional component with a sample of Latin American companies listed in the US.

1.2. Research question and objectives

The growth of a highly interconnected global economy has had a positive effect in local and multinational companies around the world; at the same time, international trade agreements have brought more competition and decisions of internationalization have become commonplace for many companies. Different theories explain the reasons behind FDI; in this study, the focus is to look in the host-country institutional environment as a determinant of country competitiveness and as important determinant of FDI decision; in that sense, the research question the study will answer is:

In the case of Latin America, how do host-country competitiveness in general and the institutional environment in particular influence FDI location?

In order to answer the research question, the study proposes two sub-objectives:

1. To provide a general view of the existing literature about the main concepts of the research question: institutions, FDI and location. Furthermore, to establish the relationship between those concepts according to the literature.

2. To estimate a model using information from a sample of Latin American companies and country-level data that help us to understand how companies decide where to invest, and the role that the institutional environment in the host-country has in that decision.

1.3. Scope of the study

Although the literature presents several aspects related to the decisions behind FDI location, this study will be based on the effect of the institutional factor in the host-country. The study will discuss and review the more broad effect of country competitiveness as a general concept that involves institutions.

Moreover, this study will show a general view of some of the important theories that attempt to explain FDI internationalization based on location aspects. While this study uses competitiveness indices to approach the institutional factors, the study is not about competitiveness, and the choice of the Global Competitiveness Index will not require evaluating if the Global Competitiveness Index (GCI) performs better than other competitiveness indices.

Finally, the empirical part is based on a sample of Latin American MNCs; the sample only includes companies listed in the NYSE. Those companies have been chosen based on the availability and homogeneity of the information. The sample is also representative of Latin American economies. The study will use data of the institutional component obtained from GCI. In order to analyze the behavior of FDI, it is used information compiled by UNCTAD and the World Bank.

1.4. Structure of the Study

Based on a globalized economy, this study is relevant when addresses the key issue of how the investment decisions in foreign markets are affected by the institutional environment. In order to accomplish the above exposed purpose, this thesis contains six main parts, as follows:

The first chapter presents the background of the proposed topic and the study gap that justifies the present paper. Moreover, this chapter introduces basic definitions, the research question and objectives. Additionally, it presents the scope of the study.

The second chapter shows the theoretical framework and takes a look of comprehensive literature of the three main aspects of the study: institutions, national competitiveness and FDI behavior. It discusses how all of the three elements are related, how the GCI interprets competitiveness and how the institutional factor influences FDI behavior.

The third chapter aims to present a general view of Latin America and the behavior of FDI in the region. Additionally, in this chapter it will be presented the hypotheses of the present study.

The fourth chapter specifies the methodology used and presents a detailed discussion of the research question and the statistical methodology. It explains and discuss about data sources, analysis and their reliability and validity.

The fifth chapter presents the estimation of the model, the empirical results and the research findings.

The sixth chapter concludes the thesis and it gives suggestions for further empirical research and some discussion about the topic presented.

1.5. Definition of key concepts

Globalization: it is a process where economies around the world are more integrated in terms of technology, people, goods, services, capital, etc., creating a big market based on competition and cooperation where knowledge is transferred and shared. (IMF 2008:2).

FDI: it can be defined as the investment that a company makes across borders (host country) for a long period of time with direct involvement in the management of the new company. (UNCTAD 2009:35)

Location: a particular place or position. (Oxford dictionaries 2012). In this paper, location refers to a country

Internationalization: it consists on the where companies decide to invest and take part of the international market. (Melin 1992).

2. THEORETICAL FRAMEWORK

In this chapter, I review the concepts of institutions and Foreign Direct Investment (FDI). However, it does not aim to review all the existing literature in these areas.

The chapter will proceed in the following way. The first part of the chapter will present a short literature review about institutions. Second, it will be showed a general view of FDI, some of the main theories of internationalization related to FDI location, the concept of national competitiveness, the Global Competitiveness Index (GCI) and its institutional pillar. Moreover, it will include determinants of FDI and FDI location factors and FDI trends.

2.1. Institutions

"The importance on institutions in the international business literature derives from the fact that institutions represent the major immobile factors in a globalized market"
(Mudambi & Navarra 2002:636)

The concept of institutions has been extensively analyzed and discussed in the social, economic and political literature (Scott 1995). In that sense, the concept of institutions is defined in different contexts; for example Hall (1986:19) uses an economic and political approach to explain institutions as the "formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of polity and economy." Some other definitions can be categorized under the social approach, such as Scott (1995:33) who defines institutions as "cognitive normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers –cultures, structures and routines- and they operate at multiple levels of jurisdiction." The economic approach presented by authors like North (1990:3) who defines institutions as a concept that involves the shapers of human relations, establishing guides and rules interaction in the society; further, North (1991) simplifies the definition of institutions as "the humanly devised constraints that structure human

interaction"; Kostova and Roth (2002:217) who argues that institutions are related to "quality management" of the pillars that Scott (1995) mentions in his study: regulatory, cognitive and normative institutions; Aoki (2007) that defines institutions as "self-sustaining, salient patterns of social interactions, as represented by meaningful rules that every agent knows and are incorporated as agents' shared beliefs about how the game is played and to be played." Another group of authors use different approaches like Child and Tse (2001:6) who define institutions as the "social, economic and political bodies that articulate and maintain widely observed norms and rules" and Goldgar and Frost (2004:6-9) who argue that institutions encompass sociological and common sense use, defining institutions like the "persistent forms of conduct that embody cultural values and formal organizations." Finally, Peng et al (2009: 63-70) include within their analysis of strategic management the institution-based view emphasizing the deficiencies that industry-based view and firm-based view may have; they argue that it is necessary to include analysis of the context, formal and informal institutions, as part of the analysis of strategic management, since they play an important role in the performance of national economies.

In all those different definitions it is possible to identify common elements that I consider useful to include in a broader definition of institutions; then, Institutions can be defined as a set of mechanisms that guide human relations with the aim of having an organized social behavior. Those mechanisms can be regarded as rules, procedures, practices, structures, activities, constraints, salient patterns and, social, economic and political bodies. Particular characteristics of those mechanisms give the special emphasis that each author and each brand of science are interested in. Discussion of those features is off-limits in this paper; however, I consider interesting to highlight the implications of some issues mentioned by the referenced authors, like humanly devised, self-sustaining and persisting characteristics that provide more universal features to the conceptualization of institutions.

North (1990, 1991) classifies institutions in formal and informal. On one hand formal institutions within a society embrace many fields: social, political and economic; in that sense, it is possible to find formal rules more important than others, from general to particular, from country to organizations, from constitutions to contracts. On the other hand, informal institutions are created

in order to regulate the individual relationships based on their own behavior. While formal rules come in a written form, informal rules use other communication mechanisms to spread them among the members of the society; thus, formal institutions reinforce informal institutions Those informal institutions are needed and used for everybody in order to solve or avoid coordination problems and regulate the behavior of the individuals within a group. Informal rules can be specific to some place such as customs and traditions, being part of the culture of that specific place. North's classification in formal and informal institutions provides tools to understand the choice of FDI modes. Through formal rules MNCs are aware about the possibilities of investment and the percentage of equity they can own in the host country. Instead, informal rules can be risky and costly for MNCs such as the case of expropriation by the government without explicit legislation.

North's division of institutions is directly connected to the idea that Richard Scott (1995:34-45, 2001) presents about institutions which are built over three pillars: regulatory, cognitive and normative. Those pillars are the basis of the institutional framework that makes different every country. Regulatory pillar refers to written laws, regulation and explicit rules (formal institutions) that align the behavior in a specific environment, like a country which may have a multiplicity of individual interests. The normative pillar (informal institutions) consists of norms and values that members of the community have about human social behavior, general and particular. The cognitive pillar (informal institutions) is about the importance that meanings have and how it is possible to create a general understanding of reality, facts and situations.

Dunning and Lundan (2008:126) highlight the relevance of the relationship between institutions and international business; institutions have a positive meaning. Institutions can be considered as a locational advantage (Barrel & Pain 1999:926), because they are part of the assets that a host country can build in order to become an attractive location for foreign investors (Bevan et al. 2004).

Formal and informal institutions are fundamental for international business. Formal institutions support economic transactions reducing the probability of unjustified costs and risks; formal institutions include laws and information systems, which create a stable political, social and legal environment that

reinforces the attractiveness of a country to foreign investment (Hadfield 2008:176-178). Moreover, formal institutions can constitute a mechanism to take advantage of the potential benefits that FDI may bring to the country. In some cases, the excessive involvement of formal institutions makes difficult and hostile the business environment. Informal rules can facilitate the business expansion based on the similarity of values and norms between home country and host country, but they can affect negatively the entry mode choice (Meyer et al. 2009:63), since they can create an environment of uncertainty that may mean an increase in investment costs (Dunning & Lundan 2008) and not a guarantee of returns in the long-run for investors. Institutions in general are one of the pillars of efficient markets generating lower costs for investments and providing and attractive location for the global expansion of an investor. (Bevan et al. 2004)

Countries invest in different ways to attract FDI (Hood & Young 2000:63-65). Host countries try to improve their location attractiveness, usually investing in infrastructure; however, location attractiveness implies other factors like market size, availability of resources and quality of institutions. (Billington 1999:67). Quality of institutions ensures reliability on social, political and economic environment where the investment will be located; thus, the less uncertainty of institutions, the higher the investment received (Daude & Stein 2007).

In sum, institutions constitute an important pillar in the society that contributes to sustain in an organized way human relationships (Scott 1995, Mohr & Friedland 2008). Institutions contribute to improve the location attractiveness and competitiveness to foreign investors (Billington 1999). It is also important to take into account the negative effect of the lack of strong institutions in a country. Well developed institutions do not guarantee the attractiveness of a host-country, but weak institutions for sure will discourage foreign investors (Reuters 2012).

2.2. Foreign direct investment overview

"FDI is a key component of the world's growth engine"
(UNCTAD 2011:xxii)

The purpose of this sub-chapter is to present a general overview about FDI as main driving force of globalization, and how it has forced governments to adopt changes in their policies in order to be more attractive and competitive as location for foreign investors. Moreover, it will be presented a short review about FDI location trends in the world.

2.2.1. Introduction

FDI results when companies expand their operations in other countries. It includes several resources such as capital, equipment, managerial skills and intangible resources; FDI implies a long-term relationship with control of the business operation by the company. The investment abroad takes different forms according to the company, host-country regulation, and many other conditions.

Multinationals (MNCs) have an important role connecting foreign direct investment and globalization; MNCs link their own capabilities with location assets from host countries, creating bigger and more global markets (Gray 1998:19), becoming the main mechanism that has made globalization possible (Kok & Ersoy 2009:106).

In the same way, globalization has made countries to compete in order to attract local and foreign investment; some countries have become more competitive than others and due to awareness of the possible benefits (Miyake & Sass 2000), governments around the world have changed policies towards foreign investment (Sweeney 1993) from restriction in the 1950s towards friendlier and open in the 1990s (Safarian 1999). Location attractiveness is without doubt associated to country competitiveness. The change of policies has been made at individual level (country) and in many cases at the level of trading groups, in any case offering more attractive policies and assets that brings to the country or region more competitiveness (Sweeney 1993) and more added value to foreign investors.

FDI implies for companies one step more from local market towards international and global markets; foreign investment is positive for home countries, host countries and the company itself. FDI brings to home countries more development in the industry, foreign profits of MNCs activities abroad, etc. (Dunning & Lundan 2008:610); FDI offers to host countries, capital, employment, technology, knowledge transfer, etc. (Busse & Groizard (2008); Blomström et al. 2000:101, Fortanier 2007; McCloud & Kumbhakar 2012, UNCTAD 2011:21) and FDI gives companies access to natural resources, low labor, costs, technology, marketing, managerial skills, etc. (Larimo 1993; Buch et al. 2005; Dunning 2000:164-165 and Dunning & Lundan 2008:68-73).

In sum, FDI has been one of the most important mechanisms used by MNCs to participate in the global market (Miyake & Sass 2000); scholars have tried to analyze and understand how the internationalization process has happened and what are the motives MNCs have to internationalize, as an strategy process of constant development (Melin 1992).

2.2.2. Internationalization approaches in brief

Globalization has forced companies to think on internationalize in order to grow, to be more competitive, to survive in the international market scenario and at the end to be profitable (Buch et al. 2005). Several researchers have analyzed from different perspectives the reasons that companies have to internationalize (Dunning & Lunden 2008); all the different approaches can be classified in economic-based and behavioral-based (Welch et al. 2007; Benito & Welch 1994:7-9). On one hand, economic-based theories are motivated by the idea that companies have a rational attitude; they want to retain control of the operations in the host-country and decisions take into account the economic environment, the mobility of factors (human capital, assets) and market imperfections. On the other hand, behavioral-based approaches give more relevance to the concept of learning process based on the lack of knowledge that companies have about foreign markets.

After the WWII, FDI contributed to the dynamic of the global economy lead by those countries globally well positioned (Jones 2005; Kell & Rugggie 1999:102-103). The growth of FDI generated an increasing interest by researches and

practitioners about the mobility of investment around the world, determinants, conditions, etc. (Hosieni 2005).

Some authors, like Wilska (2002) states that one of the first authors who studied FDI was Stephen Hymer in 1960. After analyzing the disadvantages and advantages that companies face when invest in foreign markets, Hymer presented the theory of "Monopolistic advantage" (Fisher 2000:24-25). Foreign companies have monopolistic advantages, like technology, know-how, etc. which make them competitive against domestic companies; while local competitors have the knowledge of the local environment (market, institutions); additionally foreign investors have the liability of foreignness resulted from the physic and psychic distances. (Chen 2006:288-289; Faeth 2009; Moosa 2002). Hymer establishes two major determinants of FDI: to be more competitive in the international market and to possess monopolistic advantages. He argues that MNCs and FDI exist because of market imperfections. Kindleberger (1969) added to Hymer's theory by introducing the reasons behind market imperfections that drive companies to internationalize (Fisher 2000:24-25); those reasons are: imperfect product markets (product differentiation, brand, managerial expertise, etc.), imperfect factor markets (technology, patents, special access to specific resources, etc.), internal and external economies of scale and government limitations and regulations about market imperfection (Fleury & Fleury 2011:68); regulations include all the mechanisms used by governments to "manipulate" the behavior (Welch et al 2007:21-23). Under the Hymer-Kindleberger theory, internationalization results from the ability that a company has to take advantage of the market imperfections in the international markets (Dunning & Lunden 2008:83).

Authors like Faeth (2009) and Dunning (2000), discuss about the theory presented by Raymond Vernon in 1966; he analyzed the experience of US companies and proposed "The product life cycle" as an alternative view that explains the international performance of companies. Vernon states that companies have three options: to retain the production in the home country, to export or to establish production units in a foreign country (Dunning & Lundan 2008:85). Initially companies produce in the same place where they are established; but when the demand grows and the product can be easily copied, production need to be moved to a country with low cost of labor (Fleury & Fleury 2011:70). This theory establishes that there is a relationship between the

stages of production and the need to reduce costs in order to get more benefits, and one of the more likely options that contribute to reduce costs is to look after a location –abroad- for the company expands its operations. However, this theory was criticized by some authors that studied Swedish companies with different behavior of internationalization (Fisher 2000:21-24; Moosa 2002:38-41).

Moosa (2002:32-33) and Fisher (2000:27-28), discuss about a theory presented in 1976 by Buckley and Casson formally presented the "Internalization theory" based on findings by previous studies made by other authors (Coase 1937 and McManus 1972); the theory introduces the importance of the interdependence between production, knowledge and technological capabilities. This theory considers that internationalization happens when the company take advantage of all its own capabilities instead of going to the market and find what is needed to succeed (Fleury & Fleury 2011:72). In the presence of market imperfections, firms find the solution internally and then they use it as an advantage in foreign markets.

Dunning (2000) asserts that it is not possible to identify one single theory that justifies and explains the determinants of FDI; however, by proposing "The eclectic paradigm" he tries to unify the internationalization theories in a single one. He states that internationalization is the result of three factors (advantages): ownership, location and internalization advantages. Ownership advantages refer to firm-specific advantages such as intangible assets (patents, labor skills), access to local institutions, production process, technical knowledge, etc. Location advantages are related to country-specific advantages like natural resources, institutional environment and infrastructure. Internalization advantages are industry-specific and are defined by the added value that the company have in a successful reduction of costs, control of operations and quality control. As a result, countries with comparative advantages will attract more FDI contributing to national economic growth and development. (Fisher 2000:34-37; Mossa 2002:36-38; Fleury & Fleury 2011:73-76; Dunning & Lundan 2008:83).

In sum, different approaches explain the process of internationalization that MNCs have faced when moving across borders. Globalization can be considered the main factor that boosted the flow of foreign investment after the WWII. Internationalization varies according to individual needs of MNCs and

particular characteristics offered by host-country (location). Countries not only take advantage of their natural assets, such as geographic location or mining resources but create incentives, improve institutions, build infrastructure, etc. in order to be more competitive and attract foreign investors.

2.2.3. Determinants of internationalization

Several researchers have studied the reasons that motivate companies to invest through FDI (Bevan et al. 1994:45). Mellahi et al. (2005;183-201) stated that internationalization is done by taking into account diverse internal and external factors. Internal factors include individual factors related to the people involved in the decision making process (language skills, background in the area, experience abroad, etc.) and specific characteristics of the firm (size, age, sector, etc.). External factors include host-country attractiveness, adequate market environment, etc. Hood and Young (2000:39) also argue that is necessary to consider the geographical context and look at the similarities in the stage of development in the home-country and the host-country, since it affects the motives and determinants of the investment in a foreign market.

MNCs have several reasons to internationalize, but market related purposes have been the most relevant (Larimo 1993, Buch et al. 2005). Haigh (1989) explains internationalization of companies with four main factors: individual advantages of the firm compared with host-country local companies, predilection for local manufacturing in host country rather than exporting, keep control of operations abroad and attractiveness of the host-country market.

Furthermore, Dunning (2000:164-165) and Dunning and Lundan (2008:68-73) summarize the purposes of FDI in four categories: market seeking, resource seeking, efficiency seeking and strategic asset seeking. Market seeking consists on the possibility to take advantage of the size of the new market and its possible growth towards neighboring countries. Resource seeking looks at how companies take advantage of the resources in the host-country, like natural resources, low labor cost, technology, marketing and managerial skills, among others. Efficiency seeking refers to the use of new market conditions in order to obtain access to export markets and economies of scale and scope. Strategic asset seeking refers usually to acquire assets in local companies and improve their ownership advantages.

In other context, Buch et al. (2005) considers two forms of internationalization, regarding the purposes of the investment: horizontal and vertical FDI. Horizontal FDI (proximity-concentration model) refers to the expansion in the new market by replicating in the subsidiary all the activities and products in the home country in order to avoid excessive costs; then it should be more expensive to export from the home country. Vertical FDI (factor-production model) is focused on lower costs of production by establishing part of the company in another location; for example, making use of low labor costs in a foreign country. (Beugelsdijk et al. 2008:454). The knowledge-capital model, a combination of the horizontal and vertical forms of FDI, is discussed by Markusen (2002:695); the author finds that the motives to invest in foreign countries depend on the company, the industry and the host-country.

2.2.4. FDI location factors

Even though the literature about the factors that affect international location for MNCs is limited (MacCarthy B.L. & W. Atthirawong 2003:794), authors like Larimo and Mäkelä (1995), Bevan et al. (1994) and Grosse (1980) argue that once companies have decided to expand their operations abroad, the next step is to look for the right location. Previous literature identifies the determinants of location of FDI: technology, phase of the product (life cycle), access to other markets, infrastructure, costs, institutional environment, cultural distance and level of economic development, etc.

Some authors like Li & Park (2006:95) and Wilska (2002) argue that location is one of the most important factors to take into account in the internationalization process; the eclectic paradigm (Dunning 2000), specifically refers to location-specific advantages related to country competitiveness such as low labor costs, natural resources, size of the market, transportation costs and geographic distance; Haigh (1989) includes other location factors such as infrastructure, level of education and institutions.

Grosse (1980) considers that location of FDI is determined by political, social and economic variables, with the aim of having larger revenues and lower costs. Political factors such as level of institutions, social factors such as traditions and culture and economic variables such as inflation, GDP, etc. Haigh (1989) argues that plant-location involves a process where companies

first decide the region and then decide the specific place. Nevertheless, location factors vary according to the industry, the company and personal factors (stereotypes, emotional factors, etc.).

According to MacCarthy & Atthirawong (2003), the attractiveness of the location depends on quantitative and qualitative factors. Cost is the most relevant quantitative factor and qualitative factors include social and political factors. The authors classify factors and sub factors reviewed by previous literature (Table 3). They conclude that the characteristics of the MNC and the specific location, determine the most relevant factors; the final decision is based on costs, infrastructure, labor, institutions and economic factors.

Wilska (2002:31-42) review studies based on location factors and classify those factors in macro and industry level. In the macro-level factors the author includes national competitiveness; in that sense, the global competitiveness indicator provides categories that measure countries in different aspects (this is explained in detail in other sub-chapter). Industry level factors look at particular characteristics of the economic sector.

In sum, the literature considers FDI location a major aspect in the internationalization process (MacCarthy & Atthirawong 2003; Larimo & Mäkelä 1995; Bevan et al. 1994; Grosse 1980; Li & Park 2006:95; Wilska 2002 and Dunning 2000). There are many location factors investigated in different studies and is not possible to identify which is the more important. In order to make the best decision, each company has to analyze its own needs according to what is offered by the market. Additionally, national competitiveness and specific sector characteristics are associated to location attractiveness; in that sense, governments can invest to improve the attractiveness of the country and appeal to new investors (WEF 2010).

Table 3. Factors and sub-factors of FDI location

Major factors	**Sub-factors**
Costs	Fixed costs; transportation costs; wage rates and trends in wages; energy costs; other manufacturing costs; land cost; construction/leasing costs and other factors (e.g. R&D costs, transaction and management costs etc.)
Labour characteristics	Quality of labour force; availability of labour force; unemployment rate; labour nions; attitudes towards work and labour turnover; motivation of workers and work force management
Infrastructure	Existence of modes of transportation (airports, railroads, roads and sea ports); quality and reliability of modes of transportation; quality and reliability of utilities (e.g. water supply, waste treatment, power supply, etc.) and telecommunication systems
Proximity to suppliers	Quality of suppliers; alternative suppliers; competition for suppliers; nature of supply process (reliability of the system) and speed and responsiveness of suppliers
Proximity to markets/customers	Proximity to demand; size of market that can be served/potential customer expenditure; responsiveness and delivery time to markets; population trends and nature and variance of demand
Proximity to parent company's facilities	Close to parent company
Proximity to competition	Location of competitors
Quality of life	Quality of environment; community attitudes towards business and industry; climate, schools, churches, hospitals, recreational opportunities (for staff and children); education system; crime rate and standard of living
Legal and regulatory framework	Compensation laws; insurance laws; environmental regulations; industrial relations laws; legal system; bureaucratic red tape; requirements for setting up local corporations; regulations concerning joint ventures and mergers and regulations on transfer of earnings out of country rate
Economic factors	Tax structure and tax incentives; financial incentives; custom duties; tariffs; inflation; strength of currency against US dollar; business climate; country's debt; interest rates/exchange controls and GDP/GNP growth, income per capita
Government and political factors	Record of government stability; government structure; consistency of government policy; and attitude of government to inward investment
Social and cultural factors	Different norms and customs; culture; language and customer characteristics
Characteristics of a specific location	Availability of space for future expansion; attitude of local community to a location; physical conditions (e.g. weather, close to other businesses, parking, appearance, accessibility by customersetc.); proximity to raw materials/resources; quality of raw materials/resources and location of suppliers

Source: MacCarthy B.L. & W. Atthirawong (2003:797)

2.2.5. FDI location trends

After WWII, MNCs from developed countries where focused on high income countries, looking for similar characteristics of foreign markets. Later MNCs look south and found opportunities to invest in less developed markets. Then, in the 1980s, FDI location started to change and MNCs from emerging economies start investing in other emerging economies (south to south) and in developed countries, south to north (Fleury & Fleury 2011:103); MNCs from developing countries have different and the advantage of production with low labor costs.

At the beginning of the present century, most of the FDI was made in developed countries (81%); by 2004 the distribution was more equal and in 2010 developing economies were receiving 48% of the global FDI (UNCTAD 2012d) (Figure 3).

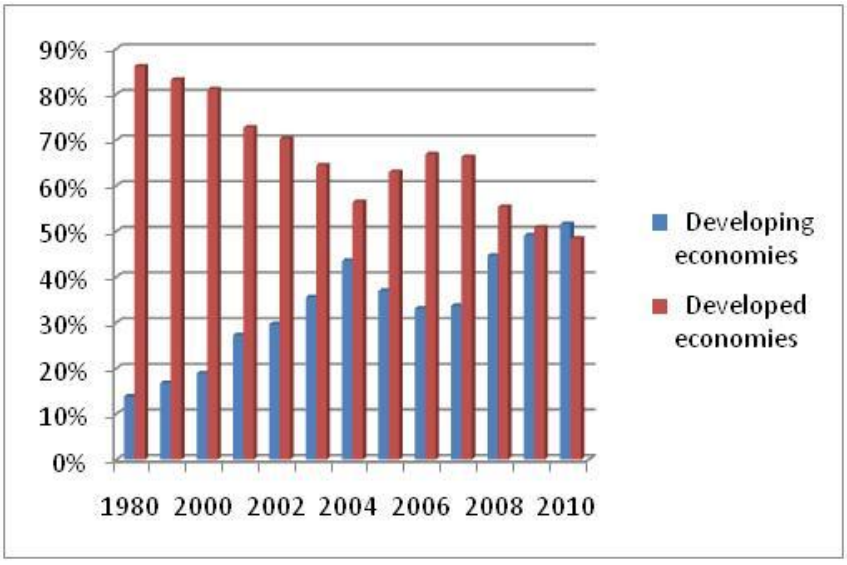

Figure 3. FDI distribution (1980-2010)
(Adapted from UNCTAD 2012d)

That trend reflects how the emerging economies have increased their competitive advantage in part due to the commitment of their governments in friendly policies directed to foreign investors.
Nowadays, FDI location around the globe is more dynamic and influenced by global politics, economic and social performance of regions (Sauvant et al 2009).

The spectrum of possible host-countries has changed and location options have become bigger (Table 4), including more opportunities for investors in emerging economies (Dunning 2009:8), which already have more than 50% of the share of global FDI flows. (ECLAC 2011a:25).

Table 4. Ranking of countries recipients of FDI (2009-2010)

Recipients of FDI	2009	2010
United States	1	1
China	2	2
Hong Kong, China	4	3
Belgium	17	4
Brazil	15	5
Germany	6	6
United Kingdom	3	7
Russian Federation	7	8
Singapore	22	9
France	10	10
Australia	16	11
Saudi Arabia	11	12
Ireland	14	13
India	8	14
Spain	30	15
Canada	18	16
Luxembourg	12	17
Mexico	21	18
Chile	16	19
Indonesia	43	20

(Adapted from UNCTAD 2011:4)

This change in the global FDI location is related to the integration of the new big economies in the global economy and the related policies implemented by governments in order to attract investors. The main developing countries acting as investors and recipients are China, the Russian Federation, Singapore, Republic of Korea and India which are within the top 20 investors around the world; moreover, Brazil, Mexico and Chile in Latin America are included in the 20 selected locations of FDI in the world. (UNCTAD 2011).

According to UNCTAD (2012b), despite the changes in the world scenario such as the political crisis in North Africa and the economic crisis in the EU, global FDI flows continues to rise (Figure 4). FDI has growth 5% from 2009 to 2010 (UCTAD 2011:2) and 17% from 2010 to 2011 (UCTAD 2012b:1).

During the last years emerging economies have been implementing regulatory changes, improving infrastructure and securing a strong institutional environment giving investors a wider range of options around the world. In that sense, emerging economies offer many possibilities, opportunities and advantages attracting more MNCS to invest. Some years ago, countries from South-East Asia were the leaders of developing countries attracting foreign direct investment; recently a new trend in the global economic panorama appears to show Latin American and Caribbean countries attracting investors at increasing rates of participation (UNCTAD 2012c).

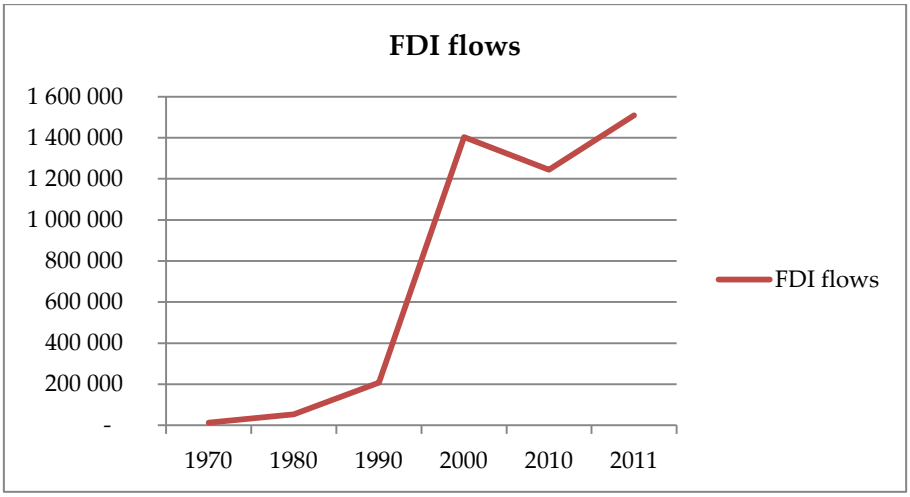

Figure 4. FDI flows (1970-2011)
(Adapted from UNCTAD 2012a; US dollars)

2.2.6. Country competitiveness

The concept of competitiveness has started to play an important role in the global economy. Countries look at their competitiveness and focus on their advantages, such as location, technology or low labor costs to create economic

environments that guarantee "a better position for the participants' own countries in the global competition". (Chikán, 2008:25).

National competitiveness can be defined at different levels depending on the interest group: governments, politicians, policy makers, practitioners, economists, among others; there is not an ultimate definition of country competitiveness generally accepted. Different aspects such as cheap labor, macroeconomic factors, industry development, technology and institutions help to define country competitiveness (Porter 1990, 2:7). Researchers have attempted to establish a unique definition of country competitiveness in order to set guidelines of measurability and comparability of the countries. (Rapkin & Strand 1995, 1-5).

Some of the attempts to define country competitiveness are based on national productivity and how this lead to an increase in the income and welfare of a nation; this is the case of the concept brought by Ronald Reagan through the Commission of Industrial Competitiveness in the US created in 1983 during the Reagan administration, with the purpose of contribute to increase and maintain the level of competitiveness of the country. The commission defined country competitiveness as *"the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while at the same time maintaining or expanding the real income of its citizens".*

Porter (1990) mentions different ways to define national competitiveness depending on who was setting the definition. In order to explain why some countries are successful, the author proposes the "National Diamond" theory (Figure 5) that explains how the national competitive advantage justifies the success of countries; he defines country competitiveness as *"national productivity"* and involves factor conditions (production), demand conditions, related and supporting industries and company strategy, structure and rivalry. Porter includes in his diamond two fundamental variables: the chance (external facts that affect industry performance) and the government (institutions).

Feurer and Chaharbaghi (1994) consider that competitiveness varies according to the objectives and the capabilities owned (resources, location, technology, etc); it should be constantly reviewed and redefined according to the changing economic environment; the authors highlight the importance of "act and react".

Some years ago country competitiveness was associated to richness in natural resources; then, countries like Venezuela and its oil reserves were considered highly competitive in comparison to other South American countries. Nowadays, knowledge, technology, policies and institutions have displaced the importance of natural resources; an example is Singapore, a small country with lack of natural resources but rich and highly competitive with its own capabilities such as education, technology and a government committed with economic growth based on solid strategies (Wong 2003: 191-198).

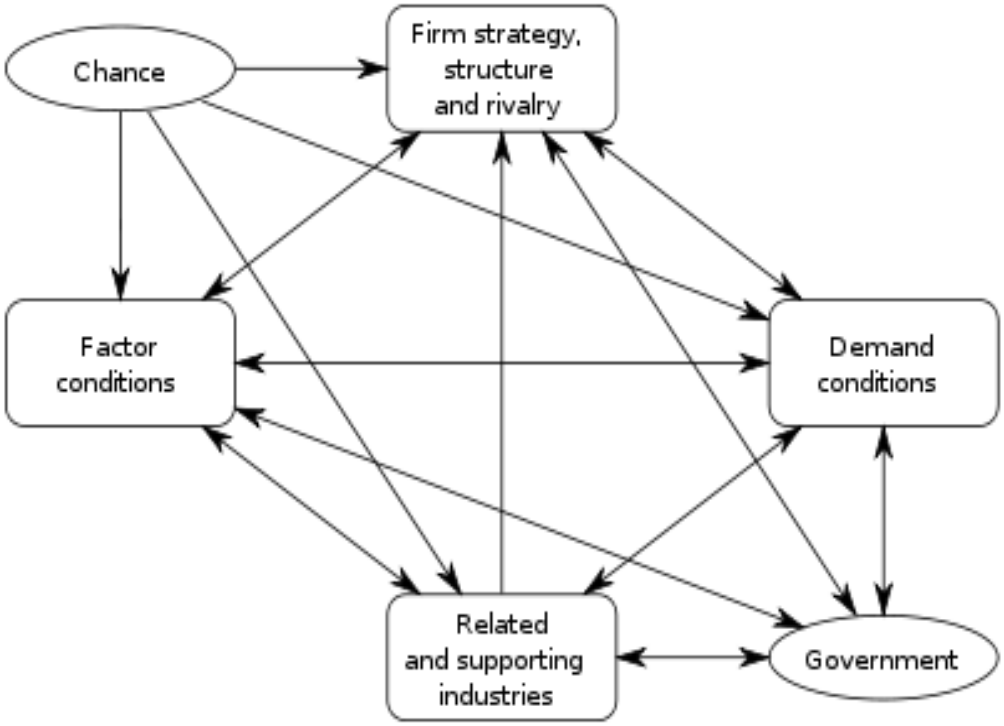

Figure 5. The Complete System
(Porter 1990:127)

Aiginger (1996:121-5) defines country competitiveness as *"if the country sells enough product and services, at factor incomes in line with the countries aspiration level, at macro-conditions (of economic and social system) seen as satisfactory by the people."* This definition is similar to the definition by Porter (1990), because relates productivity and welfare; however, this definition do not contribute to the measurability and comparison of country competitiveness among countries

due to subjectivity of the perception of the factors involved in it. For example the objectives of one country may differ to the objectives of another country based on their dissimilar economic or social characteristics.

Chikán (2008:25-26) defines national competitiveness as *"… a capability of a national economy to operate ensuring an increasing welfare of its citizens at its factor productivity sustainably growing. This capability is realized through maintaining an environment for its companies and other institutions to create, to utilize and to sell goods and services meeting the requirements of global competition and changing social norms."* The author emphasizes on the relation of dependence between the national competitiveness and firm competitiveness; the first one reinforces the second one influencing firm competences by creating the adequate environment for the development of firms.

Recently, President Obama in 2011 created the President's Council on Jobs and Competitiveness (PCOJC) with the purpose of *"strengthen the Nation's economy and ensure the competitiveness of the United States and on ways to create jobs, opportunity, and prosperity for the American people"*. (Obama 2011). This is another way of show the interest of the government and politicians on the national competitiveness, specifically in job creation and investment. Again, the focus of the council is to work in order to recover the national economy, to be able to guarantee welfare to its citizens through the creation of jobs and to recover its attractiveness for local and foreign investment. (Cohan 2011).

Nevertheless, country competitiveness does not mean that a country needs to be successful and in every aspect; it is necessary to think in the same way that companies are specialized and successful in some sector of the economy; countries are competitive according to their own advantages and should be successful facilitating the growth of the industry and the whole economy. Additionally, the perception of country competitiveness needs to be dynamic and needs to be ready to adapt to the challenges and restrictions presented in the global economic context.

Global Competitiveness indicator

Due to the important role that country competitiveness has raised in the world, global institutions have created official rankings to measure the performance of

countries compared with others. It seems difficult to measure competitiveness with a single indicator; in that sense, organisms such as World Economic Forum calculate yearly the Global Competitiveness Index as an aggregate measure of different factors that contribute to the development of the economic production, reflected on the standard of living of citizens.

The concept of national competitiveness used in the report since 1996 has been changing in the same way as the political, economic and social situation in the world has changed. Moreover, the variables that are included in the GCI have been in constant evaluation (Table 5). Every year different situations shape de global environment affecting the behavior of the countries and the business environment.

Competitiveness indices are useful tools for summarizing the general situation of a country; however few studies have formally tried to evaluate the performance of such indicators. In Pillania (2009:90-91), the author analyses the BRIC's competitiveness indicators according to the GCI and the World competitiveness rankings, concluding that the four countries are becoming increasingly competitive in the world context.

Khanna, Palepu and Sinha (2005) look at the role of institutional arrangements as an important factor that managers must have in mind when deciding location of investment; the authors also criticize the use of aggregated indicators like the GCI as unique tools to make an investment decision.

Table 5. Definition of National Competitiveness and structure of GCI

Period	Definition of National Competitiveness	Pillars of GDI	Factors of Institutional Component
1998-1999	the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita	1. Openness 2. Government 3. Finance 4. Infrastructure 5. Technology 6. Labor	Inflation Government spending Income tax rate Corporate tax rate Pension indicator Government savings Payroll tax ratio
2001-2002	the set of institutions and economic policies supportive of high rates of economic growth in the medium term" and "the set of institutions, market structures, and economic policies supportive of high current levels of prosperity	1. Technology index 2. Public institutions 3. Macroeconomic environment	- Public institutions: Contracts and law, Corruption
2005-2006	the set of factors, policies and institutions that determine the level of productivity of a country.	1. Institutions 2. Infrastructure 3. Macroeconomy 4. Health and primary education 5. Higher education and training 6. Market efficiency 7. Technological readiness 8. Business sophistication 9. Innovation	- Public institutions: Property rights, Ethics and corruption, Undue influence, Government inefficiency (red tape, bureaucracy and waste), Security - Private institutions: Corporate ethics, Accountability
2011-2012	the set of institutions, policies, and factors that determine the level of productivity of a country	1. Institutions 2. Infrastructure 3. Macroeconomic environment 4. Health and primary education 5. Higher education and training 6. Goods market efficiency 7. Labor market efficiency 8. Financial market development 9. Technological readiness 10. Market size 11. Business sophistication 12. Innovation	- Public institutions: Property rights, Ethics and corruption Undue influence, Government inefficiency, Security - Private institutions: Corporate ethics, Accountability

(Adapted from WEF 1998, 2001, 2005, 2011)

3. LATIN AMERICA AND FDI AFTER 1990

In this chapter, it will be provided an overview of Latin American economic, social and political environment from 1990. Moreover, it will be studied FDI trends in the region after 1990.

3.1. Latin American environment after 1990

Latin America[5] is considered one of the most important regions in the world, in terms of economic, politic and social features. Latin America has a population of nearly 600 million inhabitants (ECLAC 2011b) which is 8,5% of the world population (UN 2012:202). The population growth constitutes attractiveness for the region since it means large markets with similar cultural features and language, which means economies of scale. The Latin American region has more homogeneous characteristics than another region in the world, such as language (Table 6), religion, customs, etc. (Zinn 1996:63-66); however, some authors disagree, like Fleury and Fleury (2011) affirm that albeit the similarities, still there is a great diversity among countries and geographical features that do not allow the region to be fully integrated.

Table 6. Size of Latin America according to language

Language	Population 2011 (millions)	GDP 2011 (billion of US dollars)
Portuguese	197	2,477
Spanish	377	3,055

(Adapted from World Bank 2012)

Latin American countries are all classified as developing countries but there are big differences in the level of development; as an example, Brazil and Bolivia share a common border but the income per capita in Brazil is 2,5 times the level

[5] Includes 20 countries in four regions in the Americas: North America (Mexico), Central America (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panamá), Caribbean (Cuba, Dominican Republic and Haití) and South America (Colombia, Venezuela, Ecuador, Brazil, Peru, Bolivia, Chile, Paraguay, Uruguay and Argentina). Of these countries only in Haiti the official language is French; in terms of population Haiti represent only 2% of Latin America and 0,1% of its GDP.

in Bolivia; while Brazil is reducing rapidly poverty, Bolivia still have a large proportion of its population in poverty.

In the same way, the region can be identified with similar negative characteristics like inequality, high rate of poverty, internal conflicts, etc. (ECLAC 2011b).

3.1.1. Economic environment

Latin American economy is based on natural resources like agriculture and mining (Branine 2011); in recent years the production of valued added goods and services have increase in the region, particularly in Mexico and in less scale in countries like Chile and Brazil; the focus on natural resources has been reinforced by the growth of the Chinese economy. The region is behind developed economies in terms of technology, research and development. (UN 2012-58-61).

After the debt crisis in the 1990s, Latin American countries made important market reforms, diminishing the level of involvement of the state and creating incentives to private ownership businesses, Silva (2002). Additionally, free trade agreements have contributed to create a more stable and reliable atmosphere for foreign investment (Table 7); according to the WTO (2013) since 2001, 18 regional trade agreements has been signed among Latin American Countries.

Many more agreements have been signed between Latin American Countries and countries from outside the region (Appendix 2); Chile is by far the most active country with at least 13 agreements with countries outside the region.

Regional agreements such as NAFTA (US, Canada and Mexico), CAFTA (US, Dominican Republic and Central America), Andean Pact (Colombia, Peru, Bolivia and Ecuador) and Mercosur (Brazil, Argentina, Paraguay, Uruguay and Venezuela) have contributed to expand integration of the region, to improve competitiveness in international markets (Silva 2002:74-76) and to establish trade agreements between the region and with other regions around the world (Fleury et al 2011).

Table 7. Latin America regional trade agreements

Agreement		Coverage	Type	Date
Chile	Colombia	G&S	FTA & EIA	8.5.2009
	Costa Rica	G&S	FTA & EIA	15.2.2002
	El Salvador	G&S	FTA & EIA	1.6.2002
	Guatemala	G&S	FTA & EIA	23.3.2010
	Honduras	G&S	FTA & EIA	19.7.2008
	Mexico	G&S	FTA & EIA	1.8.1999
Colombia	Mexico	G&S	FTA & EIA	1.1.1995
	El Salvador, Guatemala and Honduras	G&S	FTA & EIA	12.11.2009
Dominican Republic	El Salvador, Guatemala, Honduras, Costa Rica and Nicaragua	G&S	FTA & EIA	4.10.2001
Mexico	Costa Rica	G&S	FTA & EIA	1.1.1995
	El Salvador	G&S	FTA & EIA	15.3.2001
	Guatemala	G&S	FTA & EIA	15.3.2001
	Honduras	G&S	FTA & EIA	1.6.2001
	Nicaragua	G&S	FTA & EIA	1.7.1998
Panama	Chile	G&S	FTA & EIA	7.3.2008
	Costa Rica	G&S	FTA & EIA	23.11.2008
	El Salvador	G&S	FTA & EIA	11.4.2003
	Honduras	G&S	FTA & EIA	9.1.2009
	Nicaragua	G&S	FTA & EIA	21.11.2009
	Peru	G&S	FTA & EIA	1.5.2012
Peru	Chile	G&S	FTA & EIA	1.3.2009
	Mexico	G&S	FTA & EIA	1.2.2012
Southern Common Market (MERCOSUR) Argentina, Brazil, Paraguay, Uruguay and Venezuela		G&S	CU & EIA	29.11.1991
Latin American Integration Association (LAIA) Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, Venezuela		Goods	PSA	18.3.1981
Andean Community (CAN) Bolivia, Colombia, Ecuador and Peru		Goods	CU	25.5.1988
Central American Common Market (CACM) Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua		Goods	CU	4.6.1961

G&S: Goods and Services; FTA: Free Trade Agreement; EIA: Economic Integration Agreement; CU: Customs Union; PSA: Partial Scope Agreement.

(Adapted from WTO 2013)

Like other regions in the world, Latin America faced economic recession at the beginning of the last decade; nevertheless, due to export boom of oil, copper, soya and gold (Branine 2011), and transformation from an agriculture-based economy to a more value added sectors such as industry and services (Silva 2002), Latin America overcame the crisis in a smooth way (Branine 2011). At least two reasons have help to improve the economic growth in the Latin American region: new investors and previous experiences from economic crisis. Emerging countries from other corners in the world have turned their eyes towards Latin American; this is the case of China (The New York Times 2011) and other Asian countries who are interested in Latin America due to its abundance of natural resources and other raw materials; this new trend Asia-Latin America has contributed to improve prices of products and flow of capital toward Latin America (Gouvea & Kassicieh 2009:316-317).

Nevertheless, the situation is not that good for countries such as Venezuela which has one of the highest inflation in the world (Cancel & Devereux 2011), Cuba which is in bankruptcy due to their political situation and Argentina that has a fragile economy because of the internal support the government provides to different sectors of the economy. (The New York Times 2010; OECD 2012).

Despite the regional agreements among Latin American countries, economic integration with the rest of the world has been done almost individually. Countries such as Chile and Peru are more integrated to the global economy (Appendix 2). The business environment has improved considerably in the region; in the last decade the GDP in 6 countries has increased. According to World Bank (2010), Chile, Peru, Colombia and Mexico are the countries that have made important changes in policies towards investment.

3.1.2. Political environment

During the 20th century Latin America was characterized by the political violence manifested through civil wars, guerrilla groups, etc. After the 1990s, democracy has flourished in Latin America (Branine 2011): some countries with an old democratic tradition like Colombia, some recovering from recent dictatorship periods like Chile and Paraguay and some having a precarious democracy like Venezuela or Nicaragua.

Latin America is considered a region of contrasts: abundant natural resources but large part of the population living in harsh economic conditions. The increasing economic importance of Latin America is noted in the participation of the region in important international forums like the G20 (Brazil, Mexico and Argentina) and BRICs (Brazil).

Politically the region is also defined according to the relationship with the United States; while Mexico, Colombia, Peru and Chile are closer politically to the US; Cuba, Venezuela, Bolivia, Ecuador and Nicaragua are suspicious of the US intentions in the region; additionally, the surge of Brazil as a global economic power[6] and the continuous growth of Colombia, Peru, Chile and Mexico, gives the Latin American countries an assertive stance in their own political views in a globalized economy; nowadays Latin America is less dependent economically from the US, only Mexico was negatively affected by the financial turmoil in 2008 and most of the countries in South America kept sound and stable finances with strong economic growth.

The closeness to the largest economy in the world is not considered a benefit for the Latin America region because after the September 11 terrorists attacks, the US has been concentrated in other parts of the world such as Irak, Afghanistan and Iran; during the Obama administration, the relationship with Asia and particularly with China has become more important for the US foreign policy (Kacowicz 2008).

3.1.3. Social environment

Different authors mention that the major issue in Latin America is the inequality in the income distribution; according to Wilska (2002:81-83), poverty is at the core of the problem contributing to higher unemployment and widening the gap between high income and low income population, creating internal conflicts that affect the local and regional economy. Branine (2011), discuss how the social development in the region has been negatively affected by widespread poverty, inequality and unemployment.

[6] At the end of 2011, Brazil was the 6th largest economy in the world after the US, China, Japan, Germany and France. (World Bank)

By 2001, Latin America was considered the region in the world with the worst income distribution, due to different reasons like lack of investment in education and the distribution of land (Morley 2001). However, in the last years, the region has made advances in reducing poverty; according to ECLAC (2011b) the population below the poverty line fell from 48,4% in 1990 to 31,4% in 2010. Countries like Argentina, Colombia, Peru, Uruguay and Ecuador presented the highest contribution to reduce the poverty rate in Latin America, while Honduras and Mexico increased their internal rate of poverty. Reduction of poverty has a direct effect on income distribution and unemployment; the average annual rate of unemployment fell from 10% in 1990 to 7,3% in 2010 (ECLAC 2011b).

In sum, in the last years the region shows a steady economic recovery and at the same time a reduction in the inequality gap, poverty and unemployment. Latin America is undoubtedly engaged with international investors and FDI has become an important source of capital, growth and development; economic reforms and political stability seems to be important tools for investors when looking for location of investment in Latin America, but not necessarily are the most important factors (Biglaiser & DeRouen 2006).

3.2. FDI in Latin America after 1990

The internationalization process in Latin America started slowly in the 19th century (Trevino & Mixon 2004:234) with some companies from Argentina expanding operations in Uruguay and Brazil (Fleury and Fleury 2002:301); however, it was just until de end of the twentieth century that FDI became relevant in the region (Wilska 2002:88).

In the 1990s, many Latin American countries made economic reforms (Wilska 1999) and signed trade-agreements (Table 7); those agreements have different motivations such as political reasons in order to bring a more political friendly environment through economic integration, development and growth and attraction of foreign investors (Devlin & Ffrench-Davis 1999). The business environment in Latin America has change due to the growing interest by governments on globalization (Brenesa et al. 2009). Trade barriers were reduced in order to maintain inflation rates not that high as before (except in

Venezuela), to create a macroeconomic stabilization, to incentive FDI and as mechanism to open doors to foreign investors, (Zinn 1996; Fleury et al 2002). All of those measures taken by governments have contributed to an improvement in FDI flows in Latin American (Wilska 2002). These FDI flows have been concentrated in five countries: Brazil, Mexico, Argentina, Chile and Colombia; the participation of the two largest recipients, Brazil and Mexico, have been decreasing, even though in the last decade was 58% of the total FDI inward flows in Latin America; in the first ten years of twentieth century, Brazil (33%), Mexico (25%), Chile (11%), Colombia (8%) and Argentina (6%), accounted for more than four fifths of the FDI coming to Latin America (Table 8).

Table 8. Latin America: FDI Inward flows accumulated 10 years

	1981	1991		2001		2011	
			growth		growth		growth
North America	**9,030**	**26,102**	**189 %**	**126,017**	**383 %**	**226,905**	**80 %**
Mexico	9,030	26,102	189 %	126,017	383 %	226,905	80 %
Central America	**1,844**	**2,035**	**10 %**	**16,687**	**720 %**	**50,600**	**203 %**
Costa Rica	518	935	80 %	4,041	332 %	13,249	228 %
El Salvador	91	153	68 %	1,898	1143 %	5,049	166 %
Guatemala	770	997	29 %	2,094	110 %	5,754	175 %
Honduras	68	343	402 %	1,451	323 %	6,762	366 %
Nicaragua	93	65	-30 %	1,378	2008 %	4,101	198 %
Panama	303	-458	-251 %	5,826	-1372 %	15,685	169 %
Caribbean	**661**	**872**	**32 %**	**5,701**	**554 %**	**16,649**	**192 %**
Cuba	0	12	-4654 %	67	464 %	348	422 %
Dominican R.	580	784	35 %	5,577	611 %	15,616	180 %
Haiti	81	75	-7 %	58	-24 %	685	1090 %
South America	**23,635**	**38,833**	**64 %**	**350,915**	**804 %**	**608,839**	**74 %**
Argentina	2,605	8,604	230 %	76,440	788 %	53,242	-30 %
Bolivia	473	337	-29 %	5,512	1535 %	3,756	-32 %
Brazil	16,290	14,873	-9 %	152,362	924 %	299,526	97 %
Chile	1,193	5,699	378 %	40,043	603 %	102,297	155 %
Colombia	866	5,320	514 %	22,092	315 %	70,717	220 %
Ecuador	562	1,006	79 %	4,938	391 %	5,504	11 %
Paraguay	226	261	16 %	1,398	435 %	1,225	-12 %
Peru	619	171	-72 %	17,676	10231 %	46,668	164 %
Uruguay	774	233	-70 %	1,657	611 %	12,727	668 %
Venezuela B.R.	26	2,329	8987 %	28,797	1137 %	13,176	-54 %
Total LATAM	**35,169**	**67,841**	**93 %**	**499,320**	**636 %**	**902,993**	**81 %**

(Adapted from UNCTAD 2013; USD million)

In the last decade, companies from Latin American have also been active at investing abroad; however, the value of the FDI have been concentrated in less countries; in the decade ending on 2011, the first five countries: Brazil (28%), Mexico (23%), Chile (20%), Colombia (11%) and Panama (9%) represented more than 90% of the total outward flows in FDI (Table 9). However, in the case of Panama, given the status of financial off-shore center, most of the money is coming from companies outside the country, and it is difficult to know exactly how much is from Latin American companies.

Table 9. Latin America: FDI Outward flows accumulated 10 years

	1981	1991		2001		2011	
			growth		growth		Growth
North America	**37**	**1,186**	**3124 %**	**10,509**	**786 %**	**57,757**	**450 %**
Mexico	37	1,186	3124 %	10,509	786 %	57,757	450 %
Central America	**359**	**3,510**	**877 %**	**7,006**	**100 %**	**23,108**	**230 %**
Costa Rica	10	37	281 %	57	56 %	534	836 %
El Salvador	0	0		-40		-252	521 %
Guatemala	1	-3	-400 %	69	-2408 %	296	328 %
Honduras	3	-3	-200 %	15	-598 %	-22	-248 %
Nicaragua	-1	2	-300 %	57	2735 %	127	125 %
Panama	347	3,478	903 %	6,849	97 %	22,425	227 %
Caribbean	**0**	**-22**		**80**	**-472 %**	**-193**	**-340 %**
Cuba	0	-2		-5	155 %	0	-94 %
Dominican R.	0	0		83		-192	-331 %
Haiti	0	-20		2	-110 %	0	-100 %
South America	**1,523**	**5,640**	**270 %**	**45,953**	**715 %**	**174,931**	**281 %**
Argentina	-290	243	-184 %	14,752	5965 %	10,632	-28 %
Bolivia	1	9	1318 %	23	174 %	-9	-137 %
Brazil	1,423	3,307	132 %	7,629	131 %	71,256	834 %
Chile	85	195	130 %	14,728	7464 %	50,833	245 %
Colombia	253	335	32 %	2,964	786 %	28,803	872 %
Ecuador	1	16	1311 %	230	1312 %	94	-59 %
Paraguay	30	-7	-125 %	78	-1148 %	50	-36 %
Peru	1	119	16857 %	327	176 %	1,651	404 %
Uruguay	0	15		25	73 %	102	307 %
Venezuela B.R.	19	1,410	7309 %	5,195	268 %	11,519	122 %
Total LATAM	**1,919**	**10,315**	**438 %**	**63,548**	**516 %**	**255,604**	**302 %**

(Adapted from UNCTAD 2013; USD million)

During the first years of the twentieth first century FDI around the world declined because of the reduction in the economic activity; FDI flows in Latin America diminished approximately 50% between 1999 and 2003 (Figure 6). The low level observed in 2003 was a direct effect of the US recession and the low merger and acquisition activity, which was the main driver of FDI growth since 1990 in the region (ECLAC 2003).

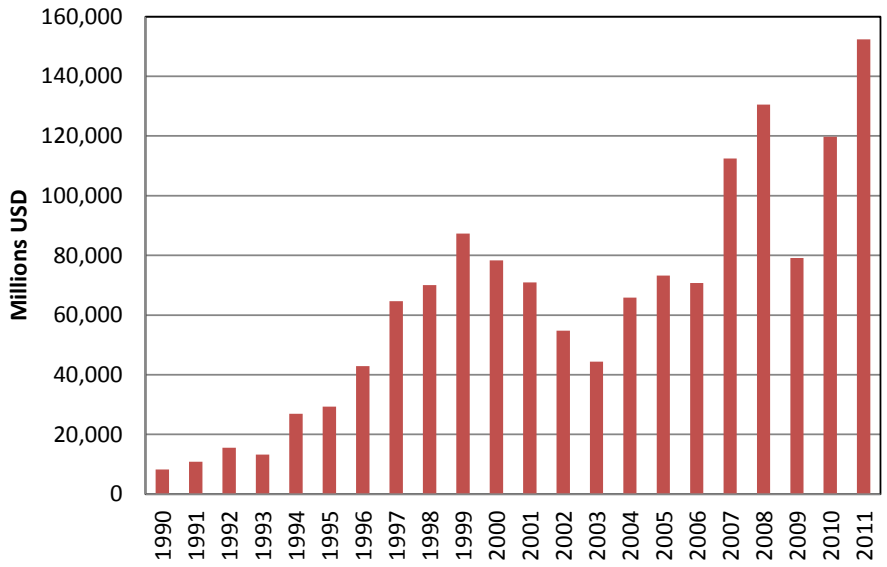

Figure 6. FDI flows in Latin America (1990-2011)
(Adapted from UNCTAD 2103)

Four years later, in 2007, FDI in the region registered a record growth despite the US recession; this time, the Latin American economies continue growing because of the Asian appetite for natural resources; later in 2009, the world economy faced the worst economic crisis since 1930, affecting global FDI (ECLAC 2009). In 2011, FDI was growing again and the active participation of MNCs from the region contributed to the rapid growth of FDI. Since 2002, the amount of FDI from Latin American MNCs is continuously increasing as a percentage of the incoming FDI (Figure 7); in Chile (50%) and Colombia (41%), the amount of FDI indicate a big interest by companies from both countries to expand abroad.

The origin of FDI flows in Latin America has changed. In 1990-2000, the US, Germany, Spain, France Italy and Japan were the main investors in the region (Wilska 2002:96; ECLAC 2000). In 2006, the US, Netherlands, Canada and Spain

were the biggest investors (ECLAC 2007). In 2010, the largest investors were the US (17%), Netherlands (13%), China (9%), Canada (4%), Spain (4%) and UK (4%), ECLAC (2011a).

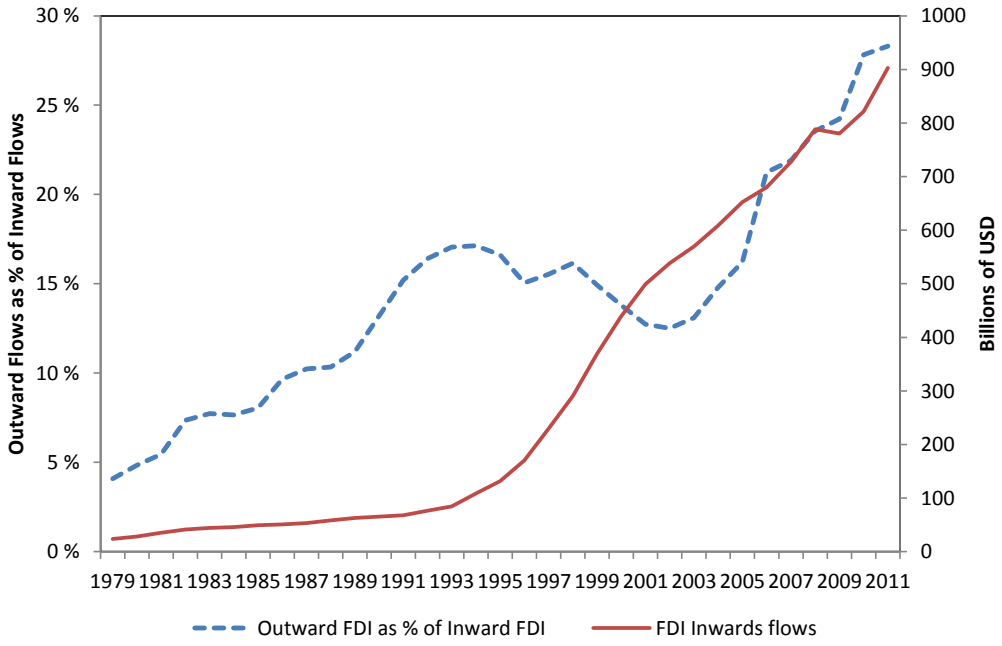

Figure 7. Outward FDI flows as percentage of Inward FDI flows in Latin America and Accumulated value of FDI inwards flows (Adapted from UNCTAD 2013)

MNCs from Mexico, Chile and Argentina started timidly to invest in the region (Wilska 2002:96; ECLAC 2000); in less proportion the companies from those countries invested in developed countries (Vasquez-Parraga et al. 2004:359). In the period 2000-2005, Latin American companies invested in the region about 4%, 8% in 2006-2009 and 10% in 2010 (ECLAC 2011). Currently, an important proportion of the FDI flows in the region come from the same region (Fleury and Fleury 2011); that trend is explained by different reasons like economic reforms, low costs, natural resources and growth in technology and education (Sirkin 2010). Latin America outward and inward FDI has improved. According to ECLAC (2011a), Latin America region is the most dynamic region in terms of FDI flows; FDI growth 51% from 2009 (US$80 billion) to 2010 (US$120 a) and 27% in 2011 (US$152 billion) (Figure 8).

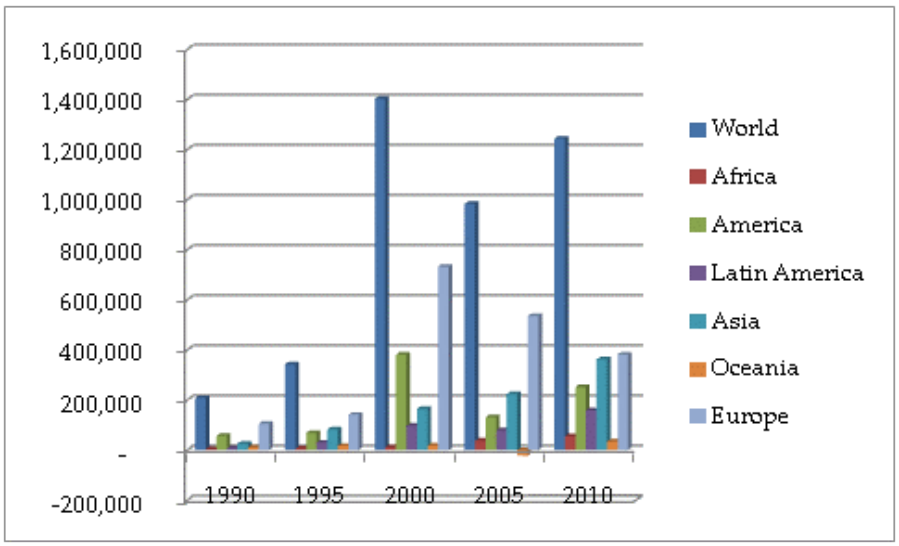

Figure 8. Inward and outward FDI per region (1990-2010) (Adapted from UNCTAD 2013)

3.3. Hypotheses of the study

3.3.1. Host-country institutions and country competitiveness

Practitioners and scholars have referred to institutions in different ways; in general they considered that a link should exist between institutions and economic growth as requirement to attract foreign investment (Dunning & Lundan 2008: 678-684). This idea goes as far in time as Adam Smith in 1776, who relates the no-intervention of the government with the start of economic growth (Khalil Mahmoud et al. 2007:69-71; Wilska 2002:31). Similarly, North (1991:97) affirms that institutions contribute to create organization and stability in the economy. Thus, the role played by institutions is to provide an organized "environment" (politic, social and economic) that creates an adequate atmosphere of stability. The more stable the institution the less the risk and costs that companies may face when investing abroad. In that sense, the objectives of institutions are: to establish a strong structure within the society, to create confidence inside and outside the country and to support the market conditions that will bring low-level of uncertainty avoidance to potential foreign investors.

Institutions have an important role related to national competitiveness (WEF 2011:4). Institutions constitute a main aspect of competitiveness together with infrastructure, cheap labor, macroeconomic factors, industry development and technology; all of those factors determine the successfulness of some countries and the reason that explains why some countries are more competitive in some industries (Porter 1990:2-7).

According to Globerman (2002:1899), institutions have direct influence in the performance and growth of an economy by establishing a governance infrastructure and providing an adequate environment that guarantee the political, social and legal infrastructure of a country. Nevertheless, weak or strong institutions represent a difficult issue to be measured; like Estrin and Campos (2007: 574–586) mention is not easy to use indicators to capture the behavior of formal institutions and even less easy in the case of informal institutions.

In that sense, the GCI report (WEF 2011) measures institutions by using a qualitative approach, based on almost 100 interviews per country included in the report; the construction of the institutional component of the GCI is based on 19 components (Table 10); some of them may be helpful when trying to measure adequately the institutional environment.

As stated by World Economic Forum (2011:31), competitiveness of Latin America has improved in the last few years; the most important reasons for the improvement are the positive effect of fiscal and monetary policies and the external demand of products; nevertheless, the region faces some difficulties like weak institutions, lack of infrastructure, an ineffective distribution of production and human resources and slow level of development on innovation.

According to the previous discussion, I suggest the main hypothesis:

Hypothesis 1: *Higher levels of competitiveness in a country augment the probability for foreign companies of investing (FDI).*

Table 10. Institutional component of GCI

A. Public institutions
1. Property rights
1.01 Property rights
1.02 Intellectual property protection
2. Ethics and corruption
1.03 Diversion of public funds
1.04 Public trust of politicians
3. Undue influence
1.05 Judicial independence
1.06 Favoritism in decisions of government officials
4. Government inefficiency
1.07 Wastefulness of government spending
1.08 Burden of government regulation
1.09 Efficiency of legal framework in settling disputes
1.10 Efficiency of legal framework in challenging regulations
1.11 Transparency of government policymaking
5. Security
1.12 Business costs of terrorism
1.13 Business costs of crime and violence
1.14 Organized crime
1.15 Reliability of police services
B. Private institutions
1. Corporate ethics
1.16 Ethical behavior of firms
2. Accountability
1.17 Strength of auditing and reporting standards
1.18 Efficacy of corporate boards
1.19Protection of minority shareholders' interests

(Source: WEF 2010:45)

3.3.2. Host-country institutions and FDI location

The relationship between Institutions and FDI suggests effects in both ways: host-country factors can influence and attract FDI inflows (Mellahi et al 2005:37; OECD 2003) and FDI can influence governments to boost their institutions (Dunning & Lundan 2008:128).

There is a growing interest regarding the effects of the institutional environment in the success or failure of expansion of MNCs in new markets. Ingram and Silverman (2002:17-18), highlight the importance of institutions on location of FDI; firms are not only affected by their individual decisions but also by the institutional environment. Brouthers and Nakos (2004) examine the success or failure of the investment from the perspective of Dutch and Greek SME investing in Central and Eastern Europe; the idea that the entry decision varies according to transaction costs theory is closely related with macro-level institutional factors affecting decision entries; Gaur and Lu (2007) include in their model institutional variables as well as the organizational learning perspective to partially explain the relationship between market entry decisions and performance; in the same direction, Campos and Iootty (2007) look at specific sectors in Brazil with institutional barriers that reduce FDI in the country. In the case of China, the study by Tian (2007) shows that depending on the market, even in the same country, an industry is more efficient when there are less regulatory barriers that impede the free entry and exit of the market. Estrin, Meyer, Wright and Foliano (2008) analyze the exporting role of subsidiaries in six countries (Hungary, Poland, India and South Africa, Egypt and Vietnam) regarding the institutional environment and found that local institutions provide the right incentives to the subsidiaries to become exporters and not only suppliers of domestic demand. Meyer, Estrin, Bhaumik and Peng (2009:62-64) study the entry strategies in four emerging economies, Egypt, India, South Africa and Vietnam; it is shown that companies will use different entry modes depending on the institutional arrangement in each country; in markets with weak institutions, companies will prefer a joint venture, while in countries with strong institutions companies will choose a subsidiary. In that sense, the survival of subsidiaries depends on a strong and supportive institutional environment. The concept of institutions is more relevant as a major factor of FDI location decision (Fleury 2011:58, Larimo & Mäkelä 1995:13) and companies are aware of the freedom that strong institutions can provide when investing abroad (Dawson 1998:603, Daude & Stein 2007, Bénassy-Quéré et al. 2007).

The behavior of the world economy affects the behavior of the FDI in the world. Globalization, technology development, financial-crisis and wars are some of the factors that create the dynamism of FDI flows (Jones 2005; Dunning & Lunden 2008); at the same time, those factors have made governments to

introduce changes on investment-related policies from restrictions to incentives and vice versa (Hoekman & Saggi 2000). National policymakers can restrict or encourage FDI; according to Dunning and Lundan (2008:690), foreign investment policies can be classified in: non-intervention, structural adjustment and upgrading, selective investment and controlled investment. Non-intervention refers to low control by institutions on inward and outward investment; structural adjustment and upgrading is used by governments according to needs of the local economy by encouraging or restricting foreign investment; in selective investment, foreign investment is restricted to some specific industry in order to take advantage of it and develop the local economy; controlled investment refers to rigorous control of foreign investment.

Global institutions are necessary to regulate the global economic environment (Duffield 2007); examples of those institutions are the WTO and the World Bank that try to facilitate the flow of international business. For instance, the main objective of the World Bank (2012) is to be "a vital source of financial and technical assistance to developing countries around the world" and one of its functions is to help developing countries to attract foreign investment, by facilitating them loans in order to develop their infrastructure (World Bank 2012); the principal objective of the WTO is "to open trade for the benefit of all", by stimulating free trade and setting guidelines that help countries to solve commercial differences (WTO 2012). Those global institutions can influence countries to modify some of their policies that affect the global economy and create a suitable environment for national economic growth. Global and local institutions may differ; even though governments look for institutions that get the local economy closer to the global environment (Hood & Young 2000:63-65), still exist specific regulations and customs that companies should take into account when looking for a location to invest. Investors need to consider how the local institutional environment will increase the costs of FDI. Table 11 shows the investment regulation trend over the last 10 years; the regulatory changes looking for promotion are more than double the changes in regulation looking for more restrictions.

Table 11. National regulatory changes on Investment Policies 2000-2010

(Number of measures) Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of countries that introduced changes	70	71	72	82	103	92	91	58	54	50	74
Number of regulatory changes	150	207	246	242	270	203	177	98	106	102	149
Liberalizatio n/promotion	147	193	234	218	234	162	142	74	83	71	101
Regulations/ restrictions	3	14	12	24	36	41	35	24	23	31	48

(Adapted from UNCTAD 2012c:94)

Moreover, the World Bank (2011) shows that an appropriate framework of rules have a positive effect in a country by setting an appropriate local environment. Globalization helps to create local regulations more business-friendlier. According to the report, in 2010 and 2011 the most significant contributions to the improvement of legal institutions happened in low and middle income economies; the improvement of the business regulation contributed to the attractiveness of the local markets and the increase of FDI (Figure 9).

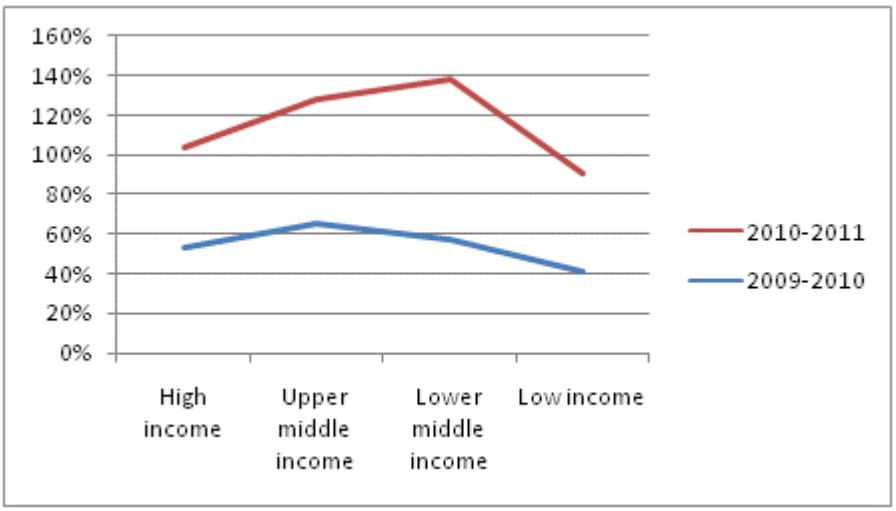

Figure 9. Number of reforms focused on institutions
(Adapted from Doing Business Report 2011)

The institutional environment affects the location and type of FDI (Peng 2009; Welch 2007; Meyer et al 2009:62). Government policies and regulations about FDI affects how MNCs decide over location, entry mode (ownership or not) and type of FDI (Faeth 2008); thus, when the institutional environment is strong enough companies will choose acquisition or greenfield mode; by the contrary if the institutional environment appears to be weak, companies will invest through joint venture in order to reduce risks (Demirbag et al. 2008:7-9; Meyer et al. 2009:62-63).

Faeth (2008) argues that "FDI can be seen as a game with two players, MNE and host government or as a contest between two or more host countries competing for FDI." There are a lot of aspects that affect the decision making process of location, such as taxation system, labor legislation, government intervention and incentives in host countries. The author classifies the incentives that host-country governments may offer in three types: fiscal, financial and other incentives. Fiscal incentives can be done over revenues, labor, sales or capital. Financial incentives like government endowments, credits and equity participation. Other sort of incentives can be subsidies in services and market preferences (OECD 2003:15; Cass 2007:77-78). However, Blomström and Kokko (2003) argue that incentives are not a proved positive influence in FDI flows; they discuss that incentives not always attract FDI and at the same time not always FDI brings spillovers of technology, knowledge, development, growth, etc. They state that in many cases FDI has brought negative effects such as unemployment and unjustified costs for host-countries.

Bénassy-Quéré et al. (2007) consider three ways institutions affect FDI. First, when the perception level of institutions is high it is possible and easier to attract FDI, because it means that the government plans are credible, rules are stable and the possibility of economic growth is high; thus, local and foreign investors can invest in different scenarios (Globerman & Shapiro 2002). Second, if the perception of institutions is weak, the probability of incurring in additional costs is higher, because of hidden risks, and investors will be reluctant to come to the host country; this is the case of bribery and corruption in some countries. Third, a country with weak institutions will discourage large investments and will affect the entry mode decision because investors will face uncertainty avoidance.

Similarly, Daude and Stein (2007:318) find that institutions have strong impact on investment in general, since weak institutions represent higher costs of investment and uncertainty in the expected revenues. Under those circumstances, it is responsibility of governments to provide institutional support for investors, to promote economic growth and further development of the country. Then, the role of the government is to build an essential structure support economic and social aspects. For this reason some countries have been adapting their regulations and their economic environment in order to attract larger inflows of FDI (Blomström & Kokko 2003). Like Globerman & Shapiro (2002) mentions, countries with good institutional infrastructure are able to provide a better climate for competition based on transparent regulations that encourage investors to stay.

Additionally, Dawson (1998) discusses about "the investment channel" that refers to the interdependence between institutions and investment and between investment and economic growth. The "investment channel" refers to three aspects: property rights that reinforce the ownership of the results of the investment; elimination of barriers that contributes to inflows of investment and, institutions that support the probable profit of the venture.

FDI location is highly related to institutions. Authors like Buch et al. (2005) and McCloud & Kumbhakar (2012) argue that governments can use institutions to make countries become more attractive locations for foreign investment; it can be done by modifying trade barriers to create a harmonic market environment and by investing in human capital in order to increase the absorptive capacity[7] and letting technology and knowledge spillover into the host-country. Busse & Groizard (2002) and Bengoa & Sanchez-Robles (2002:532) discuss about the conditions that the economic and institutional environment of the host country should have in order to obtain the benefits of FDI: appropriate government regulations and institutions in place; in that sense, governments need to make an effort to adapt regulations in order to favor foreign and local investors.

Regardless of the economic benefits that FDI may have on the host-country it is important to notice that host-countries need to have some requirements or

[7] Absorptive capacity: "Dynamic capability pertaining to knowledge creation and utilization that enhances a firm's ability to gain and sustain a competitive advantage". It comprises knowledge acquisition and assimilation capacities, knowledge transformation and exploitation. (Zahra & George 2002:185)

conditions in order to receive the advantages of FDI. McCloud & Kumbhakar (2011) argue that absorptive capacity of host country is an important requirement to acquire the benefits of FDI; absorptive capacity is determined by the conditions like a sound financial market, human resources skills, trade policies and infrastructure development, among others.

As it was mentioned before, in the nineties Latin American countries introduced institutional reforms with the aim of attract new investors. Trevino and Mixon (2004) discuss about the effect of institutional improvements in Latin America with the purpose of invite foreign companies to invest; the expansion of international banks in Latin America is one of the main answers towards institutional reforms made in the region. Gradually, all of those institutional reforms have contributed to the increase of FDI flows in Latin America.

Thus, according to the previous discussion, it is hypothesized the following:

Hypothesis 2: *Strong institutional environment increases the preference of a Latin American multinational company to invest in the host country.*

As it has been mentioned, an adequate government understanding of the global economic change is rather essential; there are many factors that constitute the institutional environment and all of them represent to some extent the level of development in a country. Those factors are: protection of property rights, corruption, unnecessary involvement of the government, inappropriate management of public finances, and level of security. Moreover, the private sector behavior has also relevance within the context of country institutions; in that sense, the way how companies manage their finances and accounting systems contribute to create an ethical environment between private and public sector (World Bank 2011). The right combination of all of these factors reduces the business costs and provides confidence to new possible investors. Therefore, I hypothesized the following with more detailed information about some of the components of the institutional factor:

Hypothesis 2a: *Strong protection of property rights increase the preference of a Latin American multinational company to invest in the host country.*

Hypothesis 2b: *Lowest levels of corruption and strong sense of ethics increase the preference of a Latin American multinational company to invest in the host country.*

Hypothesis 2c: *Lowest levels of undue influence on government decisions increase the preference of a Latin American multinational company to invest in the host country.*

Hypothesis 2d: *High levels of government efficiency increase the preference of a Latin American multinational company to invest in the host country.*

Hypothesis 2e: *Strong sense of security increases the preference of a Latin American multinational company to invest in the host country.*

Hypothesis 2f: *Strong levels of corporate ethics increase the preference of a Latin American multinational company to invest in the host country.*

Hypothesis 2g: *Strong levels of accountability in the corporate level increase the preference of a Latin American multinational company to invest in the host country.*

3.3.3. Summary of hypotheses

In Figure 10, the framework and the hypotheses of the present study are summarized and illustrated graphically.

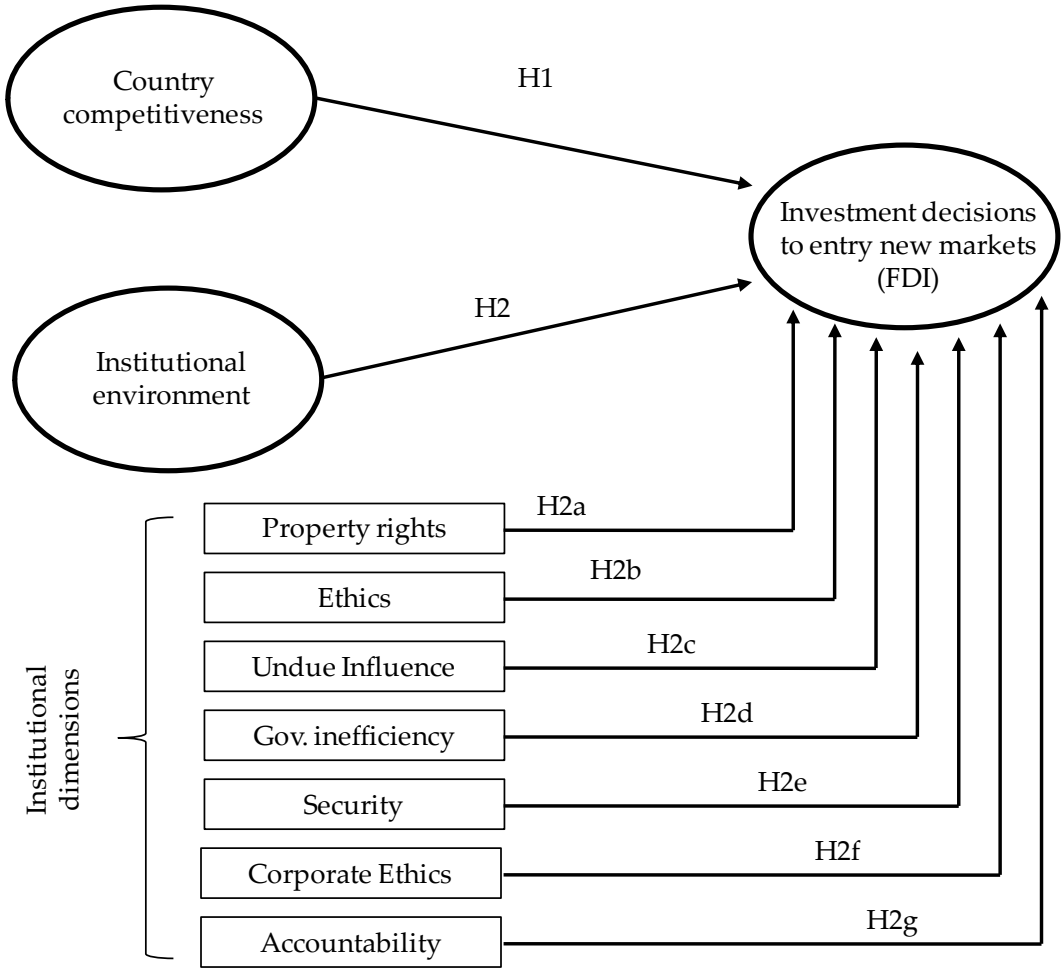

Figure 10. Summary of the hypotheses of the study

4. RESEARCH DESIGN

According to Ghauri and Gronhaug (2005:54), research design consists on the methodology to be implemented for data collection and the subsequent analysis. In that sense, this chapter will present the research and the methodological approaches used in the study and the reasons behind the choice of the method.

The chapter will proceed in the following way. First, it will be presented the model for the study. Second, it will be discussed about the research approach and the research strategy of the study. Third, I will discuss data sources, data collection and data sample will be explained. Fourth, it will be discussed the reliability and validity of the study, and finally, I will discuss the estimation method used in this study.

4.1. Model proposed

In this paper, it is proposed a model in which the institutional environment of the host-country and other factors called control variables, help to determine where the companies decide to invest. The model is focused on a sample of Latin American companies investing in the region.

As it is shown in Figure 11, I propose that the institutional environment affects the decision to invest or not in a country. In order to look for the different hypotheses, different variables will be used in the estimation. Moreover, in this study, it is assumed that companies invest in foreign countries because the investment has an expected profit.

In that sense, the GCI and its institutional component should help to explain the variation and the level in inflows of FDI in a given country. In this context, FDI represents the decisions made by companies to increase their operations in a country. The model includes data that measures the size of the economy, the level of development and the conditions of the economy in general; the dataset includes: GDP growth, population, geographical distance, etc.

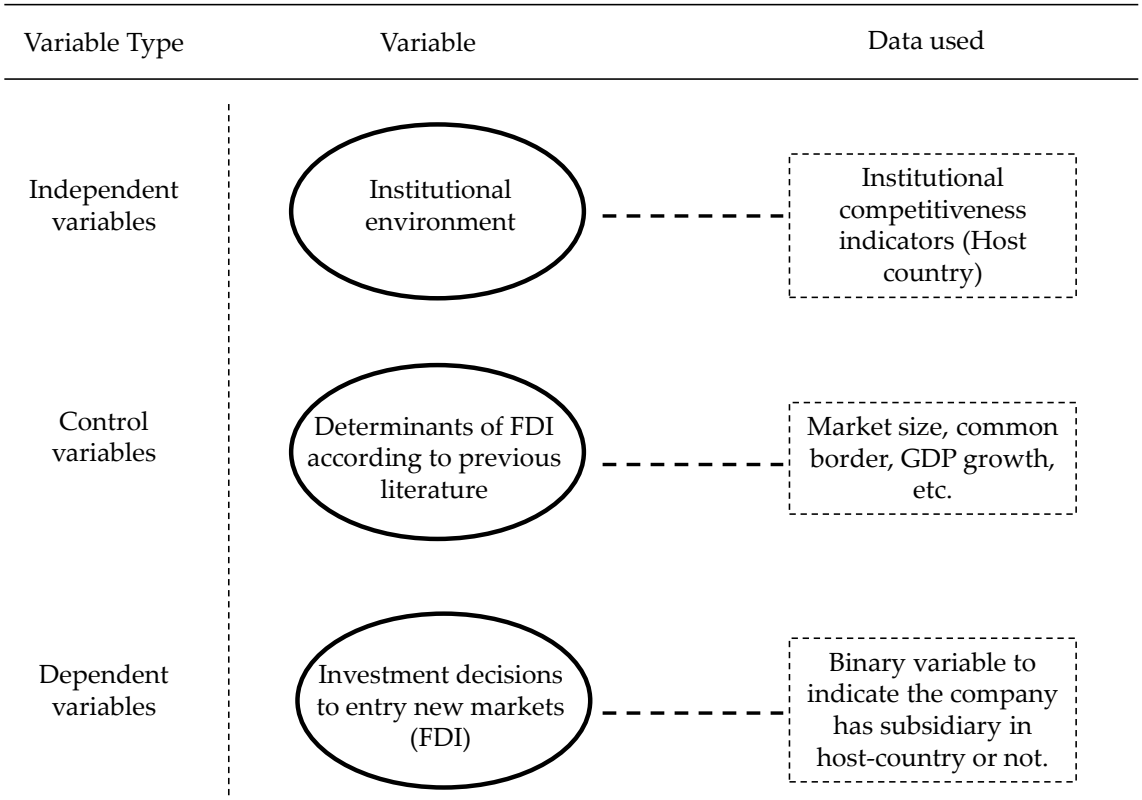

Figure 11. Model proposed

4.2. Research approach and strategy

Research methods are based on the process of collecting data in order to obtain information and answer the research question of a study (Ghauri and Gronhaug 2005:109). The methodology used in this study takes into account the research problem suggested. The method used in this study will be justified in the present chapter.

The selection of research design is an important step within a study. To choose the more appropriate depends on the research question to be solved. According to Maylor and Blackmon (2005:140), there are two main research approaches, scientific and ethnographic. The scientific approach is based on "the collection and analysis of numerical data" and measurements. The ethnographic approach comprises the collection, interpretation and understanding of the meaning of the findings. Research design includes quantitative and qualitative methods. On one hand, quantitative methods are generally used in studies

based on facts and measurability and it is made by testing a subject that is the reason of the study in order to find general patterns. On the other hand, qualitative methods are focused on understanding the meaning of impressions of a person (subject) about a specific situation (Ghauri and Gronhaug 2005:109-112; Maylor & Blackmon 2005: 153). Given the availability of data, the present study has a scientific approach with a quantitative method. A quantitative method is appropriate for this study due to the characteristics of the data that is necessary to gather in order to solve the research question proposed. The study will use quantitative data and will use statistical analysis and simple regression analysis to look for a relation among GCI and FDI. When looking for a relationship it is important to know that the GCI is an aggregation of more than 100 indicators that measure 12 features of competitiveness.

4.3. Data sources and sample

In this study I use secondary data in order to solve the research question (Ghauri and Gronhaug 2010:91). First, in the theoretical framework with the aim of reviewing the existing literature and the concepts involved in this study; and second, in the empirical part I use information from reliable international institutions.

The data was collected from the World Economic Forum (GCI), NYSE, UNCTAD (FDI) and the World Bank (economic data like GDP and Population). The data is rich enough to identify flows of foreign investment from one country to the rest of the world.

For some years now, the World Economic Forum has been presenting a global report about competitiveness; in every report the Forum has calculated a Global Competitiveness Index (GCI) in order to assess twelve aspects of competitiveness. In line with the institutional approach, the structure of the GCI offers a way to look for indicators that measure some of the most relevant macro-level institutions, like property rights, legal framework, security and corruption; in that sense, the competitiveness index, and in particular, some of its components give an insight view of the weak or strong institutional environment that a company face when entering in a foreign market.

Data sample

The main interest of this study is to clarify the relationship between institutions, national competitiveness and FDI in Latin America. In order to have a uniform source of information I choose companies from Latin America that have been listed in the NYSE (Appendix 3); at least two advantages I have from using just companies listed in the NYSE; first, the information from companies comply with the same accounting and disclosure standards in accordance with the SEC; second, information is available for the latest period; and third, a listed company in the U.S., has a long-term commitment with foreign investors, which means, the company is looking abroad. Every foreign company listed in US stock exchanges needs to be registered in the SEC and therefore to submit annually the report 20F in which the company states among other things, recent developments in the direct and indirect ownership of subsidiaries in foreign countries; at the same time is possible to establish when a listed company in the NYSE is a subsidiary.

At the end of March 2012, there were listed in the NYSE 73 companies from Latin America; of those, 71 companies had information in NYSE about market capitalization, 12 companies were subsidiaries of local or foreign companies and 1 company was a multilateral bank, owned by central banks from Latin America. According to the industry, 21 companies (29%) are from the banking sector, fixed line telecommunications sector or from the food products industries (Table 12).

4.4. Reliability and validity

Reliability and validity are concepts that are necessary to be considered in order to guarantee quality and credibility of the study. Reliability tells about the extent to which a research can be made and how it produces the same results if the study is done several times, regardless of who made it (Myers 1999: 173). Then, it refers to the consistency of the study (Eriksson & Kovalainen 2008). Additionally, reliability refers to the stability of the measure.

Table 12. Latin American Companies listed in NYSE by industry

Industry	Argentina	Brazil	Chile	Colombia	Mexico	Panama	Peru	Uruguay	Total
Banks	2	3	3	1		1	1		11
Fixed Line Telecommunications		3			2				5
Food Products		2			2			1	5
Airlines		2	1			1			4
Alternative Electricity		3	1						4
Conventional Electricity	2	1	1						4
Integrated Oil & Gas	2	1		1					4
Mobile Telecommunications	2	1			1				4
Soft Drinks			1		2				3
Brewers		1	1						2
Broadcasting & Entertainment					2				2
Building Materials & Fixtures					1		1		2
Home Construction		1			1				2
Iron & Steel		2							2
Transportation Services					2				2
Other	4	6	3		3		1		17
Total	**12**	**26**	**11**	**2**	**16**	**2**	**3**	**1**	**73**

(Adapted from NYSE 2012)

Validity is related to how adequate the procedure is (Maylor & Blackmon 2005:158) and to the extent to which conclusions provide a correct explanation or description of the facts presented in the research (Eriksson & Kovalainen 2008, Ghauri & Gronhaug 2010:90-94).

Reliability and validity in this study are developed through several aspects. First, the theoretical framework is an essential component of the present study since it is the foundation of understanding the subsequent empirical analysis done, providing the due reliability of the study. Second, the research methodology used is carefully explained and described, in order to make the development of the study clear. Third, the sample is collected from secondary data whose sources provide high quality of the information.

4.5. Estimation method

In order to estimate a model where the dependent variable is dichotomous, I choose the logistic regression. In this method, the dependent variable Y is transformed using the logistic or logit transformation,

$$logit(P_i) = \log(P_i/1 - P_i),$$

where P_i is the probability that the dependent variable Y is 1 and it is represented as[8]:

$$P_i = Pr(Y = 1|X = x_i, Z = z_i);$$

with X and Z representing the independent and control variables. The model can be written as:

$$\log(P_i/1 - P_i) = \beta X_i + \gamma Z_i$$

I can write the model as,

$$P_i/1 - P_i = exp(\beta X_i + \gamma Z_i)$$

and in terms of probability the model is represented by,

$$P_i = \frac{1}{1 + e^{-(\beta X_i + \gamma Z_i)}}$$

The model was estimated using SPSS; the user's guide of the program offers easy to follow examples that I used as guidance to understand the results obtained with the regression.

[8] By definition the dependent variable can have only two values: 0 or 1; the probability of zero is 1- P_i

4.5.1. Dependent variable

The study uses one dependent binary variable defined as FDI by a Latin American company in a Latin American economy; the variable will have the value of 1 if the company has a subsidiary in the host country or zero if the company does not have a subsidiary in the host country.

4.5.2. Independent variables

In the study are included nine independent variables:

1. *Host country global competitiveness indicator*: it is the result of the combination of several factors like institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation, in a host country. Source of the information GCI 2011.

2. *Host Country Institutional Index*: it is the role of institutions in the market, finances, wealth, investment, etc. in a host country. Source of the information GCI 2011, World Bank.

3. *Property Rights:* it refers to the perception about the strength of the government and its policies to provide the due confidence to undertake entrepreneurial activity, save their income, and make long-term plans. Source of the information GCI 2011, World Bank.

4. *Ethics:* it refers to the public institutions behavior and their principles that govern the country. It is the opposite of corruption and, irregular payments that means how permissive is the government to accept them as common behavior to make unjustified payments, in order to obtain certain benefits. It creates a trustworthiness feeling amongst the potential investors. Source of the information GCI 2011, World Bank.

5. *Undue Influence:* it consists on judicial independence that can be defined as the level of authority that the judicial system has from the government

and favoritism; that is, the situation where the government makes obvious preferences or partiality in its behavior and decisions related to policies and contracts. The significance of undue influence signifies costly impediments to new investors. Source of the information GCI 2011, World Bank.

6. *Government inefficiency:* it comprises five components: wastefulness spending that is the level of investment in the same country by the government; burden government regulation which is the level of difficulty that investors have when complying with governmental requirements; efficiency settling disputes that is the possibility that the country legal framework contribute to solve legal problems for companies; efficiency challenging regulations which is the strength of the legal framework that support companies when trying to face the government actions and, transparency of government policymaking that is the availability of the information related to changes in the legal framework that affects companies behavior. Source of the information GCI 2011, World Bank.

7. *Security*: it is the result of the general situation of a given country, that can affects the costs of the investment and businesses. Source of the information GCI 2011, World Bank.

8. *Corporate Ethics:* it is the comparison between the ethical behaviors of companies in a country and the ethical behaviors of companies of other countries. Source of the information GCI 2011, World Bank.

9. *Accountability:* it provides and guarantees responsibility of the actions realized by companies, in all levels. Source of the information GCI 2011, World Bank.

4.5.3. Control variables

The study has eight additional variables that control other factors that usually can be thought as affecting FDI decisions.

1. *Constant market capitalization:* also called Market value; defined as "share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year." (World Bank 2013). In this study, the size of the company as measured by the company market value in the NYSE.

2. *International presence:* it is the number of countries in the world where the company has subsidiaries. In this study, the information is taken from the form 20F, downloaded from NYSE.

3. *Shared border:* it is a binary variable that indicates if the company headquarters are located in a country neighboring the host country (1) or not (0).

4. *Geographical distance:* it is defined as the proximity in geographic distance contributes to a direct, fast and easy access into a new market. (Porter 2000, 15-34). In this study, it corresponds to the approximated distance, in kilometers, between the capital city of a given host country and the country where the headquarters of the investor company are located. The distances were measured using Google Earth (distance between major cities).

5. *Host country average GDP growth:* it is identified as the value of all final goods and services produced in the host country in one year (incomes- wages, interest, profits, and rents- or expenditures- consumption, investment, government purchases, and net exports (exports minus imports), by all resident producers in the economy. (Soubbotina & Sheram 2000). In this paper, it corresponds to the simple average GDP growth for five years (2006-2010), GDP growth was downloaded from the World Bank website.

6. *Host country economy openness:* it is a measure that takes into account the level of competitiveness in the host country economy, where the more open the economy the higher the competition, in a positive way. (Fortanier 2007). In this study, it was calculated as the sum of the average exports as percentage of the GDP plus the average imports as

percentage of the GDP (2006-2010). The imports and exports data was downloaded from the World Bank website.

7. *Host country investing openness:* "An open investment environment provides maximum entrepreneurial opportunities and incentives for expanded economic activity, greater productivity, and job creation. An effective investment framework will be characterized by transparency and equity, supporting all types of firms rather than just large or strategically important companies, and will encourage rather than discourage innovation and competition." (Miller & Kim 2013). In the present study, it was calculated as the percentage that the sum of the outward and inward stock of FDI as to the end of 2010 represents of the GDP. The data on FDI was downloaded from the UNCTAD and, data for the GDP was downloaded from the World Bank.

8. *Host country size:* it constitutes the extent of the country in terms of population. It is important to consider the size of a country as the possibility of producers to access into a market. (Shatz 2001). It corresponds to the value of the GDP at the end of 2010. The data was downloaded from the World Bank.

5. RESULTS

5.1. Estimation of logistic models

In order to test the hypotheses proposed, I estimate four different models: estimation 1, estimation 2, estimation 3 and estimation 4. Each model will be explained as follows.

Initially I estimate a regression only with the control variables, in order to have a preliminary model with significant variables. The first estimation also helps to test the data as long as it is a particular sample, the first estimation should corroborate previous findings. Next, I include the independent variables in different ways, in order to test for the hypotheses proposed.

At first, as it was mentioned above, I estimate the model "*Estimation 1*" only with the control variables (Table 13, estimation 1), the results indicate that most of the variables are significant, and the estimates have the expected sign: the larger the company, measured by market capitalization, the most likely the company will have subsidiaries in any given country; the most subsidiaries the company have, the most likely the company will have a subsidiary in a given country; the closer the host country to the headquarters country, the most probable the company will have a subsidiary.

I found also that there is a positive relationship between economic behavior in the host country and presence of subsidiaries in that country; as expected, the size of the host economy is also relevant. However, some variables were not significant at all, such as: share border, openness of the economy and openness to foreign investment; different reasons can be argued for that, in the case of share border is probable that the variable has similar information to the geographical distance but this is not completely true; for example the distance between Mexico D.F and Bogotá is around 3,200 km but between Bogotá and Sao Paulo the distance is around 4,300 km; nevertheless, Colombia and Brazil are neighbors but Colombia and Mexico are not. In the case of openness of the economy and openness to foreign investment, I think that the reason behind the lack of significance is that the variables can have similar information as it has the variable 'size' of the company; it means that relatively small economies will

depend more on their internal market and at the same time foreign investors will be not overly enthusiastic about investing in those countries.

Table 13. Table of estimations

Variables	Estimation 1	Sig	Estimation 2	Sig	Estimation 3	Sig	Estimation 4	Sig
Constant	-4.9797	***	-2.582	*	-1.266		-4.474	***
Market Capitalization	0.0065	***	0.007	***	0.007	***	0.007	***
International presence	0.1650	***	0.166	***	0.167	***	0.166	***
Share Border	0.1787		0.210		0.193			
Geographical distance	-0.0003	***	-0.0003	***	-0.0003	***	0.000	***
HC Average GDP growth	0.1160	*	0.101		0.124		0.157	**
HC Economy Openness	-0.0120		-0.009		-0.007			
HC Investing Openness	0.6331		0.875	*	0.821			
HC Size	0.6844	***	1.106	***	1.228	***	1.219	***
HC GCI			-1.616	**	-1.844		-1.115	**
HC Institutions indicator			0.639	*				
Property Rights					0.471			
Ethics					1.491	*	1.115	**
Undue Influence					-0.648		-0.692	*
Government inefficiency					-0.485			
Security					-0.109			
Corporate Ethics					-0.322			
Accountability					0.041			
Overall % correct	88.7		88.9		88.8		88.6	
Nagelkerke pseudoR2	0.384		0.388		0.395		0.391	
Chi-square	315.1		319.2		325.5		321.8	

*Significance levels: *** 99%, ** 95% and * 90%*

In a second estimation of the model, "*Estimation 2*", I include both the Global Competitiveness Indicator and the Institutional indicator (Table 13, estimation 2); interestingly the results show that the control variables kept their

significance with the exception of the growth of the GDP, which loses any significance and the host country investing openness which is now significant at a 90% level. Additionally, both the GCI and the institutional indicator are significant, however, the sign of the estimated parameter indicates that the relation between the competitiveness indicator and the decision to have a subsidiary in a given country is negative, which means that a high score in competitiveness results in a reduced probability of having a subsidiary; thus, Hypothesis 1 is rejected. In the case of the institutional indicator, the parameter is both significant and positive; hence, the hypothesis 2 is accepted.

As I mention before, besides the aggregate institutional indicator, I use also the components of the indicator with the aim to get a more refined view of the relationship between the decision to have a subsidiary and the institutional environment; the "*Estimation 3*" (Table 13, estimation 3) shows that when changing the institutional indicator by its detailed components, two variables: the GCI and the openness to foreign investment lose statistic relevance and only one of the dimensions of the institutional indicator is significant; the ethics component represents the most relevant relation between dimensions of institution and the decision of having a subsidiary in a country. Therefore, the hypotheses 2a, 2c, 2d, 2e, 2f and 2g are rejected, but hypothesis 2b is accepted.

A fourth estimation of the model, *"Estimation 4"* (Table 13, estimation 4), including only those variables that are significant, indicates that even the geographical distance is significant, the value of the parameter is zero, which means that factors different than distance affect investor decisions; two components of the institutions indicator are significant: ethics and undue influence; nevertheless, undue influence is negative.

6. SUMMARY AND CONCLUSIONS

In this section I review the entire study; I provide a summary, a conclusion, limitations of the study and discussion about the managerial implications. Finally, I suggest some ideas for future studies.

6.1. Summary

The main aim of this study was to understand how the decision of investing across borders made by MNCs can be affected by the characteristics of the location (host-country), specifically the institutional environment and the level of country competitiveness. This study analyzes the level of involvement that institutions has on the level of competitiveness of host-countries and how it affects the decision made by foreign investors, through FDI. In order to analyze it, the study focuses its analysis on Latin America behavior of FDI.

The first part of this study pays particular attention to the literature review about institutions as mechanisms that create a solid structure that standardize the human behavior in a society with different approaches (economic, political and social). As part of this study, first it is highlighted the importance of the relationship between institutions and international business by considering institutions as a locational advantage that host countries may have. Strong and reliable institutions provide the adequate level of trustworthiness of a specific location that a potential investor is looking for when deciding of investing across borders. Second, throughout the study it is reviewed how some authors have tried to understand and define the internationalization process of MNCs through some theories like the monopolistic advantage by Hymer, the product life cycle by Vernon, the internalization theory by Buckley and Casson and the eclectic paradigm by Dunnig. As main element of this study, it is analyzed FDI as the most important mechanism that contributes to globalization process and how some governments have increased their interest on improving their internal policies in order to become more competitive in the global economic arena and attract more foreign investors, creating locational advantages. These locational advantages are fundamental part of the country competitiveness that makes attractive a country over others for potential investors.

The second part of this study emphasizes on the relationship between institutions, FDI and location; the study was conducted about Latin American inward and outward FDI, specifically made and received by Latin American MNCs. It was reviewed the economic, social and political situation of Latin America from 1990, due to the positive and stable economic growth despite the global financial crisis and the constant improvement of the region and countries; this aspects have made Latin America as an attractive location for investors. Moreover, how Latin America sees FDI as source of resources such as capital and technology that may contribute to the improvement of their infrastructure, reduction of unemployment and poverty, but what is more important the improvement of the quality of their institutions in order to create an adequate environment and attractive location for future investment.

In the third part, it was proposed a model where was analyzed how factors like institutions contribute or not in the decision of MNCs on investing across borders through FDI. In this study was used statistical analysis and simple regression analysis in order to establish the connection between institutions, FDI and location. Based on this model, in the fourth part and with the purpose of establish if the performance of FDI and decision making about location depend on institutions of the host country, four estimations were done with different variables and after that the results were discussed.

Finally, in the next subchapter, the conclusion of the results will be discussed.

6.2. Conclusions

In a globalized world companies consider to internationalize not only through exports but by FDI. An important step after deciding to internationalize through FDI is to choose location, this is highlighted by authors like Larimo and Mäkelä (1995). Several studies noted that different factors affect the decision of FDI; Hood & Young (2000:39) discuss about the role of geographical context and how MNCs consider diverse issues regarding the host-country: stage of development, infrastructure, institutions, etc.

Different theories attempt to explain the reasons behind changes in location of FDI in the international market; Arslan (2011: 21) divide the approaches in those

that look at the company level and those that are interested in international trade; in that sense companies need to assess their advantages and opportunities of investing in a foreign country looking not only at the particular characteristics of the company but looking carefully to the economic environment that will define the success of the FDI decisions. In this study the focus is on the effect of the institutional factor in the host-country. Institutions are defined in several ways by different authors; one contribution of this study is a single definition that includes different aspects mentioned by previous studies. I define institutions as a set of mechanisms that guide human relations with the aim of having an organized social behavior. Those mechanisms can be regarded as rules, procedures, practices, structures, activities, constraints, salient patterns and, social, economic and political bodies. Each author, depending on its particular interest, makes emphasis in particular characteristics of those mechanisms.

Globalization also affects the way countries compete to attract foreign investment; some countries are more competitive and governments try to increase the level of competitiveness by changing policies and reducing barriers to FDI. The attractiveness of a location is associated to country competitiveness. Porter (1990) discuss about different definitions of national competitiveness. In this study I use the concept of competitiveness behind the calculation of the GCI that involves different levels of factors; among them the institutional factor. Porter (1990) includes in his definition of competitiveness two fundamental variables: the chance (external facts that affect industry performance) and the government (institutions).

I show that FDI has been growing in Latin America; however, it is more interesting that in the last decade companies from Latin American have been active investing abroad and the value of the FDI have been concentrated in a few countries; in the last ten years, five countries represented more than 90% of the FDI coming out from the region: Brazil (28%), Mexico (23%), Chile (20%), Colombia (11%) and Panama (9%).

Using a logistic regression approach, I test two main hypotheses:

Hypothesis 1: *Higher levels of competitiveness in a country augment the probability for foreign companies of investing (FDI); and*

Hypothesis 2: *Strong institutional environment increases the preference of a Latin American multinational company to invest in the host country.*

Additionally, I look at the second hypothesis in more detail. I analyze some of the components of the institutional factor and test for their significance as determinants of FDI. Those components are: protection of property rights, corruption, unnecessary involvement of the government, inappropriate management of public finances, levels of security, corporate ethics and accountability in the corporate level.

The results show that in general the control variables used are significant and according to previous studies: larger companies are more likely to invest in several markets; companies with more subsidiaries around the world are more likely to invest in other countries of Latin America; geographical distance reduces the probability of investment; the economic behavior in the host country is positively related with FDI decisions. Moreover, some control variables were not significant: share border, openness of the economy and openness to foreign investment.

The estimation shows that the Hypothesis 1 is rejected, which means in the case of Latin America and given the sample used, that competitiveness measured by GCI, is not relevant. On the other hand, the results show that the Hypothesis 2 is accepted; then, the institutional environment is relevant for FDI decisions.

In addition to the institutional indicator, I also test for the significance of the individual components of the institutional indicator; the results show that low levels of corruption and strong sense of ethics increase the preference of a Latin American MNCs to invest in the host country. Even though other institutional components are not significant, a final estimation of the model indicates that possibly MNCs in Latin America also value the existence of undue influence, but in a negative way.

6.3. Limitations of the study

This study is limited to Latin America MNCs and the particular characteristics of the sample used. The reason to choose companies listed in the NYSE is

because there is not a regional stock trading market; only recently was created a regional stock exchange between Chile, Colombia and Peru (2011). The sample is limited as long as not include all the MNCs from Latin America; however, I consider that the sample is representative of the countries that lead in the ranking of FDI (Brazil, Mexico, Chile, Colombia, Argentina and Peru).

Even though I discuss in depth different definitions of institutions, the results of the study are limited to the use of the components of the GCI that follow a particular definition of competitiveness and institutions given by the World Economic Forum; I do not claim that the GCI is the best indicator for international country competitiveness or for the institutional environment in a country level; however, I understand that the GCI and its components are widely used and accepted. I do not know of any previous study about FDI in Latin America that have used the GCI, and then is not possible to check about the results.

6.4. Managerial implications

This study focuses on how the institutional environment affects the decision making of MNCs about location when investing through FDI. As it has been discussed, this study provides a theoretical and empirical analysis of institutions as fundamental part of the attractiveness and competitiveness of a country where potential investors can make FDI. The study has validated that when companies decide to invest abroad it is necessary to take into account several factors, but what it is more important is whether to invest or not and in that sense, it is indispensable for managers to have a complete picture about the whole scenario of the possible location of the investment; in that sense it is important to consider the main factors presented in this study.

Managers need to look at the institutional environment in the host-country. They can use GCI and its institutional component to analyze the situation in the country; however, there are many other indicators that provide insightful information about any country.

I show that the Latin American economy and the conditions in the region are changing rapidly which means that managers from outside the region should

be aware of increasing competition coming from regional investors. MNCs from countries like Chile and Colombia represent an important share of regional FDI.

Finally, Latin America is an homogeneous region regarding culture and language; however, managers need to be aware that the region has also great variety of characteristics like, size of the market, level of development, specialization of labor, infrastructure, openness to foreign investors and with a wide range of weak and strong institutions.

6.5. Further research

Latin America has experienced rapid economic growth in the last years. The region is becoming one of the largest markets in the world and it is also becoming a important destination for FDI in the global economy; some countries in the region like Chile and Colombia are closing the gap between inwards flows of FDI and outwards flows of FDI, highlighting the need for future research related to FDI from Latin America not only in the region but in the world; the factors that multinationals from countries in the south take into account when investing abroad are not well known.

Before the 1990s the economic integration in the region was timid and slow, however, in the 21st century, new regional initiatives of integration are becoming real and the regulatory barriers for investment in the region are disappearing. Additional research should look at how Latin American SMEs invest in the region and define the key reasons behind choosing a location not only at a country level but a local level. The SMEs decision to go abroad is should be influenced by the opportunities offered by local regions within the Latin American countries.

I think that additional research should study which economic sectors are more favored by FDI in each country and look into the particular change in regulations and incentives provided by governments that have give a boost to those sectors. As it was explained, FDI is not of the same type in every country in Latin America; as an example, the investment in Brazil is directed mainly to companies involved in the production of raw materials and in the case of Mexico to the manufacturing industries.

Finally, an interesting topic is the particular behavior of MNCs and FDI (inward and outward) in Chile, Peru and Colombia. The governments of those countries are strongly committed to liberalizing their economies and creating opportunities to foreign investors through the signing of trade agreements with many countries in the world; in the same sense, the three countries have been taking important steps in creating a more integrated market between them by significantly reducing trade barriers and taking steps to allow the free circulation of goods, services and people; already the creation of a regional stock market, MILA[9] is a regional milestone that represents the second largest stock market in Latin America by market capitalization and the largest market by number of companies listed.

[9] Integrated Latin American Market. Integrates the stocks exchanges of Colombia, Chile and Peru. Investors in any of these countries can buy and sell stocks listed in any of the markets.

7. LIST OF REFERENCES

Aiginger, Karl (2006). Creating a dynamically competitive economy. In: *Competitiveness, Subsidiarity and Industrial Policy,* 121-125. Edited by Sugden, Roger Devine, Pat Katsoulacos & Yannis. Florence, KY, USA: Routledge. ISBN: 9780203976142

Aoki, Masahiko (2007). Endogenizing institutions and institutional changes. *Journal of Institutional Economics*. 3: 1, 1–31

Arslan, Ahmad (2011). *Institutional Distance – Market Conforming Values in the Host Country and Foreign Direct Investment Choices of Multinational Enterprises*. Acta Wasaensia No. 245. University of Vaasa: Vaasa. ISBN: 978–952–476–358–5

Barrell, Ray & Nigel Pain (1999). Domestic institutions, agglomerations and foreign direct investment in Europe. *European Economic Review*. 43: 925-934

BBC News (2012). *China and IDB to launch $1bn fund for Latin America.* [online] [cited 21-05-2010]. Available from Internet: <URL: http://www.bbc.co.uk/news/business-17441397>.

Bénassy-Quéré, Agnès; Maylis Coupet & Thierry Mayer (2007). Institutional determinants of foreign direct investment. *The World Economy*. 764-782

Bengoa, Marta & Blanca Sanchez-Robles (2002). Foreign direct investment, economic freedom and growth: new evidence from Latin America. *European Journal of Political Economy*. 19:3, 529–545

Benito, Gabriel & Lawrence Welch (1994). Foreign Market Servicing: Beyond Choice of Entry Mode. *Journal of International Marketing*. 2:2, 7-27

Beugelsdijk, Sjoerd; Roger Smeets & Remco Zwinkels (2008). The impact of horizontal and vertical FDI on host's country economic growth. *International Business Review*. 17:4, 452–472

Bevan, Alan; Saul Estrin & Klaus Meyer (2004). Foreign investment location and institutional development in transition economies. *International Business Review*. 13:1, 43-64

Biglaiser, Glen & Karl DeRouen (2006). Economic reforms and inflows of foreign direct investment in Latin America. *Latin American Research Review*. 41:1,51-75.

Billington, Nicholas (1999). The location of foreign direct investment: an empirical analysis. *Applied Economics*. 31: 65-76

Blomström, Magnus; Ari Kokko & Mario Zejan (2000). *Foreign Direct Investment, Firm and Host Country Strategies.* Basingstoke: MacMillan Press Ltd. ISBN 0-333-82012-2

Blomström, Magnus & Ari Kokko (2003). *The economics of foreign direct investment incentives.* (NBER Working Paper 9489). [online] Available from Internet: <URL: http://www.nber.org/papers/w9489>.

Branine, Mohamed (2011). *Managing across cultures.* London: SAGE Publications Ltd. ISBN 978-1-84920-728-7

Brouthers, Keith & George Nakos (2004). SME Entry Mode Choice and Performance: A Transaction Cost Perspective. *Entrepreneurship Theory and Practice.* 28:3, 229–247.

Buch, Claudia; Jörn Kleinert, Alexander Lipponer & Farid Toubal (2005). Determinants and effects of foreign direct investment: evidence from German firm-level data. *Economic Policy*. 1,51–110

Brenesa, Esteban; Jerry Haarb & Bernardo Requenaa (2009). LatinAmerica: Environmental and firm-level challenges. *Journal of Business Research.* 62:9, 849–853.

Busse, Matthias & José Luis Groizard (2008). Foreign Direct Investment, Regulations and Growth. *The World Economy*. 31:7, 861-886.

Campos, Nauro F. & Mariana Iootty (2007). Institutional barriers to firm entry and exit: Case-study evidence from the Brazilian textiles and electronics industries. *Economic Systems*. 31, 346–363.

Cancel, Daniel & Charlie Devereux (2011). *Venezuela's Inflation Rate Rises at Fastest Pace in 7 Months*. Business week. [online] [cited 23-05-2010]. Available from Internet: <URL: http://www.businessweek.com/news/2011-11-04/venezuela-s-inflation-rate-rises-at-fastest-pace-in-7-months.html>.

Cass, Fergus (2007). Attracting FDI to transition countries: the use of incentives and promotion agencies. In: *Transnational corporations*, 77-122. Edited by: Anne Miroux. UNCTAD. ISBN 978-92-1-112713-3

Chen, Tain-Jy (2006). Liability of foreignness and entry mode choice: Taiwanese firms in Europe. *Journal of Business Research*. 59:2, 288–294.

Chikán, Attila (2008). National and firm competitiveness: a general research model. *Competitiveness Review: An International Business Journal*. 18:1/2, 20-28

Child, John & David Tse (2001). China's transition and its impact on international business. *Journal of International Business Studies*. 32:1,5–21.

Cohan P. (2011) *Obama's Competitiveness Council: Good for Business, Bad for Workers.* [online] [cited 09-09-2011]. Available from Internet: <URL: http://www.dailyfinance.com/2011/01/25/obamas-competitiveness-council-good-for-business-bad-for-work/>.

Daude, Christian & Ernesto Stein (2007). The quality of institutions and foreign direct investment. *Economics & Politics*. 19:3, 317-435

Dawson, John (1998). Institutions, Investment and Growth: New Cross-Country and Panel Data Evidence. *Economic Inquiry*. 36, 603-619.

Demirbag, Mehmet; Ekrem Tatoglu & Keith Glaister (2008). Factors Affecting Perceptions of the Choice between Acquisition and Greenfield Entry: The Case of Western FDI in an Emerging Market. *Management International Review*. 48:1, 5-38

Devlin, Robert & Ricardo Ffrench-Davis (1999). Towards an Evaluation of Regional Integration in Latin America in the 1990s. *The World Economy*. 22:2, 261–290

Duffield, John (2007). What are international institutions? *International Studies Review*. 9:1, 1-22

Dunning, John (2009) Location and the multinational enterprise: A neglected factor?. *Journal on International Business Studies*. 40:1, 5-19

Dunning, John. (2000). The eclectic paradigm as an envelope for economic and business theories of MNC activity. *International Busines Review*. 9, 163-190

Dunning, John & Sarianna Lundan (2008). *Multinational Enterprises and the Global Economy*. Cheltenham: Edward Elgar Publishing Limited. ISBN 978 1 84376 525 7

ECLAC (2000). *La inversión extranjera en América Latina y el Caribe*. Informe 1999. ISBN: 92-1-321556-8

ECLAC (2003). *Foreign Direct Investment in Latin America and the Caribbean.*

ECLAC (2007). *Foreign Direct Investment in Latin America and the Caribbean.*

ECLAC (2009). *Foreign Direct Investment in Latin America and the Caribbean.* ISBN: 978-92-1-121738-4

ECLAC (2011a). *Foreign Direct Investment in Latin America and the Caribbean.* ISBN: 978-92-1-121759-9

ECLAC (2011b). *Social panorama of Latin America 2011*

Eriksson, P. & Kovalainen, A. (2008). *Qualitative methods in business research*. London: Sage.

Estrin, Saul (2007). Entry and barriers to entry in emerging markets. *Economic Systems*. 31, 343–345.

Estrin, Saul, Klaus E. Meyer, Mike Wright & Francesca Foliano (2008). Export propensity and intensity of subsidiaries in emerging economies. *International Business Review*. 17, 574–586.

Faeth, Isabel (2009). Determinants of foreign direct investment a tale of nine theoretical models. *Journal of Economic Surveys*. 23:1, 165:96

Feurer R. & k. Chaharbaghi (1994). Defining Competitiveness: A Holistic Approach. *Management Decision*. 32:2, 49-58.

Fischer, Paul (2000). *Foreign direct investment in Russia: a strategy for industrial recovery.* Basingstoke : MacMillan Press. ISBN 0-333-77843-3.

Fleury, Afonso & Maria Fleury (2011). *Brazilian Multinationals*. New York: Cambridge University Press. 58. ISBN 978-0-521-51948-9

Fortanier, Fabienne (2007). Foreign direct investment and host country economic growth: Does the investor's country of origin play a role?. In: *Transnational Corporations,* 16:2, 42- 76. Edited by Anne Miroux., ISBN 978-92-1-112713-3

Gaur, Ajai S. & Jane W. Lu (2007). Ownership Strategies and Survival of Foreign Subsidiaries: Impacts of Institutional Distance and Experience. *Journal of Management*. 33:1, 84-110.

Ghauri, Pervez & Kjell Gronhaug (2005). *Research Methods in Business Studies.* Third Edition. Harlow: Pearson Education Limited. ISBN-10: 0-273-68156-7.

Globerman, Steven & Daniel Shapiro (2002). Global foreign direct investment flows: the role of the governance infrastructure. *World Development.* 30:11, 1899-1919

Goldgar, Anne & Robert Frost (2004). *Institutional Culture in Early Modern Society*. Leiden, , NLD: Brill Academic Publishers. ISBN: 9789004138803

Gouvea, Raul & Sul Kassicieh (2009). Sowing strategic alliances in the Americas: The sinicization of Latin American economies. *International Journal of Emerging Markets*. 4:4, 315-334

Gray, Peter (1998). International trade and foreign direct investment: the interface. In: *Globalization, Trade and Foreign Direct Investment*. Edited by John Dunning. The Netherlands: Elsevier Science Ltd. ISBN: 0-08-043369-3.

Grosse, Robert (1980). *Foreign Investment Codes and the Location of Direct Investment.* New York: Praeger Publishers. ISBN 0-03-057024-7.

Hadfield, Gillian (2008). The many legal institutions that support contractual commitments. In: *Handbook of New Institutional Economic*, 175-203. Edited by Claude Menard and Mary Shirley. Berlin: Springer

Haigh, R.W. (1989). *Investment Strategies and the Plant Location Decision: Foreign Companies in the United States*. New York: Praeger. ISBN: 978-0275933449

Hall, Peter (1986). *Governing the Economy*. New York: Oxford University Press. ISBN 0-19-520523-5

Hoekman, Bernard & Kamal Saggi (2000). Assessing the Case for Extending WTO Disciplines on Investment-Related Policies. *Journal of Economic Integration.* 15:4, 629-653

Holtbrügge, Dirk & Heidi Kreppel (2012). Determinants of outward foreign direct investment from BRIC countries: an explorative study. *International Journal of Emerging Markets*. 7:1, 4-30

Hood Neil & Stephen Young (2000). *The globalization of Multinational Enterprise Activity and Economic Development*. London: MacMillan Press Ltd. ISBN 0-333-74881-6.

Hosseini, Hamid (2005). An economic theory of FDI: A behavioral economics and historical approach. *The Journal of Socio-Economics*. 34,528–541.

IMF (2008). *Globalization: a brief overview. Issues brief*. [online] [cited 20-03-2012]. Available from Internet: <URL: http://www.imf.org/external/np/exr/ib/2008/053008.htm>.

Ingram, Paul & Brian S. Silverman (2002). The New Institutionalism In Strategic Management. *Advances in Strategic Management*. 17, 17-18.

Jones, Geoffrey (2005). *Multinationals and Global Capitalism, from the nineteenth to the twenty-first century*. New York: Oxford University Press Inc. ISBN 0-19-927209.

Kacowicz, Arie (2008). Latin America and the World: Globalization, Regionalization, and Fragmentation. *Nueva Sociedad*. 214:1-11

Kell, Georg & John Ruggie (1999). Global markets and social legitimacy: the case for the 'Global Compact'. In: *Transnational corporations,* 1-160. Edited by: Karl P. Sauvant. Switzerland:UNCTAD.

Khalil Mahmoud; Shereef Ellaboudy & Arthur Denzau (2007). The Institutions and Economic Development in the OECD. *International Research Journal of Finance and Economics*. 12:67-79

Khanna, Tarun, Krishna G. Palepu & Jayant Sinha (2005). Strategies That Fit Emerging Markets. *Harvard Business Review*. 63-76.

Kok, Recep & Bernur Ersoy (2009). Analyses of FDI determinants in developing countries. *International Journal of Social Economics*. 36: 1/2, 105-123

Kostova, Tatiana & Kendall Roth (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: institutional and relational effects. *Academy of management journal*. 45:1, 215-233

Larimo, Jorma (1993). *Foreign Direct Investment behavior and performance. An analysis of Finnish direct manufacturing investments on OECD countries.* Acta Wasaensia No. 32. University of Vaasa: Vaasa. ISBN 951-683-467-1

Larimo, Jorma & Elina Mäkelä (1995). *Foreign Direct Investment in Developing Countries.* University of Vaasa: Vaasa. ISBN 951-683-568-6

Li, Shaomin & Seung Ho Park (2006). Determinants of Locations of Foreign Direct Investment in China. *Management and Organization Review.* 2:1 95–119

MacCarthy B.L. & W. Atthirawong (2003). Factors affecting location decisions in international operations – a Delphi study. *International Journal of Operations & Production Management.* 23:7, 794-818

Markusen, James (2002). *Multinational firms and the theory of international trade.* Cambridge, MA: MIT Press.

Maylor, Harvey & Kate Blackmon (2005). *Researching Business and Management.* Houndmills: Palgrave MacMillan. ISBN-13: 978-0-333-96407-0

McCloud, Nadine & Subal Kumbhakar (2012). Institutions, foreign direct investment and growth: a hierarchical Bayesian approach. *Journal of the Royal Statistical Society*. 175:1, 83–105.

Melin, Leif (1992). Internationalization as a strategy process. *Strategic management journal.* 13, 99-118.

Mellahi, Kamel, Jedrzej Frynas & Paul Finlay (2005). *Global Strategic Management*. New York: Oxford University Press. ISBN 978-0-19-926615-9

Meyer, Klaus E., Saul Estrin, Sumon Kumar Bhaumik & Mike W. Peng (2009). Institutions, Resources, And Entry Strategies In Emerging Economies. *Strategic Management Journal*. 30:1, 61-80.

Miller, Terry & Anthony B. Kim (2013) Economic Freedom: Global and Regional Patterns . Index of economic freedom. *The wall street journal*. ISBN: 978-0-89195-284-8.

Morley, Samuel (2001). *The income distribution problem in Latin America and the Caribbean*. ECLAC. 1-168. ISBN: 92-1-121293-6

Moosa, Imad (2002). *Foreign Direct Investment: Theory, Evidence and Practice.* New York: Palgrave Macmillan. ISBN: 9781403907493

Miyake, Maiko & Magdolna Sass (2000). Recent trends in foreign direct investment. In: *Financial Trends* No. 76, 23-41. Edited by OECD.

Mohr, John & Roger Friedland (2008). Theorizing the Institution: Foundations, Duality and Data. *Theory and Society*. 37:421-426.

Mudambi, Ram & Pietro Navarra (2002). Institutions and international business: a theoretical overview. *International Business Review*. 11:635–646

Myers, James (1999). *Measuring customer satisfaction: hot buttons and other measurement issues.* Chicago: American marketing Association

North, Douglas (1990). *Institutions, Institutional Change and Economic Performance.* New York: Cambridge University Press. ISBN 0-521-39416-3.

North, Douglas. (1991) Institutions. *The Journal of Economic Perspectives*. 5:1, 97-112

NYSE (2012). *New York Stock Exchange*. [online] Available from Internet: <URL: http://www.nyse.com/about/listed/lc_ny_region_4.html>.

Obama, Barack (2011). *President's Council on Jobs and Competitiveness. The White House.* [online] [cited 20-02-2011]. Available from Internet: <URL: http://www.whitehouse.gov/administration/advisory-boards/jobs-council>.

OECD (2003). *Checklist for Foreign Direct Investment Incentive Policies.* [online] [cited 20-05-2012]. Available from Internet: <URL: http://www.oecd.org/dataoecd/45/21/2506900.pdf>.

OECD (2011). *Investment news*. 1-8. [online] [cited 20-05-2012]. Available from Internet: <URL: http://www.oecd.org/dataoecd/51/41/47557611.pdf>.

OECD (2012). *Latin American Economic Outlook 2012*. Transforming the State for Development. ISBN: 978-92-64-12170-6

Peng, Mike (2009). *Global Strategy*. Second Edition. Mason: South-Western Cengage Learning. ISBN-13: 978-0-324-59099-9.

Peng, Mike, Sunny Li Sun, Brian Pinkham & Hao Chen (2009). The Institution-Based View as a Third Leg for a Strategy Tripod. *The academy of management perspectives*. 23:3,63-81

Pillania, Rajesh K., (2009). Competitiveness and Emerging Markets. *Business Strategy Series.* 10:2, 90-91.

Porter Michael (1990). *The Competitive Advantage of Nations*. London: The MacMillan Press Ltd. ISBN 0-333-51804-7

Porter Michael (2000). Location, Competition, and Economic Development: Local Clusters in a Global Economy. *Economic Development Quarterly*. 14,1. 15-34

Rapkin David & Jonathan Strand (1995). Competitiveness: Useful Concept, Political Slogan, or Dangerous Obsession?. In: *National Competitiveness in a Global Economy*. London: Lynne Rienner. ISBN: 15-558-7542-4

Reuters (2012). *No nationalization trend in South America-IMF*. [online] [cited 21-05-2012 Available from Internet: <URL: http://www.reuters.com/article/2012/05/03/imf-nationalizations-idUSL1E8G3AUE20120503.>.

Reagan, Ronald (1983). *Executive Order 12428 - President's Commission on Industrial Competitiveness. The American Presidency Project*. [online] [cited 10-02-2010 Available from Internet: <URL: http://www.presidency.ucsb.edu/ws/index.php?pid=41529#axzz1yQ8wxDWQ.>.

Safarian, Edward (1999). Host country policies towards inward foreign direct investment in the 1950s and 1990s. *Transnational Corporations*. 8:2, 94-112

Sauvant, Karl P; Wolfgang Maschek & Geraldine McAllister (2009) Foreign direct investment by emerging market multinational enterprises, the impact of the financial crisis and recession and challenges ahead. *OECD.* 1-30

Scott, Richard (1995). *Institutions and organizations*. Thousand Oaks, CA: Sage. ISBN 0-8039-5652-5

Shatz, H. (2001). *Expanding Foreign Direct Investment in the Andean Countries. Center of International development at Harvard University*. CID Working Paper No. 64.

Silva, Eduardo (2002). State-business relations in Latin America. In: *Emerging Market Democracies*, 63-102. Edited by Lawrence Whitehead. Baltimore: The Johns Hopkins University Press.

Sirkin, Harold (2010). *Enter the 'Multilatinas'. Business week.* [online] [cited 30-05-2010 Available from Internet: <URL: http://www.businessweek.com/managing/content/dec2010/ca20101213_949366_page_2.htm.>.

Soubbotina T. & K. Sheram (2000). Beyond economic growth. Meeting the challenges of global development. The International Bank for Reconstruction and Development. *World Bank*. ISBN 0-8213-4853-1

Sweeney, Richard (1993). The International Competition for Investment. In: *The Global Race for Foreign Direct Investment: Prospects for Future*, 71–107. Edited by Lars Oxelheim. New York: Springer-Verlag.

The New York Times (2010). *Economies in Latin America Race Ahead*. [online] [cited 12-04-2012 Available from Internet: <URL: <:http://www.nytimes.com/2010/07/01/world/americas/01peru.html>.

Tian, Lihui (2007). Does government intervention help the Chinese automobile industry? A comparison with the Chinese computer industry. *Economic Systems*. 31, 364–374.

Trevino, Len & Franklin Mixon Jr. (2004). Strategic factors affecting foreign direct investment decisions by multi-national enterprises in Latin America. *Journal of World Business*. 39:3, 233–243

UN (2012). *Sustainable Development 20 years on from the Earth Summit*. Progress, gaps and strategic guidelines for Latin America and the Caribbean.

UNCTAD (2009). *Training Manual on Statistics for FDI and the Operations of TNCs*. Geneva: United Nations Publication. ISBN 978-92-1-112777-5

UNCTAD (2011). *World Investment Report 2011*. Geneva: United Nations Publication. ISBN 978-92-1-112828-4.

UNCTAD (2012a). *Inward and outward foreign direct investment flows, annual, 1970-2010*. [online] [cited 09-03-2012]. Available from Internet: <URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=P,5,27&sRF_Expanded=,P,5,27>.

UNCTAD (2012b). Global glows of foreign direct investment exceeding pre-crisis levels in 2011. In: *Global Investment Trends Monitor*. 8

UNCTAD (2012c) *Investment Policy Report No. 7*. [online] [cited 29-02-12]. Available from Internet: <URL: http://unctad.org/en/PublicationsLibrary/webdiaepcb2012d1_en.pdf>.

UNCTAD (2012d). *UNCTADSTAT*. [online] [cited 29-10-11]. Available from Internet: <URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en>.

UNCTAD (2013). *UNCTADSTAT.* [online] [cited 08-04-2013]. Available from Internet: <URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,5&sRF_Expanded=,p,5)

USITC (United States International Trade Commission) (2010). *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*. Investigation No. 332-508. USITC Publication 4125.

Vasquez-Parraga, Arturo; Reto Felix & Aberdeen Leila Borders (2004). Rationale and strategies of Latin American companies entering, maintaining or leaving US markets. *Journal of Business & Industrial Marketing*. 19:6, 359-371

Welch, Lawrence; Gabriel Benito & Bent Petersen (2007). *Foreign operation methods: theory, analysis, strategy.* Cheltenham, UK : Edward Elgar

Wilska, Kent (2002). *Host country determinants of foreign direct investment in Latin America, Finnish Company cases in Brazil, Chile and Mexico.* Turku: Kirjapaino Grafia Oy. ISBN 951-564-095-4

Wong P. (2003). From using to creating technology: the evolution of Singapore's national innovation system and the changing role of public policy. In: *Competitiveness, FDI and Technological Activity in East Asia*. Edited by Sanjaya Lall and Shujiro Urata. Bodmin, Cornwall, Great Britain: MPG Books Ltd. ISBN 1 84376 114 9.

World Bank (2010). *Latin America: Climate for Doing Business Improving in Most of the Region*. [online] [cited 14-06-2012]. Available from Internet: <URL: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:22754989~pagePK:146736~piPK:146830~theSitePK:258554,00.html>.

World Bank (2011). *Doing Business Report 2011.* [online] [cited 31-05-2011]. Available from Internet: <URL: http://www.doingbusiness.org/reports/global-reports/doing-business-2011/>

World Bank (2012). *GNI, PPP (current international $).* [online] [cited 10-06-2012]. Available from Internet: URL:http://data.worldbank.org/indicator/NY.GNP.MKTP.PP.CD/countries

World Bank (2013). *Databank.* [online] [cited 10-01-2013]. Available from Internet <URL: http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS/countries

WEF (World Economic Forum) (1998). *The Global Competitiveness Report 1997–1998.*

WEF (World Economic Forum) (2001). *The Global Competitiveness Report 2000–2001.*

WEF (World Economic Forum) (2005). *The Global Competitiveness Report 2004–2005.*

WEF (World Economic Forum) (2010). *The Global Competitiveness Report 2009–2010.* [online] [cited 30-04-2010]. Available from Internet: <URL:http://www.weforum.org/pdf/GCR09/GCR20092010fullreport.pdf.>.

WEF (World Economic Forum) (2011). *The Global Competitiveness Report 2010-2011.* [online] [cited 23-05-2012] Available from Internet: <URL: http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf>.

WTO (World Trade Organization) (2011). *Statistics: International Trade Statistics 2011*. World trade developments. [online] [cited 15-03-2010]. Available from Internet: <URL: http://www.wto.org/english/res_e/statis_e/its2011_e/its11_world_trade_dev_e.htm>.

WTO (World Trade Organization) (2012). *The Doha Round.* [online] [cited 22-02-2011]. Available from Internet: <URL: http://www.wto.org/english/tratop_e/dda_e/dda_e.htm>.

WTO (World Trade Organization) (2013). *Regional Trade Agreements Information*. [online] [cited 02-04-2013]. Available from Internet: <URL: http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

Zahra, Shaker & Gerard George (2002). Absorptive capacity: a review, reconceptualization, and extension. *Academy of Management Review*. 27:2, 185

Zinn, Walter (1996). The New Logistics in Latin America: An Overview of Current Status and Opportunities. *The International Journal of Logistics Management.* 7:1, 61-72

APPENDIX 1. LATIN AMERICAN COUNTRIES RELEVANT STATISTICS

Table 1A. Population distribution (millions)

	1961	%	1971	%	1981	%	1991	%	2001	%	2011	%
North America	**40**	**10**	**53**	**10**	**70**	**11**	**86**	**11**	**101**	**11**	**115**	**11**
Mexico	40	10	53	10	70	11	86	11	101	11	115	11
Central America	**14**	**3**	**18**	**4**	**23**	**4**	**29**	**4**	**36**	**4**	**43**	**4**
Costa Rica	1	0	2	0	2	0	3	0	4	0	5	0
El Salvador	3	1	4	1	5	1	5	1	6	1	6	1
Guatemala	4	1	6	1	7	1	9	1	12	1	15	1
Honduras	2	1	3	1	4	1	5	1	6	1	8	1
Nicaragua	2	0	2	0	3	1	4	1	5	1	6	1
Panama	1	0	2	0	2	0	2	0	3	0	4	0
Caribbean	**15**	**4**	**18**	**4**	**22**	**3**	**25**	**3**	**29**	**3**	**31**	**3**
Cuba	7	2	9	2	10	2	11	1	11	1	11	1
Dominican	3	1	5	1	6	1	7	1	9	1	10	1
Haiti	4	1	5	1	6	1	7	1	9	1	10	1
South America	**151**	**38**	**195**	**38**	**245**	**38**	**300**	**38**	**351**	**38**	**395**	**37**
Argentina	21	5	24	5	29	4	33	4	37	4	41	4
Bolivia	3	1	4	1	5	1	7	1	8	1	10	1
Brazil	75	19	98	19	125	19	152	19	177	19	197	19
Chile	8	2	10	2	11	2	13	2	16	2	17	2
Colombia	16	4	22	4	27	4	34	4	40	4	47	4
Ecuador	5	1	6	1	8	1	10	1	13	1	15	1
Paraguay	2	0	3	0	3	1	4	1	5	1	7	1
Peru	10	3	14	3	18	3	22	3	26	3	29	3
Uruguay	3	1	3	1	3	0	3	0	3	0	3	0
Venezuela, RB	8	2	11	2	16	2	20	3	25	3	29	3
Total LATAM	**219**		**285**		**360**		**440**		**517**		**584**	
% of world	7.1		7.6		8.0		8.2		8.3		8.4	
World	**3081**		**3769**		**4525**		**5383**		**6196**		**6974**	

(Adapted from World Bank 2013)

Table 1B. GDP (billions of USD dollars)

	1961	1971	1981	1991	2001	2011
North America	**14.2**	**39.2**	**250.1**	**314.5**	**622.1**	**1,153.3**
Mexico	14.2	39.2	250.1	314.5	622.1	1,153.3
Central America	**3.3**	**7.0**	**24.3**	**32.3**	**73.6**	**164.3**
Costa Rica	0.5	1.1	2.6	7.2	16.4	40.9
El Salvador	0.6	1.2	3.4	5.3	13.8	23.1
Guatemala	1.1	2.0	8.6	9.4	18.7	46.9
Honduras	0.4	0.7	2.8	3.1	7.6	17.4
Nicaragua	0.2	0.8	2.5	1.5	5.3	9.3
Panama	0.5	1.1	4.3	5.8	11.8	26.8
Caribbean	**0.7**	**8.6**	**27.4**	**37.5**	**60.1**	**123.8**
Cuba		6.9	20.2	24.3	31.7	60.8
Dominican Republic	0.7	1.7	7.3	9.7	24.9	55.6
Haiti				3.5	3.5	7.3
South America	**63.8**	**129.7**	**548.4**	**795.1**	**1,226.4**	**4,158.5**
Argentina	24.5	33.3	78.7	189.7	268.7	446.0
Bolivia	0.6	1.1	5.9	5.3	8.1	23.9
Brazil	15.2	49.2	263.6	407.3	553.6	2,476.7
Chile	4.7	10.7	32.6	36.4	72.3	248.6
Colombia	4.6	7.8	36.4	41.2	98.2	333.4
Ecuador	1.0	1.6	14.0	11.3	21.3	65.9
Paraguay		0.7	5.8	6.2	6.4	23.8
Peru	2.8	8.1	25.0	34.5	53.9	176.9
Uruguay	1.5	2.8	11.0	11.2	20.9	46.7
Venezuela, RB	8.9	14.5	75.5	51.7	122.9	316.5
Total LATAM	**82**	**184**	**850**	**1,179**	**1,982**	**5,600**
% of world	6	6	8	5	6	8
World	**1,397**	**3,200**	**11,310**	**23,065**	**32,144**	**69,982**

(Adapted from World Bank 2013)

APPENDIX 2. Trade agreements

Table 2A Trade Agreements between Latina American Countries and the rest of the world.

	Agreement	Coverage	Type	Date
Brazil	India (and MERCOSUR)	Goods	PSA	1.6.2009
Chile	Australia	G&S	FTA & EIA	6.3.2009
	Canada	G&S	FTA & EIA	5.7.1997
	China	G&S	FTA & EIA	1.10.2006
	EFTA	G&S	FTA & EIA	1.12.2004
	EU	G&S	FTA & EIA	1.2.2003
	India	Goods	PSA	17.8.2007
	Japan	G&S	FTA & EIA	3.9.2007
	Korea, Republic of	G&S	FTA & EIA	1.4.2004
	Malaysia	Goods	FTA	25.2.2012
	Trans-Pacific Strategic Economic Partnership	G&S	FTA & EIA	28.5.2006
	Turkey	Goods	FTA	1.3.2011
	US	G&S	FTA & EIA	1.1.2004
Colombia	Canada	G&S	FTA & EIA	15.8.2011
	EFTA	G&S	FTA & EIA	1.7.2011
	EU (and Peru)	G&S	FTA & EIA	1.3.2013
	US	G&S	FTA & EIA	15.5.2012
Costa Rica	Canada	Goods	FTA	1.11.2002
	China	G&S	FTA & EIA	1.8.2011
	EU (and Central America)	G&S	FTA & EIA	
	US (and Central America and Dominican Republic)	G&S	FTA & EIA	1.3.2006
D. Republic	EU (and CARIFORUM States EPA)	G&S	FTA & EIA	1.11.2008
Haiti	Caribbean Community and Common Market (CARICOM)	G&S	CU & EIA	1.8.1973

G&S: Goods and Services;
FTA: Free Trade Agreement;
EIA: Economic Integration Agreement;
CU: Customs Union;
PSA: Partial Scope Agreement.

(Adapted from WTO 2013)

Table 2B. Trade Agreements between Latina American Countries and the rest of the world.

	Agreement	Coverage	Type	Date
Mexico	EFTA	G&S	FTA & EIA	1.7.2001
	EU	G&S	FTA & EIA	1.7.2000
	Israel	Goods	FTA	1.7.2000
	Japan	G&S	FTA & EIA	1.4.2005
	North American Free Trade Agreement (NAFTA)	G&S	FTA & EIA	1.1.1994
Panama	Singapore	G&S	FTA & EIA	24.7.2006
	Taiwan (and Guatemala, Honduras, El Salvador and Nicaragua)	G&S	FTA & EIA	1.1.2004
	US	G&S	FTA & EIA	31.10.2012
Peru	Canada	G&S	FTA & EIA	1.8.2009
	China	G&S	FTA & EIA	1.3.2010
	EFTA	Goods	FTA	1.7.2011
	Japan	G&S	FTA & EIA	1.3.2012
	Korea, Republic of	G&S	FTA & EIA	1.8.2011
	Singapore	G&S	FTA & EIA	1.8.2009
	US	G&S	FTA & EIA	1.2.2009
Protocol on Trade Negotiations (PTN)		Goods	PSA	11.2.1973
Global System of Trade Preferences among Developing Countries (GSTP)		Goods	PSA	19.4.1989

G&S: Goods and Services;
FTA: Free Trade Agreement;
EIA: Economic Integration Agreement;
CU: Customs Union;
PSA: Partial Scope Agreement.

(Adapted from WTO 2013)

APPENDIX 3. List of the companies included in the analysis

Argentina

Adecoagro S.A.
Arcos Dorados Holdings Inc.
Banco Macro SA (the Bank)
Empresa Distribuidora y Comercializadora Norte SA (Edenor)
IRSA Inversiones Representaciones SA (IRSA)
Nortel Inversora SA (Nortel)
Pampa Energia SA (Pampa)
Telecom Argentina SA (Telecom)
Transportadora de Gas del Sur SA (TGS)
YPF SA

Brazil

Companhia de Bebidas das Americas - Ambev (Ambev)
Banco Bradesco SA (the Bank)
Brasil Telecom S.A. (Brasil Telecom)
Braskem S.A. (Braskem)
BRF - Brasil Foods S.A. (BRF)
Centrais Eletricas Brasileiras SA
Companhia Brasileira De Distribuicao (GPA
Companhia de Saneamento Basico do Estado de Sao Paulo-SABESP (SABESP)
Companhia Energetica de Minas Gerais (CEMIG)
Companhia Paranaense de Energia - COPEL.
Companhia Siderurgica Nacional (CSN)
Cosan Limited (Cosan)
CPFL Energia S.A.
Embraer S.A. (Embraer)
Fibria Celulose SA (Fibria)
Gafisa SA Gerdau S.A. (Gerdau)
Gol Linhas Aereas Inteligentes S.A. (GoL)
Itau Unibanco Holding S.A.
Petroleo Brasileiro SA Petrobras (Petrobras)
TAM SA (TAM)
Tele Norte Leste Partricipacoes SA (TNL)
Telefonica Brasil SA, formerly Telecomunicacoes de Sao Paulo S.A. - TELESP (Telesp),
TIM Participacoes SA (TIM)
Vale SA (Vale)

Chile

Administradora de Fondos de Pensiones Provida SA (AFP Provida)

Banco de Chile
Banco Santander Chile
Compania Cervecerias Unidas SA (CCU)
Corpbanca (the Bank)
Embotelladora Andina SA (Andina)
Empresa Nacional de Electricidad SA (Endesa Chile)
Enersis SA (Enersis)
Lan Airlines SA (LAN)
Sociedad Quimica y Minera de Chile SA (SQM)
Vina Concha y Toro S.A. (Concha y Toro)

Colombia

Bancolombia S.A. (Bancolombia or the Bank)
ECOPETROL S.A. (Ecopetrol)

Mexico

America Movil SAB de CV (America Movil)
CEMEX SAB de CV (CEMEX)
Coca-Cola FEMSA, S.A.B. de C.V
Desarrolladora Homex SAB de CV
Empresas ICA SAB de CV.
Fomento Economico Mexicano SAB de CV (FEMSA)
GRUMA, S.A.B. de C.V. (GRUMA)
Grupo Aeroportuario del Pacifico, S.A.B. de C.V.
Grupo Aeroportuario del Sureste SAB de CV (ASUR)
Grupo Casa Saba, S.A.B. de C.V.
Grupo Radio Centro, S.A.B. de C.V. (Grupo Radio Centro)
Grupo Televisa SAB
Grupo TMM, S.A.B. (Grupo TMM)
Industrias Bachoco SAB. de CV (Bachoco)
Maxcom Telecomunicaciones SAB de CV
Telefonos de Mexico, S.A.B. de C.V. (TELMEX)

Panama

Copa Holdings, S.A. (Copa Holdings)
Banco Latinoamericano de Comercio Exterior, S.A. (the Bank or Bladex)

Peru

Cementos Pacasmayo SAA
Credicorp Ltd. (Credicorp)
Compania de Minas Buenaventura SAA (Buenaventura)

Uruguay

Union Agriculture Group Corp (UAG)