



**11th International Forum on Latin America: A Perspective  
"Foreign Direct Investment versus other Capital Flows to Latin America"  
jointly organised by the Inter-American Development Bank  
and the OECD Development Centre**

**Paris, 2-3 November 2000**

**SUMMARY**

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## Summary of the 11<sup>th</sup> International Forum on Latin American Perspectives

1. The 11<sup>th</sup> International Forum on Latin American Perspectives was jointly organised by the Inter-American Development Bank and the OECD Development Centre at OECD Headquarters in Paris on 2-3 November 2000. With a view to improving financial strength and promoting growth in host countries, the Forum focused on: (i) the nature, determinants and growth effects of foreign direct investment (FDI) flows; (ii) the perils of FDI; and (iii) whether the mix of capital inflows matters for crisis vulnerability. The discussion sought to identify policy priorities for promoting specific types of capital inflows which could help further the institutional and financial sector reforms needed in Latin America.

2. The meeting, featuring an experts' seminar and a policy dialogue round table on corporate views on capital flows to Latin America, attracted 100 representatives from governments, business, banking, academia, civil society, international organisations and the media. The Presidents of the two institutions—Jorge Braga de Macedo for the OECD Development Centre and Enrique Iglesias for the Inter-American Development Bank—played active roles as chairmen and speakers of meeting sessions. In addition to analytical work presented by Ricardo Hausmann and Eduardo Fernandez-Arias, former Chief Economist and Lead Economist of the Inter-American Development Bank respectively, and Charles Oman, Senior Economist at the OECD Development Centre, informative contributions were made from the diverse discussants: Daniel Cohen (*Ecole Normale Supérieure* and OECD Development Centre), John Evans (Secretary-General, Trade Union Advisory Committee to the OECD), Stefano Manzocchi (University of Perugia), Peter Nunnenkamp (Kiel Institute of World Economics), Helmut Reisen (OECD Development Centre), Philip Turner (Bank for International Settlements), and Beatrice Weder (Basel University). The Round Table included such prominent public figures as Antonio Estrany Gendre, President *Consejo Interamericano de Comercio y Produccion*; Frans van Loon, Managing Director at ING Barings; Carlos Hurtado Lopez, Chief Advisor to Mexico's President Ernesto Zedillo; and Douglas C. Worth, Secretary General of the Business and Industry Advisory Committee to the OECD.

3. The rising share of FDI in private capital flows to Latin America observed during the last few years provided the starting point for discussion. The interpretation of this trend caused intense debate among participants. While most agreed that FDI flows benefit the developing countries through embodied technology, managerial skills and world market access as well as the stability properties, others argued that the rising share in the capital accounts of Latin American countries may nevertheless reflect policy lags in improving the institutional framework that would support investment, finance and risk taking. Research presented by the Inter-American Development Bank showed that the share of FDI in host countries' GDP and overall inflows tends to rise when countries are risky, financially underdeveloped and institutionally weak. Work at the OECD Development Centre documented that policies which actively try to encourage FDI can have both positive and negative effects: positive as it encourages provision of infrastructure and education; negative as it may encourage 'bidding wars', notably on the subnational level, which can weaken public finances and introduce distortions and allocative inefficiencies.

4. Despite the debate on the origins of the upward FDI trend, there emerged widespread agreement among all participants—corporate-sector representatives, policy makers and economists—for future policy making: it is unwarranted to promote the share of foreign direct investment through incentives and subsidies; rather countries are advised to improve the environment for private investment generally and to strengthen local financial markets.

5. As in previous years, the proceedings of the Forum will be published shortly by the OECD Development Centre in co-operation with the Inter-American Development Bank.