COMMENT & ANALYSIS - **Letters**

Chávez strategy points to emerging nation rethink on approach to FDI

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Sir, Richard Lapper (Comment & Analysis, "Left turn - Chávez shifts up a gear in his drive for '21st-century socialism' ", January 10) suggests that President Hugo Chávez may come to regret moves to extend control over strategic sectors of the economy by nationalising key foreign assets.

It may be easy to regard the president's approach to foreign direct investment (FDI) as aberrant behaviour which could be ignored were it not for the importance of the assets and the country involved. While his approach may well depart from an accepted standard, it may be that the standard is shifting.

The standard is to welcome foreign direct investors and provide them with incentives, services and protection, as this contributes to economic growth and development. An expression of this approach is the rapid increase in the number of investment promotion agencies (virtually every country has now an institution charged with attracting FDI) and the proliferation of bilateral investment treaties (meant to protect foreign investors).

But there are indications that this standard is changing - ironically, I would say, led by developed countries. Examples are the reactions to certain cross-border mergers and acquisitions in the US and Europe, especially in strategic sectors. As we have seen, protectionist tendencies of this kind can be further accentuated when multinationals or private equity investors in developing countries are involved (see the reactions to the takeover bid in the steelmaking sector by Mittal for Arcelor and the discussions about "locust" investors in Germany).

Little wonder then that some emerging markets are beginning to review their approach to FDI. For example, there is an intensive debate in China about the merits of FDI; Russia is making life more difficult for foreign investors in natural resources; and South Korea is embroiled in a dispute with an equity investor. Furthermore, a number of governments (and not only in Latin America) are reviewing their contracts with multinationals, especially in natural resources.

Yes, Venezuela may come to regret moves as regards foreign investors - but it would not be the only country that may be reassessing the costs of benefits associated with FDI and that would be prepared to live with the costs because of the perceived benefits of such moves (including non-economic ones).

What this means is that there is an increasing ambivalence in attitudes towards FDI. Such a climate puts a greater onus on the need to demonstrate clearly how FDI contributes not only to corporate competitiveness but also to the economic development and welfare of host countries - otherwise, the various straws in the wind may well presage a storm.

Karl P. Sauvant
Executive Director, Columbia Program on International Investment,
Columbia University,
New York, NY 10027, US