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recursos naturales e infraestructura

Mining in Latin America in the late 1990s

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Abstract

The purpose of this report is to analyse the factors that have determined the flow of investments in mining operations in Latin America and to evaluate the extent of such investments in the 1990s. This period is in clear contrast both with the 1970s, when investments were buoyant owing to nationalization and new projects that boosted State participation in mining operations, and with the 1980s, when investment flows were sluggish.

The surge in investments in the 1990s was part of the general trend towards economic liberalization and elimination of barriers to foreign capital inflows, modernization of regulations governing mining concessions, more secure mining rights, and technological changes that took place in the last few decades.

The first section examines investment flows into the mining sector in the light of changes in the composition of external financing in the 1990s, which resulted in a greater participation of foreign direct investment in the external funding mix, a trend favoured also by inflows of privatization capital and which was reflected in a significant increase in net capital transfers to countries in the region.

The second and third sections catalogue the main changes noted in the treatment of foreign direct investment and in the mining legislation of countries in the region, revealing a similarity between existing proposals for reform with respect to the promotion of private investment and the reduction of the State's role in the development of the mining sector.

The fourth section contains a review of changes in trade and tax regimes and a comparison of the impact of taxation on investment decisions. Emphasis is placed on the effect of taxes on fixed and variable costs and on rates of return, which reveals the differences between the taxation systems applied in the region.

The more favourable environment for foreign investment and the elimination of barriers to entry to the mining sector opened up a new phase in terms of foreign capital attraction in the 1990s. The policies adopted by countries in the region were instrumental in stimulating mining investments, and these and other factors are analysed in the fifth section.

Following the analysis of the determinants of investment and based on the conclusion that public policies had functioned in a positive way in the nineties, the sixth section covers the variation in projected exploration costs of mining operators, the effective value of actual investments and the investment projections at the start of the new millennium.

I. Variations in foreign capital inflows

Foreign financial inflows into Latin America showed marked variations in recent decades, in terms of total amount as well as composition (loans or direct investment). From the end of the Second World War until the mid–1970s, loans from official or multilateral sources and foreign direct investment (FDI) accounted for most inflows. FDI inflows were directed basically towards the exploitation of natural resources and the substitution of industrial imports in extremely protected markets.

Since the 1970s, an important change took place at two levels. On the one hand, foreign investment in the development of natural resources lost momentum, following nationalization of foreign companies and the imposition of barriers to entry in many countries of the region and, on the other, in that period, foreign debt was contracted on a massive scale mainly for financing of public investment projects.

The recycling of petro–dollars, changes in the international financing system and the slowdown in growth in some developed economies increased the amount of credit made available to countries of the region by the private banking system. This trend ended with the foreign debt crisis that loomed in the first half of the 1980s.

During this decade, capital flows were scarce and directed primarily to debt servicing. Private banks stopped granting new credits and FDI inflows were affected by the decline in growth in most economies of the region.

In the second half of the 1980s, some debt/equity swap programes were implemented. These, while reducing the exposure of banks, also reduced debt servicing and helped to attract new foreign investment from abroad. These programes gave foreign investors the option of buying debt securities, with strong discounts on secondary markets, and which, when revalued subsequently, enabled them to purchase companies facing insolvency.

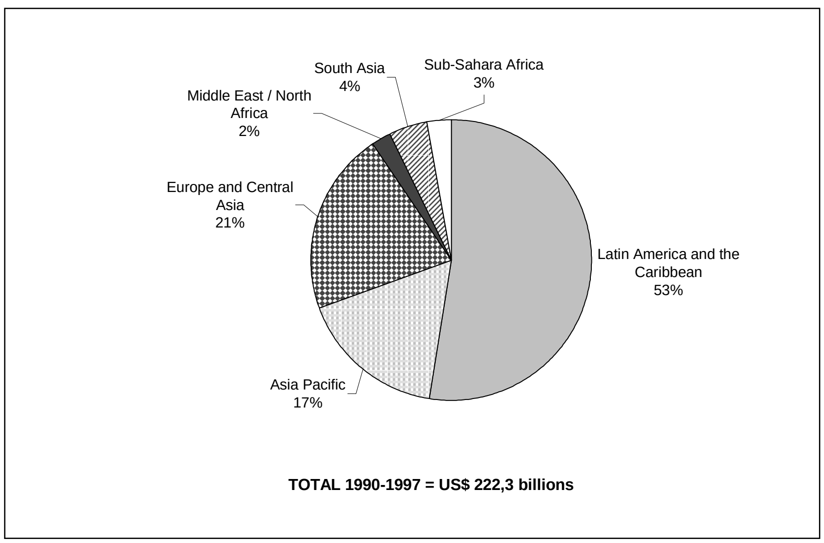
Such programes occurred especially in Argentina, Brazil, Chile and Mexico and accounted for a significant proportion of foreign capital inflows. Between 1988 and 1990, debt/equity swaps accounted for 35% of inflows into Argentina and between 1985 and 1990, for 55% into Brazil, 75% into Chile and 31% into Mexico. Such swaps were not often used in the privatization of mining operations.

At the beginning of the 1990s, debt/equity swaps were suspended, except in Argentina, and replaced by privatization initiatives. Between 1990 and 1998, privatization programes generated approximately US$ 140,000 million for the governments of the region.[1]

According to estimates and if planned privatizations in Argentina, Brazil and Venezuela materialise, accumulated income from privatization's between 1990 and the end of the third year of the new millennium will amount to approximately US$ 180,000 million.

Figure 1

PRIVATIZATION REVENUES IN DEVELOPING COUNTRIES



Source: ECLAC, on the basis of World Bank data