Czech University of Life Sciences Prague

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Bachelor Thesis

Foreign Direct Investment in Bolivia

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Objectives of thesis

The objective of this thesis is to study Foreign Direct Investment in general, define the meaning of what Foreign Direct Investment is and all the related topics. The research will include an overview about the role of FDI, pros and cons for both the investor and the host country, a worldwide overview of foreign direct investment, the situation in Latin America and of course detailed information about the economy in Bolivia, the historical overview of FDI in the country, the most attractive sectors to invest and interviews with four people related to the researched topic in the country. After all the research, I will come up with a conclusion to summary all the work.

Methodology

This thesis will consist of three main sections, in the first part being literature I will define what foreign direct investment is, mention a summary of how it started in the world, different types of FDI and some fundamentals theories. In the second part I will describe the impact of this type of investment in Bolivia, adding statistical and practical research to determine its impact in the national economy and the most important or attractive sector to invest in the country.

The last part of this document will consist of a conclusion after all the theoretical and practical analysis is done to state the actual trends and sectors in Bolivia that are related to FDI.

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30 – 40 pages

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Foreign Direct Investment, Trade, Bolivia, National Economy

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Economic Commission for Latin America and the Caribbean: Foreign Direct Investment in Latin America and the Caribbean. Santiago, 2020

Moosa, I. Foreign Direct Investment: Theory, evidence and practice. Palgrave, 2002.

Samuelson, P., Nordhaus, W.: Macroeconomics. Mcgraw-hill, 2004

Van den Berg, H.: International Economics, Mcgraw-hill, 2004

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Declaration

I declare that I have worked on my bachelor thesis titled "Foreign Direct Investment in Bolivia" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyright of any their person.

In Prague on 15.03.2021

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Angie Mishell Salvatierra Araya

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I would like to thank Karel Tomšík for his help and feedback during my work on this thesis. I would also like to thank my family and friends for all their support throughout my studies.

Foreign Direct Investment in Bolivia

Abstract

This bachelor thesis studies the role of Foreign Direct Investment (FDI) in the global economy and specifically in Bolivia. The research includes a literature review explaining the definition of FDI, their classification according to different theories and the impact of FDI in economy.

Foreign Direct Investment has increased over time in the world, technology and globalization led to understand its importance and contribution to the world´s economy both for the investor and the host country. In Bolivia people also started to realize the advantages foreign investment can bring to their companies and started to encourage it in the last years.

The practical part of the thesis includes an investigation of FDI in Bolivia historically and the actual situation as well as the analysis of the answers given in the interviews. The aim of the research is to determine if people are aware of what FDI is, how important they consider it nowadays and the advantages and disadvantages they think are relevant.

Keywords: Foreign Direct Investment, Types of FDI, FDI in Bolivia, FDI Theories, Host Country, Investment.

Přímé zahraniční investice v Bolívii

Abstrakt

Bakalářská práce se zabývá zhodnocením významu přímých zahraničních investic (PZI) v globální ekonomice se zaměřením na Bolívii. Teoretická část zahrnuje přehled literatury, relevantní definice PZI, jejich klasifikaci podle různých teorií a dopad PZI na ekonomiku.

Přímé zahraniční investice ve světě mají rostoucí tendenci, vývoj technologií a globalizace umožňují chápat jejich význam a přínos pro světovou ekonomiku, investora a hostitelskou zemi. V Bolívii si společnost rovněž začala uvědomovat výhod, které zahraniční investice mohou přinést a začala je v posledních letech podporovat.

Praktická část práce zahrnuje historický přehled vývoje PZI v Bolívii, charakteristiku současné situace, jakož i rozbor odpovědí poskytnutých v rozhovorech. Cílem výzkumu je zjistit, zda lidé správně chápou PZI a jak vnímají jejich důležitost a co jsou jejich výhody a nevýhody, které považují za relevantní.

Klíčová slova: Přímé zahraniční investice, typy přímých zahraničních investic, Bolívie, teorie přímých zahraničních investic, hostitelská země investice.

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1 Introduction

As the world constantly changes and develops, economy has also changed in time. Several aspects such as industrial revolutions and technology, just to mention a few, resulted in creating more and more opportunities. These new opportunities include infinite options from traveling and discovering new places to investing in companies all around the world.

Foreign Direct Investment (FDI) is one of these mentioned opportunities that with time, stimulated people to access or buy percentages of companies in foreign markets.

FDI plays an important role in the international economy system and helps in third world countries development by opening doors to international markets. According to the World Bank (2015), "[] today, FDI is not only about capital, but also – and more important – about technology and know-how, [...] International patterns of production are leading to new forms of cross-border investment, in which foreign investors share their intangible assets such as know-how or brands in conjunction with local capital or tangible assets of domestic investors". (Anderson, J. et al, 2019)

Bolivia in the last years has been trying to attract foreign investors, in 2018, FDI in the country reached its highest number after several years and it is expected to continue this growing trend. The country´s most attractive sectors for investment are natural resources such as hydrocarbons and mining and also transport and communication.

2. Objectives and Methodology

1.1 Objectives

The objective of this thesis is to study Foreign Direct Investment in general, define the meaning of what Foreign Direct Investment is and all the related topics. The research will include an overview about the role of FDI, pros and cons for both the investor and the host country, a worldwide overview of foreign direct investment, the situation in Latin America and of course detailed information about the economy in Bolivia, the historical overview of FDI in the country, the most attractive sectors to invest and interviews with four people related to the researched topic in the country. After all the research, I will come up with a conclusion to summary all the work.

1.2 Methodology

This thesis will consist of three main sections, in the first part being literature I will define what foreign direct investment is, mention a summary of how it started in the world, different types of FDI and some fundamentals theories. In the second part I will describe the impact of this type of investment in Bolivia, adding statistical and practical research to determine its impact in the national economy and the most important or attractive sector to invest in the country. The practical part includes interviews made to investors in Bolivia and owners of companies that receive capital from foreign companies. The objective of the interviews was to know how they describe FDI and how important they think it is nowadays as well as their experience in Bolivia and the main concerns they have of investing in the country.
The last part of this document will consist of a conclusion after all the theoretical and practical analysis is done to state the actual trends and sectors in Bolivia that are related to FDI.

2 Literature Review

2.1 Foreign Direct Investment (FDI)

2.1.1 Introduction to FDI

The author Moosa defines FDI as “the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country)”. (Moosa, I., 2002. p.1)
It also can be defined as a group of capital, technology, management and entrepreneurship that allows a firm to operate and provide goods or services in a foreign market. (Farell, 2008)
The OECD (Organization for Economic and Co-operation and Development) states that FDI “is a key driver of international economic integration. With the right policy framework, FDI can provide financial stability, promote economic development and enhance the well-being of societies.” (OECD, 2008. p.3)
There is not a specific date or place to mention when and where Foreign Direct Investment was born, however there are several theories that support that it started in Britain in the 1890´s in the manufacturing industry. It is said that first, FDI failed because people were not completely focused and there was not an objective or clear idea of how to incorporate this type of investment in the industrial sector. There is one exception that used FDI to grow in those years, the Singer Manufacturing Company, one of the biggest companies in the 1900´s named the first modern MNC[1] as a result of commitment and good decisions.
Later, after the interwar period, USA became the major economic power instead of Britain and FDI started to grow as a result of technological, transport and communication advances. This changes and developments led to an increase in travelling and needs of capital of some countries from another ones that were economically stable or growing, as a result, countries and companies started to invest in abroad economies searching for better opportunities and capital growth.

2.1.2 Types of FDI

There are two points of view from where FDI can be classified, from the investor point of view which is also called the source county and the host country. From the investor´s

[1] MNC is the acronym for Multinational Corporations

perspective, there are three types of FDI: horizontal, vertical and conglomerate. (Moosa, I., 2002. p.5)

- **Horizontal FDI**

  This type is used when the investor works or produces the same or similar kind of goods as the host country or company. Generally, it is undertaken for product differentiation to take the most advantage of monopoly or oligopoly.

- **Vertical FDI**

  Generally used when the companies are involved in exploiting raw materials or to be near the consumers.

- **Conglomerate FDI**

  This type of FDI involves horizontal and vertical FDI, when a company invests in a business abroad that is unrelated to the nature of the company in the country of origin.

From the point of view of the host country, FDI can be classified in the following categories:

- **Import-substituting**

  It involves the production of goods previously imported by the host country that in the future the imports by the host country and exports by the investing part will decline.

- **Export increasing**

  Mainly classified as this type when the investing country needs raw materials to produce or are looking for new sources of input.

- **Government initiated FDI**

  This type generally appears when some countries offer initiatives to foreign investors to attract them to invest in some sectors of also to make an economic deal such as a trade.

There are other ways in which FDI can be classified, this types or forms of foreign investment describe a point of view of an investor and the strategies that they can choose according to the nature of the business and their objectives for selling abroad.

- **Acquisition**

  "An acquisition is the purchase of existing shares issued by another company for increasing ownership or control level by the acquiring company". (OECD, 2008. p.19). It can also be defined as a transaction between two companies where each company acts in its own interest, the acquiring company purchases the assets and liabilities of the target company and the other way the target company becomes a subsidiary. Acquisitions commonly can be classified as a takeover or a reverse takeover.

  A takeover occurs when the acquiring firm is bigger that the target business. A reverse takeover is an acquisition when the target company is larger than the acquiring one.

- **Greenfield investment**

  A greenfield investment is a type of investment in FDI or a project that occurs when an investor wants to achieve control over its foreign activities avoiding intermediary costs. Some benefits of this type of investment are the high level of control over the manufacturing and sales of products or services, brand image and staff, economies of scale and gaining acknowledgment of the market. It is important to mention also some cons about greenfield investment such as high market entry barriers, high fixed costs involved in stablishing a greenfield location and high risk investment as this type is the riskiest one of FDI. (Corporate Finance Institute, 2015)

- **Joint ventures**

  A joint venture is a form of cooperative strategy that involves two or more companies, it occurs when a foreign investor and a local investor join to create a local company in which both share control and ownership. International joint ventures can also be created with the benefit of taking control or advantage in regulatory policies that may affect negatively one of the companies. Joint venture agreements can take one of the three most common forms: contractual, corporate and partnership joint venture. In the first one mentioned, the obligations, terms and liabilities of both companies are set in a written document signed by both parts. A corporate joint venture is a similar document but more extent in which states that the joint venture will be incorporated and become a separate legal entity. In a partnership joint venture document, the partners can either form a general or limited partnership agreement between the companies. (Wehinger, G., 2003)

- **Mergers**

  A merger occurs when two or more companies agree to form one single company instead of remaining as separate in order to achieve common objectives. Because companies are not bought and are not liquidated, the shareholders do not receive any money for their shares, but instead own a part of the shares of the new company that has the equity equivalent to the sum of the two.

  Some of the most common types or merges are: statutory, subsidiary, consolidation and reverse merger. A Statutory merger relates to two companies that combine their actions to create one different entity and the merged company cease to exist. The acquiring company will assume the liabilities and assets of the merged one and both owners remain. A Subsidiary merger is a type of merger that occurs when the acquiring company uses its subsidiary company to buy a target corporation. Subsidiary in the business world is a company that belongs to another company as a parent company.

  Consolidation is another type of merger in which two or more companies join, cease both to exist and form an entirely new company. The owners of both companies in this case continue to exist and become shareholders of the new entity. The difference between a consolidation type or merger and a merger only is that in a consolidation both companies have similar size, in a merger one company is generally big and the other one is a small or medium one. A reverse merger is a deal between two companies and the acquiring company ceases to exist. Generally, if a company is anxious to get publicly listed in a short period of time and buys a huge and well listed company to take advantage of their rename. (OECD, 2008. p.198).

2.2 FDI theories

There are several theories according to the author Imaad A. Moosa that try to explain some aspects such as why some countries are more successful than others obtaining FDI´s, why some MNC´s prefer to invest in abroad countries rather than local markets and what aspects attract them to invest in specific economies. (Moosa, I. 2002)

Below are described the two most common theories considered by the author:

- **Theories assuming perfect markets**

  First, it is important to know what a perfect market is. It is a theoretical type of market where all buyers and sellers are so well informed about the products that there is no monopoly and prices cannot be manipulated. In this market it is easy to compare prices because they are similar one to others.

This theory elaborated by Kemp in 1964 states that after investment in a model of two countries, the output of the investing country reduces without any decrease in the national income of the country. This occurs because in the long terms, the investing country gets higher income from its invest in abroad markets. (Nayak, D., 2014)

- **Theories assuming imperfect markets**

  In an imperfect market, buyers and sellers have a high influence on prices of goods and production, there is not complete information or acknowledgement of products and prices and there are high barriers to entry and exit the market. (Kenton, W., 2020)

  This theory says that companies that operate abroad have a disadvantage to compete with local businesses because the local one have already knowledge of the culture, legal system, language and consumer's preferences. Although abroad companies may have advantages in terms of technology and capital, so advantages are transmitted from one entity to another in order to create something better and take advantage of the market power to have good profits. (Nayak, D., 2014)

2.3 The role of FDI

FDI is a type of investment that involves two parts, one is the country or company that invests in a foreign country and the other one is the company or country that sells products or services. This process involves money transactions that have an impact in the economy of both parts that have been mentioned.

Research shows that FDI has a direct impact in economic growth in many ways such as providing capital, increase technology, management and know-how skills, promotes exports and imports, provides job opportunities and generates competitive environments, just to mention the most important. (Mondal, P.)

The link between FDI and economic growth can be explained also theoretically. According to Ilija Stojanovic based in several researches, the benefits are due to capital accumulation of the host country related to incorporation of new inputs and foreign technologies for the production of goods and services. Although there are exceptions where countries that increase its rates of FDI do not increase its general economic growth figures or statistics, this author refers to the positive impact based on the majority of the countries being studied. (Fadhil, M. 2014)

2.3.1 Economic growth

“Economic growth is an increase in the production of goods and services over a specific period”. It can also be described as the increase in the national income, the most common ways that nations measure it are gross national product (GNP) and gross domestic product (GDP). (Amadeo,K., 2020)

2.3.2 Gross Domestic Product (GDP)

It is a way to measure economic growth, takes into account a nation´s entire economic output including all final products that companies in the country produce and sell and also exports. (Amadeo, K., 2020)

2.3.3 Gross National Product (GNP)

GNP is an estimate of total value of all final products and services produced in a country in a determined period of time. it is very similar to gross domestic product with the difference that to measure it, GDP is used, after the resident’s investments income overseas is added and foreign resident’s investment income earned within a country is subtracted. (Barnier, B., 2020)

2.4 Advantages and disadvantages of FDI

There are some advantages and disadvantages for both the investing country and the host country related with foreign direct investment, in the following lines I will describe the most important pros and cons.

Advantages and disadvantages of FDI for the investing country or company

Some important advantages of investing abroad are the following:

- **Diversification**

  When a company has reached its maturity stage in terms of business growth and has already settled in a country, it has a great opportunity to enter new markets, expand their activities and increase their profits. This also helps a company to reduce risks by investing abroad because operating in different nations spreads the company’s exposure. To explain it in other words, if a company operates in two countries, the level of risk of the business is reduced because it doesn’t rely in only one country´s demand, policies and laws. Sales can increase in one country while demand in the other decreases.

- **Lower production costs**
  As in most of the cases, a developed country invests in a developing country, the investor benefits from lower material and labor costs. Although there are some ethical and productivity issues, this is an important attractive for many countries in the world.

- **Tax incentives**
  Companies can save considerable amounts of money annually from lower taxes in a foreign country which leads to increase profitability. Some countries have specific tax incentives to attract investors and foreign capital. (Boyce, P., 2020)

There are some disadvantages that can affect investors as a result of investing abroad, the most common are:

- **Risk of the unknown**
  Investing in a new place with different culture can be challenging, it can be very difficult for a company to adapt to different preferences for the consumers at the start. Many companies no matter how big and stablished they are internationally, have to adapt and create or modify their products to satisfy costumer´s needs and wants. It is very important to invest in a market research before deciding new places to invest and start operating.

- **Uncertainty in government policies and laws**
  There is an important risk of investing abroad related to economic and political changes. Particularly in developing countries with unstable governments, many changes can occur with side effects for foreign investors such as new laws and policies with imports and exports, increasing taxes and others.

Advantages and disadvantages in FDI for the host country:

Some advantages for the host country as a result of FDI are the following.

- **Generation of employments**

  When new and more companies start to operate in a country, job opportunities are created bringing opportunities for local people and community as the area surrounded also starts to grow in most cases. Employees earning more money causes demand to increase also in other industries and markets helping the economy.

- **Access to new technologies**

  FDI allows the host country to receive new technology and knowledge from investors, the company that receives all the training and new equipment has the opportunity to become more efficient and competitive internationally. Also costumers benefit because they can try new products and services and competitors are forced to innovate and work with similar or better technology after realizing how more effective it is.

- **Contribution to GDP**

  As a result of companies investing in the host country, generating job opportunities and increasing demand, there is a boost in economy which leads to an increase in GDP. GDP is an important economic indicator worldwide because it reflects the value of the economic activity in a country in a determined period of time.

- **More competitors benefit consumers**

  As there are more competitors in a market, consumers are benefitted because companies are forced to lower their costs and there are more options where to buy substitute products. Clients have more options at different prices and better quality.

Once the advantages for the host country in FDI have been mentioned, in the following lines I will describe some disadvantages that may also affect the host country.

- **Decrease of local investment**

  There can be some instances when GDP in a country seems negatively affected by FDI because most of the investment is from overseas countries and local capital becomes stagnated. Investors can become more lucrative and take advantage of the situation increasing their employees and production for their own benefit and not the local company.

- **Exploitation of resources**

  Usually this problem happens in host countries that are developing or underdeveloped economies, investors can exploit human and natural resources in order to save money without taking into account the future effects some actions may have. Some examples are underpaid jobs, deforestation, releasing untreated water into rivers and gas emissions. (Boyce, P., 2020)

2.5 Worldwide overview of FDI

Foreign Direct Investment had a small growth in 2019 after two years of declines worldwide, as it could be seen in the chart below. This increase was mainly due to the fact that United States transnational corporations repatriated less of their profits earned abroad. The repatriation mentioned emerged in December of 2017 as a tax reform in the United States and it is said that it caused a fall in worldwide FDI in 2018. Although there has been an increase in 2019, rates are far below than the average recorded over the last ten years.
2020 affected negatively FDI figures due to the COVID-19 pandemic, flows fell 49% in the first six months of the year compared to 2019. Lockdowns around the world limited and slowed investment projects. (ECLAC, 2020)

Global foreign direct investment inflows by group of economies, 1990-2019
(Billions of dollars)

Figure 1 Source: Economic Comission for Latin America and the Caribbean (ECLAC)

In the case of developed countries, FDI inflows rose by 5% in 2019, the increase was concentrated only in few countries such as Switzerland and Ireland. Other countries such as

Germany, Spain and Netherlands reported decreases, although the mentioned countries were considered as the most important economies in the world in FDI. Even United States figures decreased, FDI fell by 3%.

According to a report, developed countries suffered the biggest fall in 2020, FDI had a decline of 75% compared to 2019, taking into account the first semester of the year. (ECLAC, 2020)

The European countries that were most affected by the negative flows were Switzerland and the Netherlands. Meanwhile, United Stated FDI flows fell by 56%.
In developing economies, the 16% decrease in FDI flows were less than expected, this mainly because of the strong investment in China. In Asia, flows decreased by 12% and in Africa FDI figures in the first semester of 2020 were 28% lower than 2019. From January to June in 2020, developing countries in Asia accounted for more than half of global FDI. (UNCTAD, 2020)

2.5.1 FDI in Latin America and the Caribbean

After the global financial crisis that took place in 2008, developing countries in Latin America were attractive recipients of capital because their increasing commodity prices and also positive growth rates. From 2010 to 2019, FDI inflows in the region were the highest ever reported, the best year was 2012 reaching a historical peak. As it could be seen in the image below, from 2019 to 2012 there was a significant increase, after that year there was a decrease year by year until 2018 but again a decrease to 2019. (ECLAC, 2020)

Latin America and the Caribbean: foreign direct investment (FDI) inflows, 2010-2019 (Billions of dollars and percentages of GDP)

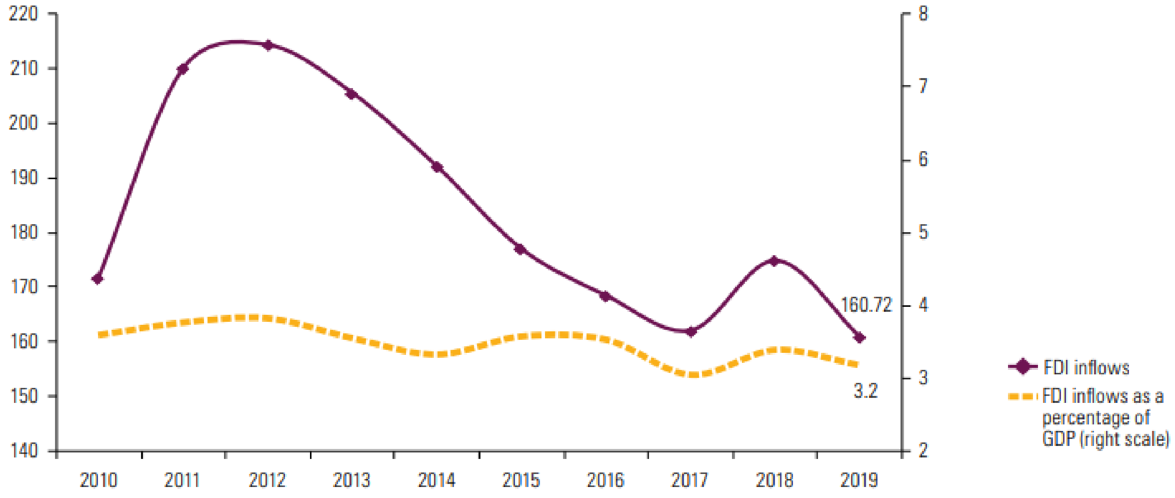

Figure 2 Source: Economic Commiddion for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of December 2020

The five countries in South America that receive the highest investments in 2019 were Brazil (43%), Mexico (18%), Colombia (9%), Chile (7%) and Peru (6%). In Central America FDI figures in 2019 only increased in Panama and Guatemala and in the Caribbean region Dominican Republic followed by Trinidad and Tobago had positive investment flow.

The economic sectors that historically have been the most attractive to foreign investment are services, manufacturing and natural resources, more specifically, activities such as commerce, financial and insurance services, transport and logistics, construction, electricity, gas and water supply, information and communication services, hotels, restaurants and real state.

Between 2009 and 2013 natural resources inflow started to decrease its inflow and in 2014 there has been a notorious change, the service sector took advantage and expanded reaching 48% of the total inflow compared to 38% in the years 2009 to 2013. The natural resources sector in the region mostly consists of oil, gas exploitation and mining and the decrease mentioned was a result of the significant drop of oil and natural gas prices in 2014 by 40% after being stable since 2011. The fall in prices in the mining sector began earlier but suffered a global decline also in 2014 after exploration budgets dropped by 26% between 2013 and 2014. Other minerals also suffered price falls, for example copper, the most important mineral in Latin America had the largest drop in the last years in terms of price. Chile is the world´s leading copper exporter was negatively affected by the drop. Iron ore also suffered a drop in its price by 50% between January and November of 2014. Gold which is an important

export from Chile, Mexico, Peru and Suriname also decreased in price between 2013 and 2014 but has been stable since then. (ECLAC, 2020. p.24)
Global prices for some of the mentioned commodities are shown in the chart below.

Global prices for selected commodities, 2010-2014

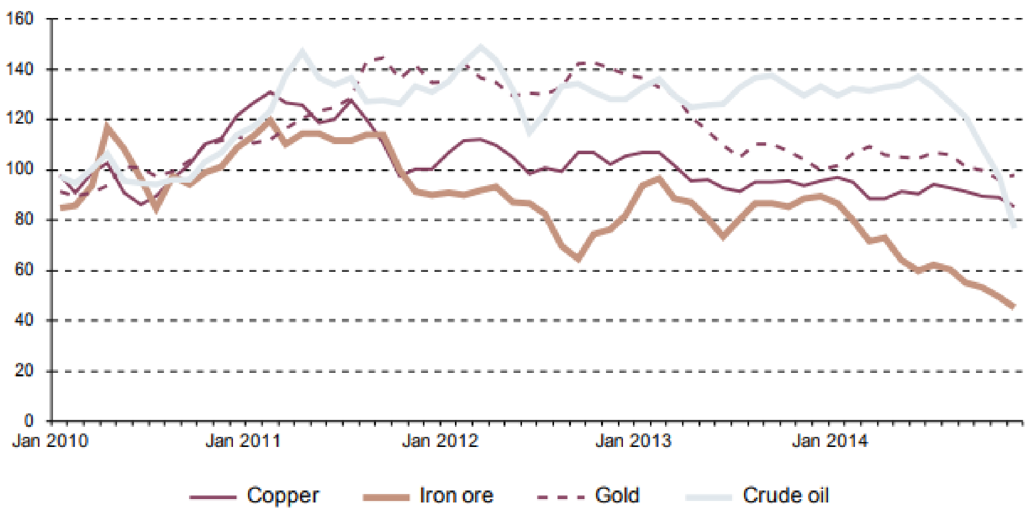

Figure 3 Source: Economic Commission for Latin America and the Caribbean (ECLAC)

The year 2020 has been difficult for most all the countries in the world and also Latin America because of the global health and economic crisis. This circumstances led to "rethink the role of FDI in supporting sustained growth with greater social equity and environmental sustainability". (ECLAC, 2020. p.51)

The current economic crisis was originated in both supply and demand, in the supply side, activities such as tourism, entertainment, hotels, restaurants, transport and personal services have been affected partially or completely due to the suspension of their activities and those that involve crowds of people. However, other products and services have become indispensable for example, cleaning supplies, medicines, medical equipment and disinfectants, just to mention some.

On the other side, demand has suffered a decrease in consumption in cars, furniture, housing, clothing and footwear. On the opposite, some goods and services were not negatively affected or even increase their sales such as streaming television, telecommunications and cleaning products.

So many changes throughout the year and the constant uncertainty affected economy in a negative way in so many sectors that prospects are estimated to be negative until 2022 when it is estimated the economic recovery will start. Reports indicate that worldwide FDI will fall by 40% in 2020 and between 5% and 10% in 2021. In the case of Latin America and the Caribbean estimates indicate that FDI fell by 36% in 2020 as it could be seen in the chart below, some countries with high exports in the last years reported even greater drops.

Latin America and the Caribbean (selected countries and sub regions): foreign direct investment (FDI) inflows, 2019 and 2020

(Billions of dollars and percentages)

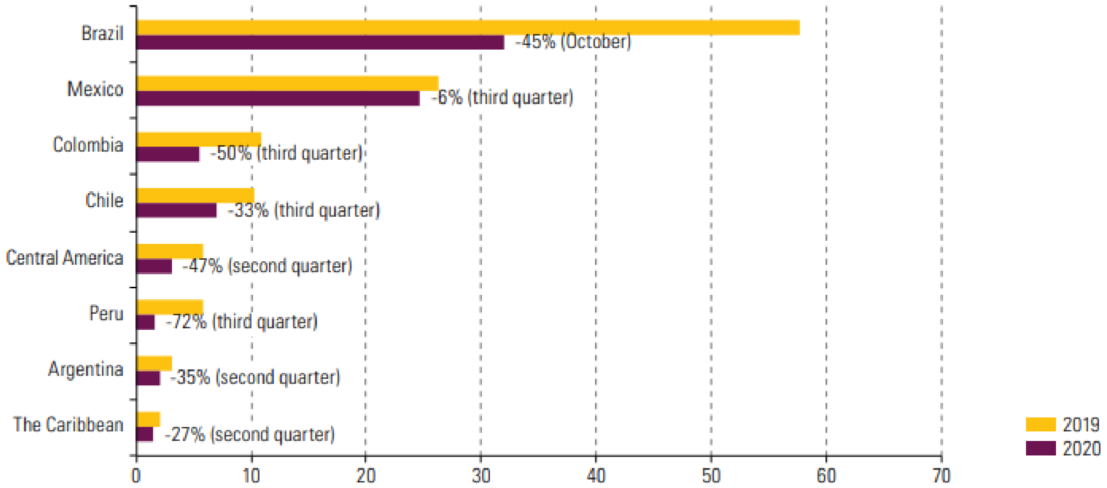

Figure 4 Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data as of December 2020.

3 Practical Part

In this chapter of the thesis, I will first give an overview of Bolivia including location, population and other aspects. After I will briefly describe the economy in the country over the years and then detail how FDI works in Bolivia since the first investment inflows recorded until the actual situation affected by the pandemic. After, I will mention the most important and attractive sectors in Bolivia's economy that investors have qualified and finally the results and discussion of the interviews with four people related with FDI in Bolivia.

Bolivia is a landlocked country in the center of South America, it borders with Argentina, Paraguay, Chile, Brazil and Peru. The country has a population of 11.5 million inhabitants and it occupies an area of 1,098,581 km². Bolivia broke away from Spanish rule in 1825 and was named after the independence fighter Simon Bolivar. Since then, democratic rule was established and actually is governed by the president Luis Arce from a socialist political party. The country actual goals include foreign investment, improve the education system, continue its privatization program and wagging an anticorruption campaign. (Delso, D.)

3.1 Overview of the economy in Bolivia

Bolivia is a country very rich in natural resources, one of the most important resource is natural gas which is exported to Brazil and Argentina. After an economic crisis during the 1980s, reforms in the 1990s stimulated economic growth by encouraging private investment and trying to reduce poverty.

The country has always been characterized by political instability but between 2003 and 2005 this problem took an important place due to racial tensions and protests against the government plans which caused stagnation in the possibility to export natural gas to large markets. A year after, in 2006 the government stablished laws related to hydrocarbons that imposed high royalties and taxes to foreign companies and obliged them to become like a private company ruled by the national energy company in exchange for a predetermined service fee. The years between 2010 and 2014 where characterized by high commodity prices and increasing figures of GDP in 2013 (6.8%) and 2014 (5.4). This increasing didn't last for too long because of the global decline in oil prices that began in late 2014 which resulted to decrease again GDP growth rates to 4.9% in 2015 and 4.3% in 2016, there were also losses in government, fiscal and trade revenues. Racial conflicts continued and economy in the country was also affected negatively as there was a lack of foreign investments in the key sectors of mining and hydrocarbons due to nationalization problems stated by the government earlier. In 2016, the government of Morales saw the need to boost the economy and started to increase energy production, also promised not to nationalize foreign industries working in the country.

In the last years, political instability continued because president Morales was enabled by the Constitutional National Court to continue govern the country despite the fact that the Bolivian Constitution establishes that a person cannot govern for more than two consecutive periods and that Morales lost a referendum in 2016 in which he tried to null that limitation. Recent years economy in the country has been affected by the mentioned social conflicts and political instability as well as the pandemic that started in 2020 and continues affecting in 2021. The pandemic of Covid-19, obliged the country and almost all economic sectors to stop their activities for several months causing unemployment rates to rise and GDP figures to decrease significantly. (Index Mundi, 2020)

3.2 FDI in Bolivia

To start talking about the role and situation of FDI in the country, I will start mentioning some historical aspects related to foreign direct investment.

3.2.1 Historical overview of FDI in Bolivia

Foreign direct investments in Bolivia started between 1955 and 1960, as first records demonstrate, but until 1990 foreign investments flows in the country were minimal compared to the other two Andean countries in South America which are Peru and Ecuador. Between the years 1960 and 1990, the average FDI per capita annually was $7.6 in Ecuador, $3.4 in Peru and only $2 in Bolivia. In 1952, after the Revolution occurred in Bolivia the president made some changes in the petroleum laws that had a later effect, for example in 1966 when FDI started to develop in the country in the hydrocarbon and mining sectors. The first country that invested in Bolivia was United States in almost ten petroleum companies and the construction of a gas pipeline to Argentina.

After, the president of Bolivia Rene Barrientos in 1965 made some changes in the foreign investment laws by liberating the investment code for foreign capital. Years later this allowed United States to rent a national zinc mine from COMIBOL[2] (national mining corporation) and help the local company to grow and compete with other older mining companies.

Things were going in a positive way those years for foreign investment in Bolivia until a new president was in charge, in 1969 Ovando nationalized the oil company stablished in the country by United States and a year later Bolivia experienced a huge drop in foreign investments. Two years after, in 1971 a new president assumed power, Coronel Hugo Banzer and his government liberalized the investment code, worked on improving the poor relations with the United States that had been affected by other governments and also devaluated the exchange rate in 1972. This last change in the economy of the country encouraged again capital inflows of foreign countries helping FDI figures to increase.

The following four years after the military regime of Banzer, from 1978 to 1982 Bolivia was governed by eight militaries and three civilian governments, and levels of FDI were the highest ever recorded in the country until the mid-1990s. This high levels were due to the mining and hydrocarbon sectors. The high FDI inflows in Bolivia eventually started to decline after the peak when foreign investors realized that the national GDP was masked by external debts and overvalued exchange rate. As it is shown in the chart below, GDP in the country decreased significantly from mid 1970s until 1983, due to economic problems such as inflation, high international interest rates, fiscal deficit, and a number of other factors led to political instability, lack of access to foreign borrowing and of course an important decrease of FDI flows. (Flexner, N., 2020)

[2] COMIBOL is the acronym in Spanish of Corporacion Minera de Comercio which is the National Mining Corporation.

GDP - Bolivia

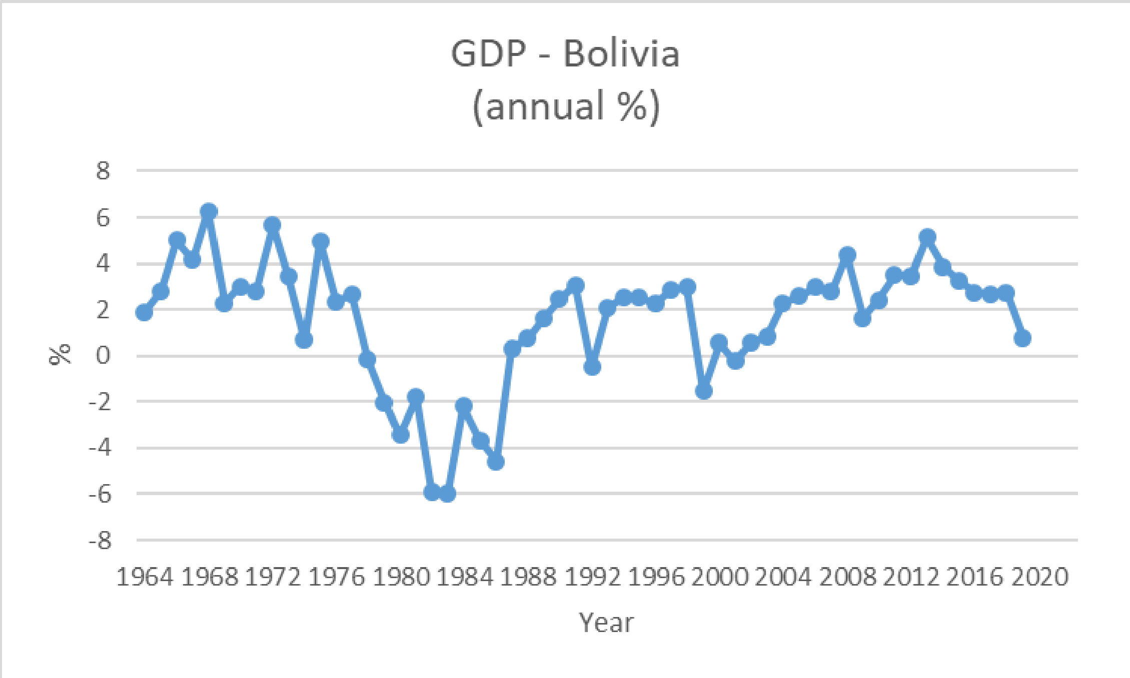

Figure 5 Own creation - Data based on: Data World Bank

On August 1985 the new government of Victor Paz Estenssoro implemented a stabilization program to end the hyperinflation and attract again foreign investment. The program worked properly within days of its implementation and ended hyperinflation, FDI flows had a delay to jump positively but began little by little to grow. This mentioned government of Estenssoro set a good start to boost the national economy after all the economic problems and it was in the next government of Sanchez de Lozada when capitalization started and the economy started to grow. The capitalization program initiated in 1994 with the objective of transferring six big national enterprises which represented 12.5% of the total national GDP to private hands, the companies were the following: YPFB (oil and gas), ENDE (electricity), ENFE (railways), ENTEL (telecommunications), LAB (aviation) and EMV (mining and smelting). As a result of the capitalization program, FDI flows went from 0.6% of GDP to 10.2% in 1998 making Bolivia the largest recipient in percentage of FDI in Latin America. (Flexner, N., 2020)

In the following table it is shown how Bolivia increased its FDI inflows compared to other countries in Latin America from 1990 to 1998.

Primary Recipients of Foreign Direct Investment in Latin America, 1990-98

(In percent of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Argentina	1.3	1.3	1.8	1.0	1.1	1.7	1.7	2.1	2.1
Bolivia	0.6	1.0	1.6	2.2	2.2	5.6	6.4	9.2	10.2
Brazil	0.2	0.3	0.5	0.3	0.6	0.7	1.4	2.4	4.1
Chile	1.9	2.4	2.2	2.3	5.1	4.6	6.8	7.0	6.4
Colombia	1.2	1.1	1.7	1.9	2.4	2.8	3.8	5.9	3.0
Ecuador	1.2	1.4	1.4	3.3	3.2	2.6	2.6	3.5	4.2
Mexico	1.0	1.5	1.2	1.1	2.6	3.3	2.8	3.2	2.5
Peru	0.1	-0.0002	0.3	1.6	6.1	3.4	5.3	3.1	3.1
Venezuela	0.9	3.6	1.0	0.6	1.4	1.3	3.1	6.3	4.7

Sources: IMF, *International Financial Statistics* , various issues; and Central Bank of Bolivia, *External Sector Bulletin* , various issues.

Figure 6 Source: International Financial Statistics (IMF)

I consider also relevant to see Bolivia´s GDP trends compared to the other countries in South America in the last nine years. As it can be seen in the following table, Bolivia's GDP was the highest one in the region between the years 2010 and 2015 reaching 5.60. It was followed by Colombia (4.61), Guyana (4.56) and Ecuador (4.54) to mention the three nearest figures. GDP in Bolivia decreased between 2014 and 2019 but still remains to be the highest compared to the other South American countries.

Gross Domestic Product – Average growth rate

ECONOMY	2010 - 2015	2014 - 2019
Argentina	1.02	-0.43
Bolivia (Plurinational State of)	5.60	4.14
Brazil	1.36	-0.61
Chile	3.85	2.07
Colombia	4.61	2.31
Ecuador	4.54	0.62
Guyana	4.56	3.18
Paraguay	4.15	3.63
Peru	4.81	3.24
Suriname	1.74	-0.46
Uruguay	3.52	1.52
Venezuela (Bolivarian Rep. of)	0.35	-16.73

Table 1 Own creation - Data based on: United Nations Conference on Trade and Development

In the next tables, it is shown foreign direct investment: inward and outward flows and stock, annually of Bolivia and all the South America countries in the last 10 years. Numbers in the table for the country remain to be one of the lowest in the region although it follows generally the trend of ups and downs in most of the years.

In the following chart, more specific information about economic trends in Bolivia can be seen. I consider relevant to demonstrate the changes in economic indicators figures such as GDP, GDP per capita, real GDP growth and exchange rate. We can observe that current GDP and GDP per capital increased positively over time between 2005 and 2019 indicating that economy in the country recovered after some years of decreases. Real GDP growth was in general stable between 2005 and 2015 and decreased from 2015 to 2019 as it was mentioned before due to political and social instability in the country as well as decreases in global prices of petroleum and gas. It can also be seen in the chart the GDP by expenditure in the year 2018, household consumption represented 67% followed by general government final consumption expenditure with 17.5%, gross capital formation with 20.6%, imports represented 31.1% and exports 26%.

Economic trends - Bolivia

ECONOMIC TRENDS

+3.0 %
Gross domestic product growth rate in 2019

Economic indicators *(millions of US$ unless otherwise specified)*	2005	2010	2015	2019
GDP, current	9 549	19 650	33 000	42 260
GDP per capita, current US$	1 034	1 955	3 036	3 671
Real GDP growth, y-on-y, %	4.42	4.13	4.86	3.00
Current account balance, % of GDP	6.52	4.45	-5.87	-3.22
Exchange rate (/US$)	8.066	7.017	6.910	6.910

GDP by expenditure in 2018
(as % of total GDP)

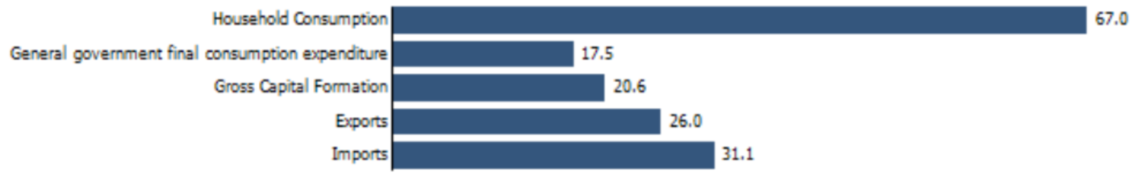

Figure 7 Source: United Nations Conference on Trade and Development

Foreign direct investment: Inward and outward flows and stocks annual (1999-2009)

Foreign direct investment: Inward and outward flows and stock, annual

Other: MEASURE ▼ US dollars at current prices in millions | DIRECTION ▼ Inward | MODE ▼ Flow

YEAR / ECONOMY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Argentina	23 988	10 418	2 166	2 149	1 652	4 125	5 265	5 537	6 473	9 726	4 017
Bolivia (Plurinational State of)	1 010	736	706	677	197	85	-239	281	366	513	423
Brazil	28 578	32 779	22 457	16 590	10 144	18 146	15 066	18 822	34 585	45 058	25 949
Chile	8 761	4 860	4 200	2 550	4 334	7 241	7 097	7 426	12 572	15 518	14 166
Colombia	1 508	2 436	2 542	2 134	1 720	3 116	10 235	6 751	8 886	10 564	8 035
Ecuador	648	-23	539	783	872	837	493	271	194	1 057	309
Falkland Islands (Malvinas)	..	..	..	..	..	..	..	..	..	..	..
Guyana	46	67	56	44	26	30	77	102	152	178	164
Paraguay	87	98	70	6	25	28	36	95	202	263	71
Peru	1 940	810	1 144	2 156	1 335	1 599	2 579	3 467	5 491	6 924	6 431
Suriname	-62	-97	-27	-74	-76	-37	28	-163	-247	-231	-93
Uruguay	235	273	297	194	416	332	847	1 493	1 329	2 106	1 529
Venezuela (Bolivarian Rep. of)	2 890	4 701	3 683	782	2 040	1 483	2 589	-508	3 288	2 627	-983

Table 2 Source : United Nations Conference on Trade and Development

Between these years, we can see that in Bolivia FDI figures decreased significantly year by year between 1999 and 2005, between 2006 and 2009 figures increase a little bit but can't reach numbers from years ago.

Foreign direct investment: Inward and outward flows and stocks annual (2010-2019)

YEAR / ECONOMY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Argentina	11 333	10 840	15 324	9 822	5 065	11 759	3 260	11 517	11 873	6 244
Bolivia (Plurinational State of)	643	859	1 060	1 750	657	555	335	712	302	-160
Brazil	77 687	97 422	82 060	59 089	63 846	49 961	53 700	66 585	59 802	71 989
Chile	15 033	22 634	30 545	21 683	22 849	20 491	12 104	6 519	7 021	11 437
Colombia	6 430	14 647	15 040	16 210	16 169	11 724	13 848	13 837	11 535	14 493
Ecuador	166	646	567	727	777	1 331	755	625	1 456	966
Falkland Islands (Malvinas)	..	..	..	..	..	..	..	..	..	..
Guyana	198	247	294	214	255	122	163	327	1 180	1 713
Paraguay	462	581	697	252	412	308	425	526	481	478
Peru	8 455	7 682	13 622	9 826	3 930	8 314	6 739	6 860	6 488	8 892
Suriname	-248	70	174	188	164	267	300	98	119	7
Uruguay	2 289	2 504	2 242	3 463	2 328	905	-1 177	-837	-487	189
Venezuela (Bolivarian Rep. of)	1 574	5 740	5 973	2 680	-1 028	769	1 068	-68	886	934

Table 3 Source: United Nations Conference on Trade and Development

Between 2010 and 2013, FDI figures in Bolivia started to recover and increased but afterwards they decreased significantly due to political instability and social problems as well as high commodity prices and global decline in oil prices. Another problem that occurred was the lack of foreign investments in the key sectors of mining and hydrocarbon due to earlier nationalization problems.

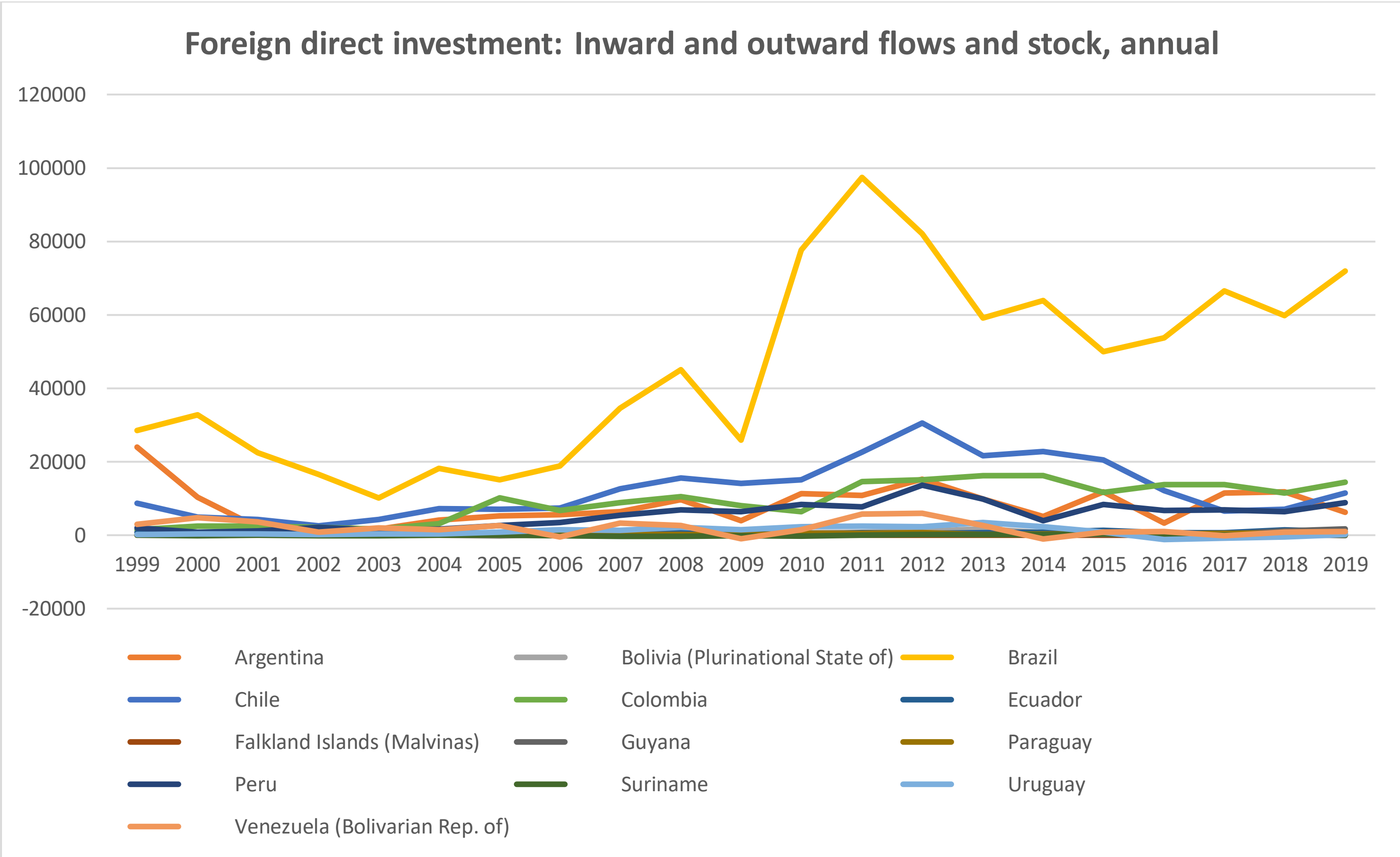

Figure 8 Own creation - Data based on: United Nations Conference on Trade and Development

Between 2000 and 2005, FDI in Bolivia shows constant high and low numbers affected by the slowly increasing GDP. The country was catalogued in those years as a low income class country that can be significantly affected by external changes such as the Asian economic crisis that generated decreases in the Bolivian economy. Other aspects that affected the economy and limited FDI inflows from foreign investors were the end of capitalization programs in national companies, politic instability and fragility if public administration.
In the following chart, FDI inflow in Bolivia from 2000 can be seen. (Vallejos, M. & Navia, S., 2018)

Foreign Direct Investment: USD mn: Quaterly: Bolivia

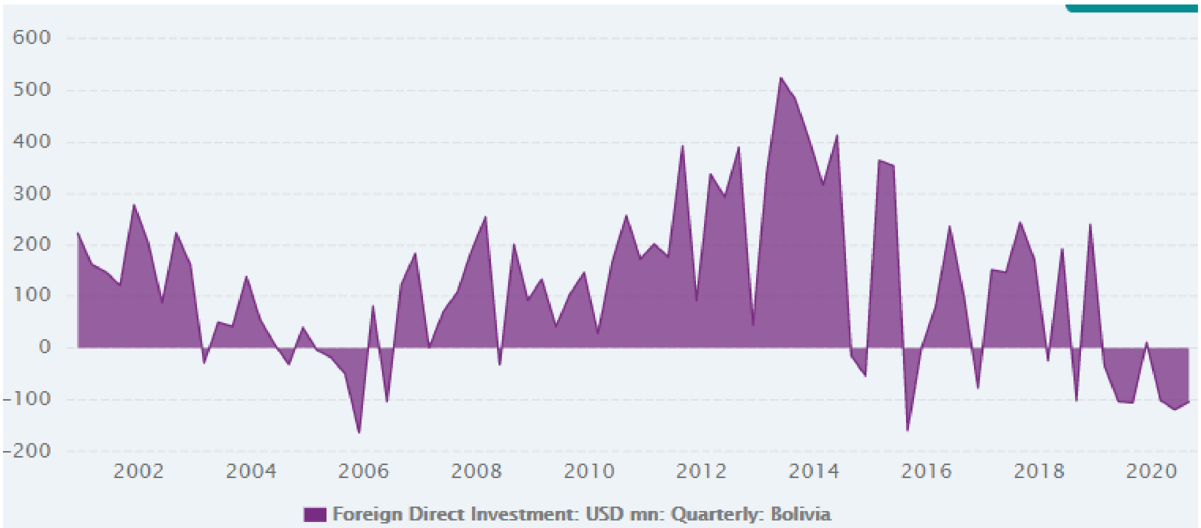

Figure 9 Source: Ceicdata

In 2006, a Productive Socio-Community Educational Model (MESCP[3]) was implemented in the country which caused the GDP to increase as well as FDI after several years in Bolivia. This program was created with the aim to develop new and better state companies, the process of nationalization and industrialization led FDI figures to increase steadily until 2008. It is important to mention that between 2008 and 2009 the economic crisis which affected mostly developed countries had an impact in emerging economies like Bolivia because they were forced to reduce foreign investment until their economy was at least emerging again. (Vallejos, M. & Navia, S., 2018). However, between 2008 and 2013 FDI in Bolivia had mostly a positive curve.

[3] MESCP is the acronym in Spanish for "Modelo Educativo Socio Comunitario Productivo".

If foreign investment is separated by modality in the country, as it can be seen in the graph below, spending for intra-firm loans maintained a constant trend of rise and fall while reinvested earnings increased notably.

FOREIGN DIRECT INVESTMENT BY MODALITY (In millions of USD)

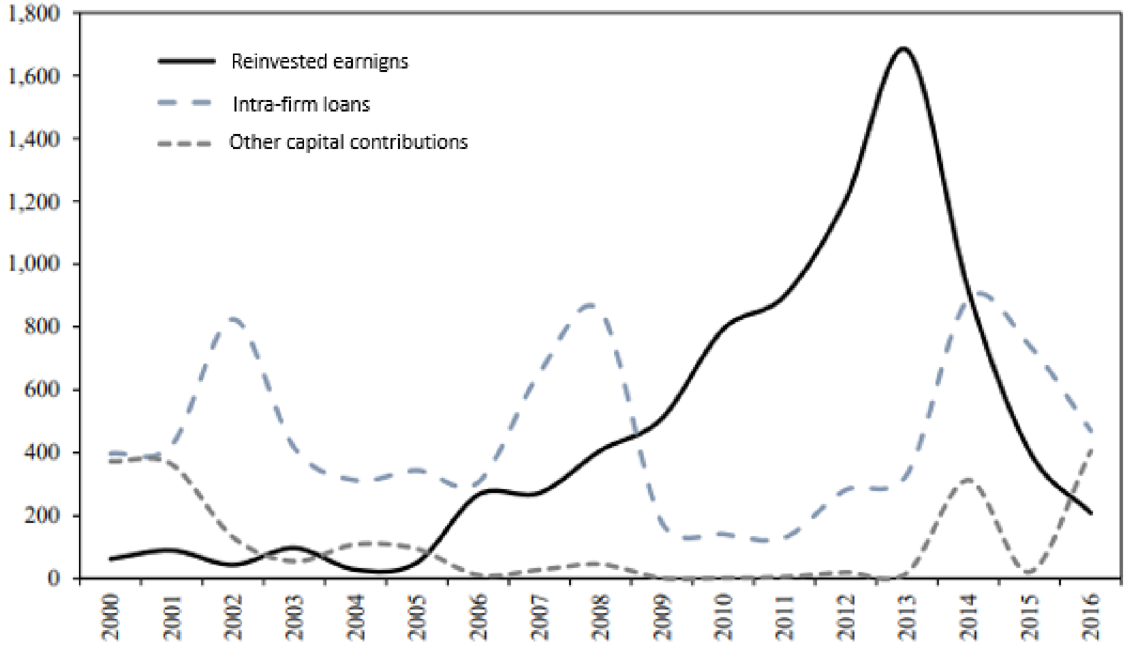

Figure 10 Source: Banco Central de Bolivia (BCB[4])

Regarding the origin of the countries that invest in Bolivia, the most relevant are Spain, the United States, Sweden and Brazil. As it is described in the following table, most of the countries where the investment comes from in general are developed countries. This trend of big economies investing in developing ones help in the introduction of new technologies, better production techniques, improving administrative abilities, access to the know-how of international markets and trade opportunities. (Vallejos, M. & Navia, S., 2018)

[4] BCB is the acronym in Spanish for Banco Central de Bolivia, the Central Bank of Bolivia

Gross foreign direct investment by country of origin (on average)

Country	Million dollars		Participation %		Variation %	
	2000-2005	2006-2016	2000-2005	2006-2016	2000-2005	2006-2016
Spain	94	258	13,4	21,2	59,0	162,5
United States	254	153	36,2	12,6	-8,0	-5,2
Sweden	12	151	1,7	12,4	1964,0	254,4
Brazil	64	100	9,1	8,2	10,4	88,0
United Kingdom	39	111	5,5	9,1	6,4	367,9
France	29	103	4,1	8,5	-15,1	136,0
Peru	9	96	1,2	7,9	167,0	169,4
Argentina	53	39	7,5	3,2	10,2	423,1
Cayman Island	15	41	2,1	3,4	42,3	-50,4
Holland	28	18	4,0	1,5	87,0	687,0
Canada	8	15	1,2	1,2	283,4	27,6
Switzerland	9	14	1,3	1,2	986,8	449,1
Panama	18	8	2,6	0,6	46,9	7,1
Luxemburg	3	15	0,5	1,2	-77,0	125,5
Italy	28	1	4,0	0,1	67,7	155,1
Chile	7	10	1,0	0,8	46,8	-1,3
Colombia	6	10	0,9	0,8	11984,7	84,9
China	0	12	0,0	0,9	-23,3	5621,0
Bahamas	0	11	0,0	0,9	61,6	497,8
Other	25	53	3,5	4,4	20,2	51,2
Total	**702**	**1.218**	**100,0**	**100,0**	**-7,2**	**25,4**

Table 4 Source: Banco Central de Bolivia (BCB[5]) - Instituto Nacional de Estadistica (INE[6])

3.2.2 Actual situation of FDI in Bolivia

In recent years, Bolivia has been looking forward to attract foreign investors and highlight its strengths. “The country aims to achieve legal certainty and clarity, and balance macroeconomic, political and social stability”.

One of the most important policies to attract FDI was the enactment of an investment law in 2014 which established that each Ministry will provide incentives for specific sectors with the objective that the government can encourage investments in different sectors and contribute to the economic and social development of Bolivia. The sector that the country wants to highlight more is the exploration and exploitation of hydrocarbons as natural resources are available for this activities.

Even though, there are new laws made with the aim to attract FDI, certain aspects and determinations in the last years harmed the attractiveness of the country to foreign investors.

Some of the mentioned aspects that damaged international relationships were the nationalization of a Spanish electricity company, the threat to expel Coca-Cola company in 2012 and the expropriation of SABSA[7] (Airport Service Company) in 2013. Also it is

[5] BCB is the acronym in Spanish for Banco Central de Bolivia which is the Central Bank of Bolivia
[6] INE is the acronym in Spanish for the National Statistics Institute.
[7] SABSA is the acronym in Spanish for “Servicio de Aeropuertos Bolivianos”.

important to mention the instability of the legal framework, corruption, prohibition resort to international arbitration elements and discrimination against some countries that cause to see Bolivia as a difficult country to invest capital.

In 2018, according to the Central Bank of Bolivia, FDI reached the highest number recorded in several years (1.553 million dollars). This boost was due to the increase in reinvestment of profits and the attraction of investing in natural resources, more specifically in the hydrocarbons and mining sectors that received almost half of the total gross flows. However, 2019 was not that positive in FDI flows as the year before because a net loss of $160m.

The world pandemic in 2020 had a big impact in the country's economy as well as other countries which is something to be expected. According to UNCTAD, "FDI flows turned negative in Bolivia as investors held back new projects and repaid intracompany loans in a year of political turmoil and social unrest". (Legal Team Bolivia, 2019)

As it was mentioned before, in 2020 most of the countries' economies were affected negatively by the pandemic around the world and Bolivia was one of them. Although most sectors were affected, in Bolivia there are some activities that may be seen as an opportunity to invest in and develop. These are mentioned below.

3.3 Most attractive sectors to invest in Bolivia

In the last years, certain activities and sectors have been identified as profitable opportunities to foreign investors in Bolivia. In the following lines I will describe them.

- **Financial technology**

  Technological innovation is growing at a very fast rate internationally and in Bolivia this area isn´t fully explored. In 2019 some new companies started to develop more in financial technology trying to bring new services to offer and this boom is because businesses are now interested in acquiring new technologies and realizing the unlimited benefits and opportunities that they could have.

  Regulations and laws in Bolivia may seem to be a disadvantage to fintech startups because some aspects are not completely regulated but it seems it is only a matter of time that governments realize that the importance of it and implement the legal framework.

- **Construction**

  The construction sector in Bolivia has been an important factor in the economic growth in the last years, in 2013 the contribution of construction to the national GDP has been the highest reached in the last ten years. Although after ups and downs between 2014 and 2016 and a decrease since then, it is estimated to increase in the next years because there are many big projects for 2021 onwards. The government has recently signed an alliance for the construction of major port facilities as it is a land-locked country, currently Bolivia´s waterways carry around US$ 1.2 billion worth of grains, soybeans, sunflower oils and derivatives and it is expected to increase. There are also projects to build hydroelectric plants, a nuclear investigation center and a solar energy plant in Oruro.

Construction and National GDP

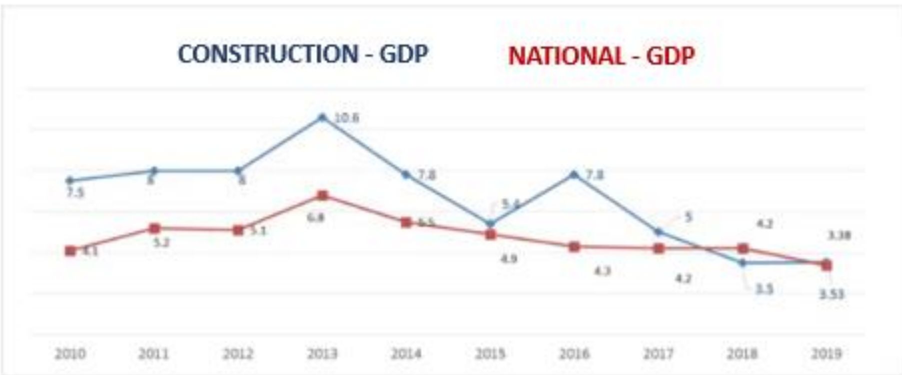

Figure 11 Own creation - Data based on: Biz Latin Hub, Investment Opportunities in Bolivia

- **Health sector**

  The government is planning to invest more in the health sector which will attract many other projects to international companies. Plans include the construction of hospitals, construction of centers to provide training services to new health professionals, import and on-sell health and medical equipment and offer peripheral services to new health facilities.

  The evolution of the national budget designated for health in the country is shown in the chart below:

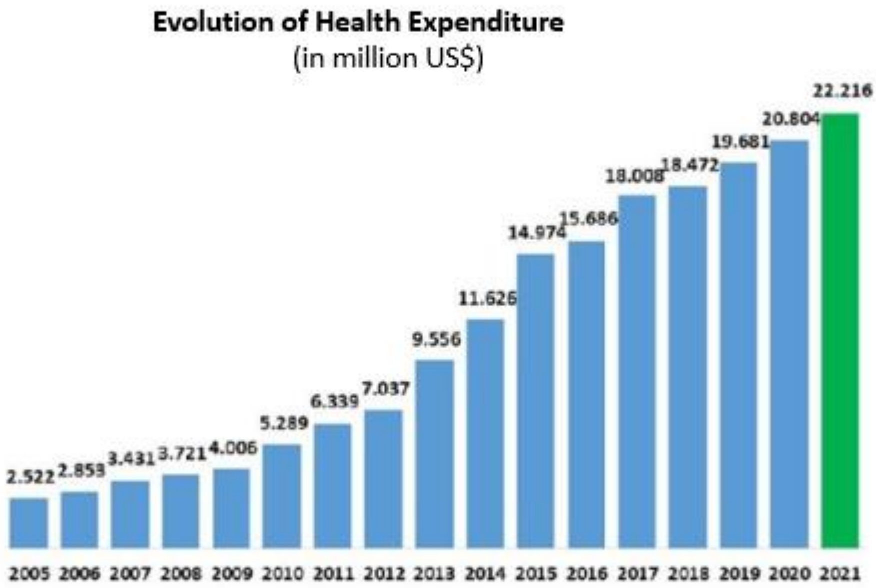

Figure 12 Own creation - Data based on Ministerio de Salud Bolivia[8]

- **Real Estate**

  The private construction sector growth in Bolivia has a rate bordering 6% in recent years, residential and other private construction opportunities are good options for investors. The biggest cities in the country have been developing at a fast rate and one of them, Santa Cruz, has been classified as the second most profitable city in the real state segment in South America according to Infocasas. This residential sales and leasing site states that there is an average annual profit that fluctuates between 6 and 8% for real estate owners. (Legal Team Bolivia, 2019)

3.4 Interviews

As mentioned before, in this part of the thesis four people were interviewed, two of them invested in different companies in Bolivia and the other two play the role of the host companies as they receive foreign investment. First, I will mention the field or sector in which these people work in order to respect their anonymity. Later I will describe the most important answers and information given to make the analysis. It is important to mention that points of view may differ due to the area and position every person deals with regarding this matter.
The people interviewed work in the following fields:

- Investors in Bolivia:

[8] Ministerio de Salud Bolivia is the Bolivian Ministry of Health

- International Food company
- International Construction company

- Host country companies in Bolivia
  - Financial technology company
  - Fast Food company

3.5 Output

I would like to start by analyzing the point of view that each interviewed have about their perception of FDI to have an idea about how they define foreign direct investment and how important they consider it nowadays.

One of the answers is: *"Foreign investment is an important factor in contributing to economic growth due to its multiplier effect. It is crucial for a company to look for international opportunities as an investor and a host country to expand their activities."*

From the answers I can assume that the importance of FDI for both sides seems to be clearly defined, no matter the country or the activity each company works in because of the unlimited possibilities and advantages presented. As almost everything, foreign direct investment also has disadvantages but after searching for the best options depending on what the company or country is looking for it seems to be more beneficial than negative.

Another answer from the interviewees is: *"Foreign investment is now a viable opportunity for everyone, it allows us to grow and both teach and learn from others for a common good."*

It was also asked to the four people interviewed how important they think foreign direct investment is both for the investor and for the host country or company. Out of the four people, three of them consider it is very important and only one consider it is important.

One of the investors stated: *"Despite the fact that as investors we recognize that there is a growth in the risks of investing in emerging economies, we were looking for investment opportunities in developing countries. This is how we decided to invest in Bolivia, due to its growth potential and visible opportunities."*

From the other point of view, one of the owners of a host company says the following: *"As a company we benefited in many ways after a foreign company decided to invest in our project, we consider it essential when a business is in a mature cycle to look for growth alternatives and what better way to learn from the best."*

Below I will describe what are the company's activities, how they compare their activities in Bolivia to their investments in other Latin American countries in case of the investors and I will mention the activities the two host companies and their development before and after they received investment. The complete answers to the interview are in the Appendix.

An international company in the food industry had a positive experience from their investment in the country, they mention that they are looking forward to invest also in other cities due to their economic growth. Sales were obviously affected by the Covid-19 pandemic but are willing to recover. A construction company saw the opportunity in the three biggest cities in the country when they were in the construction boom, they wanted to give families a different and modern experience where they can find everything in one site. They have also new projects ahead given the constant growth in the cities and good results of previous work. As it was mentioned before, the financial technology is one of the most developing fields in the country and there are not many companies specialized in these services so there is a great opportunity for growth. Investors from other countries are looking for this type of businesses and with the technological advances and requirements people and companies are obliged to adapt to modern services if they want to remain competitive. Sales for this field were positively affected by the pandemic unlike most sectors and will remain in a positive trend. A local fast food company was able to grow with the help of foreign investors, their goal was to expand to other cities because their products and service was good and they found the perfect investors. This is also a field that has developed a lot throughout time as international brands started to operate in Bolivia.

After analyzing the given answers, I can say that all the four people asked have positive experiences from FDI, both investors and host companies. Investors are taking advantage of the development and growth in Bolivia and more specifically in the principal cities looking to invest in small and medium companies that have potential to grow and expand. On the other hand, local companies need most of the time capital to grow and one great opportunity is to find foreign investors that not only can help financially but also with the know-how.

I considered important to ask specifically about some advantages and disadvantages of FDI in Bolivia to all four people interviewed, as it is expected one answer that describes the principal disadvantage or concern is: *"It seems to me that it is common knowledge that Bolivia is a country that has great growth potential, hard-working people and business opportunities, but policies and laws prevent many foreign companies from investing in the country. the* *government does not see the need and benefits that foreign direct investment can have and complicates everyone in legal terms."*

In the tables below, all the answers can be seen and after I will analyze them.

- Advantages and disadvantages mentioned by investors

Company	Advantages of FDI	Disadvantages of FDI
International Food Company	- Developing cities - Population growth - Many opportunities in different cities - Development in food delivery	- Legal and political difficulties - Unknown customer preferences
International Construction Company	- Construction opportunities - Creation of job opportunities - Low labour costs - Market diversification	- Delays in legal procedures - Local competition

Table 5 Own creation - Data based on interviews

- Advantages and disadvantages mentioned by host country companies

Company	Advantages of FDI	Disadvantages of FDI
Financial Technology Company	- Source of finance - Transfer of new technologies - Access to international markets	- Extended time in legal procedures
Fast Food Company	- Know-how from international companies - Access to new technologies - Source of capital inflow	

Table 6 Own creation - Data based on interviews

After analyzing the responses given, I can see again that there are several advantages that FDI presents for both sides because Bolivia is a developing country there are companies that have years of experience in the local market but due to the lack of capital and international knowledge they stay as local medium firms. Therefore, foreign investors are the solution for these companies to grow and develop. Despite, Bolivia has been trying for years and years to attract foreign investors but the legal framework and decisions from different governments harmed the attractiveness of the country internationally.

I also asked the interviewees about their mains concerns and some or the answers were: *"Something that cannot be set aside is the instability that exists over the laws and policies that the government may change or establish in the future. They may be beneficial but there is a fear that they can be rather negative for foreign investments"*. Another person responded: *"Unfortunately there is a lot of bureaucracy in the legal part both in foreign direct investment and in all the necessary procedures in the country. We hope this is fixed in the near future".*

I believe everybody hopes the legal framework becomes more stable and profitable for foreign investors because the country's companies have the potential and ability to grow but the fear remains present. I believe foreign investment will increase in Bolivia and after realizing the benefits for the general national economy, the government optimistically will dictate beneficial policies and laws for foreign investment.

I considered important to ask the interviewees about what factors they look for in the countries and companies they want to invest. In the following lines I summarize the answers.

- Factors influencing FDI in a country and company
    - Stable exchange rate
    - Stability in the government and policies
    - Size of local market
    - Wage rates
    - Positive purpose of a company
    - Plans of expansion and growth
    - Labor cost
    - Openness
    - Inflation rates

3.6 Results and discussion

After analyzing the answers given in all the interviews it is shown that throughout the years

FDI has increased in Bolivia and that the country is in the need to guarantee investors that things will get better. We can assume that due to the country´s developing economy in general and most of all in the biggest cities and growth, there are innumerable opportunities in diverse sectors to enhance.

Foreign investors are looking for options and opportunities to invest in Bolivia but their desire is negatively affected by legal barriers and instability. The country is known for being rich in natural resources such as hydrocarbons and mining and there are also new sectors that are attractive to invest like financial technology, real estate, construction and health sector. There are diverse companies that started as small family businesses years ago, with time they started to grow but needed capital inflow to reach their goals so, they realized foreign investment could be a solution and it was. Companies in Bolivia are realizing the importance of FDI and all the benefits it could bring to their businesses, not only as a source of finance, but also a source of international knowledge, experience, new technologies, that together with the local knowledge that each one has, great things can be achieved.

Although foreign investors mention some disadvantages of FDI in the country like local competition, legal and political difficulties and delays in legal procedures, they say that their experiences in the country have been positive and they see Bolivia as a developing country with numerous opportunities in different sectors. Their concerns match the country´s reality and as I mentioned before, the government has the task to make things different and hopefully change policies and laws for the better as they mention it as a pending task in the new government.

4 Conclusion

Several aspects throughout the years such as industrial revolutions, globalization and developments in technology, just to mention a few, led to important changes in global economy. One of the economic opportunities that appeared was Foreign Direct Investment (FDI), it emerged as a need and desire to expand the limits and be able to invest in foreign economies. Foreign Direct Investment plays a fundamental role in the international economy system nowadays by opening doors of companies in every country to international markets. Tangible and intangible assets are shared including capital, finance, know-how, new technologies for a common good as cross-border investment. In the world, there is a trend that several developed economies invest in emerging and developing ones.

Bolivia is a developing country located the heart of South America where foreign direct investments first records stared in 1960 but even until 1990 figures were minimal compared to other countries in the region. With time, records in foreign investment in the country suffered ups and downs, but it was in 2018 when FDI reached the highest number after several years in the country. In the last years Bolivia has been trying to attract foreign investors and there is hope and data that support that a continue growing trend can be achieved.

As mentioned previously in the thesis, the country´s most attractive sectors for investment historically were natural resources, transport and communication. In the last years, economic development and population growth in the country and more specifically in the biggest cities allowed other sectors such as financial technology, construction, real estate and health sector to grow and become attractive for foreign investors.

Accordingly, to the research and interviews done in the thesis, the significance and importance of FDI seems to be clearly defined in the country by investors and host country companies as well.

Although there is a major concern related with legal and political difficulties presented in Bolivia with FDI, the government said there is one of the pending tasks to stablish beneficial policies for both investors and host companies. It seems that this issue has lower impact that the opportunities people visualize and the hope for this problem to solve in the near future because people have a clear idea of the unlimited benefits that foreign investment can bring to their companies and the economy in general and also investors are willing to accept future projects in the country due to their positive previous experiences.

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6 Appendices

Company	Interviewees explanation of their company´s FDI activities	Analysis
International Food Company	Our company is dedicated to the food industry, we manage several well-known brands around the world and in the look for new investment opportunities we decided to invest in Bolivia. It was the first time we decided to invest in the country, we already worked in Argentina, Chile and Peru and we saw an opportunity in a beautiful city such as Santa Cruz that is undergoing economical and geographical development. Our experience is until now very positive and of course the last year our sales were affected because of the pandemic but we are looking forward to expand to other cities in Bolivia.	An international company in the food industry had a positive experience from their investment in the country, they mention that they are looking forward to invest also in other cities due to their economic growth. Sales were obviously affected by the Covid-19 pandemic but are willing to recover.

International Construction Company	We are a construction company with 20 years of experience in Latin America, we started as a small construction group dedicated to build commercial sites and with time we ended up building the most important shopping and malls in several countries. We saw in Bolivia the opportunity to operate because the three most important cities in the country were in the need of modern malls were families and people could enjoy an international view. Our experience until now has been nothing but grateful and we are actually with more projects in the near future that we are happy to develop.	This construction company saw the opportunity in the three biggest cities in the country when they were in the construction boom, they wanted to give families a different and modern experience where they can find everything in one site. They have also new projects ahead given the constant growth in the cities and good results of previous work

Financial Technology Company	I started in the financial technology field as a passion because years ago there were not even companies dedicated to these activities in Bolivia. As years passed by, companies started to see how business operated in different countries and the advantages of our services so our company started to grow. A great opportunity for growth was also when the government and regulatory entities of the country began to copy different requirements in terms of invoicing and taxes as from other countries such as Paraguay and companies were forced to look for companies that offered these services. It is there when we begin to grow more and they begin to know us. Another great opportunity was that unlike most companies, the 2020 pandemic made people use technology more and see the need to implement it in their companies, so now I consider that we are in a great moment and that the opportunities in the country will be very beneficial for the fintech area. Recently we received investment from a foreign company and we are happy to learn from a company	As it was mentioned before, the financial technology is one of the most developing fields in the country and there are not many companies specialized in these services so there is a great opportunity for growth. Investors from other countries are looking for this type of businesses and with the technological advances and requirements people and companies are obliged to adapt to modern services if they want to remain competitive. Sales for this field were positively affected by the pandemic unlike most sectors and will remain in a positive trend.

	that can provide us knowledge and the opportunity to grow even more at a fast rate.	

Fast Food Company	We started our restaurant as a family business 15 years ago as pioneers of the fast food concept. Our first restaurant was located in La Paz (the most developed city in the country at the time), after we opened 5 stores in La Paz we saw the opportunity to expand to one of the other cities which is Cochabamba and in the last years we arrived to Santa Cruz and Tarija. We were in the need of capital to continue our expansion and we found some foreign investors and it was the best decision we could have made. Now we are learning from people who have knowledge in the field for years and international experience. Now we are able to join our knowledge in what local people want and some new modern ideas to create the best experiences for our customers. I would highly recommend to look for investors from other countries.	This local family business was able to grow with the help of foreign investors, their goal was to expand to other cities because their products and service was good and they found the perfect investors. This is also a field that has developed a lot throughout time as international brands started to operate in Bolivia.