HIGH-SPEED TRAIN AND DIRECT INVESTMENT

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It is not of benefit to Brazil to offer our domestic market to rich countries for free. A countrys domestic market is its most precious asset.

Miguel-Ángel Moratinos, the Spanish minister of Foreign Affairs, was in Brazil with a delegation of businessmen from 20 corporations, and informed the newspaper *Valor Econômico* (July 29, 2009) that both the Spanish government and the Spanish companies are very interested in participating in the competitive bidding for the high-speed train between Rio and São Paulo. This is not surprising. Rich countries corporations that have high-speed trains technology will all be interested. That way, they will guarantee safe returns for their investment which, as usual in this kind of service, should be two to three times higher than the interest rate they would get by lending the money. What we, Brazilians, should seriously discuss is whether we should take for granted or for "evident" that the concession of monopolistic public utilities to foreign companies is really an interesting issue to Brazil.

I am sure that it is not: we should not open the concession of public utilities to foreign companies. First of all, because it is not of benefit to Brazil to ldquogrow with foreign savingsrdquo, that is, to go into debt in order to grow, regardless of how the current account deficit will be financed: through loans or through direct investments. Net capital inflows to the country appreciate the exchange rate and, instead of increasing the countrys investment rate, increase its consumption. It is for this reason - the high rate of substitution of foreign for domestic savings involved in the current account deficits - that econometric research shows that there is no causal relationship between direct investments (that finance those deficits) and growth. The debt, however, was incurred, and is now yielding high interests and even higher dividends for investing countries.

Secondly, because it is not of benefit to Brazil to offer our domestic market to rich countries for free. A countrys domestic market is its most precious asset. This is the reason why countries negotiate it so arduously in the WTO and in regional and bilateral agreements. Why not adopt the same policy with direct investments? Rich countries obtain this reciprocity easily: they open their markets to direct investment, but, as a trade-off, they invest more in other countries, particularly in the developing ones. This is not the case with us.

And what about technology? Technology is important, and it justifies direct investments, provided that the investment is made in association with the receiving country, as the Chinese do. Since China has always a positive current account balance, it grows with foreign dissavings. It continues to receive more direct investment than it makes, but only as long as it involves technology sharing. And it does not open its market to investment in monopolistic public utilities.

Spain is already the second country in direct investments in Brazil. Those investments were mainly directed towards monopolistic or quasi-monopolistic services. And they profited from government subsidies. For the Spanish government, it pays to support its companies. They thus become rent-seekers ndash they receive a guaranteed and high income that increases their wealth. Wouldnt it also increase ours? In most cases, no, since the substitution of foreign for domestic savings represented by the direct investments means additional indebtedness, an obligation to pay high dividends, and little or no increase in the investment rate.