Topics covered by the report

1. Overview of FDI in the region
2. Central America, Panama and the Dominican Republic: FDI and export platforms
3. Direct investment by China in Latin America and the Caribbean
4. Telecommunications: the transition to technological convergence with broadband
5. FDI in the software industry in Latin America
FDI determinants

• What do transnationals seek?
  o Raw materials
  o Markets
  o Efficiency (low cost)
  o Strategic assets

• ECLAC proposes that two dimensions be incorporated in the transnationals’ strategy:
  o The absorption capacity of the receiving countries based on their national innovation system
  o The impact of FDI on development in terms of employment, innovation of the production structure, including spillovers, capacity-building and learning trajectories
Developments in FDI and transnational companies in Latin America and the Caribbean
Global FDI rose by a mere 1% in 2010, to total US$ 1.12 trillion.

The volumes of FDI flowing into developing economies increased by 10%, while the amount going to developed countries fell by 7%.
For the first time ever, developing countries were the largest recipients of FDI with 53% of the global total.

...and within this group, Latin America and the Caribbean gained importance as a host region for FDI: its share of the global total rose from 5% to 10% in 4 years.
Latin America and the Caribbean was the region registering the sharpest rise in FDI inflows in 2010.
FDI flows into Latin America and the Caribbean surged by 40% in 2010 to reach US$ 113 billion.
Regional overview in 2010

- FDI in Argentina and Mexico rose again
- Brazil received record amounts and continued to be the largest recipient of FDI, followed by Mexico and Chile
- Brazil and Mexico are the region's main destinations for investment in high-tech sectors and R&D activities
- FDI surged by over 50% in Paraguay, Brazil, Argentina, the Plurinational State of Bolivia and Honduras
- FDI was up in all the countries of the Central American Isthmus, except El Salvador
- FDI was down by 18% in the Caribbean subregion, owing to the drop in tourism
Largest recipients of FDI in the region

**LATIN AMERICA AND THE CARIBBEAN: FDI INFLOWS OF THE REGION’S LARGEST RECIPIENTS, 2009-2010**

*(Billions of dollars)*

- Brazil
- Mexico
- Chile
- Peru
- Colombia
- Argentina
- Panama
- Uruguay
- Dominican Republic
- Costa Rica

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>45.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>15.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Chile</td>
<td>10.0</td>
<td>15.0</td>
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<tr>
<td>Peru</td>
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<td>5.0</td>
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<td>Colombia</td>
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<tr>
<td>Argentina</td>
<td>3.0</td>
<td>2.0</td>
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<tr>
<td>Panama</td>
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<td>Uruguay</td>
<td>0.5</td>
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</tr>
<tr>
<td>Dominican Republic</td>
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</tr>
<tr>
<td>Costa Rica</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>
Looking at relative weight of FDI in the host economy gives a reverse order, however.
FDI reinforces production specialization in Latin America and the Caribbean

LATIN AMERICA AND THE CARIBBEAN: DESTINATION SECTORS FOR FDI BY SUBREGION, 2005-2010
(Percentages)

South America is deepening its specialization in primary activities, while in Mexico, Central America and the Caribbean, manufactures for export are benefiting from the upturn in the United States.
South America: net FDI inflows in 2010

- FDI has almost recovered to pre-crisis levels and now stands at US$ 85.143 million (56%)

- Domestic demand (size and buoyancy) – Brazil – has been the main factor in this recovery

- Demand for natural resources: mining, hydrocarbons and foods (good prices)
Central American Isthmus and Dominican Republic: net FDI inflows (1991-2010)

- Panama and the Dominican Republic attracted more FDI in absolute terms (24% and 25%), followed by Costa Rica (19%), Honduras (10%), El Salvador (9%), Guatemala (8%) and Nicaragua (6%)

- Low-cost export platforms were the dominant feature

- FDI in free economic zones accounted for a significant percentage of the total

- Origin of investment: United States (38%), Spain (8%), Canada (6%) and Mexico (4%)
Between 1999 and 2010, a shift occurred in the strategies and the sectors targeted by FDI

- From manufactures to services, as a result of fiscal and financial incentives
- Fiscal incentives are losing relevance and will be phased out by 2016 (except in Honduras and Nicaragua)
  - Agreement on Textiles and Clothing (eliminates quotas in favour of China and India)
  - WTO Agreement on Subsidies and Countervailing Measures (prior to 2016)
- Export diversification: from textiles and clothing to electronics and medical devices; and expansion of new services (back office, call centres)
- From export promotion to attracting investments to enhance the local impact
FDI in Mexico in 2010

- FDI grew by 17% and thus, the country consolidated its position as the second-largest recipient in the region (US$ 17.7 billion)
- Mexico increased its outward investments by 81% to become a major regional investor with a record figure: US$ 12.7 billion
- The leading recipient sectors were manufactures (60%) and services (37%)
- In manufactures, the most buoyant sectors were food and beverages, metal products, and machinery and equipment, while in services, commerce and financial services were dominant.
- In terms of origin, the Netherlands was the strongest investor (50%), followed by the United States (28%)
FDI determinants in Mexico

- **Factors that boosted FDI in the past 10 years**
  - Extensive border with the United States
  - Lower factor costs, especially wages
  - Trade agreements with the leading global markets, especially NAFTA
  - Strong presence of transnational companies and their providers on Mexican soil

- **Determinants in the future**
  - Better balance between the external market and the internal market (strength of domestic demand)
  - Improvement of local capacities (education, technological development and innovation)
  - Opportunities in low-carbon paths in consolidated industries – automobile and energy: inputs and finished products
Announcements of new investment in medium-high-tech projects in Latin America and the Caribbean are on the rise.

...although the region’s production structure cannot compare with that of the more dynamic Asian economies...
The highest-tech projects announced are concentrated in Brazil and Mexico

LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF FDI PROJECTS ANNOUNCED, BY TECHNOLOGY INTENSITY, 2010
(Percentages)
Headway is being made by knowledge-intensive services such as software

- During the period 2004-2011, the Latin American and Caribbean region has hosted global service centres for IT, research and development, and software, which operate to international standards of quality and efficiency in locations with skilled human resources
  - Córdoba, Guadalajara, São Paulo
- The region is considered a complementary location for operations in India, China and Eastern Europe: language, time zone, culture
- R&D-based industries do not spring up spontaneously:
  - Capacity-building (critical mass, manufactures)
  - Policies for promoting development of local industry, attracting FDI and fostering its engagement with local innovation systems
China is the year’s news item as an FDI source

Traditional investor countries have lost ground, while China and the Latin American and Caribbean region itself (trans-Latins) have become increasingly important as investors.
South-South investment flows have gained renewed significance in Latin America and the Caribbean

- China now a key player
  - In 2010, Chinese firms invested almost US$ 15 billion in Latin America, basically in the form of mergers and acquisitions (Repsol YPF, Brasil-Sinopec and Bridas-CNOOC)
  - Much of Chinese FDI has gone to the natural resources frontier: copper mining in Peru and oil drilling in Brazil and Argentina
  - Chinese FDI is likely to continue to be important in the next few years and could diversify into infrastructure and manufactures

- The advance of the trans-Latins has made them an important source of financing in Latin America and the Caribbean
Trans-Latins are gaining relevance on the global corporate stage
Investments by trans-Latins have grown rapidly in the last five years

- Trans-Latins account for 17% of investments originating in developing countries
- Investment by trans-Latins reached a new high in 2010, at US$ 43 billion
- Trans-Latins are showing growing sectoral and geographical diversification
In 2010, Mexico was the main source of outward FDI in Latin America and the Caribbean.
Mexico: outward FDI, 2001-2010

(Billions of dollars)

Source: Secretariat of the Economy. General Directorate of Foreign Investment.

* Average for the period.
Leading trans-Latins by total sales in 2010

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Sales (millions of dollars)</th>
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<tbody>
<tr>
<td>Petrobras</td>
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<tr>
<td>PDVSA</td>
<td>Venezuela (Bolivarian Republic of)</td>
<td>95 530</td>
</tr>
<tr>
<td>Vale</td>
<td>Brazil</td>
<td>49 949</td>
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<tr>
<td>América Móvil</td>
<td>Mexico</td>
<td>49 221</td>
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<tr>
<td>Itaú-Unibanco</td>
<td>Brazil</td>
<td>46 317</td>
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<tr>
<td>JBS Group (FRIBOI)</td>
<td>Brazil</td>
<td>28 418</td>
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<tr>
<td>Gerdau</td>
<td>Brazil</td>
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</table>
América Móvil and Telefónica share dominance in the region

- Mobile telephony is driving the telecommunications industry in the region (approx. 100% penetration)
- Streamlining and integration of assets to offer integrated commercial products
- In general, services are not supported by next generation networks and are delivered in a lagged and segmented manner
- The leading firms are moving towards becoming broadband companies by affording priority to mobility and convergence
- Broadband is crucial to development strategies: stimulus policies and financial resources for universal access
Summary and conclusions
Closing messages

• The Latin American and Caribbean region is becoming more integrated into the economic globalization process: FDI is increasing and outward direct investment is at an all-time high.

• Stronger South-South business integration: trans-Latins and China are emerging as more significant sources of FDI.

• Natural-resource-seeking and domestic-market-seeking strategies are on the rise (South America).

• Opportunity to channel more FDI towards technology- and R&D-intensive sectors (Mexico).

• Regimes are changing to foster strategies for developing export platforms in free economic zones (Central America).

• Need to speed up convergence, competition and connectivity in telecommunications and broadband service.

• Integration of the software industry into global production chains.
But boom periods, too, have their problems...

- At the macroeconomic level, currencies are strengthening
- The trend towards reprimarization is intensifying
- Manufacturing sectors are becoming more vulnerable
- Production linkages are more difficult to establish
- The competitiveness of non extractive exports is compromised
- Challenges: taxation of extractive industries and foreign capital controls
Prospects for 2011

- Uncertainty over the economic recovery in the developed countries makes it difficult to venture projections.
- The region’s growth outlook, long-term trends and preliminary information suggest, however, that FDI inflows could rise by between 15% and 25%.
- FDI could reach a new record high.
Outlook for FDI growth in 2011

LATIN AMERICA AND THE CARIBBEAN: RANGE OF PROJECTION FOR FDI, 2011
(Billions of dollars)
Looking further ahead

- The region still faces the challenge of building up its capacity to absorb the benefits of FDI and of attracting investment in high-tech sectors.
- This calls for production development policies based on innovation and local capacity-building.
Foreign Direct Investment
in Latin America and the Caribbean