Themes of the report

• Recent developments
  – Regional overview of FDI
  – Consolidation of expansion process by trans-Latins

• Beyond the current situation…
  – Employment and FDI
  – FDI income
  – FDI in the agricultural and agro-industry sector
Regional overview of FDI in 2012

- Global FDI flows were down by 13% on 2011, from US$ 1.61 trillion to US$ 1.39 trillion.
- The sharpest falls were seen in the United States (-25.3%) and the European Union (-24.8%).
- Flows to developing countries fell 3% and represented 49% of the total.
- FDI flows rose in only two world regions: Africa (5.5%) and Latin America (6.7%).
- A drop in mergers and acquisitions influenced the overall decline.
A record year for Latin America and the Caribbean

- In 2012 the region received US$ 173.361 billion in FDI: 6.7% more than in 2011.

- This is the highest figure ever and represents 12% of global flows.

- Brazil was again the largest recipient, with US$ 65.272 billion in FDI.

- Chile was the second largest destination: FDI inflows climbed strongly (32.2%) to US$ 30.323 billion.

- In Mexico FDI was down by 35%, to the lowest level for 13 years.
Brazil was the region’s largest recipient of FDI in 2012, followed by Chile.

**Latin America and the Caribbean (selected economies): inward foreign direct investment, 2011-2012**

*(Billions of dollars)*

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
Profit reinvestments have risen as a proportion of the total

Latin America and the Caribbean: foreign direct investment by component, 2000-2012

(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC,) on the basis of preliminary figures and official estimates at 29 April 2013.
In 2012, FDI flows into the region were equivalent to 3% of GDP

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
Investment by Latin American firms rose in 2012, although the United States and the European Union are still the largest investors in Latin America

**Latin America and the Caribbean: origin of foreign direct investment, 2007-2012**

*Percentages*

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
FDI entrenches existing production specialization in Latin America and the Caribbean

Latin America and the Caribbean: destination sectors for foreign direct investment, by subregion, 2007-2012

(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
Trans-Latin firms continue to expand
Investment by trans-Latins rose 17% in 2012

Latin America and the Caribbean: outward foreign direct investment, 1990-2012

(Billions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
7 of the 10 largest transactions by trans-Latins were acquisitions from European firms, and four of these involved assets in Latin America.

Firms from Brazil were major players: they account for 7 of the 20 largest acquisitions by trans-Latins in 2012.

The remainder of these operations were transacted by firms from Chile (6), Mexico (4), Argentina (2) and Colombia (1).
Firms from Mexico and Chile were the most active in FDI in 2012

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
Beyond the current conditions

The production specialization of FDI affects job creation
The sectors to which FDI is directed affect job quantity and quality.

Differences in the direct job content of FDI by economic activity

(Jobs per US$ 1 million invested)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of FDI Financial Markets.
Employment creation varies by the specialization of FDI in the different subregions

**Subregional differences in the direct job content of FDI, 2003-2012**
*(Estimated number of jobs created per US$ 1 million invested)*

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of FDI Financial Markets.
Beyond the current conditions

The earnings of transnational firms increased fivefold in 10 years. Almost half are reinvested, however.
FDI income rose from US$ 20 billion in 2002 to US$ 113.067 billion in 2011

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
Two main factors explain the increased earnings

• The FDI stock built up: FDI stock increased in relation to the size of the economies, principally between 1996 and 2002.

• Returns on FDI began to rise in 2003, owing to expanding domestic demand (for domestic-market-oriented firms) and rising export commodity prices (for firms which export natural resources).
Countries which specialize in natural resources have been the most profitable for FDI

Returns on FDI stock in selected economies, average 2007-2011
(Annual rates)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.
FDI income in Latin America and the Caribbean will remain high for the next few years

- Returns vary with the business cycle, but since FDI stock remains high, annual FDI income and repatriations will remain high, as well.
- Profit repatriation could generate balance-of-payments tensions in some countries.
- Countries with a lot of FDI in non-export sectors could be more vulnerable.
Beyond the current conditions

Rising global demand for food and energy has helped drive restructuring of agro-industrial chains.
Three major trends shape FDI in agriculture and agro-industry in the region

- Rising global demand for food and energy.
- Higher incomes and increasing urbanization in emerging economies.
- Growing links between the production of foods, animal feed and energy.

These trends have driven up FDI in:

- Flex crops
- Land purchase
- Restructuring of agro-industrial value chains
In Latin America and the Caribbean, FDI has not flowed into the land market on the same scale as in other regions.

- 13.4% of all announced land purchases involve Latin America and the Caribbean.
- The greatest growth is in production of flex crops.
- Many of these land transactions are taking place in Argentina, Brazil and Uruguay and are being conducted by trans-Latins (30%).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Land Matrix.
Changes in the way global agro-industrial value chains operate

- Global firms are seeking greater vertical integration, including marketing stages closer to the consumer.
- A number of trans-Latins are becoming global players in the sector.
- Biofuels are becoming more significant:
  - Brazil leads ethanol production.
  - New players are arriving: oil companies (BP, Shell, Petrobras).
  - Argentina is the region’s main biodiesel producer.
- There are risk of “extractive agriculture”: planting pools have spread to Brazil, Paraguay, the Plurinational State of Bolivia and Uruguay.
Considerations for policymaking
Positive signals

• In 2012, FDI flows into Latin America and the Caribbean hit a new record, amid global stagnation and uncertainty.
• The region's share in global FDI flows continues to rise.
• FDI rose as a percentage of GDP for the third year running: from 2.0% in 2009 to 3% in 2012.
• Trans-Latins are still expanding.
• FDI represents a significant complement to gross fixed capital formation.
But the time has come to rethink FDI

- Sectoral patterns of FDI entrench production structure.
- Direct job creation is modest and varies by the sectoral destination of FDI.
- Ever increasing amounts of profits are repatriated.
- There is a gap between expectations and outcomes: the potential benefits of FDI are not automatic.
- Initiatives to link FDI with long-term national development strategies and industrial policies are incipient and still limited.
Making FDI contribute to structural change for equality

• A new generation of public policies is needed to combine macroeconomic, productive, social and environmental objectives, and thereby promote a more diversified and sophisticated production structure and social inclusion.

• A balance needs to be struck between business strategies and development objectives in host countries.

• In this regard, progress could be made in:
  – Allocating a larger share of FDI income to the creation of funds for production development (innovation, technology SMEs, new sectors, among others)
  – Promoting the engagement of local SMEs with global value chains headed by transnational corporations.
  – Prioritizing FDI projects which help to close gaps in environmentally-friendly technologies, develop modern infrastructure (broadband), and so forth.
  – Developing a better institutional structure for attracting quality FDI.
For 2013, FDI in Latin America and the Caribbean is projected to vary by between -3% and 7%.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 29 April 2013.