TOPICS COVERED IN THE 2004 REPORT

1. Chapter I: Regional overview of FDI
   - FDI trends in 2004
   - Trends among the region’s leading firms
2. Chapter II: FDI in Brazil
3. Chapter III: FDI in the Southern Cone’s electric power sector
4. Conclusions
1. Chapter I: Regional overview of FDI
(a) FDI trends in 2004

- **Recovery** of worldwide FDI flows thanks to an increase in flows to developing countries
- **China**: the top developing-country recipient, with disparate effects on different Latin American and Caribbean countries
- Flows to **Latin America and the Caribbean** grew (by 44%) for the first time in four years
- **Services** received the bulk of FDI flows
In 2004, FDI surged in developing countries
FDI flows to developing countries and to Central and Eastern Europe continued to grow; those to Asia and to Latin America and the Caribbean rebounded strongly
FDI flows to Latin America and the Caribbean*
(Billions of dollars)

* Excluding financial centres.

The start of a new FDI boom?
FDI flows as a percentage of GDP, 1992-2004*

* 3-year moving average

Source: IMF
China’s success in attracting FDI and its effects on Latin America and the Caribbean

- **New determinants**: admission to WTO, expiry of the Agreement on Textiles and Clothing, growing success in intermediate- and high-technology sectors
- **Enhanced benefits**: export growth, industrial and technological upgrading of the Chinese economy
- **Challenge for Mexico and the Caribbean Basin**
  - ✓ Keener competition for efficiency-seeking FDI
  - ✓ Loss of export market share
- **Trade (and investment?) opportunity for South America**: increase in natural resource exports to China
FDI flows to Latin America and the Caribbean: Two realities
(Billions of dollars)

Stability in Mexico and the Caribbean Basin; volatility in South America
FDI flows to Mexico and the Caribbean Basin, 1990-2004
(Billions of dollars)
FDI flows to South America, 1990-2004

(Billions of dollars)
The drop in FDI from Spain strengthened the United States’ position as the biggest individual investor.
The service sector has traditionally been the top recipient, although the proportion of FDI in manufacturing has risen in recent years.
### FDI as manifested in TNC sales, 2003
(Consolidated sales of the top TNCs)

<table>
<thead>
<tr>
<th>#</th>
<th>Firm</th>
<th>Country</th>
<th>Sector</th>
<th>Sales in LAC (millions of dollars)</th>
<th>% of global sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Motors Corp.</td>
<td>United States</td>
<td>Automotive</td>
<td>14,317</td>
<td>7.3</td>
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<tr>
<td>2</td>
<td>Telefónica</td>
<td>Spain</td>
<td>Telecom.</td>
<td>14,112</td>
<td>44.7</td>
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<tr>
<td>3</td>
<td>Wal-Mart Stores</td>
<td>United States</td>
<td>Commerce</td>
<td>12,031</td>
<td>4.6</td>
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<tr>
<td>4</td>
<td>Volkswagen AG</td>
<td>Germany</td>
<td>Automotive</td>
<td>10,457</td>
<td>10.6</td>
</tr>
<tr>
<td>5</td>
<td>DaimlerChrysler AG</td>
<td>Germany</td>
<td>Automotive</td>
<td>10,123</td>
<td>6.5</td>
</tr>
<tr>
<td>6</td>
<td>Delphi Automotive Systems</td>
<td>United States</td>
<td>Motor vehicle parts</td>
<td>10,040</td>
<td>35.7</td>
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<tr>
<td>7</td>
<td>Repsol YPF</td>
<td>Spain</td>
<td>Oil/gas</td>
<td>7,345</td>
<td>17.5</td>
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<td>8</td>
<td>Endesa</td>
<td>Spain</td>
<td>Electricity</td>
<td>7,257</td>
<td>38.7</td>
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<tr>
<td>9</td>
<td>Ford Motor Co.</td>
<td>United States</td>
<td>Automotive</td>
<td>7,168</td>
<td>4.4</td>
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<tr>
<td>10</td>
<td>Telecom Italia SpA</td>
<td>Italy</td>
<td>Telecom.</td>
<td>6,765</td>
<td>19.2</td>
</tr>
</tbody>
</table>
FDI can influence the Latin American and Caribbean region’s global market share

(Market share of world imports, in percentages)

For example, the global market share of **Mexico and the Caribbean Basin** has grown thanks to FDI in non-natural-resource-based manufactures (automotive and electronics industries)
Chapter I: Regional overview of FDI

(b) Trends among the region’s leading firms

• Smaller TNC share of the total sales and exports of the region’s leading firms

• Rise of local private firms, emergence of “trans-Latins”

• Resurgence of State-owned oil and gas firms

• New services: a budding opportunity, although projects are few and FDI volumes are very low
Latin America: Total sales of the top 500 firms, by ownership, 1990-2003
(Percentages)

Foreign firms are losing ground
Since the end of the FDI boom, the TNC share of sales and exports has declined in all sectors.
The rise of “trans-Latins”
(Leading firms by sales, 2003)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Country of origin</th>
<th>Sector</th>
<th>Sales (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrobras</td>
<td>Brazil</td>
<td>Hydrocarbons</td>
<td>33,138</td>
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<tr>
<td>Telmex</td>
<td>Mexico</td>
<td>Telecommunications</td>
<td>10,399</td>
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<tr>
<td>América Móvil</td>
<td>Mexico</td>
<td>Telecommunications</td>
<td>7,649</td>
</tr>
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<td>CEMEX</td>
<td>Mexico</td>
<td>Cement</td>
<td>7,167</td>
</tr>
<tr>
<td>Companhia Vale do Rio Doce</td>
<td>Brazil</td>
<td>Mining</td>
<td>6,729</td>
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<tr>
<td>FEMSA</td>
<td>Mexico</td>
<td>Soft drinks/Beer</td>
<td>6,669</td>
</tr>
<tr>
<td>Odebrecht</td>
<td>Brazil</td>
<td>Construction</td>
<td>5,998</td>
</tr>
<tr>
<td>Grupo Carso</td>
<td>Mexico</td>
<td>Industry/Commerce</td>
<td>5,045</td>
</tr>
<tr>
<td>Gerdau</td>
<td>Brazil</td>
<td>Steel</td>
<td>4,627</td>
</tr>
<tr>
<td>Grupo Alfa</td>
<td>Mexico</td>
<td>Petrochemicals</td>
<td>4,164</td>
</tr>
</tbody>
</table>
The resurgence of State-owned firms as a result of...

- **Strong demand** for commodities (hydrocarbons, metals) and a consequent upturn in their prices
- **International influence** of PDVSA (Bolivarian Republic of Venezuela)
- **Political circumstances** (Bolivia) and the response to a crisis situation (Argentina) led to the establishment of State-owned hydrocarbons firms in these countries
Attracting FDI in new services

• Call centres, shared services, information technologies, regional headquarters, R&D

• **FDI in new services**: efficiency-seeking and, in some cases, regional market-seeking

• Represents an **opportunity** that the region has not seized adequately in terms of attracting high-volume, high-quality FDI. The region is lagging behind other developing countries in this regard (it receives only 3% of FDI in these services and 6% of all call-centre projects).
2. Chapter II: FDI in Brazil

• Importance of FDI
• Predominance of a local and regional market-seeking strategy
• Government interest in promoting efficiency-seeking export-oriented FDI
The latest FDI cycle is accounted for by market expansion, an upturn in the economy, stronger guarantees and new opportunities in privatized services and other sectors.
TNC shares in Brazil’s total sales and foreign trade, 1992 and 2000

(Percentages)
Services have received the lion’s share of FDI, although manufactures have gained ground in recent years. The United States is the largest investor; Spain and Portugal played an important role during the FDI boom.
Elements of an FDI policy

- **Reduce the “Brazil cost”:** mitigate factors having a direct impact and those linked to risk and uncertainty
- **Clearly define the role of FDI:** improve the regulation of services and implement the new industrial policy
- **Create an agency to administer the new FDI policy**
  - Identify beneficial opportunities
  - Attract the relevant TNCs
  - Evaluate the benefits on an ongoing basis
3. Chapter III: FDI in the Southern Cone’s electric power sector

Causes of the electricity crisis:

– Regulatory uncertainty and risk
– Weather-related factors (drought)
– Macroeconomic factors (devaluation)
– Problems in some TNCs operating in the region
Energy integration in the Southern Cone is crucial for electricity markets. The Southern Cone must increase its electric power capacity. One way to do this is to attract new FDI from new agents such as petroleum firms interested in integrating gas and electric power activities. Governments can implement policies to promote the formation of a regional market in line with the region’s development strategy. This also requires coordination among the countries’ energy policies.
4. Conclusions

• FDI is increasing, but outstanding challenges remain

• Goals:
  – **Improve the quality** of FDI and enhance its impact (technology transfer, deepening of production linkages, human resources training and local business development)
  – **Improve the business climate** to boost TNC activity
  – **Heed signs of discontent**: disputes brought before international tribunals (mainly by TNCs in Argentina)
  – **Design targeted policies** to promote FDI
  – **Evaluate the benefits** in the context of each country’s development strategy
4. Conclusions

The biggest *challenge* for Latin America and the Caribbean, apart from continuing to increase FDI inflows, is to **enhance the impact of FDI by defining national strategies** to facilitate its entry. The countries must also provide for the **ongoing evaluation** of the effects of FDI and implement **targeted policies** to improve its quality.
FOREIGN INVESTMENT IN LATIN AMERICA AND THE CARIBBEAN—2004 REPORT

Presentation by Mr. José Luis Machinea,
Executive Secretary of ECLAC

Santiago, Chile, 15 March 2005