Foreign investment in Latin America and the Caribbean, 2007

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Structure of the report

I- Foreign direct investment and transnational corporations in Latin America and the Caribbean

II- The ICT hardware industry in Latin America

III- Telecommunications service operators

IV- Canadian investment in Latin America and the Caribbean
Global FDI soared to record levels in 2007: US$ 1.8 billion

FDI received by developed countries accounted for 70% of the total and for 80% of the increase. Mergers and acquisitions continued to drive FDI growth.
FDI in developing (and transition) economies increased by 21% to US$ 542 billion.

FDI flows into Latin America rose by 46%. Asia is the leading developing-region recipient. In GDP terms, FDI is higher in transition economies.
Latin America and the Caribbean constitute the developing region where FDI increased the most in relative terms in 2007.

FDI has reached record levels: US$ 105.925 billion (the previous record was largely attributable to privatizations).

FDI has grown in both subregions, but more so in South America.
FDI grew in almost all countries, but Brazil, Chile, Colombia and Mexico account for 90% of the increase

(US$ billions and percentages)

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2007</th>
<th>Increase in 2007</th>
<th>△%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>18.782</td>
<td>34.585</td>
<td>15.803</td>
<td>84%</td>
</tr>
<tr>
<td>Mexico</td>
<td>19.211</td>
<td>23.230</td>
<td>4.019</td>
<td>21%</td>
</tr>
<tr>
<td>Chile</td>
<td>7.358</td>
<td>14.457</td>
<td>7.100</td>
<td>96%</td>
</tr>
<tr>
<td>Colombia</td>
<td>6.464</td>
<td>9.028</td>
<td>2.565</td>
<td>40%</td>
</tr>
<tr>
<td>Argentina</td>
<td>5.037</td>
<td>5.720</td>
<td>.683</td>
<td>14%</td>
</tr>
<tr>
<td>Peru</td>
<td>3.467</td>
<td>5.343</td>
<td>1.876</td>
<td>54%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>1.469</td>
<td>1.889</td>
<td>.420</td>
<td>29%</td>
</tr>
<tr>
<td>Panama</td>
<td>2.574</td>
<td>1.825</td>
<td>-.749</td>
<td>-29%</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>1.459</td>
<td>1.698</td>
<td>.239</td>
<td>16%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>.219</td>
<td>1.526</td>
<td>1.307</td>
<td>597%</td>
</tr>
<tr>
<td>Other</td>
<td>6.545</td>
<td>6.623</td>
<td>.078</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>72.585</td>
<td>105.925</td>
<td>33.340</td>
<td>46%</td>
</tr>
</tbody>
</table>
In terms of GDP, Central America and Chile are the leading recipients.

RATIO OF NET FOREIGN DIRECT INVESTMENT TO GDP, 2006-2007
(In percentages)
United States, Netherlands and Spain are the leading investors

- FDI from the United States was proportionally lower in 2007.
- Intraregional investments still limited but are on the rise.
- Canada: an upward trend but underestimated in official data for 2007, which do not cover reinvestment in Chile’s mining sector.
Services are the predominant sector but there are major differences between countries.

There is room for improvement in the area of statistics.
Natural-resource-seeking investments

- Mining is more robust than hydrocarbons
  - Chile, Brazil, Peru are the main recipients
  - Projects in Argentina point to significant growth in the sector
  - Mining is also expanding in Mexico and Central America (non-traditional destinations)

- Growth of FDI in hydrocarbons is heavily concentrated in Colombia

- Biofuels: investors are still cautious but investment projects/announcements reflect growing interest
Market-seeking investments

- Spurred by growth, increases in real revenues, improved access to credit in major markets
- Incorporation of lower-income consumers
- Most robust sectors:
  - Automotive
  - Mass consumer goods (foodstuffs, beverages, personal hygiene and cleaning products)
  - Banking
  - Electricity
  - Retail trade
  - Construction/real estate/infrastructure
Efficiency-seeking investments geared to exports to third markets

- Concentrated in Mexico and the Caribbean Basin
- This category is the most sensitive to the slowdown in the United States, but the results do not show any reduction in FDI in 2007 (increases in some segments)
  - Evidence of a slowdown emerged only in the last quarter
  - Initial signs of market diversification
- Beyond short-term considerations, the challenge posed by Asian competition: countries have sought diversification, vertical integration (clothing), increase in value added.
  - New sectors: aerospace, electronics and offshore services
- Growing importance of services exports
## Mergers and acquisitions in 2007: more mega-transactions

<table>
<thead>
<tr>
<th>Enterprise or assets bought</th>
<th>Country</th>
<th>Purchasing firm</th>
<th>Country of purchasing firm</th>
<th>Stated value (US$ billions)</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road concessions</td>
<td>Mexico</td>
<td>Goldman Sachs/ICA</td>
<td>United States/Mexico</td>
<td>4.021</td>
<td>Road infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consortium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imsa Group</td>
<td>Mexico</td>
<td>Ternium</td>
<td>Argentina</td>
<td>3.187</td>
<td>Steel</td>
</tr>
<tr>
<td>RBTT Financial Holdings</td>
<td>Trinidad and Tobago</td>
<td>Royal Bank of Canada</td>
<td>Canada</td>
<td>2.187</td>
<td>Financial services</td>
</tr>
<tr>
<td>ArcelorMittal Inox</td>
<td>Brazil</td>
<td>ArcelorMittal</td>
<td>India</td>
<td>1.808</td>
<td>Steel</td>
</tr>
<tr>
<td>∞ Electricity and natural gas assets</td>
<td>Mexico</td>
<td>Gas Natural SDG</td>
<td>Spain</td>
<td>1.448</td>
<td>Electricity</td>
</tr>
<tr>
<td>Serasa SA</td>
<td>Brazil</td>
<td>Experian Group</td>
<td>Ireland</td>
<td>1.191</td>
<td>Financial services</td>
</tr>
<tr>
<td>MMX Minas-Rio</td>
<td>Brazil</td>
<td>Anglo American</td>
<td>United Kingdom</td>
<td>1.150</td>
<td>Steel</td>
</tr>
<tr>
<td>Tobacco-related businesses in Mexico</td>
<td>Mexico</td>
<td>Altria Group</td>
<td>United States</td>
<td>1.100</td>
<td>Tobacco</td>
</tr>
<tr>
<td>Atacadão</td>
<td>Brazil</td>
<td>Carrefour</td>
<td>France</td>
<td>1.100</td>
<td>Retail trade</td>
</tr>
<tr>
<td>Caribbean businesses</td>
<td>Various Caribbean</td>
<td>Marubeni</td>
<td>Japan</td>
<td>1.082</td>
<td>Electricity</td>
</tr>
</tbody>
</table>
Strong State presence in natural resources, growth of local companies, withdrawal of transnationals. This trend may change with the increase in FDI in 2007.
### The main transnational groups in Latin America and the Caribbean, by sales in the region, 2006

<table>
<thead>
<tr>
<th>Rank</th>
<th>Firm</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Motors</td>
<td>United States</td>
<td>Automotive</td>
</tr>
<tr>
<td>2</td>
<td>Wal-Mart</td>
<td>United States</td>
<td>Commerce</td>
</tr>
<tr>
<td>3</td>
<td>Telefónica of Spain</td>
<td>Spain</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>4</td>
<td>Volkswagen</td>
<td>Germany</td>
<td>Automotive</td>
</tr>
<tr>
<td>5</td>
<td>Repsol-YPF</td>
<td>Spain</td>
<td>Petroleum/Natural gas</td>
</tr>
<tr>
<td>6</td>
<td>América Móvil/Telmex</td>
<td>Mexico</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>7</td>
<td>DaimlerChrysler</td>
<td>United States</td>
<td>Automotive</td>
</tr>
<tr>
<td>8</td>
<td>Ford</td>
<td>United States</td>
<td>Automotive</td>
</tr>
<tr>
<td>9</td>
<td>Nestlé</td>
<td>Switzerland</td>
<td>Foodstuffs</td>
</tr>
<tr>
<td>10</td>
<td>Royal Dutch-Shell</td>
<td>Netherlands/United Kingdom</td>
<td>Petroleum/Natural gas</td>
</tr>
<tr>
<td>28</td>
<td>Petrobras</td>
<td>Brazil</td>
<td>Petroleum/Natural gas</td>
</tr>
<tr>
<td>31</td>
<td>Techint</td>
<td>Argentina</td>
<td>Iron and steel/metallurgy</td>
</tr>
<tr>
<td>52</td>
<td>Cencosud</td>
<td>Chile</td>
<td>Commerce</td>
</tr>
</tbody>
</table>

Trans-Latins are already emerging as some of the leading transnationals in the region (data do not include sales within home country)
OUTWARD FOREIGN DIRECT INVESTMENT HAS GROWN SHARPLY IN RECENT YEARS

The downswing in 2007 was basically a reflection of the record performance in 2006 rather than a signal of a reversal of the trend towards corporate internationalization.

Cemex-Rinker: US$ 14.6 billion operation but partially financed by subsidiaries of Cemex located outside Mexico.

Growing diversification by firm and destination.
## OUTWARD FOREIGN DIRECT INVESTMENT: MAIN INVESTORS, 2006-2007

(US$ billions)

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>28.202</td>
<td>7.067</td>
</tr>
<tr>
<td>Mexico</td>
<td>5.758</td>
<td>5.479</td>
</tr>
<tr>
<td>Chile</td>
<td>2.876</td>
<td>3.830</td>
</tr>
<tr>
<td>Venezuela (Bol. Rep. of)</td>
<td>2.076</td>
<td>2.237</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.119</td>
<td>1.196</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.098</td>
<td>.370</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>.098</td>
<td>.228</td>
</tr>
<tr>
<td>El Salvador</td>
<td>-.026</td>
<td>.100</td>
</tr>
<tr>
<td>Other</td>
<td>.464</td>
<td>.112</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42.665</strong></td>
<td><strong>20.619</strong></td>
</tr>
</tbody>
</table>
## Main mergers and acquisitions by trans-Latins outside their home countries

<table>
<thead>
<tr>
<th>Purchasing firm</th>
<th>Country</th>
<th>Firm or assets bought</th>
<th>Country</th>
<th>Value (US$ billions)</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cemex</td>
<td>Mexico</td>
<td>Rinker Group</td>
<td>Australia</td>
<td>14.627</td>
<td>Cement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chaparral Steel</td>
<td>United States</td>
<td>3.974</td>
<td>Steel</td>
</tr>
<tr>
<td>Ternium</td>
<td>Argentina</td>
<td>Grupo Imsa</td>
<td>Mexico</td>
<td>3.187</td>
<td>Steel</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Connections/tubes for the petroleum industry</td>
</tr>
<tr>
<td>Tenaris</td>
<td>Argentina</td>
<td>Hydril</td>
<td>United States</td>
<td>1.994</td>
<td>Steel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quanex Corporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gerdau</td>
<td>Brazil</td>
<td>Swift &amp; Co. Drilling businesses and E&amp;P</td>
<td>Argentina and others</td>
<td>1.400</td>
<td>Foodstuffs - Meat Services for the petroleum industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GP Investments</td>
<td>Brazil</td>
<td></td>
<td></td>
<td>1.000</td>
<td></td>
</tr>
</tbody>
</table>
Summary and challenges

- In 2007, FDI in Latin America and the Caribbean reached record levels, mainly thanks to the buoyant regional market and natural resources
  - Transnational corporations have lost ground to local (State and private) companies – but the new surge in investment could reverse this trend

- Trans-Latins are increasingly internationalized, are ever-more important within the region and are reaching new markets

- In the short term, the slowdown in the United States economy could dampen investments, especially efficiency-seeking investments for which the United States is the main market

- In the longer term, the region faces the challenge of attracting investment in activities involving greater value added, in manufactures and in services
  - In manufactures, an extreme case illustrating these challenges is the ICT hardware industry
  - Prospects for export services
The ICT hardware industry in Latin America
The ICT hardware industry

- The term “ICT hardware” refers to products used to transmit, process and/or store data
  - Computers, telephones, network equipment, televisions, etc.

- Important in successful development processes in recent decades (for example, in Asia)

- Global changes in industry have opened up a new window of opportunity
  - Industry dominated by transnationals
  - Emergence of international systems of integrated production
  - Outsourcing of production and growing importance of contract manufacturers

- However, Latin America’s achievements appear to fall short of original expectations
In Latin America, industry remains concentrated in activities involving a low level of value added:

Value added

Pre-manufacturing ➔ Manufacturing ➔ Post-manufacturing

Source: ECLAC, on the basis of PRODUCEN – Strategic Intelligence Centre, presentation on the electronics cluster, Baja California, Mexico, November 2006.
The ICT hardware industry remains dependent on imported components.

- **MEXICO**
  - (efficiency-seeking transnationals)

- **Brazil**
  - (transnationals seeking access to the domestic market)
The challenge: moving on to activities involving more value added

- FDI contributions in the sector are significant
  - For job creation, technology and knowledge transfer, etc.

- Lack of significant volumes of FDI in high-value-added activities

- Difficult to “catch-up” in this particular sector

- Need to design strategies that help industry migrate to higher-value-added activities
  - De-verticalization has opened up opportunities in design, firmware and software activities, etc.

- However, the ICT industry at the user level shows great potential…
Telecommunications service operators
Telecommunications service operators: an industry undergoing rapid and profound change

- **Rapid technological change:**
  - As a consequence of increased access to broadband Internet, the traditional segmentation of the industry is beginning to fade
  - Deepening convergence and a rise in mobility: greater interconnection among networks

- **Change in market structure:**
  - Old local monopolies of basic telephone services are turning into integrated global enterprises that provide a wide range of services
  - Alternative companies are challenging the supremacy of the top players: TV cable operators and Internet content providers
  - Falling revenues in traditional (voice-based) sectors are forcing companies to seek out new sources of profits

- **New regulatory challenges:**
  - How to combine competition in access with infrastructure
Latin America: the gap in telephony is narrowing but it is widening in terms of PCs, Internet and broadband.

The most progress has been made in mobile telephony. Increased competition is driving investment in new network infrastructure. The deployment of broadband Internet technology (ADSL) has widened the choice of services (Triple Pack: telephone, Internet and television).
The two regional leaders: Telmex/América Móvil and Telefónica

Withdrawal of several foreign operators (AT&T, Verizon, BellSouth)
Challenges

- **For operators:**
  - Generating new sources of revenues (high-value-added services such as Internet Protocol Television (IPTV), Video on Demand (VoD) and mobile Internet) to offset falling revenues from traditional segments
  - Deepening and speeding up investment and innovation strategies in order to give value back to networks so as to support the growing traffic resulting from increasingly sophisticated user demand

- **For national authorities:**
  - Telecommunications contribute to countries’ systemic competitiveness => progress must be made in their use and diffusion
  - Is there a trade-off between increased competition and infrastructure?
Canadian investment in Latin America and the Caribbean
Canada’s outward FDI has outpaced its inward FDI

Canada: inward and outward FDI Stock, 1971-2006
(Percentages of GDP)

Source: ECLAC, based on Statistics Canada.
The United States is the main source and destination of Canadian FDI

Source: ECLAC, based on data from Statistics Canada.
Canada’s outward FDI is concentrated in a few sectors: finance and natural resources

Canadian OFDI, by sector
(Percentages)

Source: ECLAC, based on data from Statistics Canada.
Canadian FDI in Latin America and the Caribbean is concentrated in offshore financial centres

Canadian OFDI, by destination (Percentages)

Source: ECLAC, based on data from Statistics Canada.
In Latin America and the Caribbean, Canada’s FDI strategies are mostly natural-resource- and market-seeking strategies

- **Natural-resource-seeking strategies:**

- **Market-seeking strategies:**

- **Efficiency-seeking strategies:**
  - Nortel, Magna International, Bombardier, Celestica, Linamar, Gildan Activewear.
Canadian Companies’ Share of Mining Exploration in Latin America, 2002-2007

Source: ECLAC, based on information provided by the Metals Economics Group.
Final conclusions

- 2008: record amount of FDI inflows, although there is some uncertainty regarding the future
- The internationalization of trans-Latins is still going strong
- Technological advances: Latin America and the Caribbean are losing ground as a production base for ICT hardware (with limited domestic impacts), but are gaining ground as a user of new technologies
- Canada-LAC: the slowdown in the United States offers the opportunity to strengthen economic and business linkages
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