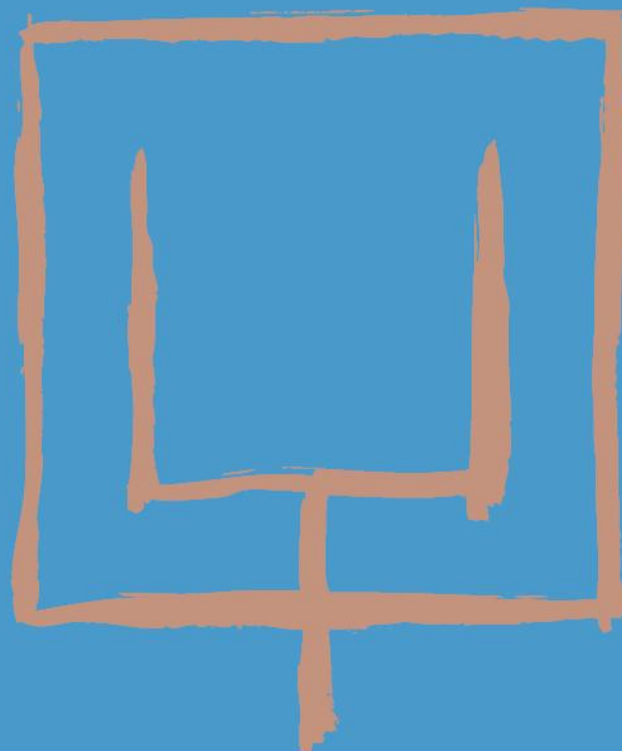


2011



Foreign Direct Investment
in Latin America and the Caribbean



UNITED NATIONS

ECLAC

Contents

1. Regional overview of foreign direct investment
2. Direct investments from the European Union
3. Foreign direct investment in electric power in Latin America and the Caribbean
4. Foreign banks in Latin America and the Caribbean
5. Consolidating the expansion of the trans-Latins



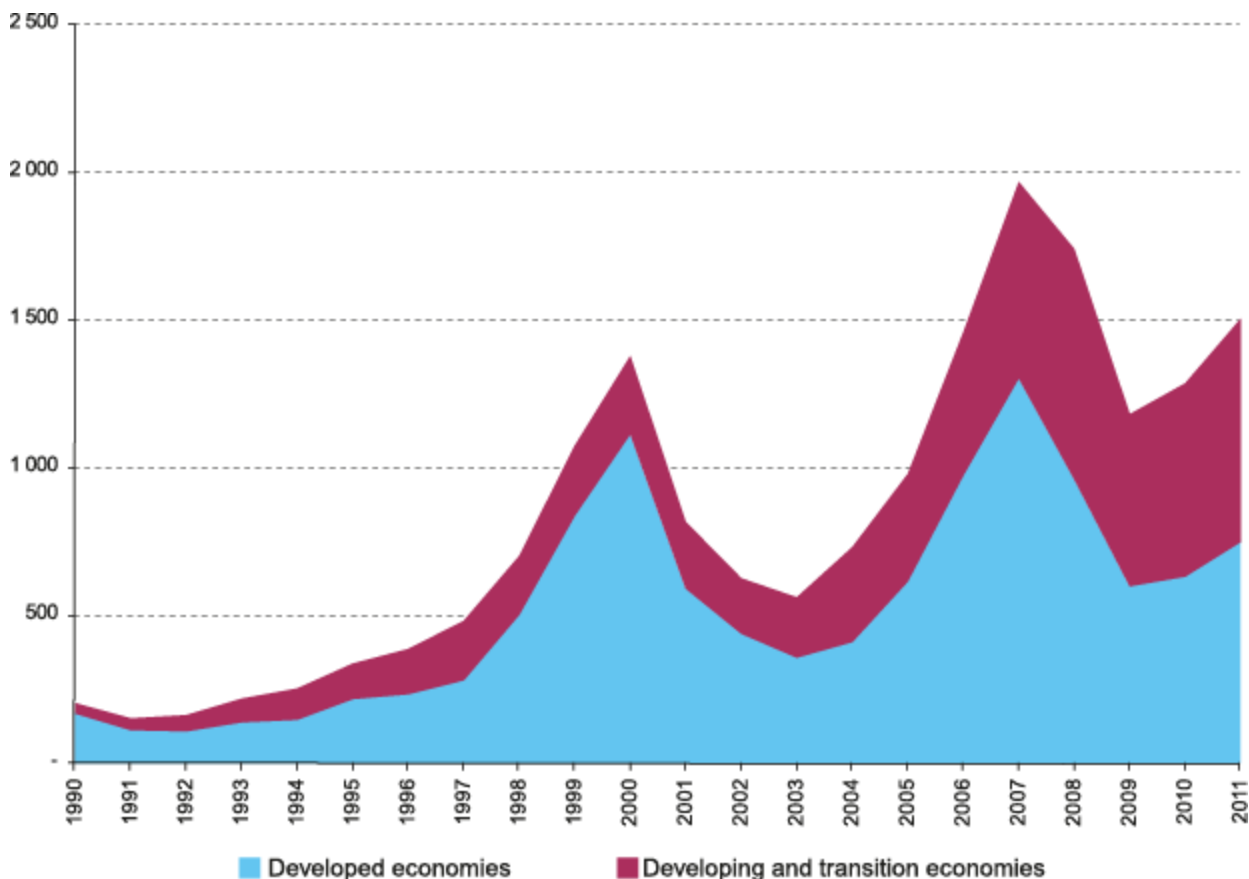
Global overview of FDI in 2011

- FDI flows expanded for the second consecutive year
- Developing countries received 50% of total FDI flows



Global FDI flows jumped up by 17%, from US\$1.29 trillion in 2010 to US\$ 1.51 trillion in 2011

GLOBAL FLOWS OF FOREIGN DIRECT INVESTMENT BY GROUP OF ECONOMIES, 1990-2011
(Billions of dollars)



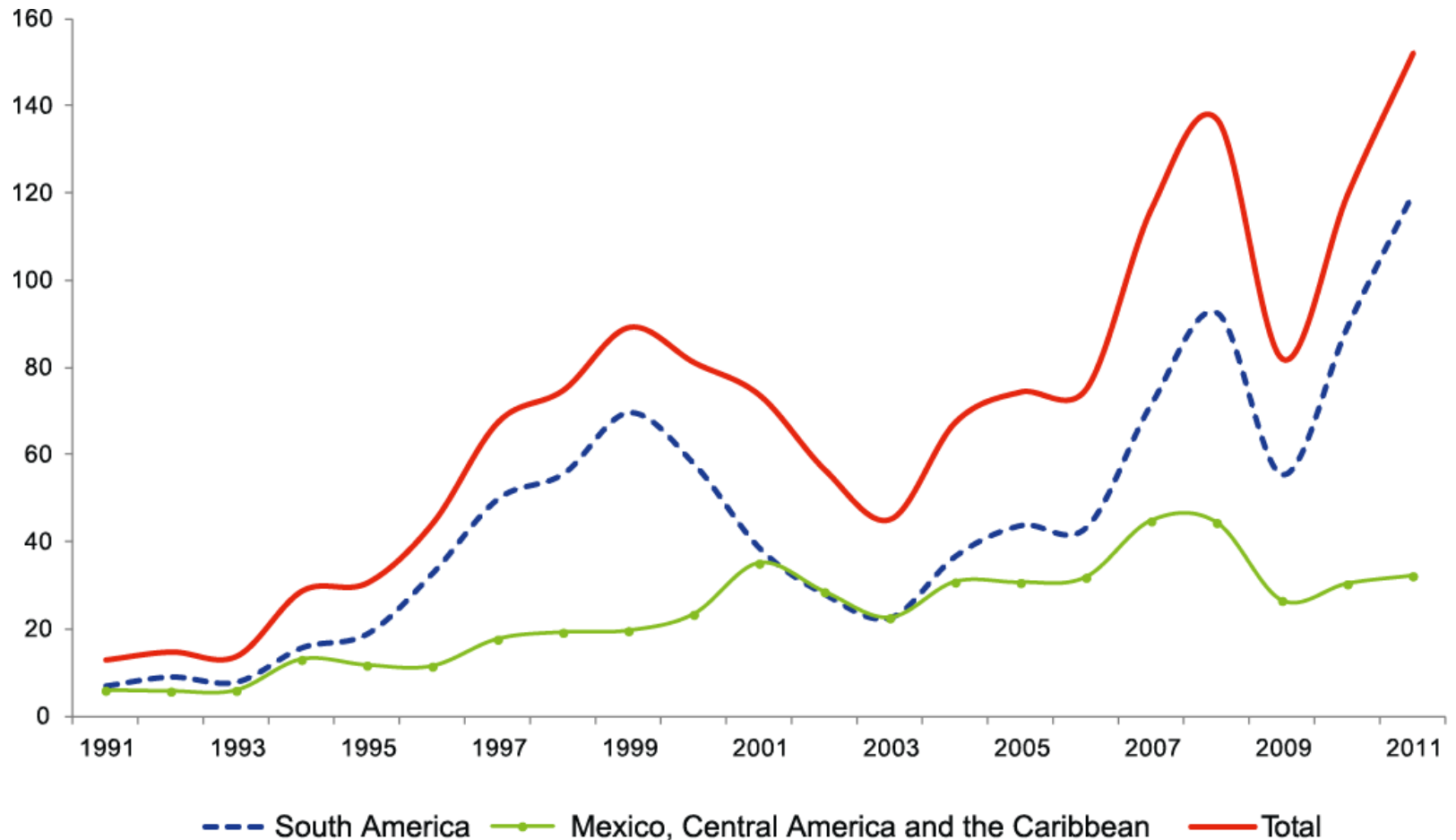
Latin America and the Caribbean posted record high FDI inflows in 2011, accounting for 10% of global FDI



In 2011, US\$ 153 billion in FDI flowed into Latin America and the Caribbean

LATIN AMERICA AND THE CARIBBEAN: TOTAL INFLOWS OF FOREIGN DIRECT INVESTMENT AND INFLOWS BY SUBREGION, 1991-2011

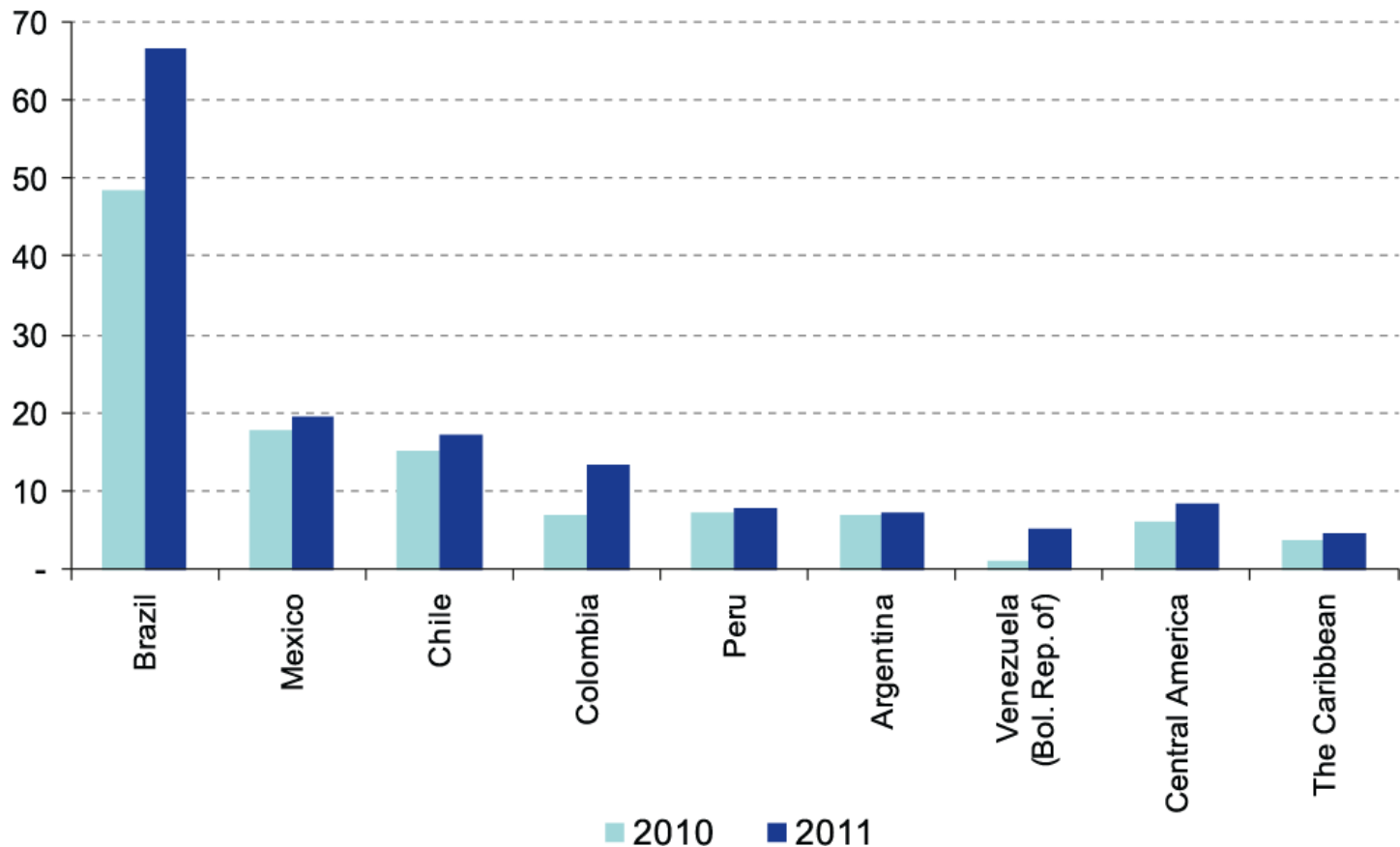
(Billions of dollars)



Inward FDI flows in Latin America and the Caribbean, 2011 and 2010

LATIN AMERICA AND THE CARIBBEAN: LARGEST RECIPIENTS OF FOREIGN DIRECT INVESTMENT, BY COUNTRY, 2010-2011

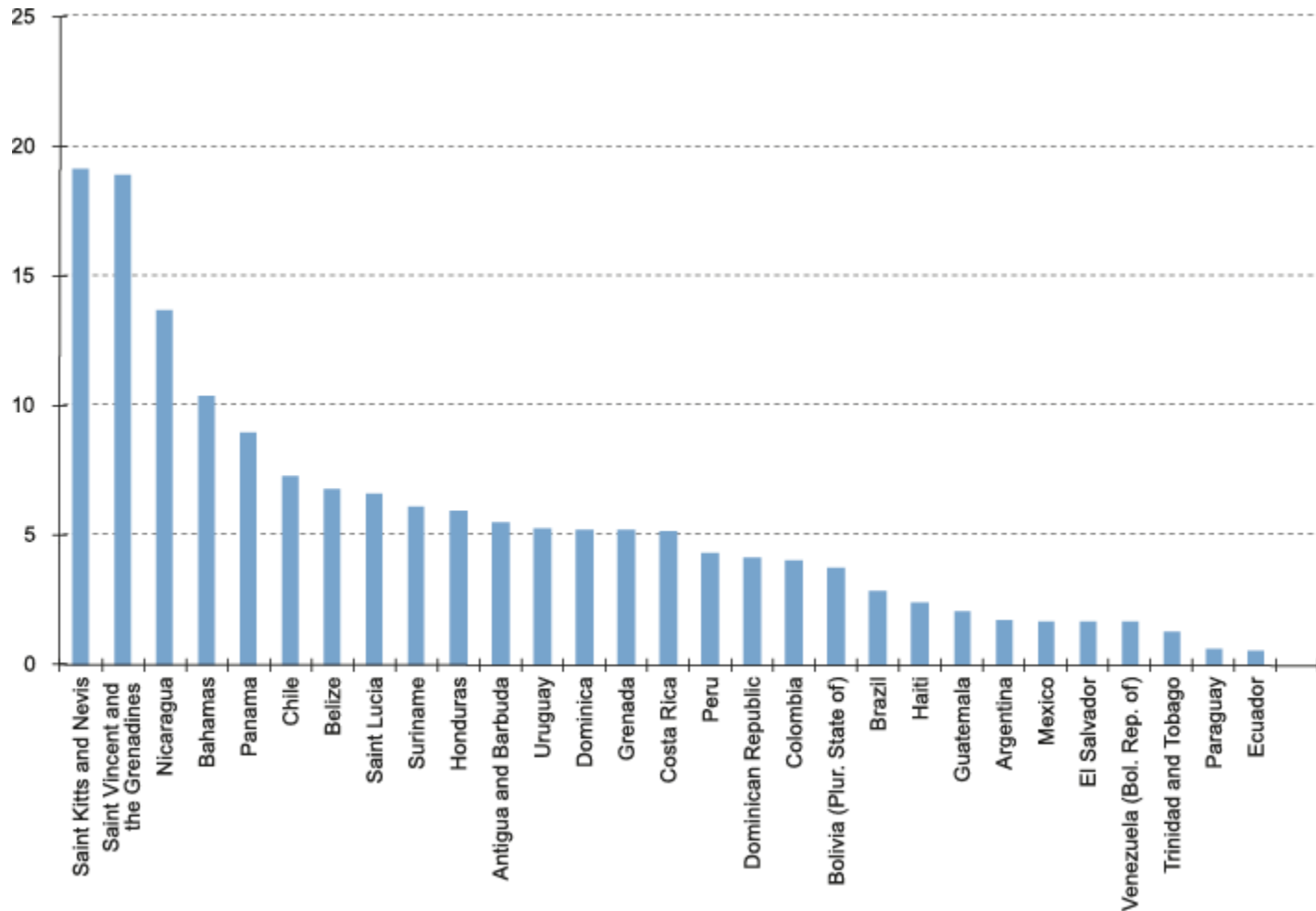
(Billions of dollars)



FDI as a percentage of GDP (2011)

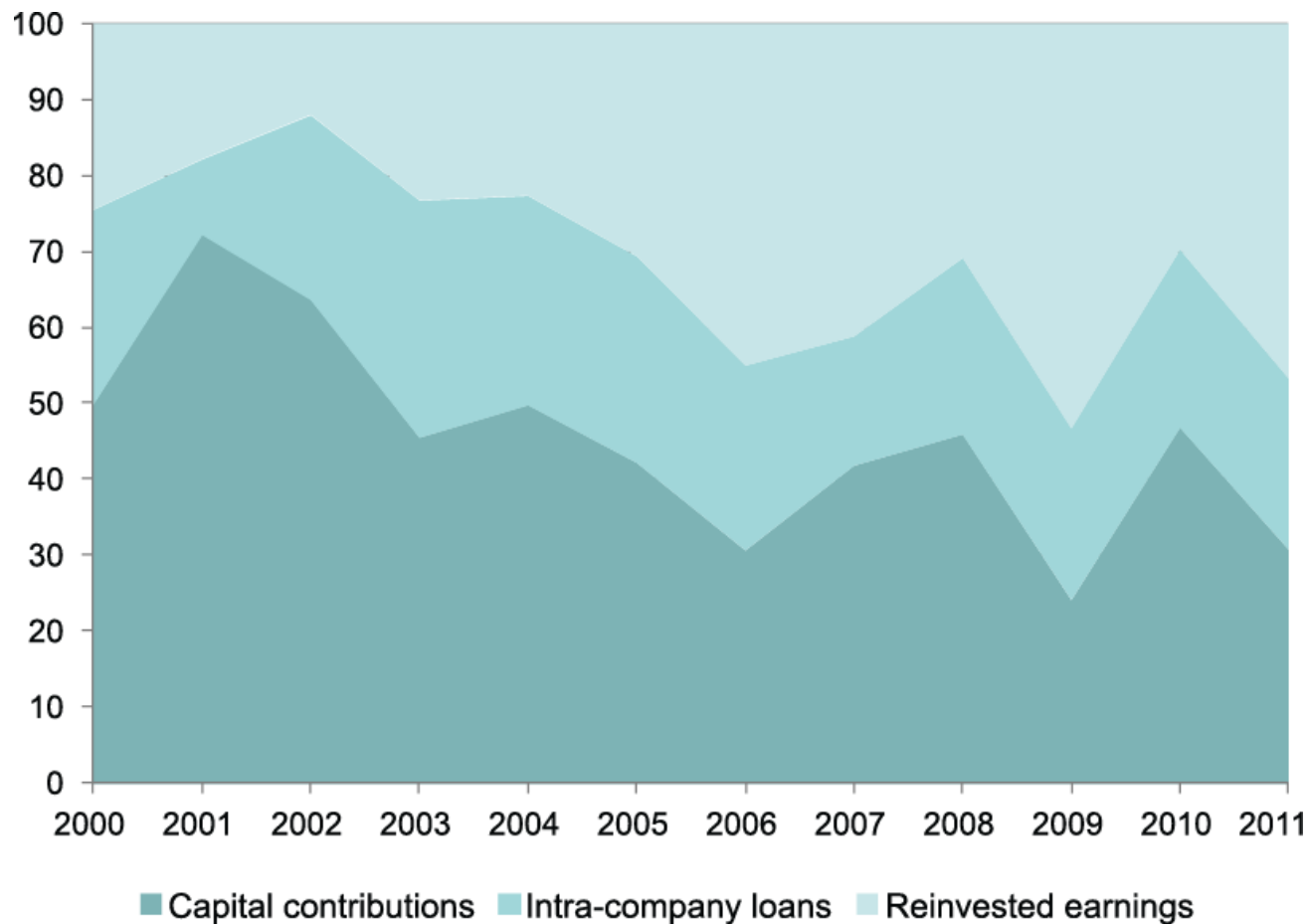
LATIN AMERICA AND THE CARIBBEAN: INFLOWS OF FOREIGN DIRECT INVESTMENT AS A PROPORTION OF GDP, 2011

(Percentages)



The rising share of reinvested earnings as a proportion of FDI

**LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT
BY COMPONENT, 2000-2011**
(Percentages)



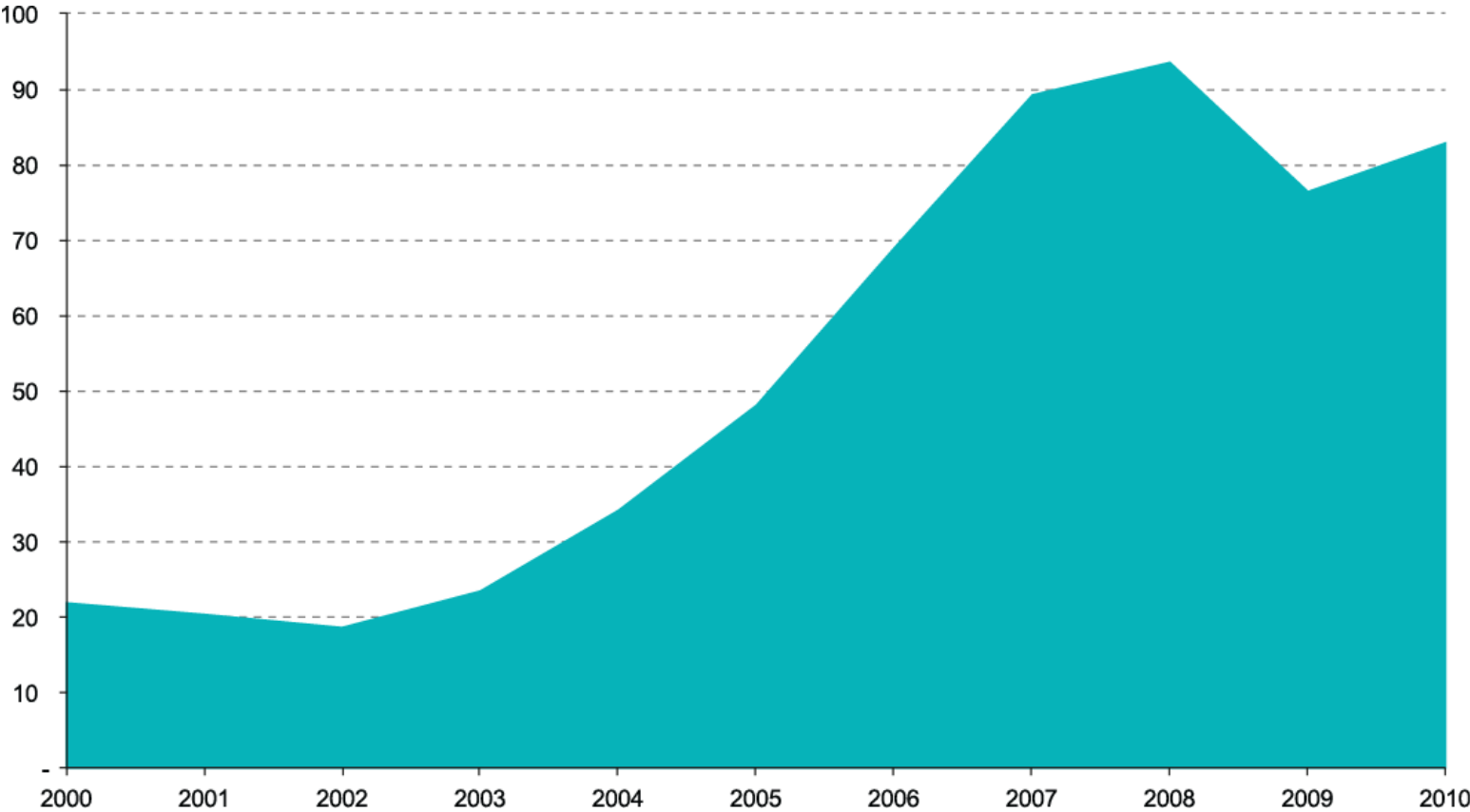
FDI is not a one-way flow of resources

- The repatriation of earnings has gone up in the last 10 years
- Reasons for this: increase in FDI stock, good economic conditions and the strategies of transnational companies (especially European companies) in response to international uncertainty
- Need to promote policies to direct FDI and take advantage of its potential benefits



Increase in the repatriation of profits

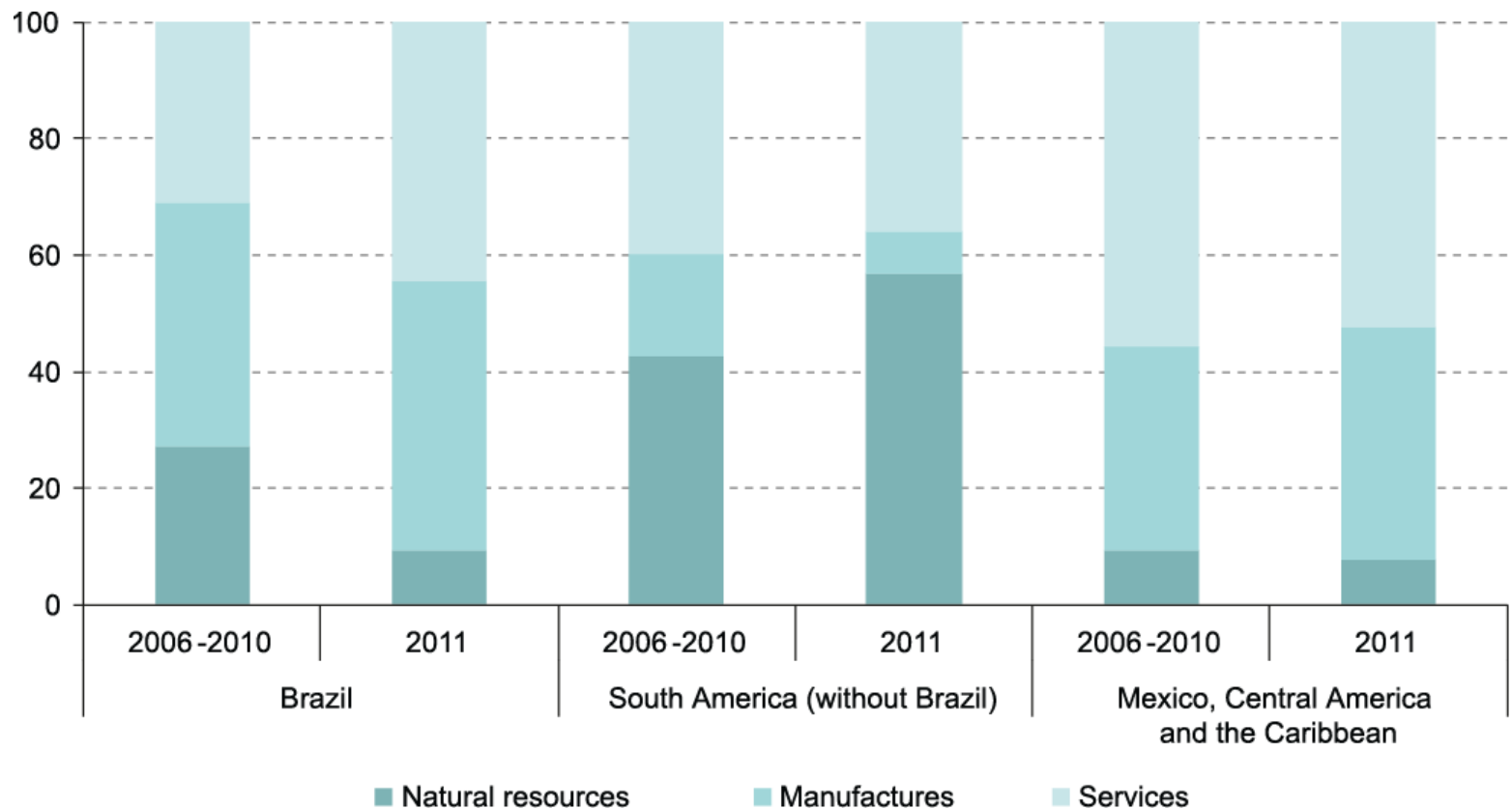
LATIN AMERICA AND THE CARIBBEAN: REPATRIATION OF EARNINGS, 2000-2010
(Billions of dollars)



FDI reinforces productive specialization in Latin America and the Caribbean

LATIN AMERICA AND THE CARIBBEAN: SECTORAL DISTRIBUTION OF FOREIGN DIRECT INVESTMENT, 2006-2011

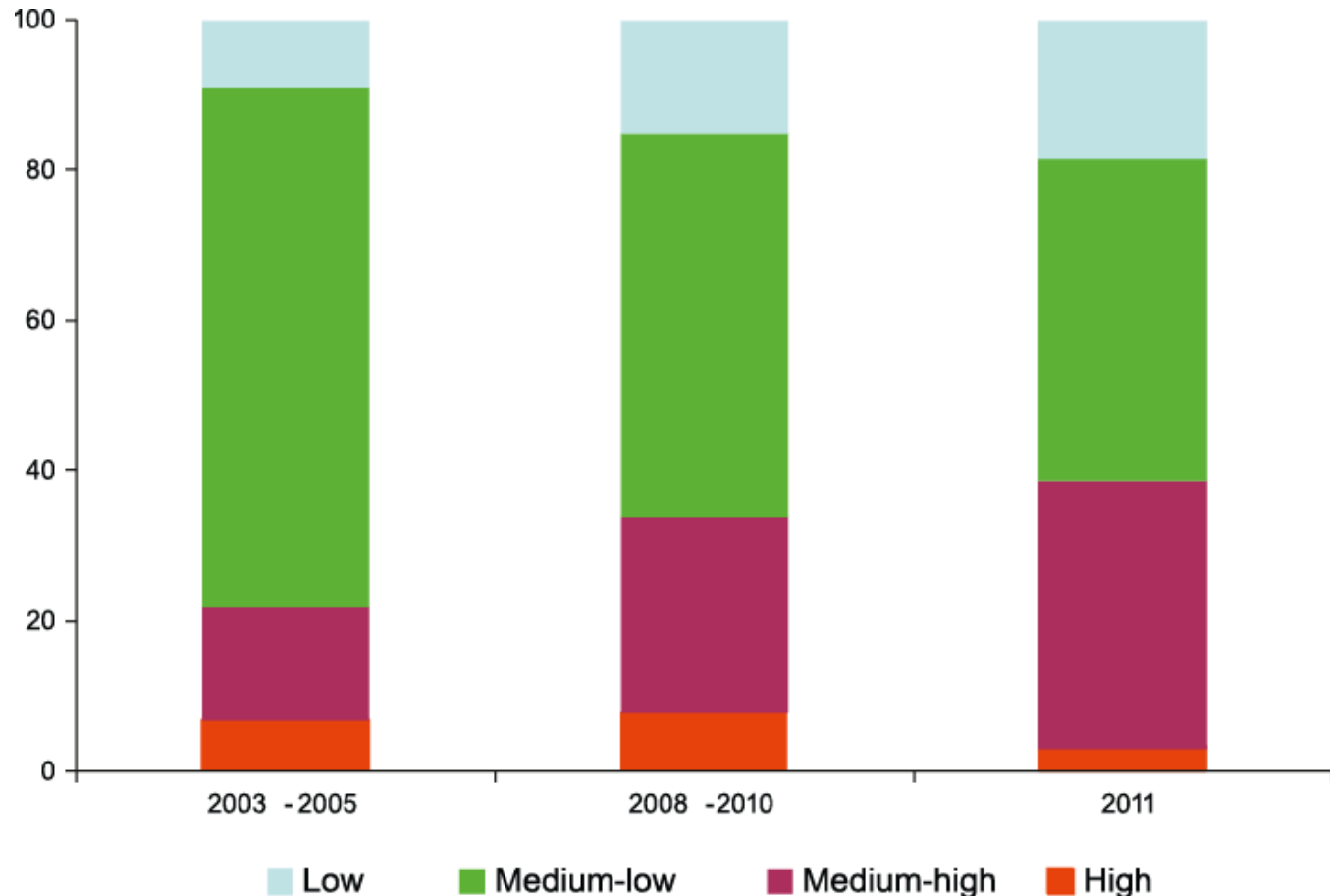
(Percentages)



Increasing share of medium-high-tech sectors in new FDI manufacturing projects

LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF SUMS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS BY TECHNOLOGY INTENSITY, 2003-2005, 2008-2010 AND 2011

(Percentages)



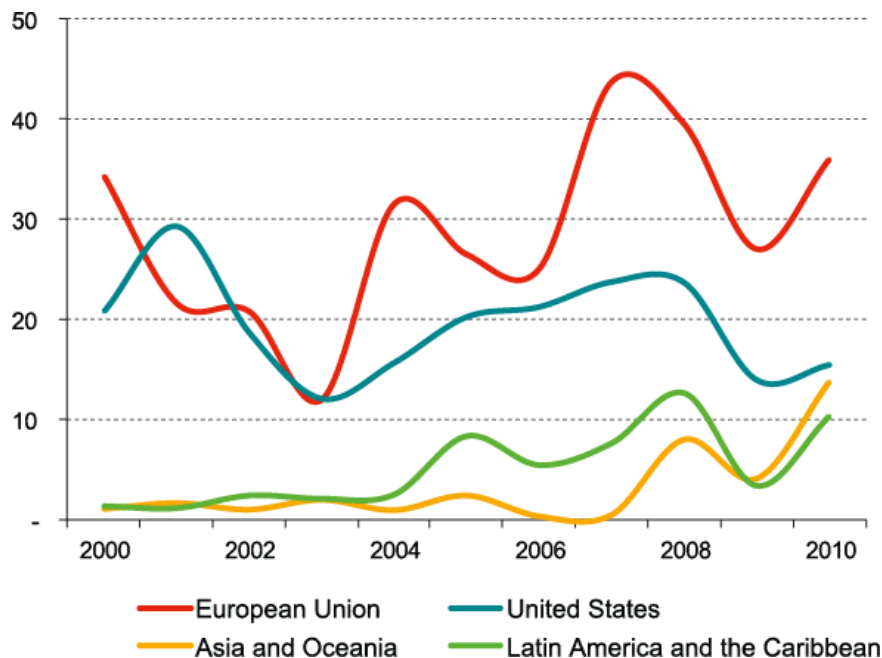
...but the relative share of the high-tech sectors has slipped



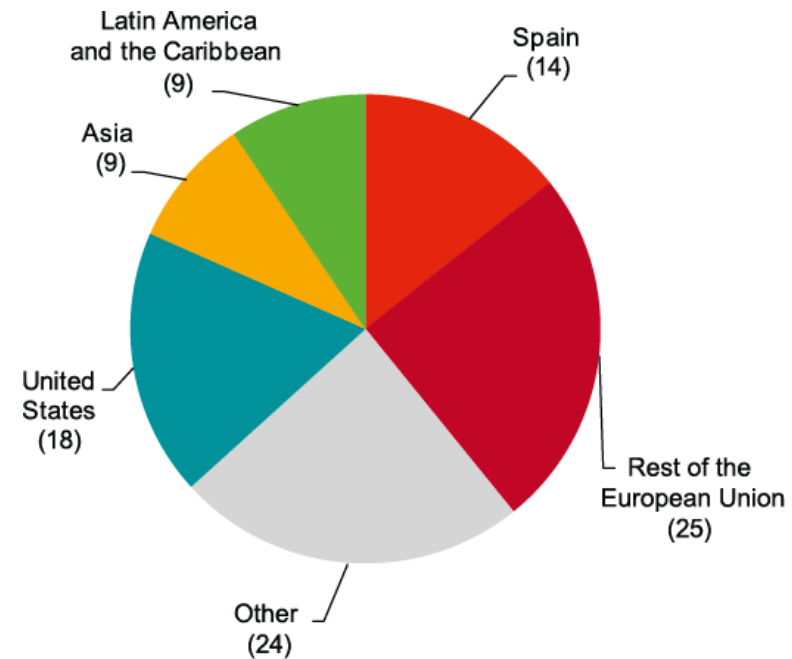
Europe's predominance as a source of FDI in the region

LATIN AMERICA AND THE CARIBBEAN: ORIGIN OF FOREIGN DIRECT INVESTMENT

A. 2000-2010
(Billions of dollars)



B. 2011
(Percentages)



The European Union is the largest investor in Latin America and the Caribbean

- In the last decade, investments from the European Union accounted for an average of 40% of total FDI received by the region
- However, Latin America and the Caribbean has been losing ground to other regions (Asia and Eastern Europe) as a location for European Union transnationals in the last decade
- South America has been the primary destination of European investments in Latin America and the Caribbean



High-quality FDI from Europe

- FDI from the European Union is highly diversified
- A significant proportion of investments are in strategic sectors (such as electric power and banking) and in high-tech sectors
- European Union transnationals play a key role in investments that generate new productive capacity
- European investments in research and development are significant, especially in Brazil





Two key sectors for FDI from the
countries of the European Union:
electric power and banking

Most of the major electricity transnationals in Latin America are European companies

	ENEL (Italy)	GDF-Suez (France)	Iberdrola (Spain)	AES (United States)	GN Fenosa (Spain)
Argentina	✓			✓	
Brazil	✓	✓	✓	✓	
Chile	✓	✓		✓	
Peru	✓	✓			
Colombia	✓			✓	✓
Mexico	✓		✓	✓	✓
Dominican Republic				✓	✓
Panama	✓	✓		✓	✓
Guatemala	✓				
El Salvador	✓			✓	

- Companies are attracted to invest in the region by the burgeoning demand that is growing much faster than in their countries of origin
- At present, assets in Latin America are especially important to these companies
- In recent years, Asian and trans-Latin companies have also been investing in the region and have been buying assets from some European and North American companies



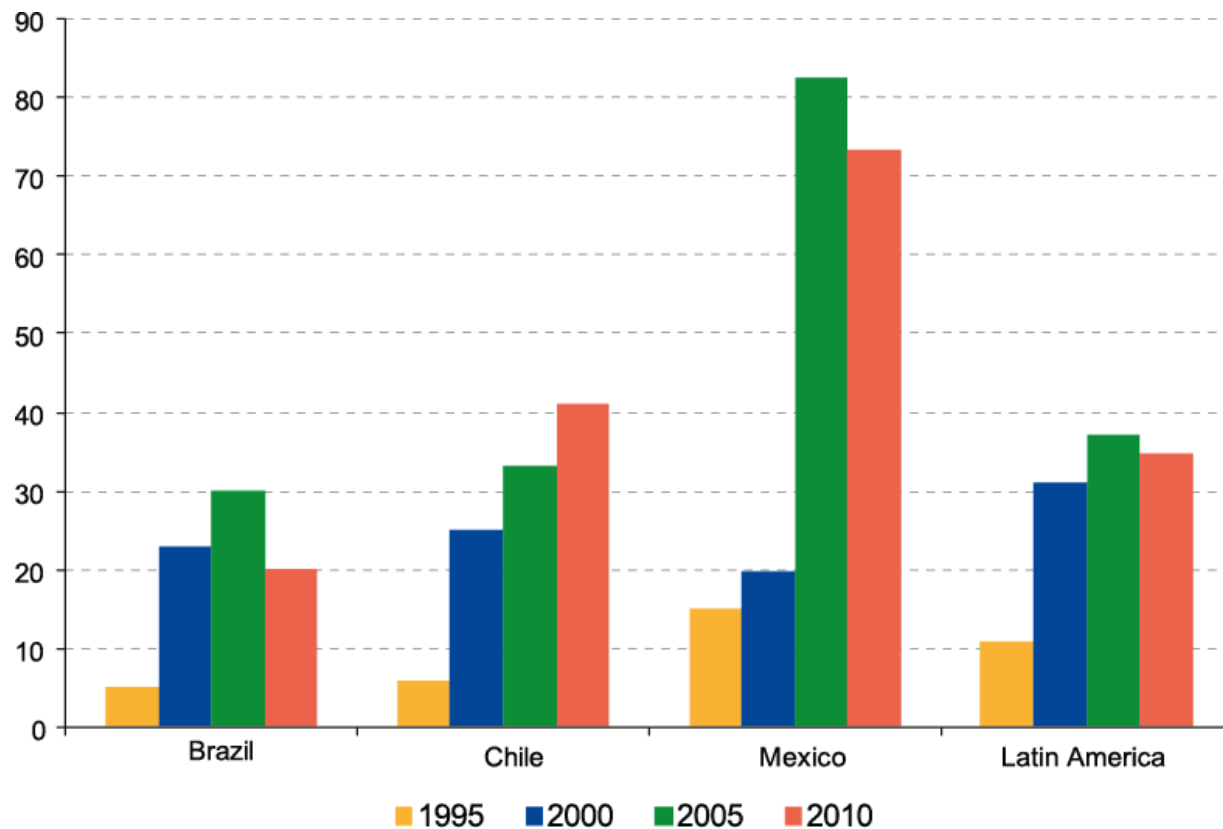
FDI in the power sector in Latin America and the Caribbean has increased since 2006

- In the last four years, FDI in the sector was up 19% on the previous period. Transnational companies increased their share in the power generation segment
- Foreign companies have led the surge in wind power, especially in Brazil, Mexico, Uruguay and Central America
- More FDI does not always lead to increased capacity; in many cases it has meant only that assets have changed ownership
- There is an investment shortfall in the power sector in Latin America and the Caribbean, as in other infrastructure areas



Foreign banks have carved out leading positions in most markets in Latin America and the Caribbean

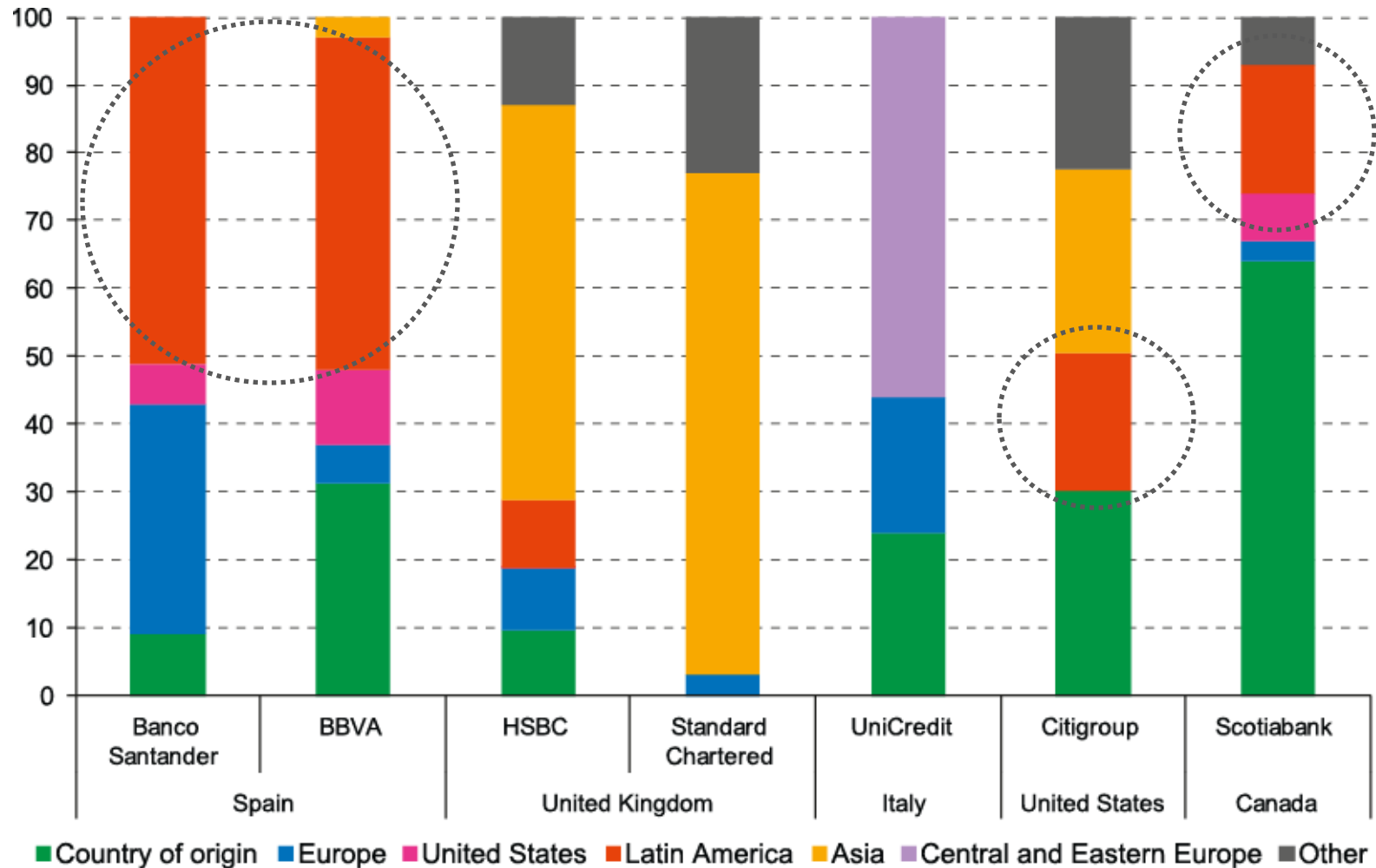
LATIN AMERICA (SELECTED COUNTRIES): SHARE OF BANKING INDUSTRY ASSETS HELD BY FOREIGN BANKS, 1995-2010
(Percentages)



**An ever smaller number of companies are behind this process:
Banco Santander, BBVA, HSBC, Citigroup and Scotiabank**

For some companies, particularly from Spain, the region is a crucial element of their business strategy

**INTERNATIONAL OPERATIONS (SELECTED COMPANIES):
GEOGRAPHIC DISTRIBUTION OF PROFITS, 2011**
(Percentages)



The presence of foreign banks has produced mixed results

- **Positive effects: a more dynamic market**
 - Upsurge in credit (from 47% to 71% of GDP between 2000 and 2010), increased competition, more and better products and services
 - The results and performance indicators of major national and foreign banks are converging (with the notable exception of Brazil)
 - Subsidiaries of foreign banks have a high degree of operating autonomy from their parent companies: they are financed locally and are less vulnerable to external shocks
 - Well-capitalized, solvent companies
- **To be resolved: limited access to banking services**
 - Focus on short-term consumer loans
 - Specialization in the medium- and high-income segments
 - Smaller national banks have taken on higher-risk segments
 - They are not a substitute for development banks as a source of long-term financing (housing, long term projects and more vulnerable sectors, such as SMEs)

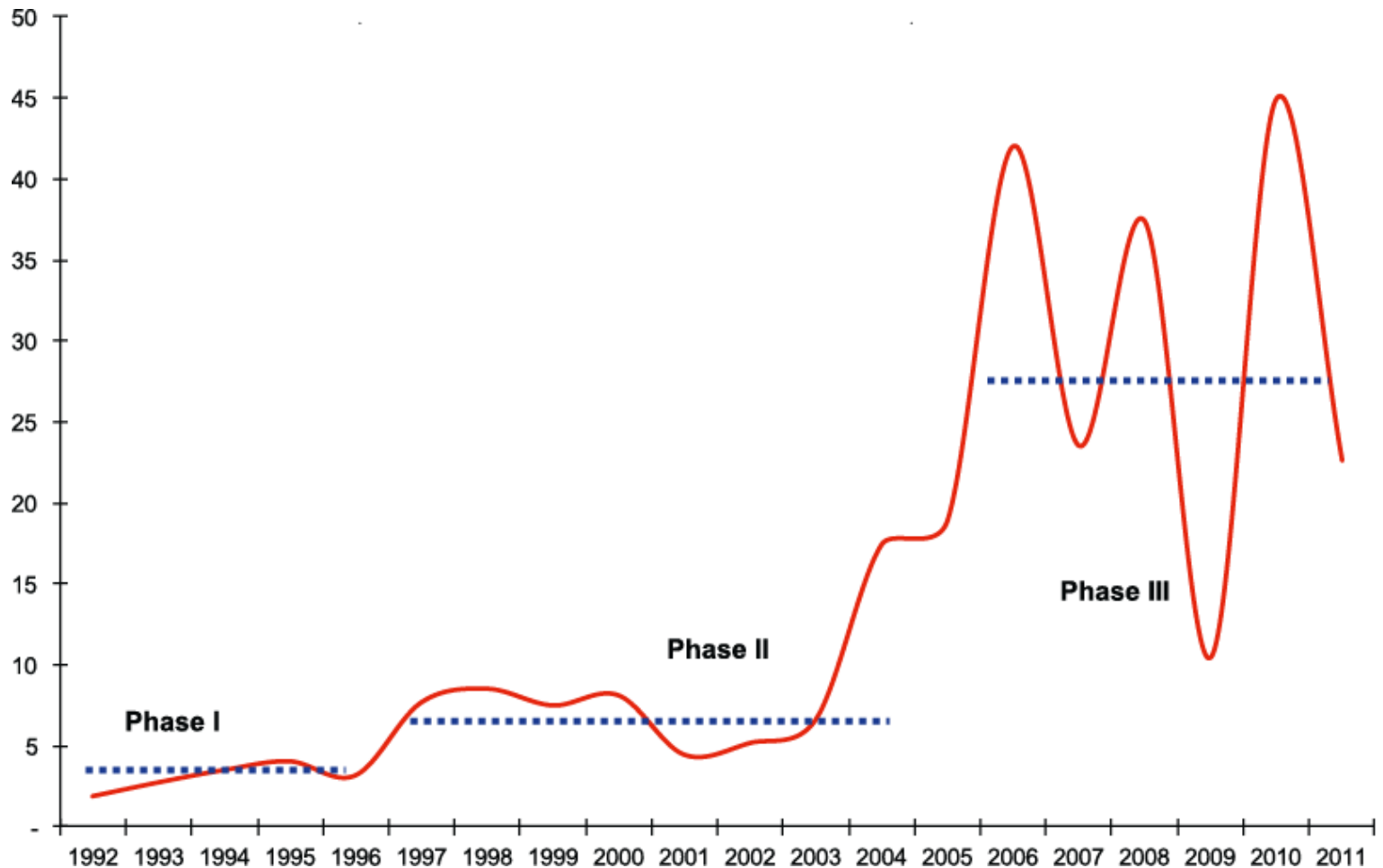




Trans-Latins continue to expand

Investments abroad by trans-Latins fell to US\$ 22.605 billion in 2011

LATIN AMERICA AND THE CARIBBEAN: OUTWARD FOREIGN DIRECT INVESTMENT, 1992-2011
(Billions of dollars)



A volatile phenomenon

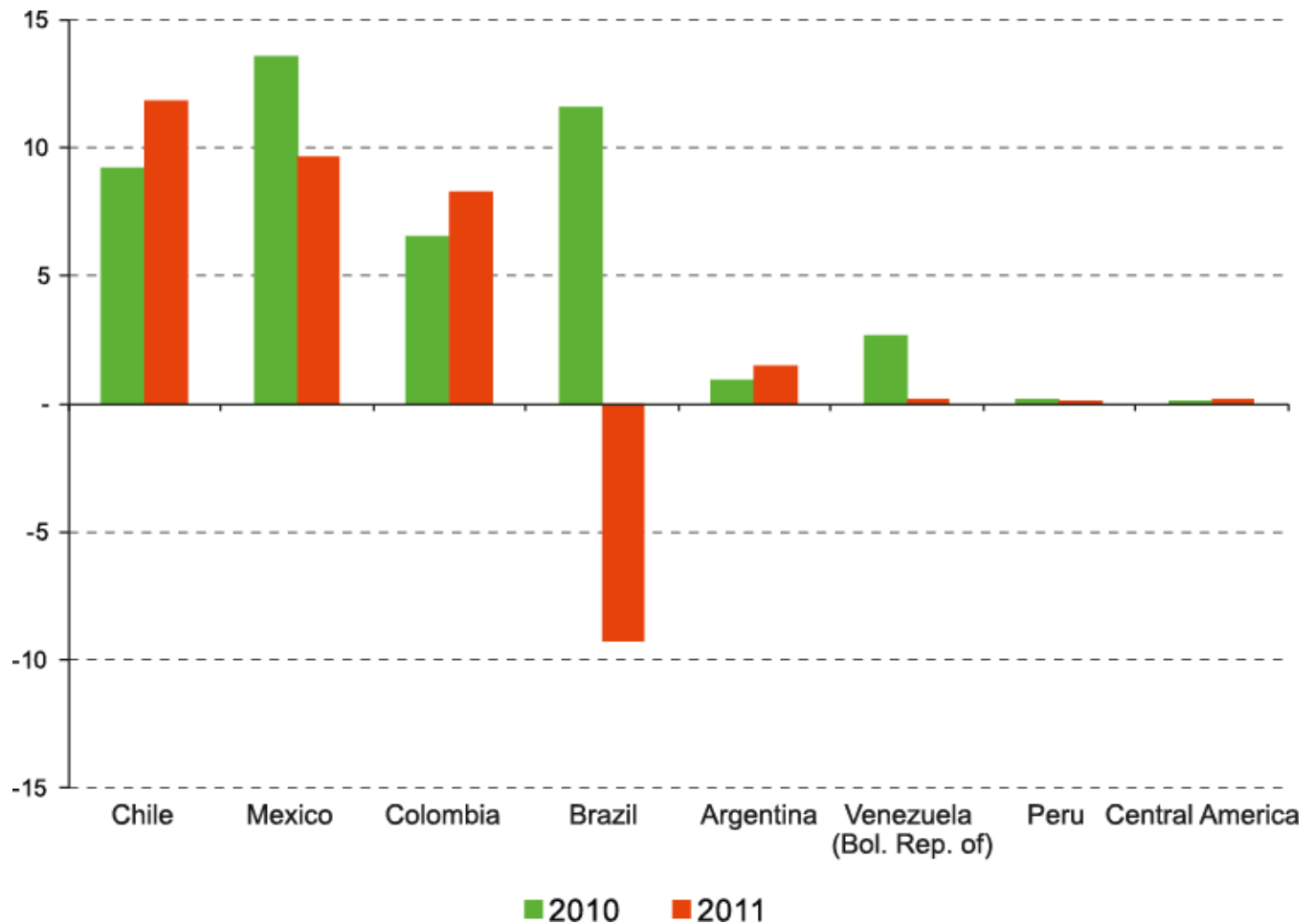
- The trans-Latins are concentrated in a small number of countries and companies
- The drop in outflows in 2011 is attributable mainly to Brazil
 - Increase in net loans from trans-Latin subsidiaries to their parent companies
 - Decrease in capital contributions from the country's trans-Latins
- Despite the highly volatile flows, trans-Latins continue to expand



Chile accounted for the most outward FDI in 2011

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): OUTWARD FOREIGN DIRECT INVESTMENT, 2010 AND 2011

(Billions of dollars)



The strategies of the trans-Latins and policies to support them

- In most cases, expansion opportunities are sought in neighbouring countries
- Some companies, especially from Brazil, are looking for opportunities outside the region (for example, in Europe): CPFL, TNLP, Petropar, Pemex and Sigdo Koppers
- Countries are beginning to implement policies to support the international expansion of their firms: Brazil is the most active in this regard





Conclusions

Positive signs...

- In 2011 inward FDI in Latin America and the Caribbean hit a new high
- The region's share in global FDI flows continues to increase
- FDI has gone up as a proportion of GDP for the second consecutive year, from 2.0% in 2009 to 2.8% in 2011
- The rise in the reinvestment of earnings reflects the significant business opportunities in the region
- Trans-Latin companies continue to expand



...and challenges for the future

- The patterns of investment between different sectors strengthen countries' production structures
- FDI in high-tech sectors is scarce and concentrated in a few countries
- The repatriation of profits is increasingly significant
- Policies to take advantage of the potential benefits of FDI must be promoted



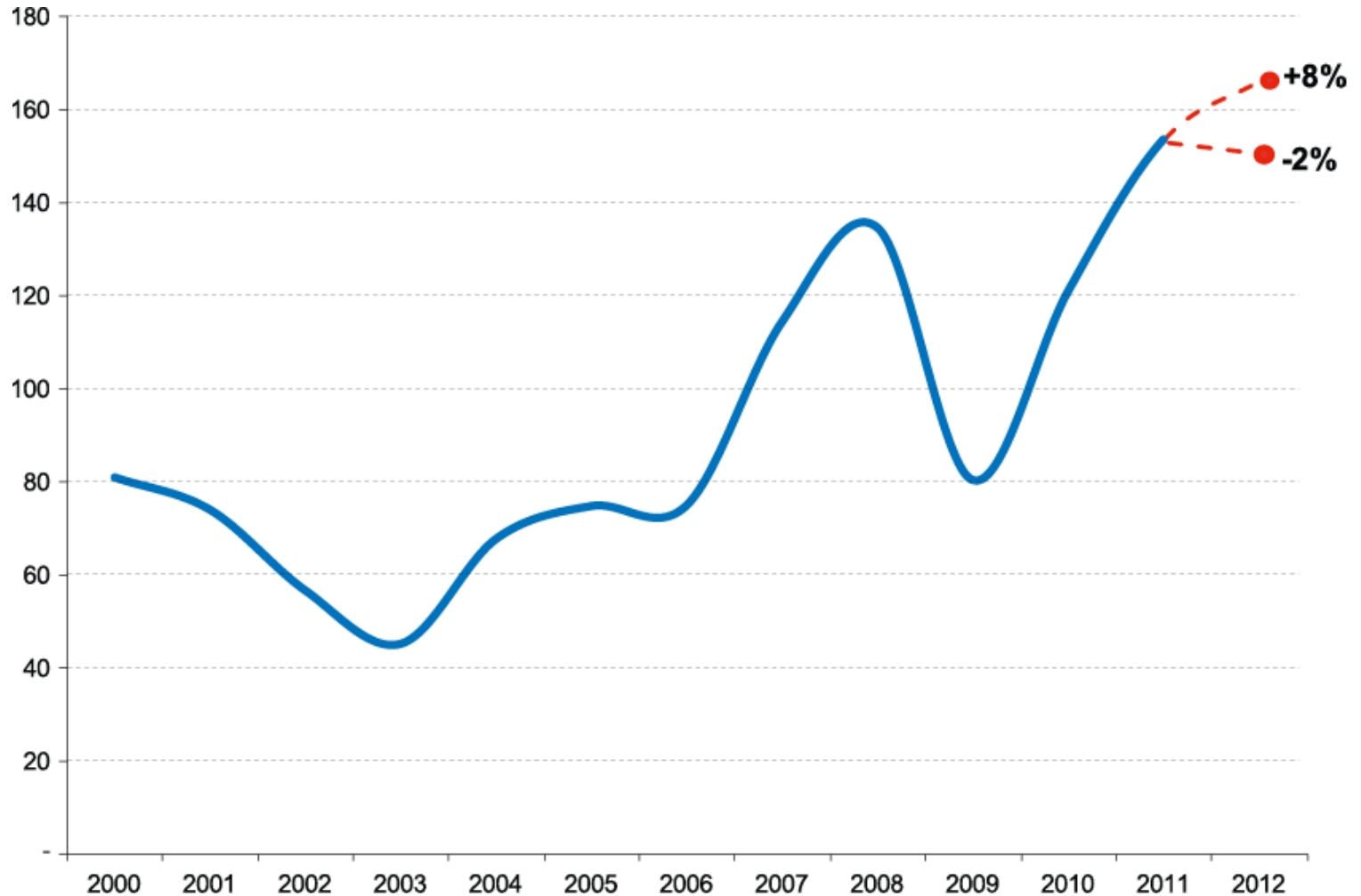
FDI outlook for 2012

- In the current economic climate, two contrasting situations are emerging:
 - Latin America and the Caribbean continues to be an attractive destination for FDI.
 - If the European crisis deepens (in turn causing a shortage of liquidity and more limited access to financing) it could have an adverse impact on FDI inflows. A possible slowdown in the Chinese economy must also be considered.
- The transnational companies that will invest more heavily in the region in the coming years are those seeking natural resources and, in some cases, new markets



FDI inflows will remain high in 2012

LATIN AMERICA AND THE CARIBBEAN: RANGE OF PROJECTION FOR FDI INFLOWS, 2012
(Billions of dollars)

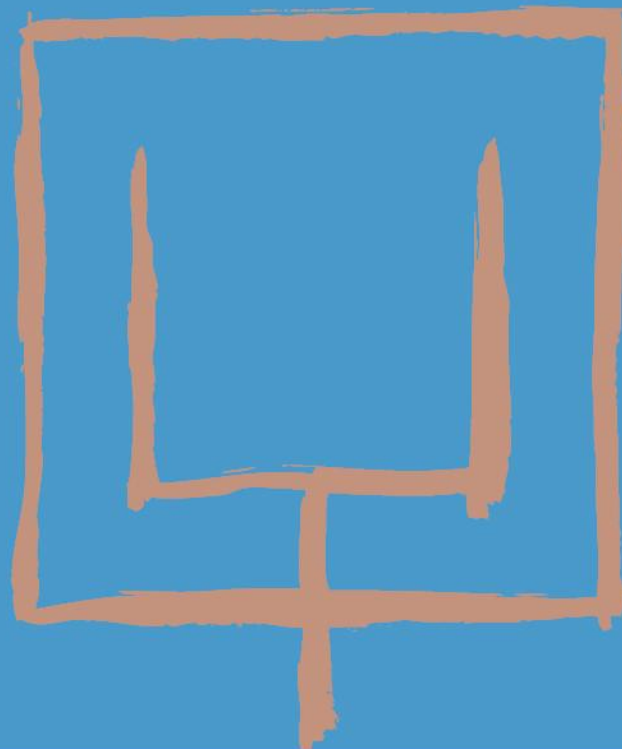


Looking to the future

- The challenge facing the region is to strengthen its capacity to absorb the benefits of FDI and to attract investment to high-tech sectors
- To achieve this, it needs productive development policies focused on innovation and strengthening local capacities
- There is space to generate additional fiscal resources and boost the reinvestment of profits in the region



2011



Foreign Direct Investment

in Latin America and the Caribbean



UNITED NATIONS

ECLAC