2015

Foreign Direct Investment
in Latin America and the Caribbean

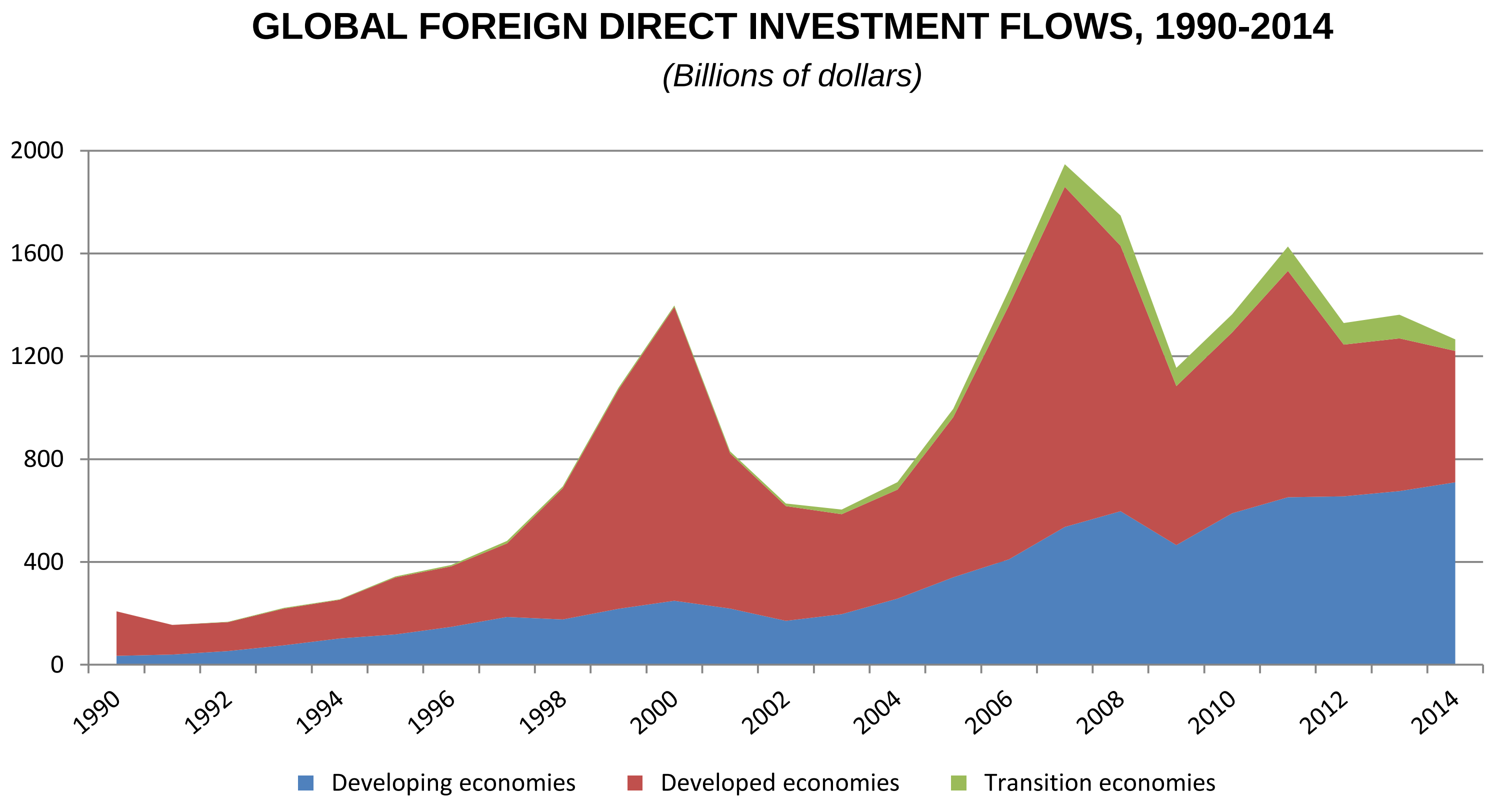
UNITED NATIONS

ECLAC

Themes of the report

- Overview of FDI in the world and in Latin America
- Special analysis of FDI in the Caribbean subregion
- Transnational firms and the environment
- Conclusions and outlook for 2015

Global FDI flows were down by 7% in 2014 compared to 2013

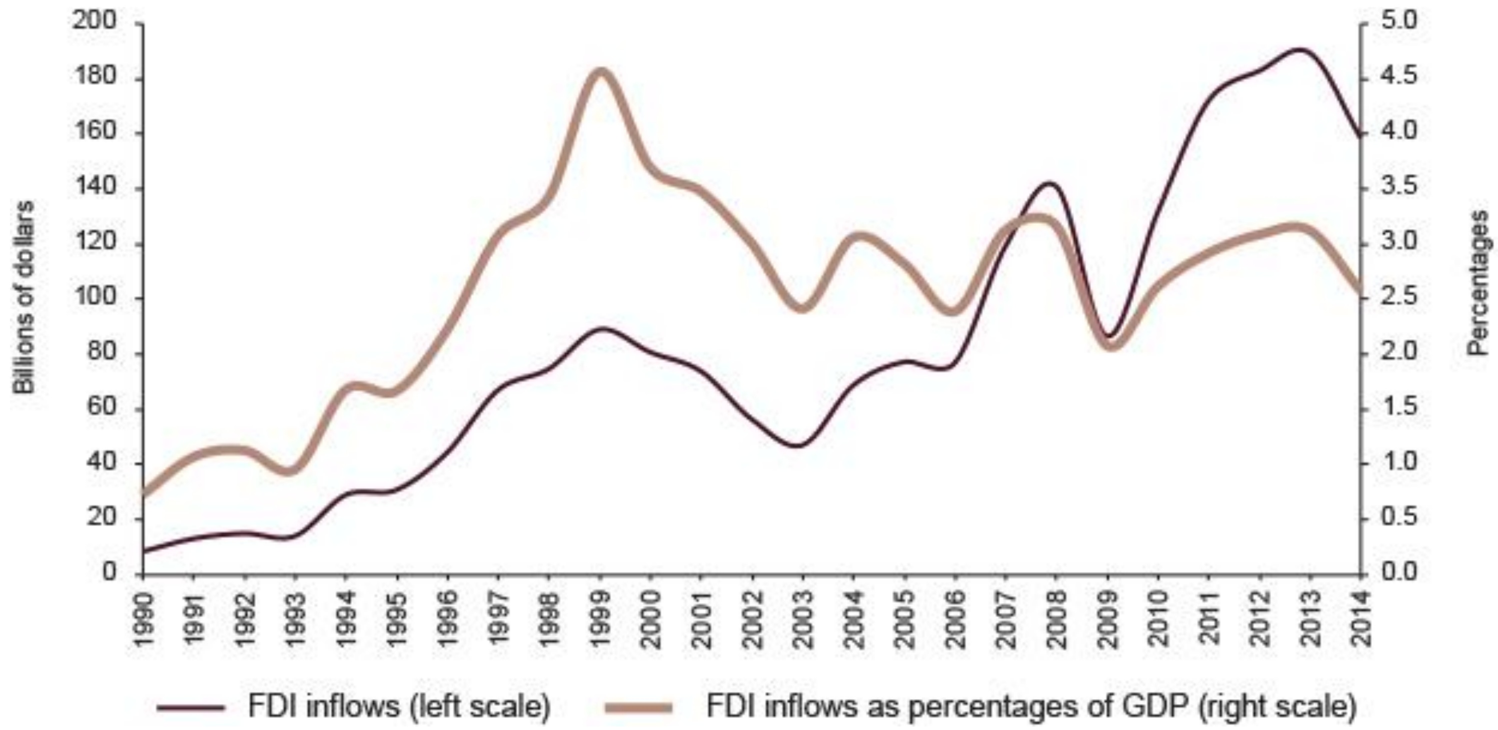


Foreign Direct Investment in Latin America and the Caribbean

In 2014 the region received US$ 158.803 billion in FDI: 16% less than in 2013

Latin America and the Caribbean: foreign direct investment inflows and FDI inflows as a proportion of GDP, 1990-2014

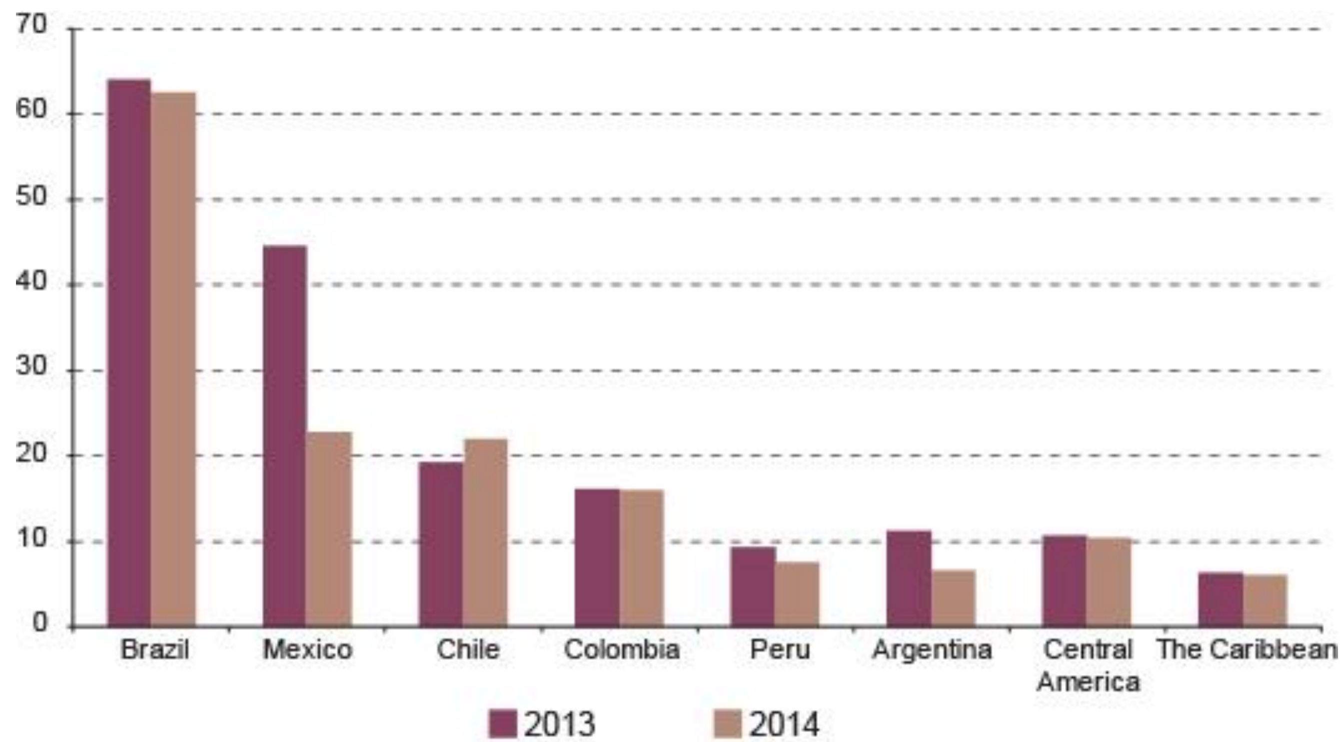
(Billions of dollars and percentages)



FDI was down in all the region's major economies except Chile. Brazil changed its accounting methodology in 2014

Latin America (selected countries): foreign direct investment inflows, 2013-2014

(Billions of dollars)

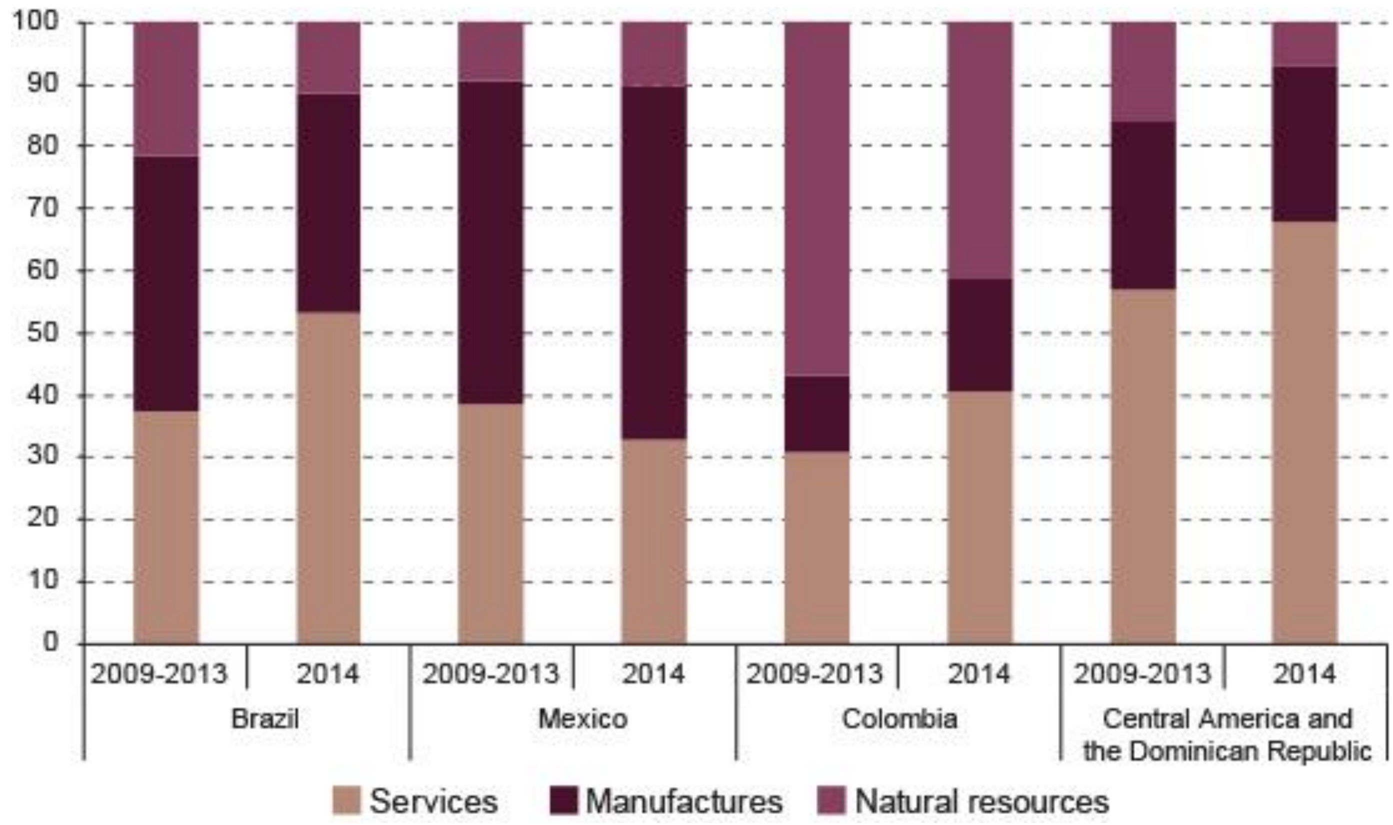


Foreign Direct Investment in Latin America and the Caribbean

Falling prices for metals and oil reduced FDI inflows to natural resources

Latin America and the Caribbean (selected countries): distribution of FDI by sector, 2009-2013 and 2014

(Percentages of all FDI received)



Project announcements are still few in high-tech sectors, but increasing in medium-high tech sectors

Latin America and the Caribbean: distribution of FDI projects by technology intensity, 2008-2014

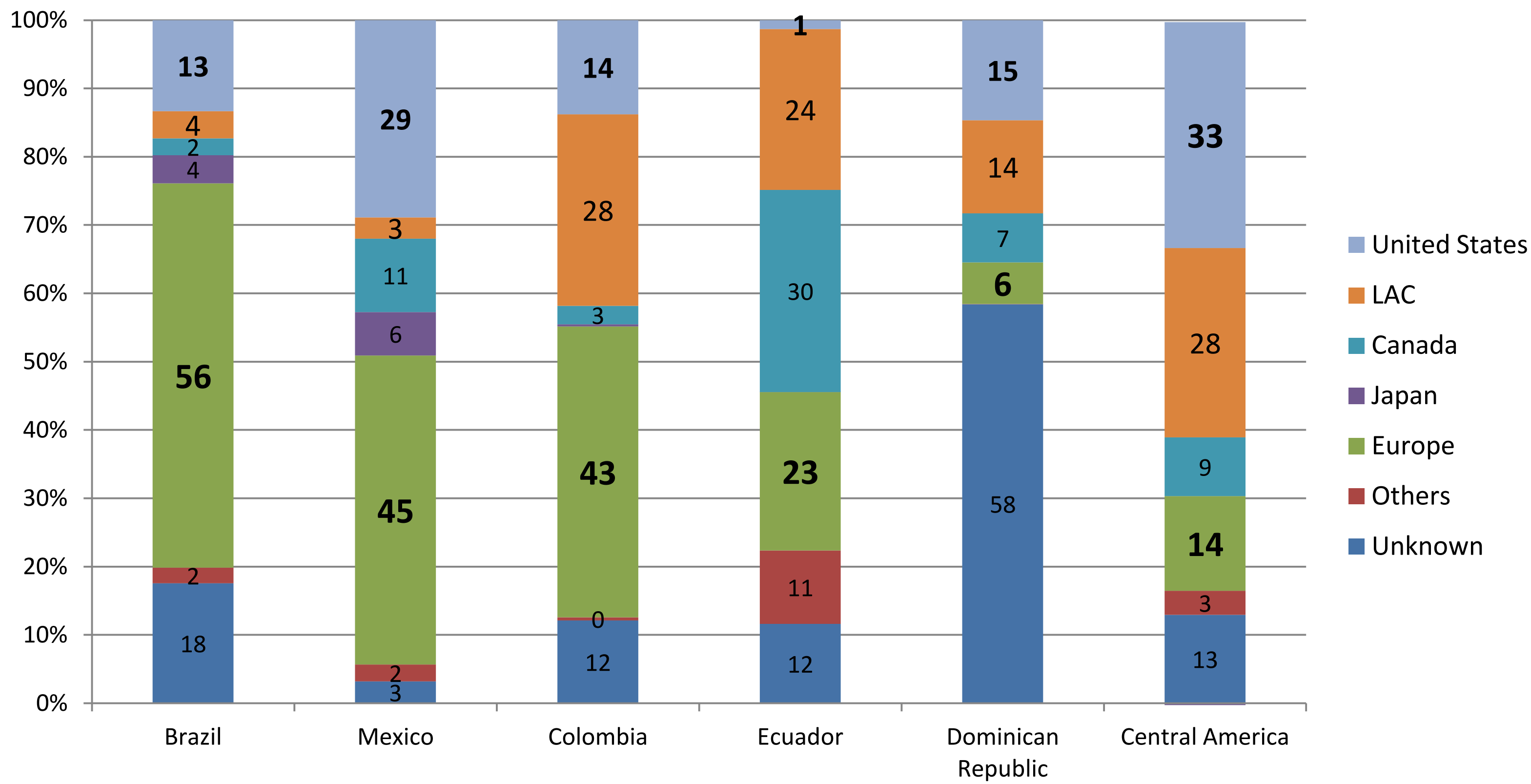
(Percentages)

The automotive sector registered record FDI inflows in Brazil and Mexico (US$ 4 billion each)

Europe and the United States remain the main sources of FDI in the region . The intra-regional FDI is more important in Colombia and Central America

Latin America (selected countries and subregions): origin of foreign direct investment, 2014

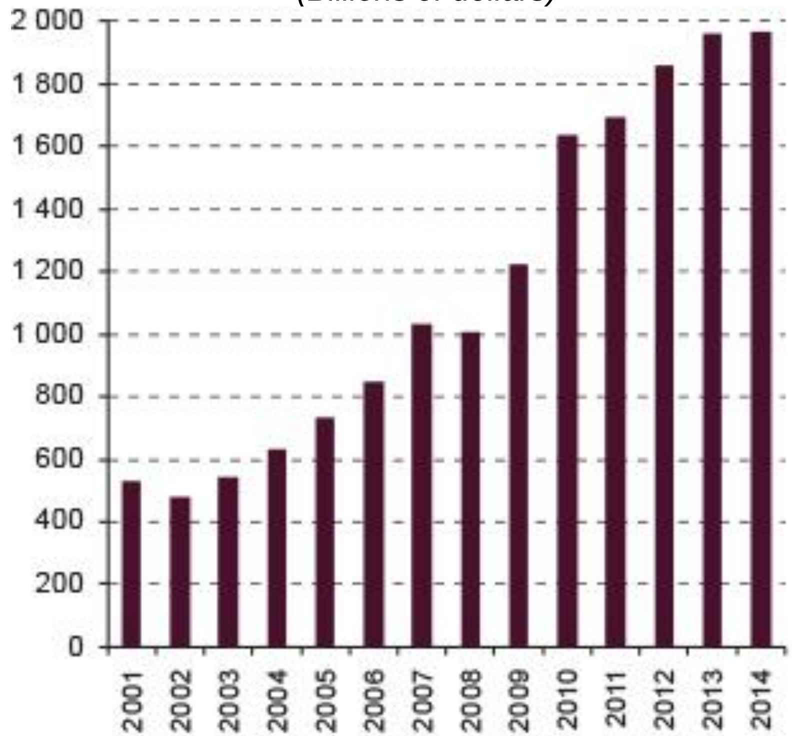
(percentages)



FDI income declined owing to falling commodity prices and the economic slowdown

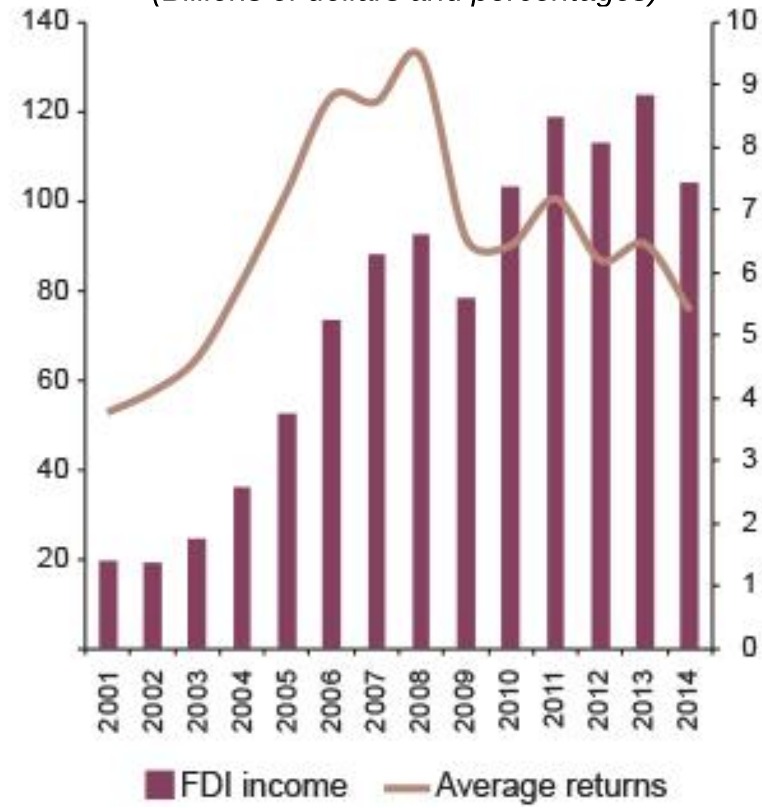
Latin America and the Caribbean: FDI stocks, 2000-2014

(Billions of dollars)



Latin America and the Caribbean: returns on FDI, 2000-2014

(Billions of dollars and percentages)



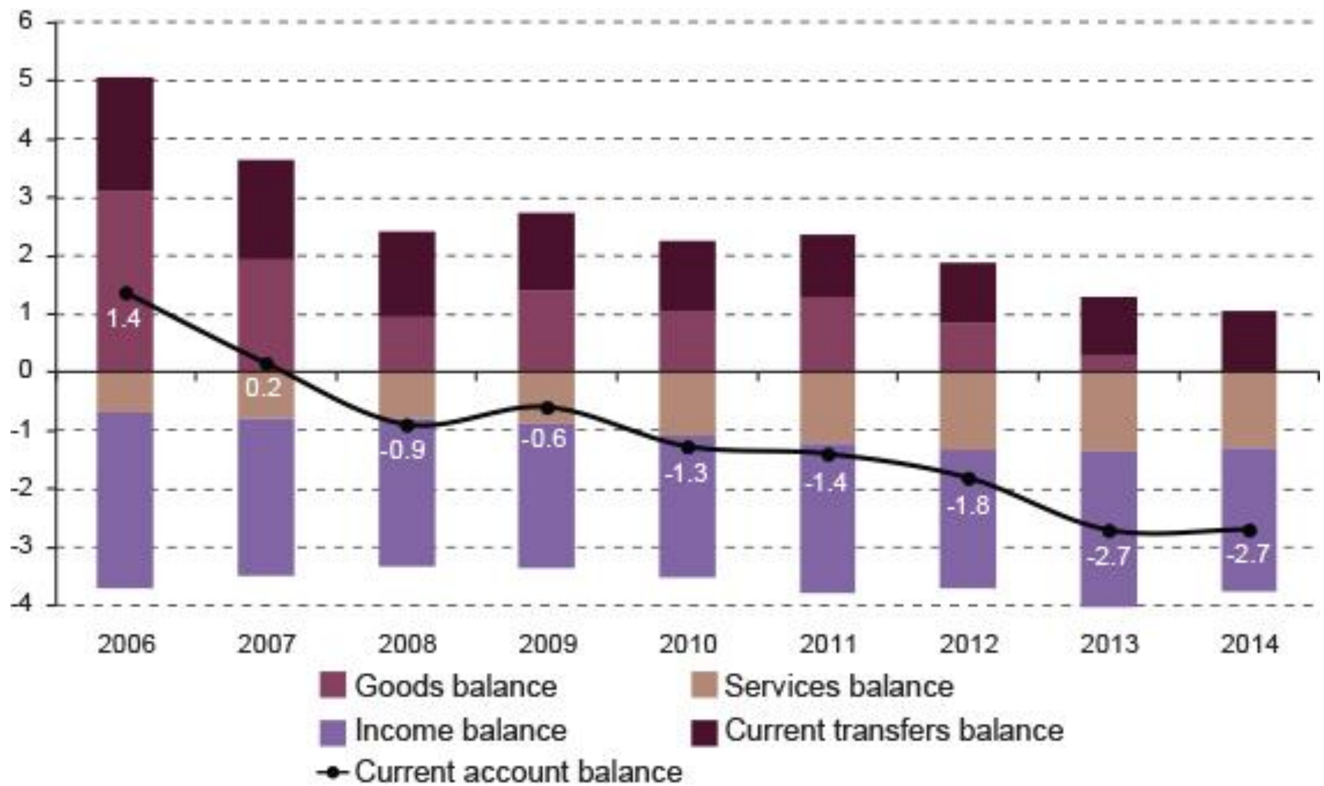
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates at 23 May 2014.

Foreign Direct Investment in Latin America and the Caribbean

The current account deficit reached 2.7% of GDP in 2013 and 2014

Latin America and the Caribbean: current account components as percentages of GDP, 2006-2014

(Percentages)

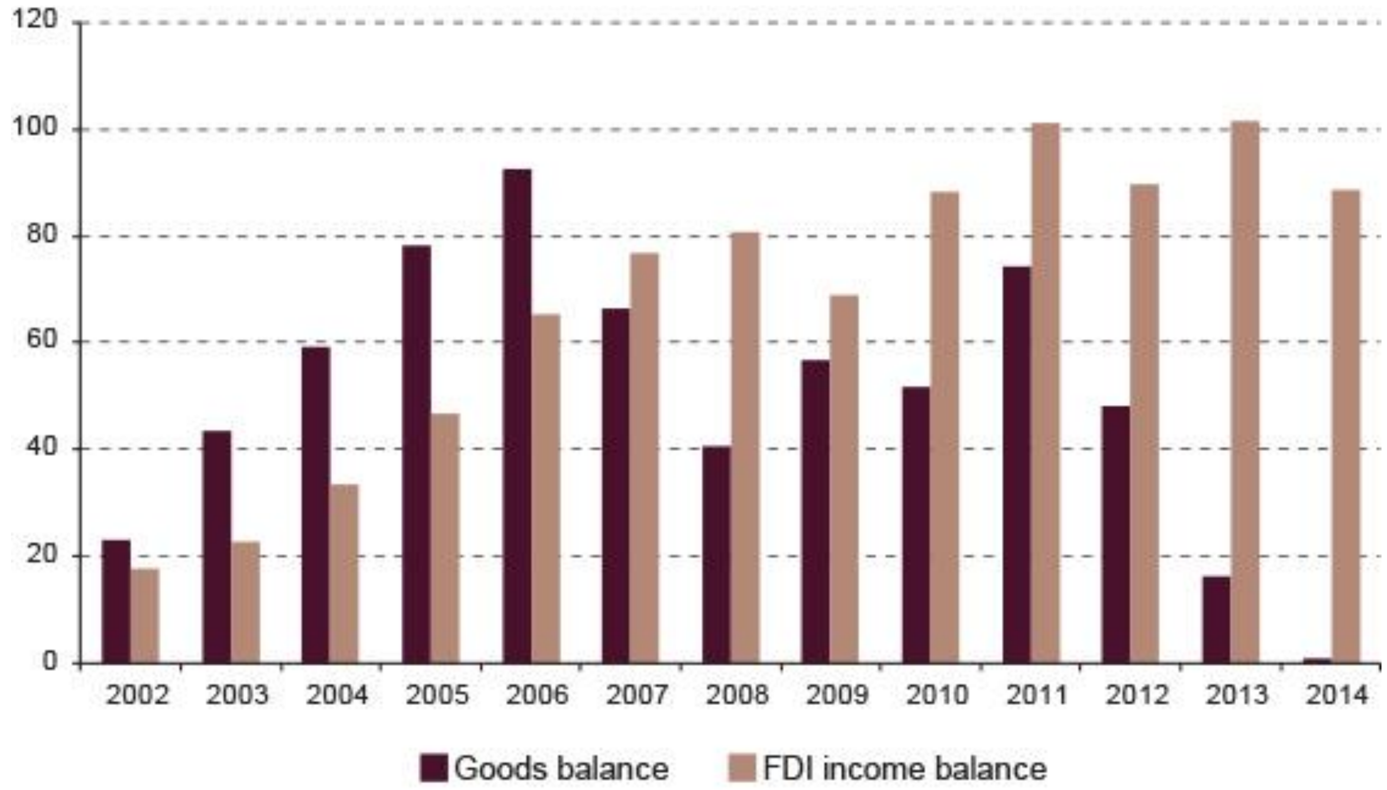


Foreign Direct Investment in Latin America and the Caribbean

The surplus on the goods balance is no longer enough to compensate for the deficit on the income balance

Latin America and the Caribbean: goods trade balance and balance of FDI income, 2002-2014

(Billions of dollars)



Trans-Latin corporations

Outward FDI was down by 12% to US$ 29.162 billion

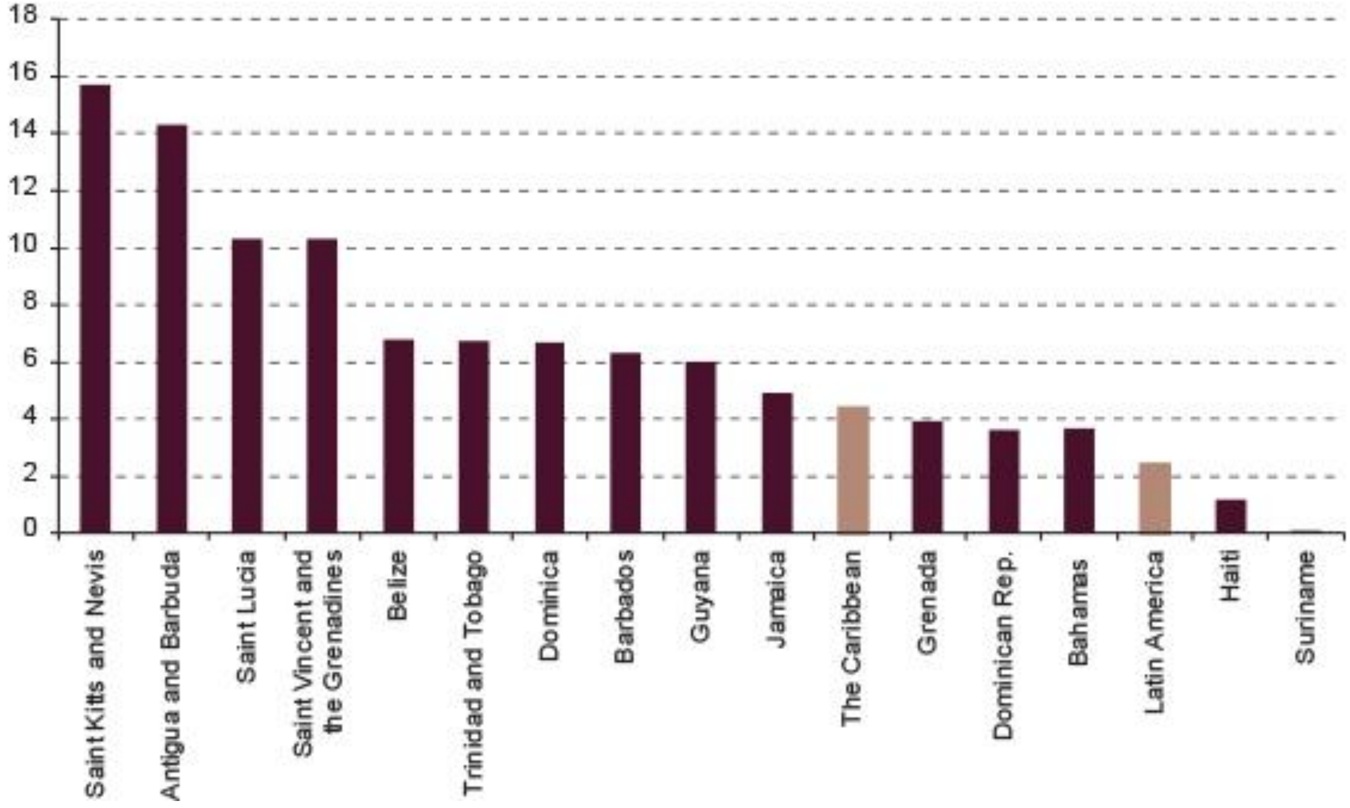
Latin America and the Caribbean: outward foreign direct investment, 2003-2014

(Billions of dollars)

Foreign direct investment in the Caribbean

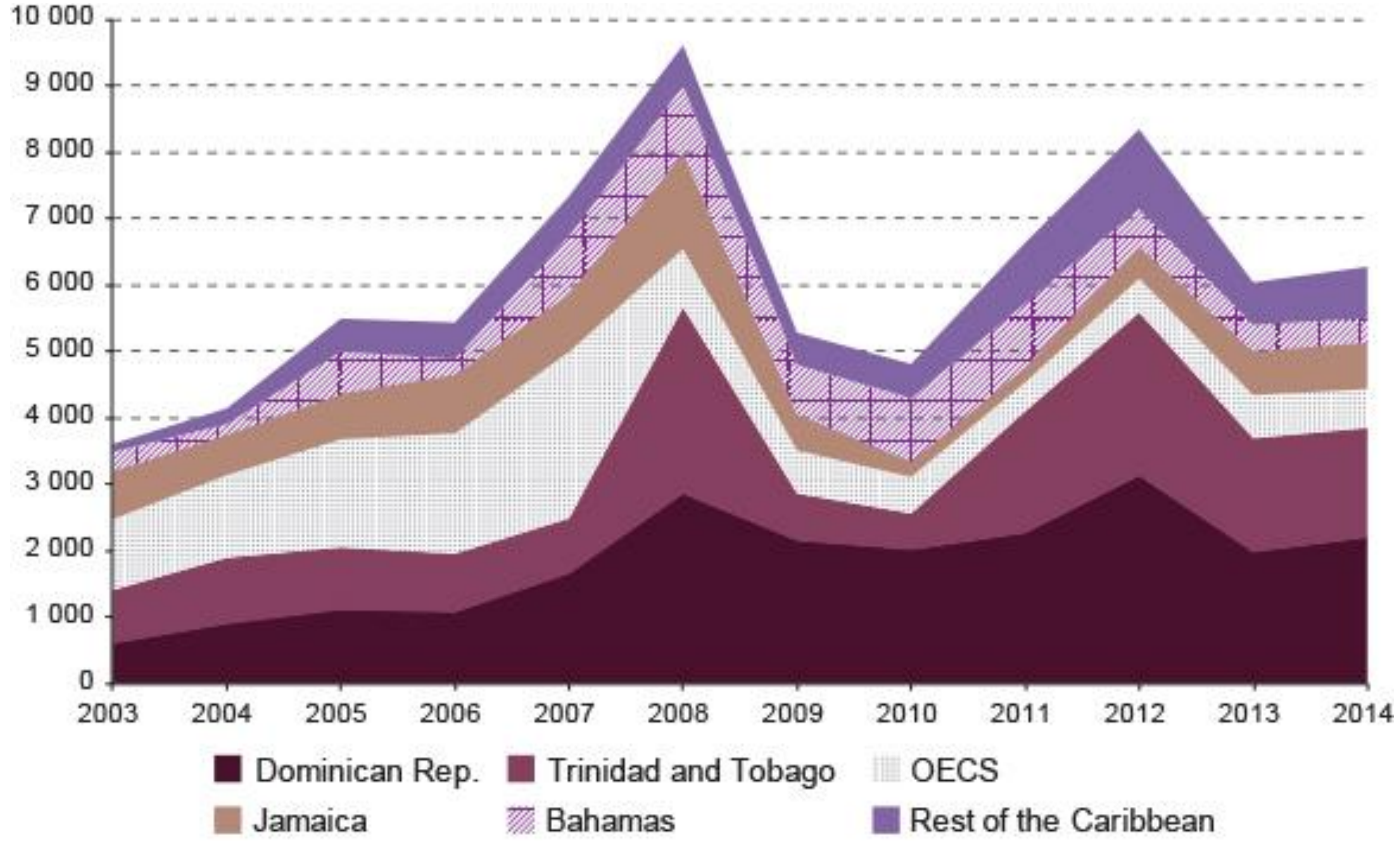
FDI is much more significant in the Caribbean economies than in Latin America

Foreign direct investment flows in relation to GDP, 2014
(Percentages)



Foreign Direct Investment in Latin America and the Caribbean

FDI flows into the Caribbean remain below 2008 levels, and in 2014 dropped by 5% to US$ 6.027 billion



Tourism is the sector receiving most FDI in many economies. In others, most FDI goes to natural resources

Main sector	Countries (*portion of flows going to the main sector*)	
Tourism and real state	Antigua and Barbuda* Bahamas (no data) Barbados (no data) Belize (64%), Dominica*	Grenada* Saint Kitts y Nevis* Saint Lucia* Saint Vincent and the Grenadines*
Natural resources	Guyana (45%), Suriname (no data) Trinidad and Tobago (74%)	
Transport and telecoms	Haiti (70%), Jamaica (51%)	
Diversified	Dominican Republic (21% natural resources, 26% manufactures, 23% tourism)	

The Eastern Caribbean Central Bank does not publish data disaggregated by sector.
Evidence from other sources suggests that tourism accounts for over 80% of flows in these countries.

The Caribbean economies attract very large sums of FDI, but these have a limited transformative impact

- Governments in the Caribbean offer general tax incentives.
- Many ad hoc exemptions are offered, which creates problems of transparency and foreseeability.
- These measures carry a high fiscal cost, without producing benefits to justify them proportionately.
- Efforts are needed to build local capacities and production structure and improve the business climate.
- Coordination of investment promotion efforts is also needed, to avoid competition in incentives between countries.

Transnational firms and the environment

The Latin American and Caribbean economies must evolve towards a lower environmental impact

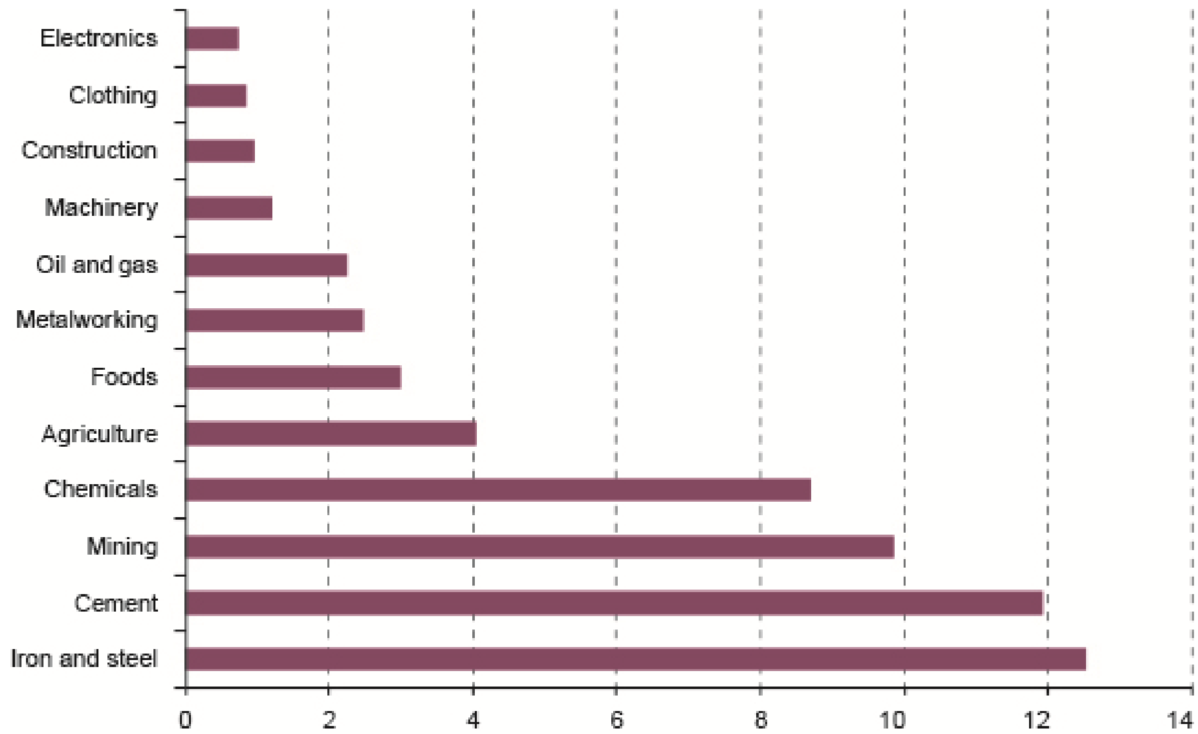
- The region faces a range of environmental challenges: pollution, disorderly urbanization, environmental liabilities, biodiversity loss, deforestation, greenhouse gas emissions, etc.
- Transnational companies are key actors in the transition towards sustainable development, because of their weight in the region’s economy and in the sectors in which they operate.
- But the impact of these firms on the environment has not been properly measured or regulated.

The environmental impact of FDI, measured by energy intensity, is related to the production structure

In many of the region's countries, FDI is concentrated in activities with a high environmental impact, such as mining, hydrocarbons and natural-resource-based industries

Energy intensity of selected economic sectors, measured in the United States, 2011

(Kbtu per dollar produced)

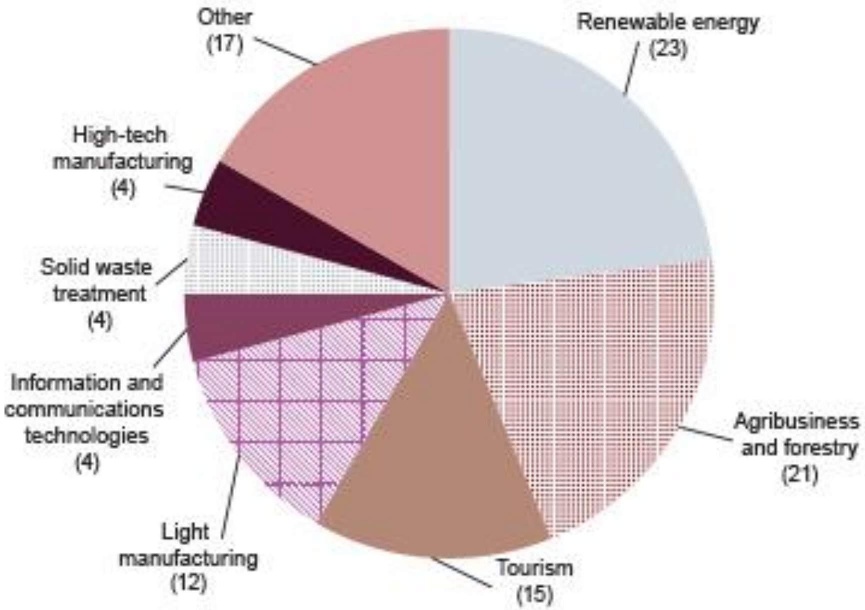


Transnational companies can help to make the necessary investments to achieve the sustainable development goals

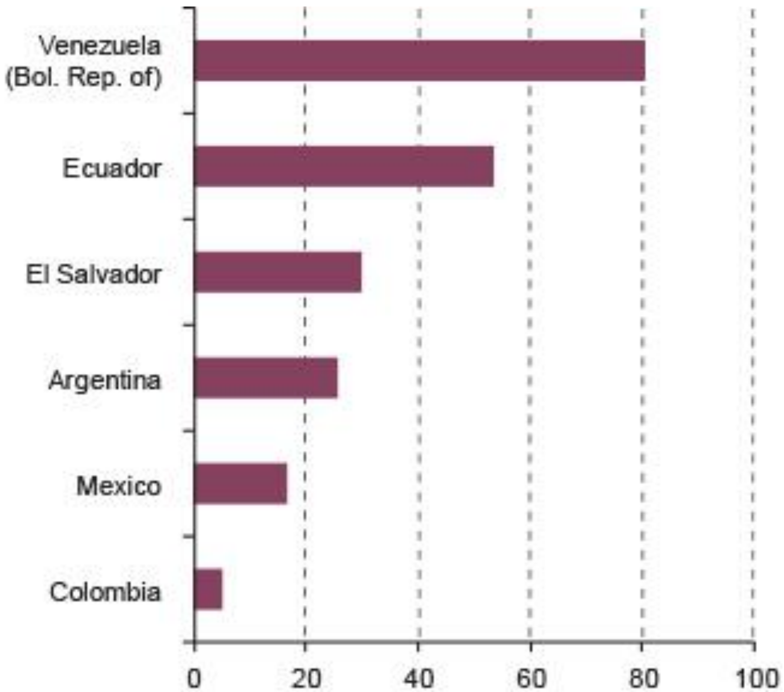
- Transnational firms have the technologies to help reduce environmental impact and the capacity to innovate for cleaner, low-carbon production.
- For this, sustainable business models need to be developed, for both companies and countries.
- This calls for a regional compact for attracting FDI into investment that is conducive to achieving the sustainable development goals.

FDI incentives need to be geared towards sustainable development, and policy coherence must be improved

Target sectors for green investment
(percentages of total responses)



Fossil fuels: average subsidy
(percentages of total production costs)



Foreign Direct Investment
in Latin America and the Caribbean

Conclusions

FDI flows in 2015 will remain below the levels seen in the past few years

Latin America and the Caribbean: FDI flows, 1990-2014 and estimate for 2015

(Billions of dollars)

FDI is expected to fall slightly in 2015

FDI will continue to be important for the region's economies

- In a context of lower growth, FDI inflows may be expected to decline
- But FDI still have the capacity to develop new industries and diversify the production structure
- FDI income is a factor limiting growth, especially with a shrinking surplus on the goods trade balance

Policies for tapping the potential of FDI more effectively

- Policies should not be geared only towards bringing FDI flows back up to previous sums, but towards attracting types of FDI that help to diversify the production structure.
- FDI needs to be coordinated with industrial policies, policies to close structural gaps and long-term national development policies.
- A balance must be struck between business strategies and the development objectives of host countries.
- National and regional policies should be coherent and directed towards achieving the sustainable development goals and integration.

2015

Foreign Direct Investment
in Latin America and the Caribbean

UNITED NATIONS

ECLAC