2019

Foreign Direct Investment
in Latin America and the Caribbean

UNITED NATIONS

ECLAC

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DEVELOPMENT WITH EQUALITY

Contents of the 2019 FDI report

I Overview of foreign direct investment in Latin America and the Caribbean

II The contribution of the Republic of Korea's multinational corporations to the economic restructuring of Latin America

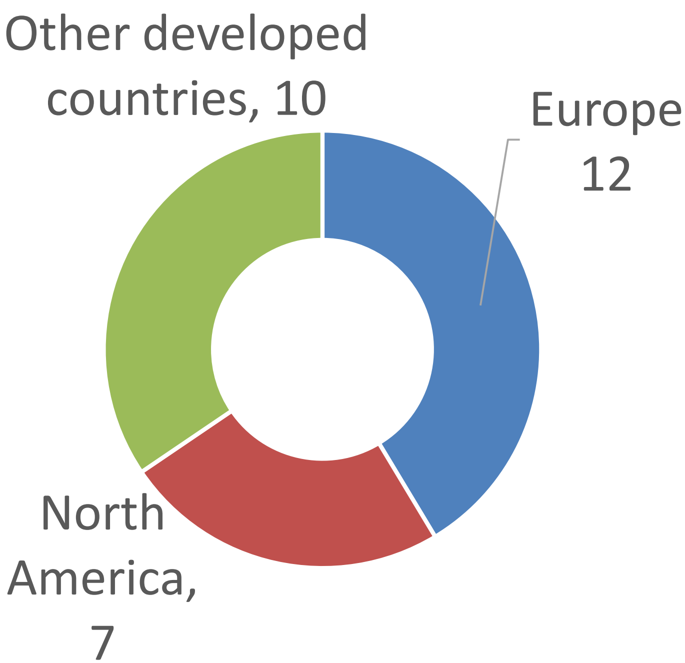
III Foreign direct investment in the agrifood chain: an opportunity to move towards sustainable growth with greater value added

A complex global situation
11 years after the crisis of 2008

- **Weak international trade** not driving growth
- **Investment** still too low
- **Monetary expansion** not stimulating global demand
- **Austerity policies** have persistently stifled demand from the European Union
- **China** entering a new period of lower growth, with an impact on demand
- Growth in employment in advanced economies, but of lower quality
- **Technological revolution** adds uncertainty to existing world production trends, with the potential to amplify trade imbalances

More restrictive measures in developed countries in 2018

Number of measures related to FDI inflows in 2018



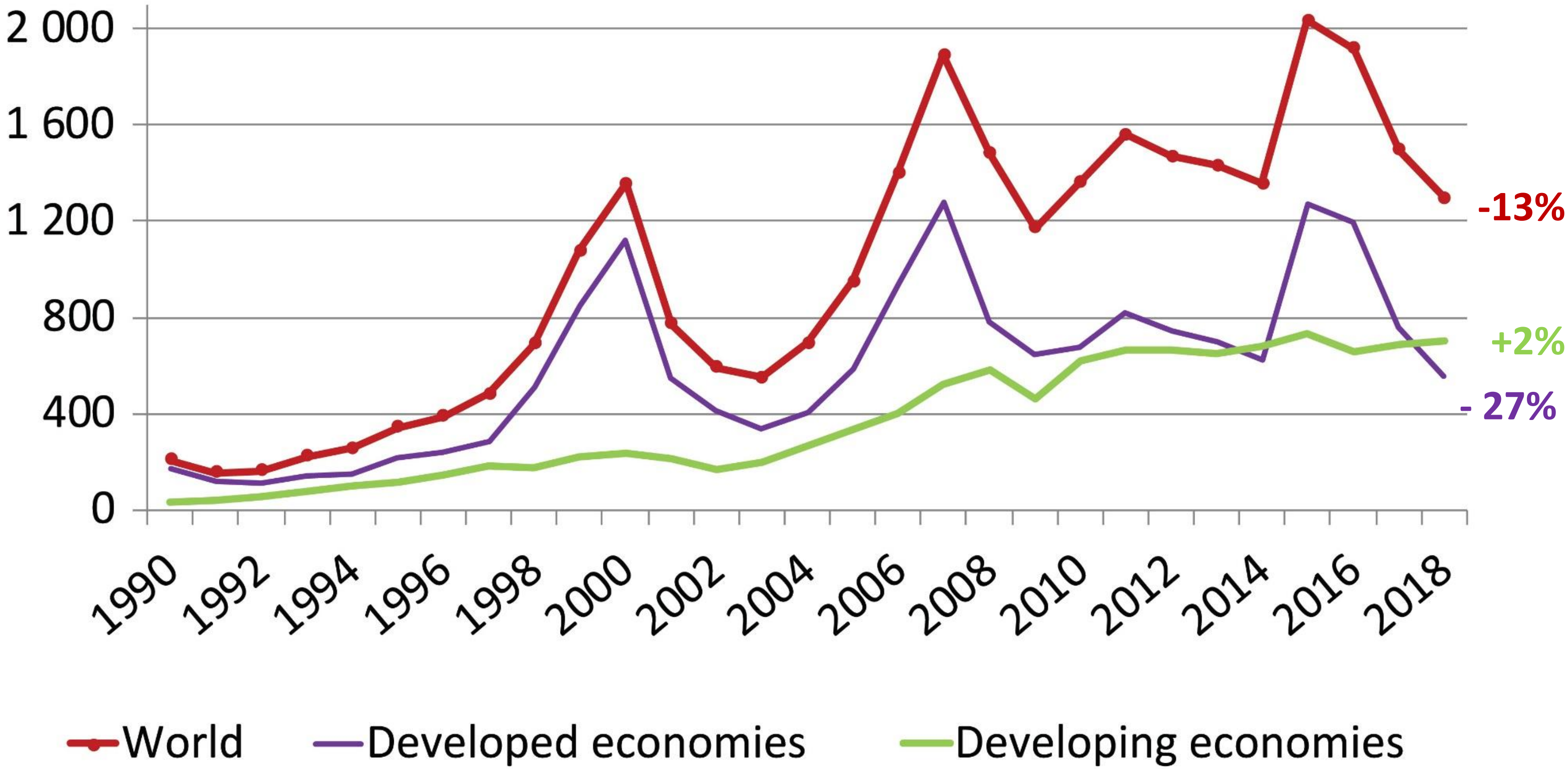
Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2019*, Geneva, 2019.

- Developed countries have adopted FDI policy measures.
- Of the **29 measures adopted, 21 restrict inflows** and just 7 aim to attract investors.
- According to UNCTAD, **national security matters** are at the heart of these restrictive measures.
- The **sectors** most affected are **high-tech, infrastructure, financial services and telecommunications.**
- In terms of the **country of origin of investors, Chinese** firms have been most affected.

Transnational corporations are cutting back on investment in response to mounting global tensions

Worldwide, FDI fell 13% in 2018 to US$ 1.3 trillion, the lowest level since 2009

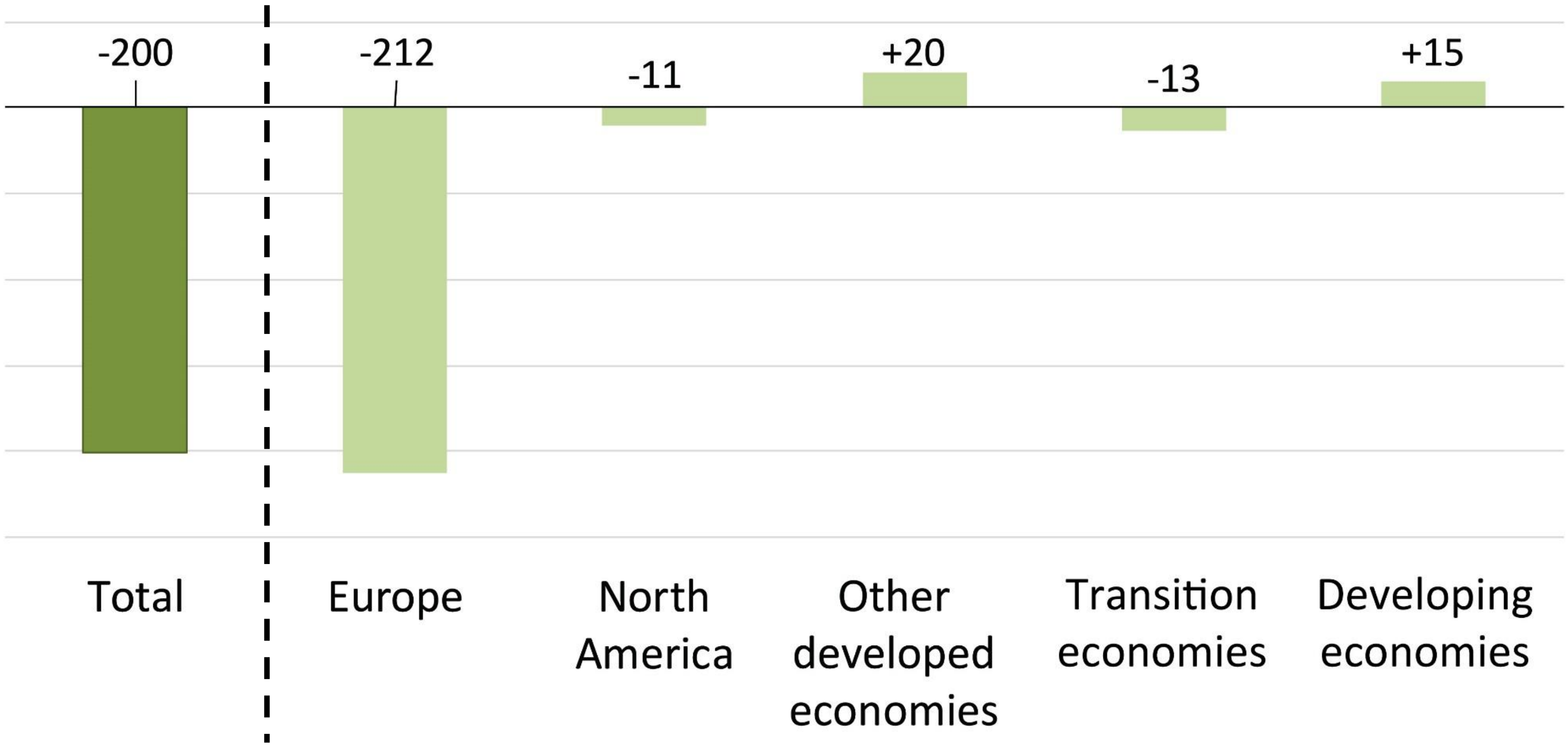
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report*, 2019, Geneva, 2019.

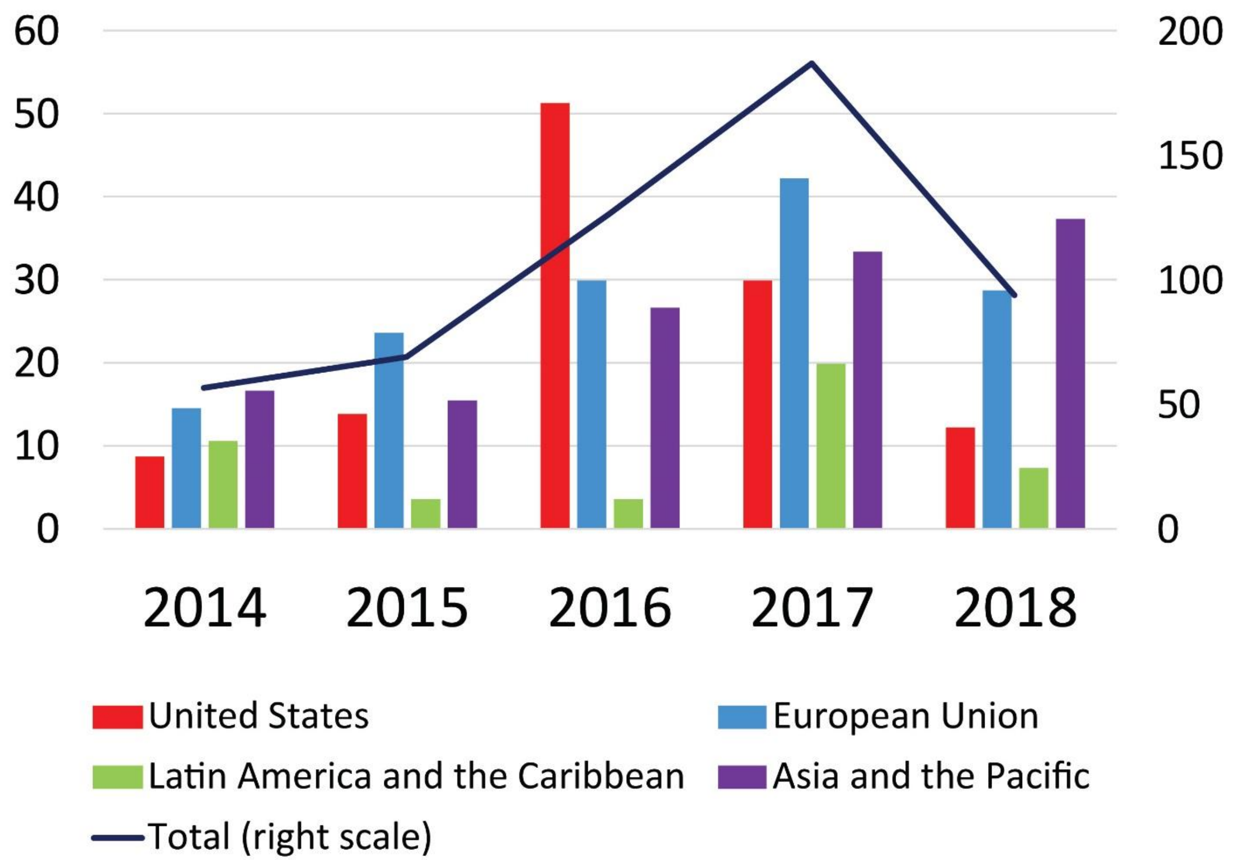
Europe was the largest contributor to the decline in inbound FDI, while tax reform in the United States fuelled repatriation of earnings

Variation in FDI inflows, by selected regions and country groupings, 2017–2018
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report*, 2019, Geneva, 2019.

China: cross-border mergers and acquisitions, by target region or country, 2014–2018



The pace of growth in China's foreign acquisitions slowed, except in Asia and the Pacific

Protection of strategic assets and the trade war were behind the fall in developed economies

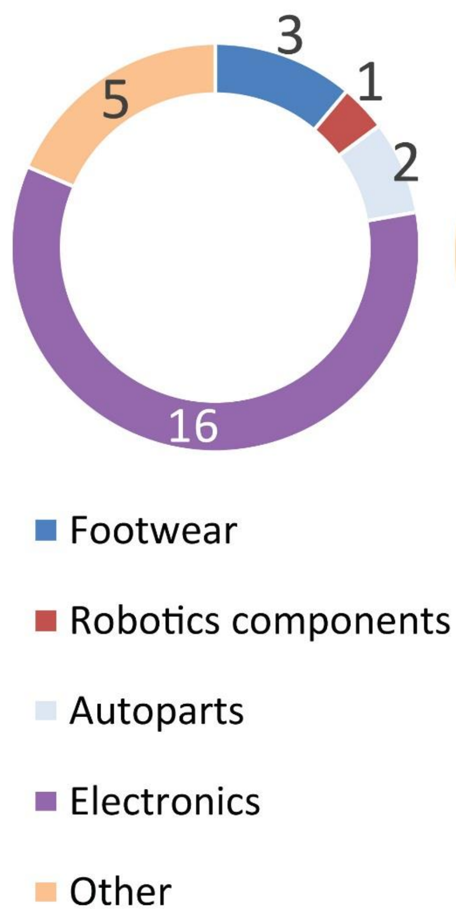
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg

China: 27 multinationals relocated in 2018–2019

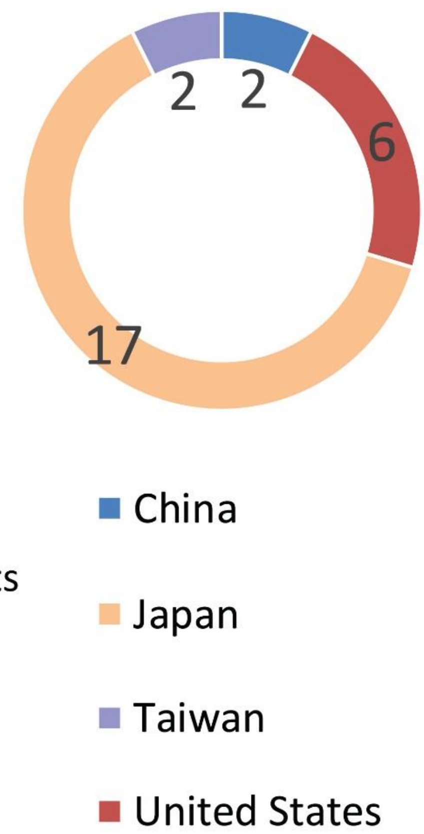
Multinationals are leaving China to avoid the repercussions of the trade war

The trade agreement between Mexico and the United States could make Mexico an attractive destination

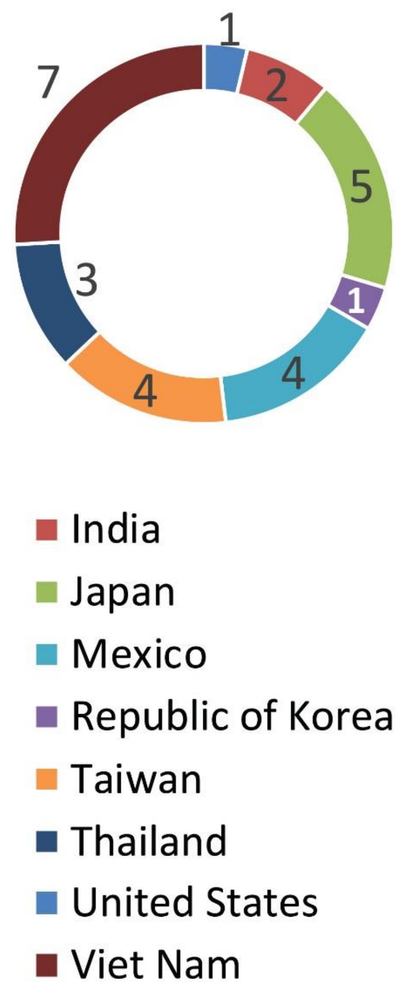
Sectors



Origin of company



Destination

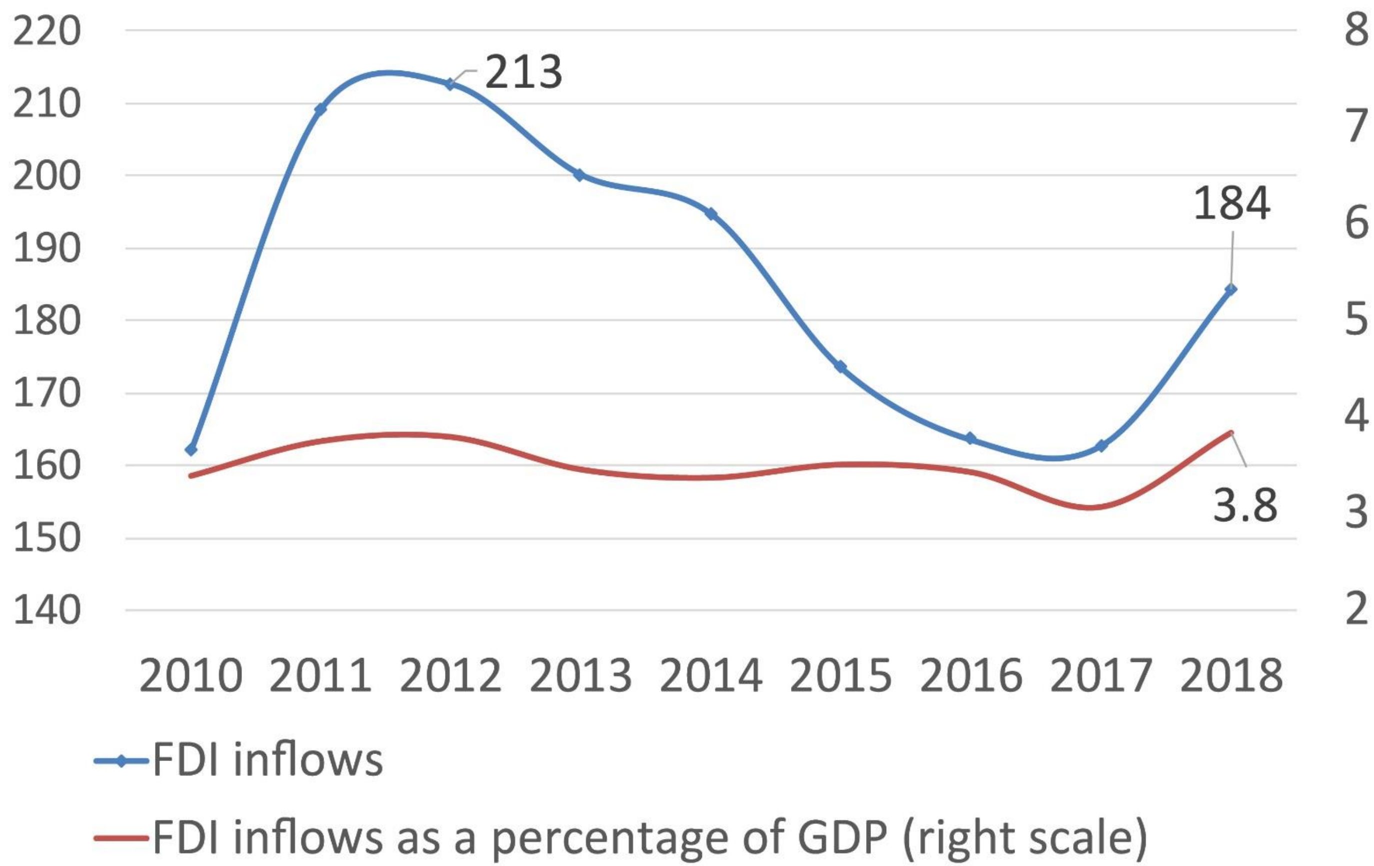


Source: Economic Commission for Latin America and the Caribbean (ECLAC)

By contrast with the rest of the world, the decline in FDI reversed in Latin America and the Caribbean in 2018

Latin America and the Caribbean: FDI inflows, 2010–2018

(Billions of dollars and percentages)



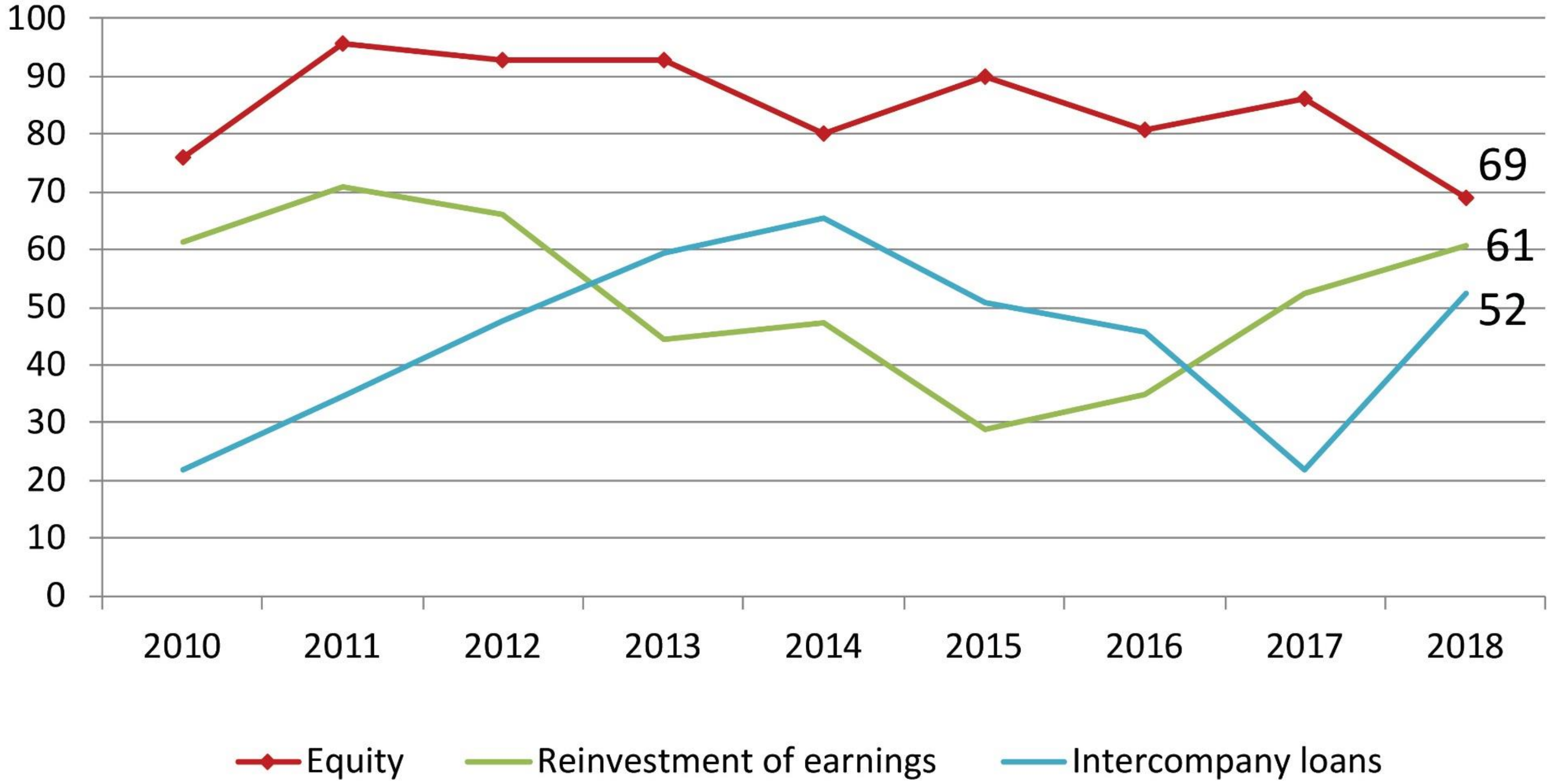
The region received US$ 184 billion in FDI in 2018, up 13.2% on 2017

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures at 23 July 2019

Growth was driven by reinvested earnings and intercompany loans, although equity inflows declined

Latin America and the Caribbean: FDI inflows by component, 2010–2018

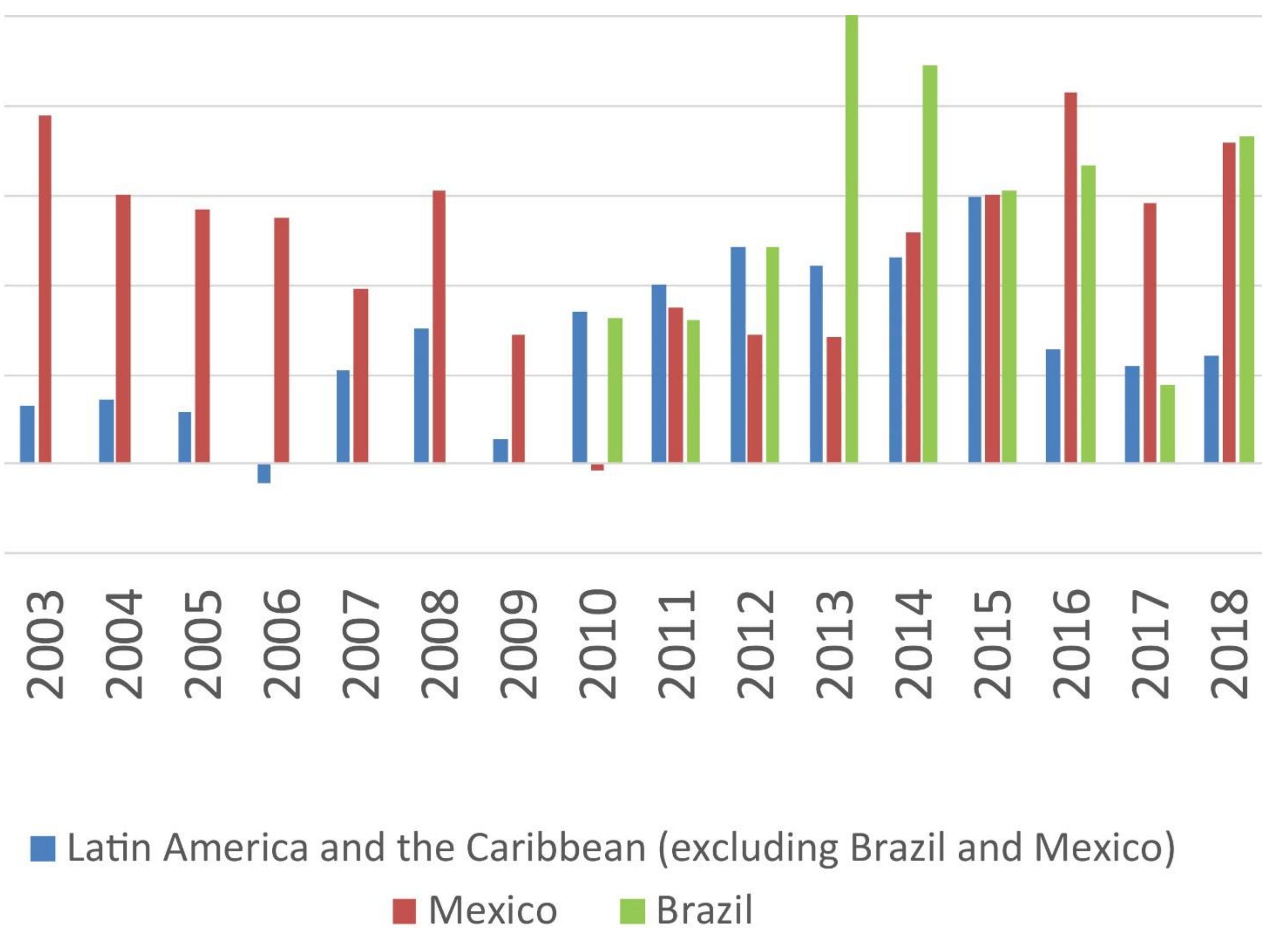
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019

Proportion of intercompany loan inflows in relation to total FDI inflows, 2003–2018

(Percentages)



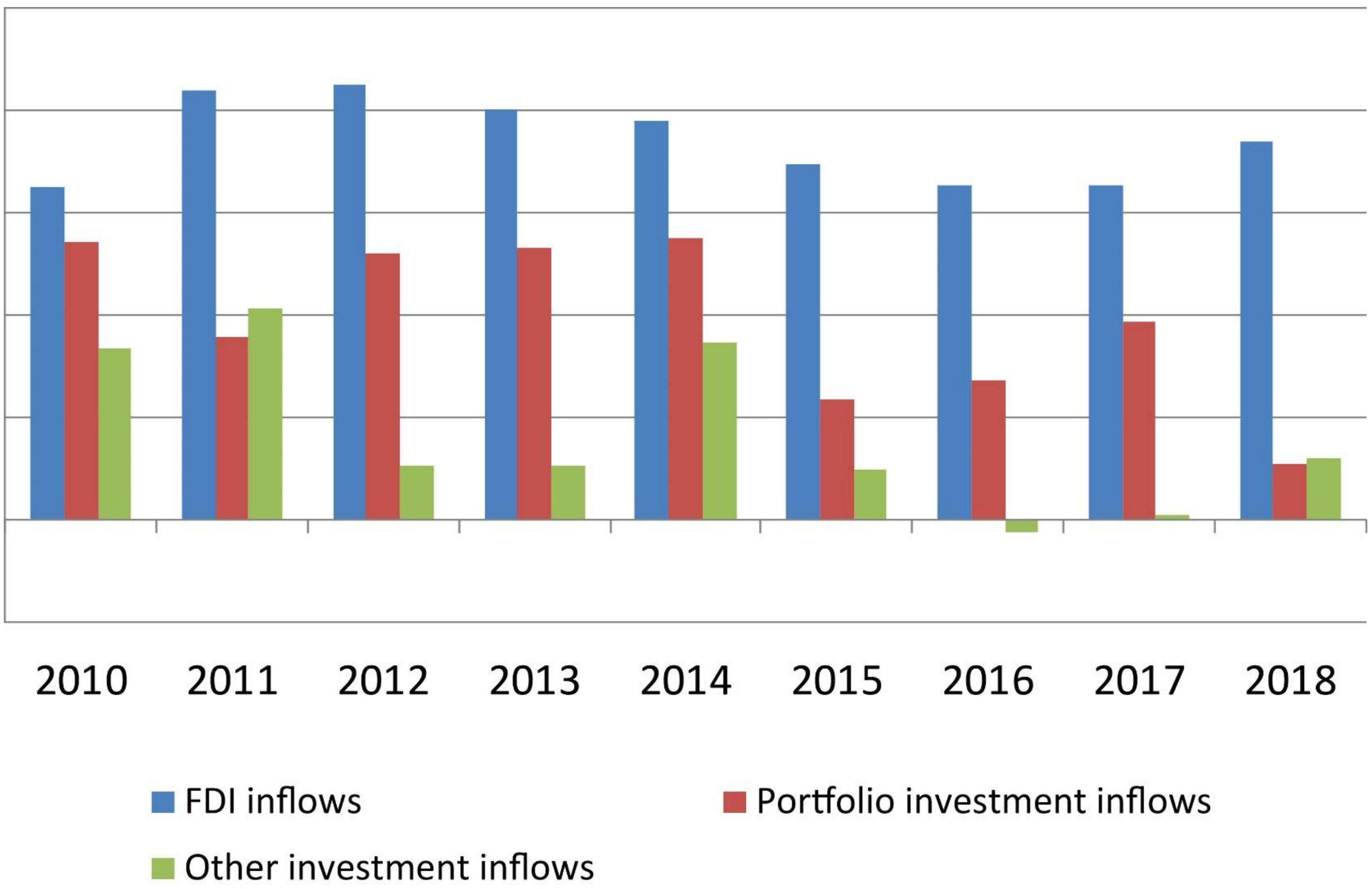
Domestic companies' intercompany loans are recorded differently under BPM5 and BPM6

In any event, they are a very volatile component that generally accounts for a small proportion of FDI: 13% on average (excluding Brazil and Mexico)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019

FDI remains the most stable foreign capital inflow in the region

Latin America and the Caribbean: cross-border capital inflows, 2010–2018
(Billions of dollars)

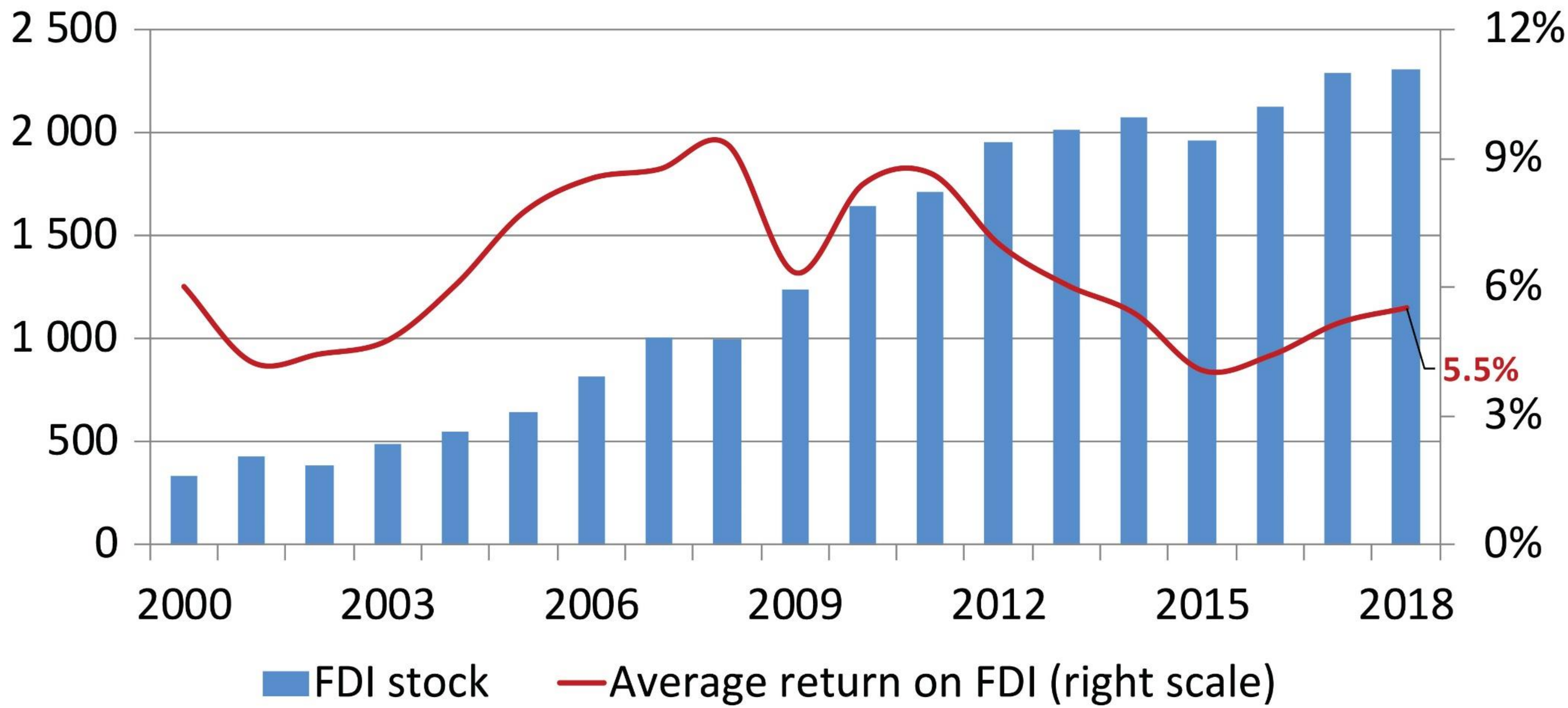


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

The average return on FDI was steady at around 6%

Latin America and the Caribbean:[a] FDI stock and average return, 2000–2018

(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

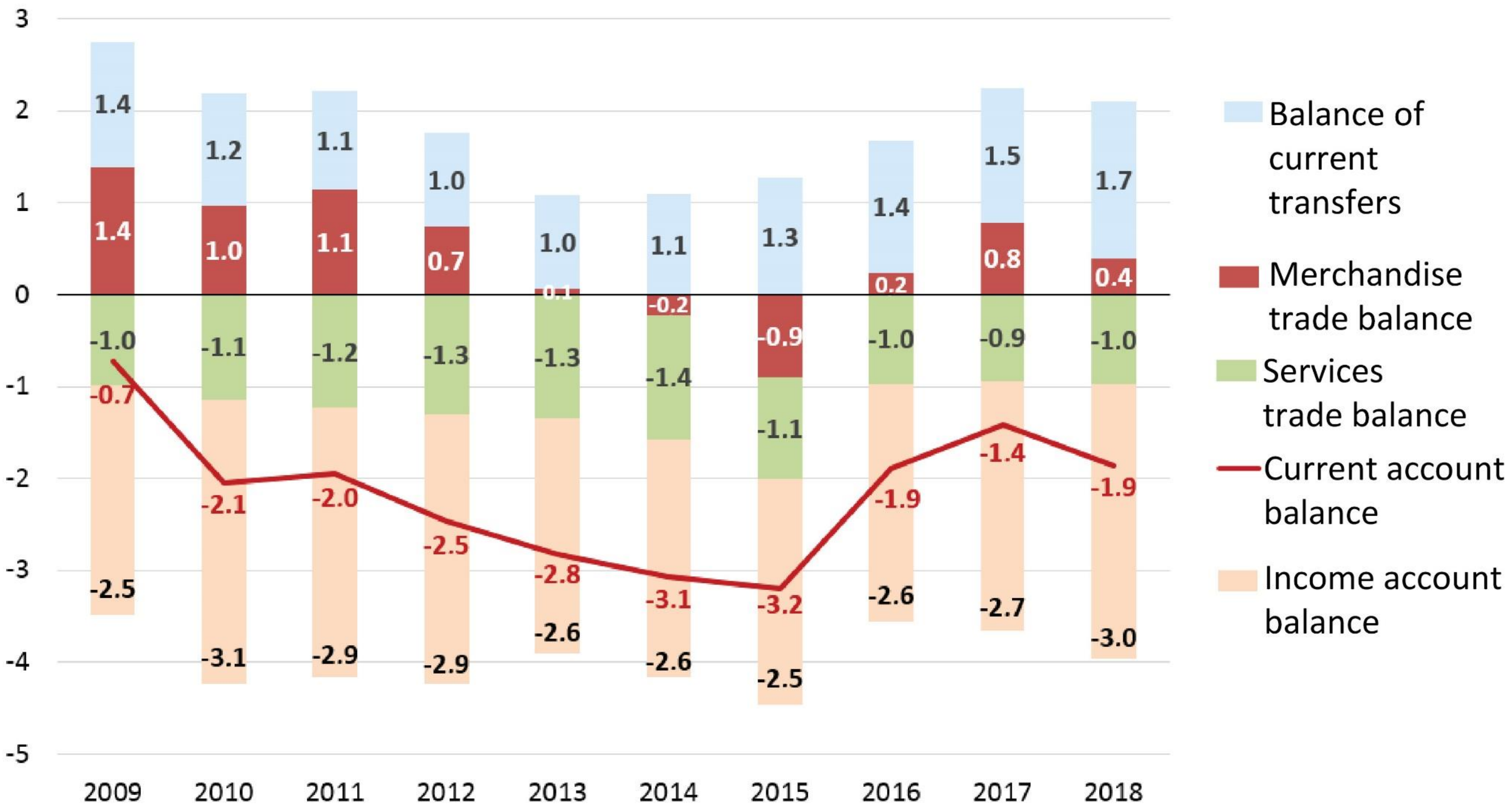
Note: Average return is calculated as the quotient between FDI income (debit) and the FDI stock.

[a] The Bolivarian Republic of Venezuela, Jamaica, and Trinidad and Tobago were excluded because of a lack of data for 2018.

Capital outflows on the income account were the largest component of the current account deficit: -3.0 % of GDP

Latin America and the Caribbean: balance-of-payments current account, by component, 2009–2018

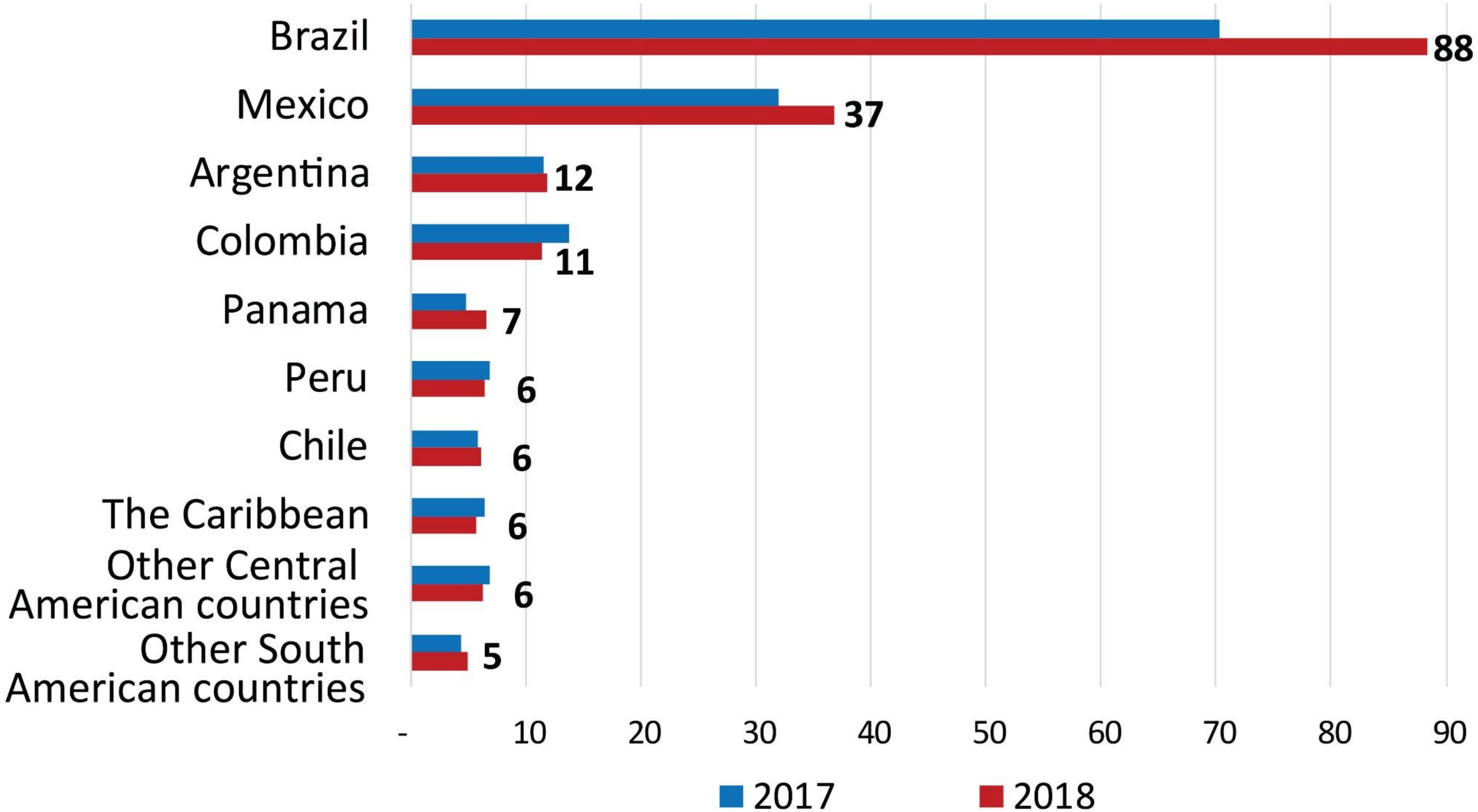
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean, 2019* (LC/PUB.2019/12-P), Santiago, 2019.

Brazil and Mexico accounted for the majority of the region's FDI inflows in 2018

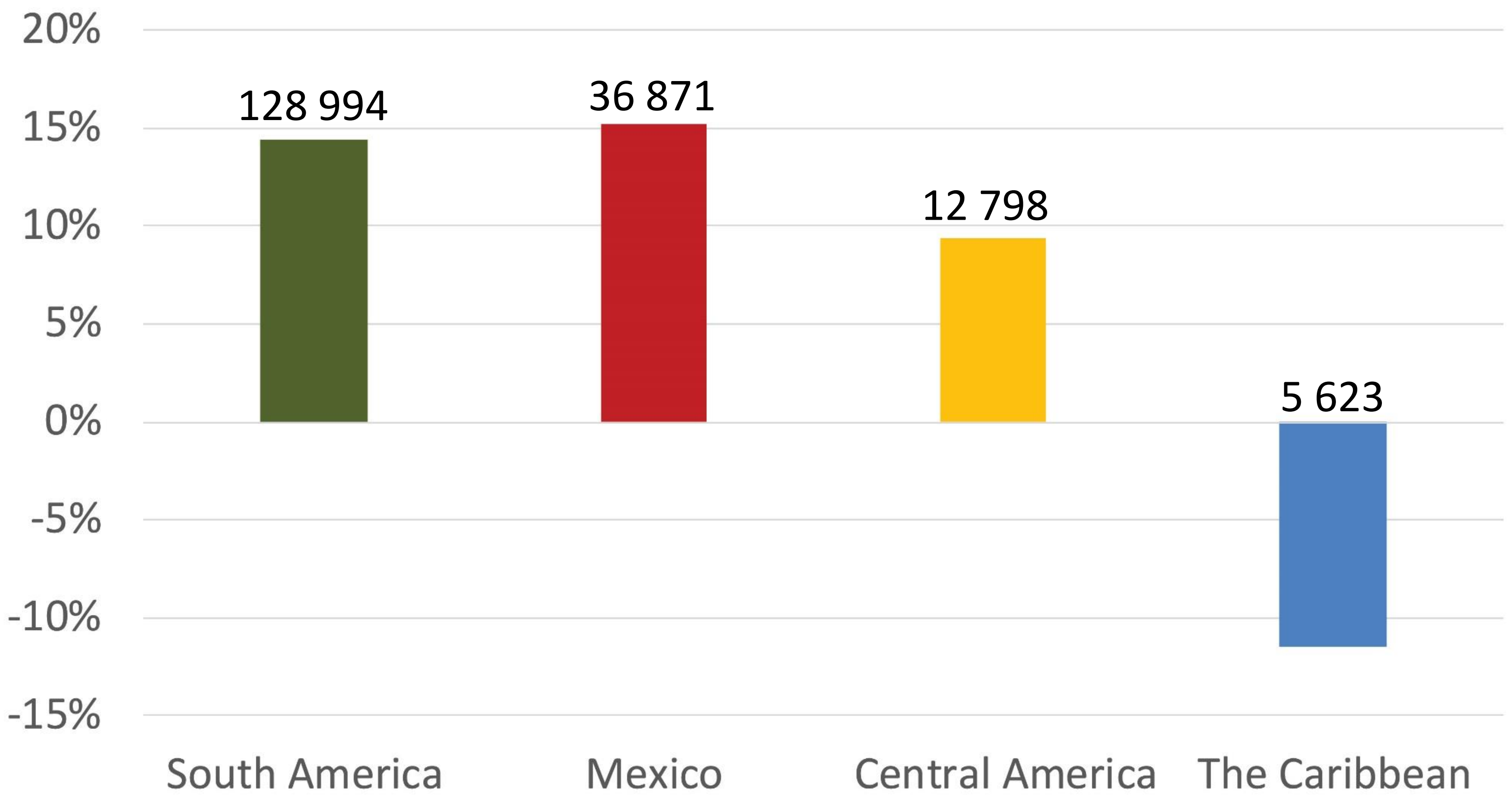
Latin America and the Caribbean (selected regions and countries): FDI inflows, 2017–2018
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019

Latin America and the Caribbean (selected regions and countries): FDI inflows, 2017–2018

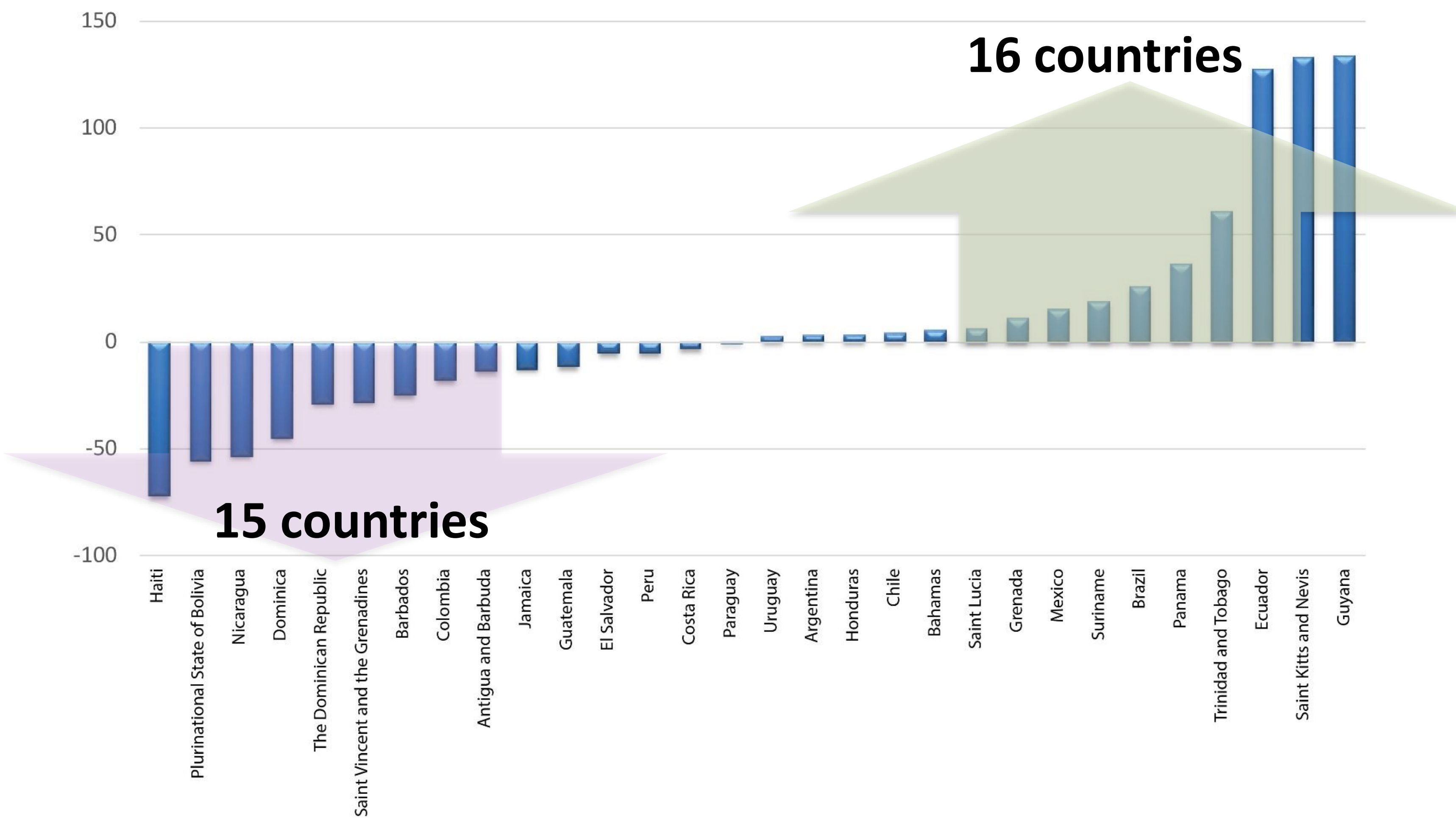
(Year-on-year variation and billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

Divergent trends between countries and no subregional pattern

Percentage variation in FDI received, 2017–2018



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates as of 13 June 2019.

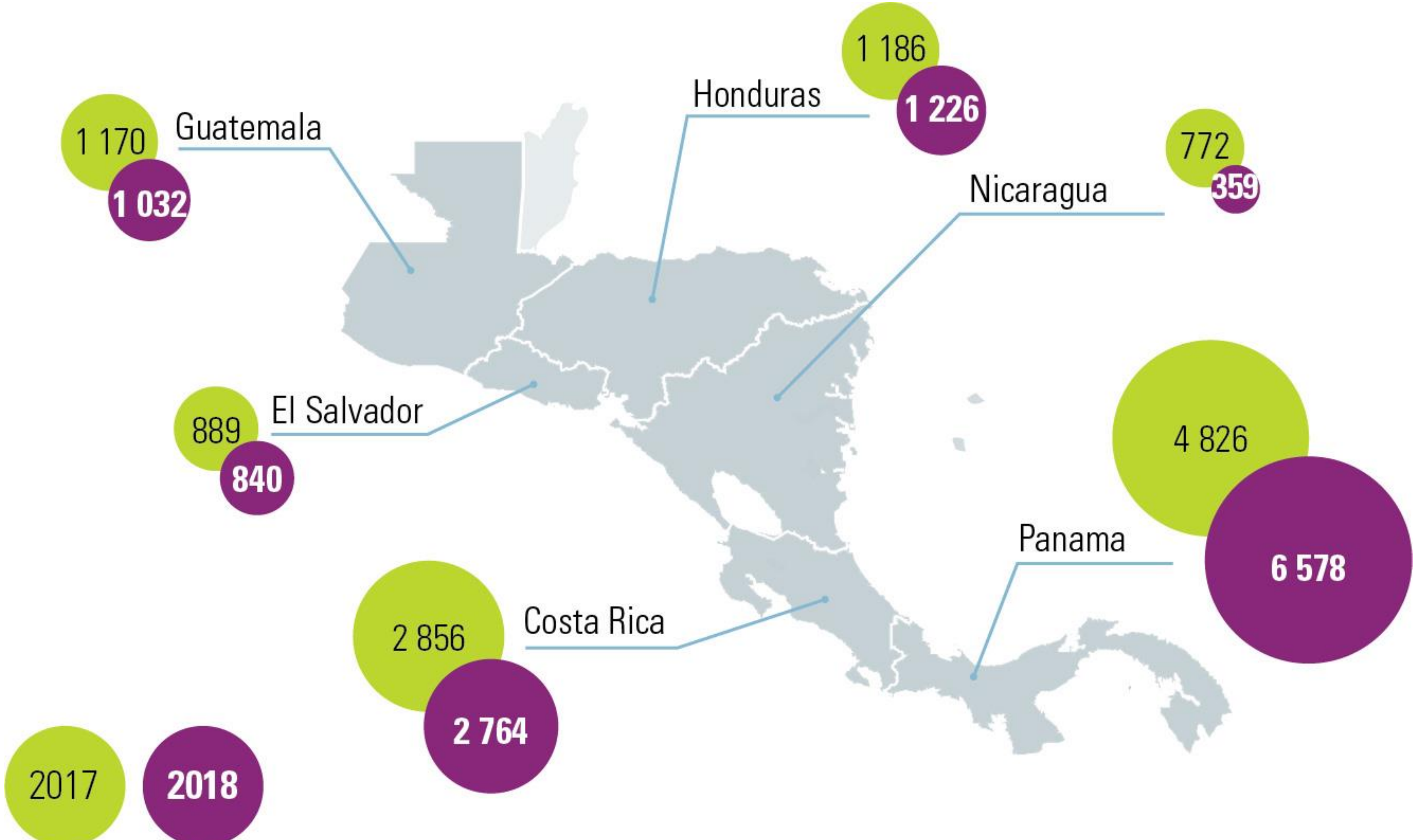
FDI in Central America grew from 2017 to 2018, driven by Panama

- **Panama** was the main recipient country in the subregion (US$ 6.578 billion) and saw inflows grow 36% on 2017.
- **Costa Rica** received the second largest amount of FDI in the subregion (US$ 2.764 billion), but the growth of recent years reversed in 2018 (-3%).
- **Honduras** saw a slight rise (+3%), while **Nicaragua (-54%), Guatemala (-12%) and El Salvador (-6%)** received less FDI than in 2017, despite El Salvador maintaining record levels.

The **export manufacturing** sector continues to attract FDI in the subregion

FDI in Central America grew from 2017 to 2018, driven by Panama

The **export manufacturing** sector continues to attract FDI in the subregion



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

In the Caribbean, FDI inflows slowed as a result of less investment in the Dominican Republic

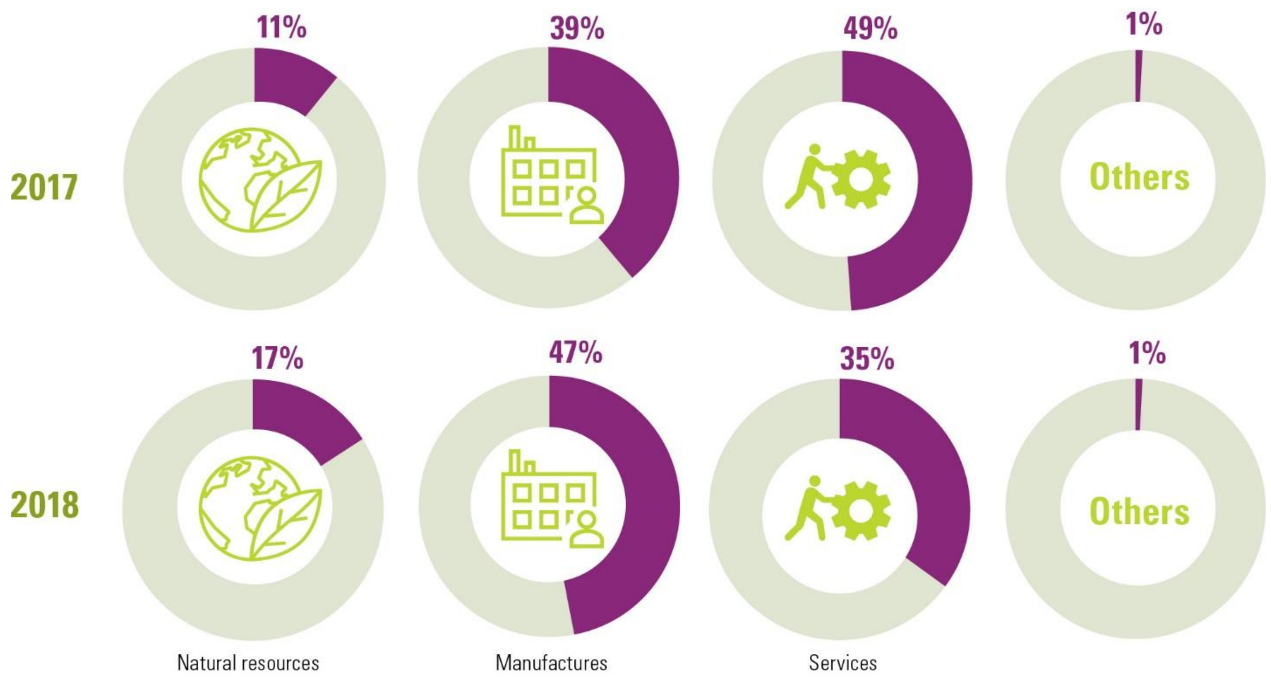
- The **Dominican Republic** was the main recipient of FDI in the subregion (US$ 2.535 billion), but inflows were smaller than in 2017 (-29%).
- Inbound FDI was up (5%) on 2017 in the **Bahamas** and fell in **Jamaica (-13%)**, recipients of the second and third largest volumes of FDI in the subregion.
- **Guyana** saw its FDI inflows more than double (+133%) to US$ 495 million, primarily driven by the oil industry.
- **Haiti,** which received substantial inflows in 2017, saw a decline (-72%), putting levels close to its historical average.

The **tourism sector** was the top destination for FDI in the subregion and interest in business service centres is increasing

The manufacturing sector received a larger proportion of investment and there was slight growth in FDI in natural resources

Nevertheless, levels remain far below those seen during the commodity price boom

Latin America and the Caribbean (14 countries): FDI inflows by sector



Manufactures and services attracted the majority of investment

The automotive, autoparts and energy industries were key activities

The telecommunications sector stalled

Note: The countries included were those with sectoral data for 2018, namely Belize, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua and Plurinational State of Bolivia.

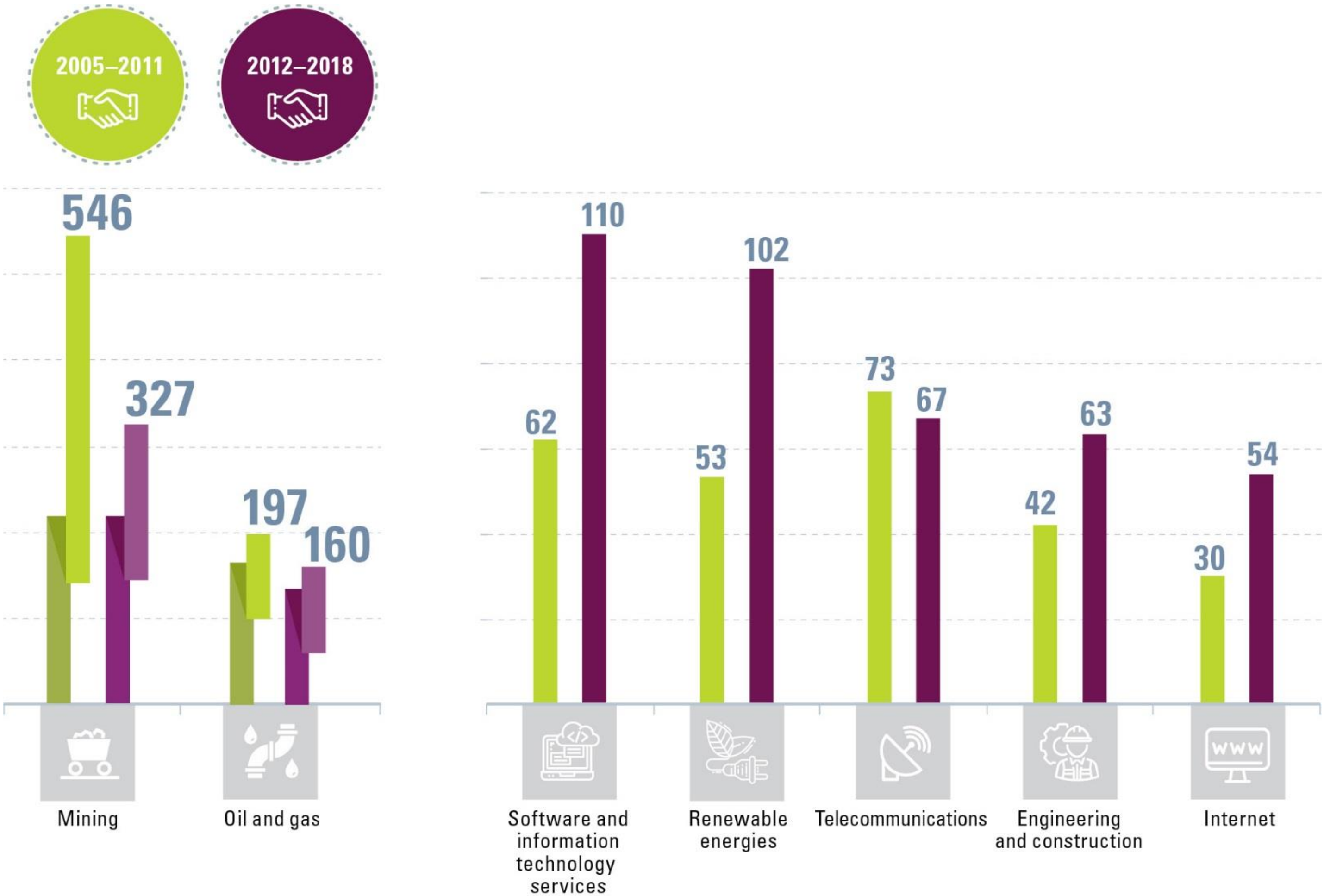
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

Cross-border megamergers and major acquisitions were concentrated in Chile and Brazil: hydrocarbons, mining and utilities

The high-tech industries and renewable energy sector saw the fastest growth in mergers and acquisitions

Latin America and the Caribbean: cross-border mergers and acquisitions, selected sectors, 2005–2011 and 2012–2018

(Number of transactions)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

Largest transactions in 2018

<table>
<tr><th>CHILE</th><th>BRAZIL</th><th>MEXICO AND PANAMA</th></tr>
<tr><td>US$ 4.066 billion — Mining
Sociedad Química y Minera de Chile SA (24%)
Investor: Tianqi Lithium Corp, China
Country of seller: Canada</td><td>US$ 2.703 billion — Utilities
(electricity)
Eletropaulo Metropolitana Eletricidade de Sao Paulo (93.3%)
Investor: Enel, Italia
Country of seller: Brazil</td><td rowspan="2">US$ 1.256 billion – Energy (electricity)
InterGen assets in México
Investor: Actis LLP, United Kingdom
Country of seller: Netherlands</td></tr>
<tr><td>US$ 3.245 billion — Medical services
Banmedica SA (96%)
Investor: United Health Group, United States
Country of seller: Chile</td><td>US$ 2.000 billion — Oil and gas
Yacimiento petrolero Roncador (25%)
Investor: Equinor ASA (ex Statoil), Norway
Country of seller: Brazil</td></tr>
<tr><td>US$ 2.283 billion — Financial services
Scotiabank Azul SA (BBVA Chile) (68%)
Investor: Scotiabank, Canada
Country of seller: Spain</td><td>US$ 1.992 billion – Agrochemicals
Vale fertilizantes
Investor: Mosaic Co, United States
Country of seller: Brazil</td><td rowspan="2">Panama
US$ 1.002 billion – Telecommunications
Cable Onda SA (80%)
Investor: Millicom International Cellular SA Luxembourg (Sweden)
Country of seller: Panama</td></tr>
<tr><td>US$ 1.300 billion — Utilities
(electricity)
Transelec SA (27.7%)
Investor: China Southern Power Grid Co Ltd, China
Country of seller: Canada</td><td>US$ 1.800 billion – Telecommunications
Ascenty Data Centers
Investor: Digital Realty Trust Inc, United States
Country of seller: United States</td></tr>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

Growth in lithium investment projects; industrialization is a major challenge

- Demand for **lithium** will triple between 2017 and 2025, but it is not an uncommon metal.
- **Chile:** portfolio of projects set to exceed US$ 1.8 billion in 2019 (276% more than in 2017).
- **Argentina:** 53 projects with foreign capital, amounting to US$ 2.0 billion (January 2019).
  - Construction of South America's **first lithium battery factory** was announced by the province of Jujuy, in partnership with Italian firm SERI.
- **Bolivia:** two agreements signed for industrial production of lithium.
  - A joint venture with the German firm ACI Systems: US$ 1.3 billion (Salar de Uyuni, Potosí)
  - An agreement with China: planned investment of US$ 2.0 billion (Salar de Pastos Grandes, Potosí, and Salar de Coipasa, Oruro)

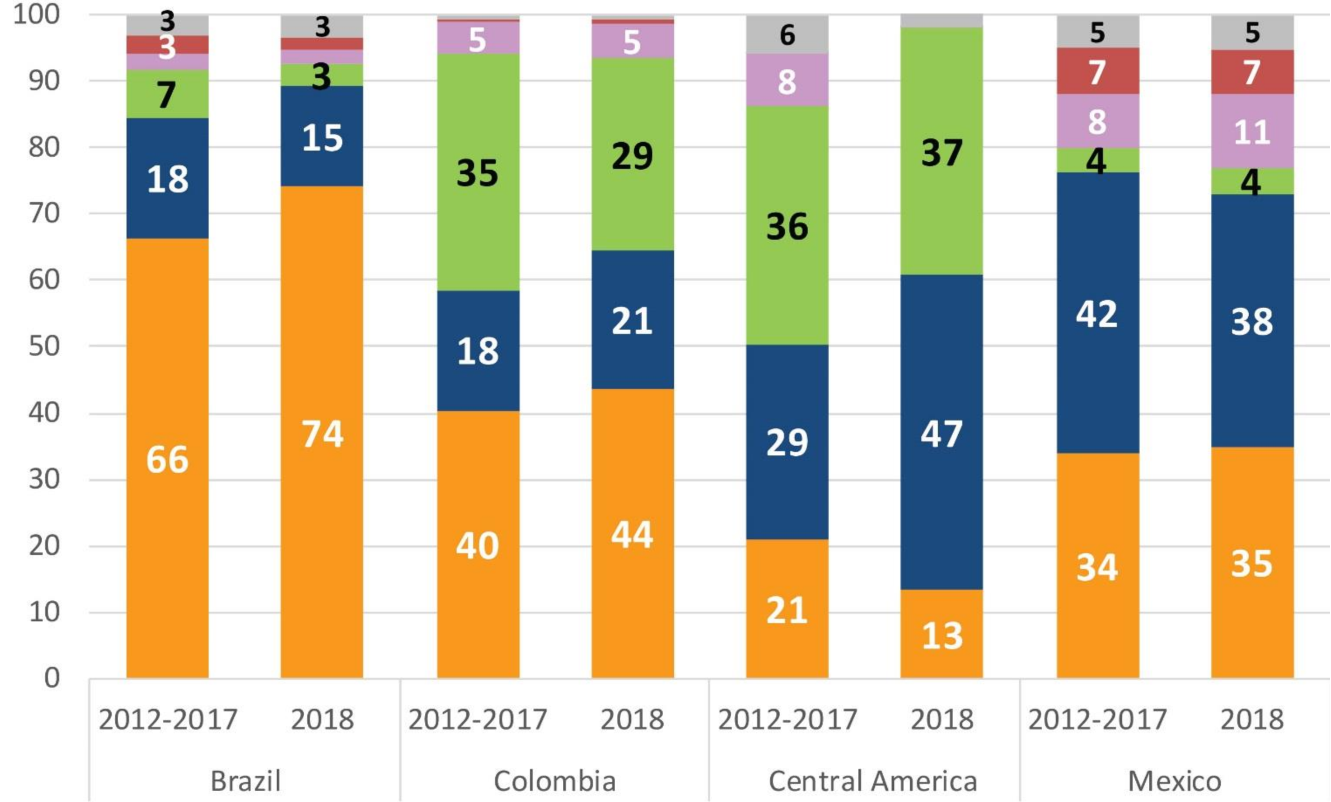
72% of global lithium reserves are in Latin America

26% of global production

Countries of origin of FDI

Europe remains the largest investor in the region

Latin America: FDI inflows by origin
(Percentages)



Europe cements its leading position

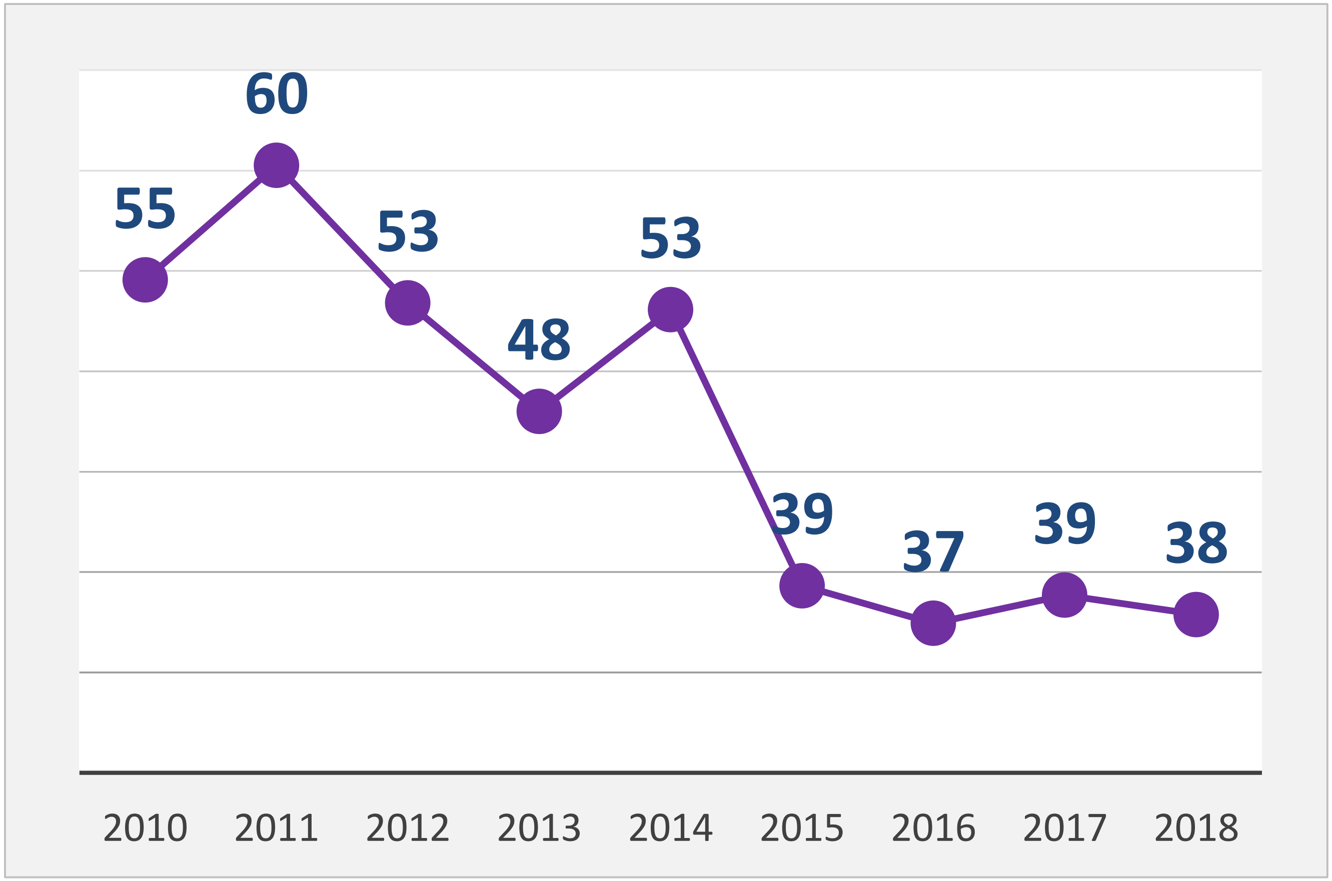
Flows into Brazil and Mexico from the United States were smaller than in 2017

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

Note: Central America excludes Panama, because it did not report country-level data for 2018.

Outward FDI from Latin America and the Caribbean, 2010–2018

(Billions of dollars)



Outbound FDI from Latin America and the Caribbean stabilized

83% of the total is from Brazil, Mexico, Colombia and Chile

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

Conclusions and outlook

The region faces complex international conditions

- The global outlook favours a path of growth focused on domestic investments rather than FDI.
- Projected growth for the region is somewhat subdued (0.5% GDP).
- A reconfiguration of international trade and reorganization of supply chains will create opportunities, but only for a few countries in Latin America (Argentina, Brazil, Mexico, Paraguay and Uruguay).

In short, in 2018…

- FDI inflows mainly reflected transactions undertaken by firms that were already established in the region.
- Equity inflows stagnated from 2014 to 2017, subsequently declining in 2018.
- Utilities (electricity, water, telecommunications) and the extractive industries are attracting the most FDI, as is the manufacturing sector in countries where capacities have been built.
- The number of mergers and acquisitions in high-tech sectors rose, but they were low-value transactions.
- Outbound FDI is concentrated in a few countries and major corporations.

In this context…

- FDI is expected to remain stable or fall in 2020, given the slack economic cycle.
- In a world in which policies are drawn up and implemented by large economic blocs, the potential for countries to advance on their own is limited.
- Integration projects include the Central America–Mexico Comprehensive Development Plan.
- Rather than seeking a return of previous volumes of inbound FDI, policies should attract types of FDI that contribute to formation of knowledge capital, boosting productivity and employment and fostering a shift towards sustainable patterns of production, energy and consumption.

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