

Foreign Direct Investment

in Latin America and
the Caribbean **2023**

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UNITED NATIONS

ECLAC



Working for
a productive, inclusive
and sustainable future

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- Global FDI trends were mixed
- FDI trends reflect the ongoing reconfiguration of globalization

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- Productive and other local capacities played a decisive role in FDI inflows

4. FDI in non-renewable and renewable energies: challenges and opportunities for the energy transition in the region

- FDI is a crucial source of financing for the energy transition and growth of the renewables sector
- The transition must factor in the continuing importance of the non-renewables sector for some countries of the region, both in terms of reserves and consumption of non-renewables

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1. Introduction

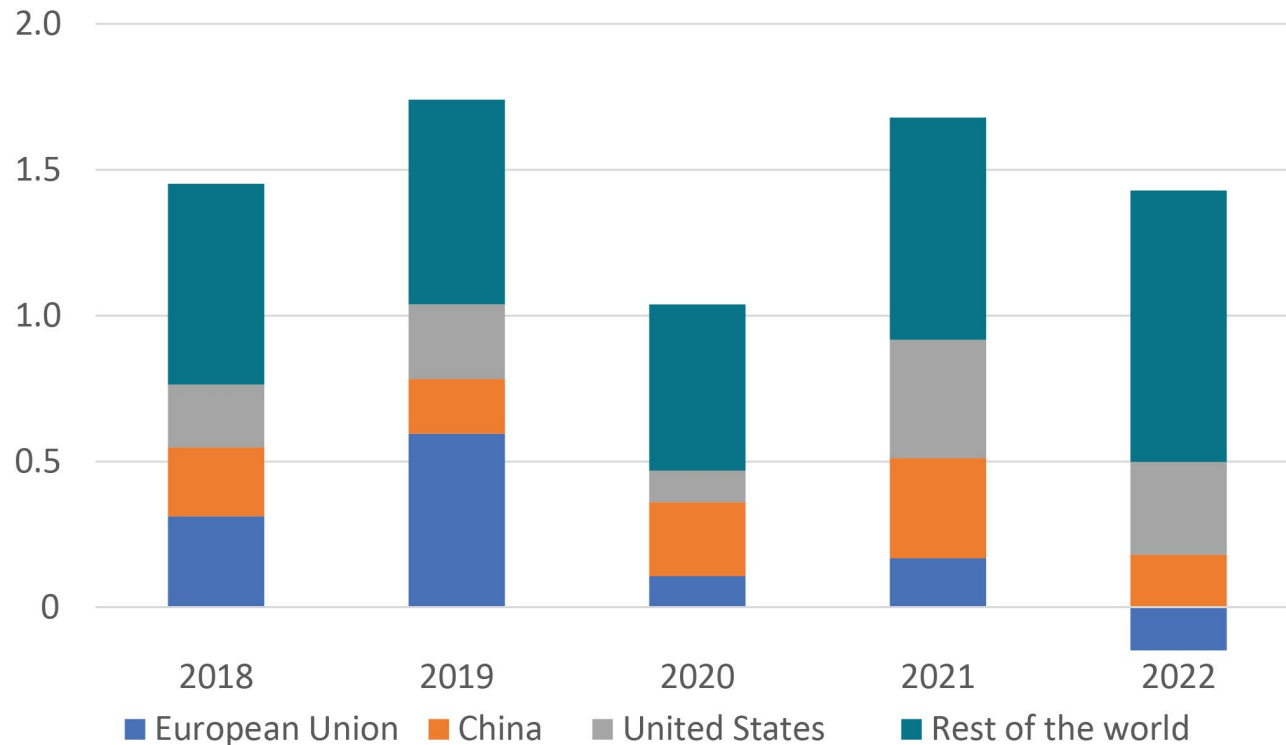
Foreign direct investment in Latin America and the Caribbean, 2023

1. *Foreign Direct Investment in Latin America and the Caribbean* has presented the main foreign direct investment (FDI) trends in the region since 1995.
2. FDI is a key variable as both investment inflows and outflows have the potential to facilitate capacity-building, technology transfer and productive development in the countries of the region.
3. Trends in FDI flows alone are not an indicator of countries' economic and social performance, but must be viewed as part of a much broader set of indicators.
4. Beyond the overview of global and regional FDI, this edition examines the role of FDI in the sectors of renewable energy and non-renewable energy and in the energy transition.
5. ECLAC has also identified the energy transition as one of the sectors to drive growth and sustainable development in the region and has proposed five pillars that can accelerate it.

2. Overview of global FDI

Global FDI inflows declined in 2022 (by 12%): weaker investment in some European Union countries and the United States

Global FDI inflows
(Trillions of dollars)

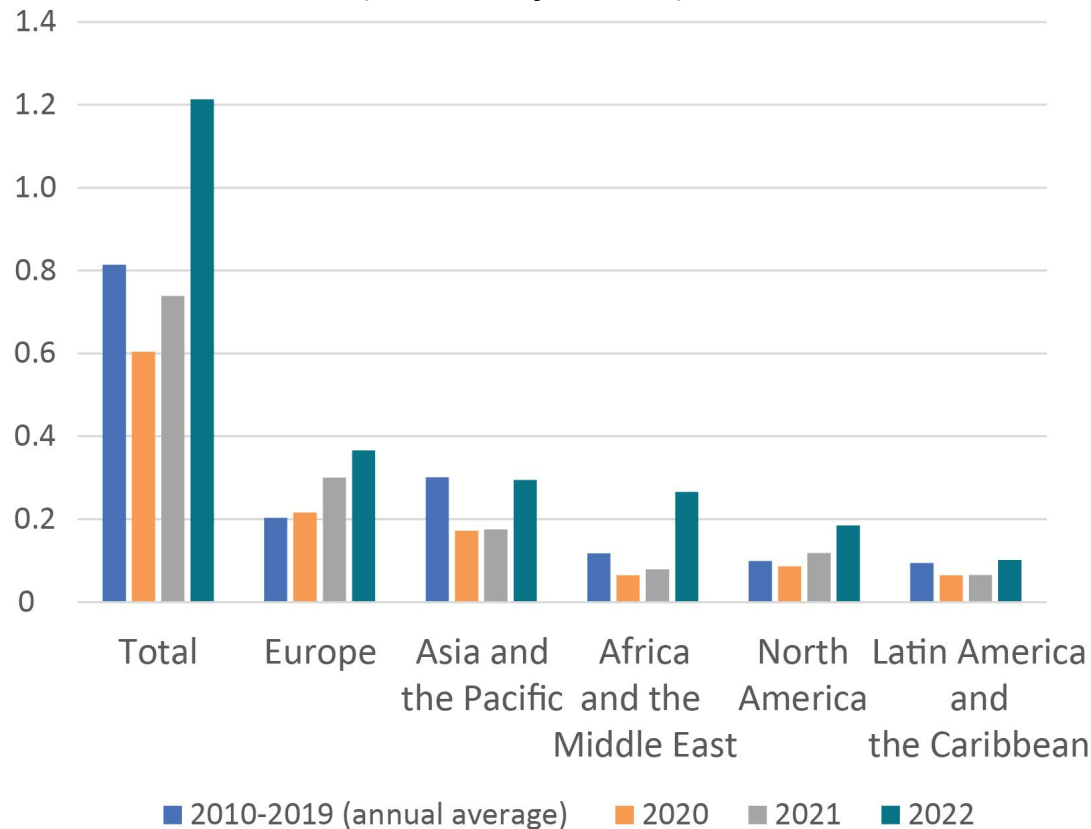


- FDI inflows declined for the United States, the main recipient, and some European Union countries, but grew for the rest of the world.
- Reasons: high inflation, interest rate hikes and uncertainty in the financial system.
- Financial movements in Luxembourg and the Kingdom of the Netherlands explain negative inflows in the European Union.

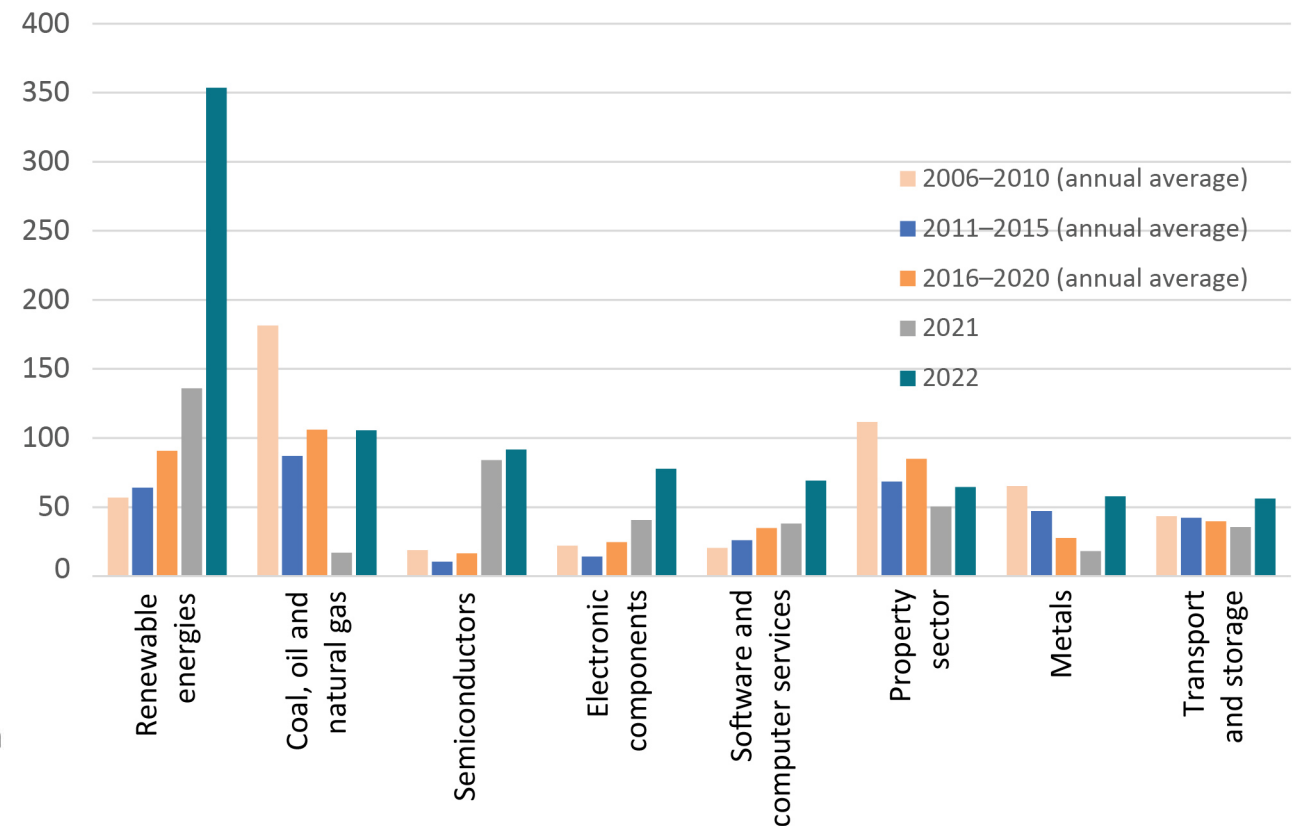
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the United Nations Conference on Trade and Development (UNCTAD).

However, FDI announcements (future investments) increased: growth in energy and strategic technology sectors

FDI project announcements, by region, 2010–2019, 2020, 2021 and 2022
(Trillions of dollars)



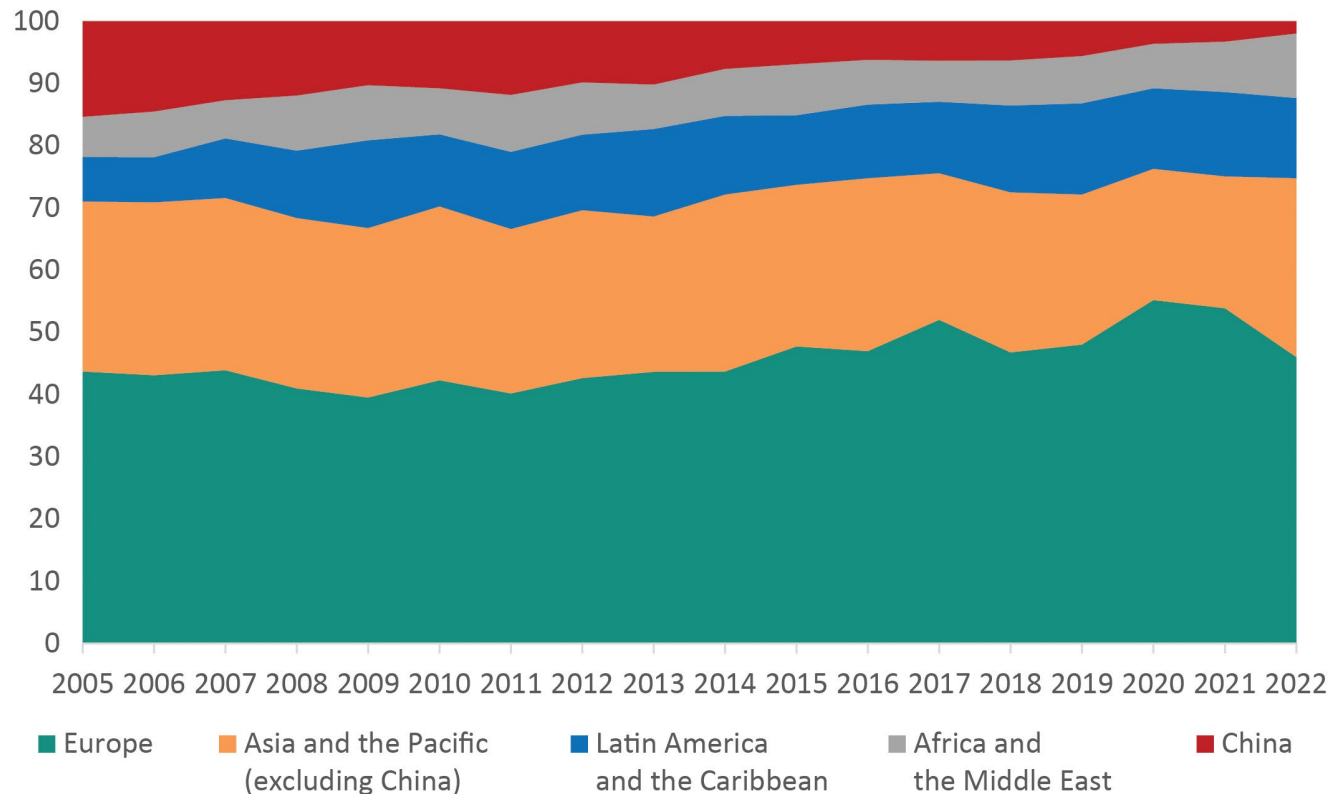
Global FDI project announcements, main sectors, 2006–2022
(Billions of dollars)



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

Effects of nearshoring becoming clear as United States FDI project announcements in China decline

United States: FDI project announcements, by region of destination, 2005–2022
(Percentages)



- The United States is the largest global source of FDI project announcements: US\$ 217 billion in 2022 (18% of total)
- China has been losing ground as a project destination for United States firms, with announcements down from US\$ 24 billion in 2006 to \$US 3.7 billion in 2022
- In contrast, announcements increased in Europe, other Asia-Pacific countries and Latin America and the Caribbean

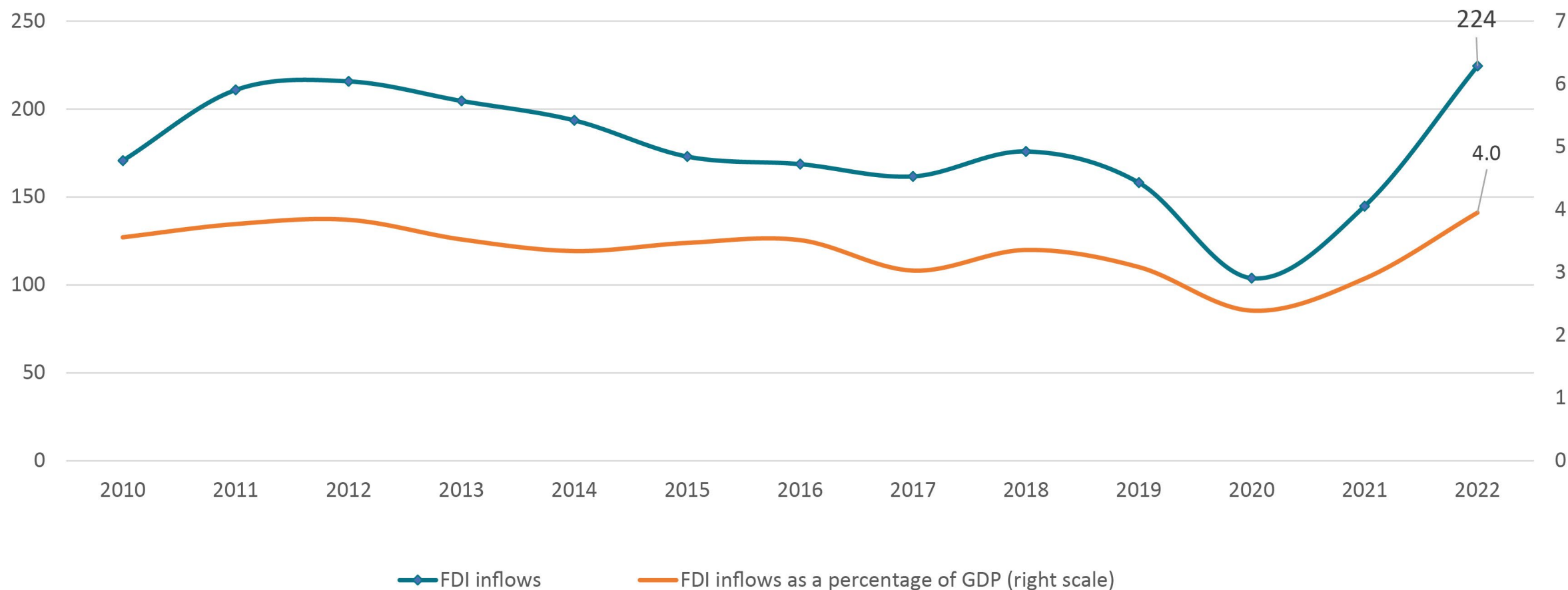
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDiMarkets.

3. Overview of FDI in Latin America and the Caribbean

Uptrend in FDI inflows (+55.2%) continued in 2022, reaching a record high

Latin America and the Caribbean: FDI inflows, 2010–2022

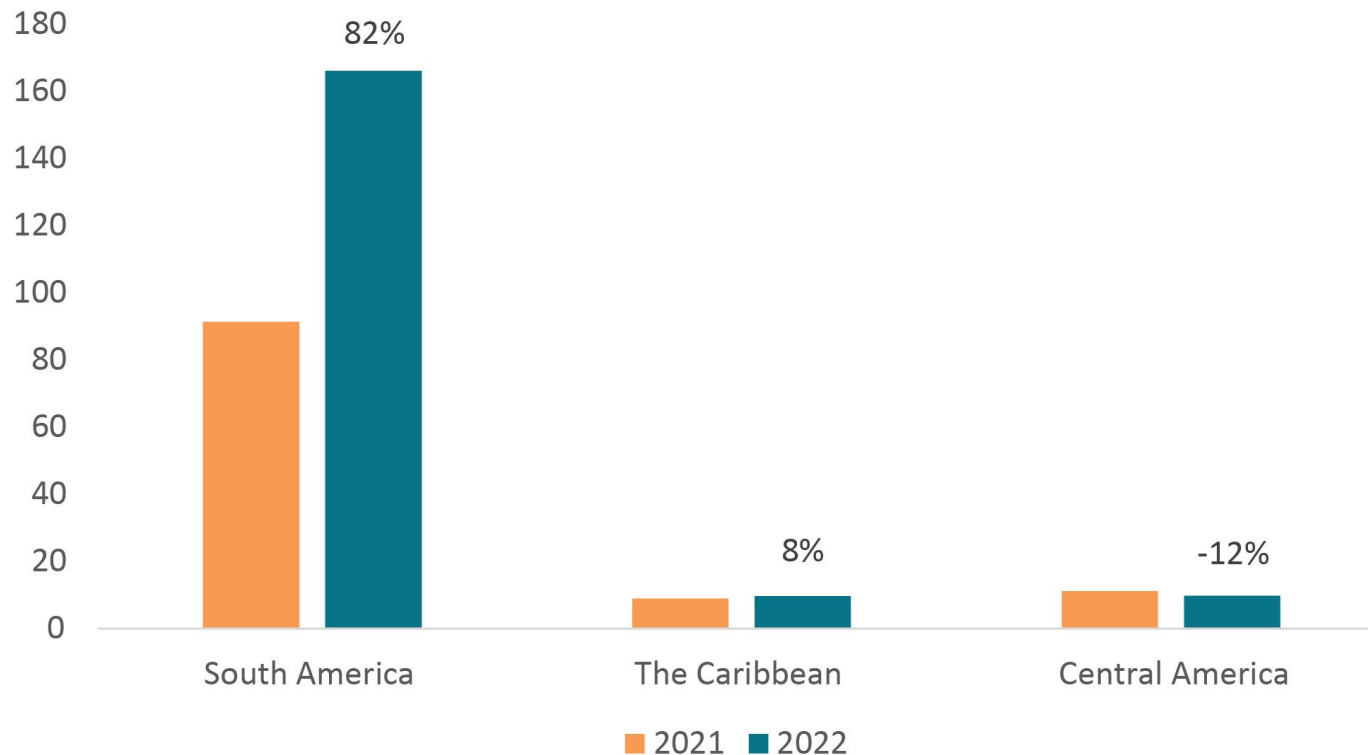
(Billions of dollars and percentages of GDP)



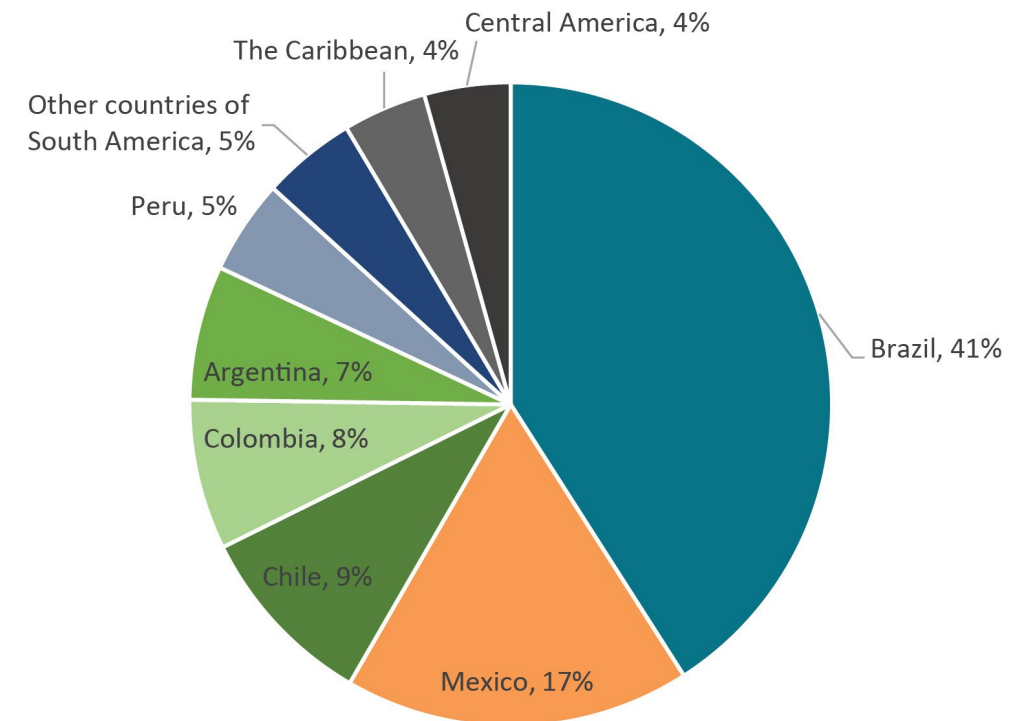
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

Increased FDI inflows in South America, in particular Brazil, are largely responsible for gains

Latin America and the Caribbean: FDI inflows, by subregion
(Billions of dollars and percentage rates of change)



Latin America and the Caribbean: FDI inflows, by recipient country and subregion, 2022
(Percentages of total amount)

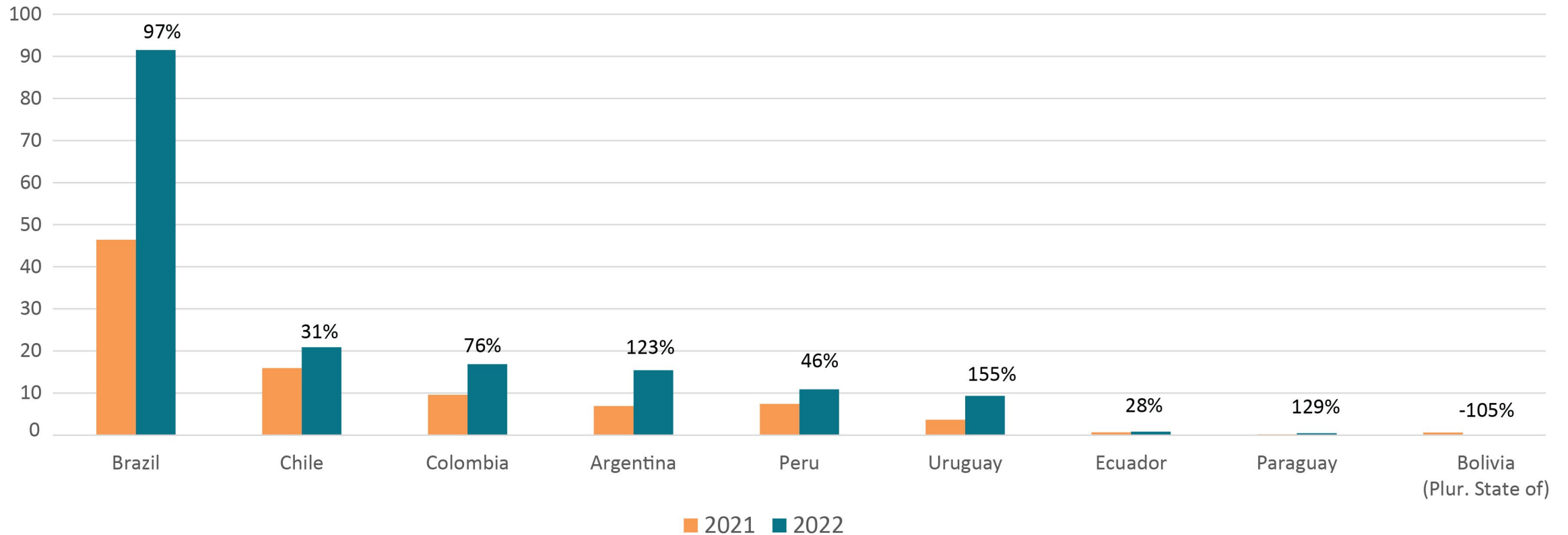


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

Note: The Caribbean does not include Barbados and Haiti and South America does not include Venezuela (Bol. Rep. of) because data for these countries are not available for 2022.

South America: FDI inflows increased in almost all countries, most notably Brazil

South America: FDI inflows, by recipient country
(Billions of dollars and percentage rates of change)



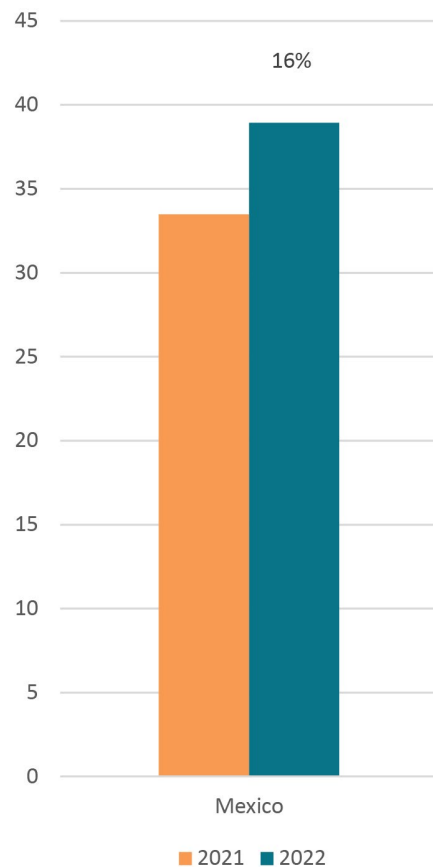
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

Note: Bolivarian Republic of Venezuela is not included because data are not available for 2022.

FDI inflows rose 16% in Mexico. Costa Rica led recipients in Central America and inflows to Guatemala fell but returned to historic average

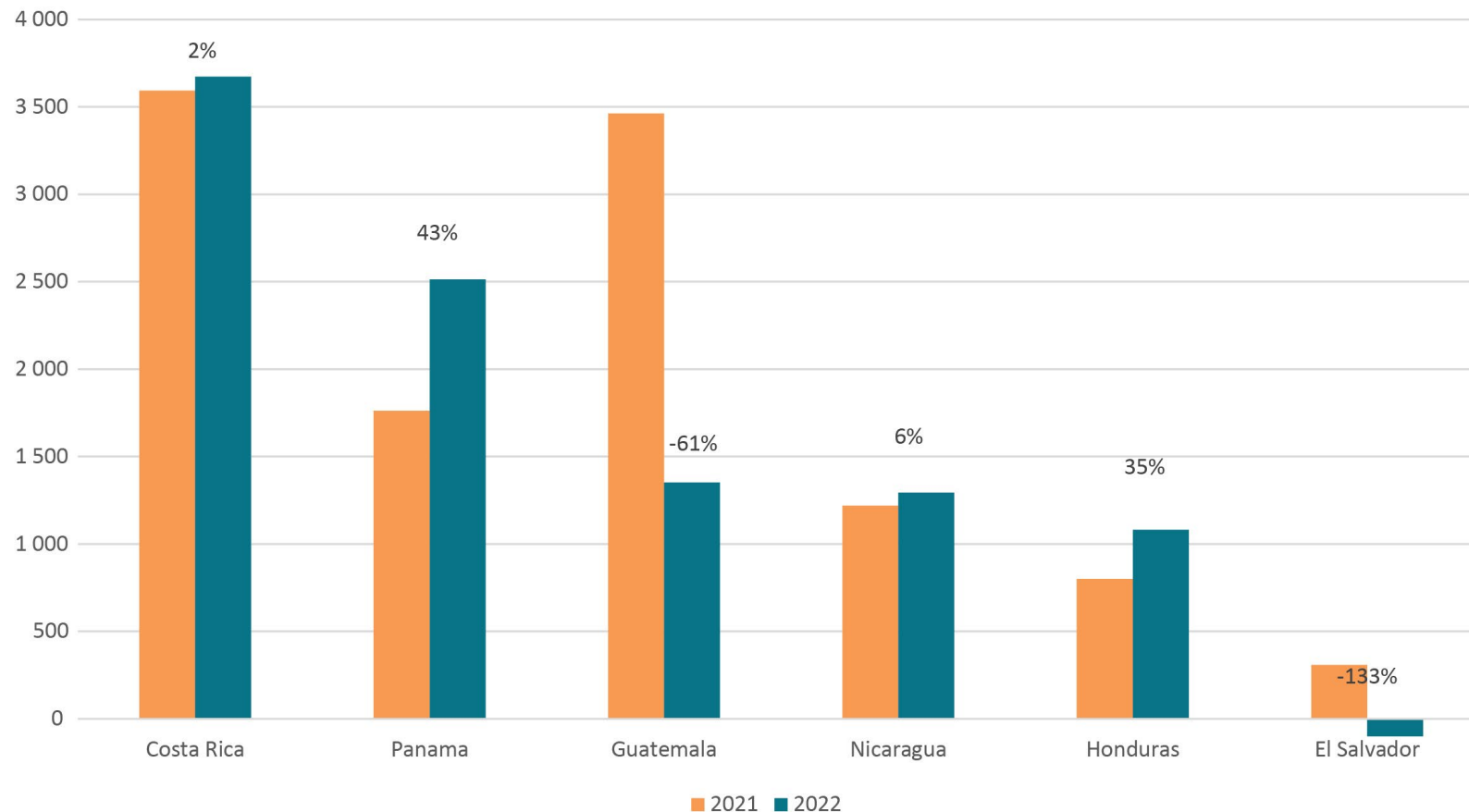
Mexico: FDI inflows

(Billions of dollars and percentage rates of change)



Central America: FDI inflows, by recipient country

(Millions of dollars and percentage rates of change)

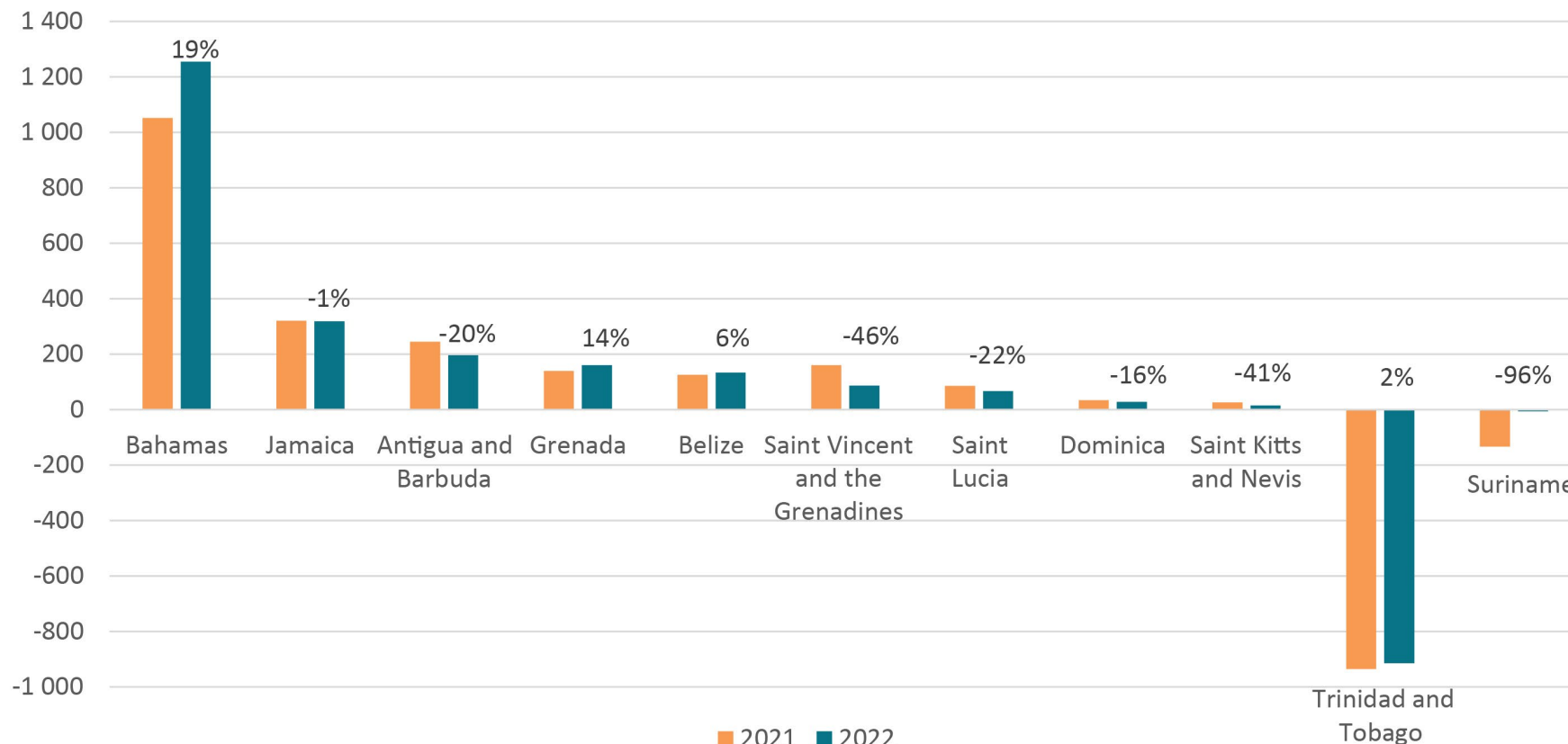
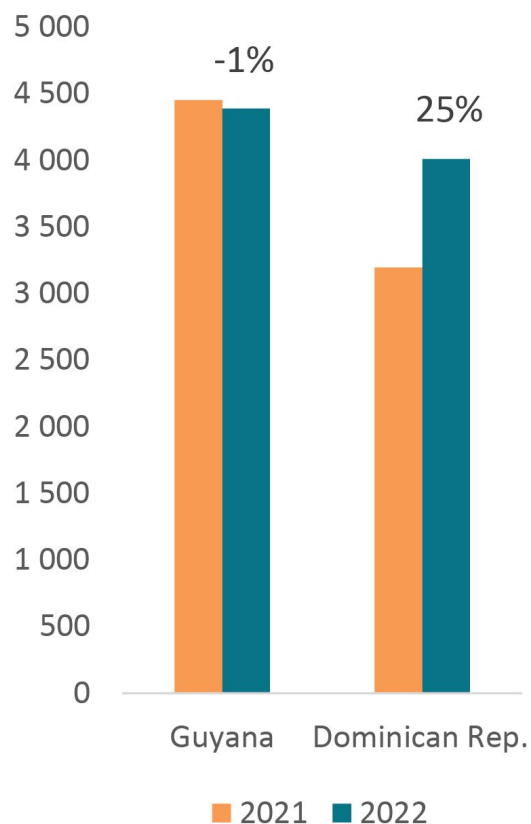


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

The Caribbean: Guyana remained leading recipient and, with the Dominican Republic, accounted for 89% of FDI

The Caribbean: FDI inflows, by recipient country

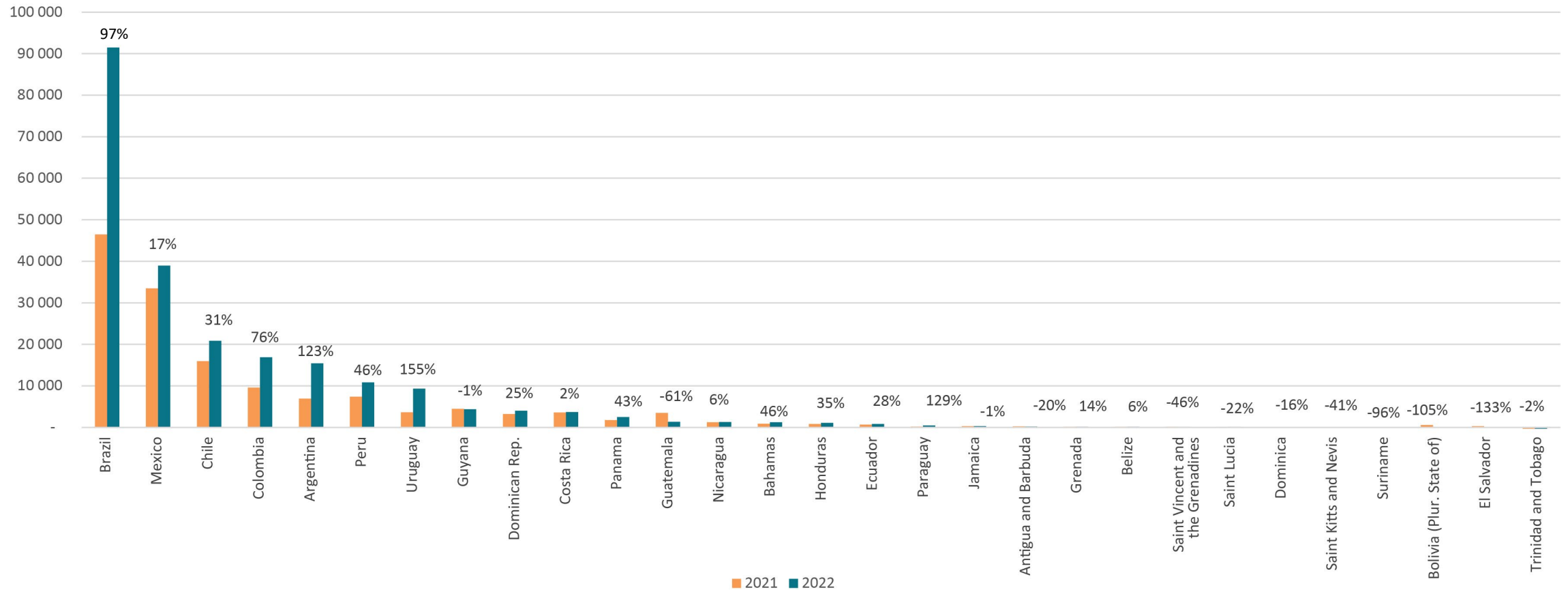
(Millions of dollars and percentage rates of change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

Close analysis reveals highly uneven FDI trends across Latin America and the Caribbean

Latin America and the Caribbean: FDI inflows, by recipient country
(Millions of dollars and percentage change)

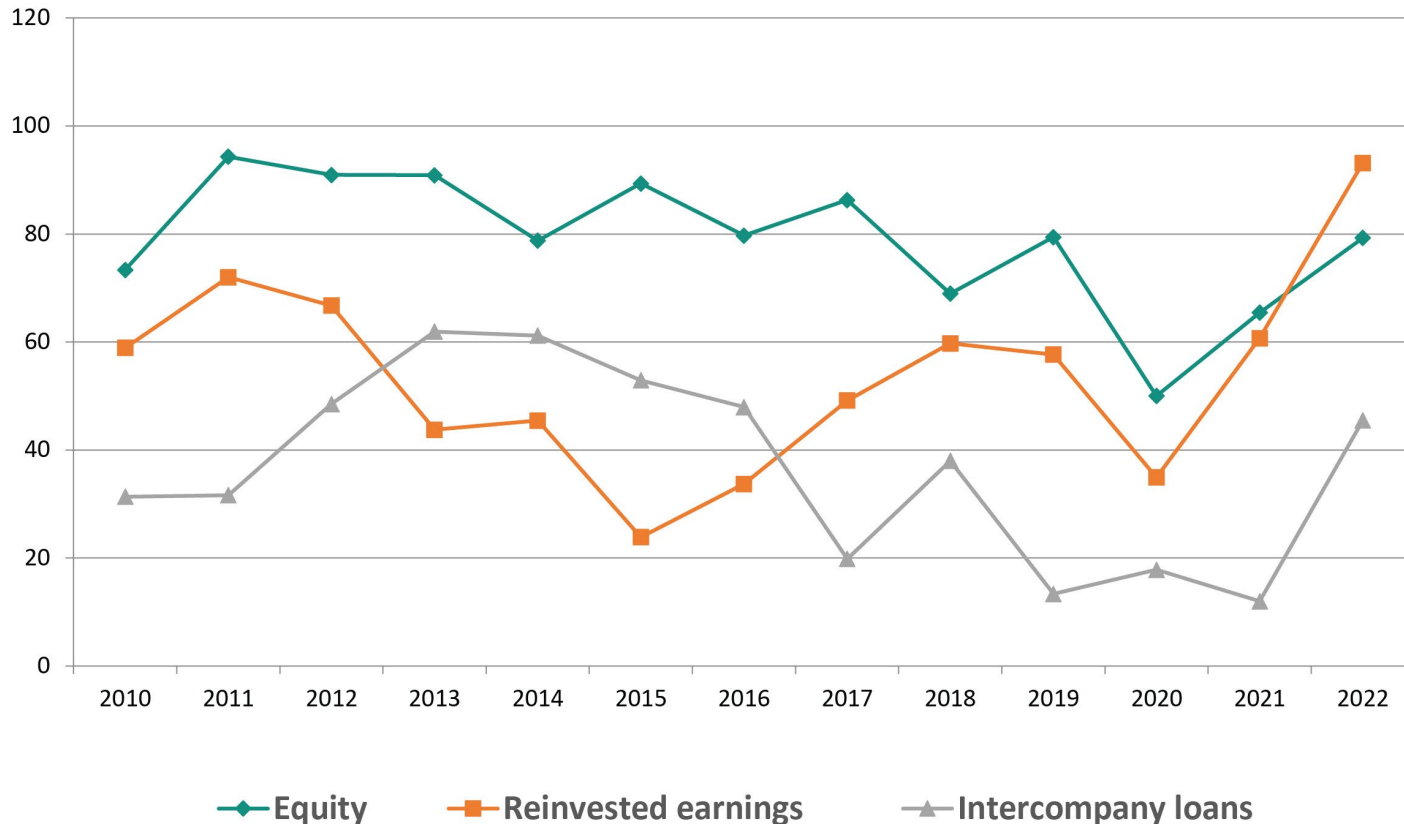


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

Note: Barbados, the Bolivarian Republic of Venezuela, Cuba and Haiti are not included because data for these countries are not available for 2022.

All FDI components grew, with the strongest growth in reinvested earnings

Latin America and the Caribbean: FDI inflows, by component
(Billions of dollars)

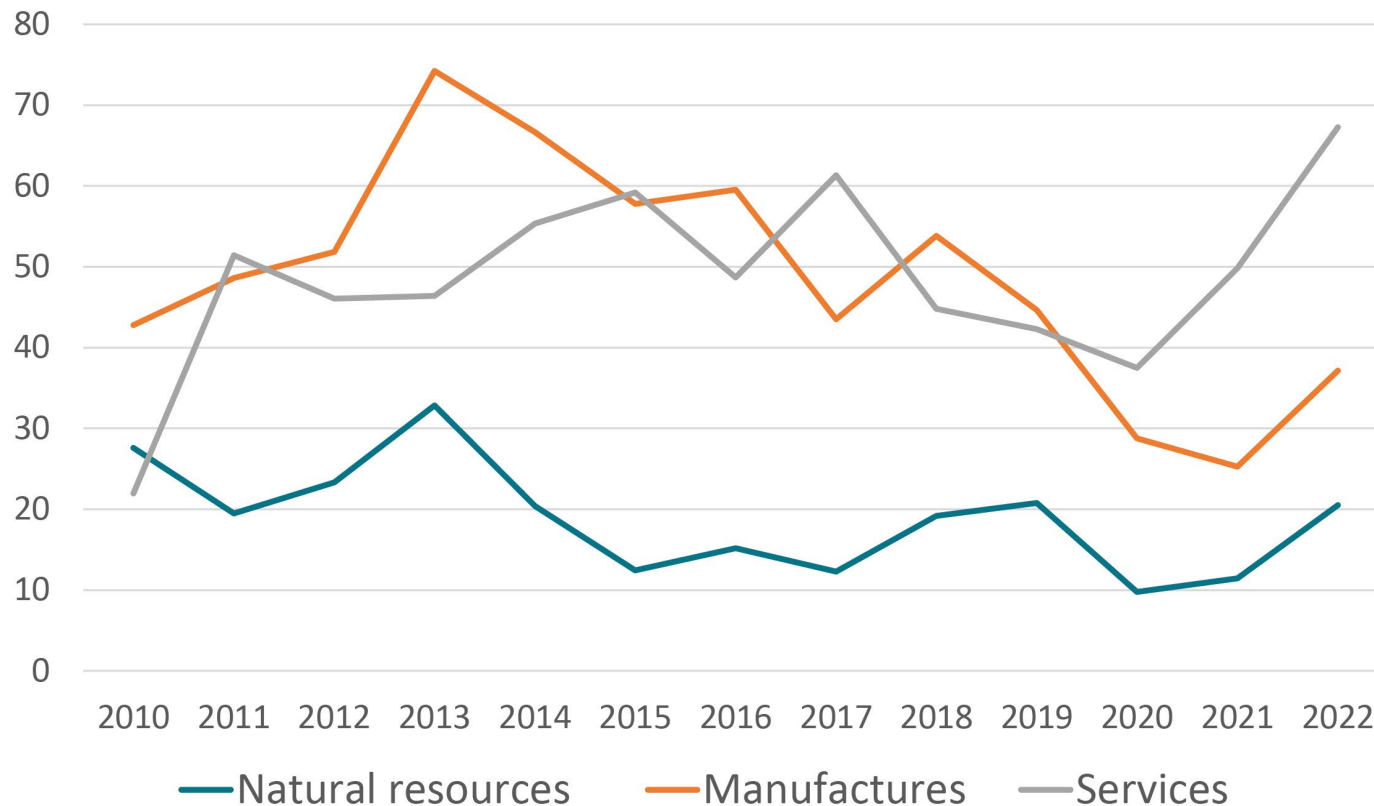


- Companies reinvested more earnings, reaching an all-time high
- Growth in equity was slower (+22%)
- Intercompany lending between subsidiary and parent companies was up (possibly prompted by rising interest rates in the region)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

FDI inflows by sector: services maintained lead position and flows into natural resources and manufacturing recovered

Latin America and the Caribbean (12 countries):^a
sectoral distribution of FDI inflows
(Billions of dollars)



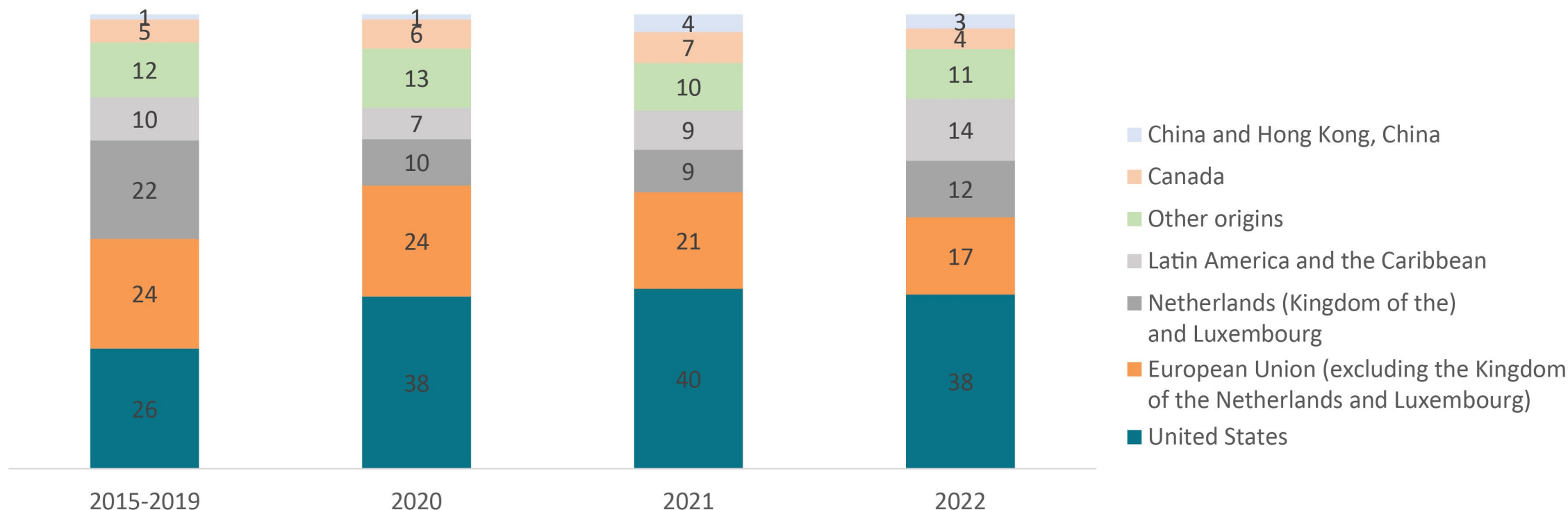
- Services accounted for 54% of FDI inflows: financial services, electricity and gas and ICT services accounted for the largest share
- Manufacturing investments led by refining and automotive industry in Brazil and Mexico
- Growth in natural resources a reflection of higher investment in oil and gas and mining

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

^a The countries are Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico and Plurinational State of Bolivia, accounting for 73% of all FDI.

United States and the European Union were the main investors and FDI from Latin America and the Caribbean grew

Latin America and the Caribbean (11 countries):^a distribution of FDI inflows, by origin
(Percentages)

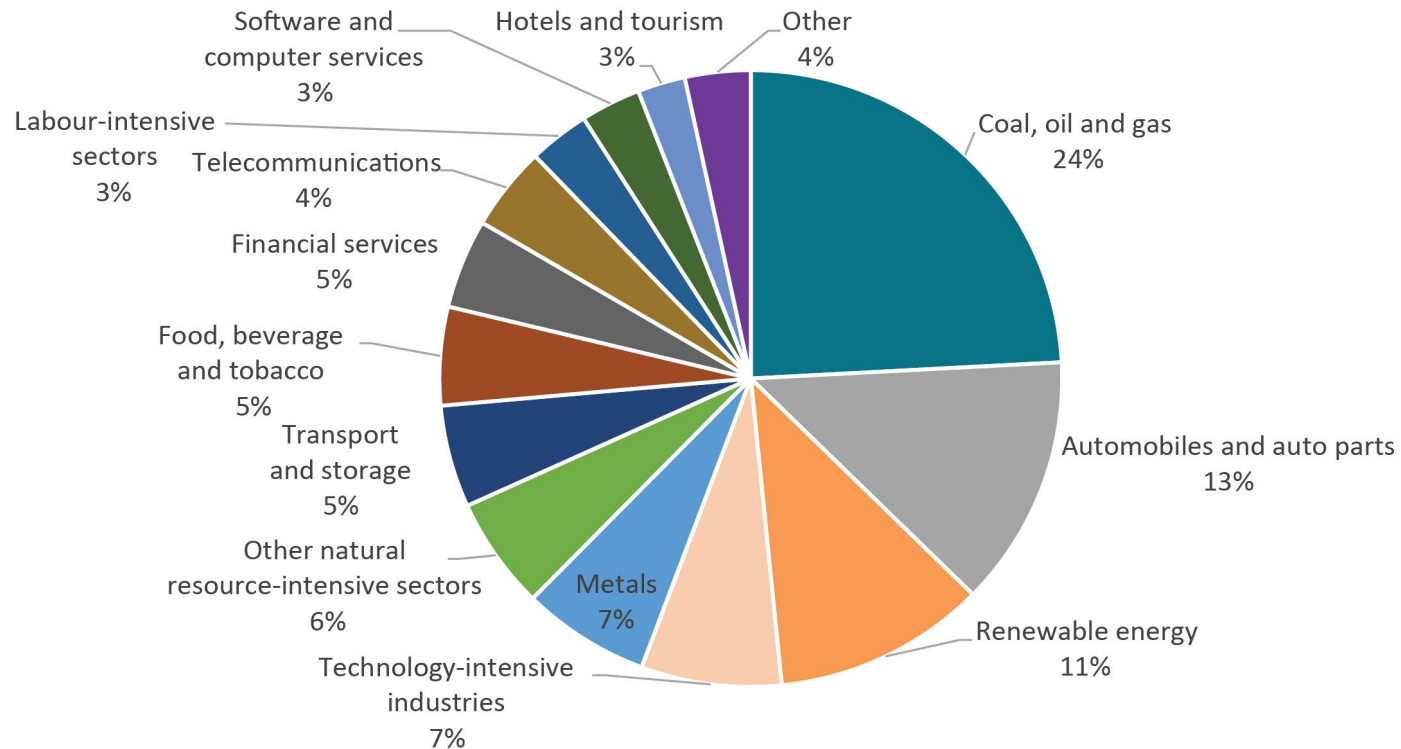


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

^a The countries are Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Plurinational State of Bolivia and Trinidad and Tobago, which account for 72% of all FDI.

Outlook: FDI project announcements increased, with hydrocarbon and automotive sectors outperforming renewable energy

Latin America and the Caribbean: FDI project announcements, by sector, 2022 (Percentages of the total amount)

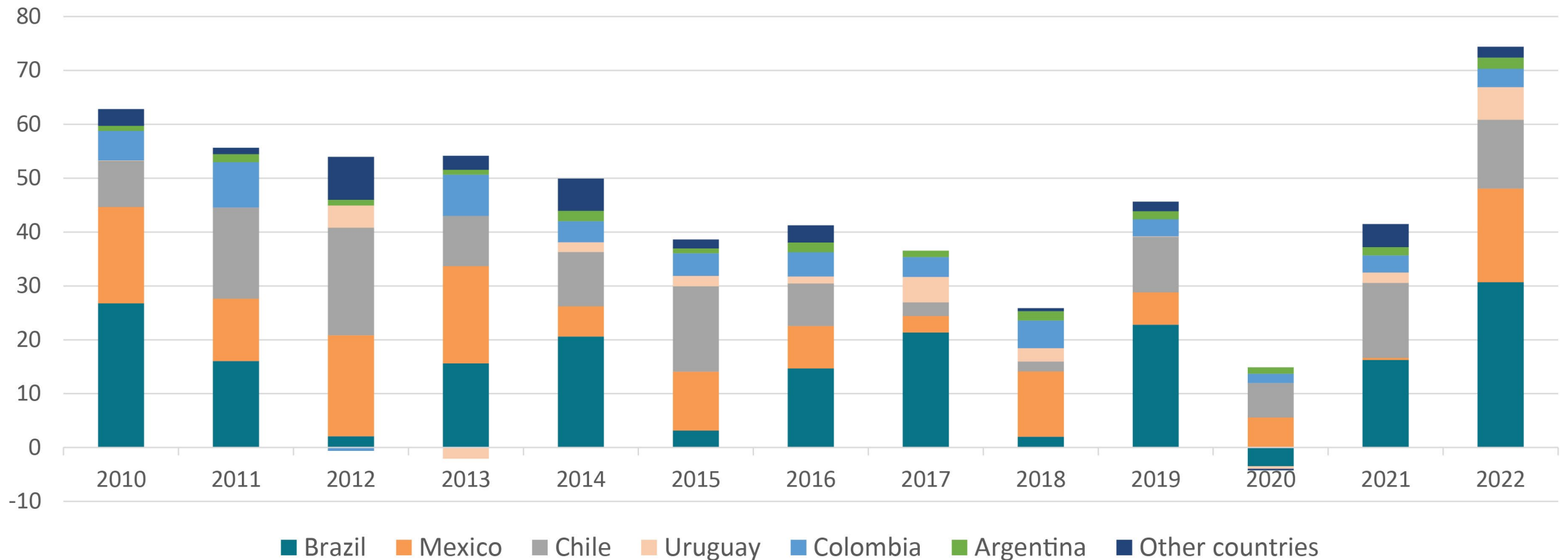


- The value of FDI project announcements grew by 93% in 2022 (reaching a total of nearly US\$ 100 billion)
- For the first time since 2010, coal, oil and gas was the leading sector for announcements: megaprojects in Guyana and Mexico
- In manufacturing, FDI follows capacity: Mexico for the automotive sector, industrial equipment and electronic components, and Costa Rica for medical devices

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets.

Trans-Latin firms: outflows from the region also jumped (+80%), peaking in 2022

Latin America and the Caribbean (selected countries): outward FDI
(Billions of dollars)

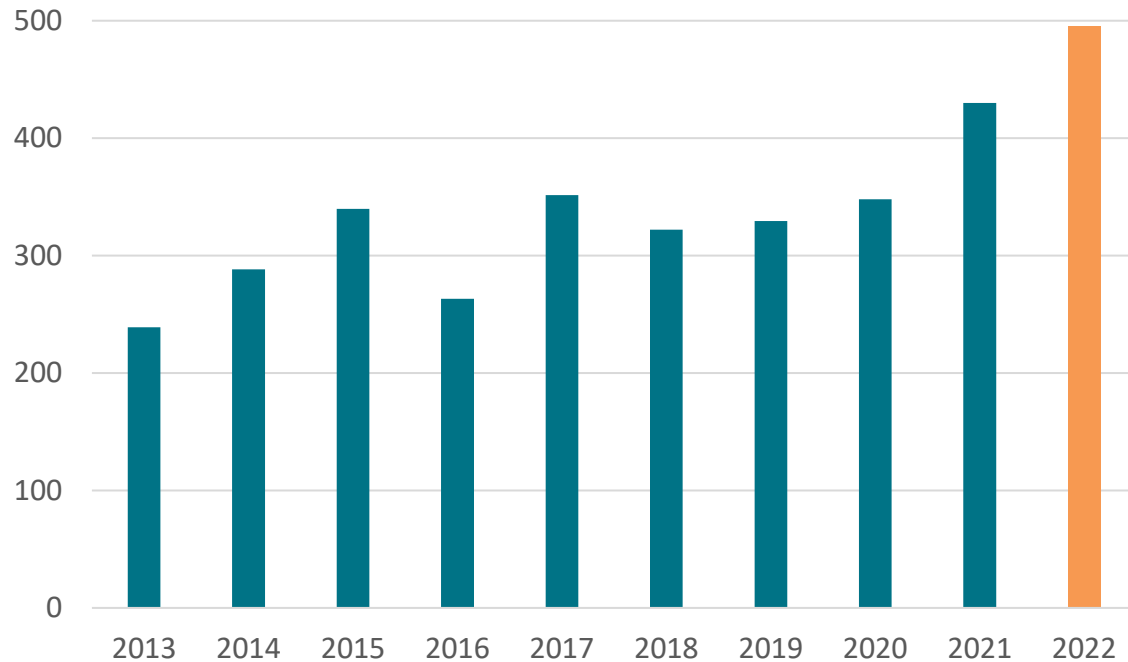


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 30 June 2023.

4. FDI in non-renewable and renewable energies: challenges and opportunities for the energy transition in the region

Despite growth in renewable energy investment globally, it continues to lag behind climate needs

Total investment in renewable energies worldwide, 2013–2022
(Billions of dollars)



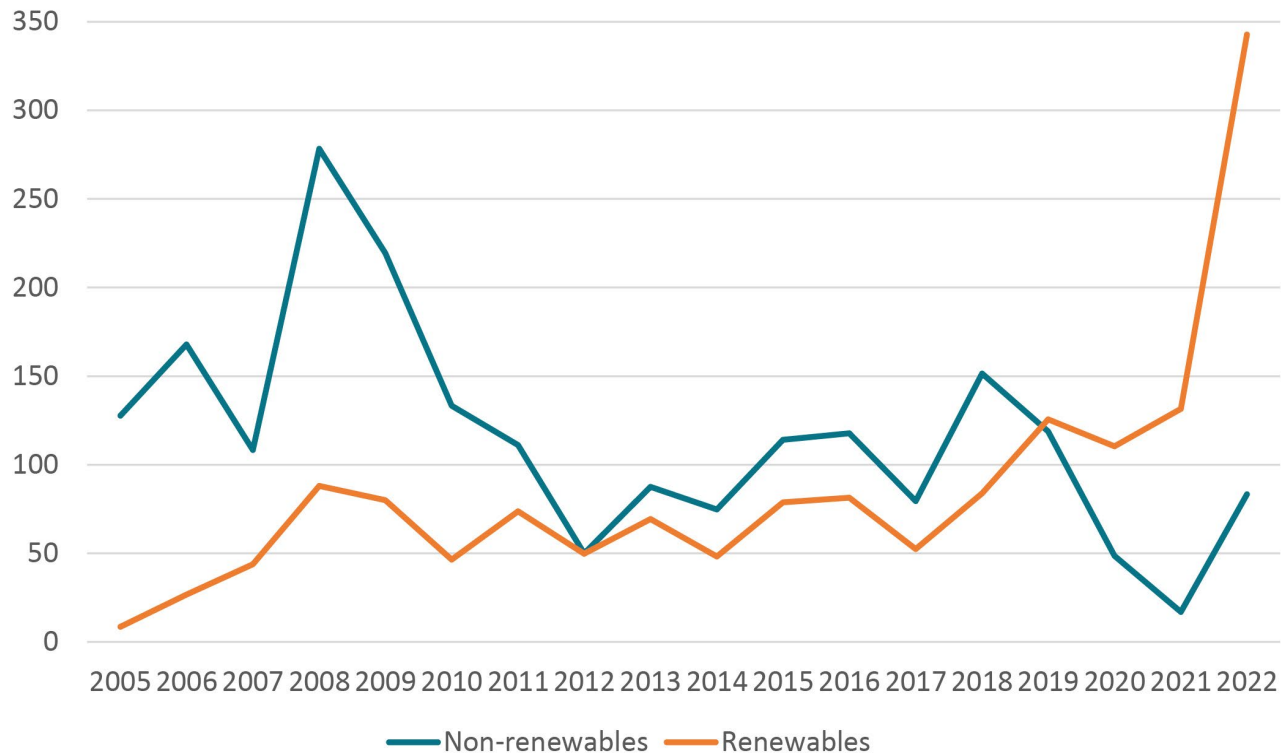
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Renewable Energy Agency (IRENA)/Climate Policy Initiative (CPI), *Global Landscape of Renewable Energy Finance, 2023*, Abu Dhabi, 2023.

- To make progress towards net zero, a three-fold increase in the rate of growth of global investment in renewable energy and a six-fold increase in the rate of grid expansion are needed (IEA, 2022).
- Wind and solar power received 97% of total global investment in renewable energy.
- The public sector has played a key role in developing markets and fostering technology development.
- Developing countries face significant challenges in mobilizing the necessary resources.
- FDI has been and can remain a source of financing for renewable energy in the region.

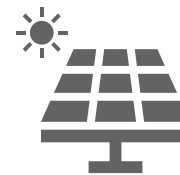
Source: International Energy Agency (IEA), *World Energy Outlook 2022*, Paris, 2022.

In 2022, project announcements rebounded for hydrocarbons but increased fourfold for renewable energies at global level

World: FDI project announcements in renewable and non-renewable energies, 2005–2022
(Billions of dollars)



“Net zero” scenarios: reduction in fossil fuel demand + electrified and low-carbon energy sector → **energy transition**



Growth in renewables sector: greater competitiveness owing to **reduction in costs** of technologies + **incentive policies** of developed countries

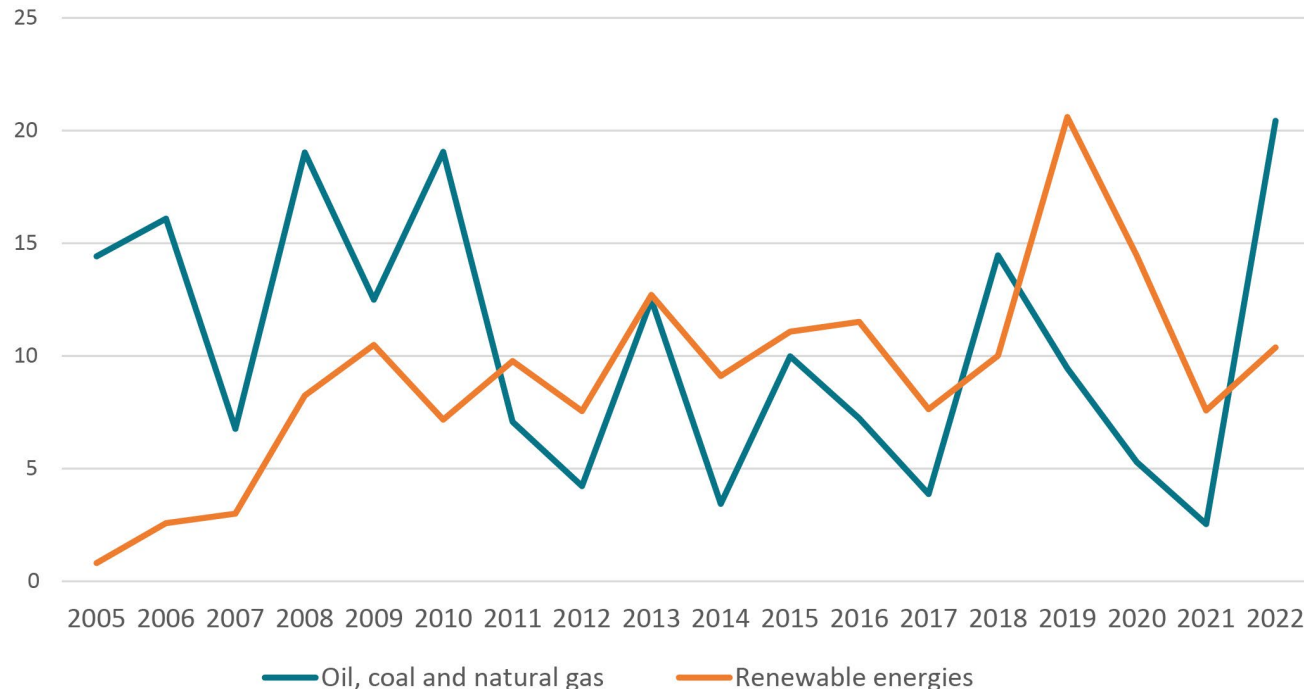


Hydrocarbons: renewed interest in FDI owing to favourable prices, geopolitical conditions and post-COVID-19 recovery

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets.

In Latin America and the Caribbean, non-renewable and renewable energies represented 35% of total project announcements in 2022

Latin America and the Caribbean: FDI project announcements in renewable and non-renewable energies, 2005–2022
(Billions of dollars)



Renewable energies:

- Predominant as from 2011
- Concentration of project announcements in:
 - **Countries of destination:** Brazil, Chile, Mexico, Peru and Colombia = **80%**
 - **Technologies:** solar and wind = **70%**

Oil, coal and natural gas:

- Large FDI inflows generally associated with **regulatory changes** and **discovery of reserves**.
- The **transition** must factor in the **continuing importance of this sector** in terms of generating income (to meet social and productive development demands) and energy security.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets.

5. Recommendations

The energy transition is an opportunity for productive development for Latin America and the Caribbean. The challenge is to design policies to leverage this opportunity and the contribution of FDI

Governments play a key role in the energy transition

ENERGY TRANSITION

- National goals
- Climate commitments
- Role of renewable energies
- Technologies
- Grid management
- Suitable depletion policies
- Definition of carbon prices
- Regional energy integration

PRODUCTIVE DEVELOPMENT POLICY

- Science, technology and innovation/technology transfer/digital transformation
- Entrepreneurship
- Human talent
- Specific infrastructure
- Other complementary skills in production chains
- Cluster initiatives
- **Policies to attract FDI aligned with productive development policies**
 - Incentives (auctions, feed-in tariffs, premiums, fiscal incentives)
 - Special economic zones
 - Investment facilitation mechanisms and investment promotion agencies
 - Local content policies

FDI policies are a key instrument for achieving productive development that is more inclusive and sustainable

Promote active, comprehensive and long-term policies

- Strengthen institutions for attracting FDI, active and strategic policies coordinated with productive development policies
- Take advantage of the opportunities offered by the geographical relocation of production and the industrial policies of other countries

Focus on strategic sectors

- Focus FDI attraction and promotion efforts on the sectors that drive and stimulate growth which countries and their territories have prioritized as part of their productive development policies and agendas

Employ a set of complementary instruments and agendas

- Science, technology and innovation
- Human talent
- Infrastructure
- Linkages
- Development of local suppliers
- Other complementary capacities
- Accumulation of capacity fosters a virtuous cycle that has positive effects on investment attraction

Strengthen governance

- Coordination of efforts:
 - Public-public
 - Public-private
 - Triple helix
 - Nation-territory

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Thank you