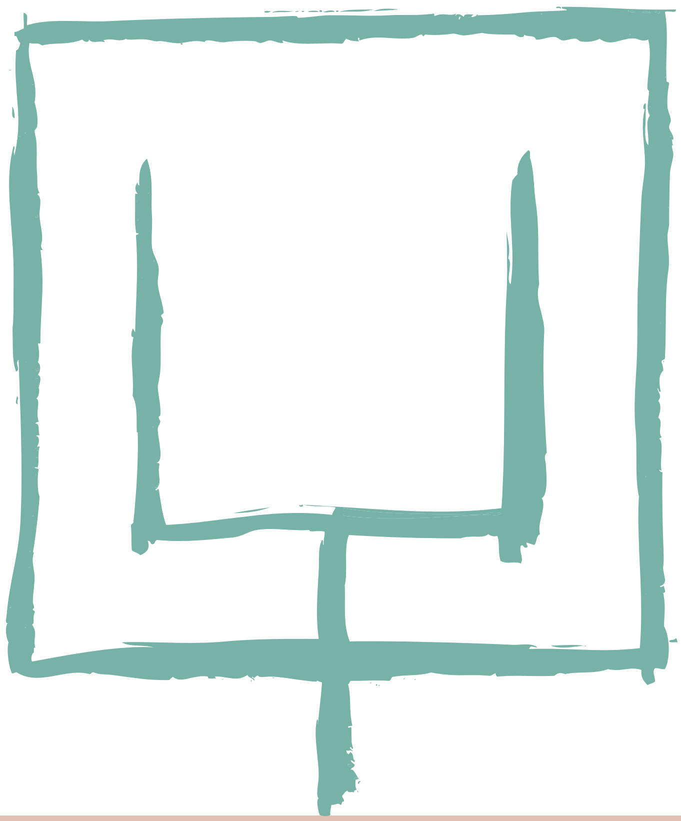
2010

Briefing paper



Foreign Direct Investment
in Latin America and the Caribbean

UNITED NATIONS

ECLAC

Foreign Direct Investment in Latin America and the Caribbean, 2010 is the latest edition of a series issued annually by the Unit on Investment and Corporate Strategies of the ECLAC Division of Production, Productivity and Management. It was prepared by Álvaro Calderón, Mario Castillo, René A. Hernández, Jorge Mario Martínez Piva, Wilson Peres, Miguel Pérez Ludeña and Sebastián Vergara, with assistance from Martha Cordero, Lucía Masip Naranjo, Juan Pérez, Álex Rodríguez, Indira Romero and Kelvin Sergeant. Contributions were received as well from Eduardo Alonso and Enrique Dussel Peters, consultants.

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The information used in this report was drawn from a number of international organizations, including the International Monetary Fund, the United Nations Conference on Trade and Development and the Organization for Economic Cooperation and Development, as well as from a host of national institutions, in particular central banks and investment promotion agencies in Latin America and the Caribbean, and the specialized press.

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Notes and explanations of symbols

The following symbols have been employed in this edition of *Foreign Direct Investment in Latin America and the Caribbean, 2010*:

- Notes and explanations of symbols
- Three dots (...) indicate that data are missing, are not available or are not separately reported.
- Two dashes and a full stop (-.-) indicate that the sample size is too small to be used as a basis for estimating the corresponding values with acceptable reliability and precision.
- A dash (-) indicates that the amount is nil or negligible.
- A blank space in a table indicates that the concept under consideration is not applicable or not comparable.
- A minus sign (-) indicates a deficit or decrease, except where otherwise specified.
- The use of a hyphen (-) between years (e.g., 1990-1998) indicates reference to the complete number of calendar years involved, including the beginning and end years.
- A slash (/) between years (e.g., 2003/2005) indicates that the information given corresponds to one of these two years.
- The world “dollars” refers to United States dollars, unless otherwise specified.
- Individual figures and percentages in tables may not always add up to the corresponding total because of rounding.

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SUMMARY AND CONCLUSIONS

In 2010 the Latin American and Caribbean region showed great resilience to the international financial crisis and became the world region with the fastest-growing flows of both inward and outward foreign direct investment (FDI). FDI inflows were up by 40% with respect to 2009 and stood at a total of US$ 113 billion. Outflows increased almost fourfold to reach an all-time high of US$ 43 billion, reflecting the strong growth of trans-Latin firms. The upswing in FDI in the region has occurred in a context in which developing countries in general have taken on a greater share in both inward and outward FDI flows.

This briefing paper is divided into five sections. The first offers a regional overview of FDI in 2010. The second examines FDI trends in Central America, Panama and the Dominican Republic. The third describes the presence China is beginning to build up as an investor in the region. Lastly, the fourth and fifth sections analyse the main foreign investments and business strategies in the telecommunications and software sectors, respectively.

A. OVERVIEW OF FOREIGN DIRECT INVESTMENT IN LATIN AMERICA AND THE CARIBBEAN

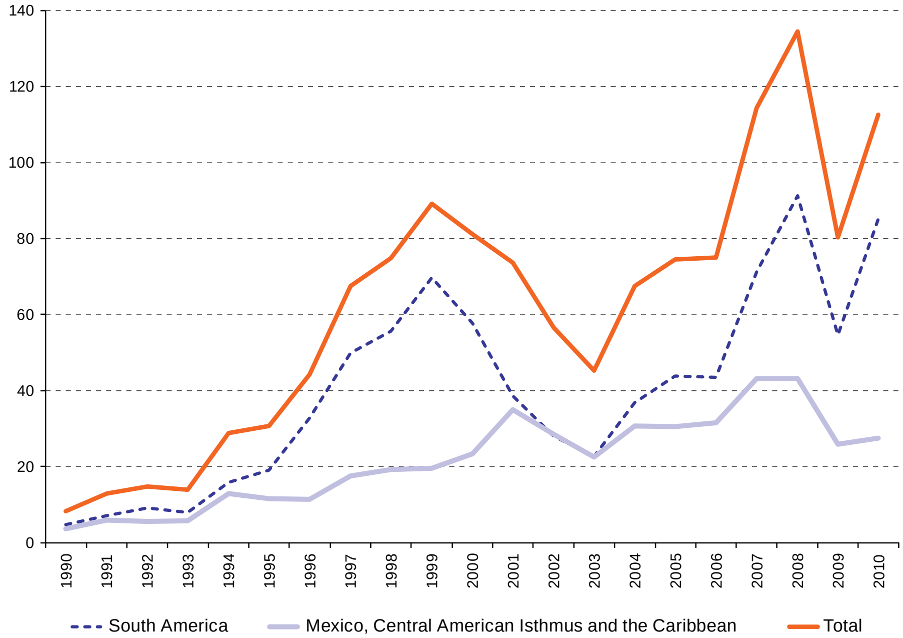
1. Inflows of foreign direct investment and the activities of transnational companies

Globally speaking, in 2010 FDI underwent only a slight upturn, still showing the effects of the international economic and financial crisis which had started in the developed countries. Worldwide FDI flows edged up by just 1% and the rates of the upswing were uneven across destination regions. FDI flows to developed economies contracted further in 2010 (down 7% on 2009), while flows to developing regions climbed by 10%. As a result, for the first time FDI flows to developing countries and transition economies passed the mark of 50% of global flows. Outward flows of FDI from developing countries and transition economies have also climbed and, according to preliminary figures, reached 22% of global outward FDI flows in 2010. In this context in which developing countries are taking on a greater role in FDI flows, Latin America and the Caribbean has been the most dynamic region in 2010, with the greatest increase in both inward and outward FDI flows.

FDI flows started to recover in the last quarter of 2009 and continued to trend upwards in 2010. Excluding the main financial centres, Latin America and the Caribbean attracted US$ 112.634 billion, 40% more than the US$ 80.376 billion received in 2009 (see figure 1). The FDI volumes received in 2010 exceeded the annual average for the decade and maintained an upward trend, reflecting the region’s solid position as an investment destination and location choice for transnational companies.

A number of factors were behind the upturn in FDI flows: the small upswing in the developed economies; growth in some emerging economies which provided demand-side impetus for certain sectors (this is evident in natural resources such as metal mining, hydrocarbons and foods, but also in manufactures, such as the automobile sector and the production of integrated circuits, and in services such as software development and telecommunications); burgeoning domestic demand in Brazil, Chile Colombia, Mexico and Peru ,which has spurred domestic-market-seeking investment by transnational and trans-Latin firms; and, lastly, an increase in outsourcing, especially in the form of remote business services, by foreign firms in response to the crisis.

Figure 1
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT INFLOWS BY SUBREGION, 1990-2010
(*Billions of dollars*)



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

The upswing in inward FDI flows has been strongest in South America, where they surged by 56% over the 2009 figure to reach US$ 85.143 billion. Four countries experienced a very large jump in FDI: Brazil (87%), Argentina (54%), Peru (31%) and Chile (17%). FDI flows into Colombia were down on the previous year, but still amounted to US$ 6.76 billion, while investment in the Bolivarian Republic of Venezuela continued to be negative as a result of the nationalization of foreign enterprises.

In Mexico and the countries of the Central American Isthmus, FDI has sought not only to capture domestic markets, but also to establish export platforms to take advantage of wage and location advantages. FDI flows into those countries have grown more slowly than flows to South America, owing to the slow economic recovery in the United States, and fell short of the highs recorded in 2008. FDI flows to Mexico were 17% higher than in 2009, while those to the Central American Isthmus were up by 16%. In absolute terms, Panama and Costa Rica are the largest recipients in this subregion, and in 2010 received US$ 2.363 billion and US$ 1.412 billion, respectively. Honduras, Guatemala and Nicaragua posted growth rates of 52%, 18% and 17%, respectively. The Caribbean subregion continued to feel the effects of the economic crisis, especially the economies which rely most on tourism. FDI flows into the Caribbean fell by 18% to US$ 3.917 billion. This performance was heavily influenced by the 25% drop in FDI flows into the Dominican Republic, the subregion's main recipient. Haiti shows the subregion's largest upturn in FDI, since, following the earthquake in January 2010, investment quadrupled over 2009 driven by heavy investments in telecommunications.

To recap, different factors have helped to consolidate the region's position as a recipient of FDI. Raw-material-seeking strategies by transnational firms have been driven by high commodity prices, which have prompted large investments throughout the region, but especially in South America. Firms seeking local and regional markets have been attracted by rising domestic demand, particularly in large countries such as Brazil and Mexico. Strong economic growth in Brazil in 2010, on the back of the successful countercyclical policy response to the crisis of 2009, was reflected in record FDI figures. Similar developments occurred in Chile, Colombia, Mexico, Peru and Uruguay.

The destinations of FDI by sector varied from one subregion to another. In South America, natural resources and services drew the largest shares in 2010, with 43% and 30%, respectively (see figure 2). Natural resources are still very important as an FDI destination in this subregion and the weight of the primary sectors in investments actually increased in 2010 by comparison with 2005-2009. In Mexico, the Central American Isthmus and the Caribbean, investments continued to go mainly to manufacturing (54%) and services (41%), while the primary sector received only 5% of the total.

In terms of the origin of FDI flows, the United States remained the main investor in the region in 2010, accounting for 17%, followed by the Netherlands (13%), China (9%), and Canada, Spain and the United Kingdom (4% apiece). The Latin American and Caribbean region itself is increasingly important as a source of FDI, reflecting the rise of trans-Latins. Whereas in 2006-2009, FDI originating within the region accounted for 8%, in 2010 this figure rose to 10%. The information on investment in mergers and acquisitions and in greenfield projects shows the region itself playing a growing role in those areas of investment, as well.

Figure 2
LATIN AMERICA AND THE CARIBBEAN: DESTINATION SECTORS OF FOREIGN DIRECT INVESTMENT BY SUBREGION, 2005-2009 AND 2010 [a]
(*Percentages*)

A. South America

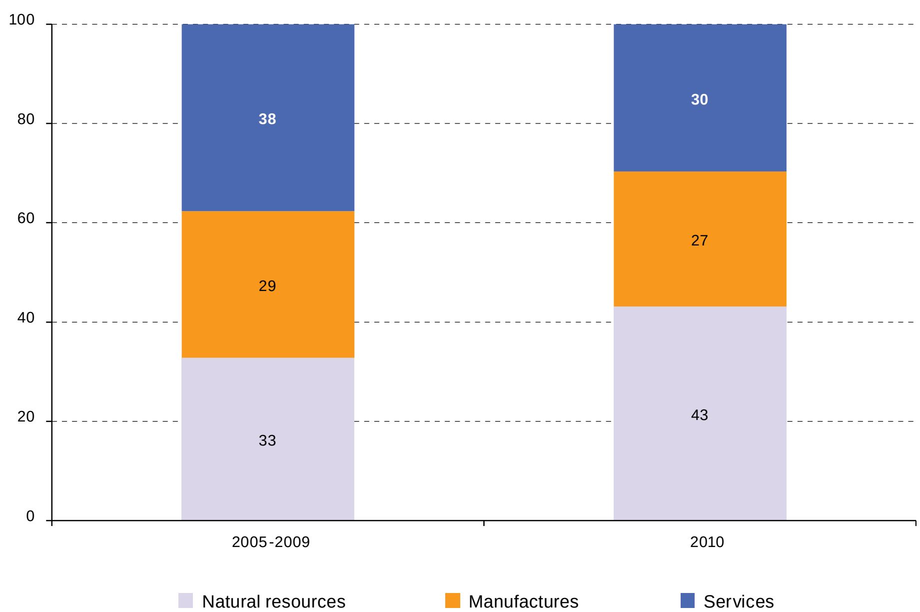
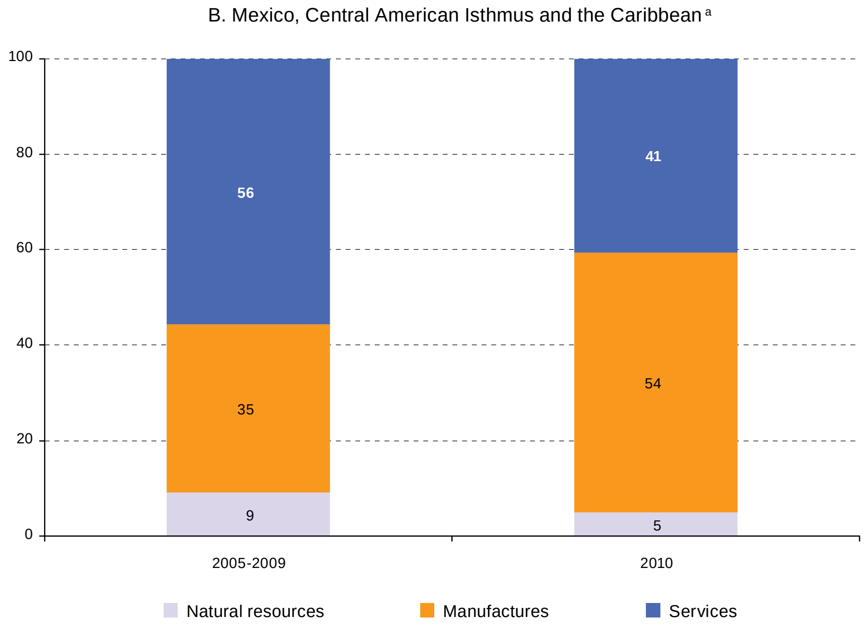


Figure 2 (concluded)



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

[a] El Salvador and the Dominican Republic include maquila in the "other" category, and the Dominican Republic includes commerce under "manufactures".

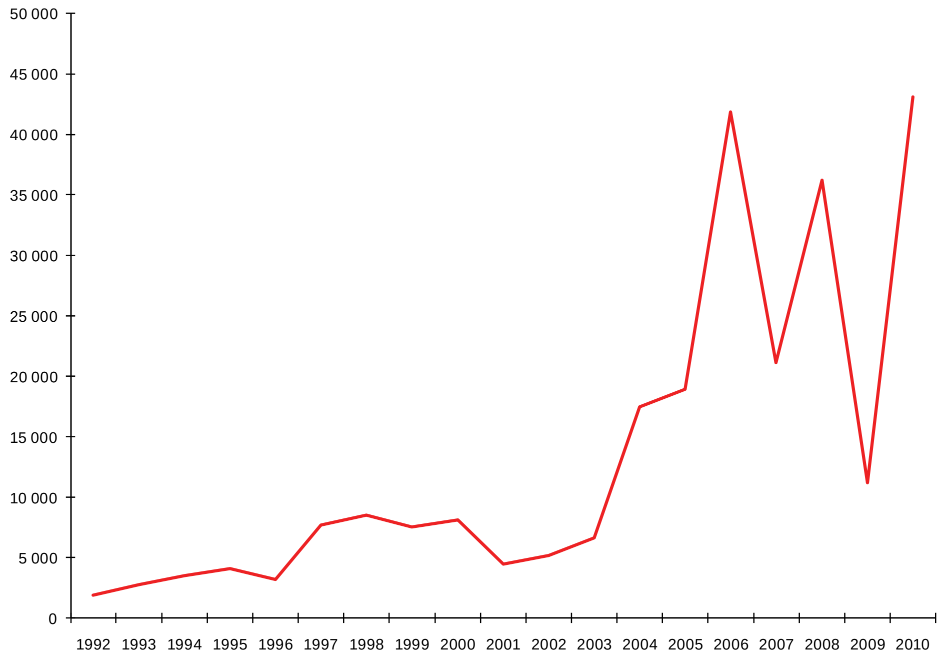
Information on new FDI projects in Latin America and the Caribbean announced by destination sector shows the following pattern of technology content: the bulk of investment projects in the region are low-tech and medium-low-tech; FDI has risen in the past few years in projects in medium-high-tech sectors and projects associated with research and development. The region's involvement in high-tech projects is still limited by comparison with other regions, and such projects are concentrated in Brazil and Mexico.

2. Outward foreign direct investment and trans-Latin companies

In 2010 outward FDI from the Latin American and Caribbean countries nearly quadrupled with respect to 2009 to set a new record of US$ 43.108 billion (see figure 3). The region is thus becoming increasingly important as an investor and its share of direct investment flows from all developing countries rose from 6% in 2000 to 17% in 2010. The higher flows of outward FDI in 2010 reflect weightier investments by firms from Mexico, Brazil, Chile and Colombia, which together accounted for over 90% of the region's outward FDI in 2010. In three of these countries —Mexico, Chile and Colombia— direct investment abroad reached all-time highs.

The surge in investments by trans-Latins has come about in a context in which the emerging economies are noticeably shifting patterns in the global economy. Transnational companies from developing countries have been making increasingly significant contributions to global FDI flows. Moreover, transnational companies based in developing countries are expanding even amid mounting competition and consolidation at the global level. This process is occurring not only in final consumption industries with differing levels of technology intensity, but also in some supply industries.

Figure 3
LATIN AMERICA AND THE CARIBBEAN: NET OUTFLOWS OF FOREIGN DIRECT INVESTMENT, 1992–2010
(Millions of dollars)

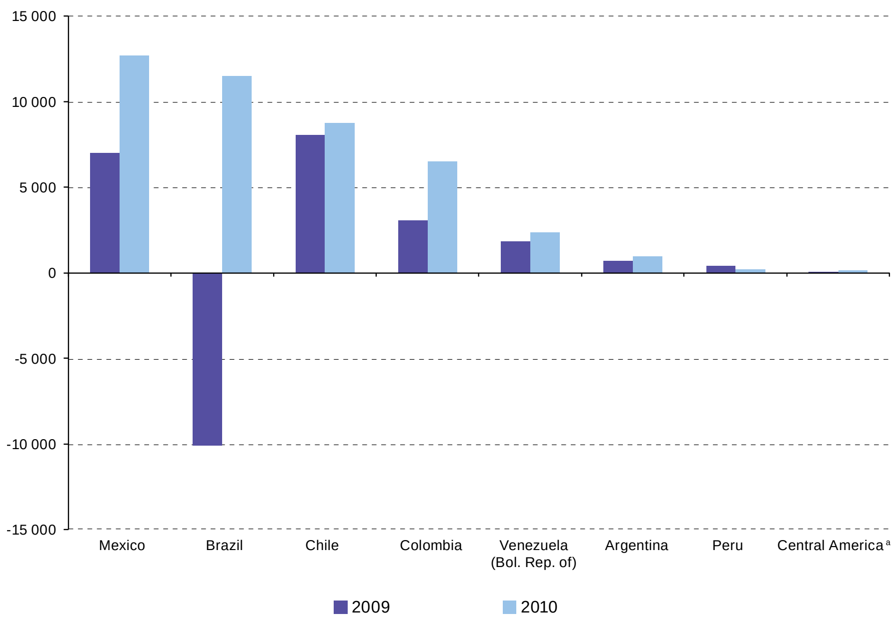


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates.

The firms which have internationalized the most in the past decade have been those from Brazil, Chile, Mexico and, more recently, Colombia. Much of this process has taken place in basic industries (hydrocarbons, mining, cement, pulp and paper, and iron and steel), mass consumption manufactures (food and beverages) and some services (energy, telecommunications, air transport and retail commerce). A significant proportion of Latin American and Caribbean transnational investments are directed at neighbouring countries. For example, 47% of the mergers and acquisitions concluded by Latin American companies in 2010 took place in a country in the region. Trans-Latin greenfield investments also largely stay within the region —59% of the total in 2010— which underlines the importance of trans-Latins as agents of regional integration and as a means of sharing production-related practices and know-how.

By country, Mexico made the largest foreign investments in 2010. Its outward investment jumped by 81% to a record US$ 12.694 billion (see figure 4). Although Mexico's outward investments went mainly to manufacturing in earlier years, the services sector has gained greater prominence recently. In 2010 in particular, outward investments consisted mainly of large acquisitions in the media, telecoms and food sectors. Brazil's foreign investments rose to US$ 11.5 billion in 2010, bouncing back strongly from the contraction seen in 2009. New investments were channelled to a number of sectors: within natural resources, the largest proportion went to metallic minerals; within manufacturing, to food and metallurgy; and within services, to financial services. It should be recalled that Brazilian firms have received substantial support from public funds for their internationalization efforts. The country's leading firms have long benefited from strong public policy impetus, which gained further strength from the production development policy launched in 2008.

Figure 4
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): OUTWARD FOREIGN DIRECT INVESTMENT, 2009 AND 2010
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates.
[a] Costa Rica, El Salvador, Guatemala and Honduras.

Investments abroad by Chilean firms rose 8% in 2010, to reach a record US$ 8.744 billion. The largest proportion of this —58%— went to other Latin American countries, mostly to financial services, the retail trade and, to a lesser extent, manufacturing. Colombia's outward FDI totalled US$ 6.504 billion in 2010, double the amount registered in 2009, led by investments in mining and quarrying, which represented US$ 4.5 billion, or 70% of all flows of outward direct investment. Outward investments also rose considerably for the Central American countries in 2010 (119% up on 2009), to reach US$ 119 million. Firms from El Salvador made the largest investments outside their home country in 2010, followed by those of Guatemala and Costa Rica. Although no official figures are available for Panama, a number of sources indicate that the country makes hefty outward investments in financial services and transport.

Aside from the dynamics of internationalization by Latin American firms, the impacts on the countries of origin and, therefore, the associated policy debate, are complex and have only recently found their way onto the region's research agenda. The decision on whether to pursue a proactive policy in this direction must take several points into account, such as how to distinguish the benefits for the company from the benefits for the economy as a whole. The arguments in favour of a proactive policy include improved production and management standards, increased productivity, the acquisition of new knowledge and the strengthening of technological capacities across the national productive structure through leveraging of externalities. The positive effects of internationalization can thus be multiplied through the company's linkages with the local innovation system. Conversely, those who oppose public assistance for business internationalization argue that, as leaders in their countries, these companies are not the agents most disadvantaged when competing in global markets, and that it is no easy matter to guarantee that the benefits of internationalization will spill over into the rest of the economy.

The prevailing uncertainty surrounding the economic recovery in the developed countries makes it difficult to forecast FDI flows for Latin America and the Caribbean in 2011. On the basis of the region's economic growth prospects, long-term trends in FDI flows and preliminary information, however, ECLAC projects FDI flows into the region could rise between 15% and 25% to reach a new all-time record in 2011.

Be this as it may, the region is becoming increasingly internationalized and globalized and FDI is a key part of that process. Accordingly, it is important to make progress towards greater understanding of the impacts of FDI and better distribution of its benefits.

B. CENTRAL AMERICA, PANAMA AND THE DOMINICAN REPUBLIC: FOREIGN DIRECT INVESTMENT AND EXPORT PLATFORMS

FDI has played a fundamental role in the development of Central America, Panama and the Dominican Republic (hereinafter referred to as the subregion) and, during a period spanning over a hundred years, a number of different phases have been observed. Since the 1990s, inward FDI into the subregion has increased sharply, triggered by supply and demand factors, privatization of State-owned energy and telecommunications companies and mechanisms for access to the United States market, including the Caribbean Basin Initiative, the Generalized System of Preferences and the United States-Caribbean Basin Trade Partnership Act (CBTPA) and, more recently, the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). This boom was driven by the integration process under way in the subregion, which encouraged intraregional investment and, overall, increased the share of FDI in GDP, thus acting as a complement to domestic saving.

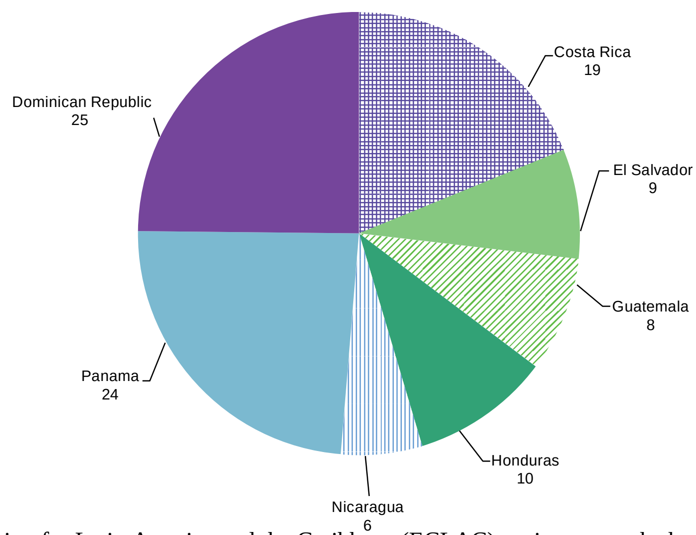
1. Pattern of foreign direct investment in the subregion

In recent decades, notably in the 1980s, FDI flows into the subregion were particularly sluggish, owing mainly to the civil and political conflicts waged in El Salvador, Guatemala and Nicaragua. The countries that proved most attractive for FDI were Panama, the Dominican Republic and Costa Rica, all of which enjoyed a sounder business climate at that time. The decade saw the involution of manufacturing for the domestic market and the beginning of a flow of investments from the United States and Asia into the garment industry and the free economic zones. At the same time, countries in the subregion sought to diversify their exports in an effort to achieve integration in the United States market.

In the 1990s, FDI inflows started to pick up from the low levels recorded in the 1980s, thanks in no small measure to the peacemaking processes taking place in the subregion but, above all, to business opportunities resulting from privatization of State-owned firms (for the most part in El Salvador, Guatemala and Nicaragua), the improved business climate and the first proactive FDI-promotion policies. Along with the establishment of free economic zones and other special regimes, new tax and financial incentive schemes and FDI promotion policies were introduced and a new public framework of investment promotion agencies and business partnerships took shape geared to export and investment promotion. This occurred amid growing international competition, resulting in global offshoring of production driven by cost-cutting concerns.

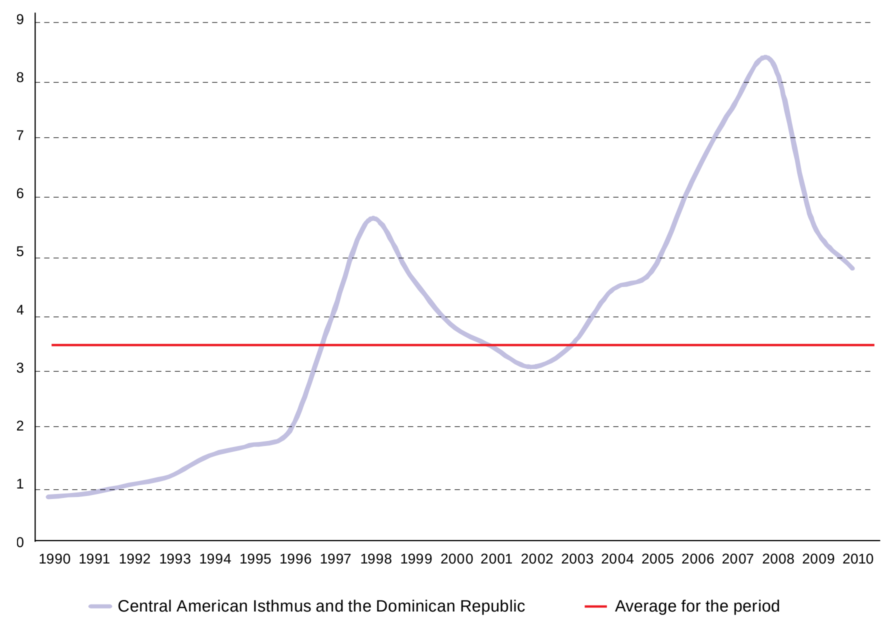
The countries that attracted the highest FDI inflows in absolute terms between 1999 and 2010 were Panama and the Dominican Republic (24% and 25%, respectively), followed by Costa Rica (19%), Honduras (10%), El Salvador (9%), Guatemala (8%) and Nicaragua (6%) (see figure 5). From the mid-1990s, FDI grew significantly as a percentage of GDP (see figure 6), to stand at 3.6% on average during the period 1990-2010. The highest values were recorded by Panama and Nicaragua —in the first case because of the amount of FDI received and in the second, in relation to its relatively low GDP— while in El Salvador, Guatemala and the Dominican Republic, FDI represented a smaller percentage of GDP.

Figure 5
THE CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: NET FOREIGN DIRECT INVESTMENT INFLOWS BY COUNTRY, 1999-2010
(Percentages)



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

Figure 6
THE CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: FOREIGN DIRECT INVESTMENT AS A PERCENTAGE OF GDP, 1990-2010
(Percentages)



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

From a longer-term perspective, one noteworthy feature is the restructuring and gradual transformation of the industrial matrix following the decline in exports from the textile and garment sector and the rise in services, especially those provided by call centres and business process outsourcing (BPO). The transnationals adhered to their strategy of generating low-cost export platforms, although the type of sector targeted did vary, with consequences in terms of diversification, investment and exports. Export promotion has been based on fiscal incentives, which, along with economic openness, have helped to redirect resources towards the export sector.

Between 1999 and 2010, FDI shifted from the manufacturing sector to services, in particular tourism, the real estate industry and business process outsourcing. Whereas, in 1999, manufacturing was a major investment target in all the countries of the subregion, except Panama, within a decade, a decline was evident, especially in textiles and garment manufacturing (except in Honduras and Nicaragua), while investments in services expanded in all countries. The expansion in Panama is unsurprising since it has traditionally been a recipient of investment in the services sector. In the other countries, this category of FDI has soared, especially in business process outsourcing. In the Dominican Republic, services continue to be significant, but their percentage decline from 80% of total FDI in 1999 to 56% in 2009 was due to major investments in mining. Growth in FDI in services in the other countries was driven by incentives (tax exemptions and financial incentives), which continue to apply to investments in export-oriented activities that operate under special regimes, and by the new export orientation that has been emerging in the past decade. In most of the countries of the subregion, investment in free economic zones accounts for a significant percentage of total FDI. As regards the source of the FDI, the United States was the leading investor in the subregion (38%) between 1990 and 2010, followed by Spain (8%), Canada (6%) and Mexico (4%).

Efforts by the countries of the subregion to attract FDI and promote exports under special regimes and, subsequently, under CAFTA-DR boosted exports strongly and were successful in diversifying the export mix. This outcome was due in no small measure to the success in attracting FDI. The composition of the sectors targeted by FDI has led to changes in the export mix, particularly given the growth in exports by companies operating in free economic zones or under inward-processing or other similar arrangements.

Exports of goods under special regimes account for over 50% of goods exported by Costa Rica, El Salvador, Honduras and Nicaragua. In the case of Panama, exports of goods subject to special regimes account for a very small share of the total because export figures do not include reexports from the Colón Free Zone. Exports produced under the free-zone regime account for the bulk of all exports subject to special regimes, except in the case of Guatemala and Panama. If exports of services are included, then exports from free zones account for an even higher proportion of total exports of goods and services.

Outward investments from the Central American economies also trended upwards until 2008, when the financial crisis struck. Costa Rica, El Salvador and Guatemala are the main outward investors. Panama is a special case with outflows in the past four years estimated at over US$ 2 billion, including operations by foreign companies that invest in third countries through their Panamanian subsidiaries.

2. Current incentives and reforms for attracting investments and promoting exports

Countries in the subregion have used fiscal or financial incentives or FDI promotion and attraction policies as part of efforts to encourage foreign companies to set up local operations. Trade liberalization and strategies for international integration unleashed a “race to the bottom” for attracting FDI to the region. The fiscal cost of export incentives has been hotly debated in the different countries, especially the grant of tax credit certificates and the exemption from income tax awarded to export companies.

With a view to attracting investments, legislation on tax incentives conditional on export performance has been enacted in all countries, but will need to be amended since export conditionality is prohibited by the Agreement on Subsidies and Countervailing Measures. Thus, Costa Rica, the Dominican Republic, El Salvador and Panama have drawn up proposals for reforming their incentive regimes and some of them have enacted new legislation. Guatemala is the only country bound to amend its incentive regime which has yet to present a reform proposal. Honduras and Nicaragua do not have to change their incentive schemes as long as their per capita income remains low.

Prior to the reforms, the tax incentives were offered to all companies that set up operations under the free-zone regime. With the recent reforms, Costa Rica and Panama will continue to grant tax incentives but only to sectors deemed strategic and to relatively undeveloped areas. The proposal in the Dominican Republic is to continue to grant incentives to all types of companies and to add new beneficiary categories, such as science or technology parks and utility companies. There are still no proposals for reform of the free-zone regime in the other countries.

Various elements are common to the reforms approved or under discussion: first, total or partial exemption from income tax; second, the inclusion of high-technology- and research-and-development-intensive activities as a strategic beneficiary sector. In addition, Costa Rica and the Dominican Republic have provisions for fostering production linkages between companies operating under the free-zone regime and local companies.

El Salvador and Panama revised their export promotion regime legislation, which granted conditional subsidies. No modification of this incentive regime will be necessary in the remaining countries, except for Guatemala, which has not prepared a proposal. In El Salvador and Panama, the changes have led to inroads into new areas with major policy steps for boosting productive sectors within the framework of their national innovation systems.

The reforms, albeit far-reaching, are subject to discussion, in particular the reform of free-zone legislation. One option would be to expand them into a broader development policy, incorporating measures for harnessing the potential of FDI to act as an instrument of technology and knowledge transfer. The proposal is that existing tax incentives should be valued also in terms of their impact on public finances and viewed as an instrument for creating the conditions for establishing FDI and linking it with local economies, with a view to transferring technology and knowledge and permitting local businesses to move up the value chain.

Countries have seized the opportunity to design “new generation” incentives. These seek not only to attract FDI and generate employment, as has occurred in the past, but also to facilitate the transition from an export-promotion scheme to an investment-support scheme, the idea being to enhance productivity and reduce structural heterogeneity.

Although the Agreement on Subsidies and Countervailing Measures and the more stringent regulations of the World Trade Organization (WTO) have restricted opportunities for developing an industrial policy, such opportunities still exist and should be seized proactively by the countries as a way of improving their production specialization and creating new competitive advantages. This can be achieved by promoting production linkages as a strategic focus for expanding and deepening knowledge-based assets. To this end, it is important to look at the type of FDI that is being established in each country and to try to attract fresh investments that are able to generate technological externalities. Thus, the effort to attract FDI must go hand in hand with development of the capacity to absorb new knowledge and technical and economic paradigms. This calls for the development of new production capacities.

The countries of the subregion are making headway with the reform of their export incentive legislations in order to bring them in line with WTO regulations. The reforms already approved and under discussion seek to eliminate the performance requirements that have been called into question and move towards replacing the export promotion scheme with an investment promotion scheme. The advances towards the establishment of an integral development policy are, however, still insufficient for defining an integral diversification strategy. In this strategy, FDI could contribute to advances in value chains, knowledge-building and product differentiation, with a view to achieving stronger linkages with the global economy. This would reinforce the role that FDI has played as a catalyst and modernizer of the region's production structure and services.

C. DIRECT INVESTMENT BY CHINA IN LATIN AMERICA AND THE CARIBBEAN

China is now the world's second largest economy and largest exporter of goods. Although the country has undoubtedly been a key player in world trade for over a decade, Chinese companies have only recently begun to invest large amounts overseas. Chinese FDI took off at a time, in fact, when world flows were plunging owing to the financial crisis: in 2008 China's investments overseas exceeded US$ 50 billion for the first time and in 2009 it was the world's fifth largest investor country.

Recent trends in Chinese FDI have been influenced by a number of domestic and external factors. One of the most important of these is the Government of China's policy of encouraging its companies to expand abroad. This policy has been in place since 2000 and its principal instrument is the financing offered by State-owned banks for companies' overseas expansion projects. Almost all of the biggest Chinese transnational companies are State-owned.

Even in the case of State-owned companies, however, government policy alone cannot account for Chinese FDI. The State may have been promoting international expansion, but Chinese companies were also persuaded to invest abroad by their own growth, diversification strategies and technological development. The strong growth of the Chinese economy, extremely high savings levels, a strong export performance and advances in science, technology and innovation have created capacities in many companies that have been leveraged through foreign investment. In many cases, Chinese firms have bought companies overseas to secure key assets such as technology or brands in advanced economies, or to access natural resources in developing countries.

Chinese direct investment in Latin America gained significant momentum in 2010, when Chinese transnationals invested over US$ 15 billion in the region, the vast majority in natural resource extraction. China has thus become the third largest investor in the region, behind the United States and the Netherlands. In the medium term Chinese companies are expected to continue to invest in the region and diversify into infrastructure development and manufacturing.

The recent wave of investments was preceded by a strong trading relationship over the past decade. China is now the region's third largest trading partner, behind the United States and the European Union, and will soon overtake the latter. China's impact on trade in Latin America covers three areas: as an exporter of manufactured goods to almost every country in the region; as a buyer of raw materials, principally from South American countries; and as a strong competitor in the region's export markets, in particular for Mexico and Central America. The first two areas have defined investment relations between China and Latin America.

For the most part, Chinese companies have invested in Latin America to reduce their exposure to raw material price rises. This business rationale was combined with pressure from the Government of China to secure sufficient supplies of energy and raw materials, which accounts for the considerable support provided by public banks for these operations. Accordingly, over 90% of confirmed investments by Chinese companies in Latin America have gone to natural resource extraction. Table 1 provides an estimate of acquisitions and greenfield investments in Latin America and the Caribbean up to 2010 and those expected from 2011 on.

Table 1
CHINA: FOREIGN DIRECT INVESTMENT IN SELECTED ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN
(Millions of dollars)

Country	**Confirmed investments**		**Investments announced**
	1990-2009	**2010**	**2011 onwards**
Argentina	143	5 550	3 530
Brazil	255	9 563	9 870
Colombia	1 677	3	...
Costa Rica	13	5	700
Ecuador	1 619	41	...
Guyana	1 000	...	...
Mexico	127	5	...
Peru	2 262	84	8 640
Venezuela (Bolivarian Republic of)	240	...	...
Total	**7 336**	**15 251**	**22 740**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of information from Thomson Reuters, fDi Markets [online] http://www.fdimarkets.com/ and interviews with representatives of the respective companies.

The main recipient countries have been Brazil, Argentina and Peru, all of which have a close trading relationship with China. The country is also sometimes an important source of investment for smaller economies, as has recently been seen in Ecuador and Guyana. With the exception of Costa Rica, Chinese investment has almost no relevance in Mexico and Central America.

The biggest investments have been made in the hydrocarbons sector, in two stages: the first involved individual exploration and production concessions tied to agreements between States (in the Bolivarian Republic of Venezuela, Ecuador and Peru); and in the second, more recent stage, Chinese companies have opened up to partnerships with international private companies, principally in Brazil and Argentina. In the mining sector, Peru has been the main recipient of investment, largely for copper extraction, followed some way behind by Brazil, for iron-ore mining. Investments in agriculture are also driven by the strategy to secure supplies of raw materials. These have been much smaller in volume terms, but can still have a significant impact domestically. The entry of Chinese companies into this sector has caused concern among governments in the region over the implications of allowing land to be controlled by foreign investors and the possible impacts on food security and livelihoods in rural areas.

Chinese FDI in the region will probably continue to be dominated by companies specializing in natural resources, given the ambitious expansion plans they have announced. In any event, the pace of investment in this industry will depend on raw material prices, while other factors will encourage diversification towards other sectors. As the Chinese economy grows and its biggest companies develop, the number and variety of firms with the resources and motivation to invest abroad, including in Latin America and the Caribbean, will gradually increase. In addition, steadily rising domestic production costs, a trend towards geographical diversification of production to sidestep trade barriers, and the proactive policy of the Government of China will all drive foreign investment.

Infrastructure construction is one sector in which Chinese companies will increase their presence in the region. The rapid pace of construction in China has built up considerable capacity in this sector. Chinese construction companies are characterized by low costs and an ability to offer financing to their customers (often with the official assistance of the government). Furthermore, many firms, such as those setting up telecommunications networks or building railway equipment, have demonstrated remarkable technological progress over the past few years.

In manufacturing, investments are primarily designed to sidestep trade barriers in certain domestic markets. Companies aspiring to be world leaders in their industry are keen to diversify their production base to avoid real or potential trade barriers, while the Government of China looks favourably on any measures that help reduce its foreign exchange surplus. Brazil has been the main destination for manufacturing projects, although preliminary investments are under way in Mexico with a view to establishing an export platform in the country. No significant investments in export platforms in Central America or the Caribbean have been recorded thus far.

The fact that such large sums have been invested by China, for the first time and within a short space of time, has prompted criticism from some governments, business people and civil society stakeholders in the region. In particular, it has been suggested that the focus of Chinese investment on natural resource extraction hinders domestic industrial development and technological upgrading. Criticism has also been levelled at the fact that the vast majority of Chinese transnational companies are State-owned, meaning that assets acquired in business transactions are ultimately controlled by a foreign government. Lastly, some Chinese companies in the natural resources sector have been accused of maintaining lower social and environmental standards in their operations than other transnational companies.

The advent of a new source of investment in the region provides opportunities for companies in need of capital and technology to sustain their growth. This applies to copper mining in Peru and to the hydrocarbons sector in Argentina and Brazil, which have been the focus of the biggest investments to date, and may soon apply to infrastructure construction and some manufactured goods. The governments of Latin America and the Caribbean may be able to take advantage of this investment impetus to create new paths to development, by, for instance, tying the exploitation of raw materials to the construction of public infrastructure, or by offering incentives to establish domestic industries for processing these resources.

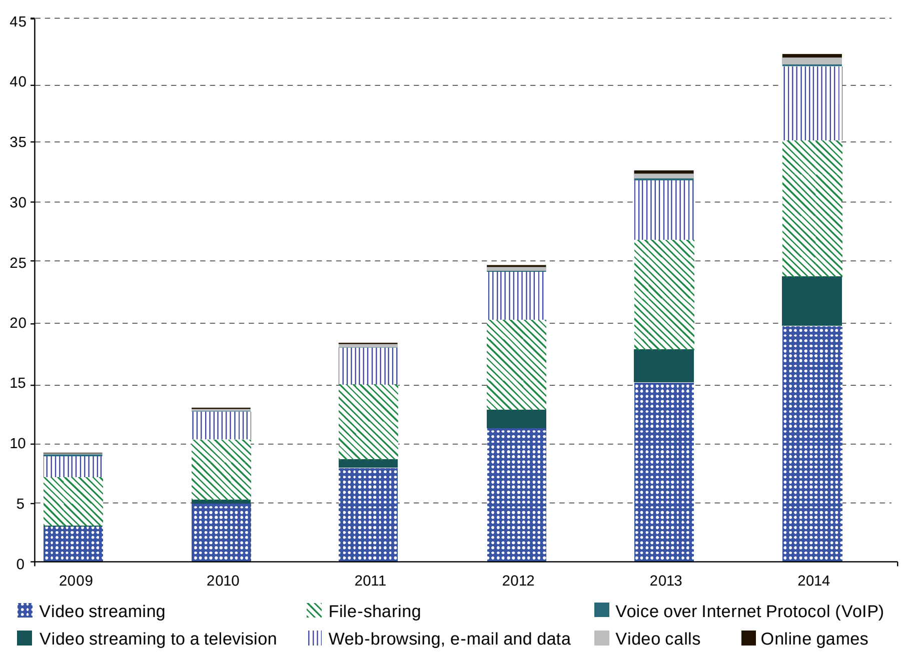
To capitalize on these opportunities, policies need to be formulated and implemented that reshape the industrialization pattern of the Latin American and Caribbean countries, promoting structural change in favour of sectors that are more knowledge- and technology-intensive. However, the first step must be to recognize that there are huge differences between the strategic vision that has guided China in its economic and industrial development, and the prevailing view in the region regarding the way to advance in the process of economic development.

D. TELECOMMUNICATIONS OPERATORS AND THE TRANSITION TO CONVERGENCE AND BROADBAND

Over the last decade, telecommunications services have undergone a thorough reorganization and transformation at the global, regional and national levels. That change is attributable to the progressive breakdown of the barriers between the traditional segments (fixed telephony, mobile telephony, broadband access, Internet, pay television and broadcasting) and the gradual shift of the industry's focus from voice to broadband. In this scenario, consumer habits are changing, companies are reviewing their business models and national authorities are facing the urgent need to adapt existing sector-specific regulations in the light of technical convergence and to reconsider the role of broadband access in society and in national development strategies.

In the business sector, the rapid decline in traditional sources of revenue from voice traffic is putting pressure on operators to seek new business segments associated with data traffic. Old networks are increasingly overloaded by new applications that require a high bandwidth, mainly for video, which can lead to bandwidth saturation (see figure 7). Operators are therefore being driven to migrate to next generation networks (NGN) based entirely on Internet Protocol. This presents the industry with two challenges: making the necessary investments in infrastructure to meet the technical requirements of new services and, at the same time, strengthening and increasing the demand for new services in order to reverse falling revenues and ensure the sustainability of the new business models.

Figure 7
GLOBAL CONSUMER INTERNET TRAFFIC (HOUSEHOLDS, UNIVERSITIES AND INTERNET CAFES), 2009-2014
(Thousands of exabytes per month)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by CISCO, *Hyperconnectivity and the Approaching Zettabyte Era*, 2 June 2010.

At present, the high costs and deep uncertainty associated with this inevitable transition have forced operators to seek hybrid formulas (based on twisted-pair copper wiring and cable modem) to prolong the useful life of their traditional businesses. These include package offers (often referred to as triple play), which have made it possible for companies to continue earning revenue from voice services and have helped to extend the use of broadband, develop pay television and stem the migration of their customer base. At the same time, mobile communications have seen a rapid improvement in infrastructure, which has set in motion a mass migration towards third-generation (3G) technology and the first steps towards the deployment of new fourth-generation (4G) networks, thus enabling the speedy development and expansion of wireless data traffic. That said, fixed technologies have so far led the way in the development of broadband access, as they still have a greater capacity available than the mobile segment. However, even though mobile technologies are still not a perfect substitute for fixed infrastructure, they do complement it and the convergence of these two technologies indicates that the difference between the services they provide will diminish significantly in the near future.

In a context marked by volatility and borrowing constraints, the larger companies with more financial clout were better prepared to take advantage of the opportunities offered by an industry experiencing rapid transformation. The large companies therefore sought assets that would enable them to offer full convergent packages, scale up by increasing their share in competitive markets and secure access to emerging markets with high growth potential (Brazil, China and India). Pursuit of this objective has led to an intensive process of corporate mergers centred on the domestic markets of the advanced economies and more rapid internationalization of the leading operators. Particularly in the wireless segment, in the more advanced markets consolidation has led to there being no more than three operators, which seems to be the number needed to achieve a return on operations in the domestic market. Without doubt the consolidation process will continue with the next stage involving the largest emerging markets, which remain very fragmented.

Although the epicentre of this process has thus far been in the industrialized countries, the Latin American and Caribbean region has not been unaffected; however, the markets of the region are lagging somewhat behind in terms of consolidation and the different sectors of the population are more segmented. Notable changes have occurred: the penetration of mobile telephony has reached almost 100%; fixed telephony has stagnated; broadband access is gaining ground, albeit more slowly than in the advanced economies; regulatory changes favouring convergence have prompted offers of bundled services packages, which are very popular in many countries, though not in the largest ones; and operators are showing a clear strategic preference for the mobile segment, in terms of coverage, deployment of infrastructure, promotional tariffs and loyalty policies. This situation has led to the rapid consolidation centred on two transnational operators: the Spanish company Telefónica and the Mexican company América Móvil. These operators currently dominate more than 60% of the Latin American communications market. However, in some countries they are facing serious competition from alternative operators, especially pay-television companies, which are often part of large audio-visual media groups (Cablevisión of Grupo Clarín in Argentina, Megacable and Cablevisión of Televisa in Mexico, and VTR in Chile), and mobile telephony companies, some of which have large local capital shares (Entel in Chile, Oi and TIM in Brazil, Nextel in Mexico, Millicom and Digicel in Central America and the Caribbean).

The vast majority of countries in Latin America and the Caribbean still have rigid regulatory frameworks and lack policies that proactively and explicitly promote the development of the industry. Regulation must be brought into line with a reality that is changing quickly as a result of rapid and continuous technological progress, which is stimulating a convergence towards a single multifunctional IP-based infrastructure. It is also important to progress towards ways of finding a balance between offering prices low enough to enable the mass uptake of services and earning revenues high enough to make a return on the large investments that operators must make to modernize their fixed and mobile network infrastructure.

Overall, with the exception of mobile telephony, the gaps with respect to the advanced economies have continued to grow, particularly in the new broadband technologies. Fixed broadband connections are dominated by ADSL (Asymmetric Digital Subscriber Line), a data transfer technology that works over conventional copper telephone wires, while the vast majority of mobile communications users are subscribed to second-generation (2G) prepaid services, even though there is wide 3G coverage. These characteristics of the Latin American market lead to a low average revenue per user (ARPU); companies have therefore focused their strategies on taking advantage of economies of scale in order to maximize returns on old infrastructure by creating bundled services packages, thus cream-skimming the market. The market for convergent data services is still limited as it is confined to high-income sectors. Against this backdrop, the main regional operators have secured positions among the leading companies in the industry and, even more importantly, have become the most profitable communications companies in the world, surpassed only by China Mobile (see figure 8).

Figure 8
WORLD'S LARGEST TELECOMMUNICATIONS SERVICES COMPANIES: AVERAGE PROFITS AS A PERCENTAGE OF SALES, 2005-2009
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *Fortune Global 500*, various issues.

After achieving a solid and broad regional presence, the leading operators, put under pressure by the rapid rate of obsolescence of their infrastructure, have begun to reorganize and integrate their assets, and to develop new business models to take advantage of the future spread of broadband and guarantee the sustainability of their operations.

The first stage focused on the most dynamic and profitable segment of the industry: wireless communications. Operators have implemented different measures designed to improve the quality of services with a view to customer retention. Companies are striving to facilitate and encourage the migration of their prepaid customers to bundled products and postpaid service contracts. As well, they are gradually shifting their focus from attracting new customers to retaining existing customers, increasing the emphasis on efficiency by seeking ways of using the network infrastructure more effectively. With broad 3G coverage and embryonic plans to deploy 4G infrastructure, operators are trying to increase the capacity and coverage of Internet access in order to take advantage of the growth and emergence of new services and applications designed for mobile broadband and thus reverse the downtrend in average revenue per user.

To the same end, regional operators are seeking to simplify their range of products and services, strengthen partnerships with providers and other companies in the industry and, above all, continue to bundle services and improve their infrastructure in order to update their services and enhance access speeds, prioritizing the use of ADSL technology for the moment in order to get the most out of their copper networks. Operators are currently working towards integrating their infrastructure to offer multiple services. However, they still lag behind in the deployment of optical fibre next generation networks, although this technology is already being used to lay trunk and backhaul networks for base stations in the main urban areas in the region. The investments needed in next generation network infrastructure are considerable and the conflicts faced by companies in the developed economies have spread to the countries of the region. The leading operators are therefore paying close attention to the debate on the future model for the Internet, especially where unlimited plans and network neutrality are concerned. In this connection, it has been suggested that content providers should contribute to network maintenance and that it is necessary to offer a variety of Internet tariffs in order to make the current business models sustainable. As well as their efforts made regarding fixed and mobile communications, companies are trying to further integrate those segments and regionalize their operations. Integrated operators are therefore looking for ways to reduce operating costs and optimize investments so that they can then concentrate on offering a new range of integrated fixed-mobile services.

Lastly, two policy areas are under discussion in the global and regional debate: first, the adaption of regulation to a reality that is changing rapidly as a result of an ongoing technological revolution which is moving towards convergence; and, second, the difficulties involved in finding a balance between service prices low enough to allow their mass uptake and revenues high enough to ensure returns on the large investments that operators must make to modernize their networks.

In this context, ECLAC has recommended two lines of action: strengthening the technical capacity and independence of the sector’s regulators; and initiating a substantive dialogue between governments and operators to arrive at specific definitions for standards, networks and rates of access and profitability. Progress has been made, but thus far at an inadequate pace which has left the region lagging behind in terms of the mass uptake of broadband access, its appropriation by users and investments in advanced networks. Measures must be taken rapidly to implement these lines of action, especially given that decisions now being considered will affect not only the size of investments, but also which areas will benefit: whether the development of advanced mobile networks or the installation of optical fibre fixed networks. Strengthening effective mechanisms for technical dialogue between the authorities and the large operators with a view to taking policy decisions seems to be the best path.

E. FOREIGN DIRECT INVESTMENT IN THE SOFTWARE INDUSTRY IN LATIN AMERICA

The significance of the software industry lies in its contribution to structural change in developing countries by transferring and disseminating new technologies, creating skilled jobs and generating exports of services. International experience shows that the software industry, like the manufacturing industry, has spillover effects on all sectors of the economy, spurs productivity and helps to diversify the supply of exports, making it a driver of economic growth. Accordingly, this industry is generating employment opportunities and new business around the world, especially in developing countries, thanks to increasing returns to scale and the high elasticity of export revenue. Latin America in particular has become known not only for its potential as a destination for offshoring of software operations but also as an emerging force in the industry.

The region continues to strengthen its presence in the software industry, and FDI in the sector has been on the rise. Since the early 2000s, the combination of internationally competitive costs, ready availability of qualified human resources and time-zone proximity to the United States and Europe has made Latin America an attractive destination for the offshoring of software centres. In the current stage of development of FDI in the software sector, transnational companies have sited major projects in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Uruguay, most of them with high levels of specialization and standards on a par with the leading international centres. But the situation varies widely from country to country, with three patterns of specialization identified: countries with a large domestic market that is not very export-oriented (Brazil and Mexico); countries with a small domestic market that is highly specialized in exports (Costa Rica and Uruguay); and countries with a medium-sized domestic market that combines both strategies (Argentina, Chile and Colombia).

Transnational software companies can be an effective means of transfer of new knowledge and technologies, with the consequent impacts on productivity and growth. The business strategies of these companies have shifted from cost arbitrage to a geographically diversified global production model (global offshoring).

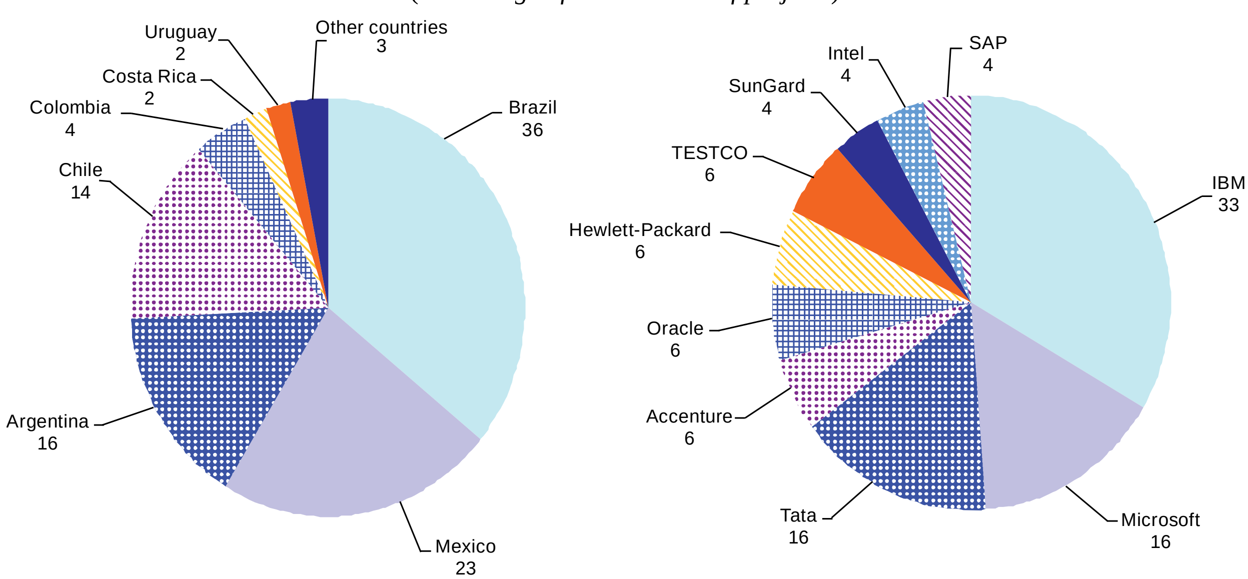
The software industry has thus globalized in successive stages of offshoring and international deployment from the developed countries towards new, emerging markets. The industry is now entering a new growth cycle that will be shaped by changes associated with new technologies, business models and business strategies. There are at least four trends linked to this new phase: (a) integration of global operations; (b) migration of the hardware industry towards higher-value-added service segments; (c) adoption of new business models in the industry; and (d) changing innovation processes.

Latin America could establish itself as a global software location (as China, India and countries of Eastern Europe have), thanks to the new strategies being pursued by transnational software companies. These strategies consist of combining global operations over different time zones, cost levels and operational risks. The major transnational software companies can thus combine operations in high-cost countries like Canada, the United States and the countries of Western Europe with operations in countries that are relatively lower in cost but pose greater operational risks, such as in Asia and the Pacific, Eastern Europe and Latin America. This global operating model enables companies to better balance customer preferences for nearshore or farshore locations, gain better access to skilled human resources, manage operational risks better and take advantage of time-zone differences to speed up the project and service cycle.

The software industry displayed relative stability as to the number of new projects developed at offshore locations during the period 2004-2008, but a substantial drop from 2009 in the wake of the international crisis. A total of 2,749 cross-border software investment projects were recorded between January 2003 and November 2010, located primarily in India (24%), China (10%) and the United States (10%). Latin America's share of the total number of projects was 6%, compared with 48% for Asia and the Pacific, 21% for Western Europe and nearly 10% for Eastern Europe. The 10 principal companies with global software projects were IBM, Microsoft, Hewlett-Packard, Oracle, SAP, Google, Sun Microsystems (owned by Oracle), Fujitsu, Siemens and Capgemini, which together accounted for 22% of the total.

Three differences have been observed between the trend in new project launchings in Latin America and the Caribbean and the worldwide trend. The first is the growth in the number of projects after the crisis. The second has to do with the growing share of companies from India and Spain. The third concerns the participation of trans-Latin software companies. Of the 102 companies that have invested in Latin America, IBM is the most active, with 17 new projects announced; it was followed by Microsoft, Tata Consultancy Services (TCS), Accenture, Oracle and Hewlett-Packard, which, together, accounted for 26% of the projects. Trans-Latin companies accounted for 10 projects; a noteworthy example is Sonda in Chile. The principal locations included Brazil, with 36% of the projects; Mexico, with 23%; Argentina, with 16%; and Chile, with 14% (see figure 9).

Figure 9
LATIN AMERICA AND THE CARIBBEAN: SOFTWARE PROJECTS BY COUNTRY AND AMONG THE TOP 10 COMPANIES
(*Percentage of total number of projects*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of fDi Markets [online] http://www.fdimarkets.com/ up to November 2010.

The development of the software industry in Brazil and Mexico and, to a certain extent, in Argentina can be traced back to former industrialization strategies that led to the establishment of a productive manufacturing base and to specialization in information technology and electronics. Industrialization along these lines also attracted the main hardware manufacturers at the time and led to the transfer of new, ICT-related technologies and the development of specialized human resources. The main difference between Brazil and Mexico is that the former stands out for its attractive domestic market and the latter for its geographical proximity to the United States market.

The economic opening that began in the 1990s coincided with the birth of software company offshoring in Latin America as the hardware and electronics industries shifted to China and other Asian countries. The main hardware companies with a presence in Brazil and Mexico (such as IBM, Hewlett-Packard and Unisys) began to turn their manufacturing plants into service centres, taking advantage of the available infrastructure and skilled human resources. That is why the major software development centres in Latin America are found in locations that had a robust specialization in electronics, such as São Paulo, Guadalajara and Monterrey.

Aside from Brazil, software industry offshoring to South America began to develop in the 2000s, albeit with varying paces and areas of growth. Of the 159 new software projects recorded as FDI in Latin America over the past eight years, 25 were set up in Argentina, 23 in Chile and 7 in Colombia. This development was due to the fact that these countries were also able to capitalize on their relative proximity to the United States market, and they placed their skilled human resources on the international market at a competitive cost.

Argentina has led the software offshoring industry in South America thanks to its extensive network of higher education institutions that are capable of providing a constant flow of graduates in cities like Buenos Aires, Córdoba and Rosario at competitive costs. The industry developed more recently in Chile and Colombia than in Argentina, but it grew quickly during the second half of the decade: in both countries, the industry developed over a period of no more than five years.

In Central America there is a wide range of experiences in developing the business services industry. A good example is Costa Rica, which during the 1990s launched a strategy for attracting major international software centres. Uruguay is a special case in that it began to develop its software export industry in the 1990s and has since posted the fastest growth in the region and the best export performance.

Latin America has become a strategic location for most transnational software companies that have implemented successful internationalization strategies and established themselves as leaders, both regionally and internationally. Table 2 shows the major companies that have consolidated their operations in the region and are taking on a key role in the transfer of new technologies, the training of human resources and export supply development.

United States-based transnational software companies may be divided into two groups, according to corporate strategy. The first group comprises companies with strategies for consolidating their global IT service centres, such as IBM and Hewlett-Packard. The other is made up of companies with strategies for consolidating their software engineering centres, such as Dell, Intel and Motorola. Among the European transnational software companies with a presence in Latin America, the most important ones include SAP (Germany), Capgemini (France) and Indra (Spain), which combine software development services with business process and ICT consulting services. In addition, Latin America has become a strategic location for Indian companies serving customers in the United States in view of the region's time-zone proximity and competitive costs. These companies arrived in Latin America in the 2000s, after the United States and Europe-based firms.

Table 2
PRINCIPAL TRANSNATIONAL SOFTWARE COMPANIES OPERATING IN LATIN AMERICA

Segment	Global transnational software companies			Latin American transnational software companies			
	United States	Europe	India	Argentina	Brazil	Chile	Mexico
Software applications	Microsoft Oracle IBM Hewlett-Packard	SAP Indra		Globant	TOTVS		
Software services	IBM Hewlett-Packard/EDS Accenture Xerox	Capgemini Indra	TCS Infosys HCL WIPRO	G&L Assa	TOTVS CPM Stefanini Politec	Sonda Quintec Adexus Coasin	Softtek Neoris Hildebrando
Software engineering	Hewlett-Packard Google Dell Yahoo Intel Motorola Synopsis McAfee	SAP					

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from interviews with representatives of the respective companies.

Latin America has also seen the emergence of a wide variety of local companies engaged in global IT services. These trans-Latin software companies are pursuing internationalization strategies to gain a share of regional and international markets. Notable among them are Mexico's pioneering Softtek, Sonda in Chile as it consolidates regionally, Argentina's emerging Globant and Brazil's TOTVS as it specializes in the region.

There is space for growth in inserting Latin America in this industry, which can benefit new locations and countries in the region. It is clear that this development will not happen on its own; rather, it will require a set of public policy components with an integrated approach to attracting FDI and developing local industry while spurring the participation of transnational software companies in local and national innovation systems. Noteworthy among the principal policy initiatives to be strengthened are development of human capital, support for research and development, fostering of strategic alliances between businesses and institutions and better regulatory frameworks. On all these fronts, the mechanisms for collaboration among countries and locations both can and should be strengthened.

F. CONCLUDING REMARKS

The growing share of Latin America in FDI flows heightens the need to devote more intensive efforts to crafting an analytical framework for studying the impacts of FDI on development. For a number of years, the eclectic paradigm offered a framework for analysing the positioning and expansion of transnational firms in the wake of the free-market reforms that accompanied globalization, by associating business strategies with costs and benefits and identifying mechanisms through which FDI could underpin economic growth. The analysis now needs to be deepened, however, to look also at the absorptive capacities of recipient economies as a determinant of the impacts of FDI, since that capacity is crucial for broadening the operations of transnational firms and spreading the benefits of their investments through host economies.

A new analytical framework should encompass two dimensions: the strategies of transnational companies, on the one hand, and the host country's absorptive capacity and national innovation system, on the other. From the corporate stakeholder side, it is important to study the strategies of transnationals —which determine the complements that their operations seek— and the characteristics of their subsidiaries (technological capacity, linkages with the parent company's global value chain, role in the corporate strategy and integration into global corporate and knowledge networks). Absorptive capacity and the national innovation system first act as a draw for investing firms and, later, determine the possibilities of technological progress in their local activities. The interaction between transnational companies and a recipient economy's national innovation system and absorptive capacity, then, determine the impact investment will have on technology transfer, productivity spillovers and the creation of new capacities. The effort to analyse the technology content of new FDI projects and of research and development projects associated with FDI in the region, as undertaken in chapter I of this report, represents a first step towards building a new conceptual framework.

Chapter I

REGIONAL OVERVIEW OF FOREIGN DIRECT INVESTMENT

A. INTRODUCTION

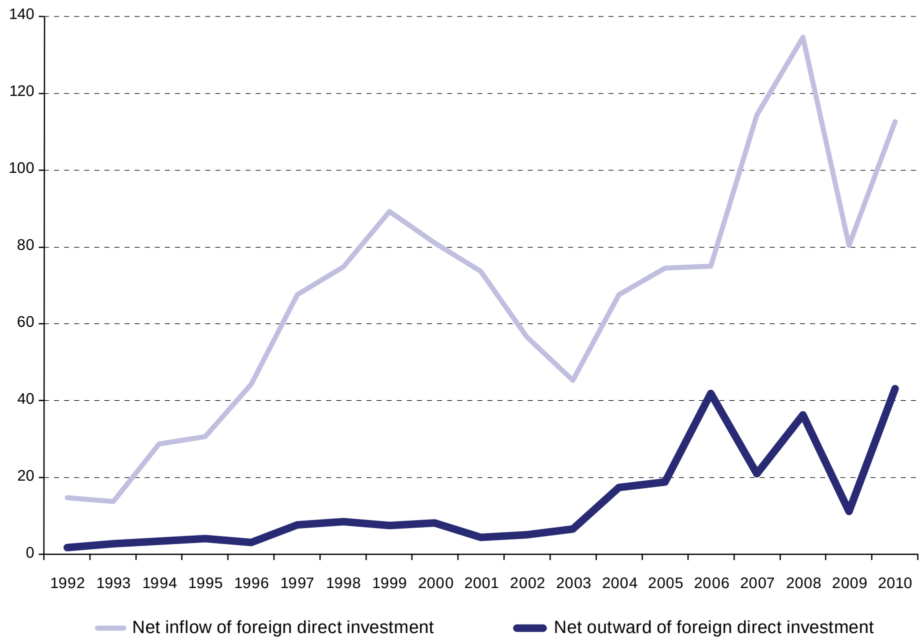
Foreign direct investment (FDI) flows into Latin America and the Caribbean grew more rapidly than those for any other region in 2010, by 40% with respect to 2009. Global FDI rose by just 1% in the aftermath of the financial and economic crisis which broke out in 2008, with patterns varying across regions: while FDI climbed by 10% in developing countries, it fell for the third year in a row in developed countries, by 7% compared with 2009.

Although the recovery in global FDI flows remained weak in 2010, both inward and outward flows rose strongly for developing and transition countries. As a result, for the first time, FDI flows to developing and transition countries accounted for more than 50% of global flows. Outward FDI from developing and transition countries also continued to grow and, according to preliminary figures, accounted for 22% of global FDI outflows in 2010. In this context of greater FDI activity in developing countries, Latin America and the Caribbean was the most dynamic region in 2010, with the strongest growth in inward and outward FDI.

FDI flows in Latin America and the Caribbean stood at US$ 113 billion in 2010, close to the record figures posted in 2008 (see figure I.1). FDI in South America rose by 56% to US$ 85 billion; Brazil was the main recipient, attracting a record total of US$ 48.462 billion, equivalent to 43% of the region's total, followed by Mexico, Chile and Peru. In Mexico, FDI resumed its growth and stood at US$ 17.725 billion, 17% more than in 2009, while flows into Chile reached US$ 15.095 billion. Peru posted record FDI figures in 2010, attracting US$ 7.328 billion. Meanwhile, Colombia and Argentina received US$ 6.76 billion and US$ 6.193 billion, respectively. FDI in the Central American Isthmus grew again in 2010, led by Panama and Costa Rica. These two countries together account for 64% of the subregion's total FDI figure of US$ 5.847 billion, which was, in turn, 16% more than in 2009. Only El Salvador continued the downward trend begun in 2009. According to preliminary data, FDI in the Caribbean fell by 18% compared with 2009. The Dominican Republic was the subregion's main recipient, attracting 41% of flows in 2010. Although the countries of Central America and the Caribbean received small amounts in absolute terms, they were among the region's largest recipients in relation to GDP.

Outward FDI from Latin America and the Caribbean also grew considerably in 2010. Direct investment originating in the region quadrupled to reach a new record of US$ 43 billion. Furthermore, Latin American direct investment abroad has surged in the past decade and the region's share in total FDI flows from developing countries climbed from 6% in 2000 to 17% in 2010. Mexico, Brazil, Chile and, recently, Colombia were the largest investors abroad, contributing more than 90% to the region's total.

Figure I.1
LATIN AMERICA AND THE CARIBBEAN: INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT, 1992-2010 [a]
(*Billions of dollars*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] FDI figures indicate inflows of foreign direct investment, minus disinvestments (repatriation of capital) by foreign investors. Outward FDI figures indicate outflows of direct investment by residents, minus disinvestments abroad by those investors. The FDI figures do not include the flows received by the main financial centres of the Caribbean. The outward FDI figures do not include the flows originating in these financial centres. These figures differ from those contained in the editions of the *Economic Survey of Latin America and the Caribbean* and the *Preliminary Overview of the Economies of Latin America and the Caribbean* published in 2010, as the latter show the net balance of foreign investment, that is, direct investment in the reporting economy (FDI) minus outward FDI.

In 2010, inward and outward FDI in Latin America and the Caribbean thus resumed their upward trend of the past decade; total FDI received was the third highest ever and total outward FDI set a fresh record. As the region becomes increasingly globalized and internationalized, the analytical framework applied to the structure and dynamics of FDI is in need of review. Although the analysis model based on corporate strategies (known as Dunning's eclectic paradigm, published in 1981) remains valid, it needs to be expanded to incorporate additional elements related to innovation systems,[1] in particular the building of local absorption capacities and the use of industrial policy as a mechanism for multiplying and strengthening the benefits of FDI in the region's economies (see box I.1).

[1] The concept of the national innovation system was developed in the 1980s to explain the differences in the innovation performance of industrialized countries. Nelson and Rosenberg (1993) focused on organizations that support research and development activities as a major source of innovation and dissemination of knowledge, whereas Lundvall (1992) focuses on production structure and the institutional context. A broad definition includes "all important economic, social, political, organizational and institutional factors that influence the development, diffusion and use of innovations" (Edquist, 2005).

Box I.1

AN ANALYTICAL FRAMEWORK FOR STUDYING THE EFFECTS OF FOREIGN DIRECT INVESTMENT

Studies developing analytical frameworks for foreign direct investment (FDI) have focused on determinants and effects on recipient economies, with most progress in the last few decades made with regard to determinants (Caves, 1996; Blonigen and Piger, 2011). In terms of the potential effects of the operations of transnational companies, there has been a shift from theoretical views to increasingly holistic empirical approaches. However, the effects of transnational companies' activities, particularly in developing countries, are still hotly debated because of the difficulty in establishing a causal link between FDI and economic growth, productivity and innovation (Gallagher, 2010; OECD, 2002; Lipsey, 2002; Moran and others, 2005; Markusen and Venables, 1999).

A behavioural and strategic view of international expansion by transnational companies was proposed by Dunning (1981) to explain the determinants of FDI. His eclectic paradigm categorizes companies by their predominant strategies: raw-material seeking, market seeking, efficiency (low cost) seeking or strategic-asset seeking. In Latin America and the Caribbean, this approach provided a framework for analysing the positioning and expansion of transnational companies from the time of market opening to international capital and later in the context of increasing globalization. Furthermore, this paradigm helped to link corporate strategies to their benefits and difficulties by establishing mechanisms through which FDI could have an impact on economic growth (ECLAC, 2004). However, the empirical evidence compiled in recent years underlines the importance of recipient economies' absorptive capacity as a key determinant of the impact of FDI (Xu, 2000; Lall and Narula, 2006; Girma, 2005). Absorptive capacity acts as a filter for the establishment of transnational companies in line with their strategies. In addition, once the companies are established, it is the essential factor for expansion of their operations and benefit-sharing (Narula and Lall, 2006; Mortimore and Vergara, 2006; Fu and Li, 2010).

A new conceptual framework should therefore integrate two dimensions: transnational companies and the absorptive capacity of recipient countries, which is determined by their national innovation systems. The strategies of transnational companies determine the complementary factors they seek for their operations (human capital, infrastructure, suppliers and so forth), as well as the linkages and externalities that may materialize in the recipient economy. Other important factors include the characteristics of the subsidiary in terms of its technological capacity, connections with the parent company's global value chain, importance in the transnational company's corporate strategy and its integration into global knowledge networks, corporate networks or other networks. The empirical literature has highlighted the importance of these factors in understanding the impact of FDI in developing countries, especially in relation to spillovers, which explain the capacity of recipient countries to progress towards activities that are more technologically sophisticated (Marín and Arza, 2009; Todo and Miyamoto, 2002). The evidence from Argentina and from the maquila industry in Mexico confirms the importance of connections with global knowledge networks and the degree of autonomy of subsidiaries as determinants of the technological upgrading of their operations (Giuliani and Marín, 2007; Sargent and Matthews, 2006).

The other core component of the conceptual framework concerns the absorptive capacity and innovation systems of recipient countries, which not only function as determinants of location decisions that are endogenous to the recipient country but are also, in turn, affected by the transnational company's operations. Thus, the location decisions of transnationals and the absorptive capacity and national innovation systems of recipient countries co-evolve, in the process determining the effects of FDI. Various factors in the national innovation system are relevant to understanding both the interaction with transnational companies and the effects of these companies on the economy: human capital; technological base and capacities; infrastructure and local supplier development; the structure and heterogeneity of the productive sector (particularly of industry); the level and quality of interaction between the different stakeholders in the system, including companies, universities, public sector bodies and research institutions; and the institutional context and support for innovation and the generation and adoption of knowledge (Cimoli, Dosi and Stiglitz, 2009). In this context, industrial policy is another key determinant of the destination of FDI and an instrument for increasing its benefits. Indeed, evidence exists of the advantages of pursuing a proactive industrial policy on FDI (ECLAC, 2007; Narula and Lall, 2006).

Box I.1 (concluded)

Based on these dimensions of the conceptual framework, the effects of FDI can be classified as direct or indirect. The direct effects are not particularly dependent on the interaction between transnational companies and absorptive capacity and the innovation system. These effects include broader access to reserve currencies, higher gross fixed capital formation, increased supply (more production and more access to goods and services, employment growth and the creation of production linkages), increased tax revenue and growth in exports. Thus, the direct effects of FDI on economic growth are in fact similar to those that investments by national companies would have. The indirect effects are determined by the absorptive capacity and the innovation system. The dynamic reciprocal interaction between transnational companies and the innovation system leads to indirect effects on the recipient economy in the form of higher technological content and capacity-building in the productive sector. These include spillovers in productivity and wages, technology transfers and capacity-building, development of human capital, monetary externalities for local businesses and the promotion of innovation and new learning paths. Through these mechanisms FDI contributes to economic growth in a different way to national investment, which demonstrates the benefits of foreign investment.

In short, subsidiaries take advantage first of existing capacities in the national economy. Then, through their interaction with the innovation system and in the context of their global strategies and characteristics, they may undergo either technology upgrading, thereby expanding the scope of their activities, or technological downgrading. Through that process, transnational companies have an impact on the development of recipient countries, particularly in terms of technological capacities.

An in-depth analysis of these issues clearly constitutes a long-term research agenda. Chapter I of the 2010 edition of *Foreign Investment in Latin America and the Caribbean* analyses the technology intensity of the ventures of transnational companies and FDI-driven research and development projects in the region. In view of the region's growing share in FDI flows in the past decade and the new records set by several countries in 2010 in both inward and outward FDI, research is urgently needed in this area to narrow institutional gaps and programmes and specific policies are required to expand the benefits of transnational companies' activities in the region.

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

A new conceptual framework should integrate two dimensions that are often treated separately in the literature: the strategy of transnational companies and the absorptive capacities of recipient countries, which are determined by their national innovation systems. While the first dimension is essentially exogenous for most recipients, the second is within their control and may be affected by industrial policies designed to change the production structure in order to improve technology-absorbing capacity and stimulate long-term growth. These two aspects of a conceptual framework should serve to identify the direct and indirect effects of FDI. An in-depth analysis of these issues obviously constitutes a long-term research agenda; in the meantime, however, this report makes headway in integrating the two dimensions, especially in relation to the technology intensity of transnational companies' projects and the research and development activities associated with FDI entering the region.

The present document is divided into five sections. Following this introduction, section B gives an overview of FDI worldwide. Section C comprises three parts. The first describes FDI patterns in Latin America and the Caribbean on the basis of official balance-of-payments statistics. The second reviews the strategies of transnational companies by analysing FDI destinations, origins and mechanisms. The third part outlines new FDI projects by technological content and projects relating to research and development activities. Section D outlines the key characteristics of the region's countries as foreign investors and the growth of trans-Latin companies. The final section sets forth the main conclusions.

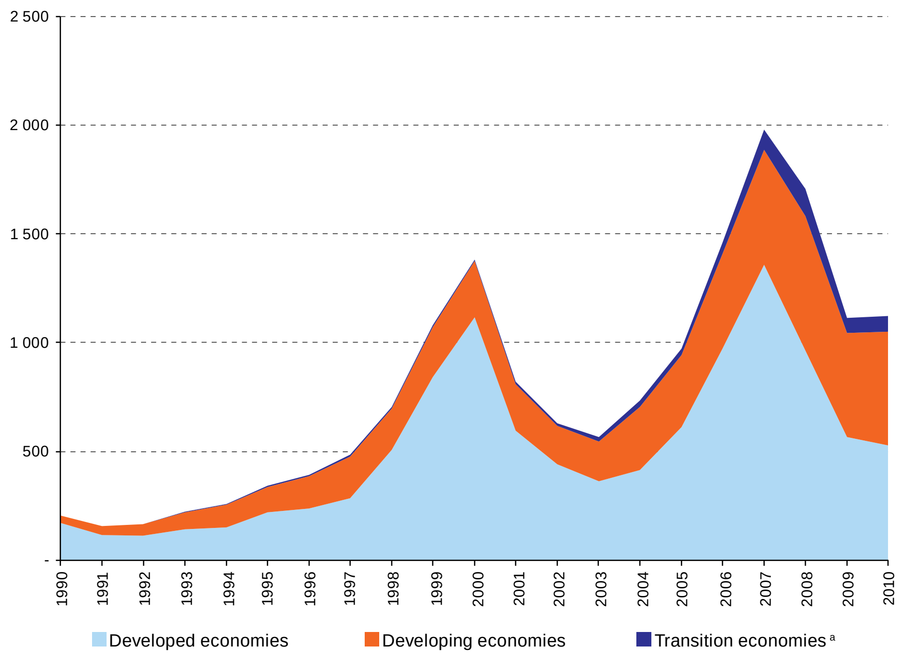
B. OVERVIEW OF FOREIGN DIRECT INVESTMENT WORLDWIDE

After falling for two consecutive years owing to the economic crisis in 2008 and 2009, worldwide FDI rose slightly in 2010. Preliminary figures indicate that worldwide FDI flows were US$ 1.12 trillion in 2010, representing an increase of 1% over 2009 (see figure I.2). As a result of the crisis, FDI flows declined in 2009 in both developed and developing countries. However, in 2010, this category of investment recovered at rates that varied from one destination region to another. In developed economies flows contracted still further in 2010 (-7% compared with 2009), while flows to developing countries rose by 10% (see table I.1).

Figure I.2

GLOBAL FLOWS OF FOREIGN DIRECT INVESTMENT BY GROUP OF ECONOMIES, 1990-2010

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010. Investing in a Low-Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No. E.10.II.D; and *Global Investment Trends Monitor*, No. 5, Geneva, 2011.

[a] South-Eastern Europe and the Commonwealth of Independent States.

In developing countries FDI movements also varied across regions: while in Latin America and the Caribbean FDI rose by 40%, in Africa flows contracted by 15% and in Asia and Oceania they rose 10%. As a result of the decline in flows to developed countries and the increase in flows to developing economies, developed countries accounted for less than half of global FDI flows in 2010, with a share falling from 57% in 2008 to 51% in 2009 and 47% in 2010. By contrast, the share of developing and transition countries climbed from 43% in 2008 to 53% in 2010 (see table I.1). The Latin American and Caribbean region attracted 10% of global FDI in 2010.

Table I.1

FLOW, VARIATION AND DISTRIBUTION OF GLOBAL NET FOREIGN DIRECT INVESTMENT, BY REGION, 2007-2010

Regions	Investment flows				Variation rate (percentages)			Share (percentages)			
	2007	**2008**	**2009**	**2010** [a]	**2008**	**2009**	**2010** [a]	**2007**	**2008**	**2009**	**2010** [a]
World	2 100	1 771	1 114	1 122	-16	-37	1	100	100	100	100
Developed economies	1 444	1 018	566	527	-29	-44	-7	69	57	51	47
South-Eastern Europe and the Commonwealth of Independent States[b]	91	123	70	71	35	-43	2	4	7	6	6
Developing economies [c]	565	630	478	525	12	-24	10	27	36	43	47
Latin America and the Caribbean	114	134	80	113	18	-40	40	5	8	7	10
Africa	63	72	59	50	14	-19	-15	3	4	5	4
Asia and Oceania	338	375	303	334	11	-19	10	16	21	27	30

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010. Investing in a Low-Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No. E.10.II.D; and *Global Investment Trends Monitor* No. 5, Geneva, 2011.

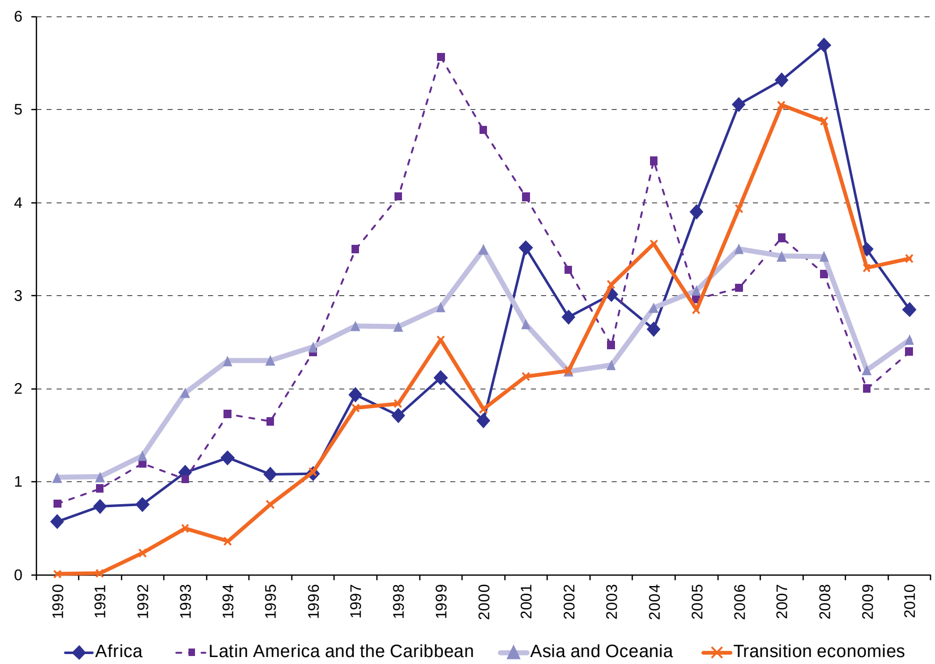
[a] Estimates.

[b] Includes the Russian Federation.

[c] The sum of the FDI volumes for Latin America and the Caribbean, Africa, and Asia and Oceania does not correspond to the total FDI figure for developing countries. This is because the FDI volumes used for Latin America and the Caribbean correspond to ECLAC data on the basis of official sources and not to the estimates of the United Nations Conference on Trade and Development (UNCTAD).

In 2010, the main FDI recipients among the developed countries were the United States, where reinvested earnings were up by 43% over 2009, France, Belgium and the United Kingdom. The largest recipients among the developing countries were the BRIC countries (Brazil, the Russian Federation, India and China), the Hong Kong Special Administrative Region of China and Singapore. The developing and transition countries recorded the highest FDI in relation to GDP, which shows the greater relative importance of these flows in their economies. Among the developing regions, FDI was lower as a proportion of GDP in Latin America and the Caribbean than in other regions (see figure I.3). In 2010, the FDI-to-GDP ratio of some developing regions rose in response to the increase in investment flows, though this was not the case in Africa, where flows contracted (see figure I.3). The recent global financial crisis has made it clear that FDI is the most stable of the capital flows received by developing and transition countries, even in times of crisis (ECLAC, 2009).

Figure I.3
DEVELOPING REGIONS: INFLOWS OF FOREIGN DIRECT INVESTMENT AS A PROPORTION OF GDP, 1990-2010 [a]
(Percentages)

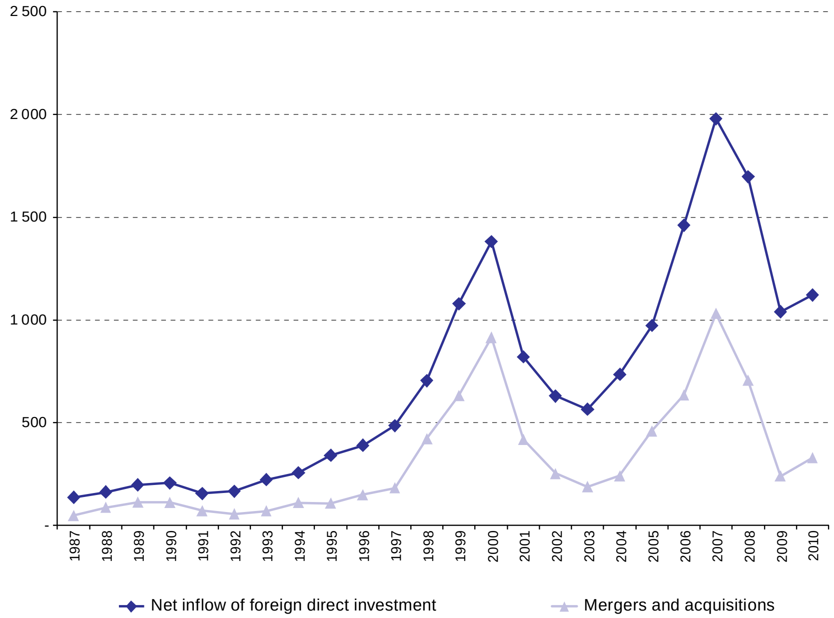


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010. Investing in a Low-Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No. E.10.II.D; and *Global Investment Trends Monitor* No. 5, Geneva, 2011; International Monetary Fund (IMF), *World Economic Outlook. Recovery, Risk and Rebalancing*, Washington, D.C., October, 2010; *World Economic Outlook. Rebalancing Growth*, Washington, D.C., April 2010.

[a] The following countries, territories, collectivities and associated States are not included in the calculation due to lack of data: Anguilla, Aruba, British Virgin Islands, Cayman Islands, Cook Islands, Cuba, Democratic People's Republic of Korea, Democratic Republic of the Congo, French Polynesia, Macao Special Administrative Region of China, Marshall Islands, Micronesia (Federated States of), Montserrat, Nauru, Netherlands Antilles, New Caledonia, Niue, Palestine, Saint Helena, Somalia, Timor-Leste, Turks and Caicos Islands, Tuvalu, Wallis and Futuna Islands and Yemen.

Cross-border mergers and acquisitions have been the most dynamic FDI mechanism in recent years, enabling transnational companies to penetrate new markets and take advantage of local firms' capacities and knowledge; global operations of this type rose by 37% with respect to 2009. Although the rise was not enough to reverse the decline posted in 2008 and 2009, it seems to indicate a positive trend that will surely be strengthened in future years (see figure I.4). The gradual growth in cross-border mergers and acquisitions contrasts with the trend in greenfield investments, which continued to decline in both number and value worldwide in 2010. Although greenfield investments in developing and transition countries increased, it did not compensate for the fall in projects in developed countries, according to data from the *Financial Times* database fDi Markets.

Figure I.4
VALUE OF MERGERS AND ACQUISITIONS WORLDWIDE, 1987-2010 [a]
(*Billions of dollars*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010. Investing in a Low-Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No. E.10.II.D; and *Global Investment Trends Monitor*, No. 5, Geneva, 2011.

[a] The FDI and mergers and acquisitions data are not strictly comparable owing to the nature of the information. However, the values of mergers and acquisitions provide a basis for interpreting their share in total FDI flows.

Developed countries continue to be the main source of FDI, but the share of developing and transition countries has risen sharply —consistent with the growing importance of these economies in the global economy— and has doubled in the past decade to reach 22% of the total in 2010 (see figure I.5). This gradual but steady growth in investment by developing countries will be a key characteristic of FDI flows in the next few years.

C. FOREIGN DIRECT INVESTMENT INFLOWS AND TRANSNATIONAL COMPANIES IN LATIN AMERICA AND THE CARIBBEAN

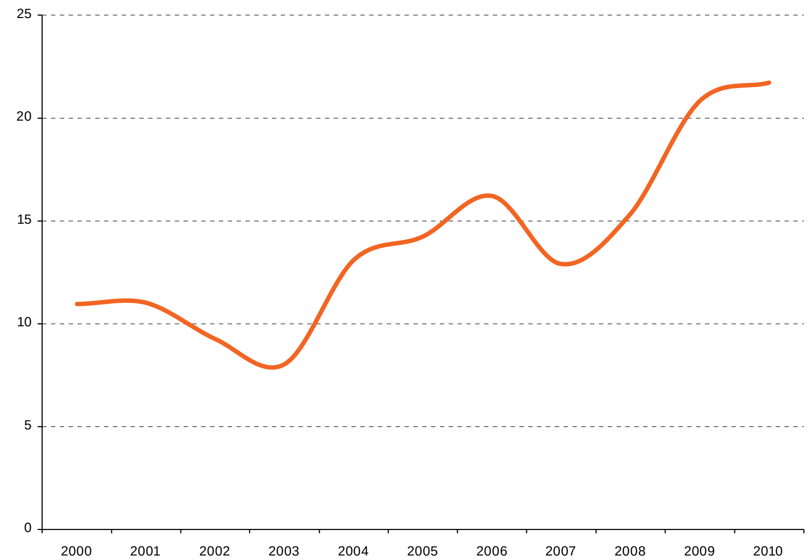
1. Trends and characteristics of foreign direct investment flows into Latin America and the Caribbean in 2010

FDI flows started to recover from the effects of the global financial crisis in the last quarter of 2009 and continued to trend upwards in 2010. Excluding the main financial centres, Latin America and the Caribbean attracted US$ 112.634 billion in FDI, 40% more than the US$ 80.376 billion received in 2009 (see figure I.6). Although FDI volumes received in 2010 fell short of the record set in 2008, they exceeded the annual average for the decade and maintained an upward trend, reflecting the region's solid position as an investment destination and location choice for transnational companies.

Figure I.5

DEVELOPING COUNTRIES: SHARE IN OUTWARD FOREIGN DIRECT INVESTMENT FLOWS, 2000-2010 [a]

(Percentages)



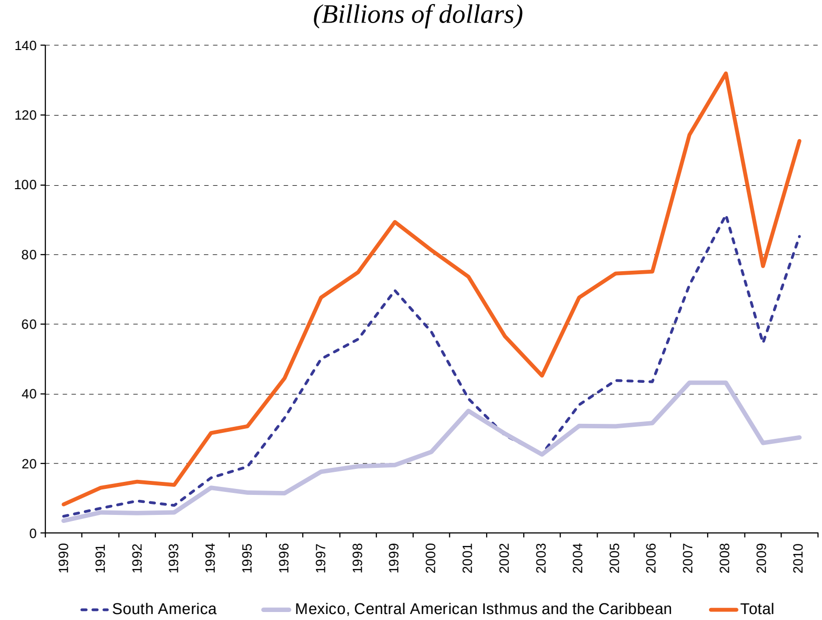
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010. Investing in a Low-Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No. E.10.II.D; and "Global and regional FDI trends in 2010", *Global Investment Trends Monitor*, No. 5, Geneva, 2011.

[a] The classification of developing countries includes transition countries.

Figure I.6

LATIN AMERICA AND THE CARIBBEAN: INFLOWS OF FOREIGN DIRECT INVESTMENT BY SUBREGION, 1990-2010

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 15 April 2011.

FDI flows rose in the subregions of South America on the one hand, and Mexico, the Central American Isthmus and the Caribbean, on the other in 2010, despite the different productive specializations of each. The upturn was stronger in South America, where FDI flows rose by 56%, while in Mexico, the Central American Isthmus and the Caribbean they rose by 11%. In the Caribbean in particular, however, preliminary figures show that FDI flows were down by 18% on 2009 (see table I.2).

Table I.2

LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT INFLOWS BY RECEIVING COUNTRY OR TERRITORY, 2000-2010

(Millions of dollars and percentages)

Country	2000-2005 [a]	2006	2007	2008	2009	2010	Absolute difference 2009-2010	Relative difference 2009-2010 (percentages)
South America	37 969	43 410	71 227	91 329	54 550	85 143	30 594	56
Brazil	19 197	18 822	34 585	45 058	25 949	48 462	22 513	87
Chile	5 012	7 298	12 534	15 150	12 874	15 095	2 221	17
Peru	1 604	3 467	5 491	6 924	5 576	7 328	1 752	31
Colombia	3 683	6 656	9 049	10 596	7 137	6 760	-377	-5
Argentina	4 296	5 537	6 473	9 726	4 017	6 193	2 176	54
Uruguay	393	1 494	1 329	1 809	1 258	1 627	369	29
Bolivia (Plurinational State of)	350	278	362	508	426	651	225	53
Paraguay	48	95	202	209	99	268	169	171
Ecuador	839	271	194	1 001	319	164	-155	-49
Venezuela (Bolivarian Republic of)	2 546	-508	1 008	349	-3 105	-1 404	1 701	55
Mexico	22 722	19 779	29 714	25 864	15 206	17 726	2 520	17
Central American Isthmus	2 549	5 756	7 235	7 593	5 057	5 847	790	16
Panama	656	2 498	1 777	2 402	1 773	2 363	590	33
Costa Rica	597	1 469	1 896	2 021	1 323	1 412	89	7
Honduras	418	669	928	1 006	523	798	274	52
Guatemala [b]	334	592	745	754	574	678	105	18
Nicaragua	219	287	382	626	434	508	74	17
El Salvador [c]	325	241	1 508	784	431	89	-342	-79
The Caribbean [d]	3 557	6 043	6 187	9 735	5 563	3 917	-349	-6
Dominican Republic	932	1 085	1 667	2 870	2 165	1 626	-540	-25
Trinidad and Tobago [b]	842	883	830	2 801	709	549	-160	-23
Bahamas [e]	383	1 159	746	839	664	499	-92	-16
Suriname	143	323	179	124	242	213	-29	-12
Guyana	50	102	110	179	222	198	-24	-11
Haiti	12	160	75	34	37	150	113	303
Saint Kitts and Nevis [b]	84	115	141	184	136	128	-8	-6
Antigua and Barbuda [b]	127	361	341	176	121	108	-13	-11
Saint Lucia [b]	76	238	277	166	152	105	-48	-31
Belize	56	109	143	180	112	100	-12	-11
Saint Vincent and the Grenadines [b]	43	110	132	159	107	93	-14	-13
Grenada [b]	65	96	167	148	104	90	-14	-13
Dominica [b]	26	29	48	57	42	31	-11	-25
Anguilla [b]	60	143	120	101	46	25	-22	-47
Montserrat [b]	2	4	7	13	3	2	-1	-19
Jamaica	595	882	867	1 437	541	…	…	…
Barbados	63	245	338	267	160	…	…	…
Total	**66 796**	**74 987**	**114 363**	**134 521**	**80 376**	**112 634**	**32 258**	**40**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] Simple average.

[b] Official estimate for FDI total for 2010.

[c] El Salvador updated its methodology for measuring FDI in the fourth quarter of 2009, as a result of which corporate liabilities are deducted in the data for 2010 to show net FDI.

[d] The calculation of the absolute and relative difference in FDI in the Caribbean in 2010 compared with 2009 does not include the 2009 data for the Bahamas, Barbados or Jamaica, as these were not available for 2010. This ensures a statistically consistent comparison.

[e] The 2010 data correspond to the cumulative amount as at the third quarter. Consequently, the absolute and percentage variations are calculated in relation to the third quarter of 2009.

Several factors contributed to the recovery of FDI in 2010. First, growth in the developed economies, although slow, averted further financial constraints and enabled transnational companies to relaunch more active strategies at the global level. Second, the buoyancy of several emerging economies, especially in Asia, led by China, but also those of Brazil and the Russian Federation, has prompted solid growth in certain sectors spurred by sharp growth in demand. Demand has grown for natural resources, for example metal mining products, hydrocarbons and food, but also for manufactures such as automobiles and integrated circuits, and for services such as telecommunications and software development. Third, and linked to the previous point, the growth of certain economies such as Brazil, Chile, Colombia and Mexico has stimulated local-market-seeking FDI. Here, the implementation of countercyclical polices proved important in stimulating domestic demand, especially in Brazil and Chile. Fourth, the crisis actually prompted growth in some activities involving foreign companies, such as the offshoring of business services (ECLAC, 2010).

The factors driving FDI inflows have counteracted the effects that would be expected a priori to result from the widespread local-currency appreciation occurring in many Latin American countries. In countries attracting natural-resource-seeking FDI, high commodity prices have offset the negative effects of exchange-rate appreciation and created incentives for fresh investments. Domestic-market-seeking strategies have also taken advantage of the stronger purchasing power of the countries. Hence, the link between exchange rates and FDI is complex and requires deeper analysis to shed light on its mechanisms, as discussed in box I.2.

Box I.2

THE IMPACT OF EXCHANGE-RATE FLUCTUATIONS ON FOREIGN DIRECT INVESTMENT

In recent decades substantial progress has been made in analysing the determinants of FDI (Blonigen, 2005). Research has also been carried out into the impact of exchange rates on the volume and sectoral destination of FDI (Goldberg and Kolstad, 1995; Sung and Lapan, 2000; Campa, 1993). Although FDI behaves in a more stable manner than other capital flows, the link between exchange rates and FDI has not been fully established. Until the mid-1990s, the most accepted view held that exchange-rate fluctuations did not affect the investment decisions of transnational companies. Thus, local-currency depreciation in FDI-recipient countries —i.e. a higher exchange rate— would reduce the amount of investment required to acquire an asset, but would also reduce the (nominal) return in the foreign currency, leaving the rate of return unchanged.

In recent years it has become clear that there are several mechanisms through which currency depreciation can increase FDI flows. One is the lower labour costs in foreign currency, which create a location advantage, and a second concerns capital markets, in particular the differences in the cost of accessing company financing. The transnational company’s stronger financial position owing to depreciation in the recipient country, together with the lower cost of its own resources in relation to external financing, appears to prompt an increase in FDI flows (Froot and Stein, 1991). Other researchers suggest similar results but by means of a third mechanism: where FDI is geared towards the acquisition of specific assets (technology, managerial skills, patents), depreciation reduces the price of the asset but not necessarily the nominal return. This is because the specific assets could be exploited wherever the company has operations (Blonigen, 1997).

Furthermore, the effects of these mechanisms vary depending on the strategies of transnational companies. The impact of the exchange rate for companies pursuing a strategy seeking natural resources and lower costs for exporting to third markets is not the same as for companies implementing a domestic-market-seeking strategy. In the case of companies seeking to export to third markets, depreciation tends to have a positive effect on FDI. Meanwhile, in the case of domestic-market-seeking FDI, the positive effect of depreciation tends to be counteracted in part by the lower return on the investment (in foreign currency), due to the less favourable exchange rate when profits are remitted to the parent company and to the lower purchasing power of the national market. Furthermore, in the case of companies focused on local markets, appreciation can increase FDI flows as a result of the higher purchasing power of the domestic market.

Box I.2 (concluded)

In addition, exchange-rate effects can operate through different mechanisms depending on the form of FDI (Dewenter, 1995). It would seem natural to assume that the impact of depreciation conveyed through the capital market, that is, through a reduction in asset prices, will be heavier on FDI that takes the form of mergers and acquisitions, whereas the impact conveyed through the reduction of labour costs would be stronger for greenfield investments. Finally, an aspect that has only just begun to be explored is the interdependence of FDI over time, which could explain why investments do not vary significantly in response to exchange-rate fluctuations (Alba, Park and Wang, 2009).

In short, the effects of exchange-rate variations on FDI flows have not been fully established and depend on the strategies of transnational companies and the form of FDI, as well as on mechanisms associated with relative wages, capital markets and specific assets.

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

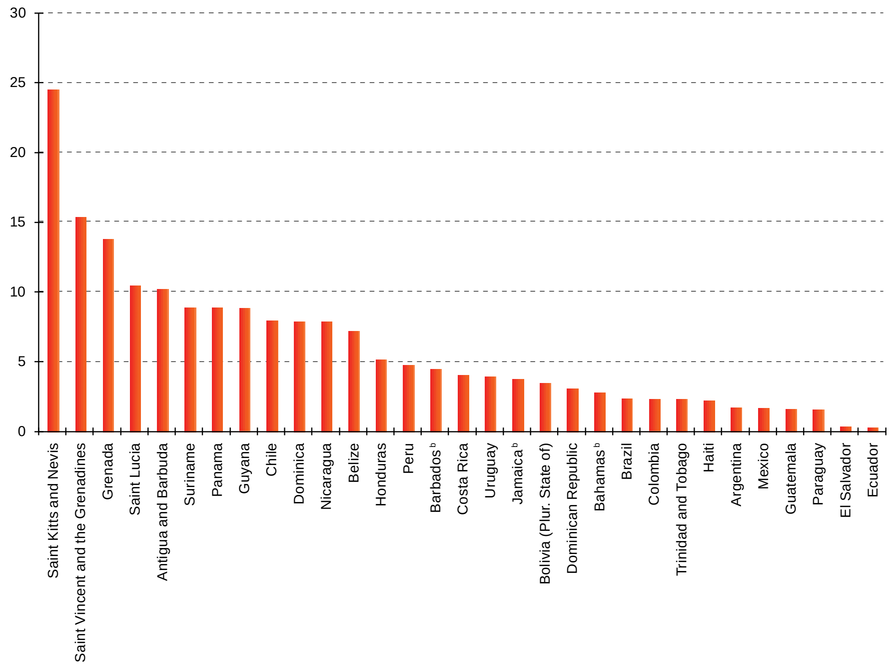
The different rates of FDI growth between South America and Mexico, the Central American Isthmus and the Caribbean are linked to their different patterns of specialization. In South America primary sectors account for a growing share of both exports and FDI, while in Mexico and the Central American Isthmus intensive assembly manufacturing and services are becoming more specialized and are strengthening their ties with the United States, as a result of which they were harder hit by the crisis and weak recovery in that economy. In the Caribbean, the slow recovery in the tourism industry has caused many investments in tourist infrastructure to be frozen (ECLAC, 2009).

An analysis of FDI as a proportion of GDP reveals some peculiarities. For small countries, FDI is an important source of financing, especially for certain Caribbean countries such as Saint Kitts and Nevis, Saint Vincent and the Grenadines, Grenada and Saint Lucia, where FDI accounts for more than 10% of GDP (see figure I.7). In contrast, among the largest recipients in absolute terms FDI accounted for a relatively small proportion of GDP in 2010: 2.4% in Brazil and 1.7% in Mexico. Among these countries, Chile stands out for its high FDI-to-GDP ratio, around 8%, followed by Peru with 4.8%. In Argentina, however, FDI accounts for only 1.8% of GDP.

(a) South America: dynamic domestic markets and benefits from high raw material prices

As a subregion, South America received the largest proportion of FDI flows into Latin America and the Caribbean in 2010, attracting US$ 85.143 billion, or 76% of the total received and 56% more than in 2009 (see table I.2). This is the second highest volume ever, exceeded only in 2008. The upturn in 2010 is largely the result of the new records set in Brazil, Chile and Peru and the large volumes received by Argentina and Colombia.

Figure I.7
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT AS A PROPORTION OF GDP, 2010 [a]
(*Percentages*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] The FDI-to-GDP indicator normalizes FDI figures according to the size of the economy. Given that GDP is calculated based on current prices, domestic inflation or exchange-rate fluctuations can affect comparisons between periods or countries.

[b] Data correspond to 2009.

In Brazil FDI reached a new high of over US$ 48 billion[2] in 2010, an increase of 87% over 2009. The rise in FDI, mainly new capital contributions, was triggered by economic growth, which rose to 7% in 2010. Investments were directed mainly at natural resources and manufacturing, which attracted 39% and 37% of the total respectively, while services attracted 24%. In natural resources sizeable proportions of FDI were received in oil and gas (22% of total FDI) and metal mining extraction (14%). In manufacturing, the most dynamic sectors were food (9%), metallurgy (9%), chemical products (7%) and petroleum-based products (3%). In addition, as analysed below, Brazil consolidated its position as a regional centre for high-tech investments and research and development projects. In terms of origin, China was the main investor[3] in 2010, injecting 15% of the total, or US$ 7.5 billion dollars, followed by Switzerland (13%) and the United States (11%). Meanwhile, the marked appreciation of the Brazilian real (15% in 2010) together with increased domestic consumption encouraged market-seeking FDI (see box I.2) and FDI flows helped to finance a significant proportion of the country's growing current account deficit,[4] which rose to US$ 45 billion in 2010.

[2] Since Brazil does not report data on reinvested earnings, the official amount underestimates the actual FDI amounts.

[3] According to official figures from the Central Bank of Brazil, Luxembourg was the main investor in 2010. However, this is because the purchase of 40% of Repsol YPF of Brazil by China Sinopec for US$ 7 billion was done through Luxembourg (see the official information from Brazil in table I.A-4).

[4] In 2011 the deficit is expected to reach about US$ 70 billion, which could be risky from the macroeconomic point of view, especially if FDI flows revert.

Table I.3
LATIN AMERICA AND THE CARIBBEAN: CROSS-BORDER ACQUISITIONS OF COMPANIES OR ASSETS FOR OVER 100 MILLION DOLLARS, 2010
(*Millions of dollars*)

Company or asset acquired	Country	Sector	Buyer	Country	Value
Vivo (Brasilcel NV)	Brazil	Telecommunications	Telefónica SA	Spain	9 742.79
FEMSA-Operación cervecera	Mexico	Beverages/liquors	Heineken	Netherlands	7 325.02
Repsol YPF Brasil SA	Brazil	Oil/gas	Sinopec Group	China	7 111.00
State oil company Carabobo	Venezuela (Bolivarian Republic of)	Oil/gas	Indian Oil, Oil India, Petronas y Repsol-YPF	India	4 848.00
Bridas Corp	Argentina	Oil/gas	CNOOC Ltd	China	3 100.00
Moema Group Mills and Usina Moema Açúcar e Álcool Ltda	Brazil	Agroindustry	Bunge Ltd	United States	2 359.74
Mineração Usiminas	Brazil	Mining	Sumitomo Corp	Japan	1 930.00
BAC Credomatic GECF Inc	Panama	Financial services	Grupo Aval Acciones y Valores	Colombia	1 920.00
GVT	Brazil	Telecommunications	Vivendi SA	France	1 777.43
Expansión Transmissão Itumbiar	Brazil	Services	State Grid	Brazil	1 701.55
Gas Natural-Combined Cycle Power	Mexico	Oil/gas	MT Falcon Hldg Co SAPI de CV	Mexico	1 465.00
Wal-Mart Centroamérica	Guatemala	Commerce	Wal-Mart de México SAB de CV	United States	1 347.34
Compañía Minera del Pacifico SA	Chile	Mining	Mitsubishi Corp	Japan	924.00
BAHIA Minerals BV	Brazil	Mining	Eurasian Natural Resources	United Kingdom	735.00
Autopista Central SA	Chile	Infrastructure	Alberta Investment Mgmt Corp	Canada	735.00
MMX Mineração e Metálicos	Brazil	Mining	SK Networks Co Ltd	Republic of Korea	698.28
Bayovar Phosphate Mine Project	Peru	Mining	Investor Group	United States	660.00
Autostrade per il Cile-APC	Chile	Infrastructure	Autostrade Sud America Srl	Italia	659.70
DECA II	Guatemala	Energy	EPM	Colombia	605.00
Sky Brasil	Brazil	Telecommunications	DirecTV Latin America LLC	Mexico	604.80
Farmacias Ahumada	Chile	Commerce	Grupo Casa Saba SAB de CV	Mexico	604.24
Cia Industrial de Vidros	Brazil	Manufacturing	Owens-Illinois Inc	United States	603.00
Dufry South America Ltd	Brazil	Commerce	Dufry AG	Switzerland	527.04
LQ Inversiones Financieras SA	Chile	Financial services	Citigroup Inc	United States	519.70
Goldcorp (San Dimas)	Mexico	Mining	Mala Noche Resources Corp	Canada	510.00
Goldcorp (Escobal)	Guatemala	Mining	Tahoe Resources Inc	United States	505.00
YPF SA	Argentina	Oil/gas	Investor Group	United States	499.99
Cintra Concesiones de Infraestructuras de Transporte	Chile	Infrastructure	Interconexión Eléctrica SA (ISA)	Colombia	499.02
Sistema Educacional Brasileiro	Brazil	Education services	Pearson PLC	United Kingdom	498.74

Table I.3 (concluded)

Company or asset acquired	Country	Sector	Buyer	Country	Value
Tivit Terceirização de Processos, Serviços e Tecnologia S.A.	Brazil	Business services	Apax Partners LP	United States	475.81
Kinross Gold Corp-Cerro Casale	Chile	Mining	Barrick Gold Corp	Canada	474.00
El Morro Copper-Gold Project	Chile	Mining	New Gold Inc	Canada	463.00
Tivit Terceirização de Processos, Serviços e Tecnologia S.A.	Brazil	Business services	Apax Partners LP	United States	422.56
Cia Minera Milpo SAA	Peru	Mining	Votorantim Metais Ltda	Brazil	418.90
CVC Brasil Operadora e Agência de Viagens	Brazil	Tourism	Carlyle Group LLC	United States	401.01
Odebrecht Óleo e Gás	Brazil	Construction/ engineering	Temasek Holdings(Pte)Ltd	Singapore	400.00
Sul Americana de Metais SA	Brazil	Mining	Honbridge Holdings Ltd	Hong Kong (SAR of China)	390.00
Vale SA, Mitsui Co Ltd-Bayovar	Peru	Mining	The Mosaic Co	United States	385.00
Ecuador Bottling Co Corp	Ecuador	Beverages	Embotelladoras Arca SAB de CV	Mexico	345.00
Equipav SA Açúcar e Álcool	Brazil	Agroindustry	Shree Renuka Sugars Ltd	India	331.40
Mineração Minas Bahia	Brazil	Mining	Eurasian Natural Resources	United Kingdom	304.00
El Paso Corp-Mexican Pipeline	Mexico	Energy	Sempra Pipelines & Storage Inc	United States	300.00
CPM Braxis SA	Brazil	Business services	Capgemini SA	France	298.91
Laboratorios Phoenix SACyF	Argentina	Pharmaceuticals	GlaxoSmithKline PLC	United Kingdom	253.00
Yamana Gold Inc-Gold Mines(2)	Brazil	Mining	Aura Minerals Inc	Canada	240.00
Vale Do Ivai SA	Brazil	Agroindustry	Shree Renuka Sugars Ltd	India	239.99
Laboratorio Teuto Brasileiro	Brazil	Pharmaceuticals	Pfizer Inc	United States	238.71
Rumo Logistica SA	Brazil	Logistics	Investor Group	United States	225.38
Almacenes Éxito SA	Colombia	Commerce	Citigroup Global Markets Ltd	United Kingdom	216.26
HydroChile SA	Chile	Energy	Eton Park Capital Mgmt LP	United States	200.00
Frontino Gold Mines Ltd	Colombia	Mining	Medoro Resources Ltd	Canada	198.36
Viñedos Errázuriz – Atacama	Chile	Mining	Investor Group	Republic of Korea	190.00
MOP-Iquique Highway Access	Chile	Infrastructure	Sacyr Concesiones SL	Spain	188.60
IBI México	Mexico	Financial services	Banco Bradesco SA	Brazil	163.74
Scalina	Brazil	Manufacturing	Carlyle Group LLC	United States	162.57
Red de Televisión Chilevisión	Chile	Telecommunications	Turner Intl (Turner Bdcstg)	United States	150.99
MMX Mineração e Metálicos	Brazil	Mining /metallurgy	Wuhan Iron & Steel Co Ltd	China	120.00
Inmaculada Gold Silver Project	Peru	Mining	Hochschild Mining PLC	United Kingdom	115.00
Compañía Carbones del Cesar S.A.	Colombia	Mining	Goldman Sachs Group Inc	United States	100.20

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Thomson Reuters.

FDI in Chile rose by 17% in 2010 to US$ 15.095 billion and largely comprised new capital investments by transnational companies. Broadly speaking, flows into Chile were not particularly affected by the global crisis and volumes rose compared with the first half of the decade. Thus, inward FDI between 2000 and 2005 was US$ 5 billion on average, whereas since 2007 it has exceeded US$ 12 billion per year. The main investors have historically been the United States, Canada and Spain, which were the source of nearly 60% of the FDI received between 2001 and 2010. In 2010, the largest investor was again the United States (19%), followed by the United Kingdom (12%), Canada (11%) and Spain (8%). Meanwhile, according to the sectoral distribution[5] statistics, the major destinations in 2010 were mining (with 53% of the total) and services (41%), while the manufacturing industry received only 2%. These figures confirm the distribution pattern of FDI flows in Chile, heavily concentrated in mining[6] and services. The major announcements of mergers and acquisitions include the merger announced by LAN Chile and TAM Airlines (of Brazil), which could create the region's largest airline group (see box I.3).

FDI flows into Peru rose by 31% in 2010 to set a record of US$ 7.328 billion, or 9% of the total for South America, growing largely as a result of high levels —US$ 5.731 billion— of reinvested earnings by transnational companies. Meanwhile, capital contributions totalled US$ 1.533 billion, while net loans from parent companies stood at only US$ 64 million. According to the partial figures available on sectoral distribution, FDI targeted services and natural resources in particular, while the limited investment in manufacturing was directed at activities closely linked to natural resources, such as agroindustry and oil refineries. Foreign groups have a large presence in mining and include Grupo México, BHP Billiton (Australia), Freeport Mcmoran Copper & Golds (United States), Xstrata (Switzerland), Newmont (United States) and Barrick (Canada). In the past two years, large Chinese groups have acquired projects under way, mainly in copper mining, and a sizeable share of the investment in mining in the next decade is therefore expected to come from China.

In Colombia, FDI flows fell by 5% in 2010 to US$ 6.76 billion, though the country retained its position as the subregion's fourth largest FDI destination (with 34% of the total coming from reinvested earnings). The FDI received in the second half of the decade —in excess of US$ 6.5 billion every year— was considerably higher than that received in the first half when the annual average was US$ 3.6 billion. The sectors attracting the most investment in 2010 were natural resources with almost 74% of the total (42% in oil drilling, 30% in mining and 2% in agriculture, hunting, forestry and fishing), followed by services with 18% and manufacturing with 9%. Notable investments in the mining sector include the acquisition of Frontino Gold Mines by the Canadian company Medoro Resources for US$ 198 million, while in services the financial sector (14%) and trade (7%) stood out. In terms of origin,[7] according to the information on new investments, the main investor in 2010 was Panama, with 51% of the total, followed by the United Kingdom (16%) and Canada (14%).

[5] The sectoral distribution covers all FDI in the country and not only FDI received pursuant to Legislative Decree 600.

[6] A major legislative development in Chile in 2010 was the approval of a new mining royalty, which entails a change to the tax regime applicable to transnational companies. The new regime raises the rate paid by mining companies to between 4% and 9% of their operational taxable income between 2010 and 2012, which is calculated according to the company's operating profit. From 2013 the rate set out in the original agreement will apply until the agreement expires, after which companies will be granted six years of stability with a rate of between 5% and 14%. Most mining transnationals have opted for this new system.

[7] The origin of FDI cannot be determined accurately because a large proportion of the investment in Colombia comes from financial centres.

Box I.3

CONSOLIDATION IN AIRSPACE

The air transport sector has always been regulated and protected, partly for reasons of safety and security and partly because it is a strategic sector. In recent decades it has been radically transformed following further deregulation, the emergence of low-cost airlines and the resulting increase in competition, the privatization of several State companies and the consolidation of regional markets such as the European market. According to the International Air Transport Association (IATA), the air transport industry is still fragmented and there are an estimated 1,000 airlines worldwide, which shows that there is still ample room for consolidation, especially when compared with other sectors such as the automobile industry and pharmaceuticals (IATA, 2010). In recent years, the industry has begun a process of gradual consolidation that has taken the form of alliances between major companies, such as Oneworld, SkyTeam and Star Alliance, together with mergers and acquisitions, such as Air France-KLM, Delta-Northwest, United-Continental, Southwest-AirTran, the absorption of Swiss Air and Austrian Airlines by Lufthansa and the recent merger of British Airways and Iberia.

The Latin American and Caribbean region has been no exception to this trend and in 2010 major operations of this sort were concluded. Several airlines are engaging in mergers, acquisitions and alliances to penetrate regulated local markets, increase the scale of their operations and gain access to best practices in administration. The largest operations include the creation of LATAM Airlines following the merger of the Chilean airline LAN with the Brazilian airline TAM, creating the region’s largest aviation group. The transaction involved an exchange of shares valued at US$ 3.425 billion, with LAN shareholders acquiring 71% of the new merged company and TAM shareholders acquiring 29% (Thomson Reuters, 2011). However, the regulations governing the sector and their possible effects on competition led the National Economic Affairs Investigation Bureau of Chile to impose conditions on the merger, as well as the implementation of a number of improvements for passengers in the form of frequent flyer programmes, price reductions and the entry of new operators on certain routes. Furthermore, the Competition Court of Chile is to review the terms of the merger, which means that it will not take effect until later in 2011 or 2012. Brazilian legislation has also had to be respected, which prevents foreign groups from owning more than 20% of a national airline. To comply with Brazilian law, the agreement established a special ownership structure for TAM. LATAM will own 100% of the economic rights in TAM but Brazilian investors will retain 80% of the voting stock and therefore continue to control the airline. In 2010, LAN also acquired the Colombian airline Aires for US$ 112 million.

Another major merger in the air industry took place between Synergy Aerospace Corp. (SAC), the majority shareholder of the Colombian company Avianca, and Kingsland Holding Limited, which owns Grupo Taca. This strategic partnership was formed by means of an equity contribution agreement between Avianca and Taca respectively to form a new holding company, Holdco. SAC (Avianca) controls 67% of the shares in Holdco while Kingsland Holding Limited (Taca) owns the remaining 33%. The transaction also included a 10% contribution by Avianca to Grupo Taca of up to US$ 40 million, as a result of which Avianca’s shareholders have a 75% share in the new controlling company and the Taca shareholders have the remaining 25%. The new group is now part of the Star Alliance network and also acquired 100% of the shares in the Ecuadorian airline Aerolíneas Galápagos S.A (AeroGal). The Commission for the Promotion of Competition of Costa Rica is investigating the scope and effects on competition of the cooperation agreement between Avianca-Taca, United-Continental and Copa Airlines within the framework of the Star Alliance network since previous studies had already raised concerns over the effects of market concentration, especially on regional routes (Cuevas, 2009).

The Panamanian company Copa Airlines has adopted a strategy of specific alliances to sustain its growth. In 2010, it completed its acquisition of the Colombian airline Aero República, strengthening its presence in Colombia and in the regional flights operated by Aero República.

In short, the strategies adopted by airline companies to access regulated national markets and acquire large-scale operations and know-how from other companies is consolidating the regional air industry. The emergence of major trans-Latin companies could boost the industry globally and the effects on competition and the potential benefits for passengers should materialize soon.

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

In Argentina, FDI flows climbed 54% to stand at US$ 6.193 billion, which was, however, still far short of the high set in 2008, when inflows exceeded US$ 9 billion. Major acquisitions included the purchase of Bridas by the Chinese company CNOOC for US$ 3.1 billion and the purchase of a minority share in YPF by a United States group for US$ 499 million, both in natural resources.8 Among transactions in manufacturing was the purchase of the Argentine company Laboratorios Phoenix by the British firm GlaxoSmithKline for US$ 253 million.

FDI in Uruguay rose to US$ 1.627 billion in 2010, a 29% increase over 2009. In the second half of the 2000s, FDI has climbed sharply: from an annual average of almost US$ 390 million in 2000-2005 to over US$ 1.5 billion in 2006-2010. In terms of destination, announcements of new investments and mergers and acquisitions indicate that the paper industry is one of the most important. In early 2011, an agreement was announced that will set the record for the largest foreign investment in Uruguay, at US$ 1.9 billion, involving the construction of a new paper plant in the coastal department of Colonia by the Swedish-Finnish company Stora Enso and the Chilean company Arauco. In addition, several mining projects are in the pipeline, particularly in iron ore and granite.

The Plurinational State of Bolivia received FDI totalling US$ 651 million in 2010, 53% more than in 2009. FDI has been relatively stable since 2006, apart from the drop (16%) the country suffered —in common with the rest of the region— in 2009 owing to the global financial crisis. By sector, official figures show that between 2004 and 2008 extraction activities attracted 56% of FDI, particularly mining and quarrying (34%) and crude oil and natural gas (22%), while the services sector drew 33% of the total, especially hotels and restaurants (18%), wholesale and retail sales (9%) and transport and communications (6%). By origin, the United States was the main investor between 2000 and 2008, with a 10% share.

FDI flows into Paraguay surged by 171% in 2010 to stand at US$ 268 million, which was a record for the decade. The rise in FDI basically took the form of larger reinvestments of earnings and inter-company loans. Sector information at the third quarter of 2010 shows the largest volumes of investment going to manufactures and services, which each received a 49% share of the total, while only 2% went to natural resources. The largest investors were the United States, Spain, Brazil and Panama. The most significant acquisitions during the year include the purchase of 70% of the Minera Guaira concession by Latin American Minerals of Canada.

In Ecuador FDI reached US$ 164 million in 2010, a 49% decline with respect to 2009. The most dynamic sectors were mining and quarrying, which received US$ 159 million, and manufacturing, which received US$ 123 million.9 The largest investors in Ecuador were Panama, Canada and China. Major transactions include the acquisition of the bottling plant Bottling by Embotelladoras Arca, the second largest Coca-Cola system bottler in Mexico, for US$ 345 million. Also in 2010, the government renegotiated its contracts with the country’s major oil companies, which prompted the departure of the Brazilian company Petrobras together with three other smaller companies: Canada Grande (Republic of Korea), EDC (United States) and part of CNPC (China). The foreign companies remaining in Ecuador include Repsol-YPF (Spain), Agip (Italy), Synopec and CNPC (China) and ENAP (Chile). Based on the new contract model, the government owns the oil pumped and pays the companies a fee for every barrel extracted. In addition, several initiatives to promote FDI in Ecuador are being discussed and the government is expected to announce a package of incentives and tax measures to promote FDI in tourism.

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[8] The Eton Park Capital Management group and Capital group both acquired a 1.63% share in YPF for US$ 250 million, in the framework of Repsol’s disinvestment of its Argentine subsidiary (YPF).

[9] There were substantial divestments in some sectors, including transport and telecommunications.

FDI flows into the Bolivarian Republic of Venezuela posted a negative balance of US$ 1.404 billion in 2010, reflecting a strategy that focuses on the nationalization of foreign assets rather than on FDI as a core development objective. In 2010, for example, the government nationalized the local subsidiary of the United States glass container manufacturer Owens Illinois (O-I) and announced that further nationalizations were in the pipeline. However, several major investment projects were also made, totalling US$ 668 million, mainly in the form of reinvested earnings. Furthermore, one of the largest acquisitions in the region was of the State-owned oil company Carabobo by a consortium comprising the Indian companies Indian Oil and Oil India, Petronas of Malaysia and Repsol-YPF of Spain, for US$ 4.848 billion. New joint investment projects were also announced in oil drilling and refining between the State-owned company Petróleos de Venezuela (PDVSA) and Eni S.p.A of Italy. Lastly, the Chinese company Great Wall Motors (automobiles and autoparts) announced the construction of a new plant in the country.

(b) Mexico, the Central American Isthmus and the Caribbean

As a result of the special links that Mexico and the countries of the Central American Isthmus have with the United States, FDI in those markets has sought not only to capture domestic markets, but also to establish export platforms to tap wage and location advantages. The United States' slow economic recovery led to resumed FDI growth in the subregion in 2010, although volumes fell short of the records set in 2008. Mexico received FDI totalling US$ 17.726 billion[10] in 2010, 17% more than in 2009. The Central American Isthmus attracted US$ 5.847 billion, 16% more than in 2009. Panama and Costa Rica remained the subregion's main recipients, with 40% and 24% respectively (see figure I.8). Honduras, Guatemala and Nicaragua recorded growth of 52%, 18% and 17% respectively, while FDI in El Salvador fell by 79%.[11]

Mexico continued to be the region's second largest recipient. However, despite the significant upturn in 2010, FDI volumes still fell short of the past decade's average of US$ 21 billion per year. FDI in 2010 consisted of new investments (65% of flows in 2010) and inter-company loans (20%). By sector, manufacturing and services received the most FDI. The manufacturing industry received 60% of total FDI, in particular food, beverage and tobacco products, which received 67% of all manufacturing FDI, and the metal products, machinery and equipment industries, which received 24%. The services sector attracted 37% of incoming FDI, in particular trade and financial services, which each absorbed 14%. The extraction sector continued to receive only small amounts of FDI, with just 3% in 2010. There was a marked change[12] in the origin of FDI flows in 2010: the leading source was the Netherlands (49%), followed by the United States (28%) and Spain (7%).

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[10] This amount may be revised upwards at a later date since transnational companies tend to delay reporting investments to the Secretariat of Economic Affairs of Mexico.

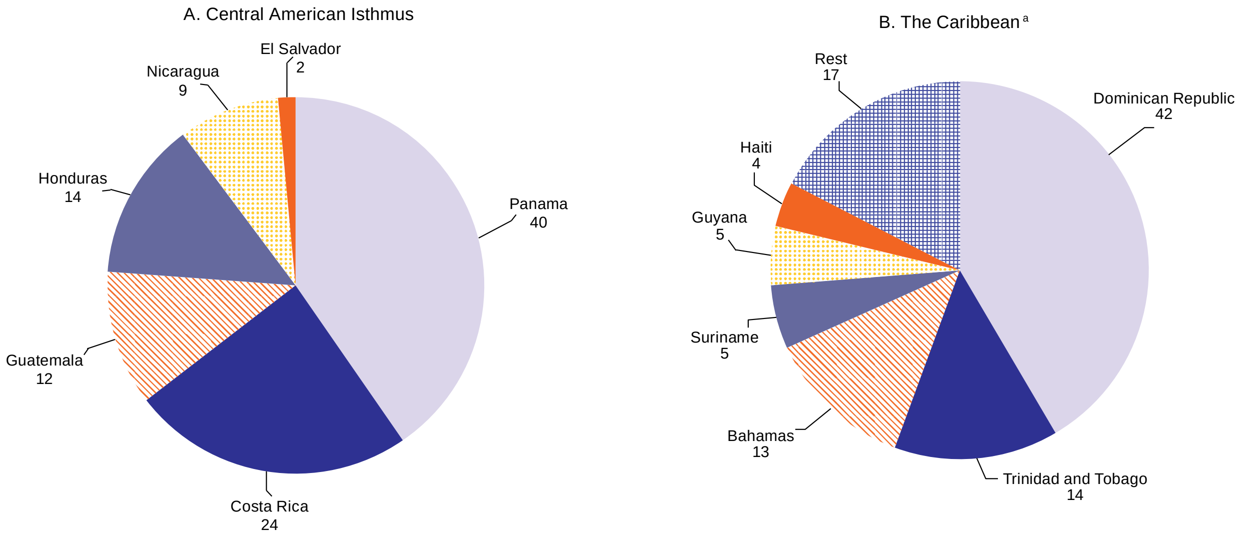
[11] As of the fourth quarter of 2009, El Salvador updated its methodology for measuring FDI; accordingly the data for 2010 include deduction of corporate liabilities to show net FDI.

[12] As explained below, this change reflected a major investment by Heineken to acquire FEMSA Cerveza, a Mexican brewer.

Figure I.8

CENTRAL AMERICAN ISTHMUS AND THE CARIBBEAN: DISTRIBUTION OF FOREIGN DIRECT INVESTMENT FLOWS BY COUNTRY, 2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] Does not include data for Barbados or Jamaica, which were not available for 2010.

In the Central American Isthmus, Panama was again the main recipient, with US$ 2.363 billion in 2010, 33% more than in 2009. Although no official data are available on the sectoral distribution of these investments, based on the data concerning mergers and acquisitions and new investments announced in 2010, most FDI went to the services sector, with significant investments in real estate and construction, as well as in telecommunications and tourism. The investments announced in 2010 include those of the German group TUI in tourism, Deutsche Post (Germany) in logistics, Crowley Maritime (United States) in storage services and the Japanese company Furukawa, which plans to establish its corporate offices for the subregion in Panama. Notable investments in the financial sector include that of Grupo Aval Acciones y Valores of Colombia, which acquired BAC Credomatic for US$ 1.92 billion.

Costa Rica remained the second largest FDI destination in Central America, bringing in US$ 1.412 billion,[13] or 7% more than in 2009, according to official estimates. Investments in new projects —mainly in services— were the fastest-growing, buoyed by the liberalization of the insurance market and the dynamic business services segment. Notable investments include the entry of insurance companies such as MAPFRE of Spain (in alliance with the Panamanian company Mundial), Seguros Bolívar (Colombian-owned company in Panama), Quálitas (Mexico), Assa (Panama), Pan-American Life Insurance Company (United States), American Life Insurance Company (ALICO), part of Metlife (United States), and Aseguradora del Istmo Adisa (joint investment by Cooperativa Nacional de Educadores —Coopanae— of Costa Rica and QBE of Panama). In business services, companies such as Sykes and Amway continued investing in the country and Costa Rica attracted further investment in high-tech

[13] This amount may be revised upwards at a later date given lagged reporting of investments to the Central Bank of Costa Rica by transnational companies.

manufacturing, including in medical devices. The main transactions of 2010 in this area include the entry of United States companies such as Ninitol Devices & Components (NDC), Moog Medical Devices, Sterigenics Internacional and Volcano Corporation and the expansions of Hospira and MedTech, as well as reinvestments by Hewlett-Packard.

FDI flows into Honduras recovered considerably in 2010 following a significant drop in 2009 owing to the global financial crisis and the unstable political situation in the country that year. Flows climbed to US$ 798 million in 2010, 52% higher than in 2009. The most dynamic sectors were telecommunications (investments by Digicel, an Irish-owned company based in Jamaica),[14] food (investments announced by Molinos Molsa of El Salvador) and textiles and clothing (investments by the Canadian company Modtex International).

Guatemala received US$ 678 million in FDI, 18% more than in 2009, making it the third largest recipient of FDI in Central America, with 11% of the subregion’s total investment. Major investments in 2010 include those by Empresas Públicas de Medellín in energy distribution, the mining company Tahoe and the energy producer AEI of the United States and the Mexican group Bimbo in the bakery segement.

Nicaragua attracted US$ 508 million in FDI, 17% up on 2009, with investments directed mainly at energy (investments announced by Ram Power of the United States), mining (B2Gold of Canada), agrifood (Ingemann of Denmark) and textiles and clothing (Denim group of Mexico).

According to preliminary figures, El Salvador received a total of US$ 89 million in FDI in 2010. This was 79% down on 2009 and represented only 2% of the investments made in the Central American Isthmus. After the records set in 2007-2008 on the back of substantial investments in banking privatizations, this decline brings the country’s FDI figures below even the amounts received in the early 2000s, when the average stood at US$ 325 million per year. The manufacturing sector saw substantial disinvestment of US$ 58.8 million in 2010, including in the maquila industry, which contracted. Most investments went to services, mainly commerce and financial services, which received US$ 55 million and US$ 39 million, respectively. Sizeable investments were made by the Mexican department store Liverpool in Unicomer, Infra of Mexico in gas production and distribution, Avianca of Colombia in the Salvadoran airline TACA and the Swiss company Holcim in Cemento de El Salvador (CESSA).

FDI flows into the Caribbean subregion fell by 18% to US$ 3.917 billion, according to preliminary figures, (see table I.2) as a result of the decline in flows into the Dominican Republic, the subregion’s main recipient, which fell by 25% to US$ 1.626 billion. Despite this decline, flows continued to exceed the average posted in the past decade. It is very difficult to assess the FDI received by Cuba and any assessment has to be based on isolated investment announcements (see box I.4). FDI flows also fell in some Caribbean economies that are less dependent on tourism and have stronger links to primary product export sectors, such as Guyana and Trinidad and Tobago. In contrast, FDI rose considerably in Haiti following the earthquake in 2010 and quadrupled with respect to 2009, reflecting investments in telecommunications. However, the absolute amounts remained low at US$ 150 million in 2010.

[14] In March 2011 América Móvil announced its acquisition of 100% of Digicel’s operations in El Salvador and Honduras.

Box I.4
RECENT TRENDS IN FOREIGN DIRECT INVESTMENT IN CUBA[a]

Although data from the United Nations Conference on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development (OECD) indicate that FDI in Cuba has amounted to about only US$ 30 million to US$ 35 million per year, flows have risen rapidly since the middle of the decade, by 54% between 2004 and 2009. However, in 2009, FDI dropped by 15% to US$ 31 million as a result of the global crisis.

The main investors in Cuba come from Europe and Canada, Latin America and Asia. In Europe, Spain is a major investor in sectors such as tobacco, tourism, hydrocarbons, transport and financial services, Italy in telecommunications and France in rum production and export, while Canada's investments are in the nickel industry and oil exploration. The Bolivarian Republic of Venezuela, Cuba's main trading partner, and Brazil are the main Latin American investors. Recent information indicates that Venezuelan State companies have been making substantial investments in the oil and telecommunications sectors.

The Governments of Cuba and the Bolivarian Republic of Venezuela are collaborating on a project to lay a fibre-optic cable that will connect the island to the continent. The French-Chinese company Alcatel Shanghai Bell has been hired to lay the cable, whose technical and commercial operations will then be handled by Empresa Grannacional de Telecomunicaciones del ALBA (ALBATEL). The project involves an investment in excess of US$ 60 million and is expected to get under way in 2011. Brazil's investments in Cuba have also come from public enterprises and bodies, such as the National Bank for Economic and Social Development of Brazil (BNDES), which extended a loan of US$ 400 million to expand and modernize the Cuban port of Mariel. To that end, the two countries established a joint venture and appointed the Brazilian engineering and construction company Odebrecht to carry out the works.

Asian investments are led by China, Cuba's second largest trading partner, and in 2010, the two countries announced 13 joint projects, 7 of which are located in Cuba in the mechanical industry, communications, agriculture, tourism, biotechnology and health sectors. The China Haier corporation and the Electronics Group of the Ministry of Informatics and Communications of Cuba established a joint venture to manufacture electrical appliances and computer equipment. Also in 2010, the two countries agreed to build a luxury hotel in Havana, with an investment of nearly US$ 117 million. Lastly, China and Cuba announced several joint investments in the oil and oil products sector, including the expansion of the Cienfuegos refinery and the construction of a regasification plant and combined-cycle thermoelectric plant, an investment of US$ 6 billion that is due to start in the first half of 2011 and end in 2013. The Export-Import Bank of China (China Eximbank) is to finance 85% of the investment, which will be secured by China Export & Credit Insurance Corporation and guaranteed in full by the Government of the Bolivarian Republic of Venezuela in the form of oil from Petróleos de Venezuela (PDVSA).

In the past year, the Government of Cuba has announced changes in the tourist property sector, such as the extension from 50 to 99 years of the right of foreign companies to use State land and permits for the construction of additional golf courses. If the land is to be used to build holiday homes or apartments, a perpetual lease may be granted. And, based on strategies currently under discussion, areas will be developed for use by foreign companies that promote the substitution of imports or exports. This could lead to fresh foreign investment in Cuba in the medium term, as investors take advantage of these opportunities.

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

[a] No official information is available on FDI flows and the information available from OECD does not include some of the main investors in Cuba, such as the Bolivarian Republic of Venezuela, Brazil and China.

2. Patterns of origin and destination of foreign direct investment and strategies of transnational companies in Latin America and the Caribbean

In Latin America and the Caribbean foreign investments have targeted a wide variety of production sectors reflecting a range of corporate strategies. In 2010 several factors may be identified which helped to consolidate or expand a given strategy in the region. For example, high commodity prices favoured raw-material-seeking strategies, giving rise to significant investments across the region but particularly in

South America. Local- and regional-market-seeking strategies benefited from rising domestic demand in large countries such as Brazil and Mexico and the consolidation of regional markets in Central America and the Caribbean. Lastly, with regard to low-cost-seeking strategies, export platforms in Mexico, the Central American Isthmus and the Caribbean continued to consolidate their position in international markets and their privileged access to the North American markets.

In South America, the natural resources and services sectors attracted the most FDI, receiving 43% and 30% respectively, and the share of the natural resources sector was larger in 2010 than in 2005-2009, showing that the primary sector is gaining greater importance as a destination for FDI. In Mexico, the Central American Isthmus and the Caribbean investment continued to go to manufacturing (54%) and services (41%), while the primary sector attracted only 5% of the total (see figure I.9).

Mergers and acquisitions continued to be the main investment channel in the region, allowing investors to make use of the knowledge and practices of the companies acquired, as well as their market position, and the acquiring company often transfers knowledge, practices and intangible assets too. Mergers and acquisitions accounted for 65% of total FDI in the region in 2010, compared with only 32% in 2009. In absolute terms the amounts of both the mergers and acquisitions and greenfield investments increased considerably in 2010 with respect to 2009.[15]

Investment in mergers and acquisitions was concentrated in natural resources (42%) and services (41%), while manufacturing accounted for only 17% (see figure I.10). Although greenfield investments were distributed more evenly, most corresponded to the manufacturing sector, which attracted 37% of the total, while services and natural resources each received a 32% share. Given that the number of projects in natural resources accounts for only 7% of total transactions, the individual transactions are larger than those in manufacturing and services.

Mergers and acquisitions in natural resources included several major acquisitions in the oil and gas subsector by Chinese companies, such as the purchase of 40% of the Brazilian subsidiary of Repsol YPF by Sinopec for US$ 7.111 billion and the acquisition of 50% of Bridas Corporation in Argentina by CNOOC for around US$ 4.8 billion (see table I.3). Acquisitions valued at more than US$ 100 million include a large number in the mining sector, such as the purchase of Mineração Usiminas of Brazil by Sumitomo Corporation for US$ 1.93 billion. These operations reflect the interest of transnational companies in strengthening their natural-resource-seeking strategies in the region, especially in South America.

Meanwhile, in the services sector major acquisitions were made in telecommunications, especially in Brazil, including the purchase of 50% of Vivo by Telefónica of Spain from Portugal Telecom for US$ 9.7 billion, the purchase of GVT by the French group Vivendi for US$ 1.777 billion and the acquisition of SkyBrasil by DirecTV Latin America, a unit of the United States group DirecTV, for US$ 604 million. The manufacturing sector received a much smaller share of investments. As shown in table I.3, of the 13 mergers and acquisitions over US$ 1 billion, only one involved manufacturing: the acquisition of the brewery operations of the Mexican company FEMSA by Heineken for more than US$ 7.3 billion. These transactions reflect a local-market-seeking strategy in manufacturing or services and were driven by various factors, including the economic growth of large markets such as Brazil and Mexico.

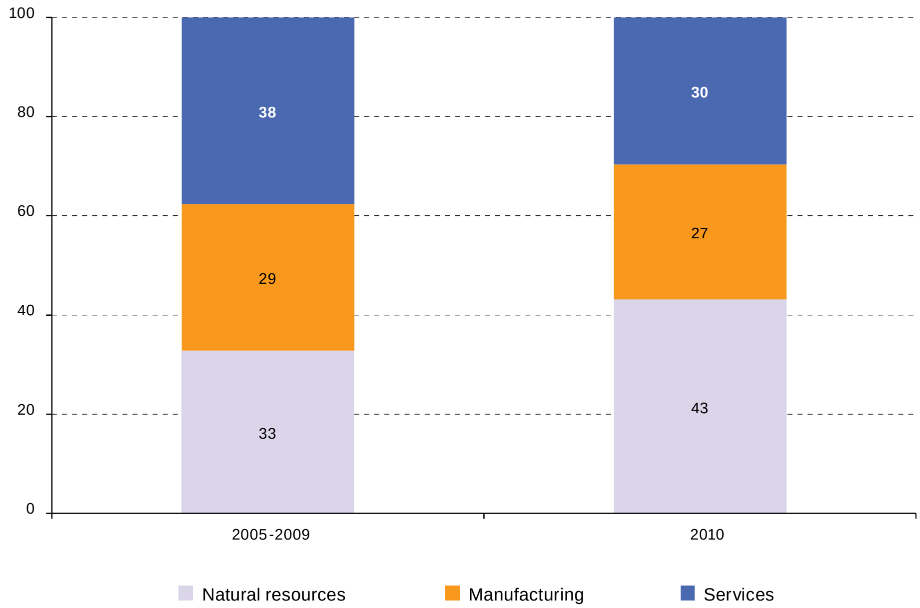
[15] Information from Thomson Reuters and fDi Markets (Financial Times) databases.

Figure I.9

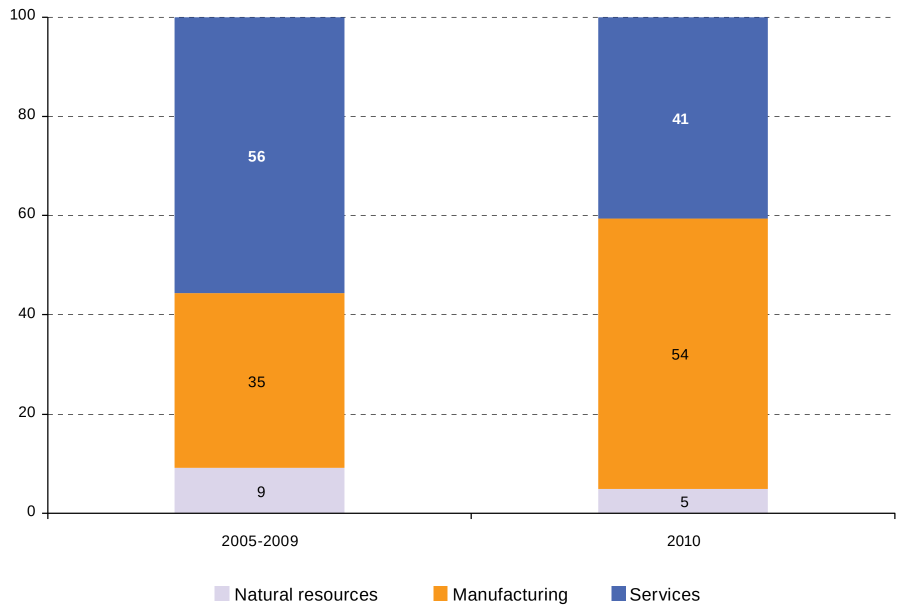
LATIN AMERICA AND THE CARIBBEAN: SECTORAL DISTRIBUTION OF FOREIGN DIRECT INVESTMENT BY SUBREGION, 2005-2009 AND 2010 [a]

(*Percentages*)

A. South America



B. Mexico, Central American Isthmus and the Caribbean [a]



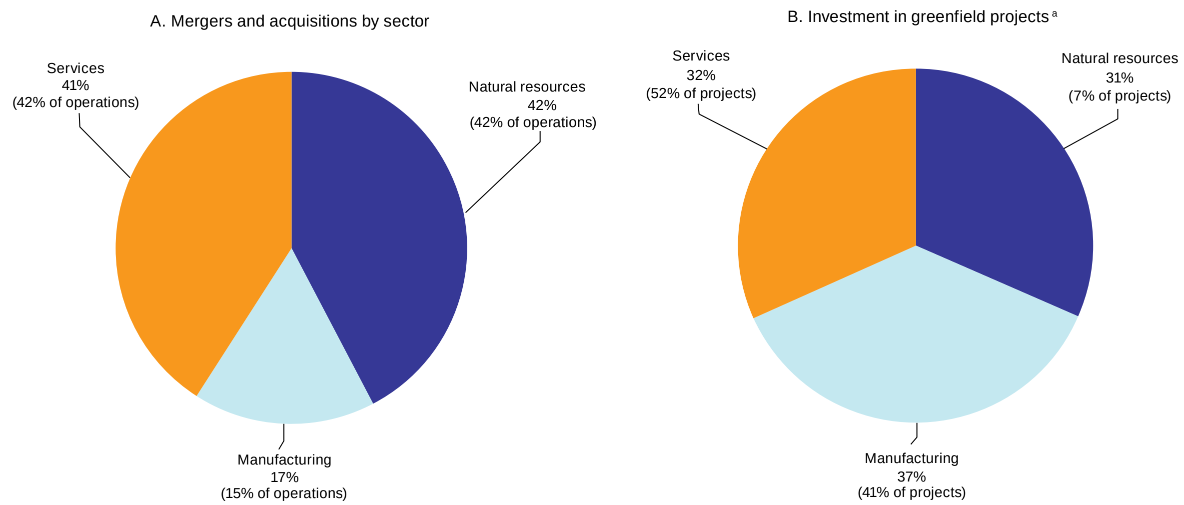
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] El Salvador and the Dominican Republic include maquila in the "other" category, while the Dominican Republic includes trade in the "manufacturing" category.

Figure I.10

LATIN AMERICA AND THE CARIBBEAN: SECTORAL DISTRIBUTION OF FDI IN THE FORM OF MERGERS OR ACQUISITIONS AND GREENFIELD INVESTMENTS, 2010

(*Percentages and number of transactions*)



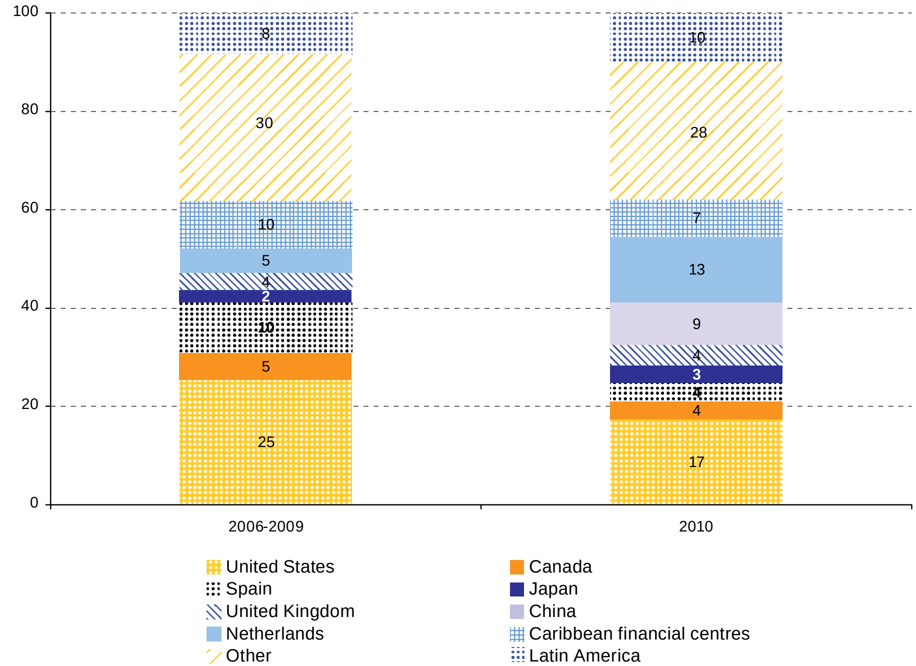
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Thomson Reuters and "fDi Markets", *Financial Times*.

[a] The information on greenfield investments corresponds to FDI projects announced and some of these projects may not have actually been implemented. However, the analysis conducted for previous years shows that the sectoral distribution of projects announced is a good indicator of the distribution of projects actually implemented.

In terms of the origin of FDI flows into Latin America and the Caribbean, the United States was still the main investor in 2010, injecting 17%, followed by the Netherlands (13%), China (9%), Canada, Spain and the United Kingdom (with 4% each) (see figure I.11). In addition, a rising proportion of FDI is sourced within the region itself, which reflects the growth of outward FDI and the rise of trans-Latins in recent years, as analysed in section D below. Whereas in 2006-2009 FDI originating in Latin America and the Caribbean accounted for 8% of the total, in 2010 the proportion was 10%.[16]

[16] In 2000-2005, an estimated 4% of Latin American and Caribbean FDI originated in the region itself. In terms of mergers and acquisitions specifically, Latin American and Caribbean investors accounted for 11% of total mergers and acquisitions in the region in 2007, 14% in 2008 and 2009 and 13% in 2010 (Thomson Reuters database).

Figure I.11
LATIN AMERICA AND THE CARIBBEAN: ORIGIN OF FOREIGN DIRECT INVESTMENT, 2006-2009 AND 2010 [a]
(*Percentages*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] The distribution of FDI by origin shown in this figure accounts for 80% of all FDI in Latin America and the Caribbean. Data on FDI by origin for each country is given in annex table I.A-4.

3. Technology intensity and transnational companies' involvement in research and development activities

Given that FDI is a major channel for transferring knowledge to developing countries and that transnational companies are key agents in national innovation systems, it is particularly important to understand the role played by these companies in national innovation systems and the manner in which they determine the effects that FDI has on a recipient economy. Transnational companies can provide access to technological skills originating outside a national innovation system and enable the recipient economy to be part of global knowledge creation and dissemination processes (Marín and Arza, 2009).[17] The impact of FDI on recipient countries is partly determined by the type of operations carried out by transnational companies and the indirect effects of FDI vary depending on the characteristics of those companies, in particular the technological content of their activities. For example, transnational companies in high-tech sectors carrying out research and development activities have a strong effect on capacity-building, technological spillovers and productivity levels, and a positive impact on the recipient

[17] The patterns of cooperation between transnational companies and local companies in developing countries has increasingly given rise to discussion about how and to what extent local companies are integrated into global innovation systems (Metcalfe and Ramlogan, 2008).

country's absorptive capacity and the strength of its innovation system (Keller and Yeaple, 2009; Griffith, Redding and Van Reenen, 2004).

Further to the analysis begun by ECLAC in the 2009 edition of this report, this section describes the pattern of new foreign investment projects announced in the Latin American and Caribbean industrial sector between 2003 and 2010, first in relation to other regions of the world and then within the region.[18] To that end, FDI projects are classified in different technological categories according to the sectors in which the companies operate (see table I.A-1). Given their key role in the creation, absorption and dissemination of knowledge, the research and development projects carried out are also analysed in detail, regardless of the sector of activity. The analysis covers the periods 2003-2005 and 2008-2010 (annual averages for each period), as well as 2010 specifically, where applicable. The aim is to give a general overview of trends between 2003 and 2010 together with contextual information on new FDI projects.

(a) Latin America and the Caribbean in the global context

Figure I.12 shows the distribution of the sums involved in new FDI projects announced in Latin America and the Caribbean, the Asian tigers (Singapore, Taiwan Province of China, the Hong Kong Special Administrative Region of China and the Republic of Korea) and China in 2003-2005 and 2008-2010. Latin America and the Caribbean attracted large amounts of FDI in the low- and, particularly, medium-low-tech sectors. In 2003-2005, 79% of the volume of FDI projects announced were in the low- and medium-low-tech sectors, compared with 66% in 2008-2010, while the share of the medium-high-tech sectors climbed from 15% to 26% between the two periods. However, the share of the more high-tech sectors in Latin America and the Caribbean is still quite small, albeit growing, compared with the figures in the Asian tigers and China: the medium-high- and high-tech sectors in the Asian tigers attracted 89% of FDI in 2003-2005 and 81% in 2008-2010 and in China they accounted for around 80% in both periods.

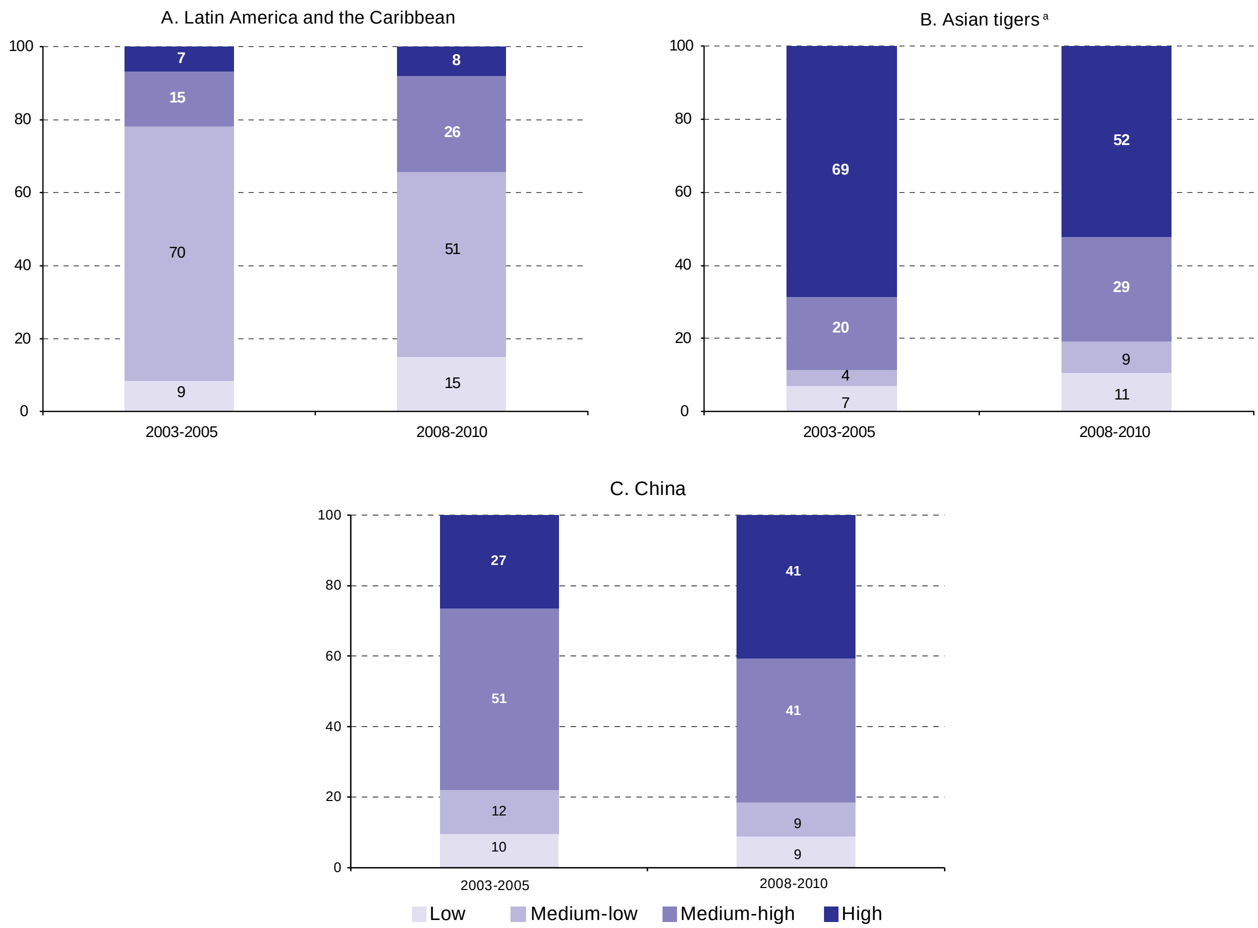
With regard to new FDI projects in research and development by transnational companies, Latin America and the Caribbean has only a small share (see figure I.13). In 2003-2005 the region attracted just 3.6% of global investments in research and development activities, falling to 3.2% in 2008-2010. By contrast, the Asia-Pacific region is a major hub for these activities, netting around 50% of the global total in 2008-2010, ahead of Western Europe (24%) and North America, whose share fell from 30% to 16% between the two periods.

Nonetheless, according to data for 2010, the share of the Latin American and Caribbean region peaked for the decade, rising to 5.5% (see figure I.18). Only time will tell whether this is temporary or reflects an upward trend for the region. With regard to the employment generated by these projects, figure I.14 shows Latin America and the Caribbean with an even smaller share: only 2.7% of the jobs associated with new FDI projects in research and development were generated in the region in 2008-2010, compared with more than 60% in the Asia-Pacific countries.

---

[18] The data used refer to new FDI projects announced and it is possible that some of these projects have not actually been implemented or are being implemented over several years. However, based on the analysis of previous years the information on projects announced is a good indicator of projects actually implemented.

Figure I.12
DISTRIBUTION OF SUMS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS BY TECHNOLOGY INTENSITY, 2003-2005 AND 2008-2010
(Percentages)

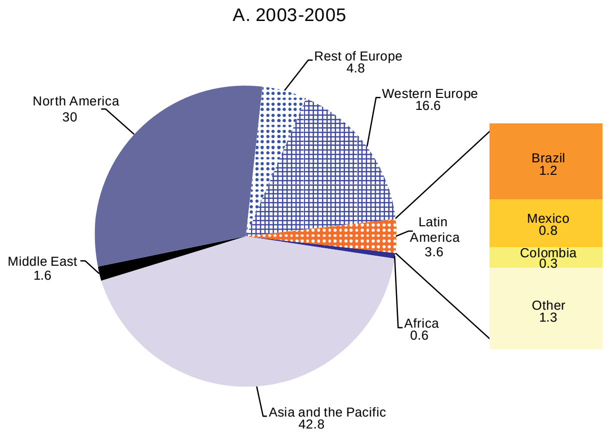


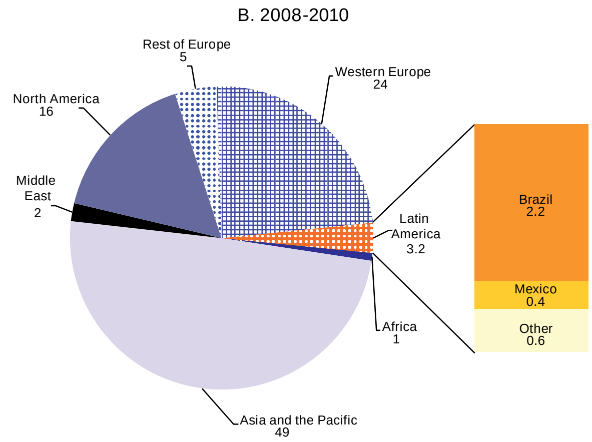
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in "fDi Markets", *Financial Times*.

[a] The term "Asian tigers" refers to the Hong Kong Special Administrative Region of China, Taiwan Province of China, the Republic of Korea and Singapore.

Thus, despite the relative increase in FDI projects in the medium-high-tech sectors in recent years, Latin America and the Caribbean has a limited share in the more technologically intensive sectors compared with other regions. Furthermore, although the research and development activities of transnational companies have become more internationalized in the past decade (UNCTAD, 2005), Latin America and the Caribbean is not yet a major location for these activities. As discussed in the next section, the first examples of increasing technological activity among transnational companies in the region are emerging principally in Brazil and Mexico.

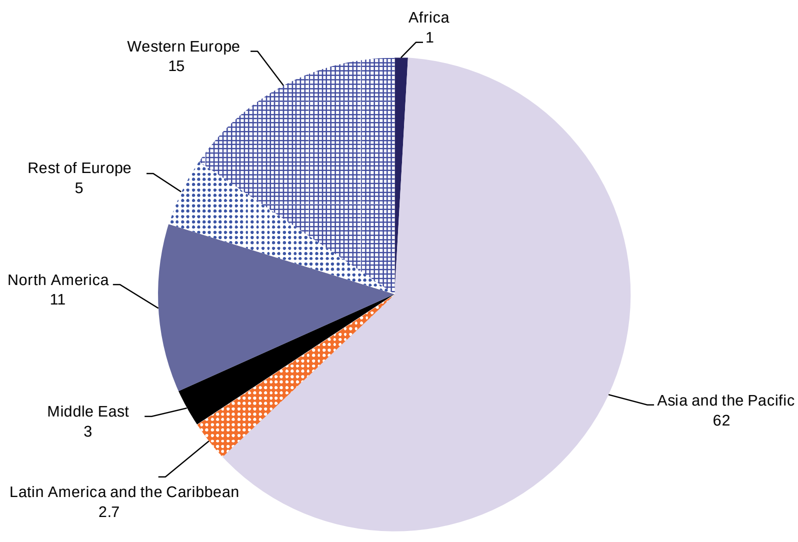
Figure I.13
DISTRIBUTION OF SUMS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS RELATED TO RESEARCH AND DEVELOPMENT ACTIVITIES, 2003-2005 AND 2008-2010
(Percentages)





Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in “fDi Markets”, *Financial Times*.

Figure I.14
DISTRIBUTION OF JOBS CREATED BY NEW FOREIGN DIRECT INVESTMENT PROJECTS RELATED TO RESEARCH AND DEVELOPMENT ACTIVITIES BY REGION, 2008-2010
(*Percentages*)

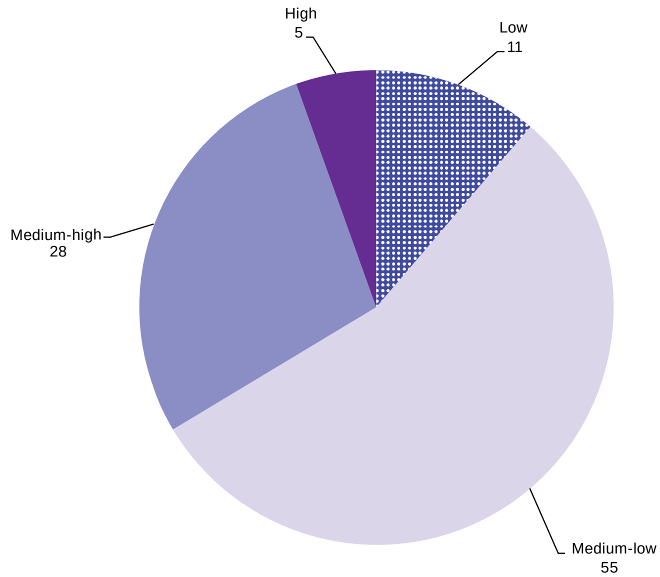


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in “fDi Markets”, *Financial Times*.

(b) FDI projects by technology and research and development in Latin America and the Caribbean

Figure I.15 shows the distribution of FDI associated with new projects across the region in 2010 by technology category. As in 2009, the medium-low-tech sectors attracted the most investment in Latin America and the Caribbean, receiving 55% of the total. The medium-high-tech sectors attracted 28%, or 12 percentage points more than in 2009,[19] while the low- and high-tech sectors received 11% and 5%, respectively.

Figure I.15
LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF SUMS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS BY TECHNOLOGY INTENSITY, 2010
(*Percentages*)

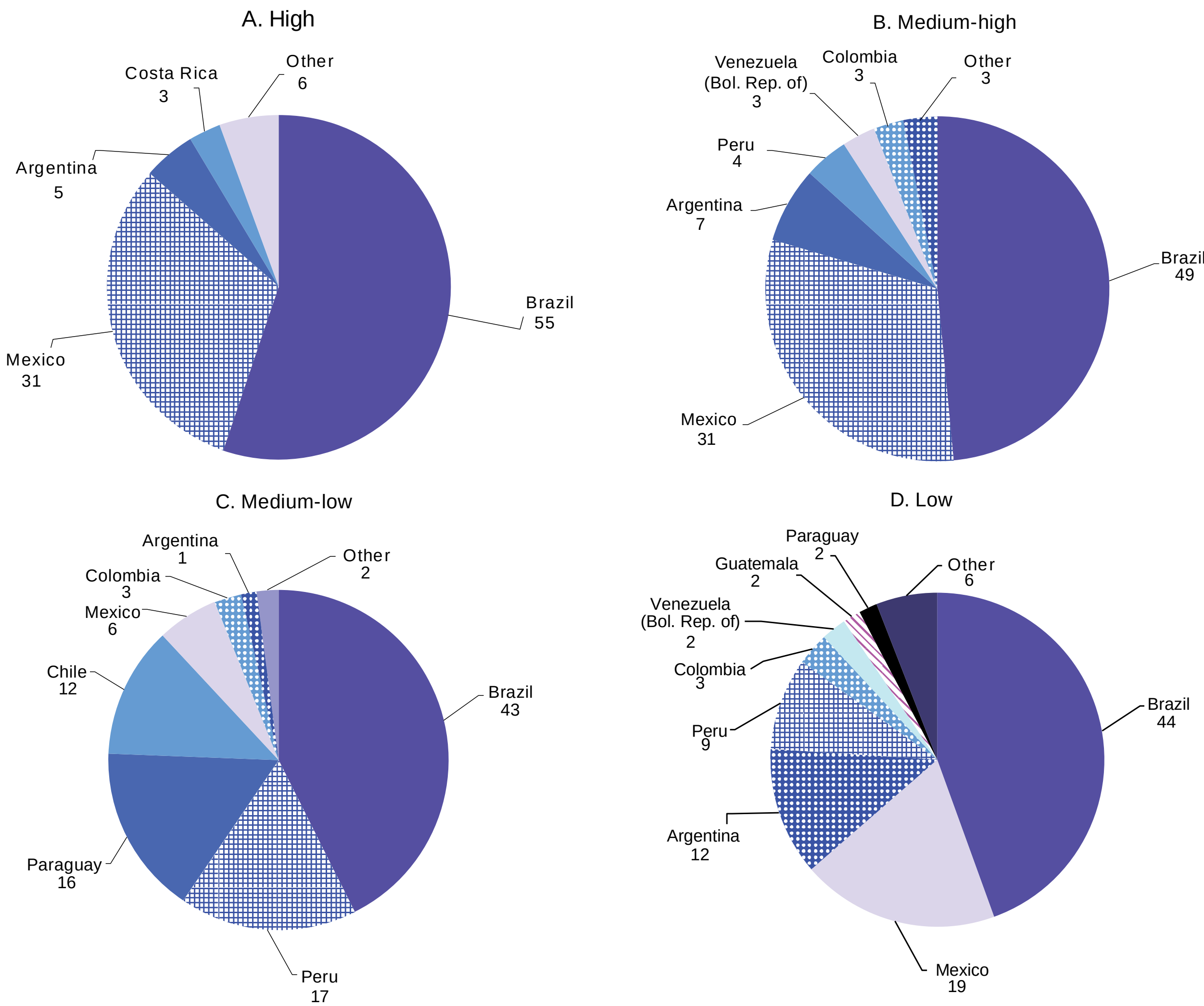


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in "fDi Markets", *Financial Times*.

With regard to the region's main destinations, Brazil is as the leading absolute recipient in the four technological categories (see figure I.16), with 55% of investments in the high-tech sectors and 49% in the medium-high-tech sectors. Mexico, which was the main recipient in high-tech sectors in 2009 (ECLAC, 2010), received 31% of investments in both the high- and medium-high-tech sectors. In the high-tech sectors Argentina and Costa Rica secured shares of 5% and 3% respectively, while in the medium-high-tech sectors shares were received by Argentina (7%), Peru (4%), the Bolivarian Republic of Venezuela (3%) and Colombia (3%). In the low- and medium-low-tech sectors, investments were more fragmented among countries. In the medium-low-tech sector, Brazil was the main recipient with 43%, while significant shares were also received by Peru (17%), Paraguay (16%) and Chile (12%). Brazil was again the leading recipient in the low-tech sectors, with 44%, followed by Mexico (19%), Argentina (12%), Peru (9%) and Colombia (3%).

[19] See ECLAC (2010), figure I.20.

Figure I.16
LATIN AMERICA: MAIN RECIPIENTS OF NEW FOREIGN DIRECT INVESTMENT PROJECTS BY TECHNOLOGY INTENSITY, 2010
(*Percentages of sums*)



Source: Economic Commission for Latin America and the Caribbean, on the basis of investments announced in "fDi Markets", *Financial Times.*

The composition of FDI projects within each country is another important consideration. Figure I.17 shows the distribution of projects in Argentina, Brazil, Chile, Colombia, Mexico and Peru, which together received 90% of total FDI in 2010. Brazil attracted most of its investment in the medium-low-tech sectors (52%), while its medium-high-tech sectors received 30% and its low- and high-tech sectors attracted only 11% and 6% respectively. Interestingly, investments in Brazil's high-tech sectors accounted for only 6% of total flows into the country, but 55% of total investments of this type in the region.

Figure I.17

DISTRIBUTION OF SUMS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS BY COUNTRY AND TECHNOLOGY INTENSITY, 2010

(*Percentages*)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in “fDi Markets”, *Financial Times*.

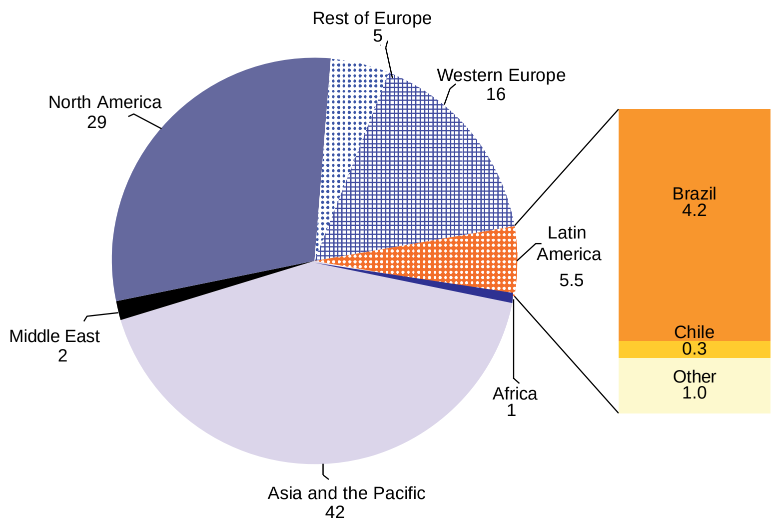
In Mexico FDI projects were heavily concentrated in the medium-high-tech sectors (56%), including in the automobile industry, machinery and chemical products, while the medium-low, low- and high-tech sectors attracted 21%, 14% and 10%, respectively (see figure I.17). Chile was the country with the heaviest concentration of FDI in a single technology category in 2010 with 95% going to the medium-low-tech sectors, mainly metals and non-metallic minerals. In Colombia, new investments followed a pattern of distribution similar to that seen at the regional level, with the medium-low-tech sectors receiving 54%, medium-high and low-tech sectors receiving 30% and 13%, respectively, and high-tech sectors receiving just 2%. In Argentina FDI was concentrated in the medium-high-tech sector (45%), while the low-tech sectors, such as food, textiles, wood and paper, received 31% and the medium-low and high-tech sectors received smaller shares of 18% and 6%, respectively. Lastly, in Peru the medium-low-tech sectors attracted 81% of new FDI projects in the country.

Research and development projects implemented in the region by transnational companies are heavily concentrated in Brazil, and have become more so in recent years. In 2003-2005, the region received 3.6% of global research and development investment, of which 1.2% went to Brazil (see figure I.13) and in 2008-2010 Brazil's share was larger at 2.2%, or 68% of the region's total. Mexico also attracts research and development investment, receiving 0.8% of the global total in 2003-2005 and 0.4% in 2008-2010. As noted earlier, the region's share of new FDI projects associated with research and development increased in 2010 to 5.5% of the global total, but this was mainly owing to developments in Brazil, which received 4.2% of the 5.5% received by the region, or more than 75% (see figure I.18). In terms of the jobs generated by new FDI projects associated with research and development, Brazil is by far the region's leader, attracting a 64% share in 2008-2010, followed by Mexico and Chile with shares of 13% and 11% respectively (see figure I.19).

Figure I.18

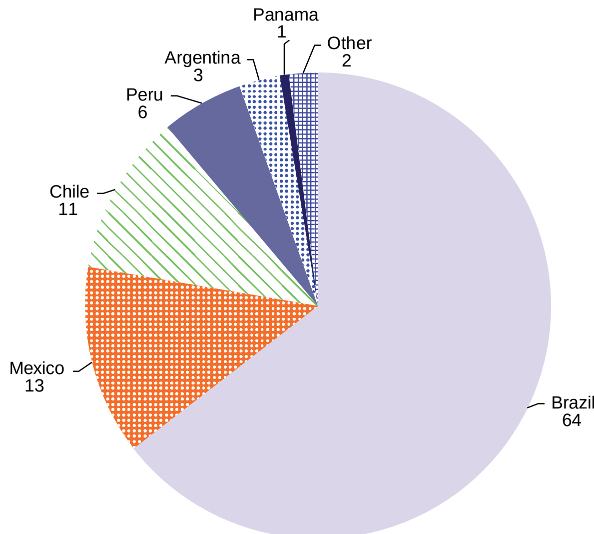
DISTRIBUTION OF SUMS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS RELATED TO RESEARCH AND DEVELOPMENT ACTIVITIES, 2010

(*Percentages*)



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

Figure I.19
DISTRIBUTION OF JOBS ASSOCIATED WITH NEW FOREIGN DIRECT INVESTMENT PROJECTS RELATED TO RESEARCH AND DEVELOPMENT ACTIVITIES, 2008-2010
(*Percentages*)



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

In short, the region receives most of its investment in new FDI projects in the low- and medium-low-tech sectors, though there has been a relative increase in projects in the medium-high-tech sectors and in those associated with research and development. However, the region's share in projects with technological content is still small compared with other regions and projects are concentrated in Brazil and Mexico.

D. OUTWARD FOREIGN DIRECT INVESTMENT AND THE TRANS-LATINS

1. Transnational companies from developing countries

In recent years, the emerging economies, particularly the countries known as the BRICs (Brazil, the Russian Federation, India and China) and South Africa, have been noticeably reshaping the global economy as their solid economic growth combined with the size of their economies creates a new landscape encompassing different dimensions. In terms of FDI, transnational companies from developing countries —especially Asian developing countries— are contributing increasingly to global flows (see figure I.5) and the vigour of their investments is reflected in a range of indicators showing a stronger presence in various global corporate rankings (UNCTAD, 2009).

Transnational companies from developing countries have expanded in an international context of increasing competition and corporate concentration. This process, termed the "global business revolution", is taking place not only in final industries that embrace various technologies (aeronautics, automobiles, telecommunications and beverages) but also in supply industries by means of a cascade effect throughout the value chain (Nolan, Zhan and Liu, 2007). Global leaders have undergone a process of industrial consolidation through mergers and acquisitions of core businesses and de-mergers of non-core businesses. In the process, the leading companies with powerful capabilities have selected the most capable suppliers to work with in different production locations, expanding the consolidation process. The result is a process of concentration across a range of industries at all levels of the value chain. However, the international situation in recent years has also paved the way for more active participation by companies from developing countries, since the global crisis hit the transnational companies from developed countries hardest, prompting them to curtail their investment plans to meet capitalization needs in the face of bleak financing prospects.

Latin American and Caribbean transnational companies were no exception to this pattern and, although their international presence is still small compared with companies from Asian developing countries, they have expanded rapidly and positioned themselves as a key source of investment in the past few years (ECLAC, 2006). Companies from Brazil, Chile, Mexico and, more recently, Colombia have been the most active in expanding their international assets, a process that has been particularly widespread in basic industries (hydrocarbons, mining, cement, pulp and paper, iron and steel), mass consumption manufacturing (food and beverages) and services (energy, telecommunications, air transport and retail trade). In many cases the State and industrial development policies in strategic sectors have played a key role in the origin of these firms, especially in Brazil.

Several factors are behind the international expansion of Latin American transnational companies, or trans-Latins, in the past decade. First, Latin American and Caribbean companies, especially those from small economies in Central America and the Caribbean, were driven to expand their operations at the regional or global level as their home economies were opened up to foreign competition and they needed to ensure an efficient plant size that would enable them to take advantage of economies of scale and cut costs. Second, some companies took advantage of deregulation and privatizations to penetrate new markets, especially in services. Third, other companies turned to foreign investment as a means of tackling macroeconomic instability in their countries of origin and diversifying risks. Lastly, regional integration processes opened up markets and facilitated expansion to partner countries. The growth of trans-Latins is also, in many cases, a natural step in the internationalization process of the region’s economies and is a mechanism for acquiring knowledge and new production and organizational practices.

Although most of the region’s countries have devised strategies and incentives to promote exports and attract FDI, they have no strategies for supporting the internationalization of home-grown companies. Brazil is the exception, as will be discussed later, having included internationalization in its industrial policy and provided firms with government support and funding to assist them in that direction.

The policy discussion on whether and how to promote the internationalization of Latin American and Caribbean companies is a complex one and several points have to be taken into account in that regard, such as how to distinguish the benefits for the company from the benefits for the economy as a whole. The issue also has various financing and economic policy dimensions. The arguments in favour of a proactive policy on internationalization include improved production and management standards, increased productivity, the acquisition of new knowledge and the strengthening of technological capacities both within the company itself and across the national productive structure through externalities such as capital market stimulation. International competition also encourages companies to invest in research and development activities and become intermediaries between local and global knowledge systems. In that sense, the links between the company and the local innovation system can enhance the positive effects of internationalization.

Conversely, some argue that as leaders in their countries these companies should not be given special support since they are at no disadvantage when competing in global markets, when compared with small and medium-sized companies for example, and do not face the same problems in securing financing. Furthermore, it is difficult to guarantee that the benefits of internationalization will spill over into the rest of the economy.

Accordingly, policymakers considering a public policy of that nature should analyse not only costs and benefits, but also the opportunity cost of the resources involved and the institutional structure required. Furthermore, it should be borne in mind that a public policy promoting internationalization may suffer from information failures and create incentives for rent-seeking and corruption. The complex decisions in this area and the increasing importance of internationalization of the region's companies open up a research agenda with major challenges for the next few years.

2. Outward foreign direct investment: the Latin American and Caribbean region joins the dynamic developing countries

In recent years, outward FDI flows from the Latin American and Caribbean region have risen significantly as part of a three-phase process. The first phase began in the 1990s with trade liberalization, the privatization of State companies and economic deregulation and lasted until 1996. During that period, the region's outward FDI flows were limited but increasing, averaging US$ 3 billion per year (see figure I.20). During the second phase —between 1997 and 2003— outward FDI was higher but not increasing continuously, averaging US$ 6.8 billion per year. Then in the third phase flows surged to an average of US$ 26.5 billion per year between 2004 and 2010. In 2010 in particular, outward FDI nearly quadrupled with respect to 2009 to set a new record of US$ 43.108 billion and the share of Latin American and Caribbean foreign investments in FDI flows originating in developing countries climbed from 6% in 2000[20] to 17% in 2010.

The increase in outward FDI in 2010 reflected sizeable investments by Mexico, Brazil, Chile and Colombia (see figure I.21), which together accounted for more than 90% of outward FDI that year, with new records set by Mexico, Chile and Colombia. In GDP terms, Chile has the region's highest FDI-to-GDP ratio (4.6%), reflecting the extent of internationalization in its business sector and the importance of that process in its economy, followed by Colombia (2.3%), Mexico (1.2%), the Bolivarian Republic of Venezuela (0.7%), Brazil (0.6%) and Argentina (0.3%) (see figure I.22).

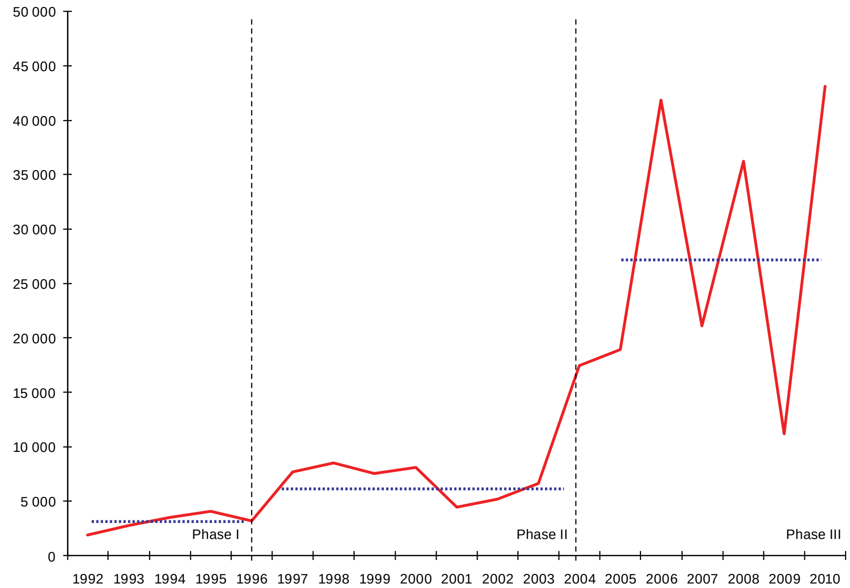
Foreign investments by the region's countries in 2010 are linked to the international expansion of Latin American and Caribbean companies in various sectors. While some companies had consolidated their position as leaders in their countries of origin and internationalization was a natural step in their growth, others have used aggressive strategies to position themselves in international markets, in order to take advantage of the opportunities created by the financial crisis and to tackle growing competition in increasingly globalized markets. However, there are also obstacles to expansion in the region for trans-Latins, mainly related to the low priority afforded to FDI by some of the region's recipient countries.

[20] In 1992-2000, the share of the Latin American and Caribbean region in outward FDI flows stood at 9% on average.

Figure I.20

LATIN AMERICA AND THE CARIBBEAN: NET OUTWARD FOREIGN DIRECT INVESTMENT, 1992-2010

(Millions of dollars)

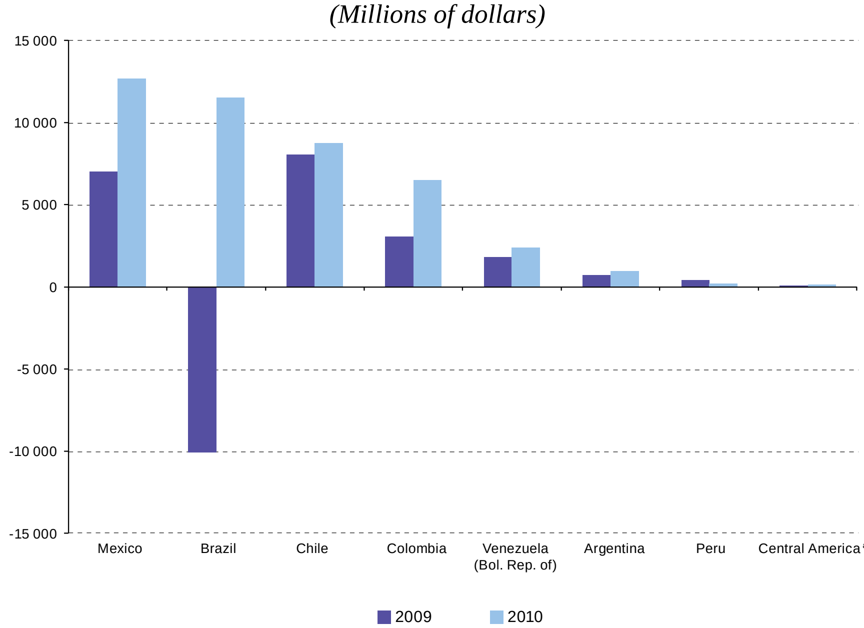


Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 April 2011.

Figure I.21

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): OUTWARD FOREIGN DIRECT INVESTMENT, 2009 AND 2010

(Millions of dollars)



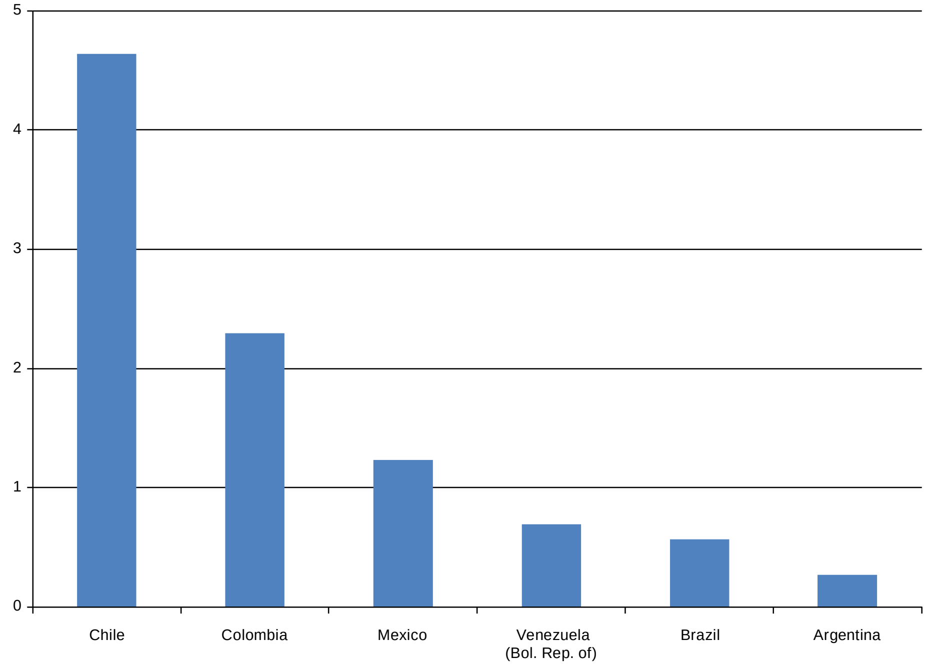
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] Costa Rica, El Salvador, Guatemala and Honduras.

Figure I.22

LATIN AMERICA (SELECTED COUNTRIES): NET OUTWARD FOREIGN DIRECT INVESTMENT IN RELATION TO GDP, 2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

Tables I.5 and I.6 show the major acquisitions and greenfield investments in excess of US$ 100 million announced by the region's companies in 2010. Table I.7 shows the region's largest Latin American groups and companies with substantially internationalized activities by 2010 sales figures. A significant proportion of Latin American and Caribbean transnational investments are directed at neighbouring countries. For example, 47% of the mergers and acquisitions concluded by Latin American and Caribbean companies in 2010 took place in a country in the region. Trans-Latin greenfield investments also largely stay within the region —59%[21] of the total in 2010— which underlines the importance of trans-Latins as a source of investment in Latin America and the Caribbean, as active agents in regional integration and as a means of improving production-related practices and knowledge.

By country, Mexico made the largest foreign investments in 2010. Its outward investment jumped by 81% that year to a record US$ 12.694 billion and comprised mainly acquisitions, such as the purchase by the Televisa group of a substantial share in the Univisión group in the United States for US$ 1.2 billion; the acquisition of Sara Lee Corporation's baked goods business in the United States (North American Fresh Bakery) by Bimbo Group for US$ 959 million; the purchase of Chilean pharmacy chain operator FASA by Casa Saba for US$ 604 million; the acquisition of Bar-S Foods (United States) by Sigma Alimentos (Alfa Group) for US$ 575 million; and the investment by Grupo R (Constructora y Arrendadora México, S. A. de C. V. (CAMSA)) in PetroRig III (Norway) for US$

[21] Estimates from the Thomson Reuters and fDi Markets databases.

540 million (see table I.5). A number of new investment projects were also initiated, including projects by América Móvil in telecommunications in Brazil (purchase of a share in Net), Colombia and, recently, Central America (see box I.5 and table I.6). Besides these recent acquisitions, Mexican companies already have quite a strong track record as regards the internationalization of their activities (see box I.5).

Table I.4

LATIN AMERICA AND THE CARIBBEAN: NET OUTWARD FOREIGN DIRECT INVESTMENT, 2000-2010

(Billions of dollars)

Country	2000-2005 [a]	2006	2007	2008	2009	2010	Absolute difference 2010-2009	Relative difference 2010-2009 (percentages)
South America	6 934	35 440	12 254	34 153	4 004	30 292	26 288	87
Brazil	2 513	28 202	7 067	20 457	-10 084	11 500	21 584	188
Chile	1 882	2 171	2 573	8 040	8 061	8 744	683	8
Colombia	1 156	1 098	913	2 254	3 088	6 504	3 416	111
Venezuela (Bolivarian Republic of)	809	1 524	30	1 273	1 834	2 390	556	30
Argentina	532	2 439	1 504	1 391	710	946	236	33
Peru	22	0	66	736	398	215	-183	-46
Uruguay	15	-1	89	-11	2	-6	-8	-627
Paraguay	5	4	8	8	…	…	…	…
Bolivia (Plurinational State of)	1	3	4	5	-4	…	…	…
Mexico [c]	3 491	5 758	8 256	1 157	7 019	12 694	5 675	81
Central America	67	113	389	37	54	119	65	119
El Salvador [b]	15	-26	100	16	23	80	57	247
Guatemala	31	40	25	16	23	29	6	27
Costa Rica	17	98	263	6	7	9	2	23
Honduras	4	1	1	-1	1	1	0	40
The Caribbean	233	507	204	849	106	3	…	…
Jamaica	84	85	115	76	61	…	…	…
Trinidad and Tobago	146	370	0	700	0	…	…	…
Barbados	3	44	82	63	41	…	…	…
Belize	0	8	7	10	4	3	-2	-41
Total	**10 725**	**41 819**	**21 103**	**36 196**	**11 184**	**43 108**	**31 924**	**285**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] Simple average.

[b] The 2010 data cover up to the third quarter.

[c] The average shown for the first half of the decade corresponds to 2001-2005.

Table I.5
MAIN CROSS-BORDER ACQUISITIONS BY LATIN AMERICAN COMPANIES, 2010
(Millions of dollars)

Company or asset acquired	**Country**	**Sector**	**Buyer**	**Country**	**Value**
BSG Resources Guinea Ltd	United Kingdom	Mining	Vale SA	Brazil	2 500
BAC Credomatic GECF Inc	Panama	Financial services	Grupo Aval Acciones y Valores	Colombia	1 920
Gerdau Ameristeel Corp	Canada	Manufacturing	Gerdau	Brazil	1 607
Cimpor Cimentos de Portugal	Portugal	Manufacturing	Camargo Corrêa Portugal SGPS	Brazil	1 894
Keystone Foods LLC	United States	Agroindustry	Marfrig Alimentos SA	Brazil	1 260
Univision Communications Inc	United States	Audivisual services	Televisa	Mexico	1 200
Cimpor Cimentos de Portugal	Portugal	Manufacturing	Votorantim	Brazil	1 192
DECA II	Guatemala	Services/energy	Empresa Pública de Medellín	Colombia	605
Farmacias Ahumada SA	Chile	Commerce	Grupo Casa Saba SAB	Mexico	604
Bar-S Foods Co	United States	Agroindustry	Sigma Alimentos SA	Mexico	575
PetroRig III Pte Ltd-PetroRig	Norway	Services	Grupo R SA de CV	Mexico	540
Cintra Concesiones de Infraestructuras de Transporte	Chile	Services	Interconexión Eléctrica SA (ISA)	Colombia	499
Cía Minera Milpo SAA	Peru	Mining	Votorantim Metais Ltda.	Brazil	419
Sunoco Chemicals Inc	United States	Manufacturing	Braskem SA	Brazil	350
Pasadena Refining System Inc	United States	Manufacturing	Petrobras	Brazil	350
Ecuador Bottling Co Corp	Ecuador	Beverages	Embotelladoras Arca SAB	Mexico	345
Devon Energy Corp-Cascade	United States	Oil/gas	Petrobras	Brazil	180
IBI México	Mexico	Financial services	Banco Bradesco SA	Brazil	164
Dana Hldg-Structural Prod Bus	United States	Manufacturing	Metalsa SA	Mexico	150
417 Fifth Avenue, New York, NY	United States	Real estate services	Inmobiliaria Carso SA	Mexico	140

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Thomson Reuters.

Table I.6
ANNOUNCEMENTS OF NEW CROSS-BORDER INVESTMENTS BY TRANS-LATINS FOR AMOUNTS IN EXCESS OF US$ 100 MILLION, 2010
(Millions of dollars)

Country of origin	Company	Destination country	Sector	Amount
Mexico	América Móvil	Brazil	Telecommunications	1 390
Chile	Cencosud	Brazil	Commerce	496
Brazil	Votorantim	Colombia	Metals	327
Brazil	Gerdau	Peru	Metals	327
Brazil	EBX Group	Colombia	Coal, oil and natural gas	283
Argentina	Pauny	Venezuela (Bolivarian Republic of)	Automobiles	251
Chile	Cencosud	Peru	Commerce	230
Chile	Cencosud	Argentina	Commerce	210
Chile	Cencosud	Colombia	Commerce	200
Brazil	Votorantim	Argentina	Metals	180
Mexico	América Móvil	Colombia	Telecommunications	171
Brazil	Vale (Companhia Vale do Rio Doce)	Chile	Metals	140
El Salvador	Grupo Poma	Costa Rica	Real estate	116
Brazil	Camargo Corrêa	Paraguay	Construction	100
Brazil	EBX Group	Colombia	Storage	100

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

Table I.7
LATIN AMERICA AND THE CARIBBEAN: LARGEST COMPANIES AND GROUPS WITH INVESTMENTS AND EMPLOYMENT ABROAD, 2010

Company	Country	Sales (millions of dollars)	Sales abroad (percentages)	Investments abroad (percentages)	Workers abroad (percentages)	Sector
Petrobras	Brazil	128 000	34.5	31.0	19.9	Oil/gas
PDVSA	Venezuela (Bolivarian Republic of)	95 530	95.2	5.2	5.6	Oil/gas
Vale	Brazil	49 949	33.6	49.8	27.1	Mining
América Móvil	Mexico	49 221	36.0	33.0	70.0	Telecommunications
Itaú-Unibanco	Brazil	46 317	12.0	3.8	9.8	Banking
Grupo JBS (FRIBOI)	Brazil	28 418	89.2	65.5	64.0	Foods
Gerdau	Brazil	18 841	38.9	59.9	48.0	Iron and steel/metallurgy
Cemex	Mexico	14 435	75.6	67.7	65.8	Cement
Femsa	Mexico	13 742	44.4	18.0	33.4	Beverages/liquors
Brasil Foods	Brazil	12742	41.9	16.0	17.0	Foods
Cencosud	Chile	11 822	56.0	48.3	55.6	Retail commerce
Grupo Alfa	Mexico	11 045	54.0	71.0	51.5	Autoparts/petrochemicals
Andrade Gutierrez	Brazil	10 895	25.2	7.5	9.7	Engineering/construction
Grupo Camargo Corrêa	Brazil	9 698	18.4	15.0	22.5	Engineering/construction
Grupo Bimbo	Mexico	9 487	55.0	60.1	52.7	Foods
Cía. Siderúrgica Nacional	Brazil	8 301	26.2	13.4	7.3	Iron and steel/metallurgy
Telmex	Mexico	8 133	94.9	50.2	92.2	Telecommunications
Falabella	Chile	8 086	39.5	39.6	41.0	Retail commerce

Table I.7 (concluded)

Company	Country	Sales (millions of dollars)	Sales abroad (percentages)	Investments abroad (percentages)	Workers abroad (percentages)	Sector
Marfrig Alimentos SA	Brazil	7 788	54.9	31.6	41.7	Foods
Tenaris	Argentina	7 711	80.4	81.0	71.7	Iron and steel/metallurgy
Grupo Modelo	Mexico	6 884	47.0	15.6	2.9	Beverages/liquors
TAM	Brazil	6 812	31.3	9.0	8.3	Airlines
Const. Norberto Odebrecht	Brazil	5 500	70.5	56.0	48.6	Engineering/construction
Sudamericana de Vapores	Chile	5 448	93.4	37.4	63.0	Shipping
Votorantim	Brazil	5 316	35.0	49.0	36.0	Cement
Embraer	Brazil	5 216	93.0	26.5	11.0	Aerospace
Grupo Televisa	Mexico	4 685	16.8	22.1	11.0	Media
LAN	Chile	4 387	78.0	76.4	43.0	Airlines
Grupo Casa Saba (FASA)	Mexico	4 100	73.0	53.0	70.0	Retail commerce
CMPC	Chile	3 818	72.5	30.0	33.0	Forestry

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América Economía*, No. 60, April 2011.

Box I.5

THE INTERNATIONALIZATION OF MEXICAN COMPANIES

One of the ways in which Mexico is integrating into the global economy is by means of the operations of its companies, in particular through exports, financing in international markets and foreign investment. Mexican companies were pioneers in the region in seeking out new markets as a natural step in the country's international integration and development (Peres, 1993; ECLAC, 2006) and their foreign investments have essentially comprised three phases. In the 1970s and 1980s, most foreign investments were made to bypass the trade restrictions of recipient countries, and partnerships were often formed with local companies to invest in the host country's markets. Moreover, the crisis of the 1980s, foreign-exchange instability and restrictions on access to capital prompted some companies to invest in the United States. Consequently, in the early 1980s, Mexico concentrated its foreign investments in developed countries, mainly in the United States and in the non-metallic mineral manufacturing sector, and investments included those by Vitro (glass containers and related industries) and Cementos Mexicanos (CEMEX).

In the second phase, starting in the 1990s with the entry into force of the North American Free Trade Agreement (NAFTA), Mexican companies invested mainly in the United States and Central America, though in some cases in South America and, to a lesser extent, in Europe and Asia (ECLAC, 2006) and the range of destination sectors widened. Besides CEMEX and Vitro, other business groups in the beverages and food sector (GRUMA, Bimbo Group and FEMSA), services (ICA, Televisa and Sidek) and diversified business groups (DESC, SAVIA) made sizeable investments outside Mexico.

The third phase began in 2000 and marked the start of strong growth in Mexican foreign investments, which averaged US$ 6.3 billion per year in 2001-2010, setting a new record of US$ 12.694 billion in 2010. During this period, most Mexican transnationals launched operations in Latin America and North America. A number of companies also invested in Europe, while CEMEX invested in Africa and in Asia and Oceania and GRUMA invested in Asia and Oceania. In 2008, of the nine Latin American companies that were among the 100 largest non-financial transnational companies from developing countries, four were Mexican (CEMEX, América Móvil, Teléfonos de México and FEMSA) (UNCTAD, 2010).

During this phase investments were distributed across a wider range of sectors, although the services sector received the largest proportion with major investments by Telmex/América Móvil, Televisa, Grupo Casa Saba, Grupo ICA, Grupo Posadas, Grupo Elektra and CIE. However, manufacturing continued to attract a large share of Mexican investments with CEMEX remaining a major foreign investor, together with Bimbo and Sigma in the food sector, Embotelladora Arca, Grupo Femsa and Grupo Modelo in beverages, Grupo IMSA in metallurgy, Grupo Alfa in the food and chemical and petrochemical products sectors (as well as in information technology services), Grupo Mabe in white goods and Grupo Sanluis Rassini and Metalsa in metalworking. Grupo México stands out for its operations in the primary sector, making substantial investments in the mining sector, particularly in Peru.

Box I.5 (concluded)

Mexican transnationals have adopted mainly market-seeking strategies in recent years, although other elements have also been visible, including identifying strategic advantages (increased market shares, alliances with transnational companies and customer follow-up) and competitive edges (improved products, enhanced production processes and logistics, as well as the creation of regional brands). In 2010 Mexican companies were particularly active in further developing their internationalization strategies. The United States was the main destination for their merger-and-acquisition investments, accounting for 56% of total investments in that category, followed by South America (27%) and Europe (15%). Greenfield investments were concentrated in Latin America and the Caribbean, which accounted for 51% of these projects in 2003-2010, compared with 86% in 2010 (fDi Markets, 2011). As a result of these developments, some Mexican companies are highly internationalized.

The heavy concentration in the United States of Mexican companies seeking to expand their market and enjoy the benefits of operating in the world's largest economy turned severely against them during the financial crisis, which hit the United States economy especially hard.

The advantages of an internationalized production sector for the Mexican economy, and indeed for other economies, include the opportunity to exploit other markets (stable growth, foreign-currency financing, favourable interest rates, increased demand, economies of scale); advantages arising from intra-industry and intra-company trade as a tool for penetrating markets; access to new technologies, knowledge and managerial standards; enhanced capacity for research and development activities; production linkages; and capital market stimulation. However, it is also necessary to strengthen institutions and the industrial policy implemented to link these advantages to national productive development, in order to help the corporate benefits of internationalization to spill over to the rest of the economy through national innovation system institutions, development finance institutions and support for local companies.

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

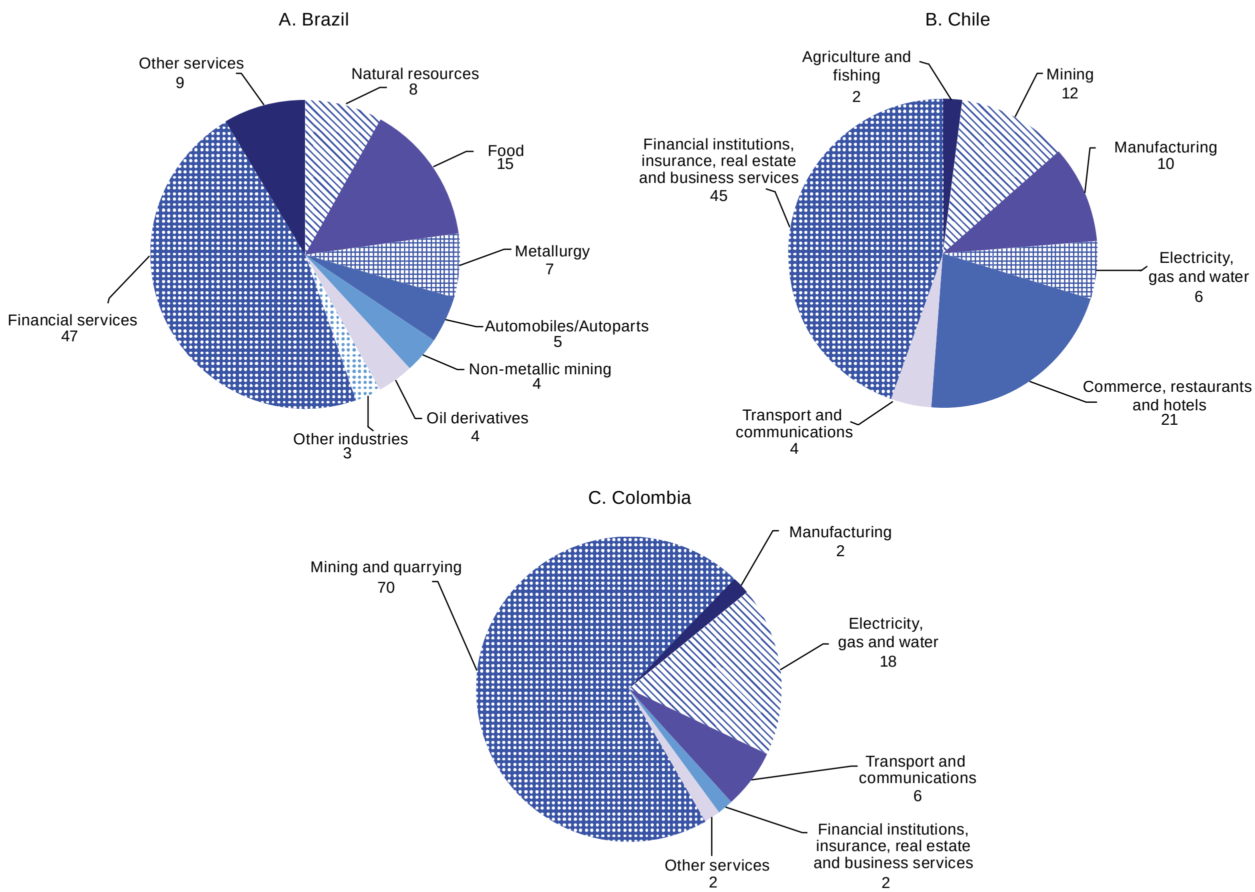
Brazil invested a total of US$ 11.5 billion abroad in 2010, which represented a noticeable rise compared with the contraction of its investment flows in 2009 (see figure I.21). In 2010, new capital contributions were concentrated in several sectors. In the natural resources sector investments went mainly to metal mining (6%), while the largest investments in manufacturing went to food (15%) and metallurgy (7%) and in services investments were made mainly in financial services (47%) (see figure I.23). Mergers and acquisitions include the mining investments of Companhia Vale do Rio Doce (Vale) in Guinea (through the purchase of shares in BSG Resources in Guernsey), Metalúrgica Gerdau in Canada, the share of Camargo Corrêa in Cimpor Cimentos of Portugal and the acquisition of Keystone Foods (United States) by Marfrig Alimentos, all in excess of US$ 1 billion. Argentina, Chile, Colombia and Peru also attracted substantial Brazilian investment. For example, Vale recently launched copper mining activities in Chile, phosphate mining in Peru and coal mining in Colombia, while the cosmetics company Natura has operations in Argentina, Chile and Peru and plans to launch operations in Colombia and Mexico in 2011.

Brazilian companies have been afforded government support in their internationalization process[22] (Sennes and Camargo Mendes, 2009). Two specific examples are the support from BNDES in the acquisition of the United States company Keystone Foods by Marfrig and the purchase of the United States company Pilgrim's Pride by JBS Friboi. BNDES Participações (BNDESPAR) purchased 100% of the notes issued by Marfrig to acquire Keystone Foods for US$ 1.26 billion and virtually all the bonds issued by JBS Friboi to acquire Pilgrim's Pride for US$ 800 million. BNDESPAR now owns a 14% stake in Marfrig and a 17% stake in JBS Friboi. The country's leading firms have long benefited from strong public policy impetus and this gained further strength from the productive development policy launched

[22] For a detailed review of the internationalization process within Brazilian companies, see Ramsey and Almeida (2009).

in 2008, which defines five strategies for the different degrees of development of the country's companies and productive systems. The first relates to global leadership and is designed to maintain or position Brazilian companies or productive systems among the five largest global companies in their field, be it in terms of assets, technology or production. This strategy covers several sectors: aviation, oil, gas and petrochemicals, bioethanol, mining, paper and pulp, steelworks and the meat industry (BNDES, 2008).

Figure I.23
BRAZIL, CHILE AND COLOMBIA: DISTRIBUTION OF OUTWARD FOREIGN DIRECT INVESTMENT BY DESTINATION SECTOR, 2010 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 April 2011.

[a] The information for Brazil includes only capital contributions.

Foreign investments by Chilean companies rose by 8% in 2010 to a record of US$ 8.744 billion. Most of this investment went to other Latin American countries (58% of the total), particularly Brazil (20%), Peru (13%), Argentina (11%) and Uruguay (6%), and was concentrated in financial services (45% of the total), the retail trade (21%) and, to a lesser extent, manufacturing (10%) (see figure I.23). Substantial investments were announced by Cencosud (supermarkets) in Argentina, Brazil, Colombia and

Peru and by Falabella (department store) in Argentina and Peru. Major transactions in 2010 include investments by Cementos Bío Bío in Peru (joint venture with the Brazilian company Votorantim) and others by the software and information technology services company Sonda in Argentina, Brazil and Mexico totalling more than US$ 90 million, as well as the acquisition of Eitzen Bulk Shipping of Denmark by the shipping company Ultragas for US$ 93 million. In addition, the merger of LAN Airlines and TAM Airlines is pending approval by the Chilean regulatory bodies (see box I.3).

Colombia’s foreign investment totalled US$ 6.504 billion in 2010, double the amount recorded in 2009, making the country one of the region’s largest investors. Investments were concentrated in the mining and quarrying sector, which accounted for US$ 4.5 billion or 70% of total outward FDI (see figure I.23). Investments in this sector included projects by ECOPETROL in, Brazil, Peru and the United States which will continue in 2011. Several services companies were also active investors in 2010, including Grupo Aval Acciones y Valores which purchased BAC Credomatic in Central America for US$ 1.92 billion, the State energy distributor Empresas Públicas de Medellín, which acquired Distribución Eléctrica Centroamericana II for US$ 605 million, and the State company Interconexión Eléctrica, which invested US$ 499 million in Cintra Concesiones of Chile. Other notable investments include several by Cementos Argos in the Dominican Republic, Haiti, Panama and the United States.

The Bolivarian Republic of Venezuela increased its foreign direct investment by 30% in 2010 to US$ 2.39 billion, a large proportion of which went to the oil sector and formed part of the expansion of the State company PDVSA. However, investments were also made in the financial sector, including by the National Development Fund Group, which purchased a substantial share in Banco AKB Yevrofinans Mosnarbank of the Russian Federation, as well as in the commercial sector, including investments by Becoblohm Valencia in Costa Rica and by the information technology services company Sidif in Chile, Nicaragua and Peru.

In the countries comprising the Central American Isthmus, foreign investments include those by Costa Rican companies such as Britt, which continued its expansion process into Mexico in 2010, and the information technology services provider ITS InfoCom, which made initial investments in Colombia in 2010. Companies in El Salvador have also made major investments abroad, which in 2010 included those by Molinos de El Salvador in Honduras; the Poma Group, which continued investing in the hotel, property and automobile distribution sector, including in Costa Rica and Panama; and Grupo Agrisal which continued investing in the Costa Rican property sector. In addition, Grupo Taca of El Salvador formed an alliance with the Colombian airline Avianca (see box I.3). In 2010, several Guatemalan companies also invested abroad, including Grupo Pharma which invested US$ 25 million in the south of Mexico and in new pharmacies in El Salvador, and Grupo G&T Continental which invested in El Salvador. Several Nicaraguan companies also invested abroad in 2010, including Banco Lafise in Colombia, Costa Rica, Honduras, Mexico and Panama.

Panama is consolidating its strategy to attract international companies, as a result of which more global investments are made from this country than from any other country in the subregion. The dynamic investment activities of Panama-based companies as foreign investors include recent investments by the Copa airline in Aero República (see box I.3), the Bladex banks in Brazil, Mexico and Peru, Banco General in Costa Rica and the insurance company Assa in Costa Rica, as well as companies such as Silva Tree in the United Kingdom and Overseas Clearing Corporation in New Zealand. In short, foreign direct investment by companies based in the countries of the Central American Isthmus is concentrated within the subregion and in its two extremes: Colombia and Mexico.

In the Caribbean, the Dominican Republic, Jamaica and Trinidad and Tobago have joined the group of countries with major foreign investors in recent years. Investments from these Caribbean countries include those by Digicel Group, an Irish-owned company based in Jamaica, in the mobile telephone provider of Fiji (Digicel Pacific) for US$ 132 million and Cervecería Nacional Dominicana CxA (Grupo León Jiménez) in the brewery companies St. Vincent Brewery, Antigua Brewery and Dominica Brewery & Beverages Ltd. for US$ 31 million. In addition, Bermudez Group of Trinidad and Tobago announced investments in the Costa Rican food sector totalling US$ 2.5 million.

E. CONCLUDING REMARKS

FDI in Latin America and the Caribbean rose by 40% in 2010 to US$ 113 billion and increased more than in any other region of the world since the global financial crisis, as the developing countries' share in global FDI flows increased. FDI rose by 10% in developing countries in 2010 but fell for the third year in a row in developed countries, by 7% in 2010, making the developing countries the largest recipients worldwide for the first time. Outward foreign direct investment from Latin America and the Caribbean nearly quadrupled in 2010, exceeding US$ 43 billion. This growth in inward and outward FDI reflects the increasing internationalization of the region's economies as well as their strengthened economic links. Of total FDI in the Latin American and Caribbean region in 2010, 10% came from within the region itself. As well, 47% of the mergers and acquisitions and 59% of the greenfield investments announced by trans-Latin companies in 2010 targeted the Latin American and Caribbean region itself.

FDI in South America rose by 56% in 2010. Brazil was the largest recipient and attained a new high. A new FDI record was also set in Peru. Chile received US$ 15.095 billion, while Argentina and Colombia received FDI in excess of US$ 6 billion. Meanwhile, FDI in Mexico rose by 17% over the 2009 figure, making it the region's second largest recipient. FDI in the Central American Isthmus climbed again in 2010, by 16%, and was led by Panama and Costa Rica which together drew 64% of all flows into the subregion. El Salvador was the only country in the subregion to see a contraction in FDI inflows, continuing a downward trend that had started in 2009. In the Caribbean, inward FDI fell by 18% in 2010; the Dominican Republic was the subregion's largest recipient, accounting for 42%. Although the countries of Central America and the Caribbean received small amounts of FDI in absolute terms, theirs were the largest amounts in relation to GDP.

By sector of investment in Latin America and the Caribbean, FDI trends varied significantly among the subregions. In South America, 43% of FDI in 2010 went to natural-resources-related fields, while services and manufacturing accounted for 30% and 27% respectively. In the subregion comprising Mexico, the Central American Isthmus and the Caribbean, FDI flows were concentrated in manufacturing (54%) and services (41%), while the natural resources sector received only 5%. The data on new FDI projects announced show the low- and medium-low-tech sectors bringing in most FDI in Latin America and the Caribbean. New investments in the medium-high-tech sectors and in projects associated with research and development activities have increased in recent years, but the region's share in high-tech FDI projects remains small compared with other regions worldwide and these projects are almost all located in Brazil and Mexico. Brazil received the largest amount of FDI in high-tech investments in absolute terms, but Mexico received more as a percentage of all new projects: 10%, compared with only 6% in Brazil. In terms of origin, the United States continues to be the main investor in the region, followed by the Netherlands, China, Canada and Spain.

The investments of Latin American and Caribbean transnationals resumed their growth of the past decade to set a new record of US$ 43 billion in 2010. The main sources of FDI flows were Mexico and Brazil, followed by Chile and Colombia. These four countries accounted for 92% of total outward FDI from the region in 2010. Outward FDI from the countries of the Central American Isthmus also climbed significantly and their rising outward flows have strengthened the region's position as a global investor. In the past decade the share of Latin America and the Caribbean in FDI from developing countries rose from 5% to 17%. Latin American and Caribbean companies have internationalized in the basic industries in particular, including hydrocarbons, mining, cement, pulp and paper and the iron and steel industry, in mass consumption manufacturing segments such as food and beverages and in certain services such as energy, telecommunications, air transport and the retail trade.

In view of the importance of FDI flows, greater efforts must be made to better understand the impact of FDI in the region which, as noted earlier, constitutes a long-term research agenda. The growing investment activity of trans-Latin companies also needs to be analysed in order to shed light on the potential impact in investor countries together with possible support measures and policies. As mentioned earlier, it is important to consider not only the potential benefits of the internationalization of Latin American and Caribbean companies but also the arguments against a proactive support policy. In short, the region is undergoing increasing globalization and internationalization and FDI is at the heart of that process. The research agenda should include understanding the repercussions of this process and the manner in which a proactive industrial policy can contribute to enhancing its benefits for the region's economic development.

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Annex

Table I.A-1
CLASSIFICATION OF MANUFACTURING INDUSTRIES BY TECHNOLOGY INTENSITY

Technology intensity	Industry [a]	ISIC Rev.3
High	Pharmaceuticals	2423
	Manufacture of office, accounting and computing machinery	30
	Manufacture of radio, television and communication equipment and apparatus	32
	Manufacture of medical, optical and precision instruments and watches	33
Medium-high	Manufacture of chemicals and chemical products (except pharmaceuticals)	24 except 2423
	Manufacture of machinery and equipment n.e.c.	29
	Manufacture of electrical machinery and apparatus n.e.c.	31
	Manufacture of motor vehicles, trailers and semi-trailers	34
	Manufacture of railway and tramway locomotives and rolling stock, and other transport equipment n.e.c.	352 and 359
Medium-low	Manufacture of coke, refined petroleum products and nuclear fuel	23
	Manufacture of rubber and plastics products	25
	Manufacture of other non-metallic mineral products	26
	Manufacture of basic metals and fabricated metal products, except machinery and equipment	27 and 28
	Building and repairing of ships and boats	351
Low	Manufacture of food products, beverages and tobacco products	15-16
	Manufacture of textiles, wearing apparel; dressing and dyeing of fur, tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear	17-19
	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	20
	Manufacture of paper and paper products, and publishing, printing and reproduction of recorded media	21-22
	Manufacture of furniture; manufacturing n.e.c. and recycling	36-37

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organization for Economic Cooperation and Development, 2009.

[a] n.e.c. – not elsewhere classified.

Table I.A-2

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT INFLOWS BY COUNTRY, 2000-2010

(Millions of dollars)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Anguilla[a]	43.0	34.7	38.2	34.4	91.8	117.3	143.2	120.0	101.0	46.3	24.6
Antigua and Barbuda[a]	66.6	111.9	79.7	179.4	95.2	221.0	361.0	340.5	176.2	121.3	107.9
Argentina	10 418.3	2 166.1	2 148.9	1 652.0	4 124.7	5 265.2	5 537.0	6 473.0	9 725.6	4 017.1	6 193.0
Bahamas[b]	469.1	492.6	312.4	641.7	632.4	911.5	1 159.4	746.2	838.9	664.0	499.1
Barbados	19.4	18.6	64.6	121.7	24.0	127.6	244.7	337.8	267.2	159.7	...
Belize	23.3	61.2	25.4	-10.9	111.5	126.9	108.8	143.1	179.9	112.5	100.0
Bolivia (Plurinational State of)	733.9	703.3	674.1	194.9	82.6	-290.8	277.8	362.3	507.6	425.7	650.8
Brazil	32 779.2	22 457.4	16 590.2	10 143.5	18 145.9	15 066.3	18 822.2	34 584.9	45 058.2	25 948.6	48 461.5
Chile	4 860.0	4 199.8	2 550.0	4 307.4	7 172.7	6 983.9	7 298.4	12 533.6	15 150.0	12 874.0	15 095.0
Colombia	2 436.5	2 541.9	2 133.7	1 720.5	3 015.6	10 252.0	6 656.0	9 048.7	10 596.3	7 137.2	6 759.9
Costa Rica	408.6	460.4	659.4	575.1	617.3	861.0	1 469.0	1 896.0	2 021.0	1 322.6	1 412.0
Dominica[a]	20.3	20.6	20.7	31.9	27.5	19.2	28.9	47.9	56.8	41.9	31.4
Ecuador	720.0	1 329.8	783.3	871.5	836.9	493.4	271.4	194.2	1 000.5	319.0	164.1
El Salvador[c]	173.4	279.0	470.2	141.7	376.3	511.2	241.1	1 508.4	784.2	430.6	89.0
Grenada[a]	39.4	60.8	57.4	90.5	66.3	70.2	95.6	167.4	148.1	104.0	90.4
Guatemala[a]	229.6	498.5	205.3	263.3	296.0	508.2	591.6	745.1	753.8	573.7	678.3
Guyana	67.1	56.0	43.6	26.1	30.0	76.8	102.4	110.3	179.1	221.9	198.0
Haiti	13.3	4.4	5.7	13.8	5.9	26.0	160.0	74.5	34.4	37.4	150.4
Honduras	381.7	304.2	275.2	402.8	546.7	599.8	669.1	927.5	1 006.4	523.2	797.5
Jamaica	468.3	524.9	404.9	604.4	541.6	581.5	882.2	866.5	1 436.6	540.9	...
Mexico	18 097.9	29 759.3	23 631.0	16 590.5	23 815.6	22 344.7	19 779.4	29 714.0	25 864.0	15 206.0	17 725.9
Montserrat[a]	2.3	0.6	0.6	2.1	2.8	0.8	4.0	6.5	12.6	2.6	2.1
Nicaragua	266.5	150.1	203.8	201.2	249.8	241.1	286.8	381.7	626.1	434.2	508.0
Panama	623.9	467.1	98.6	770.8	1 012.3	962.1	2 497.9	1 776.5	2 401.7	1 772.8	2 362.5
Paraguay	104.1	84.2	10.0	25.0	27.7	35.5	95.0	201.8	208.5	98.8	268.1
Peru	809.7	1 144.3	2 155.8	1 335.0	1 599.0	2 578.7	3 466.5	5 491.0	6 923.7	5 575.9	7 328.0
Dominican Republic	952.9	1 079.1	916.8	613.0	909.0	1 122.7	1 084.6	1 667.4	2 870.1	2 165.4	1 625.8
Saint Kitts and Nevis[a]	99.0	90.3	81.1	77.9	53.1	93.0	114.6	140.7	183.8	136.0	128.2
Saint Vincent and the Grenadines[a]	37.8	21.0	34.0	55.2	66.1	40.1	109.8	132.0	159.2	106.8	92.6
Saint Lucia[a]	58.2	63.0	57.1	111.8	81.0	78.2	237.7	277.4	166.2	152.0	104.5
Suriname	-148.0	-26.8	145.5	200.7	286.2	398.5	322.7	178.6	123.7	241.6	212.8
Trinidad and Tobago[a]	679.5	834.9	790.7	808.3	1 001.0	940.0	883.0	830.0	2 800.8	709.1	549.4
Uruguay	273.5	296.8	193.7	416.4	332.4	847.4	1 493.5	1 329.5	1 809.4	1 258.4	1 626.9
Venezuela (Bolivarian Republic of)	4 701.0	3 683.0	782.0	2 040.0	1 483.0	2 589.0	-508.0	1 008.0	349.0	-3 105.0	-1 404.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

[a] The amount shown for FDI in 2010 is an official estimate.

[b] The data shown for 2010 correspond to the cumulative amount at the third quarter.

[c] In the fourth quarter of 2009, El Salvador updated its methodology for measuring FDI, as a result of which companies' liabilities are deducted from the data for 2010 and only net FDI data are given.

Table I.A-3

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT INFLOWS BY DESTINATION SECTOR, 2000-2010 [a]

(Millions of dollars)

	2005	2006	2007	2008	2009	2010
Anguilla [b]						
Natural resources	0	0	0	4	3	…
Manufactures	0	0	0	0	0	…
Services	60	72	78	39	30	…
Other	31	0	0	0	0	…
Antigua and Barbuda [b]						
Natural resources	0	0	0	0	0	…
Manufactures	0	0	0	0	0	…
Services	75	259	245	78	65	…
Other	100	29	27	29	10	…
Argentina						
Natural resources	1 960	3 123	2 130	1 278	1 264	…
Manufactures	2 606	2 766	3 079	5 544	-527	…
Services	2 239	1 701	2 266	3 565	2 378	…
Belize						
Natural resources	8	12	9	37	7	13
Manufactures	0	0	0	0	0	0
Services	114	83	101	127	97	82
Other	5	14	34	16	9	5
Bolivia (Plurinational State of)						
Natural resources	363	146	441	862	…	…
Manufactures	31	52	89	102	…	…
Services	274	308	343	368	…	…
Brazil						
Natural resources	1 722	1 835	4 806	15 085	7 503	19 879
Manufactures	5 411	7 851	16 074	15 791	12 810	18 708
Services	7 521	8 950	13 163	13 785	6 162	12 212
Chile [c]						
Natural resources	595	3 384	6 607	4 625	7 013	6 203
Manufactures	199	1 149	-431	1 616	460	341
Services	1 003	2 766	6 358	8 939	5 229	8 040
Other	…	244	215	256	525	511
Colombia						
Natural resources	3 288	3 786	4 474	5 231	5 742	4 969
Manufactures	5 513	803	1 867	1 748	536	594
Services	1 451	2 067	2 709	3 605	924	1 197
Costa Rica						
Natural resources	37	66	-10	426	68	-9
Manufactures	375	432	722	553	412	828
Services	450	967	1 181	1 001	845	587
Other	-1	4	4	41	22	18
Dominica [d]						
Natural resources	0	0	9	8	6	…
Manufactures	0	0	0	0	0	…
Services	4	0	15	20	14	…
Other	12	24	12	17	12	…

Table I.A-3 (continued)

	2005	2006	2007	2008	2009	2010
Ecuador						
Natural resources	222	-69	-77	263	45	168
Manufactures	75	90	99	206	127	123
Services	196	250	173	536	145	-127
Other						
El Salvador						
Natural resources	0	29	10	5	1	1
Manufactures	317	17	21	28	56	-58
Services	191	182	1 315	480	165	147
Other (maquila)	4	0	101	26	72	-1
Guatemala						
Natural resources	150	69	70	174	139	…
Manufactures	131	175	210	175	51	…
Services	219	328	437	369	401	…
Other	9	20	28	36	9	…
Grenada [d]						
Natural resources	0	0	0	0	0	…
Manufactures	1	0	4	3	2	…
Services	37	48	94	101	56	…
Other	9	19	31	8	22	…
Haiti						
Natural resources	3	1	9	4	6	13
Manufactures	5	7	7	3	4	5
Services	2	151	56	20	26	129
Other	1	2	4	2	2	3
Honduras [d,e]						
Natural resources	53	44	11	5	9	2
Manufactures	270	227	384	215	143	210
Services	263	359	515	681	348	307
Other	14	38	18	0	0	0
Mexico [d]						
Natural resources	233	414	1 883	4 373	464	594
Manufactures	11 007	9 923	12 125	6 384	4 831	10 585
Services	10 683	8 980	13 270	11 193	6 122	6 546
Nicaragua						
Natural resources	0	15	11	38	12	184
Manufactures	87	63	121	96	101	108
Services	155	109	250	460	321	178
Other	0	101	0	32	2	38
Panama						
Natural resources	0	-108	1	-59	-28	…
Manufactures	-62	105	129	161	48	…
Services	1 693	2 531	1 765	2 106	1 755	…
Other	-696	19	2	-11	-3	…
Paraguay [e]						
Natural resources	-2	-36	-2	3	8	4
Manufactures	-16	61	8	149	-96	89
Services	53	70	196	57	186	86

Table I.A-3 (concluded)

	2005	2006	2007	2008	2009	2010
Peru [f]						
Natural resources	283	735	3 923	3 783	3 965	…
Manufactures	-78	433	1 361	1 026	570	…
Services	-272	345	4 695	5 527	1 969	…
Dominican Republic						
Natural resources	31	100	76	414	758	311
Industry/Commerce	199	259	188	583	120	308
Services	718	1 039	1 245	1 929	1 216	954
Other	175	131	70	45	64	53
Saint Kitts and Nevis [b]						
Natural resources	0	0	0	0	0	…
Manufactures	0	0	0	0	0	…
Services	1	0	37	69	43	…
Other	40	24	7	12	8	…
Saint Lucia [b]						
Natural resources	0	0	0	0	0	…
Manufactures	0	0	0	0	0	…
Services	27	174	167	106	73	…
Other	28	1	21	13	9	…
Saint Vincent and the Grenadines [b]						
Natural resources	2	0	0	0	0	…
Manufactures	0	0	0	0	0	…
Services	11	48	52	56	39	…
Other	1	4	23	18	23	…
Trinidad and Tobago						
Natural resources	813	736	711	534	612	…
Manufactures	15	16	21	14	11	…
Services	47	62	56	58	39	…
Other	65	69	43	2 194	47	…
Uruguay						
Natural resources	264	…	…	…	…	…
Manufactures	26	…	…	…	…	…
Services	248	…	…	…	…	…
Other	310	…	…	…	…	…
Venezuela (Bolivarian Republic of)						
Natural resources	1 021	-1 958	-180	-230	0	…
Manufactures	0	0	0	0	0	…
Services	492	369	673	469	-354	…
Other	1 076	999	153	110	-2 751	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates from the central banks of the respective countries as at 15 April 2011.

[a] Data may not correspond to those reported in the balance of payments.
[b] Does not include the sale of land or reinvested earnings.
[c] FDI in 2005 corresponds to investments made under Legislative Decree 600.
[d] Manufacturing data include maquila.
[e] Data for 2010 correspond to the cumulative total at the third quarter.
[f] Data for 2007 correspond to the sectoral breakdown of long-term foreign capital, taking into account direct foreign investment, disbursements of long-term loans and bonds (Central Bank of Peru).

Table I.A-4

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT INFLOWS BY COUNTRY OF ORIGIN, 2000-2010 [a]

(Millions of dollars)

	2005	2006	2007	2008	2009	2010
Anguilla						
United States	62	68	68	46	30	…
Antigua and Barbuda						
United States	19	0	0	0	0	…
Italy	27	0	0	0	0	…
The Caribbean	10	0	0	0	0	…
Other	118	290	255	107	75	…
Argentina						
Spain	1 339	2 374	1 774	691	1 037	…
Switzerland	281	39	276	713	507	…
Uruguay	-364	16	115	320	496	…
Bermuda	-185	159	207	99	437	…
Germany	71	253	465	368	314	…
United States	1 263	816	711	2 010	249	…
Chile	605	517	469	787	233	…
Netherlands	1 055	110	589	1 152	211	…
Brazil						
Luxembourg	-44	397	5 864	6 292	-483	8 941
Switzerland	368	1 572	819	1 335	34	6 466
United States	4 034	2 784	3 744	5 007	1 963	5 382
Netherlands	979	3 317	7 634	3 916	4 260	2 820
Japan	572	826	81	4 316	1 709	2 439
Mexico	1 242	502	-27	1 197	-681	2 317
Chile	217	97	677	-108	1 611	1 415
Chile						
United States		111	3 726	2 272	2 278	2 802
United Kingdom		756	704	438	671	1 813
Canada		498	2 612	1 667	841	1 611
Bermuda		2 029	1 283	1 010	2 054	1 600
Spain		822	1 088	2 210	1 756	1 243
Colombia						
Panama	208	240	477	760	337	620
Anguilla	0	0	1 020	1 184	46	455
Bermudas	222	8	12	31	287	328
United Kingdom	3 747	17	35	200	386	191
Canada	2	18	8	52	78	163
United States	1 410	1 524	1 389	1 742	1 234	-241
Costa Rica						
United States	532	695	940	1 301	683	772
Spain	14	10	54	76	78	82
Canada	55	336	96	63	33	36
United Kingdom	13	21	20	16	28	32
Netherlands	0	26	266	24	26	29
El Salvador	21	33	41	65	26	26

Table I.A-4 (continued)

	2005	2006	2007	2008	2009	2010
Dominica						
The Caribbean	0	0	0	8	6	…
Taiwan Province of China	0	0	2	2	1	…
United Kingdom	0	0	0	0	0	…
United States	0	0	0	0	0	…
Italy	0	0	0	0	0	…
Canada	0	0	0	0	0	…
Germany	0	0	0	0	0	…
Ecuador						
Panama	76	67	77	73	118	136
Canada	29	-252	49	44	53	79
China	-20	12	85	47	56	44
Uruguay	6	15	2	-32	-12	40
Bahamas	28	-17	-117	-25	-2	38
Netherlands	-43	38	8	-4	5	17
Spain	3	7	85	128	73	16
El Salvador						
Panama	42	68	841	321	80	81
United States	332	13	499	129	74	112
Guatemala	…	…	…	…	…	47
Peru	…	…	…	…	…	20
Costa Rica	…	…	…	…	…	7
Spain	…	…	…	…	…	-43
Guatemala						
United States	192	198	326	229	151	…
Spain	56	56	42	66	64	…
Canada	3	4	25	54	74	…
United Kingdom	9	13	63	66	58	…
Mexico	26	83	76	76	50	…
Republic of Korea	43	45	13	4	23	…
Honduras [b]						
United States	303	339	460	339	281	65
Costa Rica	-2	2	8	2	6	48
United Kingdom	48	49	103	71	-37	32
Canada	17	107	139	37	23	29
Ireland	0	0	0	214	19	12
Guatemala	25	17	15	40	19	5
Mexico						
Netherlands	3 983	2 798	5 687	1 751	2 047	8 659
United States	11 886	12 929	12 372	10 593	6 750	4 892
Spain	1 289	1 779	5 380	4 880	2 639	1 305
Canada	471	594	291	3 042	1 600	756
Brazil	46	50	25	88	124	351
Germany	335	629	623	525	22	241
Nicaragua						
Canada	43	14	32	69	51	167
United States	51	53	84	52	60	98
Mexico	36	53	128	164	48	89
Venezuela (Bolivarian Republic of)	0	0	47	132	147	29
Spain	17	10	45	59	26	33

Table I.A-4 (continued)

	2005	2006	2007	2008	2009	2010
Panama						
Spain		172	271	188	371	…
United States		121	230	492	343	…
Mexico	-28	79	68	69	199	…
Colombia	-283	102	407	49	170	…
Nicaragua		101	151	205	137	…
Switzerland		282	190	-122	128	…
Argentina	19	-152	66	58	94	…
United Kingdom		1 594	-13	460	31	…
Paraguay						
United States	20	84	107	190	111	193
Spain	9	7	19	11	16	23
Brazil	10	52	41	42	-26	11
Panama	-7	-12	26	-13	0	6
United Kingdom	-7	-1	1	-2	3	4
Portugal	0	-37	1	3	0	3
Peru						
Chile	-82	62	32	591	181	…
Italia	-504	65	-22	414	0	…
South Africa	268	467	0	405	0	…
Norway	5	15	0	276	0	…
France	0	0	-30	148	4	…
Dominican Republic						
Mexico	-1	84	-124	1 055	273	369
Canada	111	142	113	383	773	329
United States	457	662	536	360	460	307
Spain	215	308	604	181	154	299
Venezuela (Bolivarian Republic of)	6	17	53	11	31	140
Netherlands	41	41	54	-73	96	62
Saint Kitts and Nevis						
United States	15	0	10	16	10	…
United Kingdom	0	0	4	8	5	…
Canada	0	0	0	19	0	…
Germany	0	0	0	0	0	…
France	0	0	0	0	0	…
The Caribbean	2	0	0	0	0	…
Saint Lucia						
United States	0	0	0	20	14	…
United Kingdom	6	51	28	0	0	…
The Caribbean	0	15	22	0	0	…
Italia	0	4	9	0	0	…
Saudi Arabia	0	0	0	0	0	…
France	0	0	0	0	0	…
Saint Vincent and the Grenadines						
United Kingdom	38	50	74	73	61	…
United States	0	0	0	0	0	…
France	0	0	0	0	0	…
Germany	0	0	0	0	0	…
Italy	0	0	0	0	0	…
The Caribbean	0	0	0	0	0	…

Table I.A-4 (concluded)

	2005	2006	2007	2008	2009	2010
Trinidad and Tobago						
United States	694	627	574	403	469	…
United Kingdom	165	150	159	146	152	…
Germany	41	38	43	30	32	…
India	16	27	21	16	17	…
Canada	1	3	3	2 194	4	…
Other	22	39	29	11	35	…
Uruguay						
Argentina	397	…	…	…	…	…
Brazil	203	…	…	…	…	…
Panama	106	…	…	…	…	…
Paraguay	35	…	…	…	…	…
Bahamas	29	…	…	…	…	…
Other	78	…	…	…	…	…
Venezuela (Bolivarian Republic of)						
Spain	40	274	295	237	…	…
Netherlands	53	-74	203	84	…	…
Panama	38	29	53	29	…	…
Colombia	2	9	22	3	…	…
Other	2 474	-832	76	1 363	…	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 April 2011.

[a] The data may not correspond to those reported in the balance of payments. No data are available by country of origin for Grenada, Montserrat and the Plurinational State of Bolivia. The data are arranged by size of FDI source in the last year reported. For data prior to 2005 please see the reports on foreign direct investment prepared by ECLAC for previous years.

[b] The data for 2010 correspond to the cumulative amount at the third quarter; includes maquila.

Table I.A-5

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT OUTFLOWS BY COUNTRY, OFFICIAL FIGURES, 1999-2010

(*Millions of dollars*)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Argentina	901	161	-627	774	676	1 311	2 439	1 504	1 391	710	2 390
Barbados	1	1	0	1	4	9	44	82	63	41	...
Belize	0	0	0	0	0	1	8	7	10	4	3
Bolivia (Plurinational State of)	3	0	0	0	0	0	3	4	5	-4	...
Brazil	2 282	-2 258	2 482	249	9 807	2 517	28 202	7 067	20 457	-10 084	11 500
Chile	3 987	1 610	343	1 606	1 563	2 183	2 171	2 573	8 040	8 061	8 744
Colombia	325	16	857	938	142	4 662	1 098	913	2 254	3 088	6 504
Costa Rica	8	10	34	27	61	-43	98	263	6	7	80
El Salvador	-5	-10	-26	19	-3	113	-26	100	16	23	1
Guatemala	…	10	22	46	41	38	40	25	16	23	29
Honduras	7	3	7	12	-6	1	1	1	-1	1	9
Jamaica	74	89	74	116	52	101	85	115	76	62	...
Mexico	…	4 404	891	1 253	4 432	6 474	5 758	8 256	1 157	7 019	12 694
Paraguay	6	6	-2	6	6	6	4	8	8	8	-6
Peru	0	74	0	60	0	0	0	66	736	398	946
Trinidad and Tobago	25	150	106	225	29	341	370	0	700	0	...
Uruguay	-1	6	14	15	18	36	-1	89	-11	2	215
Venezuela (Bolivarian Republic of)	521	204	1 026	1 318	619	1 167	1 524	30	1 273	1 834	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 April 2011.