

Bajo la lupa la Inversión Extranjera Directa en América Latina y el Caribe

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Resumen

Este artículo analiza los flujos de inversión extranjera directa capturados por América Latina y el Caribe así como las inversiones directas en el exterior por las empresas translatinas sobre la base de los datos estadísticos disponibles. La región de América Latina no es homogénea, ni siquiera en materia de inversiones directas. Se identifican dos centros principales: México es el exportador y el importador más importante de la IED de América Central y el Caribe; y Brasil es la primera potencia de América del Sur. Los ingresos de inversión extranjera directa en los dos subregiones de la América Latina fueron impulsados por motivaciones heterogéneas e influenciados por diferentes acontecimientos y condiciones económicas. A pesar de que la importancia relativa de América Latina y el Caribe como exportador de la IED este disminuyendo desde 1970 (principalmente por la creciente actividad de las corporaciones asiáticas), el potencial de las empresas multinacionales de América Latina es prometedor, así como la recuperación de sus economías. Los países emergentes pueden recuperarse más rápidamente de la crisis económica y atraer relativamente más inversión extranjera directa en los próximos años. La población joven de los países latinoamericanos, así como sus grandes mercados internos con sus demandas correspondientes pueden ser la clave para el crecimiento económico en lugar de una política de desarrollo orientada solo a la exportación.

Después de una breve introducción se analizará los ingresos de la inversión extranjera directa en América Latina y el Caribe (primero), así como las inversiones en el exterior por las empresas translatinas (segundo); a continuación se estudiarán los datos acumulados (tercero) respectivamente; seguido por el análisis de las preferencias sectoriales de los inversionistas extranjeros y los inversionistas de América Latina (cuarto); al final se estudiará el origen de los capitales extranjeros (quinto) invertidos en la región. Como resultado del trabajo se discutirá el efecto de la crisis mundial sobre la IED en la región, la cuestión de la transferencia de tecnología y el potencial de América Latina y las empresas translatinas.

Palabras clave

- Inversión Extranjera Directa
- América Latina y el Caribe
- Las empresas transnacionales
- Translatinas

Abstract

This paper analyzes the foreign investment inflows and outflows to- and from Latin-America on the basis of the available statistic data. The Latin American region is not homogenous, not even in respect of direct investments. We identify two main centers: Mexico is the most important FDI (Foreign Direct Investment) exporter and importer of Central America and the Caribbean, and Brazil is the leading power of South America. The foreign investment inflows to the two subregions were driven by different motivations and influenced by different economic events and conditions. Despite the fact that the share of Latin-American FDI-export to total developing countries' declined from 1970 (mainly because of Asia and South-East Asia FDI inflows increases), the potential of the multinational enterprises from Latin America are promising, as well as the recovery of their economies. The emerging countries c

an recover faster from the economic crisis and attract relatively more FDI in the coming years. The young population of the Latin American countries, as well as their large domestic markets and demands may be the key to economic growth rather than the export-oriented policy.

After a brief introduction the FDI inflows (first) to- and the FDI outflows (second) from Latin America and the Caribbean will be overviewed; followed by the stock data (third) analysis. The sectoral preferences and opportunities of the foreign and the Latin American investors (fourth) will be also examined. The origin of the foreign capital (fifth) invested in the region will be studied as well. As a result of the paper I discuss the effect of the global crisis on the FDI in the region, the issue of technology transfer and the potential of Latin America and the trans-Latin companies.

Key words

- FDI
- Latin America and the Caribbean
- Transnational Corporations
- Trans-Latins

JEL Classifications: F21, F23

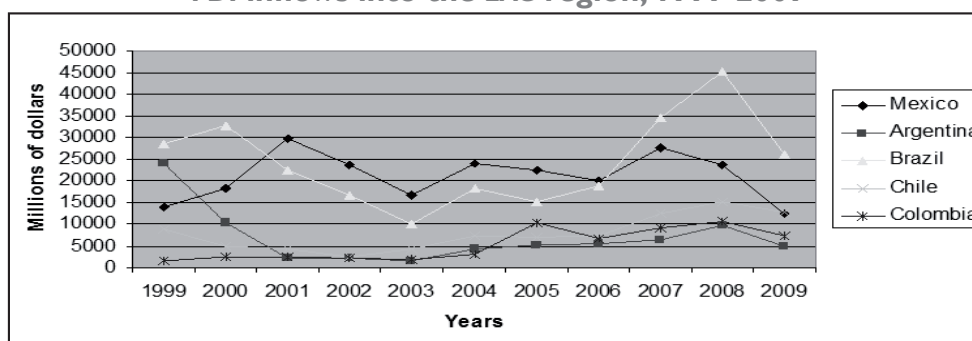
¹ Este artículo es una extensión de mi tesis doctoral sobre los efectos de las externalidades de la IED en México, llevado a cabo en el programa de doctorado en el Departamento de Economía Internacional de la Universidad Corvinus de Budapest. Me gustaría expresar mi gratitud por el apoyo y orientación a mi supervisor András Blahó. Estoy en deuda con Andrea Szalavetz, Katalin Antalóczy y István Benczes por sus comentarios constructivos.

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Introduction

The Latin American and Caribbean (LAC) region is not a homogenous one; practically we can divide it into two sub-regions: Central America and the Caribbean (CAC), and South America. Mexico is the largest economy of Central America and the Caribbean according to the Foreign Direct Investment inflows and outflows and to the other economic indicators as well. Meanwhile Brazil is the driving economy of South America as the FDI statistics show it as well. The two sub-regions are influenced by different facts and economic events, and the driving force for the two regions is also diverse. The Central American and Caribbean region is heavily dependent on the prosperity of the United States (U.S.) economy, because the North American country is the main investor in that sub-region. In the case of South America in the past few years the greatest impact on the FDI was caused by the soaring or dropping of the raw material prices. The global economic and financial crisis of 2008 hit at different times the two sub-regions: the CAC countries already in 2008 experienced a large decline in foreign investments (due to the U.S. recession which started in the second half of 2007); while into the South American economies the foreign capital inflow decreased (even to a lesser extent) only until 2009 (The attractiveness of the primary sector –oil, gas, copper and gold– remained significant and offset the decline of the manufacturing investments).¹

Figure 1
FDI inflows into the LAC region, 1999-2009



Source: ECLAC (CEPAL), *La inversión extranjera directa en América Latina y el Caribe 2009*, and UNCTAD, *World Investment Report 2010*, 2009, 2007, 2006, 2005, 2003, www.unctad.org/fdistatistics.

¹In relation to the FDI flows have yet to mention the role of the offshore financial centers in the region. The British Virgin Islands, Cayman Islands and Panama in many cases registered great amount of FDI inflows and outflows. In 2006 “FDI inflows to South and Central America and the Caribbean (excluding offshore financial centers) remained more or less stable, at \$45 billion and \$25 billion respectively. In contrast, FDI into offshore financial centers soared from \$6 billion to \$14 billion...” (UNCTAD, 2007: 55). For example “outflows from offshore financial centers represented more than 70 per cent of the region’s total in 2009. The British Virgin Islands was the largest outward investor with \$27 billion...” (UNCTAD, 2010: 45). Despite of it in the following paper we do not analyze this kind of FDI flows, because of its nature.



1.1. The two sub-regions and their driving economies: Brazil and Mexico

Until 2000, in the LAC region Brazil was the largest FDI recipient, then between 2001 and 2006 Mexico took over the leadership. However from 2007 Brazil holds again the title of the most popular FDI destination in the region. While in 2008 the foreign capital inflows into Brazil reached its peak level with 45 billion USD² (which is around 30% more than data of 2007), the FDI inflows to Mexico decreased by 20% (23 billion USD) and in 2009 it continued to drop by another 51% compared to the 2008 figures (11.5 billion USD)! 2009 is the first year that Mexico was displaced by a third country (Chile) from the first two places on the FDI inflow ranking in LAC (see Table I and Figure 1).

Among the Latin American countries Mexico's economy depends most on the U.S. activity. The decrease of U.S. investors' dynamism was felt also by the other Central American and Caribbean states. In 2008 the FDI inflows into the LAC show already a big difference between the two sub-regions. While the inflows to the South American countries increased by 29% (inflows to the primary sector due to the high commodity prices), to the Central and Caribbean economies felt by 6% (mainly due to the decline in manufacturing investments). However in 2009 the global crisis already had its impact on both of the sub-regions. The FDI inflows' decrease for the whole LAC region was 36%. In Brazil the foreign capital inflows felt by 42% in 2009, nevertheless it could maintain its leadership (26 billion USD) in the region.

In CAC besides of Mexico the Dominican Republic and Costa Rica should be mentioned (although there is a huge difference in the magnitude of FDI compared to Mexico) in terms of capital inflows and in recent years also Trinidad and Tobago's banking sector received a large amount of foreign investment.

Argentina since the financial crisis of 2001 has not been able to regain the amount of FDI inflows of the 90s; although in 2008 the volume of the inflow (9.7 billion USD) is already close to value of the pre-crisis (10.4 billion USD). In facts, since 2004 the foreign investors have a more favorable opinion from Argentina as a location for their investments.

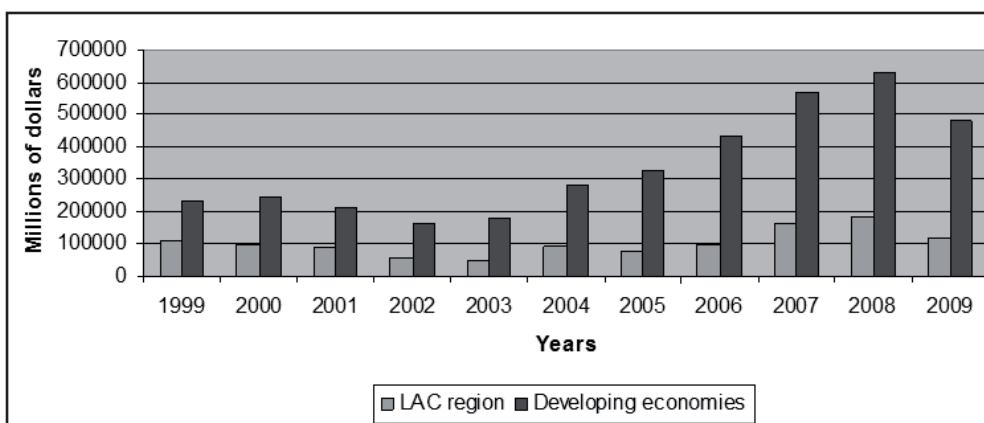
Chile shows a significant increase in its FDI inflows since 2008. To Colombia started to flow foreign capital in greater value since 2005. Indeed this year tripled (comparing with previous year's data) the FDI inflows to this South American country.

The relative importance of the LAC region in comparison to the other parts of the world in the field of capturing FDI is declining. LAC could not compete properly with the attractiveness of China, India and South East Asia. Meanwhile the proportion

² USD-United States Dollar (the official currency from United States of America).

of the LAC region in the FDI inflows to the developing countries in 1999 was 47%, it shrunk to 24.3% in 2009 (calculated on the basis of the data of Table I, see Figure 2).

Figure 2
FDI inflows, 1999-2009



Source: ECLAC (CEPAL), *La inversión extranjera directa en América Latina y el Caribe 2009*, and UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics

1.2. The mode of entry

Between 1997 and 2001 47% of the FDI inflows to the LAC region were realized in the form of mergers and acquisitions (M&As), while this share between 2002 and 2006 was only 34%. Since 2006 the greenfield investments became the main mode of entry of foreign capital investments in the LAC region. Despite of the increase of M&As in the region in 2007, the greenfield projects still remained the main form of FDI inflows.

It should be mentioned as well that a significant proportion of the inflows in 2006 was reinvested earning, mainly due to the great increase in the South American investment's profits. In South America since 2003 the FDI inflows show a strong profit growth; actually in 2006 the income of the invested capital of the previous years (59 billion USD) was higher than the new capital inflows (45 billion USD) in the given year.

In 2008, large-scale acquisitions took place in the region again, mainly in the primary sector (mining, metal, oil and gas industries). In the same year there was a remarkable rise in inter-company loans (by 76%) reflecting growth in the Brazilian FDI inflows. Then in 2009, we can observe the flow in the opposite direction (the

subsidiary loans had to be paid back) which meant a negative capital outflow from Brazil. The global crisis also affected the mode of entry of FDI. In 2009 there was a great decrease in M&As in the LAC region, it showed even a negative value: it means that the local companies bought the foreign subsidiaries mainly in Brazil (by 53%), in Venezuela (by 23%) and in Colombia (by 17%). In fact because of the global crisis in 2009 various forms of the FDI decreased in the region, such as reinvested earnings, and the greenfield investments too, especially in Mexico (by 57%).

It is important to note that the global value of M&As shows a very close correlation to the FDI inflows (1987-2009 the global correlation coefficient value was 0.94), while the same correlation coefficient for the Latin American region implies a much looser relation (during the same period for LAC region was: 0.61). It suggests that the M&As are less meaningful mode of entry of the FDI in the LAC region than in the rest of the world and in this area greenfield investments and reinvested earnings have a greater role.

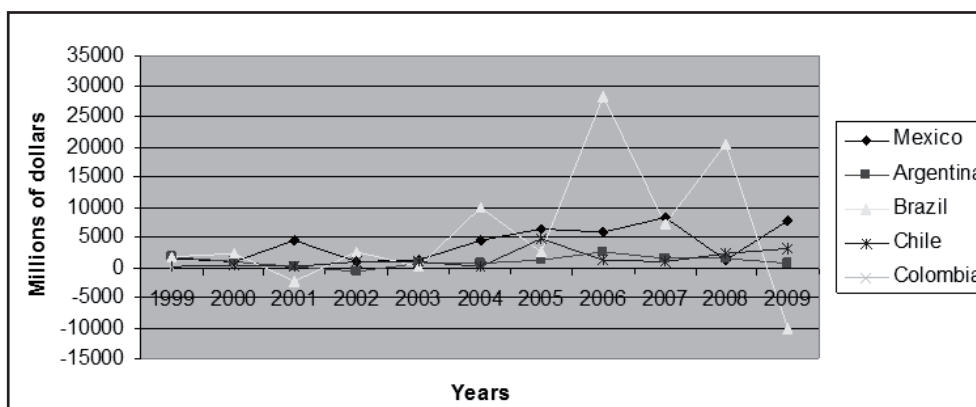
2. The foreign investments of the Latin American Transnational Corporations (TNCs)

Table I
FDI inflows (Millions of USDs)

	FDI Inflows (Millions of USDs)										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
México	13869	18098	29759	23631	16591	23816	22345	19946	27440	23683	12522
Argentina	23988	10418	2166	2149	1652	4125	5265	5537	6473	9726	4895
Brazil	28576	32779	22457	16590	10144	18146	15067	18822	34585	45058	25949
Chile	8761	4860	4200	2550	4307	7173	6984	7298	12534	15181	12702
Colombia	1508	2436	2542	2134	1720	3016	10252	6656	9049	10583	7201
LAC	108255	95358	89130	54340	44692	94290	77106	94557	163612	183195	116555
Developing economies	229295	246057	209431	163583	178699	283030	329328	434366	564930	630013	478349

Source: ECLAC (CEPAL), *La inversión extranjera directa en América Latina y el Caribe 2009*, and UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005*,

Figure 3
FDI outflows from the LAC region, 1999-2009



Source: ECLAC (CEPAL), *La inversión extranjera directa en América Latina y el Caribe 2009*, and UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics.

2.1. Latin-American FDI outflows

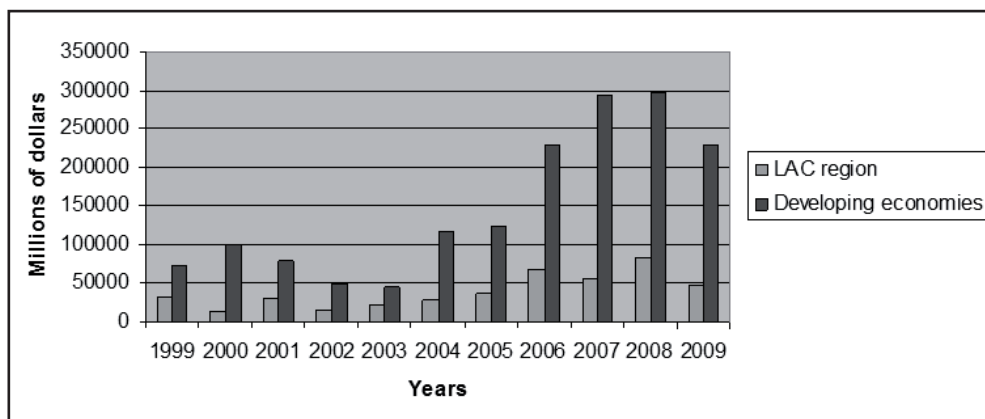
The capital outflows from LAC show two peaks: in 2001 and in 2006. In 2001 began the Mexican TNCs their major foreign investments and from 2006 onwards the Brazilian investors show again a greater activity. In 2006 for the first time in the history of Brazil (and also for any LAC country) the FDI outflows (28 billion USD) exceeded the amount of the capital inflows (18.8 billion USD), which is usually a feature of the developed economies (The Brazilian steel producer company CVRD bought the Canadian nickel-producer Inco for 17 billion USD, which is also the highest value for an acquisition ever carried out by a Latin American enterprise.) In 2005 from the LAC region Mexico invested the most in foreign countries; due to the acquisitions carried out by Cemex, Telmex and America Móvil the Mexican FDI outflows increased by 44%. In 2007 the record Brazilian capital investments of 2006 returned to a “normal” level (7 billion USD), then in 2008 (20 billion USD) approached again the high amount of 2006. In contrast to the Brazilian increase the Mexican FDI outflows reduced greatly in 2008 (to 1 billion USD), because of the sales of the subsidiaries of Mexican TNCs surpassed their foreign acquisitions. While the Mexican capital outflows in 2009 (7.6 billion USD) approached again the 2007 values, the Brazilian FDI outflows this year show a negative data (-10 billion USD). As well as the Brazilian high record of 2007 as the negative outflow of 2009 are explained by the inter-company loans between the Brazilian headquarters and their subsidiaries. (In 2008 some of the Brazilian TNCs headquarters –like the Itau Bank– injected large

amount of capital in their foreign subsidiaries, then in 2009 partly these loans were repaid and partly some of the headquarters needed financial assistance). In 2009, due to the global crisis and to the Brazilian negative FDI outflows, the LAC region's outflow decreased by 42% (Table 2, Figure 3).

In relation to the capital outflows it has to be mentioned the Chilean case. In the last two years (2008-2009) it nearly tripled the Chilean foreign investments (from 2-2.5 billion USD to c.a. 8 billion USD). (Table 2) The Chilean investors were interested primarily in the American continent (United States, Brazil, Peru); and in services (16% of the outflows went to electricity, gas- and water supply sectors; and 28% to financial and insurance investments) to lesser extent in manufacturing (17% of the capital outflows). From 2005 onwards it can be observed a noteworthy increase in the Argentinean and Colombian investors' foreign activity. In 2009 the Venezuelan PDVSA company (Petróleos de Venezuela) carried out some substantial acquisitions abroad in the gas- and oil exploration and production industry.

The capital outflows from the LAC region doubled in absolute terms between 1999 and 2008, but in relative terms comparing with the other developing regions Latin America and Caribbean's importance decreased: while in 1999 the LAC region accounted for 42.4% of the FDI outflows from the developing economies, then in 2008 this share was only 27.6% (based on data from Table 2, see Figure 4).

Figure 4
FDI outflows, 1999-2009



Source: ECLAC (CEPAL), *La inversión extranjera directa en América Latina y el Caribe 2009*, and UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics

Table 2
FDI outflows (Millions of USDs)

	FDI outflows										
	(Millions of USDs)										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
México	1475	984	4404	891	1253	4432	6474	5758	8256	1157	7598
Argentina	1730	901	161	-627	774	676	1311	2439	1504	1391	679
Brazil	1690	2282	-2258	2482	249	9807	2517	28202	7067	20457	-10084
Chile	2558	3987	1610	343	1606	1563	2183	2171	2573	7988	7983
Colombia	116	325	16	857	938	142	4662	1098	913	2254	3025
LAC	30845	13534	29102	14682	21641	27762	35967	67726	55975	82008	47402
Developing economies	72786	99052	78571	49742	45372	117336	122707	228691	292147	296286	229159

Source: ECLAC (CEPAL) *La inversión extranjera directa en América Latina y el Caribe 2009*, valamint UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics.

2.2. The Trans-Latin³ Companies

The so-called Trans-Latins did not become international at the same rate; their foreign investments did not increase as of their Asian counterparts'. Despite of the fact, that until the mid-80s the developing world's main FDI source came from Latin America (besides the developed world). Moreover Argentina was one of the first developing countries with firms internationalizing via FDI (Alpargatas, an Argentinean textile manufacturer, set up a manufacturing affiliate in Uruguay in 1890, and later in Brazil.) In the 60s and 70s, the Argentinean, Brazilian, Mexican foreign investment counted to the first wave of "southern" FDI flows (Dunning and at 1996). Nowadays, the Trans-Latin companies' principal location target still remained the LAC region, only some of them were able to build a real international network. The Trans-Latins's TNI⁴ index - which indicates the degree of internationalization - is usually low; only a small percent of their total sales is international. The most important Trans-Latins's home economy is Brazil and Mexico. Most of them operate in the primary sector, or are specialized in the mass production of consumer goods. Only a few Trans-Latin corporations are involved in the service sector.

According to the total sales' value the largest Trans-Latin company is the Brazilian Petrobras, followed by the –also from the gas and oil industry– PDVSA (Petróleos de Venezuela) and by Brazilian Companhia Vale do Rio Doce (mining and extraction). Meanwhile on the fourth, fifth, sixth, and seventh places we find Mexican firms: América Móvil (telecommunications), Cemex SA (construction), FEMSA (food) and Telmex (telecommunications). Should not be based the ranking on the total sales

³ Trans-Latin companies mean such a Transnational Corporations which carry out foreign direct investment and their domestic economy is in one of the Latin America and Caribbean' countries. There is a widespread use in the literature for the terms: Trans-Latins, or empresas translatinas.

⁴ TNI, the Transnationality Index, is calculated as the average of the following three indicators: foreign assets, foreign sales to total sales and foreign employment to total employment.

values, but on the foreign assets (value of assets invested abroad by the Trans-Latin corporation), than the Mexican Cemex SA leads the list among the Latin American companies –as in the UNCTAD’s top 100 non-financial TNCs from developing and transition economies (UNCTAD 2010: Annex table 27.). Actually among the TNCs from all (China, Hong Kong, Republic of Korea, Malaysia) developing and transition economies Cemex SA got the third place on the list! Ultimately Cemex is the only Trans-Latin which belongs to the largest global TNC’s. It is one of the world’s three biggest cement producers and operates in more than 30 countries. According to the data of 2008 there are only four Trans-Latins, whose foreign sales exceed the 50% of their total sales value: Cemex SA, Vale (Companhía Vale do Rio Doce), and the Brazilian steel producer Metalurgica Gerdau, and the Mexican América Móvil. In the above mentioned ranking (The top 100 non-financial TNCs from developing and transition economies) there are only 9 Trans-Latins, and the majority of the companies are from Asia (74) –especially from East Asia (47) and South-East Asia (15). The most internationalized, (the highest TNI index) are the African and South Asian TNCs.

The most of the Latin-American TNCs have a limited expansion strategy –focused on the LAC region- which with the sectoral composition of the firms reflects the import substitution policy of the 60’s and 70’s. In reality it did not help the liberalization of the 80’s either to the knowledge-intensive industries. While during the import-substitution the high burden of market entry did not stimulate the technological innovations; after the liberalization in the knowledge-based industries such as pharmaceuticals, chemicals and scientific equipment manufacturing it became literally impossible to participate in the global competition without any state aid (Katz 2001).

However, recently it can be observed some hopeful trends regarding the Trans-Latin corporations. From 2003 onwards due to the favorable macroeconomic environment by some of the Latin American companies (mainly Brazilian and Mexican) larger foreign investments have been carried out. For example, the Brazilian investments abroad between 2003 and 2008 showed a high increase: whereas between 1991 and 2000 the average annual value of Brazilian capital invested abroad was 1 billion USD, then between 2003 and 2008 it grew to 11 billion USD. Positive to be considered is that some Brazilian and Mexican companies prefer already to expand outside the LAC area and create their subsidiaries particularly in developed countries (UNCTAD, 2010). The favorable financing opportunities, as well as the support of the government policies were the characteristics of the pre-crisis economic stability. In fact both in Mexico and Brazil the “national champions” of the 90-s after the privatizations became the large transnational companies expanding abroad. For example the Mexican state owned telephone company was converted

into Telmex and América Móvil. In Brazil very similarly to the Mexican case were established the following corporations: Vale, Embraer, or for example Petrobras. In other words, if we compare the Trans-Latins with their Asian competitors based on foreign sales, international presence then the latter over the former are significantly beaten. However, if we compare them with the former themselves we got a very encouraging picture: while between 1991 and 2000 the average capital invested abroad by the Trans-Latins was 15 billion USD, then between 2003 and 2008 this number increased to 48 billion USD.

Among the Trans-Latins are worthy of mention the following narrow market niche companies: the Mexican Televisa (the world's largest Spanish-language broadcasting company), the Brazilian Embraer (one of the world leaders in the technology-intensive industry), the Chilean Concha y Toro (winery) and the Empresa Santa Caroline (winery as well).

Some of the Trans-Latins because of their achievement were purchased by a larger TNC such like the case of the Mexican La Moderna-Seminis (an innovative biotechnology company) which was acquired by the American Monsanto. However, examples that one Latin-American corporation purchase other Trans-Latin can be found as well: the Argentinean steel producer Techint annexed the Mexican Hyslamex. For example the Mexican mobile phone operator América Móvil is pursuing such an aggressive expansion strategy in the LAC, which forced the other competitors to leave the region.

2.3. The global crisis's effect on the outflows

Due to the global economic and financial crisis of 2008 the export of developed countries decreased sharply from the beginning of third quarter of 2008. Naturally, the activities of the Trans-Latins were also affected by the crisis; showing a drop in their sales and profits. For example Cemex SA was forced to sell its recently acquired Australian affiliate to its largest competitor to the Swiss giant Holcim. The Brazilian TNCs (the parent companies) were bailed out by their foreign subsidiaries. Therefore the inter-company loans showed an unprecedented net value of 14.6 billion USD and the Brazilian FDI outflow in 2009 reached its negative peak (-10 billion USD).

On the other hand, not all the Latin American TNCs had a negative experience because of the crisis: some of them were able to take the advantage of the low purchasing prices. The Mexican América Móvil showed positive results and significant growth in the sales and is increasing its international presence.

In conclusion the economic recession affected the region's TNCs negatively due to the decline in commodity prices (the Brazilian Metallurgica Gerdau SA), and it

proved again the extreme importance of the access to local financial resources for the Trans-Latins. However, the region was better prepared for the crisis than in the past, and the LAC countries have more resilient financial systems than before. Besides of it, the Trans-Latins have a relatively small presence in industries sensitive to business cycles (like for example the automotive industry and electronics) which have been more affected by the economic downturn.

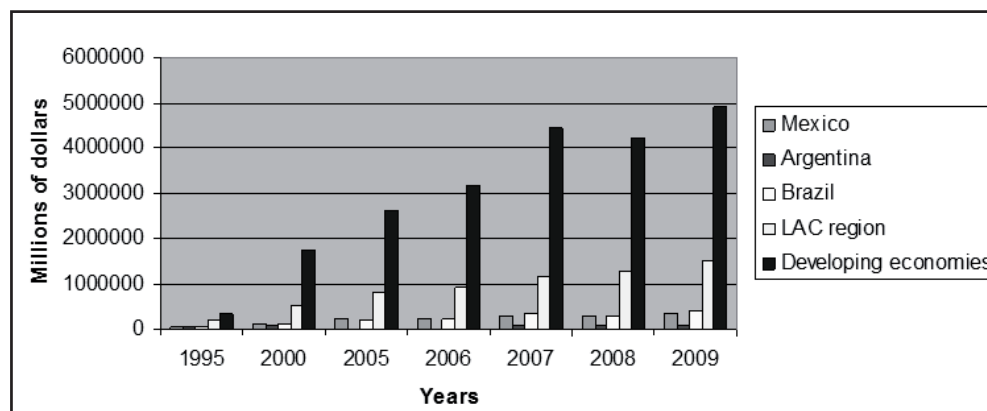
3. Stock data

Table 3
FDI inward stocks (Millions of USDs)

	FDI inward stocks (Millions of USDs)						
	1995	2000	2005	2006	2007	2008	2009
México	41 130	97 170	209 564	228 601	273 831	297 001	309 523
Argentina	27 991	67 769	-	-	67 574	77 066	80 996
Brazil	47 887	122 250	195 562	221 914	309 668	287 697	400 808
LAC	187 147	502 105	816 206	908 575	1 161 658	1 260 426	1 472 744
Developing economies	329 982	1 728 455	2 621 615	3 155 856	4 452 645	4 213 666	4 893 490

Source: UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics.

Figure 5
FDI inward stock



Source: UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics.

3.1. FDI invested in the LAC region

According to the FDI inward stock data Mexico (287 billion USD) and Brazil (297 billion USD) shows almost the same amount in 2008. Then in 2009, the Brazilian stock jumped to 400 billion USD. The Mexican inward stock capital doubled between 1995 and 2000, and then between 2000 and 2008 it tripled. In Brazil very similarly, only a bit earlier by 2007 it tripled the FDI inward stock of 2000. In 2009, the Argentinean stock capital shows only 81 billion USD due to the above mentioned reasons. The relative importance of the LAC region according to the total capital invested by the foreign investors in 1990 and in 1995 shows approximately 21% of FDI stock invested in the developing countries. While in 2000 it is already 28.9% and in 2009 it is 30% (calculations based on the data of Table 3, Figure 5).

In 2008, the FDI inward stock in Mexico as a percentage of the gross domestic product was 27%, in Argentina 23% and 18% in Brazil. This value in the average in the LAC region was 27%, in the developing countries 24%, and the world total average showed 25% in 2008 (calculations based on the data of Table 3).

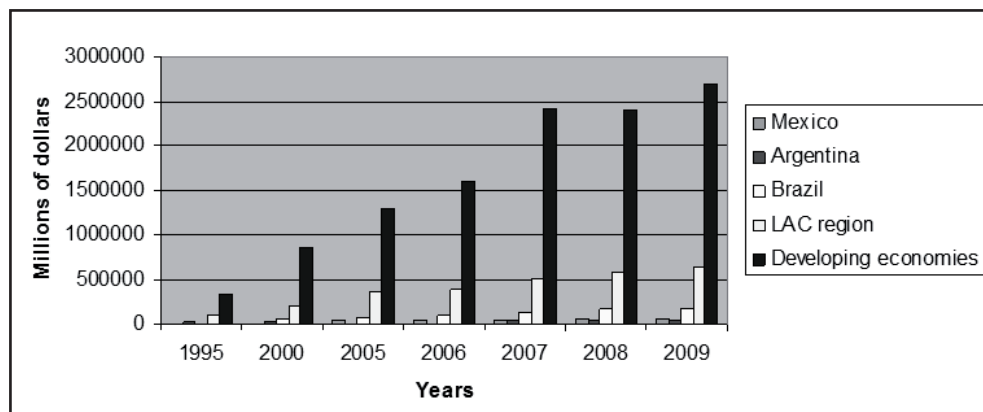
3.2. Capital invested abroad by the Trans-Latins

Table 4
FDI outward stocks (Millions of USDs)

	FDI outward stocks (Millions of USDs)						
	1995	2000	2005	2006	2007	2008	2009
México	4 181	8 273	29 641	35 144	44 703	45 860	53 458
Argentina	10 696	21 141			27 544	28 749	29 428
Brazil	4 474	51 946	79 259	87 049	136 103	162 218	157 667
LAC	87 892	204 430	356 586	387 944	511 401	589 322	643 281
Developing economies-	329 982	862 628	1 284 857	1 600 305	2 420 321	2 393 251	2 691 484

Source: UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics.

Figure 6
FDI outward stock



Sources: UNCTAD, *World Investment Report 2010, 2009, 2007, 2006, 2005, 2003*, www.unctad.org/fdistatistics.

The total FDI stock invested by the Trans- Latins abroad reached in 2009 the value of 643 billion USD. The most active Trans-Latins are the Brazilian ones in the region; by 2008 the Brazilian foreign investments gave nearly the one-third of all the accumulated capital abroad by the Latin American TNCs. The Mexican investors were the second most active, but they gave only the 8% of the FDI outward stock. In 2005 the Mexican FDI outward stock doubled the 2004's value; in regard with the Brazilian capital investments this kind of growth can be observed between 2006 and 2007 (see Table 4, Figure 6).

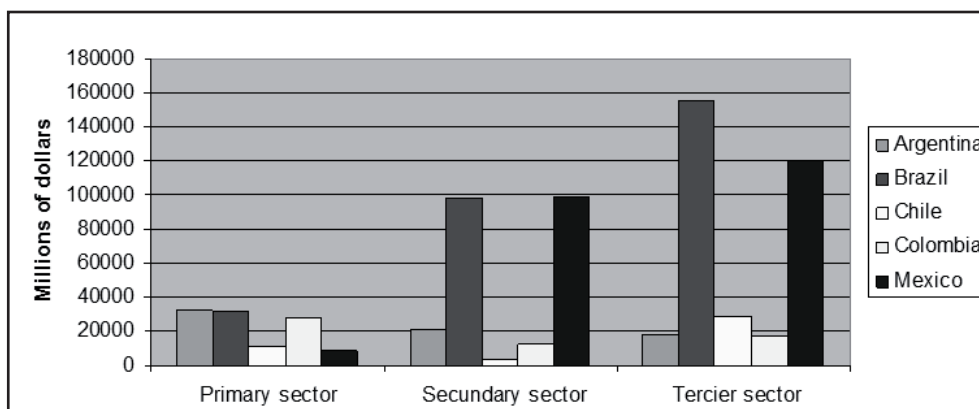
In the case of the developed countries the stock of FDI invested in the country by foreign investors and the accumulated capital invested abroad by country's TNCs usually shows just about the same value, or the second one is higher. The capital invested abroad by the Mexican corporations makes only the 15% of the FDI stock in Mexico. In Brazil this rate is 56%, in the LAC region 47.5%, and in the developing world 55% (calculations based on the data of the Tables 3 and 4).

Table 5
FDI inflows (sectoral distribution) – aggregated data, 1999-2009

FDI inflows (sectoral distribution), 1999-2009 (Millions of USDs)					
	Argentina	Brazil	Chile	Colombia	Mexico
Natural resources	32 797a	31 827	11 310	27 252	8 755
Manufacturing	20 699a	97 790	3 786	12 574	99 021
Services	17 872a	155 603	28 157	17 273	119 639

Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010 – own calculations a data available from 1999-2008.

Figure 7
FDI inflows (sectoral distribution), 1999-2009



Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010.

4. The sectoral distribution of FDI inflows and outflows

4.1. The sectoral share of the foreign capital inflows into the region

From 2001 onwards the share of services in the FDI inflows is decreasing. Between 2004 and 2006 the share of manufacturing was steadily increasing at the expense of the services, thus taking over the leading destination of the foreign capital inflows. The investments associated with the utilities (such as the electricity-, water-, gas supplies) are becoming less popular among the TNCs. It can be observed even disinvestments in electricity service. Then in 2007 the most FDI flowed into the raw material extraction, mining sectors; and to the extracted minerals processing industries. In 2008, continued the trend; the highest growth was observed in the primary sector (now the 34% of the total inflows accounted for it) and manufacturing remained high with the 35% of the FDI inflows (mainly to the natural resource-based industries). In recent years the primary sector's increased attractiveness can be explained by the soaring commodity prices. In 2008, the share of manufacturing fell; especially because of the Mexican downturn of 37% (CEPAL, 2010).

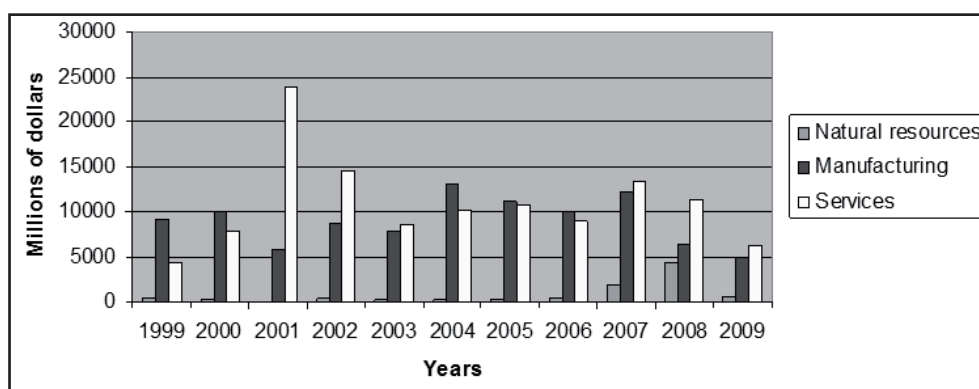
The traditional manufacturing industries of Central America and the Caribbean are heavily dependent on the United States imports. In 2009, the northern neighbor's recession and the global crisis had an even greater impact, not only with regard to the foreign investments in the Central American region, but also to the South American manufacturing projects.

Table 6
Mexico's FDI inflows (sectoral distribution)
–detailed data, 1999-2009 (Millions of USDs)

Mexico's FDI inflows – 1999-2009 (Millions of USDs)											
MEXIKÓ	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Natural resources	329	262	76	354	151	216	233	414	1 883	4 373	464
Manufacturing	9 157	9 996	5 899	8 789	7 735	13 175	11 007	9 923	12 125	6 384	4 831
Services	4 358	7 770	23 827	14 579	8 589	10 268	10 683	8 980	13 270	11 193	6 122

Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010

Figure 8
FDI inflows' sectoral distribution in Mexico, 1999-2009



Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010.

The major attraction of Mexico's manufacturing industry is the proximity of the market (size and purchasing power) of the United States. On the one hand the problem is that the advantage (its geographic location) of the southern neighbor is increasingly threatened by the relatively low-wage Asian producers; on the other hand the manufacturing investments are highly dependent on the economic cycles of the United States. In 2007, Mexico still recorded in the field of FDI inflows a 28% growth (thanks to the steel, mining and financial sectors' investments), because the U.S. recession began in 2007 had not yet an impact on it and since these sectors are not targeted to the U.S. market. However, in 2008 (due to the manufacturing investments, which declined by 37%) has been a decrease in the foreign capital flows to Mexico. For example in Ciudad Juárez (which is located close to the U.S. border and is one of the main maquila-city) 40 thousand people were laid off. In Tijuana (also border- and maquila-city) 25 thousand people became unemployed. In the same year the auto parts-manufacturer Delphi (owns 50 plants in Mexico),



General Motors and Chrysler reduced significantly their production in the country quoting cost-saving reasons. However, also this year, increased more than threefold (comparing with the data of 2007) the FDI inflows to the non-petroleum based extractive industries reaching their record of the value of 4.3 billion USD. While the primary sector's share in the FDI inflows in Mexico before 2007 was around 0%, then in 2007 it increased to 7% and in 2008 to 23%!

Within the Mexican manufacturing industry the automotive industry has got the leading role. Inside the LAC region the world's largest auto and auto parts manufacturing companies are located in Brazil and in Mexico. The effect of the global economic crisis of 2008 on the automotive industry was one of the most serious. In 2009, the car sales decreased worldwide dramatically, the automakers reduced their production, and factories were shut down, or cessation of work took place. Unfortunately the automotive industry in Mexico is fully focused on satisfying the northern neighbor's market needs, so the Latin American country despite of its large internal market could not overcome the hedge-hopping of the export and the decline in the U.S. demand. The global crisis has also highlighted the Mexican automobile industry's weaknesses: 1) excessive dependence on the U.S. market (there is no alternative outlet for the Mexican production); 2) weak domestic market (great demand for small import cars and large-scale importation of used cars); and 3) dependence on import (the models produced in the country heavily depend on the imports from the United States and the non-U.S. manufacturers do not have an adequate supply network in the NAFTA -North American Free Trade Agreement- zone).

It can be traced back to the structural problems of Mexico the following tasks to be solved: 1) there are missing institutions that should be defining and monitoring the conditions of the car fleet, the environmental standards and the safety norms; 2) also missing governmental incentive packages to innovate and rejuvenate the car fleet; 3) overcomplicated tax structure and 4) a large-scale importation of used cars. The Mexican government relatively fast, but with limited tools responded to the crisis situation in the automotive industry. In order to avoid redundancies the government was encouraging both the employers and the employees to suspend work temporarily. In addition, it established a loan fund for the financial intermediaries to help the auto dealerships selling cars. Unfortunately, this measure was not very successful, because the above mentioned loan had very similar terms as the market loans. In Mexico there was also introduced the Fleet Renewal Program (inspired by the United States initiative) called "Cash for clunkers" ("Efectivo por chatarra"). The program was funded with 36 million USD (500 million MXP⁵) and in case of

⁵MXP – Mexican Peso (the official Mexican currency)

purchasing a new vehicle it was discounted 1100 USD (15,000 MXP) from the price for exchanging an old one. Because of the red tape, bureaucracy and regulations in order to apply the discount the program turned out to be cumbersome and difficult to use (actually only the half of the budget was used and the remaining funds have been put on hold) and the subsidy was relatively small too. In the first semester of 2009, the auto production and export fell by 42% in comparison with the previous year's data and the domestic sales decreased by 30%. The above mentioned measures and the improved situation of Chrysler, General Motors and Ford reactivated although slightly the Mexican auto production and export, but nevertheless in the second semester of 2009 the productions', export's and domestic sales' setback was still 30%.

In Argentina and in Brazil in the first nine month of 2008 the auto production and sales achieved record levels, and the foreign investors even announced ambitious plans for the coming years in September. But at the end of the year both the local and foreign demand nosed down. In early 2009, the Brazilian automobile production fell by 51% and the Argentinean by 47% in comparison with the previous year's data. In Brazil due to the prompt government's response (it was greatly reduced the direct tax on industrial products "Impuesto del Producto Industrializado") between January and May of 2009 the sector already registered an average growth of 6.1%. It is important to mention, that the Brazilian automobile industry was built on different bases, than the Mexican one. First of all, it is characterized by a dynamic domestic demand; secondly, the region's economic cooperation built on Mercosur (Mercado Común del Sur) remained positive despite the crisis; thirdly, the Brazilian automakers produce compact, small cars equipped with flexible fuel efficient engines, which demand is increasing rapidly throughout the world (United States, Europe, Asia). In addition, the Brazilian government is supporting by different incentive programs the automobile industry and in its industrial policy the sector has got a key role in determining its dimensions and orientation. In the Brazilian investment incentive policy the automobile manufacturers and suppliers are particularly targeted. The sector's investments are promoted by various financial and fiscal incentives. The emergence and development of national automakers and auto part suppliers is supported by the government, like in China, or in India, or in South Korea.

The investments flows to the Mexican maquila-system operating textile industry dropped significantly owing to the United States' economic downturn of 2001, and respectively moved to the southern part of the Central American and Caribbean region (Salvador, Honduras, Nicaragua, Costa Rica) -because of the relative lower wages- or to Asia (Dorner 2005). However, the growing Asian competition made the Central American and Caribbean maquilas' situation also difficult. In 2006, Haiti and Nicaragua were the only Latin-American countries that achieved considerable

increase in their apparel exports. The U.S. economic slowdown of 2007 without delay impacted the confectionary industry; closures and redundancies took place immediately (the U.S. Hanesbrands company laid off 2500 persons in the Dominican Republic, 2200 in Mexico, while the Fruit of the Loom Company released 800 people from their duty.) In Nicaragua the number of employees in the textile industry decreased with 20 thousand people in 2008! Salvador was the only one that could remain successful in 2008 due to its new strategy (considering market niches, increasing value-added, vertical integration, quick response –flexibility– to the seasonal fashion changes). However, in 2009 the sector’s export declined notably also in Salvador as well as in Guatemala, in Costa Rica, in Honduras or in Nicaragua.

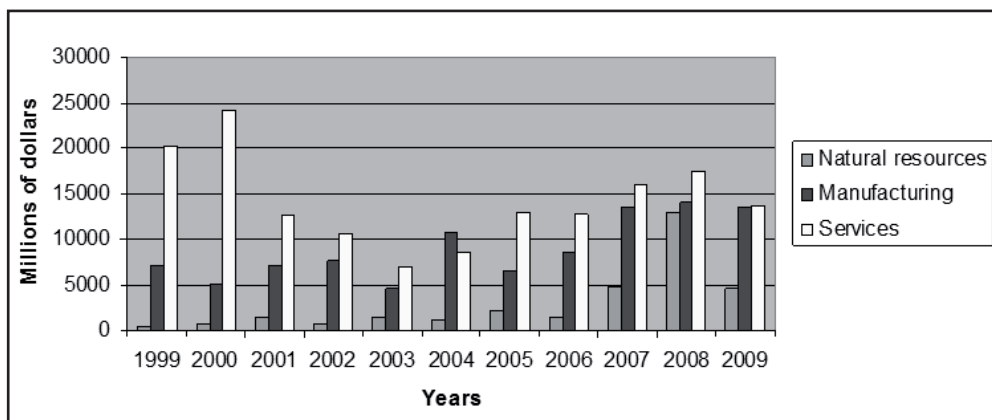
In Brazil, similarly to Mexico the services and the manufacturing are the most attractive sectors for the FDI (see Table 5 and 7; Figure 9).

Table 7
Brazil’s FDI inflows (sectoral distribution) – detailed data, 1999-2009
(Millions of USDs)

Brazil’s FDI inflows – 1999-2009 (Millions of USDs)											
BRAZIL	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Natural resources	423	649	1 494	638	1 487	1 073	2 194	1 542	4 751	12 995	4 581
Manufacturing	7 002	5 070	7 001	7 555	4 506	10 708	6 527	8 462	13 481	14 013	13 465
Services	20 147	24 157	12 547	10 585	6 909	8 485	12 915	12 702	16 073	17 449	13 634

Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010.

Figure 9
Sectoral distribution of FDI inflows in Brazil, 1999-2009



Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010.

Within the Brazilian manufacturing the most buoyant sectors are the automotive, the wood and paper, the metallurgy and the food industries; and from 2007 onwards also the natural resources-based industries (oil refining, ethanol and chemical production) attract significant FDI. From that time the metal mining raised considerably foreign attention too. Since the manufacturing sector in Brazil serves rather the domestic market and its export is not based on the U.S. demand the economic decline neither in 2008 nor in 2009 was that bad than in Mexico. On the whole, owing to the Brazilian, the Uruguayan (paper mill) and the Peruvian (ethanol production) raw material processing investments the South American manufacturing sector remain active.

4.1.3. The tertiary sector

In the service sector are still the telecommunication (by the Mexican Telmex and America Movil, the Spanish Telefonica SA) and the retail (by the U.S. Wal Mart, the French Carrefour, the Chilean Farmacias Ahumada, and the Mexican Elektra) the most popular investment destinations. In the bank sector the Brazilian Itau was extremely active in 2006: it purchased the BankBoston branches of the Bank of America in Brazil, in Chile and in Uruguay. Then in 2007, the Spanish Santander carried out a large acquisition in Brazil purchasing the Brazilian red of the Dutch ABN AMRO. Between 2006 and 2007 the financial sector, the real estate, and the tourism attracted foreign investors in Costa Rica, and in 2008 the agriculture investments raised the attention. In the Dominican Republic as well the tourism, the real estate, and the telecommunications were the most popular FDI destinations during 2006 and 2007. Then in 2008, the capital inflows to these industries declined and the primary sector became prominent. In 2007, Salvador's and in 2008 Trinidad and Tobago's bank sector received large Canadian capitals. The financial institutions reacted differently to the crisis of 2008; some of them left the Latin American market and focused on their own domestic sales (the U.S. AIG, the British HSBC); while others (the Spanish Santander in Brazil), on the contrary, expanded in the region taking advantage of the current low purchase prices. Like in retails, some of them postponed their planned expansion (Ripley) due to the crisis, while others (Wal Mart) –the financially strong ones– continued to grow. The tourism was negatively affected by the global crisis; many airlines reduced their number of flights to the region. The region's luxury real estate market recorded a decline as well, and the number of visitors in the Caribbean also decreased. The Dominican Republic's largest resort complex construction project laid off hundreds of workers owing to the financial difficulties.



At the same time there is a growing pressure on the foreign investors due to the local competition.

However, the services such like the water and electricity supplies are recently less attractive because of the problems incurred during the disputes settlements in the past. Actually in 2007, continued the disinvestment trend begun in 2003 in the electricity services.

4.2. The sectoral preferences of the Trans-Latins

The sectoral distribution of the LAC region's capital outflows shows the following landscape: In 2006 the main target is the primary sector, followed by the raw material manufacturing and telecommunication. The Brazilian investments focused on natural resources based processing (cement, iron, steel, oil and gas), wood and paper, automotive industries and on the banking sector. The main targets of the Mexican outflows were the telecommunication, the banking sector, the cement processing, and the food industry. The Chilean capital preferred the mining sector and the retail. The Venezuelan and the Argentinean outflows were received by the gas and oil industry and in 2006; Argentinean capital investments were registered also in the steel manufacturing. In 2007, the LAC's outflows main target remain the gas and oil industry, the metal mining, the cement and steel processing and the food industry. Several Trans-Latins show significant activity in new industries such as the software (the Chilean Sonda purchased a Brazilian company), the petrochemical (the Brazilian and Colombian investments of the Mexican Mexichem) and the bio-fuel production (the Colombian and Dominican investments of the Brazilian Petrobras). In 2008 and in 2009, continues the trend already underway; the majority of the Latin American investments were captured by the mining industry, by the oil and gas sectors, and by the raw material (iron and steel) manufacturing and food industries.

5. The most important foreign investors in the region

In Argentina the majority of the foreign capital comes from the Netherlands, the United States, France and Germany. In the last two years, actually the U.S. capital investments increased considerably. In Brazil the most important foreign investors are the Luxembourgian, the U.S., the Dutch, the Spanish and the Japanese ones. In the case of Chile the most of the FDI comes from Canada, United States and Spain. With regard to Colombia there is a clear superiority of the U.S. investments, but it should be mentioned the Panamanian, the Spanish and the Mexican firms' activities as well. In Mexico the leading investor is the United States, which is reflecting Mexico's dependency on the U.S. economy. In addition, it has to be mentioned the

Spanish and the Canadian capital, and to a lesser extent the British and the Dutch investors. Analyzing the origin of the foreign direct investments in Latin America it is clearly observable the legacy of colonial relations, the significance of the cultural and linguistic heritage, the importance of the geographical proximity and the role of trade agreements (see NAFTA countries). (see Table 8).

Table 8
The largest foreign investors in the LAC region

	FDI inflows, 1999-2009 (Millions of USDs)				
	Argentina	Brazil	Chile	Colombia	Mexico
United States	8 058 a	51 611	9 018	11 202	12 3033
Netherlands	5 029 a	44 657	-	-	24 235
Spain	-	21 442	10 858	2 809	34 675
Canada	-	-	7 402	-	8 524
Germany	2 308 a	-	-	-	-
Japan	-	25 901	1 333	-	-
United Kingdom	-	-	-	4 458	6 475
México	-	-	1 298	2 280	-
France	2 975 a	-	-	-	-
Luxembourg	-	13 814	-	-	-
Chile	2 681 a	-	-	-	-
Panama	-	-	-	2 641	-

Source: ECLAC (CEPAL), based on official figures received until 28 of April of 2010 –own calculations.

a data available from 1999-2008.

• not significant.

6. Summary

6.1. The impact of the global crisis

The economic and financial crisis of 2008 affected the global FDI flows in 2009. In 2008, FDI inflows decreased only to the developed countries, while in 2009 also developing and emerging economies registered declines. By that year the global capital flows shrank by 39% (comparing with 2008) to 1.04 trillion USD. The FDI flow captured by LAC region in 2009 is 42% less than the 2008 record figure (77 billion USD). This year both sub-regions registered a decline, South America received by 40% (54 billion USD) and CAC by 45% (22 billion USD) less foreign capital than last year.

In Mexico the FDI inflows fell both in 2008 (by 20%) and in 2009 (by 51%) significantly; so for the first time Mexico was crowded out from the leading FDI



receptors of the region and got only the third place in the ranking: Brazil 25.9 billion USD, Chile 12.7 billion USD and Mexico 12.5 billion USD. In Central America the average decrease was 33%, but in Salvador in Honduras it was much higher (45%). In the Caribbean region also very high (42%) the decline mainly due to considerable drop of the capital inflows to Jamaica, Dominican Republic and Trinidad and Tobago.

Eventually, we can summarize in four points the reason for the decreasing investments' activities: 1) the difficulty of access to financial resources; 2) the sudden drop in commodity prices in late 2008; 3) the large-scale decline of export-oriented investments owing to the U.S. economic downturn; and 4) loss of interest of market-seeking investments due to the region's economic slowdown.

6.2. The participation in global production networks

The majority of the FDI inflows to LAC goes still to service sector despite the fact that since 2001 decreasingly. In 2009, the capital flows to the primary sector showed a large-scale decline due to the drop in commodity prices on the world market. Therefore the manufacturing sector got the second place again. Ultimately, the FDI flows to the region in volume- despite of the decrease –are significant (since the liberalization of the 90s is the 5th largest in 2009). The goods produced by the Latin American manufacturing industry in the framework of the foreign investments are mostly low or medium level of technological intensity. The R+D (research and development) share of FDI in the LAC region is very low, despite the upward trend. But the biggest problem is neither the small degree of the technology intensity, nor the few numbers of R+D projects, but the fact that the region could not become an integral part of the higher value-added global production chains.

6.3. The expected technology transfer

No doubt, that the FDI contributed to the infiltration of knowledge and technology into the LAC region; however in a much smaller extent, as it could be expected on the basis of the economic theories (Dorner, 2011). The Latin American reality shows us that the FDI rather served as the financial engine for the economic development, than the catalyst for the transfer of technology or for the structural changes. According to that experience it can be concluded that other conditions are necessary to establish in order the expected degree of technological diffusion to be emerged. A development policy should be created, which integral part is formed by the improvement of technological capabilities interpreted both the individual skills and the technological level of industries. In other words, this would include the coordination of the education, innovation and industry development policies.

6.4. The Trans-Latins' potential

Despite of the fact that in 2009 the Trans-Latins' investments decreased by 69%, the Latin American investors did not lose their dynamics. Essentially the significant downturn in the region was due to the Brazilian TNCs' negative net capital investments (-10 billion USD). In spite of the negative result the Brazilian companies showed considerable activity: they invested in the value of 4.5 billion USD abroad, but because of the repayments of the previous years' intercompany loans high amount of capital (14.5 billion USD) flowed back from the foreign subsidiaries to the Brazilian parent companies.

The positive trend is supported by the fact, that despite the crisis the Mexican, Colombian and Venezuelan capital investments abroad increased in 2009. The Chilean FDI outflows show an unprecedented activity in 2008 and in 2009: for this year Chile became the number one investor among the Latin American countries (the Brazilian negative capital contributed to it).

In 2009, among the investment projects carried out or announced by the Trans-Latins we can find a few, which are not focused on the Latin American region (United States, Portugal, Turkey, Poland, Russia); it means that the limited (within the area) expansion strategy also shows a positive change (for example the Mexican Grupo Bimbo SAB purchased the U.S. Dunedin for 2.5 billion USD).

According to the sectoral distribution of the Trans-Latins' investments we can already find some projects (besides the dominance of the primary sector) in the financial sector (the Mexican Grupo Financiero Banorte SAB purchased the U.S. Inter National Bank, and the Brazilian Banco Bradesco SA bought the Portuguese Banco Espiritu Santo SA), and some in the media (the Mexican Inmobiliaria Carso SA purchased the U.S. The New York Times Co.)

Despite of the fact, that Latin America's capital export share to the total capital outflows of the developing world is decreasing since 1970 (due to the Asian, and especially the South-East Asian FDI outflows) ; the potential of the Trans-Latins is encouraging, as well as the economic growth of Latin America. The recovery from the economic crisis for the emerging markets may be faster; and probably they will attract relatively greater amount of FDI in the coming years. The young population as well as the huge domestic market and demand of the LAC region could be the key to the economic growth rather than the export-oriented economic policy.

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