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Foreign Direct Investment
in Latin America and the Caribbean



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2013



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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*:

- Three dots (...) indicate that data are missing, are not available or are not separately reported.
- 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.
- 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 word "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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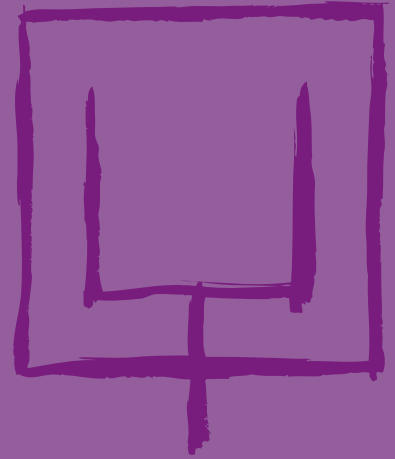
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Summary and conclusions

- A. Foreign direct investment in Latin America and the Caribbean
- B. Latin American and Caribbean transnational corporations: strategies and outcomes
- C. Effects of foreign direct investment on employment in Latin America and the Caribbean

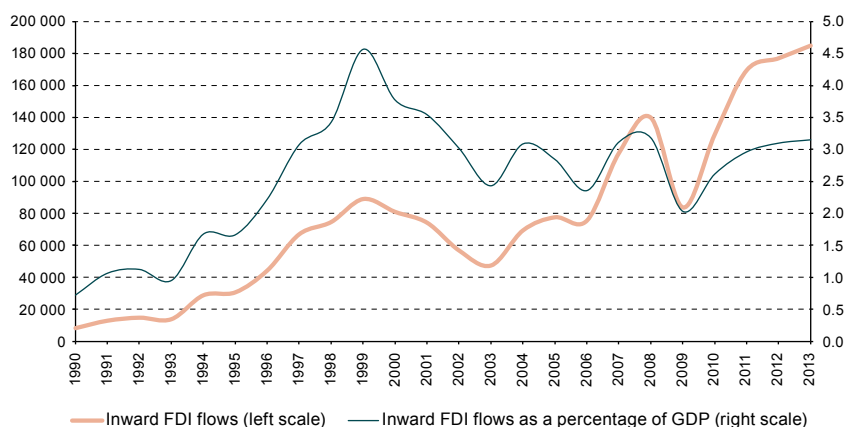
Foreign direct investment (FDI) in Latin America and the Caribbean reached a new all-time high in 2013, at US\$ 188.101 billion, 6% more than the 2012 figure. This means that FDI inflows were virtually stable for the third year running, especially measured in nominal terms.

A. Foreign direct investment in Latin America and the Caribbean

Global FDI flows rose by 11%, although behind this global figure lie large differences between regions. Whereas FDI in the European Union recovered strongly (38%), after a heavy fall in 2012 (-56%), flows to the United States slipped 5% and those to developing and transition economies were up by 6% and 45%, respectively.

Growth in the region slowed to 2.5% in 2013, and United States monetary policy sowed uncertainty in the markets, which led to heavy depreciation in the region's main currencies. Prices for natural resources, though still at high levels by historical standards, continued to fall owing to uncertainty regarding the economic situation in China and the developed world.

Figure 1
Latin America and the Caribbean: foreign direct investment inflows and FDI inflows as a proportion of GDP, 1990-2013^a
(Millions of current dollars and percentages of GDP)



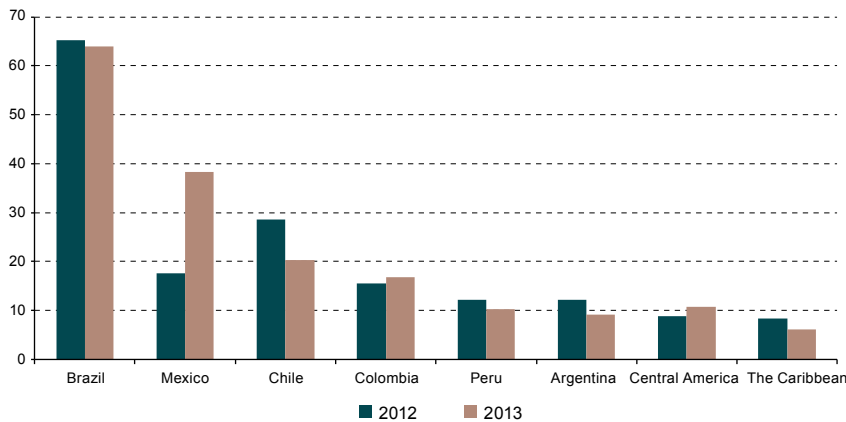
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 8 May 2014.

^a FDI figures indicate inflows of foreign direct investment, minus disinvestments (repatriation of capital) by foreign investors. The FDI figures do not include flows into the main financial centres of the Caribbean. These figures differ from those set out in the 2013 editions of the *Economic Survey of Latin America and the Caribbean and the Preliminary Overview of the Economies of Latin America and the Caribbean* because they show the net balance of foreign investment, that is, direct investment in the reporting economy (FDI) minus outward FDI.

The fact that FDI flows overall held steady despite the external conditions was largely a reflection of the US\$ 13.249 billion purchase of Modelo, a beer maker, by a European firm. Without that transaction, flows into the region would have been down on the 2012 figure. The Modelo acquisition also regained Mexico its position as the second largest recipient of FDI in the region, with total inflows of US\$ 38.286 billion, over double the amount received the year before. Mexico thus ranked behind Brazil, which received US\$ 64.046 billion in FDI, 2% down on 2012 but ahead of Chile, which received US\$ 20.258 billion, 29% less than in 2012. Investment was sharply up in other economies in the region, as well, including Suriname (86%), Panama (61%) and the Plurinational State of Bolivia (35%). Overall, FDI in Central America rose considerably (21%), while flows to the Caribbean declined (-31%).

By sector, services received the highest proportion of FDI inflows in 2013, with 38%, followed by manufacturing (36%) and natural resources (26%). As noted in relation to the global figures, however, these averages mask large differences between countries and subregions. With the Modelo acquisition, Mexico's manufacturing sector accounted for around 70% of the country's investment inflows. Natural resources capture over 50% of FDI inflows in several countries, and as much as 70% in the Plurinational State of Bolivia. In fact, in South America (not including Brazil), natural resources receive more FDI than services, and manufacturing only small amounts.

Figure 2
Latin America and the Caribbean (selected countries): inward foreign direct investment, 2012-2013
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

Not all FDI in the region represents a net inflow of capital. Reinvested profits of transnational corporations are a component of FDI that has increased in the past decade, exceeding capital contributions in the last few years. In 2013 this trend was broken and capital contributions accounted for 42% of total FDI, reinvested earnings 38%, and inter-company loans 20%. Although reinvestment of profits was lower in 2013 than in 2012, the profits reported by transnational firms rose 2%, to US\$ 111.662 billion. Even so, in some economies that receive a lot of FDI in mining (such as Chile and Peru) profit reinvestment was heavily down.

The different economies in the region also showed large differences with regard to the countries of origin of the investments. The United States remains the largest investor in Latin America and the Caribbean generally, with a particularly prominent role in Central America (30% of inflows) and Mexico (32%). Europe overall is the largest investor in Brazil (46%), Mexico (54%) and Colombia (36%). In all the countries except Mexico, trans-Latin firms make significant contributions to FDI flows IED. This is especially true in Ecuador (where FDI by trans-Latins accounts for 46% of inflows), Colombia (30%) and Central America (39%). Inflows from Asia have held steady.

Contrasting with inward investment, outward FDI was down by 30% in 2013, at US\$ 32.617 billion, one of the lowest figures for the past decade. The fall may be attributed chiefly to a large drop in outflows from Chile and Mexico, and to the fact that Brazil recorded negative outflows for the third year running. The only country to buck the trend was Colombia, which made outward investments worth US\$ 7.652 billion in 2013, compared with slightly negative outflows in 2012. Of the 20 largest mergers and acquisitions by trans-Latin firms, seven originated in Mexico, five in Brazil and five in Colombia.

In Latin America, FDI inflows have stabilized at a high level in the past three years, but the impact of these investments on the well-being of the region's inhabitants is still a matter of debate. In theory, investments from developed economies should bring technological progress which can spill over to other firms and sectors in the host economy. On the other hand, FDI is a broad concept which includes both greenfield investments (which create or expand production capacity) and mergers and acquisitions which represent merely a change in the ownership of assets. The two types of investment have very different impacts on the local economy.

The impact of FDI depends to a great extent on the type of investment. Investments in technology-intensive sectors have more potential to contribute to development through knowledge transfer and local capacity-building. But FDI in high-tech manufacturing represents only a small proportion of the total and showed no change in 2013. It is also important to recall that the capacity the subsidiaries of foreign companies have to form linkages with local firms is just as—if not more—important than the technology intensity of FDI.

FDI flows will remain generally stable over 2014, although trending down slightly. This year's economic growth will be only slightly better than last year's, and the prices of export commodities, especially minerals, seem unlikely to regain the levels they had reached before starting to slip over the past two years. Accordingly, ECLAC estimates that variation in FDI flows will be between -9% and 1% with respect to 2013, depending on whether a number of large acquisitions go through.

B. Latin American and Caribbean transnational corporations: strategies and outcomes

Over the past decade, the global economic landscape has changed rapidly as emerging economies have taken on a more active and prominent role. This is a process that has gathered momentum as a result of the international financial crisis, which hit advanced economies hard. While it is true that larger countries, mainly the BRICs (Brazil, Russian Federation, India and China) have been at the forefront, the trend has gradually spread to include an increasing number of new actors.

Foreign direct investment outflows from developing and transition economies are one indicator of this tendency. Between 2003 and 2013, the developing countries' share of total outward FDI jumped from 10% to 39%. The most active regions were East and South-East Asia, which accounted for more than 50% of these capital flows, and Latin America and the Caribbean, which lagged behind somewhat. In consequence, South-South FDI has boomed in the past 20 years.

Transnational corporations from developing countries generally venture into international operations because they need to gain access to strategic resources, which allow them to overcome initial obstacles arising from technology gaps and their lack of experience as latecomers to the international markets. Internationalization has thus become a strategy for strengthening these corporations' inherent advantages, by accumulating resources and assets that were previously unavailable.

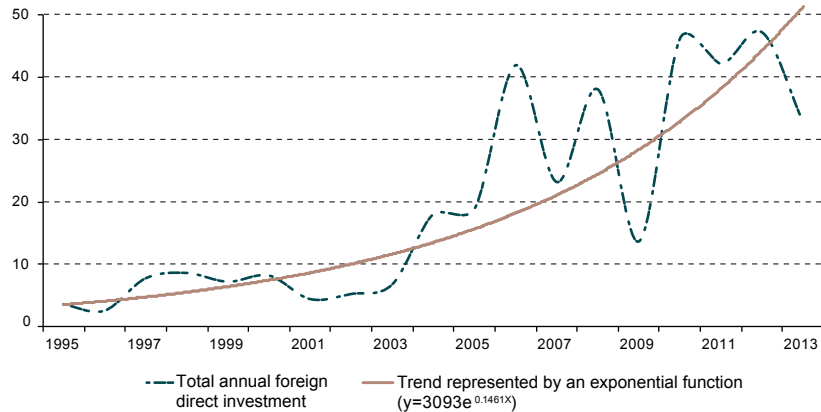
This process may be explained by two significant sets of factors. On the one hand, push factors are determinants that are specific to the country of origin and which lead to domestic investment being replaced by foreign investment. They include the size, saturation and competitive level of the domestic market, the production structure, technology assimilation, production costs, the supply of natural resources and an underdeveloped capital market. On the other hand, pull factors are those that attract FDI to recipient countries. They include the investment climate and risk, the legal and tax environment, economic performance, the natural resource supply and the host country's participation in free trade agreements and other international agreements.

In the largest countries, such as China, there has been significant government interference in foreign investment, while in small countries the primary push factor is the size of the domestic market. In the sectors where corporations from emerging economies are highly active, it is common for these firms to acquire companies in industrialized countries, or to forge partnerships with them, in order to compete with the dominant transnational corporations. As regards pull factors, the globalization process is increasing in importance since it offers opportunities for many new players.

Latin America has not remained on the sidelines of this process, and more and more of the region's enterprises are beginning to invest outside their home countries. Initially, the vast majority of trans-Latins came from a small group of countries: Argentina, Brazil, Chile and Mexico. These corporations operated in sectors related to the abundant natural resources available in their home countries, in basic infrastructure services such as power and telecommunications,

and mass-market services such as retail trade, air transport and finance. The first stage of international expansion was focused on nearby markets in the same region, and subsequently —mainly in the case of firms from larger countries— spread to more distant markets, first in North America and later, albeit on a much smaller scale, in the European Union, Asia, Oceania and in some cases, Africa.

Figure 3
Latin America and the Caribbean: outflows of foreign direct investment, 1995-2013
(Billions of dollars)



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

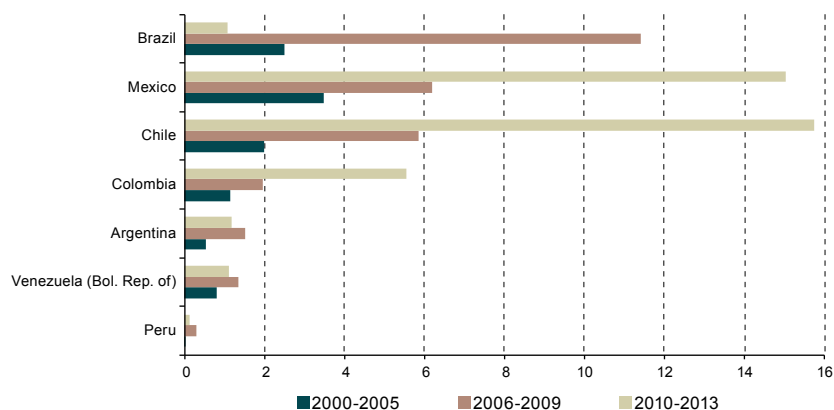
In Latin America and the Caribbean, push factors depended on the characteristics and conditions of home countries: size, economic performance, business development, the supply of natural resources, government support and geographical proximity to other markets. Noteworthy factors in the largest countries included the saturation and in some cases the volatility of their domestic markets; the fact that competitive advantages in the local market, often with State protection, allowed them to explore new markets abroad, and the possibility of meeting the needs of immigrant communities abroad, primarily in the case of Mexico. Corporations from Argentina, Brazil and Mexico, in which defensive strategies formerly prevailed, thus shifted towards more aggressive strategies, acquiring foreign assets in order to rapidly expand their international operations and footprint.

In medium-sized countries, the main push factors included a high share in small, saturated markets; the need to open new export markets and consolidate existing ones, access to international financing, access to raw materials and early economic reforms sustained over long periods.

Notable pull factors included the progress made by neighbouring countries on economic reforms, especially the opening of economies to foreign direct investment, and prolonged periods of stability and economic growth, which had a positive impact on the population's purchasing power. On the other hand, the international financial crisis, which severely affected developed countries and their corporations, provided the trans-Latins with interesting opportunities to access new assets in advanced economies, or to strengthen their position in Latin American markets.

In recent years, this process has seen the participation of new actors, beginning with Colombian corporations and more recently those from Peru, Central America and the Caribbean. The push and pull factors are similar to those observed in the first wave of foreign direct investment by Latin American corporations. However, other factors are involved and are beginning to take on importance. First, the abundance of foreign capital and the existence of productive sectors with a growing inclination to export have brought local enterprises into closer direct contact with the dynamics of international markets. Undertaking new challenges abroad is now less complex and less of an unknown than it was some years ago. Second, Latin American transnational corporations were already operating in the home countries of the new trans-Latins, which gave them the awareness that it was possible to venture into new overseas markets. Growing familiarity with such trends will undoubtedly contribute to further expansion into other markets and countries. Moreover, as subregional integration is strengthened and deepened, opportunities for such undertakings will become more numerous and the expansion process will become simpler.

Figure 4
Latin America and the Caribbean: foreign direct investment by the main investor countries, annual averages, 2000-2013^a
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
^a Data for Argentina and Colombia cover up to the third quarter of 2013.

C. Effects of foreign direct investment on employment in Latin America and the Caribbean

In recent decades, the belief has taken hold in various spheres of decision-making that FDI is a driver of development in recipient economies, since it makes a significant contribution to modernization, increased production and, consequently, job creation. In keeping with this view, attracting FDI has been a cornerstone of many countries' development strategies, with the magnitude of the inward investment in local economies sometimes even regarded as being more important than the type of investment received.

There is also a widespread consensus as to the importance of creating quality jobs in order to share the fruits of economic growth and increased productivity with a greater proportion of the population. Capital accumulation, technological change and an increasingly qualified labour force, encouraged by an appropriate regulatory framework, have a positive influence on labour productivity and contribute to high and sustainable growth trends. This in turn helps create quality jobs, making the process socially sustainable, while the rise in consumption stimulates aggregate demand, feeding a virtuous circle of growth.

Strong investment inflows into Latin American and Caribbean countries exert enormous influence over these economies, while also raising a number of concerns over the characteristics that such investments imprint on these countries' productive specialization profiles and, especially, on their domestic labour markets.

Based on the available information, an analysis was performed on some of the employment impacts of investment by transnational corporations, in terms of the number of jobs created and their quality. The goal was to contribute inputs to the debate over the extent to which this type of social stakeholder helps improve working conditions in the region.

An initial finding of the study is that transnational corporations are a secondary source of job creation.

During the 1990s, the most significant FDI processes were privatizations, mergers and acquisitions, especially in South America. During this period, most investment did not create new productive capacities to spur the recruitment of additional workers, but instead was associated with companies' restructuring processes, which implied rationalization measures and labour shedding.

Nevertheless, this initial stage, dominated by changes in ownership, also witnessed sustained growth in the proportion of investments in different sectors and regions. It is estimated that greenfield investments represented around 60% of inward FDI in the region between 2003 and 2013, following an upward trend (from 50% of FDI in 2003-2007 to 70% in 2010-2013).

A higher proportion of greenfield investments results in a greater contribution to direct job creation; however, it is estimated that these investments only accounted for about 5% of net job creation in the region in the period 2003-2013 (in an optimistic calculation).

The jobs content of these greenfield investments varies extensively according to the sectors and subregions in which they are made, and depends on the profile of the projects implemented. One factor that explains the low impact of FDI on job creation is that much investment is channelled into primary activities and the initial stages of industrial processing, sectors that are more capital intensive. For every US\$ 1 million invested, only one job is created in extractive activities, while the same investment creates two jobs in natural-resource-intensive manufacturing. These sectors accounted for about 47% of investment amounts and 25% of new jobs announced in investment projects during the 10-year study period.

Extractive activities thus have a limited impact on direct job creation, and even though the wages paid to these workers tend to be high, the labour market cannot fulfil its role in the primary income distribution. The State takes on a decisive role in these sectors.

Investment resulting from fragmentation and offshoring strategies in the manufacturing and services sectors involves separating productive processes into labour-intensive stages and skills-intensive stages. This tends to bring about a dual structure of wages and benefits, divided between developed and developing countries. Although a large proportion of new jobs are created in labour-intensive sectors (9% of jobs announced in manufacturing and 13% of jobs announced in services), it is observed that projects in manufacturing and labour-intensive services (textiles, clothing and call centres, for example) are seeing their share of job creation decline at the expense of higher growth in more complex activities.

In Argentina, Chile and Ecuador, it was possible to develop a second approach to the measurement of transnational corporations' impact on employment in the region, which was more structural since it reflected foreign investment accumulation processes over the long term. In these countries, transnational corporations accounted for between 12% and 17% of formal private employment, with a higher share of up to 50% in extractive activities. Transnationals also had a substantially greater impact on employment when considering the countries' largest firms, a group in which transnational corporations tend to be overrepresented. While no estimates of indirect job creation attributable to transnational corporations have been produced at this juncture, previous research indicates that there are few linkages between these firms and local suppliers and customers, meaning that indirect impacts on local employment are expected to be limited.

The study demonstrated that transnational corporations tend to promote better paid jobs (20%) in the Latin American and Caribbean countries that were studied. Wage gaps varied in size depending on the type of estimate produced, but significant positive results were found in all cases, associated with higher levels of labour productivity. Prior studies also detected that subsidiaries carrying on knowledge-intensive economic activities were responsible for indirect effects as a result of knowledge spillover to the local production system. However, these findings have more to do with the technological complexity of the sector than they do with the firms' foreign ownership.

No evidence was found to confirm impacts on other aspects of employment quality, such as greater job stability or a greater participation of women in the workforce.

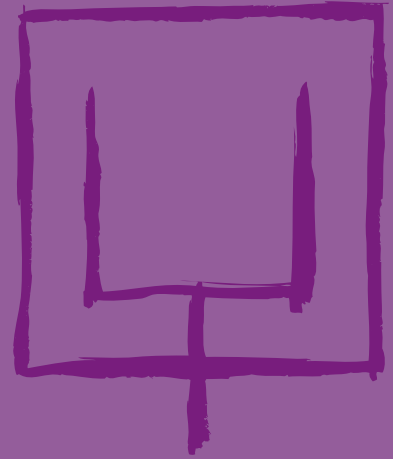
The findings of different research studies on labour-relations models in Argentina and Mexico, while highlighting the existence of a wide variety of behaviours, tended to offer greater support for the theory that transnational corporations adapt to local contexts.¹

¹ There effects of the interactions between transnational corporations and the labour institutions of host countries are fiercely debated. The convergence theory suggests that transnational corporations transfer the prevailing labour practices in their countries of origin to the host countries, so that the institutional frameworks in the host countries must adapt. The opposing point of view holds that the success of transnational corporations depends on their capacity to adapt to the institutional framework of the host country, which is not significantly altered in their favour.

In Argentina, the evidence indicates that the country's labour institutions generally have an important presence, and that European companies tend to adapt to the local labour-relations system to a greater extent than US-based firms, which is confirmed by lower union membership among workers in the latter. In Mexico, it was noted that firms of European origin are not transferring best practices in collective representation, which are assuming greater importance in their home countries, to their Mexican operations.

The study of labour relations, not just in the region's large countries but also in its smaller ones, is especially important given that foreign direct investment is a highly concentrated economic phenomenon. For the period between 2003 and 2013, some 250 economic groups (5% of total foreign investors) accounted for 68% of announced investment amounts and 55% of the direct jobs that were created.

In view of the evidence analysed and considering the complexity and heterogeneity of the globalization process, it was noted that transnational corporations have adopted a range of strategies and obtained various results, depending on the countries, sectors and regions in which investments were made and taking into account the differences in markets, institutions and cultures. This means that while it is useful to reach conclusions at an aggregate level regarding the actual contribution of foreign direct investment to the different dimensions of recipient countries' development, this level of analysis is insufficient. It is important to consider the growing heterogeneity of the phenomenon, and to generate an increasing volume of information that will enable an assessment of the investment types with the most favourable impacts on recipient economies.



Overview of foreign direct investment in Latin America and the Caribbean

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E. FDI inflows by country

1. Brazil
2. Other South American countries
3. Mexico
4. Central America
5. The Caribbean

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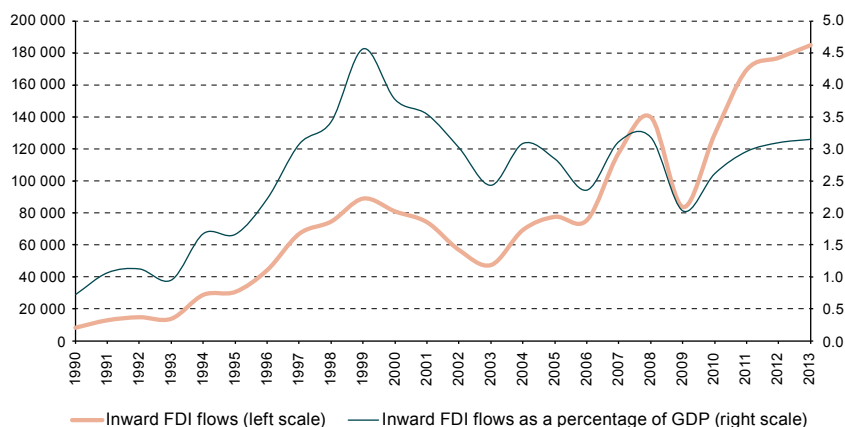
Annex

A. Introduction

Foreign direct investment (FDI) in Latin America and the Caribbean remained stable in 2013. Total inflows reached US\$ 188.101 billion, an increase of 6% in nominal terms compared with the previous year. Conditions remained conducive to FDI in the region, and transnational corporations made slightly higher profits than in 2012. FDI outflows were much more volatile and, after a large increase in 2012, they dropped by 30% to US\$ 32.617 billion in 2013.

Although FDI inflows in nominal terms reached all-time highs during the past three years, FDI represents a smaller proportion of GDP of the Latin American economies than it did at the turn of the century (see figure I.1), when privatization programmes and liberalization were at their peak in many of the region's economies. For the past two years, FDI has remained at 3% of GDP.

Figure I.1
Latin America and the Caribbean: foreign direct investment inflows and FDI inflows as a proportion of GDP, 1990-2013^a
(Millions of current dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 8 May 2014.

^a FDI figures indicate inflows of foreign direct investment, minus disinvestments (repatriation of capital) by foreign investors. The FDI figures do not include flows into the main financial centres of the Caribbean. These figures differ from those set out in the 2013 editions of the *Economic Survey of Latin America and the Caribbean and the Preliminary Overview of the Economies of Latin America and the Caribbean* because they show the net balance of foreign investment, that is, direct investment in the reporting economy (FDI) minus outward FDI.

The determining factors attracting FDI to Latin America still hold, even though GDP growth slowed and key export commodity prices dropped slightly in 2013. This chapter examines the distribution of FDI inflows among countries and industries and attempts to identify the potential contribution of FDI inflows to the economies of the region.

FDI outflows from Latin America and the Caribbean remain very volatile and fell heavily in 2013. However, the long-term trend is for continued international expansion of trans-Latin corporations, as will be discussed in depth in chapter II.

B. Overview of foreign direct investment worldwide

In 2013, global FDI rose by 11% to approximately US\$ 1.46 trillion. This increase was somewhat larger than expected and should be considered a signal of economic recovery. Once again, developing economies accounted for more than 50% of total FDI inflows.

Developed, developing and transition economies all saw substantial growth in FDI inflows. Transition economies enjoyed a particularly strong year, with a 44.8% increase bringing flows into these economies to their highest ever figure. This surge was primarily due to the Russian Federation's 83% jump in inflows, to US\$ 94 billion.

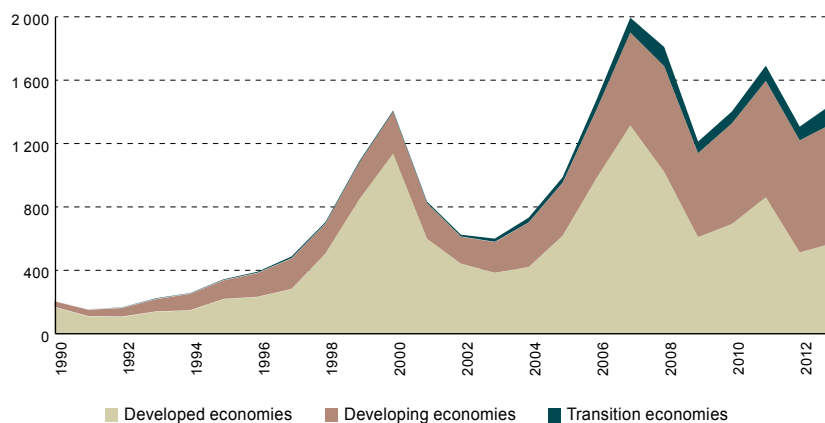
After the 40% drop in FDI into developed economies in 2012, it should come as no surprise that inflows increased during 2013, although the 11.6% expansion, to US\$ 576 billion, is not very strong in that light. The European Union, which suffered a particularly sharp drop during 2012 (with inflows down by 56%) recovered significantly, with a 38.2% increase to US\$ 286 billion. However, this is still very low compared to historical levels. Apart from 2012, the last time inflows to the European Union were this low was in 2004 (US\$ 227 billion). The reason why FDI in developed economies did not grow faster—despite the European Union's impressive rebound—lies primarily in Australia and the United States. Inflows to Australia slumped by 28% to US\$ 40 billion and to the United States by 5% to US\$ 159 billion. Notwithstanding, the United States continues to be the world's largest single recipient of FDI.

Although the developing economies' share of global FDI has decreased slightly, they continued to receive over half (52%) of global inflows in 2013, at US\$ 759 billion, which was 7% up on 2012. This figure is somewhat distorted by the 53% jump in flows to Caribbean financial centres, which may be attributed primarily to the involvement of a British Virgin Islands-based holding company (TNK-BP) in a huge deal between BP of the United Kingdom and Rosneft of the Russian Federation. Other developing regions showed smaller growth rates, such as Africa's 5.7% to US\$ 56 billion and Latin America and the Caribbean's growth of 6% to US\$ 188.101 billion. Developing Asia, on the other hand, saw a small drop in FDI inflows from US\$ 409 billion to US\$ 406 billion. Of the Asian subregions, the largest drop was observed in West Asia, where FDI inflows went down by 20% to US\$ 38 billion.

Global cross-border mergers and acquisitions (M&A) edged up by just 5% over the 2012 figure, to stand at US\$ 337 billion in 2013. The trends diverged strongly between developing and developed economies, with growth rates particularly robust in developing Asia. In Latin America and the Caribbean, the figure for M&A activity owes much to the purchase of Mexico's Grupo Modelo by Anheuser-Busch Inbev of Belgium for US\$ 13.249 billion. Overall, developing economies saw an increase of 64% to US\$ 88 billion in M&A. In Europe and the United States, M&A activity was down by approximately 10% during the year, but has shown some signs of recovering in 2014. Greenfield investments, on the other hand, were fairly constant between 2012 and 2013.

According to data from Bloomberg, the number of M&A announcements decreased by 6.5% worldwide in 2013. While developed Asia-Pacific and Eastern Europe showed small increases, most other regions saw fewer announcements in 2013 than in 2012. The largest decrease occurred in Latin America and the Caribbean, where M&A announcements dropped by 21%.

Figure I.2
Global flows of foreign direct investment by group of economies, 1990-2013
(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 2013*; *Global Value Chains: Investment and Trade for Development* (UNCTAD/WIR/2013), Geneva, June 2013; and *Global Investment trends Monitor*, No. 15, Geneva, 2014.

Table I.1
Global foreign direct investment inflows, variation and distribution, by region, 2005-2013
(Billions of dollars and percentages)

Region grouping or country	Investment flows <i>(billions of dollars)</i>						Variation rate <i>(percentages)</i>						Investment flows <i>(percentages)</i>					
	2005-2008	2009	2010	2011	2012	2013	2006-2008	2009	2010	2011	2012	2013	2005-2008	2009	2010	2011	2012	2013
World	1 572	1 217	1 413	1 701	1 313	1 461	25	-33	16	20	-23	11.3	100	100	100	100	100	100
Developed economies	988	613	696	866	516	576	23	-40	14	24	-40	11.6	63	50	49	51	39	40
European Union	623	359	379	473	207	286	9	-34	6	25	-56	38.2	40	29	27	28	16	20
United States	216	144	198	227	168	159	53	-53	38	15	-26	-5.1	14	12	14	13	13	11
South-East Europe and Commonwealth of Independent States	78	73	75	96	87	126	55	-40	3	28	-9	44.8	5	6	5	6	7	9
Developing economies	506	531	642	739	710	759	26	-21	21	15	-4	7.0	32	44	45	43	54	52
Latin America and the Caribbean	102	84	129	170	177	188	24	-40	55	31	4	6.3	7	7	9	10	13	13
Financial centres in the Caribbean	37	67	65	83	69	106	707	-6	-3	27	-16	53.4	2	5	5	5	5	7
Africa	44	53	44	46	53	56	24	-10	-18	6	15	5.7	3	4	3	3	4	4
Developing Asia	321	325	401	439	409	406	21	-18	23	10	-7	-0.7	20	27	28	26	31	28

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 2013*; *Global Value Chains: Investment and Trade for Development* (UNCTAD/WIR/2013), Geneva, June 2013; and *Global Investment trends Monitor*, No. 15, Geneva, 2014.

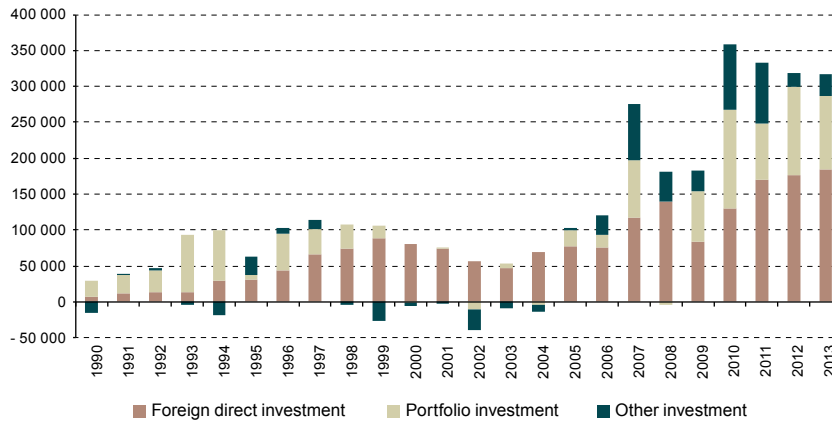
C. Inward foreign direct investment in Latin America and the Caribbean

FDI inflows in Latin America and the Caribbean reached US\$ 188.101 billion in 2013, 6% more than the previous year. Following the rapid rises in 2007 and 2008, 40% drop in 2009 and quick recovery of 2010 and 2011, FDI flows into the region have remained stable. Annual growth was modest in 2012 and 2013, especially considering that FDI is measured in nominal terms.

Over the past decade, the two main factors behind the rise of FDI were economic growth in the region and high international demand for export commodities. Both of these variables slackened in 2013, but not to an extent that represented a substantial change for investors. The region's GDP growth decreased to 2.5% in 2013 (ECLAC, 2014b), the lowest rate since the global financial crisis made itself felt in 2009. Nevertheless, private consumption, the key determining factor of market-seeking FDI, was up by 3.4% and, in the context of an uncertain recovery in developed economies, transnational corporations still see investment opportunities in Latin America and the Caribbean markets. The price of export commodities, especially gold and copper, declined in 2013 for the second year running, but still remained at levels that may be considered high from a historical perspective.

Financial market volatility and uncertainty in 2013 stemmed from the United States, particularly the Federal Reserve's May announcement of its intention to begin withdrawing quantitative easing, which has depressed yields in the United States and pushed investors towards emerging markets over the past few years. This immediately raised risk perceptions of Latin American economies, especially those that receive most FDI (Brazil, Colombia, Chile, Mexico, Panama, Peru and Uruguay) (ECLAC, 2013a), causing stock market losses and currency devaluations. However, the effect on capital inflows was limited. Portfolio inflows decreased slightly to US\$ 110 billion, while other capital inflows increased to US\$ 30 billion (see figure I.3). Moreover, portfolio flows in the main recipient countries dropped only during the second and third quarters and recovered quickly thereafter, boosted by an increase in bond issuance by corporate and quasi-government institutions (see section H).

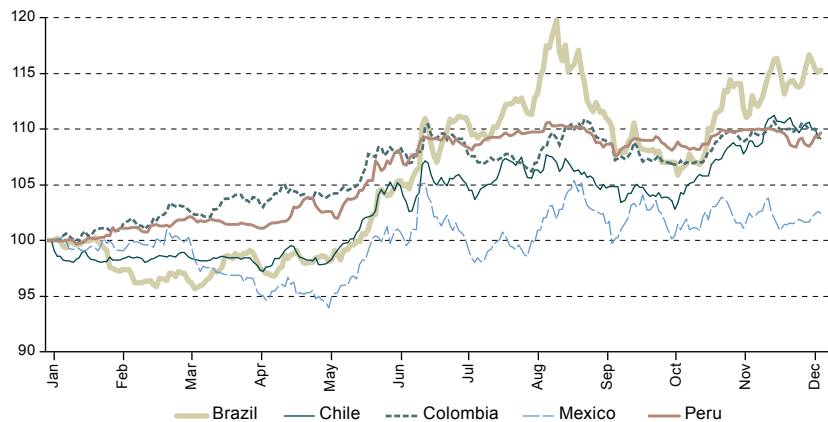
Figure I.3
Latin America and the Caribbean: inward cross-border capital flows (foreign direct investment, portfolio investment and other investment), 2000-2013
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

A more lasting effect of the Federal Reserve’s announcement was currency devaluation in most Latin American economies (as well as other emerging markets). The Brazilian real depreciated by 20% in three months and local currencies depreciated by approximately 10% in Chile, Colombia and Peru, partially reversing the appreciation of previous years (see figure I.4). Mexico’s currency, which had not risen as much as those of some other Latin American countries in the preceding years, showed no substantial movement in 2013. Currency depreciations affect the activities of transnational corporations at various levels. On the up side, they make foreign-currency acquisitions cheaper and export-oriented activities more competitive; on the down side they push down the value of assets in the local economy and reduce their earnings measured in foreign currency. Overall, these currency movements had no clear-cut impact on FDI, although companies with a large exposure to Argentina or the Bolivarian Republic of Venezuela (the countries suffering the largest devaluations in 2013) indicated that their financial results for the year would be affected.¹

Figure I.4
Latin America (selected countries): exchange-rate fluctuations with respect to the United States dollar, 2013^a
(Index: 1 January 2013=100)



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

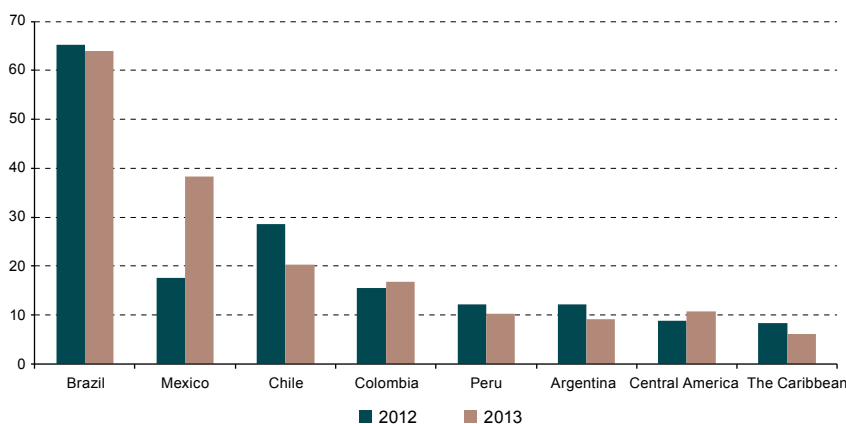
^a A rise in the index denotes currency depreciation, while a fall denotes currency appreciation.

¹ Telefónica of Spain reported that successive devaluations in the Bolivarian Republic of Venezuela over the past four years had lost it 4.6 billion Euros (El País, 2014), while Ford attributed costs of US\$ 310 million in the first quarter of 2014 to the devaluation of the Venezuelan bolívar (Foy, 2014).

Despite the increase in country risk mentioned earlier, investment decisions have not been affected by short-term concerns and the region is still receiving large flows of foreign capital. Nevertheless, these have been declining slowly since 2010 and international reserve accumulation in 2013 was consequently the lowest for a decade (ECLAC, 2013a).

The largest recipient of FDI inflows in Latin America and the Caribbean continues to be Brazil, with US\$ 64.046 billion in 2013, slightly less than in 2012. Mexico, the region's second largest economy, was again the second largest recipient of FDI, with US\$ 38.286 billion, a record figure thanks to the acquisition of Grupo Modelo mentioned earlier. Chile, Peru and Argentina received less FDI than in 2012, while Colombia received more (see figure 1.5). Central America received 21% more inflows in 2013, while FDI in the Caribbean was 31% down on 2012 owing to the fall in Trinidad and Tobago and to the fact that the 2012 figures used for comparison purposes were abnormally high owing to a large acquisition in the Dominican Republic.

Figure 1.5
Latin America and the Caribbean (selected countries): inward foreign direct investment, 2012-2013
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

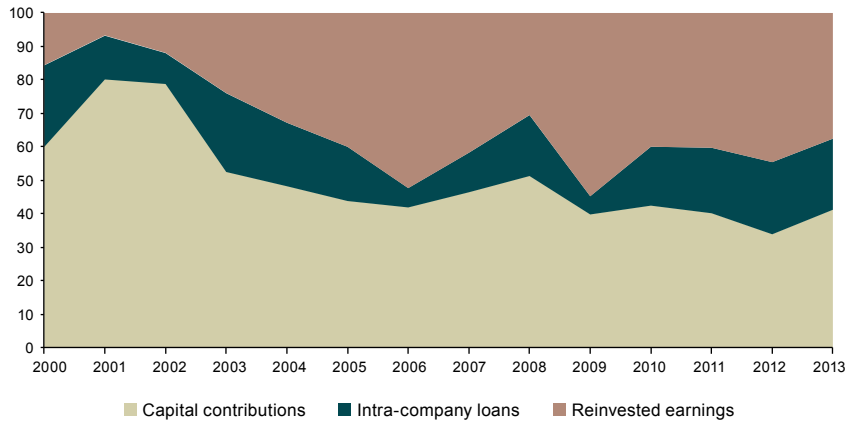
Not all FDI in the region represents a net inflow of capital: reinvested profits of transnational corporations form part of FDI (together with capital inflows and intra-company loans) and these rose in importance during the last decade (see figure 1.6).² Capital contributions, as the category under which acquisitions are registered, represent the most volatile component. This is why around the year 2000, a very large majority of FDI inflows into the region were in the form of capital contributions. As the stock of FDI in the region grew and the operations of transnational corporations became more important for the local economies, their reinvested profits came to form a larger part of FDI flows. In 2013 the trend reversed partially and reinvested earnings dropped to 38% of FDI inflows, mainly because of the large acquisition in Mexico mentioned earlier. For a detailed description of FDI by component in each economy, see table I.A.4 in the annex.

Despite this drop in reinvested earnings in the countries that register them (which does not include Brazil), FDI income (or the profits that transnational corporations can claim on their operations in the region) in Latin America and the Caribbean increased by 2% in 2013, to US\$ 111.662 billion. FDI income generated in Latin America and the Caribbean started to rise in 2003, grew very rapidly until 2008 and has remained at high levels since then.³ Average profitability (measured as FDI income divided by FDI stock) dropped from 7.2% in 2011 to 5.6% in 2013, but total FDI income remained almost stable because the total stock of FDI in the region has continued to rise.

² The breakdown of FDI by component is calculated on the basis of information from 25 countries, representing 63% of FDI in the region. Brazil does not include reinvested earnings in its calculation of FDI and is excluded for that reason.

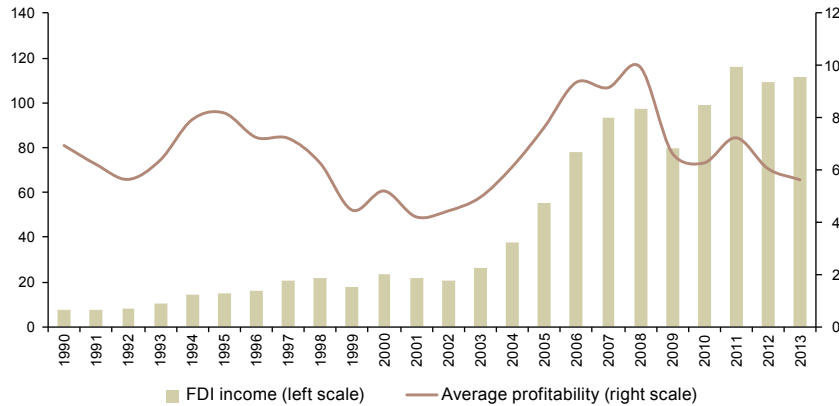
³ A detailed discussion on FDI income in Latin America by country and sector can be found in chapter II of ECLAC (2013b).

Figure I.6
Latin America and the Caribbean: foreign direct investment by component, 2002-2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

Figure I.7
Latin America and the Caribbean: FDI income and average profitability of FDI, 1990-2013
(Billions of dollars and percentages)

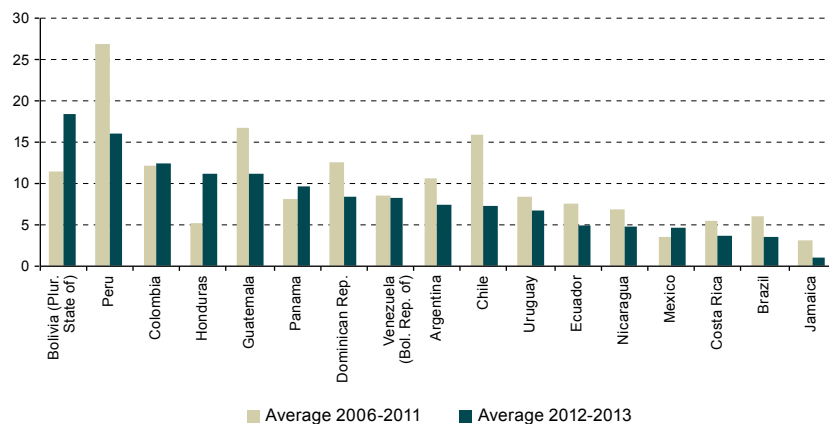


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

The drop in average profitability in 2012 and 2013 was particularly marked in countries with large FDI stocks in metallic mining, such as Peru, Chile and the Dominican Republic, and where profits in the previous years had been extraordinarily high (see figure I.8). Profitability also fell in Brazil, due to slower economic growth. In Jamaica this indicator fell from 3% to 1%, reflecting the impact of low economic growth and a fiscal crisis on the operations of transnational corporations in some Caribbean economies. On the other hand, transnational corporation subsidiaries became more profitable in the Plurinational State of Bolivia, Honduras, Panama and Mexico.

The long-term growth in FDI income generated in the region means that transnational corporations get back almost as much capital from Latin America and the Caribbean in profits as they invest. In 2013 outflows of FDI income from the region reached a level equivalent to 81% of the value of FDI inflows.

Figure I.8
Latin America and the Caribbean (selected economies): FDI income as a proportion of FDI stock, averages 2006-2011 and 2012-2013
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

For the first time, this edition of *Foreign Investment in Latin America and the Caribbean* also collects data on the stock of FDI. While this information is not available for all countries, there are some interesting patterns. Latin America's average is slightly above the 2012 global average of 32% of GDP (UNCTAD 2013). There are large differences between the countries in the region, however. Of the countries with data available, Chile has the highest FDI stock in Latin America, at 77% of GDP. Figures for Caribbean economies are likely to be higher, but only Jamaica (84% of GDP) has data. Other small economies with large stocks include Nicaragua (64% of GDP), Honduras (52% of GDP) and Costa Rica (44%) (see annex table A.1-5). Brazil's stock of FDI in 2013, at 33% of GDP, was somewhat below the regional average of 35%, but 50% higher than in 2005 and much higher than the figure for other large developing countries. The Russian Federation, India and China all have much lower stocks, at 25%, 12% and 10% of GDP, respectively.

D. Patterns of origin and destination of foreign direct investment

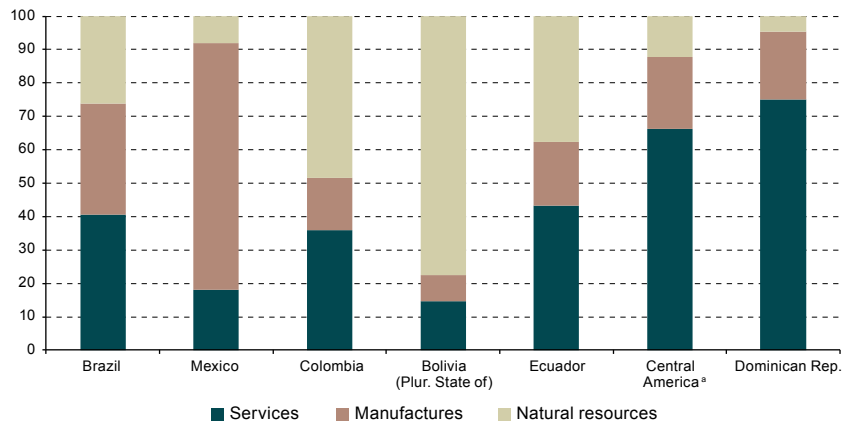
1. Distribution of FDI by sector

The distribution of FDI between natural resources, manufacturing and services across the region changes little from year to year. In 2013, services received an estimated 38% of the total, manufacturing 36%, and natural resources 26%. This fairly stable sector distribution reflects the fact that almost half of total FDI consists of reinvested earnings, which remain in the same sector. Besides, investors have a natural tendency to focus on those sectors in which host countries have comparative advantages, which are slow to evolve. On the other hand, conditions can change faster in individual countries, for instance, through regulatory changes or because of the entry or withdrawal of a large company, generating increases or decreases of FDI in certain industries (see section F).

The services sector receives a large share of FDI in almost all economies in the region, but the relative importance of natural resources and manufacturing depends on local conditions. Since the 1990s, FDI in the manufacturing sector has been more significant in Mexico and some of the countries in Central America and the Caribbean, which produce goods for export to the United States. On the other hand, FDI in natural resources was concentrated in

South American countries. Brazil has shown a more diversified pattern, as a large and relatively closed economy with a significant manufacturing sector producing for the domestic market. This pattern did not change substantially in 2013 (see figure I.9).

Figure I.9
Latin America (selected countries and subregions): sectoral distribution of foreign direct investment, 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.
^a Central America includes El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica.

FDI in natural resources is dominated by the hydrocarbons and mining industries.⁴ Investment conditions in oil and gas did not change in 2013 and inflows rose in all the countries for which there are data on those industries: Brazil, Colombia, the Plurinational State of Bolivia, and Trinidad and Tobago.⁵ Of these countries, foreign investors are the key players only in the Plurinational State of Bolivia and Trinidad and Tobago. In the Bolivarian Republic of Venezuela, Brazil, Colombia and Ecuador and, especially, in Mexico, national (State-owned) companies carry out the majority of extraction while foreign companies play a support role.

FDI in mining rose during the last decade, notably in Chile, Peru, Colombia, Brazil, the Dominican Republic and Mexico, on the back of high prices for metals and other minerals. This trend may have started to reverse in 2013, under pressure from two fronts. On the one hand, prices of metals have dropped for the past two years, although they have remained high by historical standards. On the other, extraction costs have risen substantially, mainly because of declining ore grades and higher costs for certain key inputs, such as energy. Average worldwide costs of extracting a pound of copper rose from US\$ 1.37 in 2009 to US\$ 2.11 in 2012.⁶ These two factors pushed the largest international mining companies into a restructuring process, which included selling some non-core assets and re-evaluating the feasibility of certain projects. Besides pressure from shareholders to raise their return on capital, mining companies worldwide are also facing increased demands from governments, communities and civil society regarding the social and environmental impacts of their activities. Responding to these demands can raise operational costs and cast doubt on the feasibility of certain projects (see box I.1).

While FDI in natural resources in large countries may be stationary or even declining, some Central American and Caribbean countries, such as Guatemala, Panama, Guyana, Suriname and Barbados, are only now beginning to play host to large mining and hydrocarbon projects. As a result, these economies are likely to become much more dependent on natural resources in the coming years (see section E).

⁴ FDI in forestry, fishing and agriculture has been growing and is important in a few countries, but the figures invested do not compare with those in oil and mining, which are much more capital-intensive. See chapter III of ECLAC (2013b) for a detailed description of FDI in agriculture in Latin America and the Caribbean.

⁵ Data for FDI in the oil sector in Argentina and the Bolivarian Republic of Venezuela were not available for 2013.

⁶ See Consejo Minero (2014).

Box 1.1**Mining companies and socio-environmental conflicts**

In April 2013, the Canada-based company Barrick Gold Corporation called an indefinite halt to work on its Pascua-Lama project, a gold mine on the Argentine-Chilean border. This decision was no doubt influenced by falling gold prices and rising costs, but a more immediate cause was a court ruling ordering the construction of the mine to cease following legal action brought by indigenous communities which had accused the company of reducing their access to water. This freeze has caused Barrick to take an asset write-down of US\$ 5 billion, which gives some idea of the magnitude of the project.

Pascua-Lama is perhaps the largest mining project to be suspended by a socio-environmental conflict in Latin America, but it is not the only one. Mining companies operating in the region (most of them transnational) are beset by ever-increasing numbers of such conflicts (Saade Hazin, 2013). The most common causes of contention are environmental (pollution, water use and the accrual of environmental liabilities) but complaints have also been made of human rights abuses, the displacement of communities, unfulfilled expectations of shared mining royalties and negative impacts on traditional production activities.

Conflicts of this type abound throughout the region.^a Although in Chile protest has mainly been confined to legal action, in Peru communities and groups opposed to mining projects have more frequently opted for direct action, which in one case in 2013 paralysed the Yanacocha mine, under the majority ownership of Newmont of the United States, for several months and caused Peruvian gold exports to fall by 25%. In Colombia the government halted coal exports by the Drummond Corporation, again from the United States, for reasons of marine pollution, and protests have delayed several major projects such as those run by AngloGold Ashanti in Tolima department and Eco Oro in Santander department (*The Economist*, 2014). In Uruguay, the Zamin mining company plans to invest more than US\$ 1 billion to develop the Aratirí iron mine, but the determined opposition to the project from society could make it difficult to implement. In the Dominican Republic another legal claim has been lodged against Barrick Gold for use of public spaces in its Pueblo Viejo project.

The mining boom that has raged in Latin America over the past decade has given rise to many conflicts. In Colombia the amount of land granted for mining operations rose from 1 million to 8.5 million hectares in the first decade of the century, but less than a quarter of licences were subject to any form of environmental authorization. What is more, the number of licence applications increased at such a rate that the procedure had to be suspended to process the backlog of requests. The country's National Mining Agency was established

in 2011 and the Ministry of Mines and Energy's Environmental and Social Affairs Office was set up the following year (OECD/ECLAC, 2014). Some countries with little tradition of mining have become host to large-scale projects that have also caused social conflict, as has been the case in Panama and in Costa Rica, where in 2010 the government declared a moratorium on all metal mining projects.

Quite apart from the growth of investment in mining, the number of complaints has risen because the affected communities are increasingly well informed and have more and more avenues open to them to make their voices heard. Governments are also taking steps to improve access to information and justice and to increase participation in environmental issues by undertaking institutional reforms, such as Chile's General Environment Framework Law of 2010 (ECLAC, 2013d). Provisions on rights of access to information may also be included in international agreements, such as the bilateral treaty on investment signed between Uruguay and the United States.

Another legal instrument that has facilitated citizen participation is International Labour Organization (ILO) Convention No. 169 concerning indigenous and tribal peoples, which stipulates that consultations with indigenous communities must be held before mining projects affecting them can be carried out. Fifteen countries in the region have so far signed up to the Convention, which has been instrumental in at least one important case, when in 2013 a Chilean court suspended work on the El Morro gold mine, owned by Goldcorp and for which investments to the tune of US\$ 3.9 billion had been planned, on the grounds that the consultation process did not comply with the Convention.

A third element that has fuelled citizen demands is the perception that mining companies have reaped exceptionally high profits over the past decade. Indeed, the profits of transnational corporations grew most strongly in countries in which foreign direct investment (FDI) was most concentrated in metal mining (ECLAC, 2013). In Chile, the aggregate profitability of FDI in mining was 25% per year between 2007 and 2011.

Citizen demands are not isolated measures and are not expected to subside any time soon. Companies will need to incorporate civil society's requirements for better management of social and environmental impacts into their projects as soon as possible, to minimize the possibility of conflict. Firms can also call for an institutional and regulatory framework that will deal with these demands in a manner that is both predictable and in accordance with the law. The goal should be to encourage responsible mining investments and to punish those that do not meet the expectations of sustainable development in the region.

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

^a For an analysis of major socio-environmental conflicts (not only those relating to mining) please see Acuña and Schatz, 2014. A more comprehensive list is available from the Atlas of Environmental Justice [online] <http://ejatlas.org/>.

FDI in manufacturing was pushed up in 2013 by the large acquisition of the Mexican beer maker Grupo Modelo, for US\$ 13.249 billion. This was the latest of a series of major acquisitions in the beer industry, which is undergoing a wave of consolidation across the region and worldwide.⁷ Other manufacturing sectors going through similar processes are the food and cement industries and, to some extent, steel and some segments of the chemical industry. These are important manufacturing sectors present in most countries in the region, which normally produce for the local market and form national oligopolies. In these industries consolidation at the regional and global levels takes place

⁷ The largest acquisitions in this industry in Latin America include the purchase of Cervecería Nacional Dominicana by Anheuser-Busch InBev for US\$ 1.237 billion in 2012 and of the FEMSA breweries in Mexico by Heineken in 2010 for US\$ 7.1 billion.

through foreign acquisitions, sometimes dramatically raising FDI inflows in manufacturing in certain countries and in given years. The merger between the world's two largest cement makers (Lafarge from France and Holcim, which is from Switzerland but has many subsidiaries in Latin America), announced in March 2014, signals that the trend towards consolidation will continue in the coming years.

Export-oriented manufacturing, on the other hand, is concentrated in Mexico and a few other Central American and Caribbean countries, and transnational corporations almost always enter the sector via greenfield investments rather than acquisitions. As far as it can be measured, this type of FDI has neither grown nor decreased over the past decade, despite the intensified global competition in many of these industries. Over the past two years, investments in export-oriented manufacturing have increased in the Dominican Republic, El Salvador and Nicaragua and have remained stable in Mexico, the largest recipient of this type of FDI, where the automotive sector has expanded notably (see box I.4).

Conversely, the withdrawal of the Intel plant from Costa Rica, announced in 2014, will significantly hit the country's manufacturing exports and highlights the risks of relocation in industries exposed to global competition and of attracting FDI principally on the basis of lower production costs.

FDI in services declined slightly in 2013, but still accounts for 38% of all flows into the region. During the past decade, most FDI in these sectors has been driven by growth in consumer spending. As millions of Latin Americans saw their incomes rise, they started to own mobile telephones, open bank accounts or shop in supermarkets, and most of these services were provided by transnational corporations. This trend continued in 2013. At the same time, some regulatory and technological changes occurring in the region are opening up new areas for FDI. This has been the case in recent years for investments in renewable electricity generation, which attracted new FDI in many countries. A similar effect could be seen in Mexico if the proposed reforms in telecommunications and energy prove successful.

Most FDI in services goes to a few capital-intensive sectors, such as finance, telecommunications and electricity. FDI in retail has also grown substantially in the past decade. FDI in tourism is key in some small economies (see the part on the Caribbean under section E) but the level of inflows across the region is not comparable to the sectors mentioned above. Real estate activities are also registered under the services sector and attract large FDI inflows in some small economies, sometimes related to the development of tourism projects.

FDI in infrastructure is also included within the services sector. With the exception of the telecoms and electricity sectors, FDI in infrastructure development has been modest in the region and concentrated in a few countries and subsectors in which the regulatory conditions are conducive to foreign investment, such as the motorway concessions in Chile,⁸ and port operations in Panama. Many Latin American governments are explicitly targeting FDI in infrastructure through new programmes and regulatory changes,⁹ but so far investments are materializing only in certain segments, such as airport management. Brazil has privatized five large airports in the past two years, most of which went to international companies.

Finally, services for export, such as business processing outsourcing (BPO), are not capital-intensive and do not attract large inflows of FDI, but they are becoming increasingly important for certain small economies and have been growing consistently in recent years. Their operations range from very basic call centres to sophisticated operations such as medical, software, legal and financial services and the value added in the country varies accordingly. In all cases, they require a relatively skilled labour force and have a large capacity for creating jobs (see chapter III for a full discussion on the impact of FDI on employment). This is why governments across Central America and the Caribbean offer generous incentives for companies in this industry, often through tax waivers but also in other forms. The Government of El Salvador, for example, provides English language lessons to 650 persons a year in order to enable them to become proficient enough to work in call centres.

⁸ See box I.1 in ECLAC (2013b).

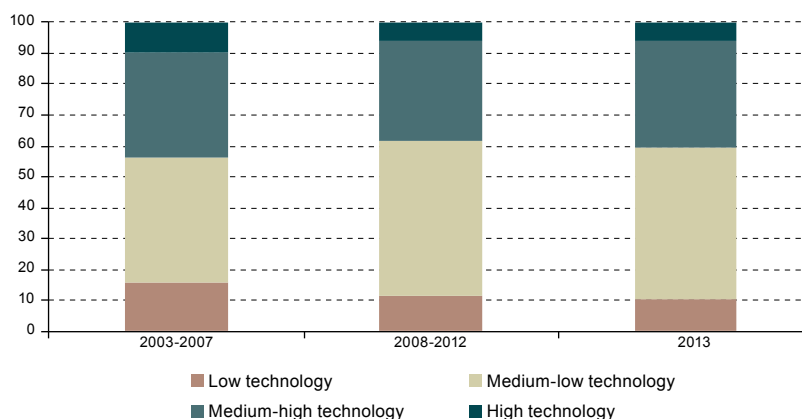
⁹ Under its National Infrastructure Programme for 2014-2018, Mexico plans to spend US\$ 586 billion, 40% of which should come from private investors. Paraguay adopted a public-private partnership (PPP) law in 2013 which could generate investment opportunities in infrastructure totalling US\$ 30 billion. In June 2013, the Government of Brazil adopted new regulations to facilitate private investment in ports. Guatemala recently created the National Agency for Partnerships for Development of Economic Infrastructure.

2. Technology intensity and research and development by transnational firms

As well as the distribution by sector, it is important to analyse the technology intensity of the investment. This is an important topic, because if macroeconomic theories are correct, technology spillovers should be the driving force behind the beneficial effects of FDI (Dries and Swinnen, 2004; Havranek and Irsova, 2011). Technology spillovers are obviously more likely to occur in the case of highly technological FDI rather than in low-tech industries (see also ECLAC, 2012).

The technology-intensity of FDI in Latin America and the Caribbean is examined by looking at projects announced in the manufacturing sector.¹⁰ Of all project announcements, only those in manufacturing are considered, since other categories such as mining and services are either difficult to categorize or do not have as clear a potential for technology spillover. We then use the OECD (2009) categorization to group manufacturing projects in high, medium-high, medium-low and low technology categories. Figure I.10 shows that the share of high-tech projects in total manufacturing was lower in 2013 than in either 2003-2007 or 2008-2012. On a year-to-year basis, the 6.1% of high-tech in 2013 was also a significant drop from 8.3% in 2012.

Figure I.10
Latin America and the Caribbean: comparison of technology intensity of industrial FDI, 2003-2007, 2008-2012 and 2013
(Percentages)



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

At the same time, however, 2013 also saw a lower percentage of low-tech projects than the preceding periods. Rates have been even lower in individual years in the past (in 2010, only 5.5% of projects were considered low-tech). The general trend is clear, however: fewer projects in manufacturing are low-tech.

If high- and low-tech projects have both decreased in importance, medium-low and medium-high must have benefited. Even if the data are not entirely clean and there is significant variation between years, both those categories still appear to show a long-term uptrend. The medium-term trends, on the other hand, show a different picture. Since 2008, medium-low technology manufacturing appears to have lost ground steadily, while high-technology manufacturing has increased relatively rapidly. In the short run, the picture was reversed between 2012 and 2013: medium-low technology projects saw a significant jump during 2013, while medium-high technology projects dropped from 38.3% to 34.6% of all manufacturing projects announced. However, since this is only a single observation and the data concern only announcements, it would not appear to be a significant problem.

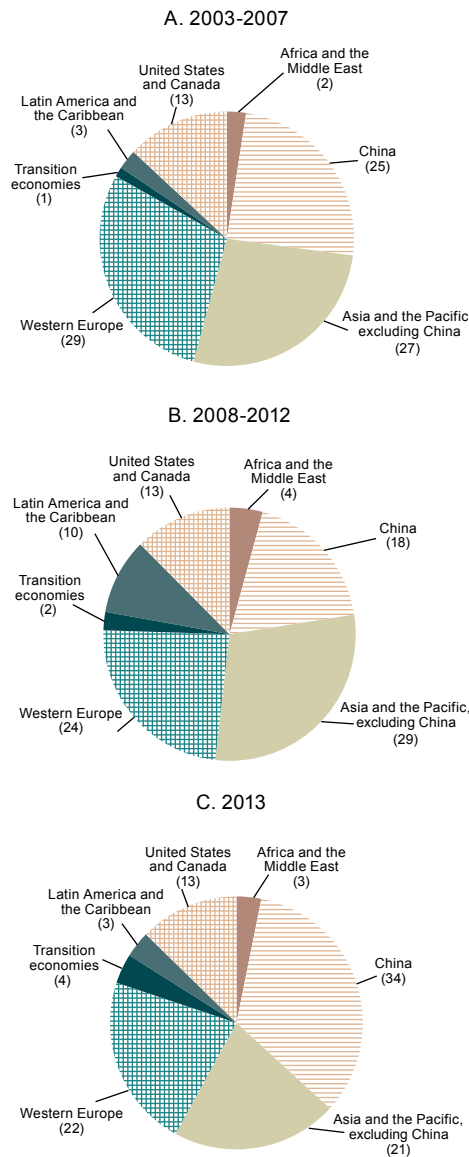
Another variable that reveals the quality of FDI in the region is the percentage of announced projects in research and development (R&D) activities (in any sector). First, 2011 was a special year in which a single project announcement

¹⁰ The data for this section comes from fDi Markets, a database on FDI projects as they are announced by companies. It is important to note that the projects included in the database may not have been implemented, or may be implemented over a number of years. However, the data allows trends to be observed over time.

(British Gas Group’s announcement of a US\$ 1.9 billion Brazilian R&D facility) affected even the global R&D figures. But even without taking that year into account, there is a small but distinct upward trend in Latin America’s share of global investment in R&D.

Figure I.11 compares different regions over a number of years. The primary change that can be observed is that Asia as a whole (including China) has been becoming more attractive as a location for R&D investment. This has happened primarily at the expense of Western Europe. The United States, on the other hand, retains its 13% share in international R&D investment. Transition economies, while coming from a very low base, also increase their share of this category of FDI. The exceptional performance of the Latin American and Caribbean region in 2011, which is clearly reflected in figure I.11B, masks the slight overall uptrend in its share of R&D investment over the past decade.

Figure I.11
Selected regions and groupings: distribution of research and development project announcements, by technology intensity, 2003-2007, 2008-2012 and 2013
(Percentages)



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

3. Largest investor countries

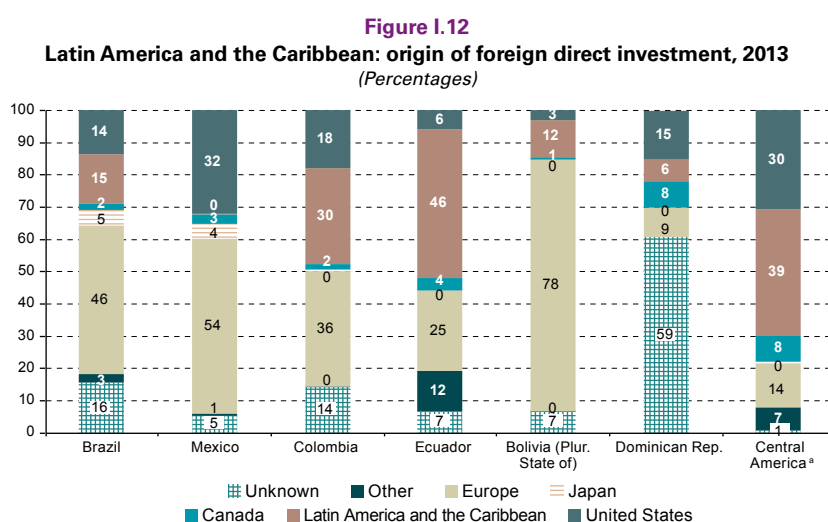
As a group, Europe was the largest source of FDI in Latin America and the Caribbean in 2013 (see figure I.12). Europe provided about half of all inflows in both Brazil and Mexico, in the latter case driven primarily by the Grupo Modelo takeover, itself accounting for over 7% of the region's entire FDI inflows in 2013. The Netherlands is the largest single European investor in Brazil and the second largest after Belgium in Mexico. In Colombia, Switzerland is responsible for about one third of European inflows. Flows from Spain were much lower in 2013 than in previous years, except in the Plurinational State of Bolivia where they made up 33% of all inflows.

The United States continues to be the single largest investing country, although its share dropped precipitously in both Brazil (from 21% to 14%) and Mexico (from 49% to 32%). In Central America, on the other hand, the United States share of FDI inflows edged up from 26% to 30%.

Together with Colombia, the Central American subregion is also among the most popular for trans-Latin companies. In Colombia, 30% of inflows originate elsewhere in Latin America and the Caribbean (down from 53% in 2012), while the figure is 39% for Central America. The regional figure, however, is strongly affected by the jump in regional-origin FDI flowing into Brazil, given that it is the region's largest recipient of FDI. In 2013, 15% of inflows into Brazil were from trans-Latin firms, nearly twice the 2012 share.

FDI from Asian countries was virtually unchanged in 2013, with stable shares across the board except in Mexico, where Asian FDI dropped to 5% of the total, down from 12% in 2012. Japan has traditionally been the largest investor in the region, followed by the Republic of Korea. Both countries have large manufacturing investments in Brazil and Mexico (mainly in the automobile and electronics sectors) and more recently have been increasing their investments in natural resources, usually as minority stakeholders in mining and oil operations. Chinese FDI is particularly difficult to track in the official statistics, but has been estimated to represent around US\$ 10 billion annually for the whole region since 2010 (Perez Ludeña and Chen, 2014). This trend appears to be holding steady, with Chinese FDI focusing on mining in Peru and oil extraction in Brazil, where there are also significant investments in manufacturing (see box I.2). The China National Petroleum Corporation (CNPC) had a 20% stake in the consortium that won the auction for the Libra oil field in Brazil and bought stakes in oil fields in Peru for US\$ 2.6 billion, while Minmetals and other Chinese companies bought Las Bambas mine in Peru from Glencore Xstrata for US\$ 5.85 billion in early 2014 (Wilson and Hume, 2014).

Tracking the origin of FDI is complicated by the fact that a significant share originates from economies considered transition destinations, such as the British Virgin Islands, the Cayman Islands and Luxembourg. FDI from the Netherlands is a special case within that group, because it comprises both investments that are genuinely from the Netherlands and other that are routed through special purpose vehicles (SPVs).¹¹ In figure I.12, FDI from the Netherlands is included under Europe, and FDI from other transition destinations is shown as origin unknown.¹²



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

^a Central America includes Costa Rica, El Salvador, Guatemala, Nicaragua and Honduras.

¹¹ See ECLAC (2012, box II.1).

¹² In addition to the three mentioned, the "unknown" category includes Bermuda, the Channel Islands, Jersey, Liechtenstein and Mauritius.

Table I.2 confirms the overall trend, with most of the largest M&As originating in Europe or the United States. Interestingly, trans-Latin firms also play a significant role in these large M&As, with two investments from Colombian firms and one from a Mexican firm. Anheuser-Busch InBev's purchase of Grupo Modelo is reported in table I.2 as being worth US\$ 19.763 billion, although only US\$ 13.249 billion were included as FDI into Mexico. The difference is explained mainly by subsequent sales of assets that belonged to Modelo. It is still one of the largest company acquisitions ever registered in the region.

Table I.2
Latin America and the Caribbean: 20 largest mergers or acquisitions, 2013

Company	Country of origin	Assets acquired	Asset location	Seller location	Sector	Amount (billions of dollars)
1 Anheuser-Busch Inbev	Belgium	Grupo Modelo SAB (65%)	Mexico	Mexico	Food and beverages	19 763
2 UnitedHealth Group	United States	Amil Participacoes (41%)	Brazil	Brazil	Health care	2 322
3 Bancolombia	Colombia	HSBC Panama	Panama	United Kingdom	Finance	2 234
4 Coca-Cola FEMSA	Mexico	Spaipa	Brazil	Brazil	Food and beverages	1 855
5 MetLife	United States	AFP Provida (90%)	Chile	Spain	Finance	1 841
6 Royal Dutch Shell	Netherlands/ United Kingdom	BC-10 block (23%)	Brazil	Brazil	Oil	1 000
7 Nutresa	Colombia	Tresmontes Lucchetti	Chile	Chile	Food and beverages	758
8 Yara International	Norway	Fertilizer production assets	Brazil	United States	Agriculture	750
9 E.ON	Germany	Eneva (25%)	Brazil	Brazil	Utilities	703
10 Blackstone	United States	AlphaVille Urbanismo (70%)	Brazil	Brazil	Construction	661
11 Koninklijke DSM	Netherlands	Tortuga Co Zootecnica	Brazil	Brazil	Agriculture	583
12 Cementos Argos	Colombia	Lafarge Cementos Honduras (53%)	Honduras	France	Cement	573
13 EIG Management Company	United States	Prumo Logistica (N/A%)	Brazil	Brazil	Infrastructure	562
14 Oil and Natural Gas Corporation	India	BC-10 block (12%)	Brazil	Brazil	Oil	529
15 Canada Pension Plan	Canada	Aliansce Shopping Centers (28%)	Brazil	United States	Real estate	480
16 Coca-Cola FEMSA	Mexico	Companhia Fluminense de Refrigerantes	Brazil	Brazil	Food and beverages	448
17 ENTEL	Chile	Nextel de Perú	Peru	United States	Telecommunications	400
18 Enagas	Spain	GNL Quintero (40%)	Chile	United Kingdom	Infrastructure	352
19 ACE	Switzerland	Fianzas Monterrey	Mexico	United States	Finance	293
20 CORPESCA	Chile	Sementes Selecta (60%)	Brazil	Brazil	Food and beverages	260

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

E. FDI inflows by country

About half of the countries in Latin America and the Caribbean saw FDI inflows decline, despite a rise in the aggregate figure (see table I.3). The largest increases occurred in Mexico, the Bolivarian Republic of Venezuela, the Plurinational State of Bolivia and Panama and the sharpest contractions, in El Salvador, the Dominican Republic and Chile.

Table I.3
Latin America and the Caribbean: foreign direct investment inflows by receiving country or territory, 2004-2013
(Millions of dollars and variation in percentages)

Country	2004-2007 ^a	2008	2009	2010	2011	2012	2013	Absolute variation 2012-2013 ^b (amount)	Relative variation 2012-2013 ^b (percentages)
South America	49 546	94 237	56 870	95 866	130 978	142 171	129 890	-11 929	-8
Argentina	5 350	9 726	4 017	11 333	10 720	12 116	9 082	-3 033	-25
Bolivia (Plurinational State of)	618	1 302	687	936	1 033	1 505	2 030	525	35
Brazil	21 655	45 058	25 949	48 506	66 660	65 272	64 046	-1 226	-2
Chile	8 584	15 518	12 887	15 373	23 444	28 542	20 258	-8 284	-29
Colombia	7 243	10 596	7 137	6 746	13 405	15 529	16 772	1 243	8
Ecuador	449	1 058	308	163	644	585	703	118	20
Paraguay	95	209	95	216	557	480	382	-97	-20
Peru	3 284	6 924	6 431	8 455	8 233	12 240	10 172	-2 067	-17
Uruguay	1 001	2 106	1 529	2 289	2 504	2 687	2 796	109	4
Venezuela (Bolivarian Republic of)	1 267	1 741	-2 169	1 849	3 778	3 216	7 040	3 824	118
Mexico	25 647	28 337	17 055	23 027	23 009	17 628	38 286	20 658	117
Central America	5 042	7 651	4 533	5 881	8 535	8 809	10 691	1 881	21
Costa Rica	1 255	2 078	1 347	1 466	2 176	2 332	2 682	350	15
El Salvador	697	785	385	-230	218	482	140	-342	-71
Guatemala	535	754	600	806	1 026	1 245	1 309	64	5
Honduras	686	1 006	509	969	1 014	1 059	1 060	1	0
Nicaragua	290	626	434	508	968	805	849	44	5
Panama	1 578	2 402	1 259	2 363	3 132	2 887	4 651	1 764	61
The Caribbean	4 818	9 617	5 264	4 654	7 015	8 413	6 052	-1 632	-19
Antigua and Barbuda	259	161	85	101	68	134	138	5	3
Bahamas	726	1 032	753	960	971	575	410	-165	-29
Barbados	297	464	247	290	700	544	-	-	-
Belize	123	170	109	97	95	194	89	-105	-54
Dominica	34	57	43	25	14	23	18	-5	-23
Dominican Republic	1 196	2 870	2 165	1 896	2 275	3 142	1 991	-1 152	-37
Grenada	102	141	104	64	45	34	78	43	126
Guyana	90	178	164	198	247	294	214	-80	-27
Haiti	67	30	38	150	181	179	186	7	4
Jamaica	758	1 437	541	228	220	490	567	77	16
Saint Kitts and Nevis	106	184	136	119	112	94	112	18	20
Saint Lucia	170	166	152	127	100	80	88	8	10
Saint Vincent and the Grenadines	84	159	111	97	86	115	127	11	10
Suriname	-105	-231	-93	-248	70	61	113	52	86
Trinidad and Tobago	913	2 801	709	549	1 831	2 453	1 713	-740	-30
Total	85 053	139 842	83 723	129 427	169 538	177 021	188 101	11 081	6.26

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

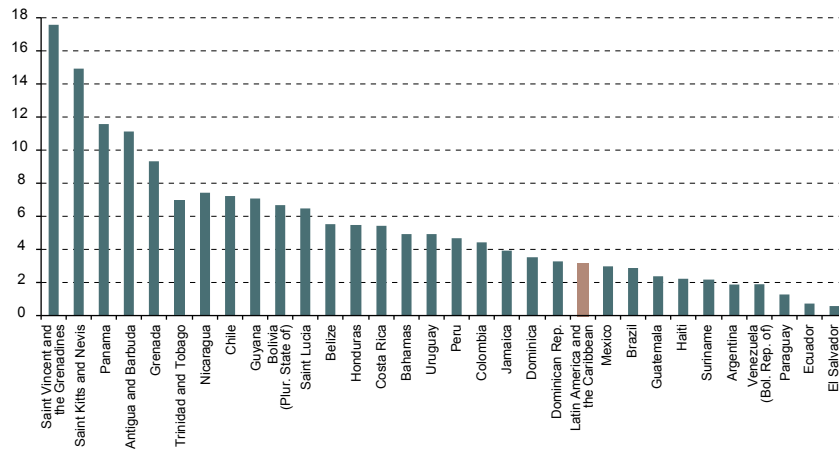
^a Simple averages.

^b Absolute and relative differences for regional and subregional aggregates were calculated without including Barbados.

A third of FDI flowing into the region comes to Brazil, and 80% of flows are concentrated in the six largest economies, but the impact of transnational corporations is larger in smaller economies. The ratio of FDI inflows to GDP shows the relevance of FDI across the region in 2013 (see figure I.13). The ratio is, generally speaking, much higher in smaller economies, but there are some medium-size economies, such as Panama, Chile or the Plurinational State of Bolivia, where FDI inflows were very significant last year— in excess of 6% of GDP.

A very similar pattern is observed in the ratio between FDI and total investment, or gross fixed capital formation (GFCF). The average for Latin America and the Caribbean is 20%, rising to over 30% in the smaller economies and some exceptional cases like Chile and Panama, and falling to around 10% in other, larger economies, such as Mexico or Argentina. Although the two variables are not directly comparable (FDI includes cross-border acquisitions, which are not included under GFCF), they are closely related because much of FDI is also part of GFCF and both respond to similar stimuli.

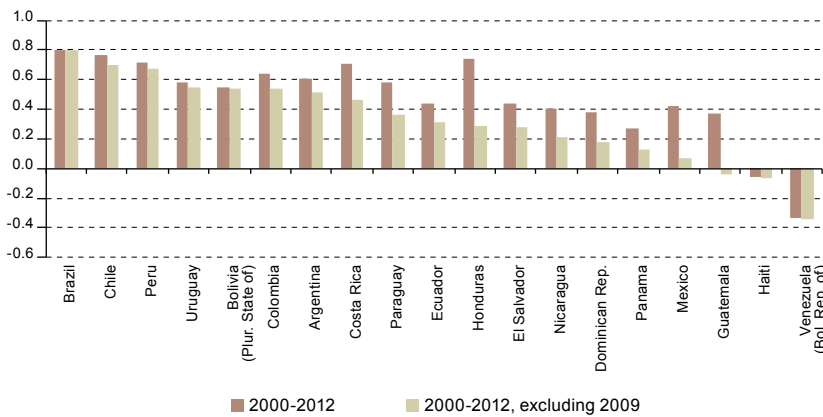
Figure I.13
Latin America and the Caribbean: foreign direct investment as a proportion of GDP, 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

The variation in FDI and GFCF over the past decade shows different patterns across the region (see figure I.14). First, the correlation appears to be stronger in countries that are more dependent on natural resources. Chile and Peru received a great deal of FDI in natural-resource extraction, which led to significant increases in capital formation. Brazil does not receive large FDI inflows into natural resources but still shows the highest correlation during the past decade. Conversely, Mexico and Central American economies, where FDI focuses on export-oriented manufacturing and services, show a much lower correlation between FDI inflows and GFCF. The ratio is especially low or even negative in countries with very low levels of FDI, such as Guatemala and Haiti, or the Bolivarian Republic of Venezuela, where nationalizations caused much of the variations in FDI inflows during the past decade.

Figure I.14
Latin America and the Caribbean (selected economies): correlation between changes in foreign direct investment and in gross fixed capital formation, by country, 2000-2012
(Coefficients)



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

Although many of the large FDI projects implemented across the region will significantly boost GFCF, the correlation between the two variables does not necessarily imply causation, but rather that both are driven by the same factors. In other words, years in which FDI is strong will, by and large, also see strong capital formation. The opposite effect was observed very clearly in 2009, the only recent year in which GFCF and FDI fell across the region. Accordingly, including 2009 in the sample raises the correlation between the two variables, notably for some countries like Costa Rica, Guatemala, Honduras and Mexico.

1. Brazil

Inflows in Brazil remained practically stable for the second year running, reaching US\$ 64.046 billion. This represents more than a third of the total inflows into the region, despite the fact that Brazil does not include reinvested earnings in the figures, which represented around 45% of total inflows in other countries in previous years.

The uptick in economic growth in 2013 (2.3% against 1% in 2012) was reflected in a 12% year-on-year rise in the profits of transnational corporations in Brazil, with FDI income reaching US\$ 27.536 billion, although this was still short of the record high of 2011. As in previous years, the natural resources sector reported very little profit. The sectors yielding most profits in 2013 were the automotive sector (US\$ 3.29 billion, 35% higher than in 2012), beverages (US\$ 2.84 billion), financial services (US\$ 1.90 billion), retail (US\$ 1.68 billion) and telecommunications (US\$ 1.66 billion).

Devaluation did not seem to have an impact on FDI flows, although it lowered the value of assets. The FDI stock in Brazil rose during the year, but despite substantial inflows was lower in December than in March because of the real's depreciation against the dollar in the second and third quarters.

Almost all sectors of the economy are open to FDI, and Brazil receives large inflows into many different industries. During 2013 there was a recovery of FDI into natural resources, mainly driven by an expansion in the oil industry, which received US\$ 10.892 billion, more than double the value of the previous year. In October, a consortium led by Anglo-Dutch oil major Shell, France's Total and China's CNPC, with shares of 20% each, won the bid to develop the Libra deepwater oilfield in partnership with Petrobras. The foreign companies will pay a signing bonus of US\$ 7 billion, large by international standards. This was the first auction of oilfields in Brazil under new rules, and the results confirm the interest of foreign investors in the country. The Libra field will have an expected capacity of up to 1 million barrels a day of oil equivalent and will require an investment of up to US\$ 200 billion over the next 35 years. Mining received US\$ 3.343 billion and FDI in agriculture continued growing but remained below US\$ 1 billion.

The services sector received slightly less FDI in 2013 because of substantial drops in telecoms and finance, which had seen large acquisitions in previous years that were not repeated in 2013. Conversely, there were larger inflows into retail and transport.

FDI into manufacturing declined in 2013 because of large drops in the steel (where some large projects had been completed in 2012) and food (where there were no large acquisitions) industries. On the other hand, computer equipment and automotive production received more FDI (see box I.2).

Box I.2

Automotive sector expansion in Brazil: the domestic market, industrial policy and the drive for exports

In 2013, foreign direct investment in Brazil's automotive sector rocketed to US\$ 2.621 billion: the highest figure on record and double the average of the past five years. Vehicle production also climbed to an historic high of 3.74 million units, almost 10% up on the previous year, making Brazil the world's seventh largest producer of motor vehicles, and its fourth largest car market after China, the United States and Japan. The automotive industry accounts for almost 25% of industrial GDP and 5% of total GDP.

As of early 2014, investments worth US\$ 34 billion (75 billion reais) had been announced for the period up to 2017, in order to build new plants, to expand and modernize existing ones, and to develop new products. The number of production facilities, for cars and light commercial vehicles only, will rise from 18 in 2013 to 25 in 2015. Among the companies that announced major investments were vehicle manufacturers with a long tradition in the country, and some new entrants including various Chinese firms as well as premium automakers.

– Fiat Chrysler announced that it would increase its investment in Brazil from US\$ 2.70 billion to US\$ 6.76 billion between 2013 and 2016. The company will raise

capacity at its Betim plant, in the State of Minas Gerais, from 800,000 to 950,000 vehicles per year, and will build a second facility at Goiana, Pernambuco, with an annual capacity of 250,000 vehicles.

- Volkswagen is building two new plants in São José dos Pinhais, Paraná, one to produce Audi models with a capacity of 26,000 units per year, and the other to manufacture the latest generation Golf with a capacity of 40,000 vehicles per year. These investments will amount to US\$ 225 million and US\$ 234 million, respectively.
- Honda is to invest US\$ 450 million in building a second plant at Itirapina, São Paulo, with a capacity of 120,000 vehicles per year. It will commence production of the next generation Fit in 2015.
- Renault-Nissan announced a US\$ 1.2 billion investment in the construction of a new factory in Resende, Rio de Janeiro, with an annual capacity of 200,000 units.
- Chinese firm Chery is building a plant at Jacareí, in the interior of the State of São Paulo, with an investment of US\$ 360 million. The facility will also include a research

Box I.2 (concluded)

- and development centre for South America. The company also recently announced a new engine production line at the same location, thanks to a US\$ 60 million investment.
- German luxury automaker BMW confirmed an investment of US\$ 270 million to build a plant at Araquari, Santa Catarina, with an annual capacity of 32,000 vehicles.
 - Jaguar Land Rover, a subsidiary of India's Tata Motors, is building a facility to assemble 24,000 vehicles per year. The investment—of US\$ 340 million—is the company's first in the Americas.
 - Mercedes Benz is building a plant with an annual production of 20,000 vehicles, thanks to a US\$ 225 million investment.
 - Foton Aumark, a subsidiary of China's largest truck manufacturer, is planning to build a factory in Guaíba (Rio Grande do Sul), with a projected investment of US\$ 112 million.
 - China's Shaanxi Automobile Group is investing US\$ 200 million to build a production facility with an annual capacity for some 10,000 "extra heavy" trucks. Located in Tatuí, São Paulo, it is set to enter production in 2014.
 - JAC Motors announced the construction of a factory at the Camaçari Industrial Complex in the State of Bahia. With an investment of US\$ 400 million, it will produce 100,000 units (cars and trucks) per year from 2014.
 - Amsia Motors is a little-known Chinese company financed by Arab investors. Originally from the United States, it specializes in vehicles powered by clean energy (electric and hybrid cars) and has announced a US\$ 450 million investment to build a plant in the State of Sergipe.

The investment phenomenon is due to several factors. First, the sector is constantly setting new sales and production records, spurred by rising disposable incomes and the expansion of credit. Brazil has become a very attractive market with high potential for growth: vehicle ownership levels are still relatively low and are below those of Argentina and Mexico. Similarly, there is plenty of room for growth in the luxury car segment, which is small at present but which will probably double in the next five years.

Second, government policies to stimulate investment have had some effect. These policies range from tough restrictions on imports to the measures adopted in 2013 for a five-year period, as part of the industrial, technological and foreign trade policy known as "Plano Brasil Maior" ("Bigger Brazil Plan"). The Plan aims to upgrade the country's industrial fabric as a way of

regaining international competitiveness, which is under pressure from the strong real. The objective is to increase Brazil's share of global vehicle production, moving beyond its current status as a manufacturer to make the country a global centre for the development of new products. The policy is structured around three key pillars:

- *Programa Inovar-Auto* (Programme to Foster Technological Innovation and Densification of the Production Chain for Automotive Vehicles), which primarily aims to encourage investment in the Brazilian automotive industry. To do this, the government has introduced discounts of up to 30% on the Industrial Products Tax (IPI) for cars manufactured and sold in the country, provided that automakers commit to a series of targets for the period 2013-2017. These targets are linked to input purchases, technological development and innovation, training for suppliers and basic industrial engineering and technology. The proportion of local components will gradually be raised from 45% at present to 70% in 2017.
- *Programa Inovar-Autopeças* (Innovate Auto Parts Programme), which seeks to strengthen the local supplier base and the production chain through steps to improve traceability and financing conditions and to promote research and development.
- *Programa Exportar-Auto* (Export Auto Programme), which is intended to boost the competitiveness of the Brazilian automotive industry and thus lift exports to 1 million units in 2017. Some 566,299 units were exported in 2013.

The *Plano Brasil Maior* has undoubtedly been successful in attracting investments and narrowing the technology gap of the vehicles produced in the country. However, at least in the short term, it is also true that the risk of excess production capacity is rising at a time when the demand for automobiles may be losing momentum. In 2013, vehicle sales in Brazil fell for the first time in nine years, even as the value of exports reached a record high of US\$ 16.570 billion. These figures include the agricultural machinery segment.

If all the investment announcements come to fruition, the automotive industry's production capacity will swell from 4.5 million to 5.8 million vehicles in 2017, about 1 million units higher than projected consumption. This will force automakers to seek new options to double the volume of exports. According to calculations by the Ford company, the Brazilian industry could reach 40% excess capacity within four years.^a

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

^a See Eduardo Laguna, "Brasil se consolidó en 2013 como el gigante de la industria automotriz en Sudamérica" 30 December 2013 [online] <http://www.cronista.com/valor/Brasil-se-consolido-en-2013-como-el-gigante-de-la-industria-automotriz-en-Sudamerica-20131230-0008.html>.

2. Other South American countries

FDI inflows into **Argentina** amounted to US\$ 9.082 billion in 2013, down from US\$ 12.116 billion in 2012. Restrictions to access to foreign exchange imposed at the end of 2011 (ECLAC, 2013a) have raised reinvestment of earnings by foreign affiliates. In 2013, reinvested earnings accounted for 77% of total inflows, although their value dropped by 14% compared to 2012. Capital inflows were down by 24% and intra-company loans were slightly negative in the first half of the year, but figures for 2013 overall had not been released at the time of writing.

Mergers and acquisitions were limited to a few deals between foreign companies in the energy sector. Compañía General de Combustibles was sold by the fund Southern Cross to an undisclosed private investor for US\$ 200 million and Andes Energía PLC also acquired some assets for an undisclosed amount.

During the early months of 2014 the government reached an agreement with Repsol to pay US\$ 5 billion in compensation for the 2012 nationalization of 51% of the oil company YPF. YPF is currently trying to attract other international companies as partners to develop its extensive oil and gas reserves.

Inflows into **Chile** were US\$ 20.258 billion, 29% less than the previous year but still much higher than the average for the previous decade. Chile is now the third largest recipient (after Brazil and Mexico) of FDI inflows in Latin America and one of the largest in terms of the size of its economy.

There are no data on FDI by sector in Chile in 2013, but in previous years mining was by far the largest recipient of inflows. The mining industry did not have an easy year in 2013. The international price of copper declined to 332 ¢/lb from a 2011 high of 400 ¢/lb, while costs (particularly for electricity) in Chile remain high. Nonetheless, the Chilean Copper Commission (COCHILCO) forecasts some US\$ 112 billion of mining investment until 2021, 77% of which is related to copper. Of the projected investments, 46% are domestic, while Canada accounts for 27% and Japan, 10%.

Among the largest investments, Australia's BHP Billiton, British-Australian Rio Tinto and their partners are spending US\$ 3.8 billion on expanding production at the Escondida mine and building a new copper concentrator. They also commenced building a US\$ 3.4 billion desalinization facility to supply the mine with cooling water. The Caserones mine started production in 2013 and will reach full production in 2014, after an investment of some US\$ 4.2 billion. It is majority-owned by Japan's Pan Pacific Copper Corporation (PPCC). Lastly, KGHM International (Poland) and Sumitomo Metal Mining (Japan) are jointly constructing a new open-pit copper mine in Sierra Gorda for an expected outlay of US\$ 3.9 billion and which is due to start production in 2015.

There was also much activity in electricity generation in Chile. In addition to the activities in solar energy (see box 1.3), Ireland's Mainstream Renewable Power combined forces with the United Kingdom venture capital firm Actis to create 600 MW of wind and solar projects in a deal worth US\$ 1.4 billion. Furthermore, AES Corporation of the United States announced a US\$ 2 billion, 531-MW hydroelectric plant in Alto Maipo through its Chilean subsidiary, AES Gener, which is to be co-owned by Chilean mining company Antofagasta Minerals. Lastly, Italy's ENEL announced an investment of US\$ 600 million to build a hydroelectric dam.

In the services sector, Metlife acquired 90% of AFP Provida for a sum of US\$ 1.841 billion. Most of this was purchased from Banco Bilbao Vizcaya Argentaria (BBVA) of Spain, and thus does not contribute to FDI in Chile, but a smaller stake was held by domestic investors. In manufacturing, the acquisition of food company Tresmontes Lucchetti by Colombia's Grupo Nutresa for US\$ 758 million was one of the largest takeovers in Latin America during the year and the third largest deal by a trans-Latin multinational.

The Bolivarian Republic of Venezuela received US\$ 7.04 billion in 2013, more than double the previous year's figure. Almost two thirds of the investments flowing into the country were reinvested earnings and the other third represented inter-company loans, since capital investments were virtually non-existent. Transnationals had to contend with various restrictions on access to foreign capital, which were stepped towards the end of 2013. Owing to these restrictions, reinvested earnings were on the rise; in many cases, they were channelled into real estate projects (ECLAC, 2013a). Furthermore, these restrictions forced automobile plants to halt production in the latter part of the year, while airlines were obliged to scale back their activities in the country.¹³ Thus the proportion of FDI flowing to the petroleum sector was down to 37% in 2013, less than half the amount observed in previous years. Petroleum output diminished slightly in 2013 and was 27% lower than the 1997 figure,¹⁴ but investments in the sector expanded by 5%.¹⁵ The company Petronas de Malasia withdrew from the Bolivarian Republic of Venezuela in 2013 (Grant and Chazan, 2013), as part of the global strategy aimed at shifting the focus to their national operations.

Colombia received US\$ 16.772 billion in 2013, up 8% from the previous year. The extractive industries continued to be the largest recipients, with 47% of total inflows between the oil industry (almost US\$ 5 billion) and mining (nearly US\$ 3 billion). Manufacturing saw the largest increase in FDI inflows and became the third largest recipient, with US\$ 2.659 billion. The services sector is also receiving record levels of FDI: transport, storage and communications received US\$ 1.74 billion, retail and tourism US\$ 1.584 billion, and financial services US\$ 1.578 billion. FDI income generated in Colombia was US\$ 14.163 billion, lower than in 2012 and 2011, but still much higher than in the previous years.

¹³ See [online]: http://www.opec.org/opec_web/en/publications/338.htm.

¹⁴ According to data compiled by Baker Hughes (ECLAC, 2013a).

¹⁵ See El Universal [online] www.eluniversal.com/economia/140213/toyota-de-venezuela-sin-fecha-para-reiniciar-produccion and Reuters [online] <http://www.reuters.com/article/2014/05/06/ford-venezuela-idUSL2N0NR26420140506>.

Box 1.3

Solar power: a bright future for the Chilean energy sector?

Chile's Atacama Desert receives higher levels of solar radiation than any other part of the planet. It also happens to be an area where mining companies require large amounts of electricity to power their equipment. Chile's electricity prices are significantly higher than elsewhere, standing at US\$ 0.25 per kWh, compared to US\$ 0.10 in the United States. Both domestic and foreign investors have thus come to the logical conclusion that Chile may be the world's best-suited location for the operation of solar plants. Solar projects with a total 9.9 gigawatts (GW) of capacity have been proposed, of which several are under construction (CER, 2014). Even if not all those projects come to fruition, the capacity they represent is certainly significant in relation to the total installed capacity of 18.3 GW in 2012.

The table below shows a non-exhaustive list of projects that are operating, under construction, scheduled for construction or approved but still pending a construction date. Both of SunEdison's plants came online in early 2014, and total solar capacity is expected to reach some 600 MW by the end of the year. All plants currently under construction are located in Chile's sun-drenched north, near the mining companies that are their primary clients. Chile is the first country in Latin America to reach grid parity—meaning that unsubsidized solar photovoltaic energy has become competitive with that of traditional sources. In this, Chile benefits greatly from globally falling prices for solar cells, which have brought the levelized cost of electricity (LCOE) for solar to as little as US\$ 60 per MWh. As a result, new projects are now being developed largely without subsidies, although the government and international development organizations have made loans available. SunEdison's San Andrés received loans from the International Finance Corporation (IFC) and the Overseas Private Investment Corporation (OPIC), while others have been supported by the Inter-American Development Bank (IDB). With regard to medium-term projects, several players (Abengoa and Iberéolica Group of Spain) have invested in thermosolar energy, calculating that it will yield worthwhile returns despite its significantly higher capital outlay. For the foreseeable future,

thermosolar plants will only be worthwhile as investments with significant subsidies.

So far, the total investment has been relatively limited in relation to total Chilean FDI, but in coming years, investments in solar energy will start to contribute more to inward FDI, especially since foreign firms apparently play such a large role in the country's solar energy market. This should help Chile to benefit from technology spillovers and to become a leader in solar power generation. Firms from other countries, particularly Spain and the United States, are using their prior knowledge of solar energy generation to help Chile build up capacity quickly. Interestingly, part of the solar energy capacity is built to sell electricity not into the grid, but directly to mining companies. For example, the US\$ 80 million photovoltaic plant being constructed by Solarpack will be used exclusively by mining giant Collahuasi. In fact, some mining companies even generate their own solar energy on a small scale. One of the reasons for this is that the Chilean energy grid is not very well integrated, so electricity prices vary between different locations. Of course, this dependence on mining may also represent a risk. Etrion of Switzerland recently put on hold an 8.8 MW plant that would have supplied power to an iodine mine owned by Atacama Minerals Chile S.C.M. The plant was planned when iodine prices surged in the wake of the Fukushima disaster, but new mines in northern Chile coming online caused iodine prices to drop so sharply that the investment was no longer worthwhile.

The Government of Chile has welcomed foreign investors and the country is significantly ahead of its neighbours in the region in solar power development. If this ultimately helps to reduce dependence on imported oil and gas, the trade balance will benefit. It would also help Chile to reach its 2025 target of sourcing 20% of power from renewables other than large-scale hydropower. During the first two months of 2014, new renewables contributed some 7.07% to total electricity output, a significant increase on the 5.85% average for 2013. Solar power contributed only 2.5%, but this can be expected to increase rapidly.

Chile: solar energy projects at different stages of development

Project	Type ^a	Investor	Country	Size (MW)	Estimated cost (millions of dollars)	Status ^b
Llano de Llampos	PV	SunEdison	United States	93	241	In operation
San Andrés	PV	SunEdison	United States	48	100	
Diego del Almagro	PV	Mainstream Renewable Power	Ireland	162	420	
Crucero Solar	PV	Grupo Fotones	Spain	180	400	Under construction
Amanecer Solar CAP	PV	SunEdison	United States	100	213	
Salvador	PV	Total	France	70	200	
Poso Almonte Solar	PV	Solarpack	Spain	25	80	Scheduled
Cerro Dominador	TS	Abengoa	Spain	110	1 000	
Solar Conejo	PV	Pattern Energy	United States	306	819	
Luz del Norte	PV	First Solar	United States	162	370	Planned
Pampa Solar Sur	PV	Ingenostrum	Spain	91	182	
María Elena	TS	Grupo Iberéolica	Spain	400	3 290	
Pedro de Valdivia	TS	Grupo Iberéolica	Spain	360	2 610	Planned
Pampa Camarones	PV	GDF Suez	France	300	620	
Los Andes	PV	AES Corp.	United States	220	572	
Valle del Sol	PV	ENEL	Italy	143	320	

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

^a There are two different types of solar plants: photovoltaic plants (PV), and thermosolar plants (TS).

^b Plants that are planned have received their environmental permits, but do not yet have specified construction plans. Scheduled plants already have a specific timeline attached to their implementation. Most plants that are under construction are scheduled to be completed in 2014 or 2015, while those in operation were opened in early 2014.

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

Ecuador received US\$ 703 million in 2013, 20% up on 2012 and one of the highest levels of the past decade. All the growth was concentrated in capital contributions, while reinvested earnings and intra-company loans decreased. FDI income decreased slightly in 2013, to US\$ 652 million. One third of inflows goes to oil extraction, where Repsol from Spain, Agip from Italy, ENAP from Chile, and CNPC and Sinopec from China operate. FDI in manufacturing remained stable at US\$ 134 million. Within the services sector, FDI in construction and retail increased substantially. Of total FDI in Ecuador, 55% comes from other Latin American countries. Its largest investors from beyond the region are China, Spain and Italy.

FDI in Ecuador is among the lowest in the region in relation to the size of its economy and lower than it was a decade ago, even in nominal terms. This is despite Ecuador's solid GDP growth over the past few years, which has not differed much from neighbouring countries which have attracted large FDI inflows. The government expects private investments, including FDI, to be more forthcoming in the future. So far, transnational corporations including Kia from the Republic of Korea, Volkswagen from Germany and the autoparts maker Chaidneme from Colombia have announced major investment projects. Arca from Mexico and Coca Cola from the United States jointly announced large expansion plans in the food and beverages industry, including the acquisition in early 2014 of dairy producer Tonicorp. The largest project in Ecuador is the Pacific Refinery, still at the planning stage. The project, with an expected investment of US\$ 10 billion, will be led by the State-owned PETROECUADOR with financial support from the Industrial and Commercial Bank of China, but foreign partners, which may include PDVSA of the Bolivarian Republic of Venezuela or NPC of China, will have 49% share.

In the **Plurinational State of Bolivia**, 2013 saw record inflows of US\$ 2.030 billion, 35% more than the year before, of which the bulk was in the exploration and processing of hydrocarbons. FDI in other sectors has declined over the past few years as a result of nationalizations of foreign subsidiaries, especially in mining and electricity services.

Petrobras of Brazil has been the primary partner of the State-owned oil and gas company Yacimientos Petrolíferos Fiscales Bolivia (YPFB), winning a bid that is estimated to require an investment of more than US\$ 800 million. Other players include Spain's Repsol and a consortium made up of Gazprom of the Russian Federation and Total of France. Total has signed an exploration contract worth US\$ 130 million.

In addition to exploring for oil and gas, there is also significant activity in the processing of natural resources. Repsol spent a total of US\$ 640 million, US\$ 373 million of it during 2013, to expand its natural gas processing plant by 60%. Other Spanish companies are cooperating with YPFB in separate gas liquefaction plants, such as Tecnicas Reunidas in Gran Chaco and Sener Ingeniería and Ros Roca Indox Cryo Energy in Santa Cruz. Samsung of the Republic of Korea is spending US\$ 843 million on an entire petrochemical complex centred around a fertilizer plant, in its first foray into South America.

As for the future, the Government of the Plurinational State of Bolivia is attempting to interest international firms in its Mutún iron ore deposit, which is thought to be among the richest in the world. The deposit was originally to be operated by Jindal of India, but arrangements came to a standstill in 2012.

Paraguay does not receive large amounts of FDI, despite economic growth of 13.6% in 2013. FDI for the year is estimated to be US\$ 382 million, about 20% below the 2012 figure and further still below the 2011 peak of US\$ 557 million. Both services and manufacturing have been important in Paraguay in recent years. In manufacturing, Portugal's CIMPOR inaugurated a cement plant in October 2013 after a US\$ 50 million expansion. Japan's Fujikura announced a US\$ 15 million investment in a cable manufacturing plant, which is expected to create 2,500 new jobs. With regard to M&As, Chilean brewer Compañía Cervecerías Unidas, S.A. (CCU), which is partially controlled by Heineken of the Netherlands, purchased a 50% stake in Bebidas de Paraguay and a distributor for an unknown sum. Lastly, several companies continue to explore for oil and gas in different parts of the country.

Peru received US\$ 10.172 billion in FDI inflows, a 17% drop from 2012 but still its second highest annual inflows ever. In recent years Peru has registered record FDI inflows, mostly driven by large reinvested earnings from mining companies. In 2013, profits from transnational corporations dropped to US\$ 9.92 billion, 18% down on 2012 and the lowest level since 2009. This caused a 41% drop in the reinvested earnings component of FDI inflows.

Peru's mining exports were down significantly owing to two factors: the drop in prices of both copper and gold and the decline in gold production, mainly because of social unrest in Cajamarca. Income tax from mining companies decreased by 48% compared with 2012, suggesting that the drop in registered FDI income may have been concentrated in the mining sector. Still, the large number of mining projects under construction ensured that

total investment in mining (by both local and foreign companies) increased during 2013, albeit at the lowest rate for a few years. Notably, within mining investments, exploration and infrastructure components went down. The large presence of Chinese companies in the mining industry is set to increase as Minmetals acquired the Las Bambas mine from Swiss Glencore Xstrata for US\$ 5.85 billion in early 2014.

There is no official data on FDI by industry, but transnational corporations have a strong presence in many sectors in Peru beyond mining. FDI in services such as finance, retail and telecoms (all dominated by transnational corporations) is likely to have remained high, given that domestic demand expanded 6.1% in 2013. In telecoms, Entel of Chile acquired the third largest network, Nextel, for US\$ 400 million.

In 2013, **Uruguay** received inflows of FDI worth US\$ 2.796 billion, slightly above the 2012 figure of US\$ 2.687 billion. Uruguay's inflows were very high for the region, at 5% of GDP in 2013. Capital contributions made up nearly 62% of inflows, 30% were reinvested earnings and the remainder consisted of intra-company loans. Although the sectoral distribution is not yet available for 2013, the 2012 data show the start of a surge in investment in utilities, which jumped from a medium-term average of US\$ 16 million to US\$ 117 million that year. This is consistent with the government's push for wind energy and the strong inflows of investment in that sector. France's Akuo Energy, for example, has two wind farm projects under construction for a total of US\$ 205 million, while Spain's Abengoa is developing a 70 MW wind farm for US\$ 165 million and Corporación America of Argentina is scheduled to spend US\$ 210 million on another two projects. In total, 2014 should see the completion of 550 MW of wind energy projects. At the same time, the first tenders for solar energy projects, which are scheduled to lead to some US\$ 300 million in investment, have also been issued.

As well as energy generation, another matter of ongoing discussion—and a great deal of opposition—in Uruguay is the proposed Aritirí iron ore project to be developed by London-based Zamin, with an investment of between US\$ 1 billion and US\$ 3 billion. Another factor that may affect future FDI inflows is a draft law currently being discussed in parliament that would limit land ownership by foreigners. In 2012, the most recent year for which data are available, construction accounted for 38% of all incoming FDI, much of it Argentine investment in real estate.

3. Mexico

FDI inflows to Mexico more than doubled to US\$ 38.286 billion, making it once again the second largest recipient in the region. The growth was partially driven by the US\$ 13.249 billion acquisition by Anheuser-Busch of Belgium of the 50% of beer maker Modelo that it did not yet own. With this operation, coming after the 2010 acquisition by Heineken of the FEMSA breweries for US\$ 7.325 billion, the bulk of the beer industry in Mexico is now owned by the largest international groups. Without this acquisition, FDI in Mexico would have been near the average for the previous decade, at around US\$ 23 billion.

The acquisition of Modelo represented most of the capital contributions registered in 2013. Again, without this investment, capital contributions would have been less than US\$ 6 billion, more than last year's US\$ 3.5 billion but low compared to the past decade's average of almost US\$ 11 billion. On the other hand, reinvested earnings reached an all-time high of US\$ 10.652 billion in 2013.

Natural resources accounted for only 8% of total inflows, almost all of them in gold mining. Services received US\$ 5.193 billion, almost the same as in 2012, but much less than in previous years. Financial services, which in Mexico are largely controlled by foreign groups, saw a divestment (negative inflows) of US\$ 841 million, mainly because Spain's BBVA sold its pension fund business to Banorte for US\$ 1.6 billion. The retail sector received US\$ 1.709 billion, slightly less than in previous years, while inflows increased in the tourism (US\$ 1.058 billion) and telecommunications (US\$ 911 million) sectors.

In the near future, FDI in natural resources and services could increase if the package of reforms proposed by the new government in 2012 (and still under discussion) starts to impact on investment conditions and opportunities in the energy and telecommunications industries (see ECLAC, 2013b, box I.2). Potentially, they could mean more competition in the telecoms market and the entry of new players into the electricity and oil industries. So far, only a few announcements have been made in this direction.¹⁶

¹⁶ ENEL, the Italian electricity company present in many countries in the region, has signed a deal with the Government of Mexico to cooperate on geothermal generation and smart grids (*Financial Times*, 2014).

FDI in manufacturing also remained stable, again excluding the large inflow to the food and beverages industry. Inflows increased in the pharmaceuticals industry (US\$ 516 million), plastics (US\$ 596 million) and, especially, in the manufacturing of electrical cables (US\$ 1.472 billion). But the largest recipient of FDI among the export-oriented industries in Mexico has been the automotive sector, with US\$ 2.933 billion in 2013, 23% more than the previous year (see box I.4).

Box I.4

Automotive industry growth in Mexico: the challenge of diversifying markets

Between 2000 and 2013, the automotive sector accounted for 8.2% of Mexico's inward foreign direct investment. Investment flows have surged in the past two years, with figures of US\$ 2.370 million in 2012 and US\$ 2.933 million in 2013.

At just over 3 million units, Mexico posted record production for the fourth consecutive year in 2013, as it consolidated its position as the world's eighth largest vehicle producer after China, the United States, Japan, Germany, the Republic of Korea, India and Brazil. This performance suggests that the industry has emerged from the difficult period caused by the international financial crisis in 2009. Mexico currently has more than 20 production complexes for light vehicles, in which activities range from assembly and armour-plating, to casting and stamping work for vehicles and engines. About 50 different models are manufactured. In addition,

automotive companies operating in Mexico have announced new investments that amply exceed US\$ 20 billion.

In late 2013 and early 2014, four new plants were opened which together amounted to US\$ 4.270 billion in investment and an increase in capacity of around 1 million units. The facilities are those of Renault-Nissan in Aguascalientes (US\$ 2.0 billion); Honda in Celaya (US\$ 800 million); Mazda in Salamanca (US\$ 770 million) and Volkswagen in Puebla (US\$ 700 million). Volkswagen is also investing another US\$ 1.30 billion in a new Audi plant in Puebla, which will become operational in 2016. As well as these new plants, some existing operations have been expanded, as is the case with Ford in Hermosillo (investment of US\$ 1.30 billion) and General Motors at its complexes in San Luis Potosí and Guanajuato (US\$ 420 million).

Mexico: investments announced by vehicle assembly firms, 2007-2013

(Millions of dollars)

	2007-2009	2010	2011	2012	2013	2007-2013
General Motors	3 870	435	540	420		5 265
Ford	3 000			1 300		4 300
Fiat Chrysler		550	620			1 170
Volkswagen	1 053	1 020		700	1 300	4 073
Daimler Trucks	871					871
Renault-Nissan		600		2 000		2 600
Honda			800			800
Mazda			500		270	770
Total	8 794	2 605	2 460	3 720	1 570	19 149

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Secretariat of Economic Affairs of Mexico.

This positive trend has been supported by solid export growth, encouraged by a sustained recovery in the United States automotive market. Mexico's geographical location and its memberships of trade agreements have granted it privileged access to major markets such as the United States, Canada, the European Union and the Common Market of the South (MERCOSUR). Moreover, Mexico's supplier base is growing both in the number of enterprises and in technological sophistication, which is good for the industry's competitiveness. These factors are helping to attract large investments from the various companies operating in the country, with new plants and expanded production lines turning Mexico into a major manufacturing and export platform.

Eighty-two per cent of manufactured units are exported, with the remaining 18% placed on the domestic market. Mexico is the world's fourth largest vehicle exporter, after Japan, Germany and the Republic of Korea, having overtaken Spain in 2012. In 2013, the main export destination for vehicles assembled in Mexico was the United States (68%), followed by Latin America (13%), Canada (8%) and Europe (6%).

Yet the Mexican domestic market faces a number of disadvantages that limit its appeal to local vehicle manufacturers.

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

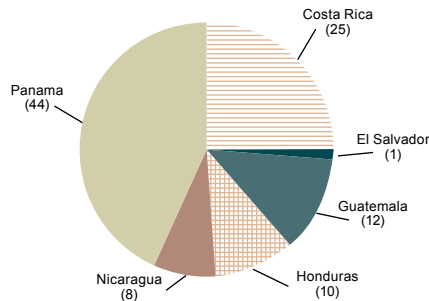
These include the industry's specialization in the production of models intended for export; imports of used vehicles from the United States; the lack of adequate mechanisms for testing the physical and mechanical conditions and the emissions of cars in circulation; and the financing difficulties faced by consumers.

So, if the recovery is consolidated in external markets and the pace of foreign direct investment is maintained in tandem with infrastructure and logistical improvements, Mexico is set to become a hub of worldwide production, making the most of its proximity to the United States market. In this scenario, some projections indicate that Mexico could be producing some 4 million units a year by 2017, of which 88% would be for export, making it the world's second largest vehicle exporter. However, some uncertainty remains over factors such as the impact of used car imports on sales of new units in the domestic market, and the possible outcomes of the ongoing negotiations for a Transatlantic Trade and Investment Partnership between the European Union and the United States. Another question mark is raised by the possible free trade agreement between the United States and 11 Asian and Pacific countries (the Trans-Pacific Partnership), which might be detrimental to Mexico's competitiveness on the global stage.

4. Central America

FDI in Central American economies continued to grow in 2013, reaching a record US\$ 10.691 billion, 21% higher than in the previous year. Panama is the largest recipient in Central America (see figure I.15), and the largest in Latin America relative to the size of its economy. Costa Rica and Nicaragua also receive substantial FDI inflows, which have been growing in recent years. On the other hand, FDI flows in Guatemala and El Salvador remain modest.

Figure I.15
Central America: distribution of FDI inflows by country, 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

Growth in FDI inflows in Central America has been driven by the expansion of services (notably in Panama and also in Costa Rica) and of mining (especially in Guatemala). FDI in manufacturing is becoming less prominent, although, with the exception of Panama, all countries host export-oriented manufacturing plants that are locally important in terms of employment and exports. The Central American countries are now reforming their export processing zones systems, which are becoming illegal under World Trade Organization (WTO) rules on export subsidies (Martinez Piva, 2011), but they will all maintain some form of incentive for this sector. Similarly, all the governments offer generous tax incentives for business processing outsourcing (BPO), which is growing very rapidly all over Central America.

Another common trend in the past few years has been increased investments in electricity generation, mostly in wind power. In 2013, Globeleq, from the United Kingdom, inaugurated a 44 MW plant in Nicaragua, at an estimated investment of US\$ 219 million. Gamesa of Spain provided the technology and is contracted to maintain the plant. Globeleq is also building the 50 MW Orosi project in Costa Rica, at a cost of US\$ 253 million, and the 24 MW expansion of the existing 102 MW Cerro de Hula wind farm in Honduras, with an investment of US\$ 29 million. Beyond wind power, in El Salvador a consortium formed by the local company Quantum Energy and Wärtsilä of Finland successfully bid for a contract to supply 355 MW of capacity to the electricity system. The consortium will build a liquefied natural gas (LNG) terminal and a gas-powered plant that should start delivering power in 2018. The total expected investment (including local and foreign) will be US\$ 700 million. With a price of US\$ 120 per Mwh, this project will contribute substantially to reducing the high cost of electricity in El Salvador.

FDI in **Guatemala** increased by 5% to US\$ 1.309 billion. Natural resources received US\$ 488 million, more than any other sector, as has been the pattern for the past three years. These investments have been concentrated in three large mining projects. Canada's Goldcorp has been operating the Marlin gold mine since 2005, while Tahoe Resources, also from Canada, started extracting silver from the Escobal mine in San Rafael in late 2013, after total capital spending of US\$ 327 million. Solway Group of the Russian Federation is investing in a large nickel mine project that is still under construction. As a result, FDI from Canada and the Russian Federation together amounted to US\$ 467 million in 2013. Trading activities, including retail and commerce, were the second largest recipient after natural resources, with US\$ 217 million, followed by electricity (US\$ 179 million), banking (US\$ 172 million) and manufacturing (US\$ 156 million). The largest increase over previous years took place in banking. Although the biggest banks in Guatemala are local, in 2013 Bancolombia acquired a 40% interest in Banco Agromercantil, the third largest, for US\$ 217 million.

In **El Salvador**, FDI inflows totaled US\$ 140 million, a 71% drop from the previous year and the lowest level in recent history. Telecommunications and electricity registered negative flows in 2013. This was only partially offset by

an increase of FDI in manufacturing, which reached US\$ 283 million, the highest level in recent years. Oben from Peru is investing US\$ 33 million in a plant for polypropylene films, which will be traded across Central America and the Caribbean, but the largest export-oriented manufacturing sector is textiles and garments. El Salvador's garment industry received large investments as a result of the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) and, around 2005, saw various firms adopt the "full-package" system rather than simply assembling imported components. This resulted in much more strongly linked value chains, especially in certain subsectors such as sports garments (ECLAC, 2013c). The presence of a complete value chain in El Salvador makes investors less likely to move to a different location and has fostered the development of local suppliers, for example in packaging. Still, the industry has not grown, and although it has regained pre-2009-crisis production and export levels, employment remains slightly lower.

The Government of El Salvador is pushing for an increase in FDI in infrastructure services. Apart from the energy project mentioned above, the Government is planning tenders for managing the port of La Unión (constructed with official development assistance support) and the international airport.

Honduras received US\$ 1.060 billion of FDI inflows, practically the same amount as last year. Telecommunications (including transport) received the largest share of FDI, with 34% of the total, followed by the maquila sector with 16%, and other manufacturing (mostly food, beverages and cement), with 14%. The largest increase occurred in electricity, to US\$ 74 million, reflecting investments in wind energy. Over 60% of FDI inflows were reinvested earnings, a similar proportion to previous years. This proportion is among the highest in the region, indicating confidence on the part of existing investors but also a lack of new companies entering the country. One important arrival, however, is International Container Terminal Services (ICTSI) from the Philippines, which in early 2013 won a bid to build and operate the largest port in Honduras. ICTSI holds a concession for 30 years and has committed to invest US\$ 624 million over the next 10 years.

FDI in **Nicaragua** grew by 5% to US\$ 849 million, the second highest ever after 2011. Relative to the size of its economy, Nicaragua is one of the top FDI receivers in Latin America. In almost all sectors, transnational corporations play an important role. Asian investors dominate the garment industry, which accounts for two thirds of the approximately 82,000 jobs provided in export processing zones. Nicaragua has benefited in the past few years from special access to the United States market for apparel pieces made with materials imported from third countries (mostly Asian). FDI in mining has been growing in the past few years. In 2013, B2Gold Corp of Canada announced an investment of US\$ 289 million to expand its mine La Libertad. The same company owns another mine in Nicaragua and is investing in at least two other exploration sites.

FDI flows in **Costa Rica** continued to increase and reached US\$ 2.682 billion in 2013, the highest level ever and 15% over 2012. Manufacturing, mostly maquila activities, used to receive the bulk of FDI entering Costa Rica, but a series of reforms in 2011 opened the door to FDI in electricity, insurance and telecoms and shifted the distribution towards services. In 2013, services (not including financial, trade and tourism services) received US\$ 794 million, slightly less than in the previous year. For the first time, real estate activities received the largest share, at US\$ 1.2 billion, on the back of several hotel, shopping mall and office complex developments, mostly by companies from other Central American countries.

There was virtually no FDI in natural resources and manufacturing in 2013: US\$ 359 million, substantially less than in 2012. More importantly, in April 2014 Intel announced the close of its microprocessor manufacturing plant in Costa Rica, which will shed 1,500 jobs by the end of the year. This was decided in the context of a large restructuring by Intel, which is trying to reduce its dependence on the declining personal computer market and raise its market share in mobile devices, and is concentrating production in fewer plants, mostly in Asia. Intel's arrival in 1997 had been a watershed for the Costa Rican economy. The company invested some US\$ 900 million during its 17 years in Costa Rica and accounted for a large percentage of the country's exports. It also helped put Costa Rica on the map for other investors. According to the Costa Rica Investment Promotion Agency (CINDE), more than 250 high-technology multinationals operate in the country today. Nevertheless, the plant was relatively disconnected from the rest of the Costa Rican economy and in 2012 its imports exceeded exports (i.e. it registered a trade deficit). Ciarli and Giuliani (2005) found that although the arrival of Intel was a transformational moment for Costa Rica, the linkages between the plant and other high-tech firms were limited. Lack of linkages in Costa Rica made it easier for Intel to close the plant and will limit the local impact of the decision.

On the other hand, Intel will maintain engineering and design operations as well as centralized services in Costa Rica, preserving 1,200 jobs and adding a further 200. This could represent another step in the country's transformation from a manufacturing hub to a business services hub. According to OECD (2012), of over 34,000 jobs created in greenfield FDI projects in Costa Rica between 2009 and 2011, some 8,000 were created in business services, ahead of hotels and tourism (3,600 jobs) and medical devices (3,000 jobs).¹⁷ Manufacturing of medical devices and business services show potential and continue to grow rapidly, but global competition for these investments will remain intense. A few days after the news from Intel, Bank of America announced the closure of its services centre in Costa Rica, dismissing 1,500 workers. In contrast, just a week later, American World Clinics (AWC), a United States hospital group, announced plans to develop a new private hospital devoted to medical tourism in Costa Rica, which could create about 250 direct jobs.

These recent events illustrate the volatility of FDI, where it is based on efficiency-seeking. After 17 years, Intel had developed only weak backward linkages with the local economy and had not attracted key global suppliers. In the framework of a global restructuring process, Intel decided to relocate its manufacturing operation in Asia, where it has built stronger local linkages. This offers key lessons to the region's policymakers, in terms of new strategies to anchor FDI and foster stronger linkages with host economies.

FDI in **Panama** reached US\$ 4.651 billion in 2013, 61% more than the previous year. This represents 10% of GDP, which is the highest of all the Latin American countries and most of the Caribbean except for a few very small economies. FDI income amounted to US\$ 3.513 billion, 38% more than in 2012. Panama has been the fastest-growing economy in the region for the past few years and posted 8.4% expansion in 2013. Two large infrastructure projects have been the main drivers of this rapid growth: the expansion of the Panama Canal and the construction of the metro in the capital. Both projects are carried out by foreign companies but are not registered as FDI.

Panama has very limited FDI in manufacturing and natural resources, but this may be about to change in the latter case with the development of the Cobre Panamá mine in the province of Colón. Cobre Panamá will be one of the largest copper mines in the world (also producing gold and molybdenum), with a total investment requirement of US\$ 6.2 billion. It is expected to start production in 2017 and is 80% owned by First Quantum Minerals of Canada and 20% by a consortium formed by LS-Nikko Copper and Korea Resources Corporation.

In the past few years, 90% of FDI in Panama has been concentrated in services. Much of this investment is determined by Panama's role as a transport hub in the region. For example, US\$ 583 million was invested in companies registered in the Colón Free Zone, which specializes in wholesale distribution of manufactured goods to the Caribbean basin. Banks received 25% of total FDI. The Government of Panama aims to attract FDI in high value added services through the provision of infrastructure (Ciudad del Saber and Panamá-Pacífico are two real estate developments targeted at services companies) and specific incentives like the programme to attract regional headquarters. The programme offers tax incentives and visa facilities in Panama for companies setting up offices that centralize managerial services. Close to 100 transnational corporations, some of them very large, have their headquarters registered in Panama,¹⁸ although there is no data as to the value added that they create in the country.

5. The Caribbean

During 2013, flows of FDI to the Caribbean decreased from US\$ 8.413 billion USD to US\$ 5.843 billion, mainly reflecting the decline in flows to the Dominican Republic. For those economies with data, six saw a reduction in inflows during 2013 and eight saw increases. Barbados does not yet have FDI data available for 2013 and Cuba does not compile FDI data at all. Cuba is not regularly covered in this publication, but box 1.5 provides some anecdotal evidence of FDI in the country.

¹⁷ In Costa Rica the export sector's contribution to employment generation is highly significant compared with other Latin American countries. In 2011, over 26% of total employment was related directly or indirectly to this sector, and Costa Rica stands out in the region for the high share of services in total employment in export activities (41%), compared with only a quarter in Chile and Uruguay or even less in other countries (ECLAC, 2014c).

¹⁸ See list on the website of the Ministry of Trade and Industry of Panama [online] <http://sem.mici.gob.pa>.

Box 1.5**Cuba: open for business?**

Based on its relatively large population, with more than 11 million inhabitants, and undercapitalized economy, Cuba should be an attractive destination for investment. Although there are no official FDI figures, FDI in the island is usually estimated to be very low (ECLAC, 2011). Nevertheless, investors from several countries are now present in Cuba. Brazil, for example, has been pivotal in the construction of a new US\$ 900 million port and free trade zone (FTZ) in the town of Mariel, close to Havana. This port was financed with loans from the Government of Brazil and built by Odebrecht, a Brazilian construction company, but will be operated by Singapore's PSA.^a In early 2014, Brazil also signed memorandums of understanding to build a plastic manufacturing facility, upgrade airport structure and possibly build a tobacco plant. In tourism, Meliá of Spain is a large hotel chain that owns or operates a series of hotels throughout the island. Recently, the tourism industry has received little investment, however, with the exception of a US\$ 350 million luxury golf resort proposed by Esencia Hotels and Resorts of the United Kingdom. Natural resources have been a larger focus, with firms from Brazil, China and the Russian Federation said to be exploring for oil and gas. Sherritt International of Canada is another major investor,

having invested US\$ 400 million in electricity generation over the past 16 years.

To turn things around, the Government of Cuba has announced several major reforms aimed at increasing FDI inflows to between US\$ 2 billion and US\$ 2.5 billion per year. In 2014, the Cuban legislature unanimously approved measures to cut corporate tax rates from 30% to 15% and provide foreign investors with an eight-year tax holiday for new investment. The new investment law also provides much improved legal protection for foreign business-owners. Furthermore, it changes the existing regulation, which dates back to 1995, that requires the Cuban government to own a 51% stake in all investments, even if most of the capital comes from foreign private sources. At the same time it will require workers to be hired through State employment agencies charging in hard currency.^b The current changes in FDI law are aimed primarily at mining, tourism, renewable energy, foods and construction, but they could be expanded to include other sectors in the future. It is too early to be able to see the real impact of these reforms, but if they work, they should benefit both foreign investors and Cuban citizens.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean*, 2010 (LC/G.2494-P), Santiago, Chile, 2011. United Nations publication, Sales No. E.11.II.G.4.

^a If FDI data were collected in Cuba, it is doubtful whether this transaction would be considered FDI, since, despite the extensive foreign involvement at all stages of the process, final ownership remains with the Cuban state.

^b See *The Economist* [online] <http://www.economist.com/news/americas/21600128-cuba-eases-investment-rules-many-cuban-americans-turn-against-embargo-strait-talk>.

The most important feature of FDI in the Caribbean is that there are two partially opposing forces at work (De Groot and Pérez Ludeña, 2014). On the one hand, there are those economies that are primarily specialized in natural resources, such as Trinidad and Tobago, Suriname and Guyana. Those resource-intensive economies have seen an increase in FDI in recent years, a trend that largely continued into 2013. Most economies in the Caribbean, however, rely on the tourism sector. While these are less capital-intensive and the investment projects thus do not affect the overall regional figures as strongly, they can have a major impact on some of the smaller economies. FDI inflows in tourism-related activities have been decreasing since the financial crisis of 2008, but 2013 saw a resurgence of activity in many economies. This may be good news for those economies, particularly since investment in tourism tends to have a large impact in, for example, employment creation.

In addition to natural resources and tourism, the Caribbean has also seen a flurry of activity in the field of electricity generation. Several economies are exploring alternative sources of electricity to reduce their dependence on fossil fuels and different electricity grids have significantly consolidated operations. If successful, this market consolidation could prove a boon for the region, which is plagued by extreme energy dependency, consistently high electricity prices and ongoing current account deficits, partially owing to the need to import energy.

The **Dominican Republic** is the subregion's largest economy and receives correspondingly high inflows of FDI. Inflows in 2013 amounted to US\$ 1.991 billion, somewhat below the average for recent years and a significant drop from the 2012 figure of US\$ 3.142 billion (which was, however, heavily influenced by the acquisition of Cervecería Nacional Dominicana by Anheuser-Busch Inbev for US\$ 1.237 billion). The most significant development has been the drop in FDI in the mining sector, which was the largest FDI recipient in 2012. This can be attributed to the maturity of the Pueblo Viejo gold mine, owned by Barrick Gold Corp., which started production in 2013 and therefore reduced its investments in construction. Power generation was a major recipient of FDI in 2013. Germany's Wirsol is building a 64-MW solar park which is estimated to require a US\$ 270 million investment. Additionally, Southern California Telephone & Energy announced an US\$ 800 million investment in a gas-fired power plant as well. In the tourism sector, several new hotels were opened during 2013, including the Breathless Punta Cana, Hotel Riviera Azul and Westin Punta Cana. Construction started on several new tourism complexes, including a US\$ 400 million complex

on Playa Grande by North Shore Land Holdings of the United States. Lastly, investment in export processing zones remained at levels similar to previous years and Dubai World of the United Arab Emirates has started work on a US\$ 215 million logistics centre.

Trinidad and Tobago received inflows of US\$ 1.713 billion, compared with a 2012 figure of US\$ 2.453 billion, which was among the highest inflows ever recorded in the country. Most activity took place in the oil exploration sector. The government continued selling oil and gas exploration rights and several companies committed significant investments in the sector. BP of the United Kingdom plans to spend some US\$ 5 billion in five years, while BHP Billiton will spend some US\$ 1 billion and Range Resources will commit around US\$ 100 million. In related news, France's Total divested US\$ 473 million worth of assets to the National Gas Company of Trinidad and Tobago in 2013 and Repsol of Spain sold its holdings to Anglo-Dutch Shell. Beyond oil and gas exploration, Mitsubishi Gas Chemical signed an agreement committing US\$ 850 million to a petrochemical complex, while Severstal of the Russian Federation withdrew its plans to spend US\$ 600 million on an iron plant.

In **Suriname** and **Guyana**, the most important developments took place in mining and oil and gas exploration. FDI inflows to Suriname increased from US\$ 61 million to US\$ 113 million, while those to Guyana shrank from US\$ 294 million to US\$ 214 million. In June, Suriname's parliament approved the plan of Newmont Mining Corporation of Canada for the development of the Merian gold mine, which should lead to an investment of between US\$ 800 million and US\$ 1 billion. In oil and gas exploration, Apache Corporation of the United States announced a US\$ 230 million investment in Block 53, in which the Spanish petroleum company CEPSA also acquired a 25% stake. Tullow Oil (United States) and Statoil (Norway) will invest US\$ 35 million in oil exploration. Meanwhile, Guyana Gold Fields of Canada announced a US\$ 249 million investment in the Aurora gold mine, and Repsol and Tullow Oil plan to explore the Kanuku block. In alternative energy sources, plans for a large hydroenergy dam as well as an ethanol plant were shelved in Guyana. Outside the main sectors, Trinidad and Tobago's Cooperative Citrus Growers Association plans to spend US\$ 25 million in the country.

Barbados has not published data for 2013. While the Barbadian economy has taken a hit in recent years, with a 0.2% contraction of GDP during 2013, some positive signs can be found in the tourism sector. The long-stalled Four Seasons Hotels project appears to have been reinitiated in 2013. Sandals Resorts of Jamaica announced an investment of US\$ 250 million, purchasing one resort and constructing another. In electricity generation, Guernsey-based Cahill Energy announced a US\$ 240 million waste-to-energy plant, and Trinidad and Tobago's Republic Bank completed its takeover of the remaining shares of the former Barbados National Bank in 2013. Barbados Light and Power, nominally owned by Emera of Canada, acquired controlling stakes in the electricity networks of Dominica and Grenada from WRB Enterprises (United States).

Jamaica's FDI inflows increased from US\$ 490 million in 2012 to US\$ 567 million in 2013, a five-year high. China Harbour Engineering announced a US\$ 1.350 billion project to build a new port on Goats Island, to tap the opportunity afforded by the expansion in the Panama Canal. Jamaica also benefited from a revival of tourism-related investment in 2013. Sagicor of Barbados acquired and upgraded the Jewel Paradise Cove Resort and Spa, while Playa Hotels & Resorts (United States) purchased the former Ritz-Carlton in Rose Hall to refurbish and Blue Diamond of Canada purchased Breezes Negril for an unknown sum. A new Courtyard Marriott is also being built at a cost of US\$ 22 million. In the field of BPO, Sutherland Global Services (United States) opened a centre in Jamaica in December, which will ultimately create some 3,000 jobs. Lastly, Royal Bank of Canada (RBC) withdrew from Jamaica and sold its assets to Sagicor for some US\$ 85 million.

In the **Bahamas**, FDI inflows decreased from US\$ 575 million to US\$ 410 million in 2013. The construction of the Baha Mar tourism project continues (see box I.2 in ECLAC, 2012b), while an investor group that includes Cipriani (Luxembourg) and Chinese investors announced the intention to invest upward of US\$ 1 billion in a new development: the Blackwood Point Resort & Marina, which should include a 1,500 room resort, casinos and even its own power plant. Meanwhile, Yacht Management (United States) announced a US\$ 17 million investment in yachting services and Emera Incorporated of Canada has opened a biofuel demonstration project through its Grand Bahama Power Company subsidiary.

Similarly to the Bahamas, **Belize** saw investment activity mainly in the tourism sector in 2013, with a focus on the cruise segment. FDI inflows fell from US\$ 194 million to US\$ 89 million, although this partly reflected particularly large agricultural investments in 2012, amounting to 38% of all inflows that year as against 9% in 2013. Norwegian

Cruise Line will invest US\$ 50 million in an eco-friendly private port, while Royal Caribbean and the Feinstein Group propose to invest US\$ 100 million. British Virgin Islands-based Yumi Ltd acquired Caye Chapel Resort Island from the Ashcroft Group for US\$ 30 million. Finally, TexBel Agricultural Investments (backed by United States-based investors) plans to expand its coconut products business for some US\$ 45 million.

Finally, **Haiti** saw investment increase from US\$ 179 million in 2012 to US\$ 186 million in 2013. Haiti's territory is currently being prospected for mining opportunities, by Eurasian Mining and Newmont Ventures Ltd. of Canada, for example, so mining could see significant FDI inflows in the future. Currently, most investment goes into manufacturing, with Yujin Knit Apparel Co. Ltd. of the Republic of Korea investing US\$ 23 million in a clothing factory and BRF Brasil Foods investing US\$ 45 million in a new poultry facility. Lastly, Heineken of the Netherlands, which bought the Brana brewery in 2011, invested some US\$ 20 million during 2013, and will invest a further US\$ 80 million to expand production.

The members of the **Organization of Eastern Caribbean States** (OECS) saw an 18% increase in FDI inflows from US\$ 514 million in 2012 to US\$ 607 million in 2013. The tourism sector received much attention, but some economies saw significant announcements in energy generation, as well. The biggest recipient in 2013 was **Antigua and Barbuda** with US\$ 138 million (up from US\$ 134 million in 2012), which may have partly reflected its new Citizenship by Investment (Cbi) programme. Sandals Resorts International agreed to invest US\$ 150 million in a new tourism resort, while the ground was broken on the US\$ 253 million project at Pearn Point, to be developed by Orange Ltd of the Netherlands. Lastly, Qatar appears to be showing interest in the Azure Bay Property Development Project. Outside tourism, Baupanel System of Spain is building a manufacturing plant.

Saint Vincent and the Grenadines received US\$ 127 million in 2013 (up from US\$ 115 million). Its new airport, to be opened in 2014, is leading to an increase in tourism investment, while a major storm around Christmas caused substantial damage to several properties, which will require investment to recover. Finally, Reykjavik Geothermal started a US\$ 50 million project in geothermal energy during 2013.

Saint Kitts and Nevis saw a 20% increase in FDI inflows to US\$ 112 million, with a strong focus on tourism. During 2013, some 1,000 rooms were added on the island. Range Developments of the United Arab Emirates is currently building a new Park Hyatt Saint Kitts, and Darby Family Investments acquired a majority share of Christophe Harbour. In property development, T-LOFT of Hong Kong (Special Administrative Region of China) is investing US\$ 40 million in the Pirate's Nest while Russian investors are investing US\$ 50 million in unnamed real estate projects. Finally, Asia Pacific Investment House has raised the first US\$ 50 million for its proposed US\$ 250 million property development.

Saint Lucia's FDI inflows increased from US\$ 80 million to US\$ 88 million in 2013, with much of it in tourism. Viceroy Hotel Group (United States), Six Senses (Thailand) and Hotel Chocolat (United Kingdom) all continue to build or expand their accommodation on the island. Apart from tourism, French-Singaporean Caribbean Grains Ltd started producing animal feed in the free trade zone (FTZ) and Canada Plastics has opened a factory as well. Lastly, El Salvador's Unicomer Group announced a new distribution centre in early 2014.

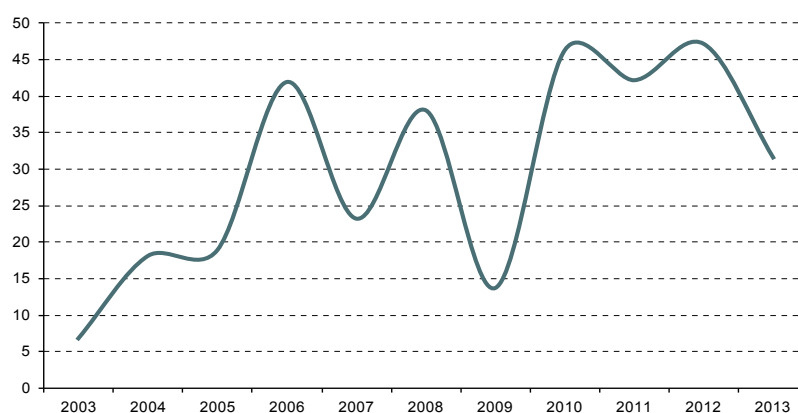
Grenada more than doubled its FDI inflow in 2013, from US\$ 34 million to US\$ 78 million. It also introduced a new Cbi initiative and saw several large announcements in tourism. The Sandals La Source Grenada is undergoing a US\$ 90 million refurbishment, and the Bacolet Bay Resort has resumed its refurbishment. Two individual real estate developers have unfolded plans for a US\$ 700 million investment to position Grenada on the global luxury travel map, while an Egyptian billionaire businessman is planning to build three new five-star hotels on the island.

Dominica's investment fell from US\$ 23 million in 2012 to US\$ 18 million in 2013, but there are some major plans under way on the island. Although EDF of France has withdrawn from the construction of an export-focused geothermal plant, the government aims to complete the project with other investors. Chinese investment company ASCG announced in December that it will invest US\$ 300 million in the country, in an airport, an international tourism hotel and a hospital.

F. Outward FDI

Outward FDI from Latin America continues to be very volatile. In 2013, outflows dropped to US\$ 32.217 billion, 31% less than in 2012 and one of the lowest figures in the past decade (see figure I.16), but this drop should not be interpreted as a change in the upward trend of the previous years. The fundamental reasons for the international expansion of trans-Latin corporations are still in place, but this expansion takes place through large acquisitions and investment projects by a relatively small number of large companies from only a handful of countries. A set of specific circumstances in these countries significantly reduced the outflows in 2013.

Figure I.16
Latin America and the Caribbean: outflows of foreign direct investment, 2003-2013
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

Chile and Mexico continued to be the largest sources of FDI in the region in 2013, but both reduced their outflows significantly (see table I.4). Mexico's outflows had been extraordinarily high in 2012, and the US\$ 12.937 billion of 2013 match the average of previous years. Chile's outflows also reverted to the level of previous years after very high outflows in 2011 and 2012.

Table I.4
Latin America and the Caribbean (major economies): outward foreign direct investment, 2002-2013
(Millions of dollars)

	2000-2005 ^a	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	533	2 439	1 504	1 391	712	965	1 488	1 052	1 225
Brazil	2 513	28 202	7 067	20 457	-10 084	11 588	-1 029	-2 821	-3 495
Chile	1 988	2 212	4 852	9 151	7 233	9 461	20 252	22 330	10 923
Colombia	1 157	1 098	913	2 486	3 348	6 893	8 304	-606	7 652
Venezuela (Bolivarian Republic of) ^b	809	1 524	43	1 598	2 236	1 776	-1 141	2 460	2 152
Mexico	2 909	5 758	8 256	1 157	9 604	15 050	12 636	22 470	12 937
Latin America and the Caribbean	10 131	41 560	23 179	37 352	13 690	46 282	42 179	47 186	32 217

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 8 May 2014.

^a Simple average.

^b Data for 2013 refer to the first three quarters.

Brazil has the largest stock of outward FDI in Latin America, but for the third year running outflows were negative. Since 2009, Brazilian trans-Latin corporations have been registering a negative outflow of intra-company loans with their subsidiaries abroad, meaning that they are borrowing outside to finance their activities in Brazil, in response to high domestic interest rates. This negative outflow of US\$ 18.256 billion in loans more than offset the positive capital outflow of US\$ 14.760 billion.¹⁹

¹⁹ Brazil does not record reinvested earnings in its official FDI figures.

Conversely, Colombia resumed outflows in 2013 after registering a small negative figure in 2012. Colombian companies have been among the fastest-growing trans-Latin of the past five years but, again showing the volatility of these flows, they recorded no large acquisitions in 2012.

The largest M&As reveal the drop in value in relation to 2012, when the largest 20 operations totalled more than US\$ 32 billion, but they are broadly in line with previous years. Colombian companies, which had been inactive in this area in 2012, were responsible for some of the largest acquisitions in 2013. Trans-Latin corporations continued their strategy of buying European companies' assets in Latin America, although at a slower pace. In 2013 there were a few important Mexican investments in Spain, led by the acquisition of food producer Campofrío for US\$ 309 million. Mexican investors also acquired major stakes in two Spanish banks: David Martínez in Banco Sabadell and Del Valle family in Banco Popular (*El País* 2013).

Table I.5
Main cross-border acquisitions by trans-Latins, 2013
(Millions of dollars)

Company	Country of origin	Assets acquired	Assets located in	Seller located in	Sector	Amount
1 Bancolombia	Colombia	HSBC Panama	Panama	United Kingdom	Finance	2 234
2 Coca-Cola FEMSA	Mexico	Spaipa SA	Brazil	Brazil	Food and beverages	1 855
3 Grupo BTG Pactual	Brazil	Stake in oil exploration (50%)	Africa	Brazil	Oil	1 525
4 Grupo Nutresa	Colombia	Tresmontes Lucchetti	Chile	Chile	Food and beverages	758
5 Banco Safra	Brazil	Bank J Safra Sarasin (50%)	Switzerland	Switzerland	Finance	700
6 Coca-Cola FEMSA	Mexico	Coca-Cola Bottlers Philippines (51%)	Philippines	United States	Food and beverages	689
7 Grupo Aval	Colombia	Banco Bilbao Vizcaya Panama (99%)	Panama	Spain	Finance	688
8 Grupo Aeropuerto del Sureste	Mexico	LMM Airport	Puerto Rico	Puerto Rico	Transport	615
9 Cementos Argos	Colombia	Lafarge Cementos Honduras (53%)	Honduras	France	Cement	573
10 Coca-Cola FEMSA	Mexico	Companhia Fluminense de Refrigerantes	Brazil	Brazil	Food and beverages	448
11 ENTEL	Chile	Nextel de Peru	Peru	United States	Telecommunications	400
12 Investor group	Mexico	ISC Fresh Water	Spain	United Kingdom	Real estate	394
13 Alfa SAB	Mexico	Campofrío Food Group (45%)	Spain	Spain	Food and beverages	309
14 Corpesca	Chile	Sementes Selecta (60%)	Brazil	Brazil	Agriculture	260
15 Mexichem SAB	Mexico	Resin production assets	United States	United States	Chemicals	250
16 Bancolombia	Colombia	Grupo Agromercantil Holding (40%)	Guatemala	United States	Agriculture	217
17 Vale SA	Brazil	Belvedere coal mine (25%)	Australia	Australia	Mining	156
18 Pluspetrol	Argentina	Harvest Vincler (29%)	Venezuela (Bolivarian Republic of)	United States	Oil	135
19 Marcopolo SA	Brazil	New Flyer (20%)	Canada	Canada	Automotive industry	116
20 Amil Participacoes SA	Brazil	Hospitais Privados de Portugal	Portugal	Portugal	Healthcare	110

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

FDI outflows from Argentina edged up slightly to US\$ 1.225 billion while those from the Bolivarian Republic of Venezuela dipped slightly to stand at US\$ 2.152 billion. Almost 90% of total FDI outflows in Latin America are concentrated in Brazil, Mexico, Chile, Colombia, the Bolivarian Republic of Venezuela and Argentina. Although there are indications that smaller economies have been generating more outward FDI in recent years, official data are still limited. A third of the economies do not report outward FDI and those that do often have incomplete estimations.

In 2013 Costa Rica registered US\$ 257 million in outflows, lower than the 2012 figure, but still higher than in previous years. Guatemala reported outflows of US\$ 34 million and Peru, US\$ 136 million. Trinidad and Tobago, the largest foreign investor in the Caribbean, registered US\$ 742 million.

One of the reasons for the rise in FDI outflows in the past few years is improved access to finance for the region's companies. In 2012 and 2013, firms from Latin America issued more corporate bonds abroad (often in the United States) than ever before. Even more importantly, companies from medium-sized and small economies in the

region were also able to raise funds this way. In 2013, companies from Colombia raised US\$ 3.161 billion, Peru US\$ 4.520 billion, Jamaica US\$ 1.3 billion, Guatemala US\$ 350 million and El Salvador US\$ 310 million (ECLAC, 2014a). Issuing bonds in foreign markets enables companies to grow beyond the possibilities offered by the domestic financial markets, and much of this growth is taking place beyond their country of origin.

Despite the drop in outflows in 2013, the general trend in outward FDI will remain upward. Companies from Latin American countries are accumulating capacities (financial, managerial and technological) that, given the limited domestic markets in most economies, can be fully exploited only through FDI. The determinants of this trend are analysed at greater length in chapter II.

G. Conclusions

FDI inflows in Latin America and the Caribbean have remained stable for the past three years. In 2013 they reached US\$ 188.101 billion, 6% higher than in 2012 in nominal terms.

FDI inflows to the region have been rising for a decade now. FDI has grown steadily since 2003, with the sole exception of 2009, driven by consumption growth in most economies and high global prices for export commodities. During 2012 and 2013, economic growth in the region slowed and the prices of most commodities declined. These developments did not radically change investment strategies, however, and FDI continued to flow into the region at the same rate. The global financial instability experienced in mid-2013 did not alter investment patterns either.

Average profitability of FDI in the region dropped in 2013 to below 6%, but total FDI income edged up slightly because the stock of FDI in the regions keeps growing. Reinvested profits dropped in 2013 as a proportion of FDI inflows, but are likely to remain at around 45% of total FDI in the region in the near future, which means that almost half of total FDI in the region represents the continuation and expansion of existing business. These flows are also particularly stable across time.

FDI outflows, on the other hand, remain very volatile, exceeding US\$ 40 billion in 2010, 2011 and 2012, but dropping to US\$ 32.217 billion in 2013. Outward FDI is driven mainly by large acquisitions, as trans-Latin corporations continue their rapid expansion into new markets.

High levels of FDI inflows do not necessarily imply large positive impacts on economic growth or development. In the academic literature, there is an ongoing debate on the impact of FDI on economic growth, and the most solid conclusion is that types of FDI do not all have the same impact (De Groot 2014). For example, a large percentage of FDI flows are company acquisitions that do not build new capacity in the economy and even greenfield investments may only substitute for domestic investments. The challenge is to attract the type of FDI that contributes to developing new sectors or has the capacity to boost the productivity and performance of existing industries. Transnational corporations have immense technology and production capacities that countries could tap into to develop new industries or expand existing ones. The development of solar energy in Chile and the large expansion in automotive production capacity in Brazil and Mexico are two recent examples.

FDI flows remain stable at the aggregate level, but individual transnational corporations can easily withdraw their operations from a country, as occurred recently in the case of the Intel manufacturing plant in Costa Rica. This draws attention to need for public policies aimed both at leveraging the presence of international companies to build local capacities, and at anchoring FDI through specific assets, such as highly-qualified human resources and local suppliers.

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Annex

Table I.A.1
Latin America and the Caribbean: inward foreign direct investment, by country, 2001-2013
(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Antigua and Barbuda	112	80	179	95	238	361	341	161	85	101	68	134	138
Argentina	2 166	2 149	1 652	4 125	5 265	5 537	6 473	9 726	4 017	11 333	10 720	12 116	9 082
Bahamas	234	238	292	532	641	843	887	1 032	753	960	971	575	410
Barbados	87	81	167	127	240	342	476	464	247	290	700	544	...
Belize	61	25	-11	111	127	109	143	170	109	97	95	194	89
Bolivia (Plurinational State of)	877	999	567	448	488	582	953	1 302	667	936	1 033	1 505	2 030
Brazil	22 457	16 590	10 144	18 146	15 066	18 822	34 585	45 058	25 949	48 506	66 660	65 272	64 046
Chile	4 200	2 550	4 334	7 241	7 097	7 426	12 572	15 518	12 887	15 373	23 444	28 542	20 258
Colombia	2 542	2 134	1 720	3 016	10 252	6 656	9 049	10 596	7 137	6 746	13 405	15 529	16 772
Costa Rica	460	659	575	794	861	1 469	1 896	2 078	1 347	1 466	2 176	2 332	2 682
Dominica	21	21	32	27	32	29	48	57	43	25	14	23	18
Dominican Republic	1 079	917	613	909	1 123	1 085	1 667	2 870	2 165	1 896	2 275	3 142	1 991
Ecuador	1 330	783	872	837	493	271	194	1 058	308	163	644	585	703
El Salvador	279	208	129	529	511	241	1 509	785	385	-230	218	482	140
Grenada	61	57	91	66	73	96	172	141	104	64	45	34	78
Guatemala	499	205	263	296	508	592	745	754	600	806	1 026	1 245	1 309
Guyana	56	44	26	30	77	102	152	178	164	198	247	294	214
Haiti	4	6	14	6	26	161	75	30	38	150	181	179	186
Honduras	304	275	403	547	600	669	928	1 006	509	969	1 014	1 059	1 060
Jamaica	614	481	721	602	682	882	866	1 437	541	228	220	490	567
Mexico	29 984	23 987	18 896	25 038	24 669	20 699	32 184	28 337	17 055	23 027	23 009	17 628	38 286
Nicaragua	150	204	201	250	241	287	382	626	434	508	968	805	849
Panama	405	78	771	1 012	1 027	2 498	1 777	2 402	1 259	2 363	3 132	2 887	4 651
Paraguay	70	6	25	28	36	114	202	209	95	216	557	480	382
Peru	1 144	2 156	1 335	1 599	2 579	3 467	5 491	6 924	6 431	8 455	8 233	12 240	10 172
Saint Kitts and Nevis	90	81	78	63	104	115	141	184	136	119	112	94	112
Saint Lucia	63	57	112	81	82	238	277	166	152	127	100	80	88
Saint Vincent and the Grenadines	21	34	55	66	41	110	121	159	111	97	86	115	127
Suriname	-27	-74	-76	-37	28	-163	-247	-231	-93	-248	70	61	113
Trinidad and Tobago	835	791	808	998	940	883	830	2 801	709	549	1 831	2 453	1 713
Uruguay	297	194	416	332	847	1 493	1 329	2 106	1 529	2 289	2 504	2 687	2 796
Venezuela (Bolivarian Republic of)	3 683	782	2 040	1 483	2 589	-508	1 505	1 741	-2 169	1 849	3 778	3 216	7 040

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as of 8 May 2014.

Table I.A.2
Latin America and the Caribbean: inward foreign direct investment by destination sector, 2006-2013
(Millions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
Argentina^a								
Natural resources	2 544	2 488	895	827	3 006	655	2 909	...
Manufactures	2 977	3 155	6 422	328	4 850	5 309	4 573	...
Services	1 688	1 942	3 329	1 656	2 100	4 202	4 553	...
Belize								
Natural resources	12	9	37	7	13	29	100	22
Manufactures	0	0	0	0	0	0	0	0
Services	91	108	127	97	82	65	89	81
Other	14	34	16	9	5	5	6	9
Bolivia (Plurinational State of)								
Natural resources	1 550	390	486	859	420	530	622	1 166
Manufactures	317	67	164	154	74	274	240	119
Services	162	126	303	290	193	132	171	220
Brazil								
Natural resources	1 542	4 806	15 085	7 487	18 358	6 296	9 044	16 782
Manufactures	8 462	16 074	15 796	12 796	20 416	31 664	25 612	21 140
Services	12 702	13 147	13 703	6 334	9 509	28 493	30 454	26 001
Chile								
Natural resources	3 283	6 495	4 599	7 147	5 033	13 793	15 229	...
Manufactures	1 154	-657	1 570	805	568	1 590	3 449	...
Services	2 617	6 481	8 725	4 936	9 773	7 548	11 645	...
Other	244	215	256	0	0	0	0	...
Colombia								
Natural resources	37 86	4 474	5 244	5 481	4 603	7 673	7 807	8 104
Manufactures	803	1 867	1 748	621	692	852	1 755	2 659
Services	2 067	2 709	3 605	1 035	1 452	4 880	5 967	6 009
Costa Rica								
Natural resources	59	33	467	73	31	38	-17	2
Manufactures	439	689	555	407	966	737	634	358
Services	961	1 170	1 031	845	446	1 401	1 715	2 322
Other	10	4	26	22	23	2	0	0
Dominican Republic								
Natural resources	107	30	357	758	298	1 060	1 169	93
Manufactures	-168	184	574	280	466	355	1 257	404
Services	1 146	1 453	1 938	1 128	1 132	860	716	1 494
Ecuador								
Natural resources	-69	-77	265	58	189	380	243	265
Manufactures	90	99	198	118	118	122	136	134
Services	250	173	595	132	-144	142	206	304
El Salvador								
Natural resources	29	10	5	1	1	-1	-3	1
Manufactures	17	21	28	56	-65	149	-47	283
Services	182	1 315	480	165	-166	70	531	-143
Other (maquila)	-0	101	26	72	0	0	0	0
Guatemala								
Natural resources	69	70	174	139	120	325	418	489
Manufactures	175	210	175	51	299	150	145	156
Services	328	437	369	401	363	544	636	625
Other	20	28	36	9	23	7	46	40
Honduras								
Natural resources	86	30	4	10	84	62	41	70
Manufactures	228	384	267	98	341	392	426	325
Services	356	513	736	402	545	560	591	665
Other	0	0	0	0	0	0	0	0

Table I.A.2 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013
Mexico								
Natural resources	453	1 790	4 814	853	1411	866	3 015	3 212
Manufactures	10 174	13 861	8 259	5 965	12 588	9 784	7 591	28 134
Services	10 071	16 533	15 264	10 238	9 028	12 358	7 023	6 940
Nicaragua								
Natural resources	15	11	57	47	77	191	123	160
Manufactures	63	121	122	70	108	226	188	251
Services	209	250	447	318	323	550	487	426
Other	0	0	0	0	0	0	8	11
Panama								
Natural resources	-108	1	-59	-34	77	94	13	...
Manufactures	105	129	161	104	-114	142	694	...
Services	2 531	1 765	2 106	1 190	2 760	2 897	2 180	...
Other	19	2	-11	0	0	0	0	...
Paraguay^b								
Natural resources	-36	-2	3	8	-6	14	2	2
Manufactures	60	8	149	-109	53	67	329	92
Services	70	196	56	195	169	476	186	80
Uruguay								
Natural resources	328	338	604	253	329	383	203	...
Manufactures	96	263	261	242	131	190	377	...
Services	594	592	1 003	962	1 010	1 360	1 653	...
Other	476	136	238	71	820	572	454	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as of 8 May 2014.

^a Data from the Central Bank of the Republic of Argentina.

^b Data for 2013 refer to the cumulative total at the third quarter.

Table I.A.3
Latin America and the Caribbean: inward foreign direct investment by country of origin, 2006-2013
(Millions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
Argentina^a								
United States	1 338	739	2 590	1 766	2 157	2 923	3 413	...
Netherlands	589	593	1 181	-126	-32	491	1 923	...
Canada	69	630	856	-206	659	371	1 796	...
Brazil	427	833	1 390	-167	1 672	1 802	1 550	...
Luxembourg	98	76	731	-54	2 382	288	776	...
Chile	255	377	702	277	797	642	647	...
Germany	254	391	354	302	531	303	611	...
Mexico	27	547	552	96	314	402	564	...
Bolivia (Plurinational State of)								
Spain	4	50	25	145	271	246	364	676
Sweden	0	242	339	23	169	280	178	347
United Kingdom	17	24	48	70	11	2	111	309
France	38	13	36	22	89	55	73	220
Peru	26	35	26	40	82	12	56	102
Brazil								
Netherlands	3 317	7 634	3 916	4 260	2 736	17 908	12 003	13 120
United States	2 784	3 744	5 007	1 963	5 348	5 572	13 509	8 742
Luxembourg	397	5 864	6 292	-483	9 132	2 452	7 648	9 311
Mexico	819	1 442	1 372	751	2 330	932	2 756	5 366
Spain	749	1 787	2 572	3 262	313	9 779	2 073	2 307
Switzerland	1 659	905	803	380	6 547	1 415	5 017	3 303
Japan	826	81	4 316	1 709	2 426	7 387	1 255	3 193
Chile	27	717	264	1 027	1 428	1 721	2 180	3 312
Chile								
United States	111	3 726	2 272	991	819	1 915	4 376	...
Spain	822	1 088	2 210	1 220	1 844	4 110	4 052	...
Canada	498	2 612	1 667	2 364	772	1 853	2 638	...
Japan	159	236	-28	350	1 613	1 199	1 860	...
Netherlands	327	805	824	1 379	173	1 289	1 820	...
Colombia								
United States	2 648	2 761	2 977	2 340	1 795	2 301	2 516	2 981
Spain	343	855	1 143	775	1 276	2 615	2 379	2 105
Canada	70	135	166	167	178	377	698	2 073
Japan	906	1 597	1 514	1 358	909	1 444	1 350	1 368
Netherlands	672	570	1 034	-29	547	1 166	626	1 002
Bermuda	273	125	402	653	519	921	747	938
Costa Rica								
United States	821	962	1 328	1 022	1 031	1 376	1 051	1 243
Panama	28	-3	20	22	31	-3	12	284
Spain	13	57	141	79	28	247	318	214
Mexico	22	71	20	7	40	183	346	133
Colombia	-3	30	50	6	101	152	112	124
Nicaragua	1	0	0	-0	14	-3	29	99
Dominican Republic								
United States	662	536	360	455	307	459	580	289
Canada	142	113	383	773	329	1 067	850	156
Netherlands	41	54	-73	96	62	63	9	83
El Salvador	0	2	0	0	0	0	146	80
Venezuela (Bolivarian Republic of)	17	53	11	31	140	2	56	53
Ecuador								
Uruguay	15	2	-37	-13	40	3	6	115
Mexico	43	-40	313	621	279	70	83	91
China	12	85	47	56	45	80	86	88
Spain	7	85	190	51	-17	52	50	67
Italy	0	11	17	1	10	25	27	59
Panama	67	77	67	117	139	33	26	53

Table I.A.3 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013
El Salvador								
Panama	68	841	321	80	206	27	-480	321
Spain	0	0	0	0	-41	-0	18	170
Costa Rica	0	0	0	0	-40	55	-30	39
Guatemala								
Canada	4	25	54	74	114	305	290	269
United States	198	326	229	151	343	127	227	212
Russian Federation	0	0	0	0	0	13	134	187
Colombia	0	3	15	21	22	155	48	167
Mexico	83	76	76	50	97	81	96	114
Honduras	0	4	3	36	-43	13	23	67
Germany	0	2	12	5	21	31	29	52
Honduras								
Mexico	38	92	30	168	124	154	192	266
Luxembourg	0	0	0	171	133	149	124	150
United States	339	460	449	92	185	141	173	128
Canada	107	139	51	-39	159	187	132	114
Indonesia	44	103	72	-88	109	85	94	97
Panama	16	22	16	1	14	16	22	63
Mexico								
Belgium	69	231	102	340	36	161	0	13 283
United States	13 059	13 048	11 526	7 456	6 256	11 600	8 514	11 255
Netherlands	2 808	6 660	1 930	2 310	9 185	2 777	1 392	2 674
Luxembourg	178	540	342	188	391	137	762	1 798
Japan	-1 422	410	528	484	536	914	1 812	1 538
United Kingdom	1 046	704	1 875	496	742	-936	584	1 429
Germany	744	648	657	60	353	285	787	1 254
Nicaragua								
United States	53	84	126	88	88	159	121	244
Mexico	53	128	164	48	90	115	149	125
Venezuela (Bolivarian Republic of)	0	47	132	147	29	45	210	108
Panama	101	5	4	1	1	34	78	77
Spain	10	45	59	25	33	116	-19	74
Panama								
South Africa	17	13	19	26	879	350	653	...
United States	117	163	224	-19	1120	392	552	...
Colombia	70	134	60	135	82	412	278	...
Spain	129	77	91	327	-50	177	263	...
Switzerland	132	146	122	301	444	210	204	...
Netherlands	-23	22	420	-0	126	36	170	...
Venezuela (Bolivarian Republic of)	71	57	72	68	76	10	145	...
Paraguay^b								
United States	84	107	190	111	255	326	79	57
Argentina	22	-17	6	23	8	50	127	53
Brazil	52	41	42	-26	29	74	154	46
Mexico	0	0	0	-8	-18	-13	53	21
Luxembourg	-66	69	23	13	-46	43	16	19
Trinidad and Tabago								
United States	627	574	403	469	363	523	560	1 059
Canada	3	3	2 194	4	3	990	1 586	347
Japan	0	0	0	0	1	18	36	21
United Kingdom	150	159	146	152	118	23	25	19
Uruguay								
Argentina	282	373	534	432	588	809	980	...
Brazil	56	86	183	110	108	170	228	...
Spain	81	153	232	55	75	194	143	...
United States	67	43	144	167	-36	77	126	...
Bahamas	-13	12	34	44	36	51	121	...
Netherlands	-18	10	14	110	-2	172	76	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as of 8 May 2014.

^a Data from the Central Bank of the Republic of Argentina.

^b Data for 2013 refer to the cumulative total at the third quarter.

Table I.A.4
Latin America and the Caribbean: inward foreign direct investment by component, 2006-2013
(Millions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
Antigua and Barbuda								
Capital contributions	335	328	149	79	96	61	110	114
Inter-company loans	18	0	0	1	1	2	2	2
Reinvested earnings	9	12	12	5	5	5	22	22
Argentina								
Capital contributions	2 166	2 578	4 552	2 133	2 504	4 508	3 598	2 735
Inter-company loans	263	1 846	4 777	-1 010	3 507	2 600	405	...
Reinvested earnings	3 108	2 050	396	2 894	5 322	3 612	8 113	6 963
Bahamas								
Capital contributions	843	887	1 032	753	960	971	575	410
Inter-company loans	0	0	0	0	0	0	0	0
Reinvested earnings	0	0	0	0	0	0	0	0
Barbados								
Capital contributions	265	420	339	140	222	549	547	...
Inter-company loans	49	24	80	94	41	176	-31	...
Reinvested earnings	28	32	45	13	27	-25	28	...
Belize								
Capital contributions	98	100	141	80	80	103	198	96
Inter-company loans	-15	13	8	6	2	1	0	0
Reinvested earnings	25	30	21	23	15	-8	-4	-7
Bolivia (Plurinational State of)								
Capital contributions	11	27	45	1	1	5	19	17
Inter-company loans	306	654	850	177	141	130	282	331
Reinvested earnings	266	272	407	509	793	899	1 204	1 682
Brazil								
Capital contributions	15 373	26 074	30 064	19 906	40 117	54 782	52 838	41 644
Inter-company loans	3 450	8 510	14 994	6 042	8 390	11 878	12 434	22 401
Reinvested earnings	...	...	...	...	...	...	...	...
Chile								
Capital contributions	1 980	2 622	7 775	1 905	4 662	10 921	8 678	5 882
Inter-company loans	-1 697	-232	1 146	463	2 848	3 297	11 026	7 102
Reinvested earnings	7 143	10 182	6 597	10 519	7 863	9 226	8 837	7 275
Colombia								
Capital contributions	5 193	7 462	7 827	4 951	3 802	9 137	9 584	...
Inter-company loans	-31	-396	461	42	-25	268	1 467	...
Reinvested earnings	1 495	1 983	2 332	2 144	2 969	4 001	4 599	...
Costa Rica								
Capital contributions	1 034	1 377	1 594	934	757	974	697	1 737
Inter-company loans	25	-2	39	-174	150	711	759	179
Reinvested earnings	410	521	446	587	559	494	877	766
Dominica								
Capital contributions	5	28	39	24	9	5	12	6
Inter-company loans	19	9	9	13	13	7	8	8
Reinvested earnings	5	10	9	6	3	2	4	4
Dominican Republic								
Capital contributions	765	1 616	2 199	704	1 333	1 342	1 900	...
Inter-company loans	-394	-446	278	1 096	614	468	904	...
Reinvested earnings	714	498	394	365	351	464	780	...
Ecuador								
Capital contributions	136	151	229	278	265	252	227	424
Inter-company loans	-260	-368	530	-226	-315	64	57	-18
Reinvested earnings	395	411	298	256	213	328	301	297

Table I.A.4 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013
Grenada								
Capital contributions	71	140	128	97	56	39	29	72
Inter-company loans	12	17	1	2	3	1	0	0
Reinvested earnings	12	15	12	5	5	5	5	5
Guatemala								
Capital contributions	87	260	197	94	265	198	446	134
Inter-company loans	-21	-30	75	19	-102	58	219	396
Reinvested earnings	526	515	482	488	643	770	580	779
Honduras								
Capital contributions	204	220	567	84	29	284	310	174
Inter-company loans	46	203	-40	65	378	56	52	240
Reinvested earnings	419	505	479	360	562	674	697	645
Mexico								
Capital contributions	6 385	17 584	12 033	8 554	14 940	9 148	3 668	19 118
Inter-company loans	6 220	6 148	7 551	3 841	4 424	5 376	5 967	8 516
Reinvested earnings	8 094	8 452	8 753	4 660	3 663	8 485	7 993	10 652
Panama								
Capital contributions	1 929	719	918	898	948	759	705	1 340
Inter-company loans	364	178	136	105	540	1 224	692	540
Reinvested earnings	205	879	1348	257	874	1 150	1 490	2 771
Paraguay								
Capital contributions	61	43	20	173	-9	366	236	204
Inter-company loans	8	129	132	-102	129	280	180	120
Reinvested earnings	46	31	57	24	96	-90	64	59
Peru								
Capital contributions	874	733	2 981	1 828	2 445	276	4 637	2 416
Inter-company loans	240	924	656	-782	693	2 285	-659	2 871
Reinvested earnings	2 353	3 835	3 287	5 385	5 317	5 671	8 263	4 885
Saint Kitts and Nevis								
Capital contributions	107	135	178	132	116	107	90	110
Inter-company loans	5	3	3	1	1	1	2	1
Reinvested earnings	2	2	2	2	2	4	1	1
Saint Lucia								
Capital contributions	220	254	135	135	109	80	57	64
Inter-company loans	6	8	21	13	13	15	16	16
Reinvested earnings	11	15	11	3	4	5	8	8
Saint Vincent and the Grenadines								
Capital contributions	94	102	142	100	91	79	112	124
Inter-company loans	3	8	8	8	2	2	2	2
Reinvested earnings	13	11	9	2	4	4	1	1
Suriname								
Capital contributions	0	0	0	0	0	0	...	...
Inter-company loans	-163	-247	-231	-93	-248	-51	...	...
Reinvested earnings	...	...	...	...	...	121	...	...
Trinidad and Tobago								
Capital contributions	497	554	2322	426	309	0	1	0
Inter-company loans	-20	-21	-16	-12	-11	135	698	827
Reinvested earnings	406	297	495	296	251	1 696	1 754	886
Uruguay								
Capital contributions	576	550	1 012	990	1 617	1 412	1 740	1 731
Inter-company loans	699	448	540	82	8	263	156	214
Reinvested earnings	219	331	554	457	664	828	791	852
Venezuela (Bolivarian Republic of)								
Capital contributions	-134	-1 004	511	-2 855	-1 182	-673	-851	...
Inter-company loans	-2 323	813	110	-455	1 158	2 143	1 340	...
Reinvested earnings	1 949	1 696	1 120	1 141	1 873	2 308	2 727	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as of 8 May 2014.

Table I.A.5
Latin America and the Caribbean: outward foreign direct investment stock by country, 2001-2013
(Millions of dollars and percentages of GDP)

	2001	2005	2011	2012	2013	2001	2005	2011	2012	2013
	<i>(Millions of dollars)</i>					<i>(Percentages of GDP)</i>				
Argentina	79 504	55 139	98 941	112 219	...	30	30	22	24	...
Bolivia (Plurinational State of) ^a	5 893	4 905	7 749	8 809	10 558	72	51	32	33	35
Brazil	121 949	181 344	696 507	745 089	724 644	22	21	28	33	33
Chile ^a	43 482	78 599	172 699	206 021	215 452	60	63	69	77	77
Colombia	15 377	36 903	96 017	112 069	127 895	16	25	29	30	34
Costa Rica	3 185	5 417	16 223	18 809	21 792	19	27	40	42	44
Dominican Republic ^a	2 752	8 866	21 187	24 754	25 411	11	26	38	42	42
Ecuador	6 876	9 861	12 496	13 083	13 785	28	24	16	15	15
El Salvador ^a	2 252	4 167	7 495	8 789	8 873	16	24	32	37	36
Guatemala ^a	3 918	3 319	7 751	8 928	10 258	21	12	16	18	19
Haiti ^b	99	150	784	963	...	3	4	11	12	...
Honduras ^a	1 585	2 870	7 965	9 024	10 084	21	29	45	49	52
Jamaica ^{a,c}	3 931	6 919	11 110	11 988	12 095	43	62	77	81	84
Mexico	158 161	234 751	284 611	361 234	389 083	23	27	24	31	30
Nicaragua ^d	1 565	2 461	5 666	6 470	7 319	29	39	59	62	64
Panama	7 314	10 167	23 875	26 762	...	62	66	76	74	...
Paraguay	1 016	1 127	3 877	4 808	4 886	13	13	15	20	16
Peru	11 835	15 889	51 208	63 448	73 620	22	20	28	31	34
Suriname	...	...	742	804	910	...	...	17	16	17
Uruguay ^d	2 406	2 844	15 147	17 547	...	12	16	33	35	...
Venezuela (Bolivarian Republic of)	39 074	44 518	44 576	49 079	...	32	31	14	13	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as of 8 May 2014.

^a The data for 2001 come from UNCTAD.

^b The data for 2011 and 2012 come from UNCTAD.

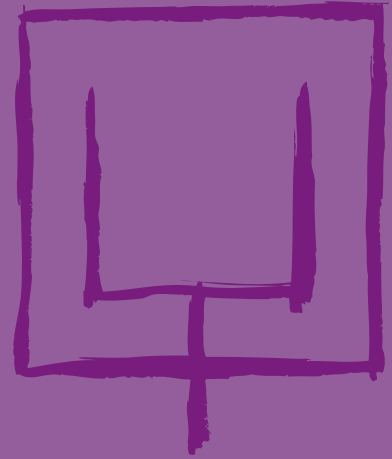
^c Data for 2013 refer to the end of the third quarter.

^d The data for 2001 and 2005 come from UNCTAD.

Table I.A.6
Latin America and the Caribbean: outward foreign direct investment flows by country, 2001-2013
(Million of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Antigua and Barbuda	13	14	13	15	17	2	2	2	4	5	3	4	4
Argentina	161	-627	774	676	1 311	2 439	1 504	1 391	712	965	1 488	1 052	1 225
Bahamas	42	28	46	86	78	136	141	171	89	88	304	49	28
Barbados	-1	-0	-1	-4	-9	-44	-82	6	56	54	29	89	...
Belize	0	0	-0	-0	-1	-1	-1	-3	-0	-1	1	1	1
Bolivia (Plurinational State of)	3	3	3	3	3	3	4	5	-4	-29	0	0	0
Brazil	-2 258	2 482	249	9 807	2 517	28 202	7 067	20 457	-10 084	11 588	-1 029	-2 821	-3 495
Chile	1 610	343	1 709	2 145	2 135	2 212	4 852	9 151	7 233	9 461	20 252	22 330	10 923
Colombia	16	857	938	142	4 662	1 098	913	2 486	3 348	6 893	8 304	-606	7 652
Costa Rica	10	34	27	61	-43	98	262	6	7	25	58	428	257
Dominica	4	1	0	1	13	3	7	0	1	1	0	0	0
El Salvador	0	0	19	0	113	0	95	80	0	-5	0	-2	3
Grenada	2	3	1	1	3	6	16	6	1	3	3	3	3
Guatemala	10	22	46	41	38	40	25	16	26	24	17	39	34
Honduras	3	7	12	-6	1	1	1	-1	4	-1	2	55	26
Jamaica	89	74	116	60	101	85	115	76	61	58	75	...	...
Mexico	4 404	891	1 253	4 432	6 474	5 758	8 256	1 157	9 604	15 050	12 636	22 470	12 937
Paraguay	6	6	6	6	6	7	7	8	8	7	0	0	0
Peru	74	0	60	0	0	0	66	736	411	266	113	-57	136
Saint Kitts and Nevis	2	1	2	7	11	4	6	6	5	3	2	2	2
Saint Lucia	4	5	5	5	4	4	6	5	6	5	4	4	4
Saint Vincent and the Grenadines	0	0	0	0	1	1	2	0	1	0	0	0	0
Suriname	0	0	0	0	0	0	0	0	0	0	3	-1	0
Trinidad and Tobago	58	106	225	25	341	370	0	700	0	0	1 060	1 681	742
Uruguay	-6	-14	-15	-18	-36	1	-89	11	-16	60	7	5	-16
Venezuela (Bolivarian Republic of)	204	1 026	1 318	619	1 167	1 524	43	1 598	2 236	1 776	-1 141	2 460	2 152

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as of 8 May 2014.



Latin American and Caribbean transnational corporations: Strategies and outcomes

A. Introduction

B. Limitations of the traditional methodological approach

C. Increased international presence of companies from developing countries

D. Trans-Latins: main sectors and strategies

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Bibliography

A. Introduction

Foreign direct investment (FDI) into Latin America surged over the past decade, as discussed in Chapter I, but was far outpaced by FDI outflows from the economies of the region. Outward FDI from the region's corporations, which did not top US\$ 10 billion until 2004, has since then averaged above US\$ 30 billion annually.

Expanding their operations to other countries is a strategy that all of the region's major companies adopt at some stage of their development. Rare is the major Latin American company that has no subsidiaries outside its home country. Almost all of the region's large companies are therefore trans-Latin ones,¹ although the share of their assets they hold in their home countries varies widely.

This chapter will review the foreign investment strategy of these companies and how that strategy changes according to sector and investment source and destination country. It thus picks up the line of research that began in 2006 with the first in-depth study of this trend (ECLAC, 2006), which focused on companies based in Argentina, Brazil, Chile and Mexico. Those companies began their international expansion in the 1990s or even earlier, with most of them stepping up the pace after 2004. This chapter will take an especially close look at the spread of this trend to other countries in recent years—Colombia in particular, but smaller economies too, such as those of Central America and the Caribbean.

B. Limitations of the traditional methodological approach

The theoretical framework most often used to examine FDI across the world has been the eclectic paradigm, also known as the OLI (*Ownership-Location-Internalization*) model, which sees international output as a combination of factors involving location, company-specific advantages and transaction cost elements (Dunning, 1981 and 1993). According to this framework, the decision to invest abroad depends on the combination of three advantages in a given company:

- Ownership of specific assets that the company could leverage abroad, such as trademarks, production techniques, entrepreneurial skills and returns to scale.
- Characteristics of the recipient country (location), in terms of natural resource availability, geographical position, weak local companies, low wages, special taxes or tariffs.
- The potential to internalize a company-specific advantage rather than exploiting it through the market; that is, drawing on the advantages of keeping production in-house instead of producing through a partnership arrangement such as licensing or a joint venture.

This analytical framework makes it possible to group corporate strategies for investing abroad into those that seek natural resources, market access, lower costs for exporting to third markets (efficiency) and strategic assets. All of these strategies have the same prerequisite: before investing abroad, a company must have some special competitive advantage.

However, transnational corporations in developing countries are not likely to have the same competitive advantages as do companies based in developed countries, since the former operate in economies with relatively

¹ The term “trans-Latin” refers to a Latin American or Caribbean transnational corporation that has made direct investments outside its home country, either inside the region or farther afield.

weak institutional environments. So, instead of investing abroad on the strength of an ownership advantage, they do so in order to gain access to strategic resources and to acquire the expertise that will enable them to overcome initial obstacles arising from technology gaps and the disadvantage of having entered the international markets late (Aulakh, 2007). This is usually termed unconventional FDI (Moon and Roehl, 2001), that is, strategic investment aimed at enhancing strength instead of capitalizing on a company's ownership advantages.

There is an alternate analytical framework for thinking about these unexplained aspects: Linkage, Leverage and Learning (LLL). In this approach, linkages enable emerging-country companies to establish joint ventures and other forms of cooperation in global value chains with transnational corporations, quickly gaining access to new resources that they lack in-house (capital, technology, skills and knowledge). Once these relationships are established, companies that internationalized late can use their global links to gain access to resources (especially by leveraging their cost advantages) and learn about new sources of competitive advantages and how to operate at the international level (see table II.1).

Table II.1
Comparison of analytical frameworks: Ownership-Location-Internalization (OLI)
and Linkage, Leverage and Learning (LLL)

Criterion	OLI	LLL
Resources utilized	Proprietary resources	Resources accessed through linkage with external firms
Geographic scope	Locations established as part of vertically integrated whole	Locations tapped as part of international network
Greenfield investment or purchase of an existing asset	Bias towards operations internalized across national borders	Bias towards operations created through external linkage
Learning	Not part of the OLI framework	Learning achieved through repetition of linkage and leverage (or acquisition)
Internationalization	Not part of the OLI framework; international reach of transnational companies assumed	Proceeds incrementally through linkage
Organization	Not part of the OLI framework; organization could be multinational or transnational	Global integration sought as latecomer advantage
Driving paradigm	Transaction-cost economics	Capturing of latecomer advantages
Time frame	Comparative static observations, comparing one point in time with another	Cumulative development process

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of John Mathews, "Dragon Multinationals: New Players in 21st Century Globalization," *Asia Pacific Journal of Management*, vol. 23, No. 1, March 2006.

At an early stage, this process often ties into inward FDI in the country of origin (Li, 2007; Luo and Tung, 2007). This provides local companies with a unique opportunity to join established international production networks in order to show their capacities and skills. Transnational corporations in emerging countries should therefore capitalize on inward FDI (by making original products, working through joint ventures or participating in global value chains) while developing their own capacities so as to become more competitive abroad on the strength of the learning and experience gained in their country of origin.

The LLL analytical framework also has limitations when it comes to explaining outward FDI from developing countries. One such limitation is that it is based almost exclusively on companies in the fast-growing Asia-Pacific countries (Narula, 2006). Furthermore, some late-internationalizing companies might in fact have certain unique competitive advantages that explain their strategies for expansion abroad (Dunning, 2006; Dunning and Lundan, 2008).

Beyond this discussion, there are a number of internal push factors and external pull factors that are driving transnational corporations in emerging economies to invest abroad (Dunning, 1993; Dunning, 2008).

- Push factors are determinants that are specific to the country of origin and lead the company to decide to invest abroad. Among them are domestic market size, level of development, production structure, technology assimilation and domestic economy performance and stability (Andreff, 2003). In developing economies, local investment climate constraints such as underdeveloped capital markets, legal insecurity and poor infrastructure can also be push factors that drive companies to diversify in other countries.
- Pull factors are those that attract FDI to a given country. Among them are the investment climate and risk; the legal and tax environment for FDI; government policies (deregulation and privatization); economic

performance; the market structure; the quality of institutions; and the host country's participation in free trade agreements and other international agreements. The preference of new transnationals to invest in countries that are close to their own is a major factor. Internationalization is almost always a gradual, tentative process where corporations start by investing in countries that are closest to them for geographical or other reasons. This preference is clearer among enterprises in developing economies (most of which have only recently started to expand internationally). Very few transnational corporations in these economies are truly global: most have a regional or subregional presence.

The forces that are driving the internationalization of corporations from emerging economies differ greatly in terms of the relative weight of these factors. In the largest countries, such as China, there has been significant government interference in foreign investment, while in small countries the primary push factor is the size of the domestic market (Aykut and Ratha, 2004). Meanwhile, in the sectors where corporations from emerging economies are highly active, such as oil, petrochemicals and pharmaceuticals, it is common for these firms to acquire companies in industrialized countries, or to forge partnerships with them, so that they can compete with the dominant transnational corporations (Fortanier and van Tulder, 2009). As regards pull factors, the globalization process is increasingly important since it offers opportunities for many new players (Amighini, Sanfilippo and Rabelotti, 2007). The following sections will examine the factors that determine internationalization in some specific cases in developing countries and regions.

C. Increased international presence of companies from developing countries

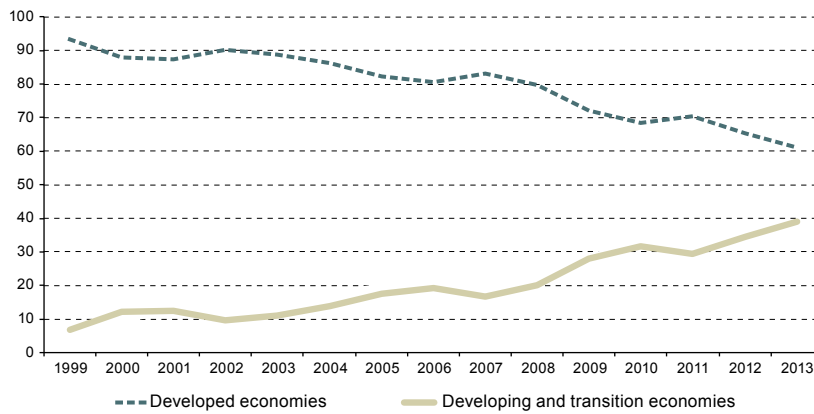
In recent years, emerging economies have become an increasingly important component of the world economy. Many of them have large domestic markets, which are posting growth rates in excess of 6% amid sustained growth in consumers' disposable incomes. These economies have aroused the interest of corporations across the globe, not only on account of their GDP growth and economic stability, but also as sources of talent, capital and business development. In the last five years, more than a thousand enterprises with head offices in emerging markets have reported more than a billion dollars in annual sales (BCG, 2013). Many of them concentrate on their home markets, while others are expanding abroad. More and more of these internationalizing companies aspire to be world leaders in their respective sectors.

Until just a decade ago, the vast majority of the world's transnational corporations were based in the United States, the European Union, Japan and other developed countries. In 2003, FDI from developing and transition economies accounted for only 10% of the world total and, in absolute terms, was in the area of US\$ 50 billion a year. During the ensuing decade it climbed steadily to exceed US\$ 560 billion in 2013 and reach 39% of the total (UNCTAD, 2014) (see figure II.1). This trend was boosted by the financial crisis that erupted in the second half of 2008, which hit developed economies much harder. Indeed, while FDI outflows from developing countries have not stopped growing, FDI from developed economies remains 45% below its historical peak reached in 2007.

This new distribution of worldwide FDI outflows can only be a reflection of the growing economic weight of developing countries, and there is every reason to believe that the trend will continue in the coming years. For some, the increase in FDI from developing countries has been beneficial, since this investment is seen as a new source of capital and knowledge; others view the phenomenon as a potential threat and a source of competition (UNCTAD, 2006).

Most of this kind of FDI comes from a small number of emerging economies. They include South Africa in Africa; Brazil, Chile and Mexico in Latin America and the Caribbean; and the Russian Federation in the Commonwealth of Independent States (CIS). In Asia, China, India, Malaysia and Thailand they have followed the path opened by the so-called "four tigers" —Hong Kong Special Administrative Region of China, Taiwan Province of China, Singapore and the Republic of Korea (see figure II.2).

Figure II.1
Developed economies and developing and transition economies: share of global foreign direct investment outflows, 1992-2013
(Percentages)



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

Figure II.2
Main developing and transition economies that invest abroad: net investment outflows, annual averages, 2000-2012
(Billions of dollars)

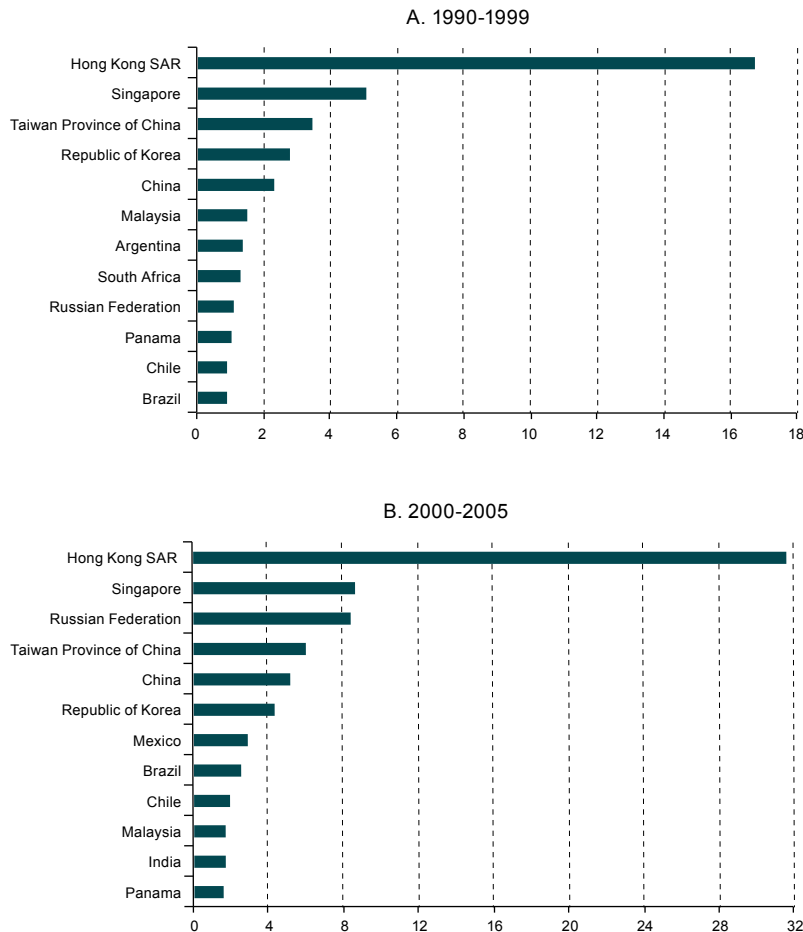
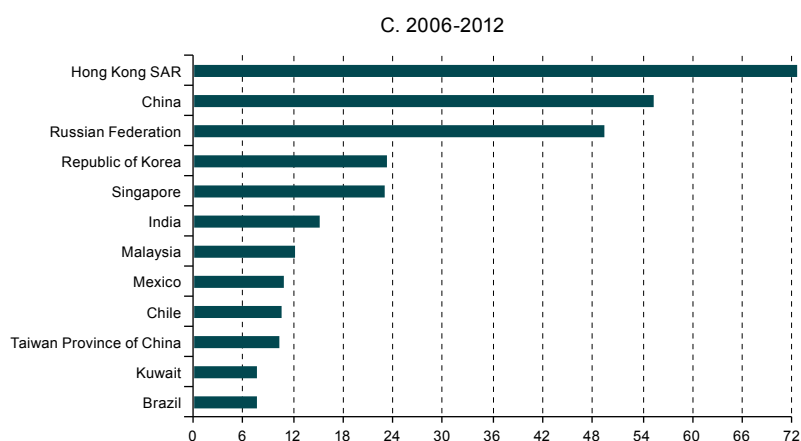


Figure II.2 (concluded)



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

The emergence of these new sources of FDI has been particularly relevant for other developing countries. Transnational corporations from emerging countries have become major investors in developing economies, both in Asia (where integrated subregional production systems are taking shape) and in Africa and in Latin America and the Caribbean. South-South FDI has boomed over the past 20 years and tends to be within the same region.

One outcome of this trend is that there are a growing number of transnational corporations from emerging economies that are interacting and competing head on with enterprises from industrialized countries, which are more established in reputation and international experience. Between 2004 and 2013, the presence of companies from developing countries in the Forbes Global 2000 list of leading companies swelled from 333 to 636. Most of these firms were from the BRIC countries (Brazil, Russian Federation, India and China), as well as the Republic of Korea, Hong Kong Special Administrative Region of China, Taiwan Province of China, Mexico and South Africa (see table II.2).

Table II.2
Developing economies: presence of largest companies, 2004-2013
(Number of companies)

	2004	2006	2008	2010	2013
East and South-East Asia	171	225	288	328	361
China	21	44	91	121	136
Republic of Korea	41	52	61	61	64
Hong Kong Special Administrative Region of China	32	45	42	46	46
Taiwan Province of China	35	42	45	40	41
Malaysia	14	14	19	20	20
Singapore	13	14	17	19	20
Thailand	13	13	10	17	16
Latin America	44	53	66	77	69
Brazil	19	22	31	37	31
Mexico	18	17	18	18	19
Chile	5	6	8	9	9
Colombia	0	2	3	6	6
Bolivarian Republic of Venezuela	0	2	2	4	1
Other emerging economies					
India	30	34	47	57	56
Russian Federation	13	20	28	26	30
South Africa	17	16	17	17	19

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *Forbes Global 2000 Leading Companies*, various years [online] <http://www.forbes.com/global2000/list/>.

The crisis has increased the relative weight of enterprises from developing countries. Between 2008 and 2011, the most dynamic emerging-economy companies in terms of international expansion saw their revenue grow by an average of 16% annually and generated 1.4 million jobs. These results clearly top those obtained by non-financial firms included in Standard & Poor's 500 Index (BCG, 2013). The trend partially reversed in 2012-2013, first because companies in mature markets began to recover the ground lost during the years immediately after the crisis, and second because natural resource companies (which tend to have a larger footprint in developing countries) bore the brunt of the commodity price drop.

While Chinese companies (including those from Hong Kong Special Administrative Region and Taiwan Province of China) are predominant among the 100 largest developing-country transnational corporations—with 37 entities and 52% of sales—there is a growing diversification of countries of origin. There are 19 companies from other East and South-East Asian countries: Malaysia (6), Singapore (6), Republic of Korea (5), and Thailand (2); 21 companies from Latin America: Brazil (8), Mexico (6), Chile (4), Argentina (2) and Bolivarian Republic of Venezuela (1). The Russian Federation (8) and India (6) also have a significant presence (see table II.3).

Early in the international expansion process, companies in emerging markets tended to become more competitive thanks to their low operating and production costs. Yet this cost advantage over their competitors from industrialized countries has been rapidly eroding. In this new scenario, these companies are developing new and improved capacities on the strength of financial soundness and liquidity, the production of higher-quality goods and services and investment in research and development. In 2013, the United States Patent and Trademark Office (USPTO) granted 147,652, 54,170 and 43,694 patents to companies from the United States, Japan and the European Union, respectively; companies in the Republic of Korea, China and India registered 15,745, 12,885 and 2,474 patents, respectively. This represents tremendous progress since 2000, when these three countries registered 3,472, 6,517 and 131 patents, respectively.

Although it is difficult to generalize, this process has allowed developing-country companies to build strong positions in external markets and has made some of them global leaders in their sector. Although experiences vary widely, the largest companies share some common elements that are noteworthy:

- Enterprises linked to natural resources in the largest emerging economies—essentially the BRICs (Brazil, the Russian Federation, India and China)—sought to ensure the supply of raw materials for primary transformation as the basis of their industrialization strategy, so as to supply domestic markets and boost their manufactured goods export capacity. Chinese companies have been the greatest exponent of this trend.
- Manufacturing companies sought to accelerate the process of learning and assimilation of knowledge and technology. In order to catch up, they swiftly acquired companies with a high global profile in mature manufacturing sectors with a high level of technological development in industrialized countries. One example is the purchase of the United Kingdom's Jaguar Land Rover, a subsidiary of the Ford Motor Company, by India's Tata. In less technologically sophisticated areas such as food and beverages, steel and construction materials, companies in emerging economies acquired firms with a strong position in markets of interest, which enabled them to rapidly expand internationally. Among them were Mexico's Cemex, Bimbo and Gruma.
- There is one particular point to be made about companies that manufacture more technologically sophisticated products. At first, mainly through imitation and adaptation, they positioned themselves internationally by supplying low-cost and low-quality products to external markets. Subsequently, in the context of sustained industrial policies, they invested heavily in human capital, technology, market engineering, design and innovation to bring their products and brands up to the standards of a more demanding consumer base. This enabled them to invest directly in producing for and supplying large markets abroad, for example in electrical equipment and electronics in the Republic of Korea, Singapore and Taiwan Province of China, along with cars in the Republic of Korea and, more recently, in China and India.
- Service companies identified opportunities for growth in supplying markets that were traditionally underserved by both domestic and transnational corporations. In the area of basic services and infrastructure, the economic stability of emerging markets and the increase in disposable income of their populations, enabled them to considerably expand the scope and size of their operations abroad. This is the case with Chinese and Indian companies in Africa. Furthermore, the development of information and communication technologies (ICTs) opened interesting opportunities in telecommunications and financial services, where in addition to expanding coverage, they developed innovative applications especially designed for or adapted to the needs of host markets.

Table II.3
Developing economies: the 50 largest transnational corporations, by total sales, 2012
(Billions of dollars)

	Company	Country	Sector	Sales
1	Sinopec - China Petrochemical Corporation	China	Hydrocarbons	428.2
2	China National Petroleum Corporation	China	Hydrocarbons	408.6
3	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical equipment and electronics	178.6
4	Gazprom JSC	Russian Federation	Hydrocarbons	153.3
5	Petrobras	Brazil	Hydrocarbons	144.1
6	Hon Hai Precision Industries	Taiwan Province of China	Electrical equipment and electronics	132.1
7	Petróleos de Venezuela S.A. (PDVSA)	Venezuela (Bolivarian Republic of)	Hydrocarbons	124.5
8	Lukoil OAO	Russian Federation	Hydrocarbons	116.3
9	Petronas - Petroliaam Nasional Bhd	Malaysia	Hydrocarbons	94.3
10	Noble Group Ltd.	Hong Kong Special Administrative Region of China	Commerce	94.0
11	China Mobile (Hong Kong) Limited	Hong Kong Special Administrative Region of China	Telecommunications	88.8
12	China National Offshore Oil Corp. (CNOOC)	China	Hydrocarbons	83.5
13	China Railway Construction Corporation Ltd.	China	Construction	77.2
14	Hyundai Motor Company	Republic of Korea	Automotive	75.0
15	Sinochem Group	China	Hydrocarbons	71.8
16	América Móvil SAB de CV	Mexico	Telecommunications	58.9
17	POSCO	Republic of Korea	Metals and metal products	56.5
18	CITIC Group	China	Diversified	55.4
19	China Resources Enterprises Ltd.	Hong Kong Special Administrative Region of China	Hydrocarbons	52.4
20	China Minmetals Corp.	China	Metals and metal products	51.8
21	Vale S.A.	Brazil	Mining	47.7
22	Aviation Industry Corporation of China	China	Aviation	47.4
23	China Communications Construction	China	Telecommunications	47.3
24	Wilmar International Ltd.	Singapore	Food, beverages and tobacco	45.5
25	LG Electronics Inc.	Republic of Korea	Electrical equipment and electronics	45.2
26	Kia Motors	Republic of Korea	Automotive	41.9
27	Jardine Matheson Holdings Ltd.	Hong Kong Special Administrative Region of China	Diversified	39.6
28	JBS S.A.	Brazil	Food, beverages and tobacco	38.9
29	Odebrecht Group	Brazil	Construction	37.4
30	Sistema JSFC	Russian Federation	Telecommunications	35.4
31	Huawei Electric	China	Electrical equipment and electronics	34.9
32	Tata Motors Ltd.	India	Automotive	34.7
33	Quanta Computer Inc.	Taiwan Province of China	Electrical equipment and electronics	34.4
34	Lenovo Group Ltd.	China	Electrical equipment and electronics	33.9
35	China National Chemical Corporation	China	Chemical	32.0
36	Hutchison Whampoa Ltd.	Hong Kong Special Administrative Region of China	Diversified	31.3
37	Oil and Natural Gas Corp. Ltd.	India	Hydrocarbons	30.9
38	Formosa Plastics Group	Taiwan Province of China	Chemical	30.2
39	China Ocean Shipping (Group) Company	China	Transport and storage	29.6
40	Tata Steel Ltd.	India	Metals and metal products	24.8
41	Zhejiang-Geely-Holding-Group	China	Automotive	24.6
42	Flextronics International Ltd.	Singapore	Electrical equipment and electronics	23.6
43	Compal Electronics Inc.	Taiwan Province of China	Other consumer goods	23.1
44	VimpelCom Ltd.	Russian Federation	Telecommunications	23.1
45	Wistron Corp.	Taiwan Province of China	Other goods	22.2
46	Sasol Ltd.	South Africa	Chemical	20.8
47	Li & Fung Ltd.	Hong Kong Special Administrative Region of China	Commerce	20.2
48	Cencosud	Chile	Commerce	19.1
49	PTT Global Chemical	Thailand	Chemical	18.5
50	Fomento Económico Mexicano SAB	Mexico	Food, beverages and tobacco	18.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *Forbes Global 2000 Leading Companies*; *Fortune Global 500*; *América Economía, Las 500 mayores empresas de América Latina*; The Boston Consulting Group, *2013 BCG Global Challengers: Allies and Adversaries* and United Nations Conference on Trade and Development (UNCTAD).

The approaches of smaller transnational companies have responded to more specific factors and circumstances. However, there may be some interesting commonalities. In small and medium-sized countries, the internationalization of some leading companies was due to the exhaustion of the opportunities provided by the domestic market because of its size, level of competition or legal constraints. Such undertakings have tended to be in neighbouring countries or in the same region. In such cases, upon reaching a certain level of coverage and performance they begin to draw the attention of larger companies, which could lead to their subsequent acquisition.

Public policies for supporting enterprise internationalization have had mixed experiences. On the one hand is strong government support for large corporations, often State-owned, for them to grow, develop and expand internationally. This is the case in China² and, to a lesser extent, in India and the Russian Federation. In the middle are the Republic of Korea, Singapore and Brazil, which have a long history of broad-based industrial policies supporting leading private companies and favouring the creation of national leaders. On the other hand are cases with no targeted incentives where horizontal policies for making the economy as a whole more competitive are the rule. A number of Latin American countries come under this category.

By identifying the main driving factors behind the internationalization of transnational corporations from developing economies, significant regional differences are observed.

Foreign direct investment by Asian countries is encouraged by push factors such as: the scarcity of natural resources, the need to reduce production costs and acquire strategic assets, and sophisticated government actions to promote capital outflows through exchange-rate regulation, institutional and financial support and, in some cases, the work of dedicated agencies. In Latin America and the Caribbean, and to a certain extent in other regions, investments are determined by the need to diversify risk, the rapid opening-up of economies to foreign competition, increasing external competition as a result of deregulation and privatization, and a much more limited State role in investment promotion. It is noteworthy that the initiatives pursued by State-owned enterprises are important in both regions. However, those undertaken in developing Asia are diversified in various activities, while those of Latin America focus primarily on hydrocarbons.

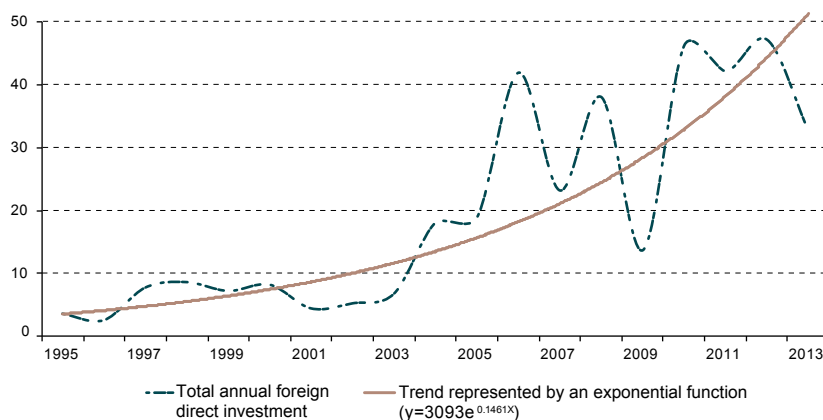
As regards pull factors, the main experiences of developing Asia have centred on: access to third markets for their export platforms, the availability of technology, organizational practices and management skills, utilization of the overseas Chinese network, measures to improve logistics, reducing production costs, avoiding trade restrictions, turning national brands into global ones, and the capacity to provide customer follow-up and to become clients of transnational corporations. In Latin America and the Caribbean, foreign investment is more focused on ethnic or cultural networks (Hispanic immigrants in the United States), the opportunities arising from privatization and deregulation in neighbouring countries, improvements in their distribution systems, the conversion of national brands into regional ones, partnerships of transnational corporations and preferential access to recipient markets through subregional integration agreements, free trade agreements and investment protection and promotion agreements.

D. Trans-Latins: main sectors and strategies

The international expansion of Latin American transnational corporations is reflected in direct investment outflows from them. In recent years, the trans-Latins have been more active in investing abroad, reaching an all-time high of nearly US\$ 50 billion in 2012 (see figure II.3). In general, FDI outflows from each country vary widely from year to year because the number of large trans-Latins generating them is still small and the aggregate figures are very sensitive to specific events such as an acquisition or the start-up of a large-scale project. Despite this and international financial market turbulence, FDI outflows from the region have grown exponentially and have been particularly high in the past four years (see figure II.3). Many of the largest companies in Latin America are currently pursuing active internationalization strategies.

² For a discussion of policies supporting outward FDI in China see ECLAC (2011), chapter III.

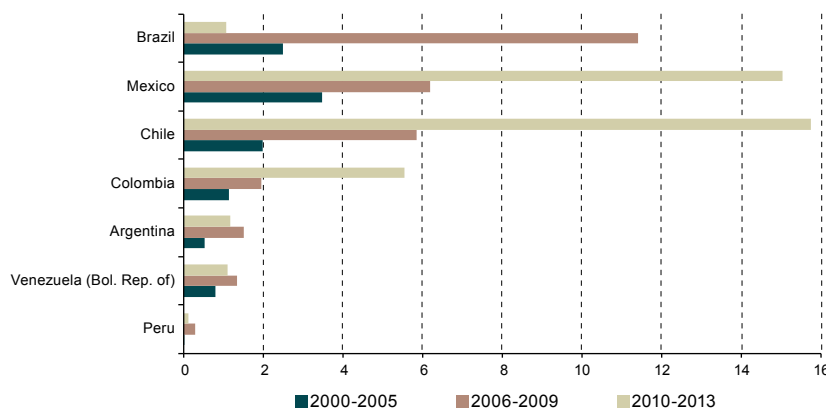
Figure II.3
Latin America and the Caribbean: net outflows of foreign direct investment, 1995-2013
(Billions of dollars)



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

The most active companies expanding internationally were from Argentina, Brazil, Chile and Mexico and, more recently, Colombia (see figure II.4). The major corporations from these countries have been internationalizing mainly in basic industries (hydrocarbons, mining, cement, steel, mass-market goods such as food and beverages, and some services such as power, telecommunications, air transport and retail sales.

Figure II.4
Latin America and the Caribbean: foreign direct investment by main source countries, annual averages, 2000-2013^a
(Billions of dollars)



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

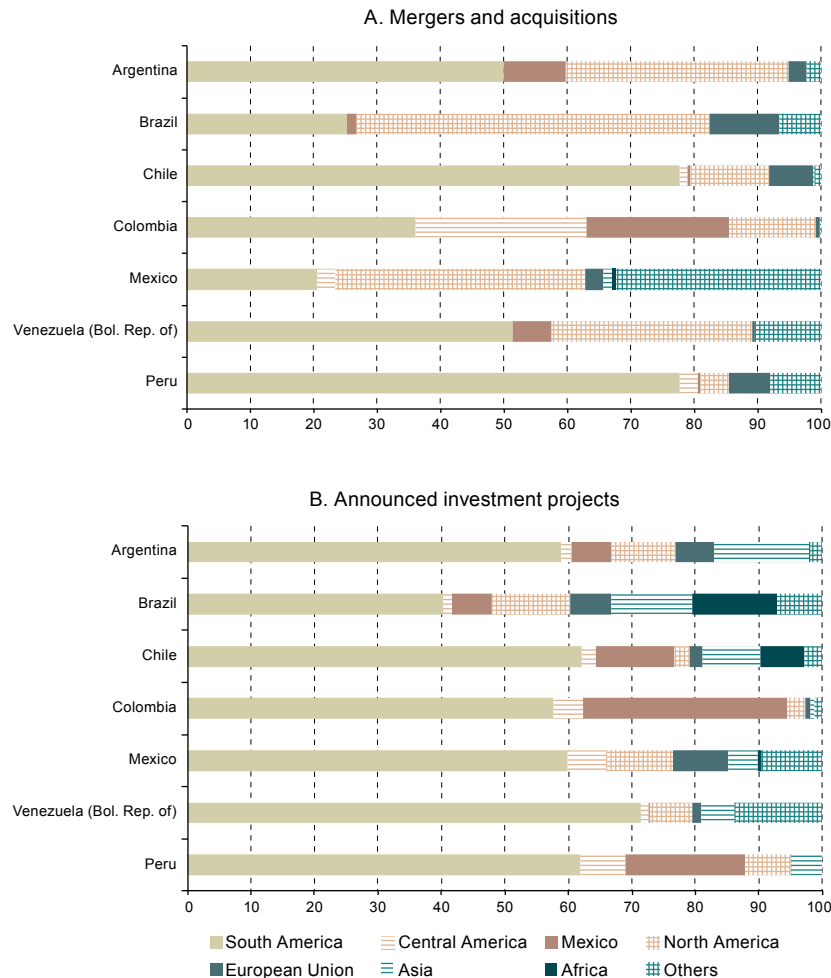
^a The data for Argentina and Colombia are for up to the third quarter of 2013.

Chronologically, Argentina and Brazil were the pioneers, leading the first waves of substantial investment abroad. Mexico and Chile joined the process later and became relevant players during the boom period. Currently, while Brazil has continued its pattern of internationalization and Argentina has cut back considerably, Chilean and Mexican companies have become the most active ones and have increased their presence in external markets with new production and service operations. In Brazil, the State and industrial development policies in strategic sectors played a key role in this dynamic.

The geographic destination of investments made by Latin American companies has mostly been in the region itself. In mid-sized economies, such as Chile, Colombia and Peru, greenfield investments and acquisitions of existing assets have focused on neighbouring countries, although they have gradually extended to other more distant destinations,

always within Latin America and the Caribbean (see figure II.5). Along these lines are Colombian investments in Central America and Mexico. The focus on neighbouring countries has been a strategy particularly favoured by service firms. In addition to América Móvil in the telecommunications sector, there are plentiful examples in financial services (Itaú and Sura), power (EPM), retail trade (Cencosud and Falabella) and airlines (see box II.1).

Figure II.5
Distribution of mergers, acquisitions and new investment projects announced by trans-Latin corporations,
by destination region or country, 2005-2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information on mergers and acquisitions from Thomson Reuters and investment announcements from “fDi Markets”; Financial Times.

The region’s largest economies, Brazil and Mexico, have a more diversified internationalization profile in which North America accounts for a large proportion of investment, mainly through the purchase of companies in the United States and Canada. For example, the Canadian mining company Inco Ltd. was acquired by Brazil’s Vale for more than US\$ 18.0 billion. Brazil is the Latin American country that has made the largest investments in the European Union and in Africa; Mexico has done the same in Oceania, primarily in Australia, where the Australian cement company Rinker was acquired by Mexico’s Cemex for more than US\$ 15 billion (see figure II.5).

The economic crisis forced many European businesses to divest assets, which sometimes ended up in the hands of trans-Latins. In the vast majority of cases the assets were in Latin America, which strengthened the expansion of trans-Latins within the region. This trend was at its sharpest in the financial sector, one of the hardest hit by the crisis, with the banks Santander, BBVA, HSBC and ING providing good examples. Cases in other sectors included France’s Carrefour (retail) and Lafarge (cement industry).

Box II.1**Trans-Latins of the air: regional consolidation of airlines**

By its very nature, the air transport sector lends itself to international consolidation. It is highly capital-intensive, with network economies that facilitate the integration of subsidiaries in different countries and hold the potential for building global brands. At the same time, as a strategic sector it is highly regulated and protected by national governments; in Latin America it is one of the few sectors where foreign ownership of enterprises is limited by law. These factors have led to a partial consolidation of the sector, dominated entirely by enterprises from the region.

The opening and liberalization of public services in the 1990s could have led to suspicions that the airlines would follow the same path as the power and telecommunications companies and would end up under the control of foreign groups. But something very different happened. Acquisitions by international investors in the region were few and unsuccessful. Most notably, Aerolíneas Argentinas was bought by Iberia and then by Marsans (both from Spain) before being renationalized in 2008. Continental acquired a majority stake in Panama's Copa, but the undertaking did not generate the expected benefits and prompted Continental's gradual withdrawal, starting in 2005 and ending with a complete exit.

Unlike the results of operations undertaken by companies from outside the region, the integration of local and regional companies in the aviation industry has come a long way in recent years in Latin America. The primary example is Chile's Latam, formed in 2012 with the US\$ 6.5 billion merger between Chile's LAN and Brazil's TAM and currently the largest airline in Latin America and the Caribbean. In addition to its operations in Brazil and Chile, Latam operates in other Latin American markets, where it holds a relevant position. LAN Perú is Peru's leading airline, and LAN Colombia and LAN Argentina rank second in their respective markets.

Avianca is the second largest group in the region. Originally, Avianca was the Colombian national airline; in 2009 it merged with TACA Airlines, a Central American company based in El Salvador that had taken over Lacsá, the airline of Costa Rica. In 2013 Avianca combined under its brand its subsidiaries in Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Peru. Its vast operations enable Avianca to provide a denser service network than its main competitors. Grupo Avianca is owned by Synergy Group Corporation, founded by the Brazilian-Colombian entrepreneur German Efromovich. In 2012, Synergy attempted to buy TAP Portugal, but its offer was rejected by the Portuguese Government.

Copa opted for a different strategy, using its base in Panama as a hub linking long-haul destinations in Latin America and the rest of the world. The only exception it made was the purchase of AeroRepública in 2005, which has been known as Copa Airlines Colombia since 2010 and is the third largest airline in Colombia.

Airlines in the Caribbean, like companies in other sectors, establish networks of subsidiaries in several countries in order to minimize operating costs in such small markets (de Groot and Pérez Ludeña, 2014). The national airline of Trinidad and Tobago, Caribbean Airlines, commenced operations in 2007

to replace West Indies Airways (BWIA), a British company that went bankrupt. In 2010, Caribbean Airlines purchased the remaining operations of Air Jamaica and became the Jamaica flag carrier. In late 2012, Caribbean Airlines became the flag carrier of Guyana as well. Leeward Islands Air Transport (LIAT), another pan-Caribbean airline, is co-owned by eleven Caribbean governments in addition to private shareholders; it has hubs in Antigua and Barbuda, Barbados, Saint Vincent and the Grenadines and Trinidad and Tobago.

What distinguishes these large airline groups in Latin America is undoubtedly the fact that they are networks. In each country of the region, the group operates through individual airlines that are subsidiaries of a parent company in order to comply with local regulations limiting foreign participation in the aviation industry. Most countries in Latin America bar foreign investors from anything but partial ownership of a national airline (often not more than 50%) and restrict flights on certain routes, especially for domestic traffic. This is an additional organizational burden for airlines seeking to create such pan-regional networks. For Avianca and Latam, this has meant working with partially-owned subsidiaries. LAN Perú and LAN Argentina, for example, are only 49%-owned by LAN; LAN Colombia is 45%-owned. However, these companies are an integral part of the larger group, Latam, which owns the aircraft rather than the local airlines. When TAM was acquired in 2012 by LAN, a specific agreement had to be signed to accommodate legal requirements in Brazil. In the end, TAM is wholly owned by Latam (which is headquartered in Chile). However, 80% of the policy decision-making rights remain in the hands of Brazilian investors in order to comply with Brazilian law, which requires that domestic airlines be 80% Brazilian owned. Following a similar strategy, Avianca has not completely integrated Lacsá in its operations, in order to maintain its status as flag carrier in Costa Rica.

The reason why these major networks have been successful in Latin America and the Caribbean seems to lie in the smaller size of the domestic markets and the strong demand for various options for flights across the continent. Moreover, entrepreneurs in the region have been sufficiently creative to operate within the legal framework of each country and exploit the potential for expanding their networks.

Not all of the region's major airlines have embarked on regional internationalization; these tend to be those operating in key domestic markets in the region. One of the largest Latin American airlines is Aeroméxico; this air operator has followed a strategy different from Latam and Avianca and has focused on its extensive domestic network and its connections with the United States. These two characteristics (the domestic market and opportunities in the United States) probably explain why this airline has not felt the need to operate in a network. Another major airline in Latin America and the Caribbean is Brazil's Gol, a low-cost operator mainly serving Brazil's vast domestic market. However, this is a listed company that still has much room for expansion in its domestic market.

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and O. De Groot and Miguel Pérez Ludeña, "Foreign direct investment in the Caribbean: trends, determinants and policies", Caribbean Studies and Perspectives, No. 35 (LC/L.3777), Port of Spain, ECLAC subregional headquarters for the Caribbean, 2014.

In Europe, investment by the trans-Latins is still limited to a few companies, mainly Mexican and Brazilian ones. Brazilian companies have focused on Portugal; examples include the acquisition of the cement company Cimpor by Camargo Corrêa (in a tough face-off with Votorantim) and purchase of a stake in Portugal Telecom by the telecommunications company Oi. While the main objective of these purchases was the control of assets that these

companies had in Brazil, the end result has also been expansion in Europe. Notable Mexican investors include Cemex, América Móvil and Telmex. In 1992, Cemex acquired Spain's two largest cement makers (Valencia and Sansón) and in 2005 it bought one of Europe's chief producers, the United Kingdom's RMC, for US\$ 4.1 billion. In 2013, it announced the merger of its Spanish operations with Switzerland's Holcim.³ In 2012, América Móvil took its first steps to enter the competitive European telecoms market, investing US\$ 5.5 billion as it sought to acquire stakes in KPN (a Dutch group) and Telekom Austria. However, only the second of these transactions was successful.

In the manufacturing sector, some trans-Latins have capitalized on their expansion in Europe to acquire technical capacities they might not have been able (or would have taken longer) to develop in their home countries. For example Brazil's refractory materials company Magnesita acquired Germany's LWB Refractories GmbH for almost US\$ 1 billion in 2008; Chile's Sigdo Koppers acquired Belgium's Magotteaux for nearly US\$ 800 million in 2011. In 2010, Mexico's State-owned oil company Pemex increased its stake in Spain's Repsol to almost 10%⁴ and since then has been very active in managing the company. According to Pemex, its primary interest in Repsol was in deepwater exploration technology. In 2013, and for more modest amounts, Pemex also acquired shipyards in Spain that build ships and platforms for oil exploration.

In Asia and the Pacific, the trans-Latins have an even smaller footprint. The largest transactions took place in Australia (Cemex, Vale and JBS). Among the destinations in Asia, Cemex investments in Indonesia and the Philippines stand out, as does the very recent acquisition of Femsas, also in the Philippines. Although large acquisitions have not been made in China, Brazil's Marcopolo and Embraer and Chile's Molymet have made some greenfield investments. The trans-Latins operating in Africa are almost exclusively Brazilian companies (see box II.2).

Box II.2

Brazilian companies in Africa: a strategic move

Traditionally, foreign direct investment (FDI) into Africa has been from developed economies: the United States and former European colonial powers (France, Portugal and the United Kingdom). However, in recent years, companies from developing countries have become increasingly important players, especially those from China, India, Malaysia, South Africa, the Republic of Korea and Brazil.

Under the administration of President Lula da Silva, Brazilian companies got a boost from an active diplomatic policy that gave them a key role in enhancing relations with Africa. In addition to business missions led by senior officials and financial support from the development banks, there were export promotion and productive development policies.

Many Brazilian engineering and construction firms have operations in Africa, including Andrade Gutierrez, Camargo Corrêa, Odebrecht and Queiroz Galvão. Odebrecht has been the most successful, especially in Angola and Mozambique, but also in Liberia, South Africa, Zimbabwe and Botswana. It has participated in projects relating to oil and gas, infrastructure, the construction of residential condominiums, urban planning

and the production of biofuels, among others. Since 2006, the National Bank for Economic and Social Development (BNDES) has provided US\$ 3.2 billion in loans to 65 projects in Angola; 32 of them were undertaken by Odebrecht.

The mining company Vale is Brazil's largest investor in Africa, having invested more than US\$ 7.7 billion in nine African countries. It has acquired mining companies in South Africa, the Democratic Republic of the Congo and Equatorial Guinea. In 2012 a coal mining project came on line in Mozambique; it is Vale's largest investment in Africa. The enterprise also has vast reserves of iron ore in Guinea, although it has encountered snags with local authorities for developing them. The needs of its mining operations have led the company to make substantial investments in power plants, railways and port infrastructure.

Petrobras, drawing on its own experience, prioritized deepwater oil exploration and production. It currently has oil operations in Angola, Libya and Nigeria and is exploring new opportunities in Benin and Ethiopia. Petrobras also plans to set up an ethanol production plant in Mozambique.

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

Of the 50 largest trans-Latins, Mexico (16), Brazil (14) and Chile (11) account for the most, followed at some distance by Colombia (6), Argentina (2) and the Bolivarian Republic of Venezuela (1). Brazilian and Mexican companies account for by far the largest share of sales volume. They tend to be larger companies, with 37% and 31% respectively of the total sales of the top 50. Companies engaged in extracting and processing raw materials (from oil companies to iron and steel companies) account for more than 60% of the sales of the largest trans-Latins; service providers (from telecommunications to the retail sector) account for nearly 20% (see table II.4).

³ With the acquisition of RMC, Cemex doubled in size, gaining operations in an extra 20 countries, mainly in Europe. In 2007, the company purchased a 68% stake in Rinker, an Australian firm with an extensive presence in the United States market, thereby allowing it to consolidate its presence on five continents. However, in 2009 it sold its Australian operations to Holcim for US\$ 1.750 billion, in order to restructure a US\$ 14.0 billion debt incurred in the acquisition of Rinker.

⁴ Technically, this is not considered foreign direct investment.

Table II.4
Latin America (selected countries): 50 largest trans-Latins, by total sales, 2012
(Millions of dollars)

Ranking among the 500 largest companies in Latin America	Company	Sector	Country	Sales	No. of countries	Percentage abroad		
						Assets	Employees	
1	1	Petrobras	Oil	Brazil	137 695	25	8	9
2	2	Pemex	Oil	Mexico	126 483	...	1	...
3	3	PDVSA	Oil	Venezuela (Bolivarian Republic of)	124 459	10	16	5
4	4	América Móvil	Telecommunications	Mexico	59 778	18	65	55
5	5	Vale	Mining	Brazil	45 761	36	37	22
6	7	Ecopetrol	Oil	Colombia	37 735	...	10	...
7	8	Odebrecht	Construction	Brazil	37 407	35	...	31
8	9	JBS Friboi	Agribusiness	Brazil	37 043	15	36	56
9	12	Techint	Steel	Argentina	33 755	11	69	74
10	19	Cencosud	Commerce	Chile	19 116	5	32	54
11	21	Gerdau	Steel	Brazil	18 587	14	59	50
12	22	Femsa	Food	Mexico	18 380	9	57	43
13	28	Grupo Alfa	Diversified	Mexico	15 438	17	29	28
14	30	Cemex	Cement	Mexico	15 197	50	84	69
15	33	BRF Food	Food	Brazil	13 955	20	3	16
16	36	Bimbo	Food	Mexico	13 354	19	51	40
17	40	Grupo Votorantim	Diversified	Brazil	12 132	10	17	24
18	46	ENAP	Oil	Chile	11 612	5	11	12
19	47	Marfrig	Agribusiness	Brazil	11 611	21	44	42
20	...	Camargo Corrêa	Cement	Brazil	11 572	17	22	18
21	48	Falabella	Commerce	Chile	11 474	4	13	44
22	55	Grupo México	Mining	Mexico	10 183	...	56	...
23	57	Latam Airlines	Transport	Chile	9 722	16	2	25
24	65	CSN	Steel	Brazil	8 268	3	13	9
25	78	EPM	Power	Colombia	7 049	...	26	...
26	89	Embraer	Aviation	Brazil	5 971	6	42	7
27	97	Grupo Elektra	Commerce	Mexico	5 388	9	...	15
28	108	Gruma	Food	Mexico	4 961	18	55	63
29	110	Mexichem	Chemical	Mexico	4 890	18	28	72
30	115	CMPC	Forestry	Chile	4 759	9	24	44
31	128	Embotelladoras Arca	Food	Mexico	4 340	...	21	...
32	130	Avianca-Taca	Transport	Colombia	4 294	22	...	71
33	131	Arauco	Forestry	Chile	4 280	10	14	24
34	150	Argos	Cement	Colombia	3 741	3	26	41
35	154	ICA	Construction	Mexico	3 667	...	7	...
36	160	Casa Saba	Commerce	Mexico	3 601	...	35	...
37	171	CSAV	Transport	Chile	3 432	5	89	63
38	185	Natura	Cosmetics	Brazil	3 105	8	22	18
39	194	WEG	Machinery	Brazil	3 021	38	12	20
40	198	Nutresa	Food	Colombia	2 971	15	...	23
41	209	Arcor	Food	Argentina	2 839	16	31	35
42	216	Sigdo Koppers	Construction	Chile	2 786	25	31	20
43	229	Suzano Papel e Celulose	Forestry	Brazil	2 541	10	5	3
44	232	Xignux	Diversified	Mexico	2 512	5	21	22
45	237	Industrias CH	Steel	Mexico	2 485	...	36	...
46	243	Embotelladora Andina	Food	Chile	2 449	4	24	73
47	244	SQM	Mining	Chile	2 429	11	32	4
48	246	Ripley	Commerce	Chile	2 411	2	43	35
49	247	ISA	Power	Colombia	2 410	8	69	66
50	267	Grupo KUO	Diversified	Mexico	2 248	...	32	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from América Economía, *Las 500 mayores empresas de Chile y América Latina*, No. 87, Santiago, Chile, July 2013; Vale Columbia Center on Sustainable International Investment (VCCI) and United Nations Conference on Trade and Development (UNCTAD).

^a The most internationalized companies, which hold more than 35% of their assets abroad, are shown in shaded rows.

There is considerable heterogeneity in the degree of the different companies' internationalization. The largest oil companies remain strongly anchored in the development of reserves in their home country, even though international expansion is a central component of their business model. The standout in this group is Petrobras (the largest trans-Latin), which holds 18% of its assets outside Brazil (see table II.4). In the middle are the mining companies, along with some service companies (such as engineering and construction firms, retailers and power companies). A number of raw materials processors, such as steel and cement companies, those linked to food and beverages, and the telecommunications company América Móvil, which holds 65% of its assets outside Mexico (see table II.4), have been among the most active in expanding internationally.

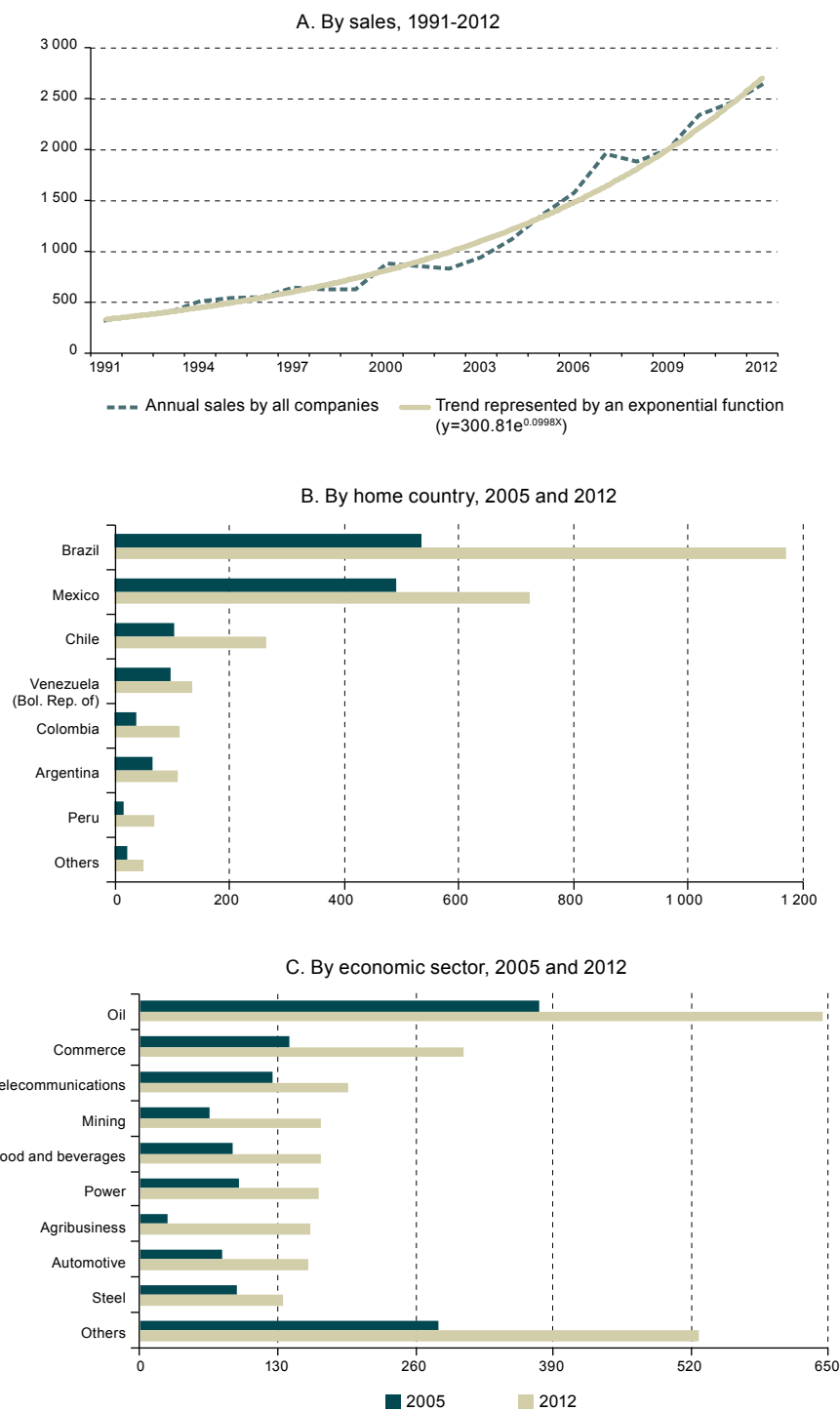
Economic growth in the region has strengthened the position of the larger national enterprises. Between 2000 and 2012, sales by the 500 largest companies increased three-fold, fuelled by high raw materials prices, heavy demand from China, and rising disposable income in domestic markets (see figure II.6). This growth has been led by companies from Brazil and Mexico, both countries with large domestic markets. In addition, Brazil is endowed with abundant natural resources and Mexico is a neighbour of the United States market. By sector, growth has been strongest in mining, natural-resource-based manufactures and some services.

These factors have led to changes in the classification of the largest companies in Latin America. First, State-owned enterprises have remained at the top, favoured by high raw materials prices (particularly for oil). Between 1999 and 2012, the number of State-owned enterprises remained relatively stable at about 15 among the 100 largest companies and 7 among the top 20. Second, perhaps one of the most significant changes is the strong growth of private domestic companies. Over the past 13 years, the number of them ranking among the 100 largest firms went from 40 to 57 and from 5 to 11 in the top 20 (see figure II.7). Many of the companies currently among the largest had very small operations—both geographically and sectorally—a decade ago. A large portion of them are trans-Latins; their strong growth has enabled them to compete with the leading global transnationals in the segments in which they operate. A good example is América Móvil, created in 2000, which is now the fourth largest company in the region after the oil giants Petrobras, Pemex and PVDSA, with operations in 18 countries. Lastly, the transnational corporations that topped the ranking in 1999 have lost ground. Except for the retail chain Walmart and automobile assemblers in Brazil and Mexico, fewer transnational corporations are among the largest companies in the region. This has enabled private domestic companies, especially the trans-Latins, to post strong growth (see table II.4 and figure II.7).

The region's good macroeconomic performance over the past decade has also helped the international expansion of the trans-Latins, through improved access to financing. During previous periods, companies in Latin America and other developing regions had much more limited access to capital than their competitors from Europe or the United States, but in the first decade of the twenty-first century interest rate differentials have been narrowing dramatically. Moreover, major Latin American corporations are increasingly able to tap the international financial markets. For example, 6 of the 20 largest Chilean trans-Latins are listed on the New York Stock Exchange. And corporate bond issues abroad have surged in recent years, from an annual average of US\$ 12 billion before the financial crisis to nearly US\$ 50 billion in 2012 and 2013.

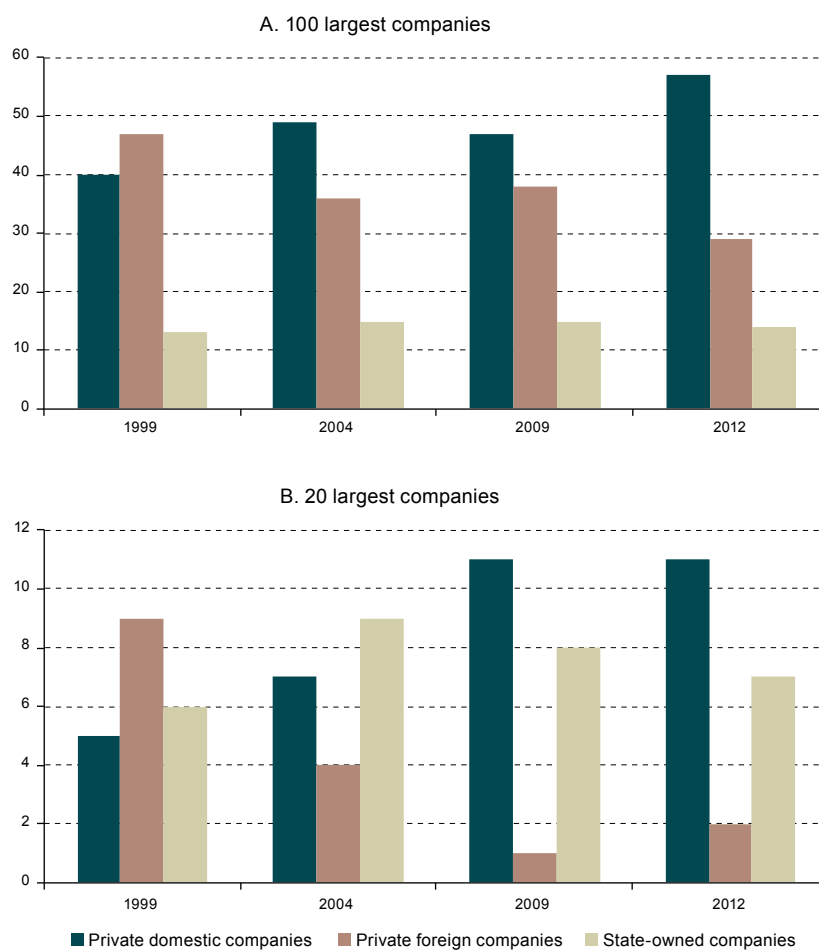
Push and pull factors alike have shaped the international expansion of the trans-Latins. These include natural growth after becoming domestic market leaders, the need to diversify risk, the potential for converting national trademarks into regional brands, the opportunity to take advantage of privatizations in neighbouring countries, the potential for partnering with other enterprises with more experience in third markets and preferential access to markets through subregional integration and free trade agreements. In short, internationalization is often a natural step for companies operating in increasingly globalized markets.

Figure II.6
Latin America: 500 largest companies
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América Economía, Las 500 mayores empresas de Chile y América Latina*, No. 87, Santiago, Chile, July 2013.

Figure II.7
Latin America: largest companies by type of ownership, 1999-2012
 (Number of companies)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América Economía, Las 500 mayores empresas de América Latina*, various issues.

E. The first wave of trans-Latin companies: Brazil, Argentina, Mexico, Chile and the Bolivarian Republic of Venezuela

1. Brazil: scale, natural resources and State support

Brazil was one of the first developing economies to have a significant volume of direct investment abroad. As early as 1990 its cumulative FDI exceeded US\$ 40 billion, a figure that other developing economies did not reach until many years later.

In Brazil, outward FDI began in the 1970s and focused on the search for natural resources (Petrobras) and on export support activities. During the 1980s, against a backdrop of macroeconomic instability and falling investment

in Brazil, other companies opted for expansion abroad; among them were the mining company Vale and a number of engineering and construction firms. The process gathered speed in the 1990s thanks to economic reforms that, among other things, led to business restructuring and concentration. In this process, some companies specialized and others sought greater diversification; in both cases there was substantial expansion towards external markets (ECLAC, 2006). During this period, Petrobras began to invest in refining, distributing and commercializing petroleum products. Some companies also increased their investments abroad during times of peak macroeconomic instability, seeking to diversify the risk associated with their domestic operations.

As in other countries in the region, most of the Brazilian companies have focused their international investment on Latin America. Still, the largest companies have invested heavily in developed countries, especially in the United States and Canada: 7 of the 10 largest acquisitions abroad by Brazilian companies were in these two countries, including those made by Vale, Gerdau, Marfrig and JBS (see table II.5). Starting in 2010, as mentioned above, new investments were added in Europe, Asia and Africa (see box II.2).

Table II.5
Largest mergers and cross-border acquisitions by Brazilian companies, 1990-2013
(Millions of dollars)

Company	Sector	Year	Company acquired	Country	Amount
Petrobras	Oil	2003	Pérez Companc S.A.	Argentina	1 028
Vale S.A.	Mining	2005	Canico Resource Corp.	Canada	687
		2006	Inco Ltd. (87%)	Canada	18 372
		2007	Inco Ltd. (13%)	Canada	2 316
		2009	Assets of Rio Tinto Ltd.	Argentina	850
		2010	Assets of BSG Resources Ltd.	Guinea	2 500
J&F	Food	2007	Swift & Co.	United States	1 458
Gerdau S.A.	Steel	2007	Chaparral Steel Co.	United States	3 995
		2008	Quanex Corp.	United States	1 611
Grupo Votorantim	Construction materials	2001	Assets of Lafarge	Canada	722
		2001	Assets of Blue Circle	United States	680
		2010	Cimpor	Portugal	982
Marfrig Alimentos S.A.	Food	2010	Keystone Foods LLC	United States	1 260
Camargo Corrêa S.A.	Construction materials	2005	Loma Negra Cia. S.A.	Argentina	1 025
Magnesita S.A.	Construction materials	2008	LWB Refractories GmbH	Germany	944
CPFL Energia S.A.	Power	2011	Jantus SL	Spain	987
Telemar Norte Leste	Telecommunications	2011	Portugal Telecom (10%)	Portugal	961
AmBev	Beverages	2004	John Labatt Ltd.	Canada	7 758

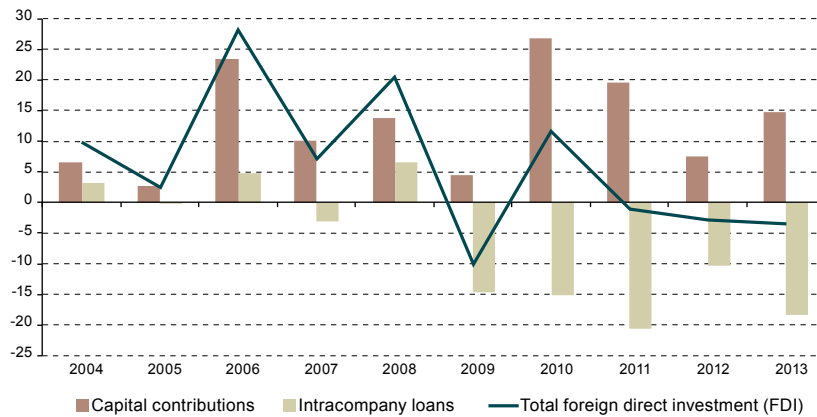
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Thomson One.

Brazil's annual FDI flows have been increasing gradually, albeit with marked fluctuations over time. A period of accelerated growth, starting in 2004, saw investment reach a historic peak in 2006. In recent years, while other countries (such as Chile and Colombia) saw their investments abroad soar, FDI from Brazil has dropped off dramatically and has been negative in most years. The reasons for this trend reversal can be seen in the components of Brazil's outward FDI: capital contributions and intracompany loans (see figure II.8).⁵ Since 2009, loans between subsidiaries have been in negative territory, indicating that the subsidiaries of some major Brazilian companies are borrowing abroad to finance some of their group operations in Brazil. Access to financing has thus become one of the reasons for Brazilian companies to invest abroad. Rising interest rates in Brazil, particularly in comparison with rates in developed countries, have enabled companies with subsidiaries abroad to reduce their financing costs.

Ultimately, negative FDI flows do not indicate that Brazilian companies have stopped investing abroad, although they do reveal a tendency to channel their resources towards the domestic market. Capital contributions during recent years have remained at a level similar to that of the pre-crisis period (at current rates), indicating that, unlike the Mexican and Chilean trans-Latins, Brazilian companies are not stepping up their expansion abroad.

⁵ Brazil does not report data on reinvested earnings, which is the third component of FDI.

Figure II.8
Brazil: outward foreign direct investment by component, 1999-2013
 (Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the central bank of Brazil.

The two largest Brazilian trans-Latins (see table II.6)—the oil company Petrobras and the mining company Vale—have been notable for their strategy of divesting foreign assets, particularly in 2012. That year, Vale sold US\$ 1.167 billion in overseas assets, including manganese operations in Europe, coal mines in Colombia and ore carrier ships. Other major mining companies that are direct competitors of Vale, like Rio Tinto and BHP Billiton, are following similar strategies in the face of rising costs and shrinking operating margins. Petrobras’s ambitious programme for investing in pre-salt oilfields in Brazil has forced it to cancel some foreign investment projects. Divestments during the period 2012–2016 are expected to amount to US\$ 15.0 billion, including refineries in the United States and Japan and operating fields in Nigeria.

In addition to mining and oil companies, in the natural resources sector four major agribusiness companies are meatpackers; they are JBS Friboi, Marfrig, Minerva and BRF; all of which have expanded substantially since 2005. JBS Friboi and Marfrig have carried out very large acquisitions in the United States and other markets that have made them the first and fourth largest producers of meat worldwide (see table II.6). By contrast, Minerva and BRF have limited their foreign expansion to neighbouring countries (Argentina and Uruguay).⁶

Another major group of Brazilian trans-Latins is concentrated in capital-intensive and natural-resource-intensive industries, including steel. Notable in this sector are the extensively internationalized Gerdau (whose focus is on Latin America) and CSN (whose largest investments abroad are in the United States and Europe).⁷ Camargo Corrêa is a diversified group whose largest asset outside Brazil is the Portuguese cement maker Cimpor. Votorantim is another conglomerate with investments outside Brazil in cement and steel.

Among Brazil’s biggest trans-Latins, the aviation company Embraer and motor vehicle producer Marcopolo are an exception because they operate in engineering-intensive sectors instead of natural-resource-intensive ones, and have therefore had to expand internationally in a different way. Embraer is export-oriented (only 14% of its revenue originates in Brazil) and, while most of its capacity is in Brazil, it also has production centres in the United States, Portugal and China (see table II.6). By contrast, Marcopolo sells 89% of its output (mainly buses) in Brazil but also has manufacturing operations in Australia, Mexico and South Africa and, in partnership with local companies, in Argentina, Egypt, Colombia, India and Canada.

Since the acquisition of the brewing company AmBev by Belgian giant Anheuser-Busch, there are substantially fewer Brazilian trans-Latins in mass consumption sectors, with the possible exception of the cosmetics company Natura and the food company BRF. In the services sector, Itaú (a bank) is the only one with a strategy for expanding abroad, focusing mainly on Latin America.

The largest Brazilian trans-Latins have managed to leverage the competitive advantages provided by their country of origin (abundant natural resources) to expand abroad.

⁶ See ECLAC (2013), chapter III.

⁷ See ECLAC (2010), chapter III.

Table II.6
Brazil: largest trans-Latins, by total sales, 2012
(Millions of dollars)

Company	Sector	Sales	Main regions and countries where it operates				
			Latin America and the Caribbean	North America	Europe	Asia and the Pacific	Africa and the Middle East
Petrobras	Oil	137 695	Argentina, Bolivarian Republic of Venezuela, Chile, Colombia, Mexico, Paraguay, Peru, Plurinational State of Bolivia and Uruguay	United States	Portugal and Turkey	Japan	Angola, Benin, Gabon, Libya, Namibia and Nigeria
Vale	Mining	45 761	Argentina, Mexico, Paraguay and Peru	Canada and United States	United Kingdom	Australia, China, Indonesia, Japan, Malaysia, the Philippines and Republic of Korea	Guinea, Mozambique, Oman and Zambia
Odebrecht	Construction	37 407	Argentina, Bolivarian Republic of Venezuela, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru and Uruguay	United States	Austria, Germany, Portugal and United Kingdom	Republic of Korea	Angola, Libya, Mozambique and United Arab Emirates
JBS Friboi	Agribusiness	37 043		United States			
Gerdau	Steel	18 587	Argentina, Bolivarian Republic of Venezuela, Chile, Colombia, Dominican Republic, Guatemala, Honduras, Mexico, Peru and Uruguay	Canada and United States	Spain	India	
BRF Food	Food	13 955	Argentina				
Votorantim	Diversified	12 132	Argentina, Colombia, Peru and Plurinational State of Bolivia	Canada and United States	Austria, Belgium, Hungary, Spain, Switzerland and Turkey	Australia, China and India	Morocco and Tunisia
Marfrig	Agribusiness	11 611	Argentina, Chile and Uruguay	United States	France, the Netherlands and the United Kingdom	Australia, China, Malaysia, Republic of Korea and Thailand	
Camargo Corrêa	Cement	11 572	Argentina, Bolivarian Republic of Venezuela, Colombia, Costa Rica, Ecuador, Paraguay and Peru		Portugal		Angola, Cabo Verde, Egypt, Mozambique and South Africa
CSN	Steel	8 268		United States	Germany and Portugal		
Embraer	Aviation	5 971		United States	Portugal	China	
Natura	Cosmetics	3 105	Argentina, Chile, Colombia, Mexico and Peru		France		
WEG	Machinery	3 021	Argentina and Mexico	United States	Austria and Portugal	China and India	South Africa

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

It is unsurprising that most of the Brazilian trans-Latins have the bulk of their operations in Brazil. Of the largest companies, only Gerdau and JBS Friboi appear to have more activity outside Brazil than within it.⁸ Moreover, since 2009, as Brazil posted high economic growth rates, corporations appear to have made domestic-market investment projects a priority. A goodly portion of their cross-border acquisitions sought above all to control Brazilian assets that were previously owned by foreign groups like Portugal's Cimpor and Spain's Janus.

Brazil is unique in Latin America because of State backing for FDI in the form of financial support from National Bank for Economic and Social Development (BNDES). The bank's productive development policy, put in place in 2008, aims specifically at positioning Brazilian companies among global leaders in their sectors, targeting the aviation, oil, gas, petrochemical, bioethanol, mining, pulp and paper, steel and meat industries (BNDES, 2008). BNDES can take an ownership stake in Brazilian trans-Latins making new acquisitions, providing financing with performance requirements designed to provide the bank with a share in future profits and granting special lines of credit to certain

⁸ According to the Transnationality Index produced by United Nations Conference on Trade and Development (UNCTAD), which is calculated as the simple average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

companies (Sennes and Camargo Mendes, 2009). Since 2005, BNDES has granted financing to several enterprises for overseas expansion, totalling US\$ 5.750 billion.

For example, BNDES purchased 100% of the US\$ 1.26 billion in notes issued by Marfrig to acquire Keystone Foods, as well as a large part of the bonds issued by JBS Friboi in compliance with the guarantees for the purchase of Pilgrim's Pride for US\$ 800 million. The bank currently holds a 20% interest in Marfrig and a stake of nearly 25% in JBS Friboi. BNDES also granted a special loan to Itaútec to enable the acquisition of Tallard in the United States and has opened special lines of credit for leading software and pharmaceutical firms like Prosoft and Profarma, respectively (Sennes and Camargo Mendes, 2009).⁹

2. Argentina: declining outward FDI

Unlike the trend in the rest of the region, in Argentina outward FDI has been on the downturn during the past decade. Argentina was the main direct investor outside Latin America during the 1990s. Outward FDI flows topped US\$ 2 billion annually (25% of the total for the region) until the 2001-2002 crisis, which sent them plummeting. Although they later ticked up again they did not return to prior levels, even at current prices. The pattern for inward FDI has been the same: indeed, Argentina (together with the Bolivarian Republic of Venezuela and Ecuador) is one of only three countries in the region where inward FDI is now lower than it was a decade ago.

Noteworthy among the Argentine transnationals is the steelmaking group Techint, composed primarily of the companies Ternium and Tenaris (see table II.7). Ternium makes flat steel products; most of its operations are in Mexico, followed by Argentina. It also has subsidiaries in the United States and Guatemala. Tenaris, which specializes in pipes, has subsidiaries in Mexico, Colombia, Canada, the United States, Italy, Romania, the United Kingdom, China, Indonesia, Japan and Nigeria. Twenty-eight per cent of its employees are based in Argentina, with 25% in other Latin American countries, 19% in Canada and the United States, 17% in Europe and 11% in other countries. Techint's subsidiaries in the Bolivarian Republic of Venezuela were expropriated between 2008 and 2009 (ECLAC, 2010). It was estimated that at year-end 2009, Techint had assets outside Argentina amounting to US\$ 17.7 billion, making it one of the largest and most geographically diversified trans-Latins (Vale Columbia Center on Sustainable International Investment, 2011).

Table II.7
Argentina: largest trans-Latins, by total sales, 2012
(Millions of dollars)

Company	Sector	Sales	Main regions and countries in which it operates			
			Latin America and the Caribbean	North America	Europe	Asia and the Pacific
Techint	Steel	33 755	Bolivarian Republic of Venezuela, Brazil, Colombia, Ecuador, Guatemala, Mexico, Peru and Plurinational State of Bolivia	Canada and United States	Italy and Romania	Indonesia and Japan
Molinos Río de la Plata	Food	3 494	Brazil and Uruguay			
Arcor	Food	2 839	Brazil, Chile, Mexico, Peru, Plurinational State of Bolivia and Uruguay			
Cresud	Agriculture and livestock	628	Brazil			
Ilecsa	Construction	517	Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Dominican Republic, Paraguay and Uruguay			
Laboratorios Bagó	Pharmaceutical	285	Brazil, Chile, Colombia, Mexico, Plurinational State of Bolivia and Uruguay			Pakistan
Chemo (Grupo Insud)	Pharmaceutical	...			Italy and Spain	China and India
Los Grobo	Agriculture	...	Brazil			
Impsa (Industrias Metalúrgicas Pescarmona)	Renewable energy	...	Brazil and Uruguay			Malaysia
Corporación América (CASA)	Diversified	...	Brazil, Ecuador, Peru and Uruguay		Armenia and Italy	

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

⁹ BNDES is also considering granting a broad credit facility for the internationalization of Grupo Pão de Açúcar (see [online] <http://www.valor.com.br/arquivo/195809/bndes-estuda-credito-de-2-bi-de-euros-para-pao-de-acucar>).

Argentina's other trans-Latins have a far smaller volume of assets than Techint. Industrial concerns account for most of them; there are 2 agriculture companies in the top 10. There are no mining, oil or service companies among the leaders.

3. Mexico: integration with North America drives internationalization

Most of Mexico's major trans-Latins began to internationalize in the first half of the 1990s, just after economic opening and deregulation. While outward foreign direct investment from Mexico has a long history, it contrasts with Brazil and Argentina in that flows have continued to rise in recent years. Between 2009 and 2013, the annual average was almost US\$ 14 billion; reaching a record high of US\$ 22.470 billion in 2012.

Mexico's main trans-Latins are very large; many of them are highly internationalized, albeit not particularly diversified in geographic terms (especially compared with the Brazilian companies). Some of the largest already have more than 50% of their operations, sales, assets or employees outside Mexico; they include América Móvil, Femsa, Cemex, Bimbo, Grupo México and Gruma (see tables II.4 and II.8).

Most foreign assets are concentrated in the United States and in other countries of Latin America, yet there is a group of Mexican trans-Latins whose activities are more geographically dispersed (see table II.8). They include the cement maker Cemex, food companies Bimbo and Gruma, the auto parts manufacturer Nemark (part of Grupo Alfa) and the chemical and petrochemical company Mexichem. The main Mexican trans-Latins therefore operate in a fairly diverse range of sectors, from extractive industries to services, and including a wide variety of manufacturing activities. A notable exception is the financial services sector, which in Mexico is dominated by foreign companies.

The value of their foreign assets sets two companies above the rest. The first to go global was Cemex. Over the past two decades, it has acquired enterprises to become one of the three largest cement makers in the world, together with France's Lafarge and Switzerland's Holcim (see table II.9). Cemex is known for the way it deploys technology to reduce costs and capitalize on its knowledge base: this is known as "the Cemex way". Its strategy for expanding internationally has been very effective when it comes to integration capacity. In the 1990s Cemex began to expand in Latin America and, early on, in Spain, where in 1992 it acquired the two largest cement makers (Valencia and Sansón). In the early 2000s Cemex reached the Philippines, Thailand and Egypt while defining its entry into the United States, the United Kingdom and, lastly, Australia. In 2005 it bought one of the largest producers of cement in Europe, the United Kingdom's RMC, for US\$ 4.1 billion. In 2013 it announced the merger of its operations in Spain with Switzerland's Holcim (see table II.9). Currently, 44% of its subsidiaries are in Latin America and 46% are in the United States and Europe. The US\$ 15.434 billion acquisition of Australia's Rinker in 2007, just before the global financial crisis that hit the construction sector hard, led to financial difficulties for the company (Basave and Gutiérrez-Haces, 2013).

América Móvil's foreign assets are valued at more than US\$ 50 billion, but its experience of internationalization is more recent. The company inherited Mexico's State-owned telecommunications monopoly, Teléfonos de México (Telmex), and grew rapidly in Latin America by taking advantage of low wireless communications penetration within the region. This was initially achieved through partnerships and then, like its competitor Telefónica, through an aggressive strategy for acquiring assets from other enterprises in the sector (BellSouth, Verizon, AT&T, MCI, TIM and France Télécom) (see table II.9). Later it acquired assets in the broadband and television segments to reach a critical level that would allow it to provide triple-play packages (ECLAC, 2011). In 2012, América Móvil invested in assets outside the region for the first time, acquiring strategic interests in Telekom Austria (TKA) and KPN of the Netherlands. At the end of 2013, América Móvil controlled a 27.7% stake in KPN; however, its attempted takeover of the Dutch firm ultimately failed (Expansión, 6 December 2013). In late April 2014, having learned from its experience, América Móvil secured a shareholders' agreement, allowing it to launch a public tender offer through which it hopes to gain outright control of Telekom Austria.¹⁰ Once this transaction is complete, América Móvil will use TKA, which has operations in seven Central and Eastern European countries (Belarus, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Liechtenstein, Serbia and Slovenia) as a platform for strengthening its presence in the European telecommunications industry.

¹⁰ In April 2014, América Móvil held 26.8% of TKA, while the Austrian State, through the company Österreichische Industrieholding AG (ÖIAG), controlled 28.4% with veto rights over strategic decisions. Both parties signed an agreement for the joint control of TKA and announced a public tender offer for the remaining shares in the telecommunications company. The parties also agreed to support a capital increase of US\$ 1.380 billion.

Table II.8
Mexico: largest trans-Latins, by total sales, 2012
(Millions of dollars)

Company	Sector	Sales	Main regions and countries in which it operates				
			Latin America and the Caribbean	North America	Europe	Asia and the Pacific	Africa and the Middle East
Pemex	Oil	126 483		United States	Spain		
América Móvil	Telecommunications	59 778	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Panama, Peru and Uruguay	United States	Austria and the Netherlands		
Femsa	Food	18 380	Bolivarian Republic of Venezuela Brazil, Colombia, Costa Rica, Guatemala, Nicaragua and Panama				
Grupo Alfa	Diversified	15 438	Argentina, Brazil, Costa Rica, Dominican Republic, El Salvador and Peru	Canada and United States	Austria, Czech Republic, Germany, Hungary, Poland, Slovakia and Spain	China and India	
Cemex	Cement	15 197	Argentina, Colombia, Costa Rica, Dominican Republic, El Salvador, Nicaragua, Panama and Peru	United States	Austria, Croatia, Czech Republic, Finland, France, Germany, Hungary, Ireland, Latvia, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and United Kingdom	Bangladesh, Malaysia, the Philippines and Thailand	Egypt, Israel and the United Arab Emirates
Bimbo	Food	13 354	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay	United States	Portugal and Spain	China	
Grupo México	Mining	10 183	Peru	United States			
Grupo Elektra	Commerce	5 388		United States			
Gruma	Food	4 961	Bolivarian Republic of Venezuela, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras and Nicaragua	United States	Italy, the Netherlands, Russian Federation, Turkey, Ukraine and United Kingdom	Australia, China and Malaysia	
Mexichem	Chemical	4 890	Argentina, Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Peru	United States	Belgium, Czech Republic, Denmark, Estonia, France, Germany, Ireland, Italy, Hungary, Latvia, the Netherlands, Norway, Poland, Russian Federation, Sweden, Turkey, United Kingdom	China, Japan and Taiwan Province of China	
Embotelladora Arca Continental	Food	4 340	Argentina and Ecuador				
ICA	Construction	3 667	Colombia, Panama and Peru		Portugal and Spain		Morocco
Casa Saba	Commerce	3 601	Brazil and Chile				
Xignux	Diversified	2 512	Brazil and Colombia	United States		India	
Industrias CH	Steel	2 485	Brazil	United States			
Grupo KUO	Diversified	2 248	Chile and Peru		Belgium and Spain	China	

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

Table II.9
Largest mergers and cross-border acquisitions by Mexican companies, 1990-2013
(Millions of dollars)

Company	Sector	Year	Company acquired	Country	Amount
Telecom Americas	Telecommunications	2001	Tess S.A.	Brazil	950
América Móvil S.A.	Telecommunications	2002	Telecom Americas Ltd.	Brazil	2 266
		2006	Assets of Verizon	Dominican Republic	2 062
		2007	Puerto Rico Telephone	Puerto Rico	1 636
		2007	Puerto Rico Telephone	Puerto Rico	867
Telmex	Telecommunications	2006	Embratel (23%)	Brazil	786
		2011	NET S.A.	Brazil	2 544
Cemex SAB	Construction materials	2000	Southdown Inc.	United States	2 843
		2005	RMC Group	United Kingdom	4 100
		2007	Rinker Group Ltd.	Australia	15 434
Coca-Cola Femsa S.A.	Beverages	2001	Panamerican Beverages	United States	3 649
Grupo Bimbo SAB	Food	2009	Dunedin Holding	United States	2 500
Grupo Carso (Sanborns)	Commerce	2000	CompUSA Inc.	United States	837
Grupo México	Mining	1999	ASARCO Inc.	United States	1 981
		2009	ASARCO LLC	United States	2 200
Grupo Televisa SAB	Communications	2010	Univision Comm.	United States	1 200

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

Mexico's largest company, the State-owned oil company Pemex, is an example of limited but potentially important internationalization (just 1% of its assets are abroad). Its main foreign asset over which it has direct control is a 50% stake in the Deer Park refinery in the United States, although in 2011 it increased its holding in the Spanish oil company Repsol to almost 10% with the specific aim of acquiring drilling technology. The recent opening of Mexico's energy sector to foreign investment (see chapter I), while still very tentative, could make it easier for Pemex to forge international partnerships, both inside and outside the country.

Mexico's trans-Latins have responded to a number of push factors. First, with regard to the domestic business environment, many of these companies had few long-term opportunities because of the saturation of local markets (in sectors including mobile telephony, cement, and food and beverages) and medium-term issues such as volatile domestic demand. The entry of foreign competition along with the deregulation and privatization of services, forced some companies to shift from defensive strategies to a more aggressive stance.

There were significant pull factors too, the first of which involved the location advantages of the host country. Mexican trans-Latins focused mainly on the United States and Latin America, which shows the importance of expansion strategies driven by geographical proximity and ethnic (language- or culture-related) or national (Mexican expatriates) networks. Second were the strategic advantages of internationalization (larger market share, partnerships with transnational corporations and customer follow-up) and competitive advantages (better products and logistics and distribution systems, and turning national brands into regional ones). Lastly, the integration of the Mexican economy with those of its northern neighbours through the North American Free Trade Agreement (NAFTA) in 1994 gave many companies a push towards the United States.

Beyond the trade agreement with the United States and Canada, Mexico has not had robust policy support for internationalization. Recently, however, the government export promotion agency Proméxico opened a line of support for the internationalization of Mexican companies in order to foster exports, technology transfer, human capital development, investment in innovation and research and development (R&D) and the enhancement of Mexico's image abroad. The instruments used are fundamentally the same as for export promotion, but they can also apply to companies seeking to locate production outside Mexico. Support includes specialized advisory services, business travel assistance, training of human resources and apprenticeship programmes abroad. There is no financial support as in Brazil, nor is priority given to particular sectors or countries. The target group for this support is medium-sized companies seeking to start investing abroad, rather than the major Mexican trans-Latins.

4. Chile: expansion targeting South America

The Chilean economy is very internationalized, with high inward and outward foreign direct investment. Many of the reasons why Chile is a draw for foreign investors also explain the outflow of investments to other countries. Chief among these are macroeconomic stability, an investment climate that is favourable to business development and sustained economic growth. High raw material export prices have provided a further boost for the economy in recent years. These factors have had a positive impact on the profitability of Chilean companies, which have grown and accumulated technical capacities while tapping domestic and foreign sources of financing.

The relatively small size of the local market, combined with the market presence of many foreign companies and high levels of competition in some segments, has forced Chilean firms to focus on certain activities and seek expansion beyond the country's borders.

Much of the outward FDI recorded as being from Chile is from foreign companies with a subsidiary in Chile that is used to centralize operations taking place in third countries. Chile's Foreign Investment Committee estimates that up to 26% of Chile's total inward FDI is subsequently invested elsewhere, meaning that the figures for both inward and outward FDI are likely to be overstated.¹¹

The outward flow of direct investment from Chile is relatively concentrated in the countries of South America and in a few sectors, mainly the retail trade and forestry. Official statistics are not well disaggregated by sector,¹² but FDI concentration by industry can be seen in an examination of the top Chilean trans-Latins (see table II.10).¹³ Noteworthy among these are retailers (Cencosud, Falabella and Ripley) and forestry companies (CMPC and Arauco, part of the Copec group). In 2011, the two sectors accounted for 63% of the value of the foreign assets held by the country's 20 largest trans-Latins (Pérez Ludeña, 2011). The transport sector (Latam and Compañía Sudamericana de Vapores (CSAV)) ranks third, having surged on the back of the 2012 merger of LAN Airlines with Brazil's TAM. The food and beverage sector accounts for 7% of the listed total assets, which are held by Embotelladora Andina, CCU, Concha y Toro and Carozzi (Muñoz, Pérez Ludeña and Poniachik, 2013).

Chilean trans-Latins are strikingly absent from some of the most important sectors of the country's economy, such as mining, power generation and distribution, telecommunications and finance. In the latter, Chilean companies that have purchased assets abroad have always ended up being acquired by transnational corporations, usually extraregional ones. This was the case with the pension fund administrators (AFP) and, very recently, with Corpbanca.¹⁴

This distribution shows how Chilean business groups have chosen to concentrate their operations in a few sectors. In any event, this split can change over time. In 2013, for example, Entel (the only Chilean-owned company in the telecommunications sector) purchased Peru's Nextel for US\$ 400 million.

Concentrating investment in South America is logical from the viewpoint of the development of these companies and their market expansion strategy, but it has the disadvantage of working against diversification of economic cycle risks. From that standpoint, distributing investment across economies whose cycles are less aligned with those of the Chilean economy (for example, in Europe) could help diversify medium- and long-term risks, as many European companies have done by investing in Latin America.

The bulk of investments have been made by retailers. Cencosud, Falabella and Ripley maintain brands in all of the countries where they operate and have successfully reproduced their financial business, as carried out in Chile. For example, as much as 40% of Falabella's total assets are classified as financial activities. All of these firms have benefited from rising consumption in South America in recent years.

¹¹ See Foreign Investment Committee [online]: http://aceptacion2.dnet.cl/ciechile/wp-content/uploads/2013/02/Inversión_Extranjera_en_Chile_se_duplicó_entre_2010_y_2012.pdf.

¹² Two thirds of outward FDI recorded by the Central Bank of Chile is classed as "real estate activities and business services" or "unassigned".

¹³ Further information can be found in Pérez Ludeña (2011) and Muñoz, Pérez Ludeña and Poniachik (2013).

¹⁴ At year-end 2013 Corpbanca was the fourth largest bank in Chile, having acquired the Colombian subsidiary of Banco Santander for US\$ 1.225 billion in 2012. In January 2014 the Brazilian bank Itaú acquired a controlling stake in Corpbanca and merged its operations in Chile and Colombia with it.

Table II.10
Chile: largest trans-Latins, by total sales, 2012
(Millions of dollars)

Company	Sector	Sales	Main regions and countries where it operates				
			Latin America and the Caribbean	North America	Europe	Asia and the Pacific	Africa and the Middle East
Cencosud	Commerce	19 116	Argentina, Brazil, Colombia and Peru				
Empresa Nacional del Petróleo (ENAP)	Oil	11 612	Argentina and Ecuador				Egypt
Falabella	Commerce	11 474	Argentina, Brazil, Colombia and Peru				
Latam Airlines	Transport	9 722	Argentina, Brazil, Colombia, Ecuador, Mexico and Peru	United States	Spain		
Compañía Manufacturera de Papeles y Cartones (CMPC)	Forestry	4 759	Argentina, Brazil, Colombia, Ecuador, Mexico, Peru and Uruguay				
Arauco	Forestry	4 280	Argentina, Brazil and Uruguay	Canada and United States			
Compañía Sudamericana de Vapores (CSAV)	Transport	3 432	Panama	United States	Germany	China	
Sigdo Koppers	Construction	2 786	Argentina, Brazil Colombia, Mexico and Peru	Canada and United States	Belgium, France and Spain	China, India and Thailand	South Africa
Embotelladora Andina	Food	2 449	Argentina, Brazil and Paraguay				
Sociedad Química y Minera (SQM)	Mining	2 429	Brazil, Mexico and Peru	United States	France, Spain and Turkey	China, India and Thailand	Saudi Arabia and South Africa
Ripley	Commerce	2 411	Colombia and Peru				
Entel	Telecommunications	2 398	Peru				
Compañía Cervecerías Unidas (CCU)	Food	2 248	Argentina, Paraguay and Uruguay				
Salfacorp	Construction	2 220	Colombia, Panama, Peru and Uruguay				
Sonda	Software	1 423	Argentina, Brazil, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru and Uruguay				
Molymet	Metallurgy	1 194	Mexico	United States	Belgium and Germany	China	

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

Another prominent group of Chilean trans-Latins has managed to leverage the country's natural resources to build capacities that have been useful for them in other markets. Although there are no Chilean trans-Latins engaged in mining copper (the country's main natural resource),¹⁵ two of the country's largest trans-Latins are forestry companies: CMPC and Arauco (of the Copec group). Both combine forestry production (including land ownership) with plants turning out pulp, paper, lumber and other products for sale in the domestic and export markets. They set out to replicate their business models in other countries, and have expanded mainly in Argentina, Brazil and Uruguay, where conditions (both natural and economic) are comparable.

SQM and Molymet are an exception in terms of their internationalization strategy. Rather than aiming to implement the same business model in other countries, they concentrate their extractive activities (potassium and molybdenum, respectively) in Chile and invest in processing operations in other countries. This strategy has made them the Chilean enterprises with the widest geographical distribution of assets.

After years of strong growth there is a group of Chilean companies that have become major regional actors in their industries. Some, like Sonda and Embotelladora Andina, have larger operations abroad than at home. Yet Chile's largest companies cannot be compared with their global competitors in terms of size. Cencosud's total sales, despite remarkable growth in recent years, are still 35% of the figure for the French chain Casino and 20% of Carrefour's. The forestry company CMPC is the largest in Latin America, but its sales stand at less than 20% of those of the largest company in the industry worldwide, United States-based International Paper.

¹⁵ Antofagasta Minerals (which is based in the United Kingdom but is Chilean owned) unsuccessfully tried to acquire mining assets outside Chile; 100% of its operations are now located in Chile.

This raises the possibility that in the coming years some of these companies could be taken over by larger international groups, repeating the events that occurred around 2000. In practice, hostile acquisitions are more difficult nowadays because almost all of these businesses are controlled by family groups. In the face of competitive pressure some large companies have chosen to partner more or less closely with larger international groups. For example, both SQM and CCU have strategic partners in the same industry (Canada's PotashCorp and the Netherlands' Heineken, respectively); companies which hold a significant but not controlling package of shares. Meanwhile the airline LAN and the financial institution Corpbanca opted to merge with Brazilian companies (TAM and Itaú, respectively).

One remarkable feature of the international expansion of Chilean companies has been the lack of explicit State policy. Not only has there not been any measure of support (or hindrance) from governments, but State-owned enterprises have invested very little abroad (as is the case with the oil company ENAP). The country's largest public enterprise, the mining company Codelco, has lately been weighing the possibility of capitalizing on its enormous technical capacities in other countries, yet no project has reached fruition because managers have always made mining domestic copper a priority.

While there has been no official policy for FDI support and assistance, the Chilean Government has consistently implemented policies that have favoured the development of the country's largest companies. These policies have drawn record levels of FDI into the economy, while helping Chilean enterprises to expand abroad by allowing them to grow and build capacities in the domestic market, sometimes at the cost of increased competition in certain markets.

The main push factors behind the internationalization of Chile's trans-Latins therefore fall into three groups. First are certain constraints associated with the domestic environment, such as a high participation rate in a small, saturated market, the need to open new export markets and consolidate existing ones and the urgent need to scale up. A second factor is related to specific competitive advantages at individual companies or enterprises associated with the supply of natural resources that allowed them to internationalize, often early. Thirdly, the internationalization process is related to the economic reforms carried out in Chile, which gave its trans-Latins a significant advantage over their neighbours and over transnational corporations without much experience in Latin America, particularly with regard to operating in recently deregulated and privatized environments.

The main pull factors were found in host country location advantages, particularly opportunities for growth and access to markets in neighbouring countries, especially Argentina, Peru, Brazil and Colombia. The main competitive advantages obtained were boosting market share, turning domestic brands into regional ones, improving logistics and distribution systems, and building alliances and partnerships with transnational corporations. Policy changes in receiving countries were very important, especially the opening of neighbouring economies.

5. Bolivarian Republic of Venezuela: PDVSA at the top

Outward FDI from the Bolivarian Republic of Venezuela has increased over the long term (at current prices), from an annual average of US\$ 500 million during the 1990s to an annual average of US\$ 1 billion during the 2000s. In real terms, this barely constitutes an increase; in any case growth in the country's outward foreign direct investment has not kept pace with the rest of the region. During the 1990s the Bolivarian Republic of Venezuela was the source of 9% of outward FDI; over the past decade this proportion fell to 4%.

There is little information about trans-Latins in the Bolivarian Republic of Venezuela, but since almost all officially recorded FDI came from the oil sector it is safe to conclude that the State-owned *Petróleos de Venezuela* (PDVSA) is still the largest. In 1998 it was the largest transnational corporation among all of the developing economies according to foreign asset value, ahead of Korea's Daewoo and Mexico's Cemex (UNCTAD, 2000). However, its investments outside the country have not grown at the same pace as those of other enterprises, and by 2011 it was placed 13th in the same ranking (UNCTAD, 2013). PDVSA's assets outside of the Bolivarian Republic of Venezuela were always concentrated in processing operations (refineries). Other noteworthy Venezuelan companies with foreign assets are the food company La Polar (with operations in Colombia); the bank Banesco, which has subsidiaries in the United States, Colombia and the Dominican Republic and has recently ventured into Spain; and Grupo Cisneros, a world leader in Spanish-language media and entertainment, which owns audiovisual production facilities in the United States and television channels in Colombia and the Dominican Republic.

The Bolivarian Republic of Venezuela has taken steps to make domestic investment a priority over foreign investment, including nationalizations. This had the immediate effect of reducing FDI inflows. Indirectly, the policy has also reduced outward FDI because it has given domestic firms more room to grow within the country with less competition from foreign companies. *Petróleos de Venezuela* has had to focus its resources on domestic investment because new oil industry regulations require that it have a majority stake in all domestic exploration operations.

Exchange restrictions and the international market penalty that Venezuelan companies face may have prompted many of them to invest abroad from third countries, which would make it hard to properly record outward FDI. Banesco's recent acquisition of Banco Etcheverría and Novagalicia in Spain for 1 billion euros was recorded from the United States.

F. New actors in an ever-expanding process

1. Colombia: the strength of State-owned enterprises

In recent years, Colombia has become one of Latin America's major investors abroad. Outward FDI between 2003 and 2013 amounted to more than US\$ 35.8 billion, which is still significantly below the figures for Chile, Mexico and Brazil but twice that of all the other economies in the region combined. These flows accelerated significantly in 2010 and 2011, when they topped US\$ 15 billion.

As in the other countries of the region, for Colombia the main determining factor behind outward FDI has been the sustained economic growth over the past decade that enabled companies to build up capacities and competencies that they subsequently put to use in other markets. Between 2008 and 2011, many companies faced a saturated domestic market and saw opportunities for acquiring important assets abroad on the strength of a growing domestic economy, appreciation of local currency against the dollar and, in certain instances, some European companies' need to sell off assets in Latin America.

In Latin America, Colombia is the country where State-owned enterprises have played the leading role in investing abroad, above all in the energy sector. Colombia's largest trans-Latins that are not State-owned enterprises are manufacturers and financial services firms. Although the country has abundant mineral and hydrocarbon resources, there are no large companies in this sector other than *Ecopetrol*. Colombia's largest investments abroad have occurred in the power sector, through three publicly owned enterprises: *Interconexión Eléctrica S.A. (ISA)*, *Empresas Públicas de Medellín (EPM)* and *Empresa de Energía de Bogotá (EEB)* (see table II.11).

Of this group, the most active is *Interconexión Eléctrica Sociedad Anónima (ISA)*, a power transmission company that is 54% State-owned. It currently dominates power transmission in Colombia (81%) and Peru (82%) and is a major player in Brazil (16%) as well as in Colombia's power interconnections with neighbouring Ecuador and the Bolivarian Republic of Venezuela. In Colombia ISA is limited to power transmission, but it has diversified its investments abroad to include other types of infrastructure. In telecommunications, ISA began its international expansion in 2009 through the company *Internexa*, which has consolidated an 18,500-kilometre network of fibre optic lines throughout the Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru, Chile and Brazil. In 2010, ISA bought 60% of the Spanish company *Ferrovial's* highway concessions in Chile (900 kilometres) for US\$ 290 million. These investments along with as-yet unspecified plans to enter the gas pipeline market, make ISA a specialist provider of linear infrastructures which, although present in different sectors, operate under a similar business model involving substantial initial investments, the expropriation of land and revenue that is regulated and consistent over time (ECLAC, 2012).

Empresas Públicas de Medellín (EPM) is wholly owned by the municipality of Medellín. In addition to its power businesses (62% of the group's sales), it operates water and gas services in Medellín and has operations in the telecommunications sector in Colombia and abroad. EPM accounts for 23% of Colombia's power generation capacity, 25% of the distribution market and 6% of the power transmission market. After an unsuccessful experience in building a hydropower plant in Panama, the company has focused on acquiring existing assets. In 2010 it purchased

Distribución Eléctrica Centroamericana II (DECA II),¹⁶ Gestión de Empresas Eléctricas S.A. (GESA) and Genhidro (a holding company for generation assets) in Guatemala from Spain's Iberdrola and became the main distributor of electricity in Guatemala, with nearly 1 million clients. In 2011, EMP acquired El Salvador's Distribuidora de Electricidad del Sur (Delsur) and Panama's second-largest power distributor, Elektra Noreste S.A. (ENSA) from the United States firm Ashmore Energy International (AEI), making it the second distributor in both countries. These subsidiaries added 1.6 million clients to EPM's portfolio and generated US\$ 1.597 billion in revenue in 2011. EPM has thus become the second-largest player in the Central American electricity market, meeting 51% of the demand for power in Guatemala, 39% in Panama and 22% in El Salvador (DNP, 2013).

Table II.11
Colombia: largest trans-Latins by total sales, 2012
(Millions of dollars)

Company	Sector	Sales	Main regions and countries in which it operates			
			Latin America and the Caribbean	North America	Europe	Asia and the Pacific
Ecopetrol	Oil	37 735	Brazil and Peru	United States		
Grupo Sura	Financiamiento	...	Chile, Dominican Republic, El Salvador, Mexico, Panama, Peru and Uruguay			
Grupo Aval	Financiamiento	9 000	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama	United States		
Empresas Públicas de Medellín (EPM)	Power and telecommunications	7 049	Chile, El Salvador, Guatemala, Mexico y Panama	United States	Spain	
Organización Terpel	Oil	5 775	Dominican Republic, Ecuador, Mexico, Panama and Peru			
Avianca	Transport	4 294	Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Peru			
Argos	Cement	3 741	Dominican Republic, Haiti, Honduras, Panama and Suriname	United States		
Banco Davivienda	Financiamiento	3 100	Costa Rica, El Salvador, Honduras and Panama			
Grupo Nutresa	Food	2 971	Argentina, Bolivarian Republic of Venezuela, Chile, Costa Rica, Dominican Republic, Guatemala, Mexico, Panama and Peru	United States		Malaysia
Interconexión Eléctrica S.A. (ISA)	Power	2 410	Argentina, Brazil, Chile, Ecuador, Panama, Peru and Plurinational State of Bolivia			
Grupo Carvajal	Publishing	1 813	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama and Peru	United States		
Empresa de Energía de Bogotá (EEB)	Power	1 000	Guatemala and Peru			

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

Empresa de Energía de Bogotá (EEB), which is also municipally owned but is smaller than EPM, has also acquired assets abroad and currently owns the distributors Transportadora de Energía de Centroamérica S.A. (Trecsa) in Guatemala, and Red de Energía del Perú (REP) and Consorcio Transmantaro (CTM) power transmission firms in Peru. In early 2014, EEB announced that it had reached an agreement to acquire 23.61% of Transportadora de Gas del Perú (TGP) and 100% of Compañía Operadora de Gas del Amazonas (COGA) for US\$ 650 million; however complications arose in the negotiations, competitors also made bids and ultimately the transaction was abandoned.

ISA, EPM and EEB have followed a similar strategy, venturing into neighbouring countries in recent years in search of growth that was barred to them in Colombia because of the regulation of the power sector. The public institutions that own them (the Colombian State and the municipalities of Medellín and Bogotá) have been sensitive to the argument that expansion abroad was a strategy for ensuring corporate strength and, thus, improving over the long haul the public service they must provide in Colombia. Other major publicly owned enterprises in the power sector in the region, such as the Federal Electricity Commission (CFE) in Mexico, have either not received this kind of

¹⁶ DECA II is the majority shareholder in Empresa Eléctrica de Guatemala S.A. (Eegsa), Central America's leading power distributor, and Comercializadora Eléctrica de Guatemala S.A. (Comegsa), the region's main power trading company. DECA II also owns the majority shareholding in Transportista Eléctrica Centroamericana S.A. (Trecsa), Guatemala's second-largest power transmission enterprise.

support or, as in the case of Eletrobras (Brazil), have only secured it for specific projects leading directly to domestic energy security.

The State-owned oil company Ecopetrol is the largest company in Colombia and one of the largest oil companies in Latin America (see table II.4). Its expansion abroad is also very recent and is intended to boost the firm's crude oil reserves. In Peru, Ecopetrol has acquired a 50% holding in Savia for US\$ 700 million; in the United States it has a 30% stake in several wells in the Gulf of Mexico. These operations together produce 14,000 barrels per day, less than 2% of the company's total output. Ecopetrol also has minority holdings in several operations in Brazil, which have yet to produce. The company's strategy involves expanding its international footprint, which is small at present. It plans to invest US\$ 84.5 billion between 2012 and 2020, of which US\$ 7.4 billion will be outside Colombia. It is estimated that the company invested US\$ 463 million in the United States alone in 2012.

The three largest privately owned Colombian trans-Latins are Sura (financial services), Argos (cement) and Nutresa (food); together they make up Grupo Empresarial Antioqueño.¹⁷ Each one is a sector-specific holding company, headquartered in Medellín and, although they are traded, have a cross-shareholding structure in which each one is controlled by the other two. This system has, in practice, prevented the take-over of any of them by a larger company. This was not the case with other Colombian enterprises that began to expand abroad and were acquired by foreign investors, as the Chilean ones were. Prominent examples include Almacenes Éxito (currently owned by France's Groupe Casino) and the airline Avianca (which, although purchased in 2004 by a Brazilian-Colombian investor, has its operations hub in Colombia).¹⁸

Grupo Sura comprises Bancolombia, Suramericana de Seguros, Protección and Sura Asset Management. It has over US\$ 19 billion in assets, 40% of which are outside Colombia. The group began to expand abroad around 2000 when the group decided to focus on financial services and divest other assets in sectors such as textiles and retail. Given the group's dominant position in Colombia, expansion necessarily involved investment abroad, which focused on Central America. In 2007, Grupo Sura (through Bancolombia) acquired El Salvador's largest financial conglomerate, Banagrícola, for US\$ 900 million. In 2013, it purchased 40% of Grupo Agromercantil de Guatemala, for US\$ 216 million, and the Panamanian assets of British bank HSBC (Banistmo) for US\$ 2.234 billion. These transactions allowed the group to develop an international footprint that encompasses El Salvador, Guatemala, Panama, Puerto Rico and Peru.

Grupo Sura's foreign direct investment strategy has always been based on acquiring controlling stakes in enterprises that are—or are close to being—leaders in their market. For this reason, the company has not ventured into the region's largest market, Brazil. Its expansion has picked up considerable speed over the past three years, as a result of investments abroad in the amount of US\$ 4.2 billion. Just six years ago only 5% of profits were generated outside Colombia; today the figure is 46%. After this rapid expansion, the group's strategy is centred on consolidating its position in the markets where it operates.

Like Sura, Grupo Aval sought to expand in Central America. In 2010, it acquired BAC/Credomatic,¹⁹ one of the subregion's leading banks, for US\$ 1.920 billion. In 2013, it purchased Grupo Reformador de Guatemala for US\$ 411 million and the Panamanian assets of the Spanish banking group BBVA. Meanwhile another bank, Banco Davivienda, purchased HSBC's operations in Central America—with the exception of those in Panama—for US\$ 801 million. Through these transactions, Colombian banks have acquired significant swaths of the Central American financial system, amounting to 52.7% in El Salvador, 25.2% in Panama, 22.6% in Nicaragua, 21% in Honduras, 12.8% in Costa Rica and 2.9% in Guatemala.

Argos is the largest cement company in Colombia, where it controls half of the market. Like Sura, Argos followed a focused strategy, in its case, on the concrete and cement business, divesting other assets and starting to expand abroad. This process began in 1998 with the acquisition of a plant in the Bolivarian Republic of Venezuela, which was

¹⁷ This conglomerate comprises around 125 Colombian firms, most of which are headquartered in the department of Antioquia. It is unofficially regarded as the only Colombian keiretsu. The group is structured around the three major holding companies mentioned above: Argos (cement), Grupo Sura (financial) and Grupo Nutresa (food).

¹⁸ Grupo Avianca-Taca is presently controlled by Synergy Aerospace Corp., part of the conglomerate Synergy Group Corp., owned by the Bolivian (and naturalized Brazilian and Colombian) entrepreneur Germán Efromovich. With its head office in Bogota, Synergy Aerospace has a 58.6% holding in Grupo Avianca-Taca. See [online] <http://www.ft.com/intl/cms/s/0/5f4c05e0-9519-11e1-ad38-00144feab49a.html#axzz2pnvo9H45>.

¹⁹ BAC/Credomatic owns BAC International Bank and the respective operations of BAC and Credomatic in Central America, mainly in Panama, Costa Rica, Nicaragua, Honduras, El Salvador and Guatemala, as well as in Mexico. It also has operations in Florida, United States.

expropriated in 2006 and which is still pending compensation. In 2005, Argos bought Southern Star Concrete in the United States for US\$ 260 million, followed by the acquisition of the Ready Mixed Concrete Company (RMCC) for US\$ 350 million in 2006. Following the 2008 crisis, the French company Lafarge was forced to sell off assets; Argos bought its three cement plants in the United States in 2009 and an aggregates mine in 2011. Also in the wake of the crisis, in 2009 Argos bought cement plants from the Swiss firm Holcim in the Dominican Republic, Haiti and Panama, and from Lafarge in Honduras for more than US\$ 300 million. In the Caribbean, Argos has a strategic partnership in Suriname and small import terminals in Antigua and Saint Martin. In early 2014, Argos purchased assets from Vulcan Materials of the United States, for US\$ 720 million, as well as the French Guianese company Ciments Guyanais (a joint venture of Lafarge and Holcim), for US\$ 70 million.

Argos is perhaps the only major Colombian company with substantial assets in the United States, where it makes 30% of its sales. Colombia accounts for 53% of the company's sales; the remaining 17% are in Central America and the Caribbean. Having operations in a mature market enables the company to compensate for economic cycle fluctuations, which in the cement industry are quite wide. In any case, Argos does not plan to continue its expansion in Europe, but will rather focus on Latin America.

Nutresa has also invested in other countries, driven by market saturation in Colombia (it has an 80% share of the market for some products). In 2000, following a failed attempt at internationalization through retailers of its Colombian products, Nutresa launched a strategy to acquire enterprises that are well positioned in their respective markets, and to maintain their brands. In 2013, Chile became Nutresa's main market outside Colombia when it acquired Tresmontes Lucchetti for US\$ 758 million. Nutresa's strategy in Latin America is based on centralizing services to build synergies and leverage its expertise in similar markets to optimize production as well as distribution channels. In the United States the company has a small presence in a very specific segment (biscuits sold in discount stores). In late 2012, Nutresa started up operations in Malaysia, with the goal of increasing its Colombian coffee exports to Asia.

One interesting case is that of Promotora de Café Colombia S.A. (Procafecol), which is behind the Juan Valdez coffee shops, brand and products. Since the first outlet opened in Colombia in 2002, the company has managed to position itself as a premium coffee brand, expanding first to the United States and then to Latin America and, more recently, to more distant markets such as Malaysia, Kuwait and the Republic of Korea. There are currently 187 Juan Valdez coffeehouses in Colombia and 80 in another 12 countries. In 2011, Procafecol announced the launch of an expansion programme through international franchising. It is hoped that this model will enable the further worldwide expansion of Juan Valdez coffeehouses and Colombian coffee.

Aside from Grupo Empresarial Antioqueño, there is a large group of smaller enterprises, such as Carvajal, Alpina, Colombina and Postobón, which are noteworthy for their foreign direct investment. All of them operate in service sectors or manufacture consumer goods. Like the larger enterprises mentioned earlier, their investment focus is Latin America, especially Central America.

Colombian companies that invest abroad tend to do so because of the narrow domestic market in a context where most of them have opted for geographical diversification while maintaining their sectoral specialization. ISA is practically the only company that has used international expansion to diversify away from its main business in the power sector (by venturing into telecommunications and road infrastructure). Colombia has not witnessed any examples of foreign acquisitions for the purchase of strategic assets, although Ecopetrol could have been seeking to learn from its strategic partners in the United States and Brazil. All of the companies recognize that an international presence yields benefits in terms of gains in scale, expertise and operating synergies among subsidiaries.

These enterprises have expanded very quickly, almost always via acquisitions, as is the natural choice in domestic-market-oriented oligopolistic sectors such as power, cement and financial services. Many of the largest companies funded their overseas investments with resources from international markets, especially in the United States, benefiting from Colombia's improving credit rating.²⁰ Among them are Ecopetrol, Sura, Argos and the power companies. As these companies gain a foothold in their new markets, Colombia's direct investment will be less volatile and less dependent on acquisitions, and more in line with the reinvestment of profits for sustaining operations and for organic growth.

In many cases, the expansion of Colombian companies abroad has coincided with the partial withdrawal of European companies hit by the economic crisis. Among others, Argos, Sura, EPM and ISA have taken advantage

²⁰ Ratings agencies awarded Colombia investment-grade status in 2011.

of this scenario to acquire assets in Latin America, including in Colombia. Despite these circumstances, very few Colombian companies have capitalized on the situation to invest directly in Europe, in part because they still do not have the requisite scale. For the same reason, only ISA has substantial assets in Brazil.

Outward FDI is so important for the Colombian economy that the government recently adopted an explicit policy of support for the internationalization of Colombian companies. International expansion furthers business development and, therefore, business operations in Colombia. And FDI is often closely linked to exports; government efforts to promote exports should therefore include support for FDI (DNP, 2013). Unlike in Brazil, where some large companies have received direct financial support from the State for their international investments, support for Colombian companies will be limited to information and advice provided by the offices of the export and investment promotion agency (Proexport Colombia) in many countries around the world. This support is a very similar to that provided by the Government of Mexico and is by nature primarily geared towards small and medium-sized enterprises, because the larger ones do not need it.

Outward FDI policy support in Colombia might impact the internationalization of medium-sized enterprises but will not substantially affect outward FDI flows. These support measures from Proexport Colombia will have a budget allocation of US\$ 1 million annually, according to the government's strategy paper (DNP, 2013).

2. Peru: the first signs

Peru is the seventh largest economy in Latin America and a major recipient of FDI inflows, but FDI outflows have been relatively modest despite a marked uptrend in recent years. All of Peru's major corporations that have invested abroad began to do so around 2005, taking advantage of the country's economic growth, macroeconomic and political stability and financing facilities. Peru's sovereign debt was ranked investment grade in 2008. These conditions still hold, so FDI outflows from the country can be expected to continue to grow in the coming years.

Peruvian corporations have sought opportunities in neighbouring countries, especially in Chile. For example, Grupo Breca (formerly known as Grupo Brescia) acquired two established construction materials firms; Cemento Melón, acquired from France's Lafarge for US\$ 555 million in 2009, and Pinturas Tricolor, for US\$ 96 million, in 2012. Grupo Graña y Montero acquired Compañía Americana de Multiservicios (CAM), a power-sector services company with headquarters in Chile and operations in Brazil, Colombia and Peru, as well as two construction firms specializing in major engineering works, especially mining projects (DSD Construcciones y Montajes S.A. and Vial y Vives). Lastly, in 2012 Grupo Romero bought one of the three largest brokerage houses in the Chilean market, IM Trust, and the aquaculture food and inputs company, Salmonfood.

Metal mining has been the engine of growth in Peru over the past decade. While most of the sector is in the hands of foreign companies, there are major local groups as well. Some of them have been able to build domestic capacities in order to expand internationally. In this sphere, the most interesting cases are Hochschild and Minsur (part of Grupo Breca). Hochschild specializes in underground gold and silver mining and has extended its operations to Argentina, Mexico and, more recently, Chile (in this case not yet in production), where it purchased a project that will require US\$ 1 billion in investments. Minsur specializes in tin; its sole asset outside Peru is Mineração Taboca in Brazil, which it acquired for US\$ 500 million in 2008. Both have expansion plans, focusing on South America (see table II.12).

In addition to mining, some companies in the food and beverages sector are notable for their foreign investment, especially Ajegroup, Alicorp and Gloria, which have operations in many markets in the region. Other Peruvian companies with investments abroad are Grupo ACP (in the microfinance sector, with subsidiaries in Mexico, Brazil and many other countries in the region) and Oben Group (a manufacturer of plastic packaging with plants in Ecuador, Argentina, Colombia and Chile).

Table II.12
Peru: largest trans-Latins, by total sales, 2012
(Millions of dollars)

Company	Sector	Sales	Main regions and countries in which it operates		
			Latin America and the Caribbean	North America	Asia and the Pacific
Grupo Belcorp	Chemical	2 000	Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Plurinational State of Bolivia	United States	
Alicorp	Food	1 754	Argentina, Colombia and Ecuador		
Ajegroup	Beverages	1 667	Bolivarian Republic of Venezuela, Brazil, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras and Mexico		India, Indonesia, Thailand and Viet Nam
Compañía Minera Buenaventura	Mining	1 564	Chile		
Minsur	Mining	1 212	Brazil		
Grupo Gloria	Diversified	1 100	Argentina, Colombia, Ecuador, Plurinational State of Bolivia and Puerto Rico		
Grupo Hochschild	Mining	818	Argentina, Chile and Mexico		
Oben Holding Group	Diversified	...	Argentina, Chile, Colombia and Ecuador		
Grupo ACP	Microfinance	...	Argentina, Brazil, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Plurinational State of Bolivia and Uruguay		

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

3. Central America, the Caribbean and other smaller economies

Outward FDI from the smaller economies shows the same upward trend as in the large economies of the region. However, the amounts are much more modest and are below US\$ 2.0 billion per year for all the region's economies excluding Brazil, Argentina, Mexico, Chile, the Bolivarian Republic of Venezuela and Colombia.

Nonetheless, the figures for outward FDI from these economies might be understated. First of all, a goodly number of these economies do not report data on direct investment outflows, mainly because it is such a recent development that national institutions have not allocated sufficient resources to gather information.

Even for those countries that do report data there is reason to believe that they might be underestimating their outward FDI. Many of the largest companies based in small economies may have chosen to register their corporate headquarters in other countries (often in the United States) to avoid being hampered by operating in economies with underdeveloped capital markets and, sometimes, a very recent history of civil strife and economic instability. For this reason, much of the foreign investment by companies in Central America, the Caribbean and the smaller economies of South America might be recorded as being from the United States, Europe or other countries. In addition, the vast majority of companies in these countries are family-owned and are not traded in the financial markets, so they disclose very little information on their operations. In any case, some general conclusions can be drawn from the information that is available.

Among these smaller economies, most outward direct investment flows originate in Caribbean countries (see table II.13). These economies are very internationalized, with cross-border investment levels that are extremely high in relation to their size. In this context it is not surprising that a large percentage of local companies decide to invest abroad as their only path to growth, and that and most of them do so in other Caribbean countries in order to take advantage of geographic, cultural and market-structure proximity. Companies in Trinidad and Tobago have capitalized on their larger size to expand in other economies in the region. Some examples are Republic Bank (present in Guyana, Barbados and Grenada) and the diversified services group ANSA McAL.

Some of these trans-Caribbean companies, even if their headquarters and all of their operations are located in the subregion, are owned by entrepreneurs from third countries. The best examples are the two largest telecommunication companies in the area: Flow (registered in Barbados) and Digicel (headquartered in Jamaica). Although their business operations are entirely Caribbean, they are owned by foreign investors from Canada and Ireland, respectively (see box II.3).

Table II.13
Latin America and the Caribbean (selected countries): outward foreign direct investment flows
 (Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bahamas	51	42	28	46	86	78	136	141	172	89	88	304	215	0
Barbados	-1	-1	0	-1	-4	-9	-44	-82	6	56	54	29	0	0
Belize	0	0	0	0	0	-1	-1	-1	-3	0	-1	1	1	1
Bolivia (Plurinational State of)	3	3	3	3	3	3	3	4	5	-4	-29	0	0	0
Costa Rica	8	10	34	27	61	-43	98	262	6	7	25	58	428	257
El Salvador	0	0	0	19	0	113	0	95	80	0	-5	0	-2	3
Guatemala	0	10	22	46	41	38	40	25	16	26	24	17	39	34
Honduras	7	3	7	12	-6	1	1	1	-1	4	-1	2	55	2
Jamaica	74	89	74	116	60	101	85	115	76	61	58	75	24	0
Paraguay	6	6	6	6	6	6	7	7	8	8	7	0	0	0
Peru	0	74	0	60	0	0	0	66	736	411	266	113	-57	136
Suriname	0	0	0	0	0	0	0	0	0	0	0	3	-1	0
Trinidad and Tobago	0	0	0	0	0	341	370	0	700	0	0	1 060	1 681	0
Uruguay	1	-6	-14	-15	-18	-36	1	-89	11	-16	60	7	5	-16

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

Box II.3

Digicel: small economies, big business

In 2001 Denis O'Brien (an Irish businessman established in Jamaica) founded Digicel to take advantage of the deregulation of Jamaica's telecommunications market. Digicel competed very successfully with the dominant company, the United Kingdom's Cable & Wireless, and after acquiring the assets of Mexico's América Móvil in 2011, saw its share of the domestic market climb to 70%. The enterprise very soon began to expand throughout the Caribbean, following deregulation of the sector in these economies. In 2003 Digicel began operations in Aruba, Grenada, Saint Lucia and Saint Vincent and the Grenadines. It started operations in Barbados and the Cayman Islands in 2004 and in Anguilla, Bermuda and Saint Kitts and Nevis in 2005.

Expansion picked up speed in 2006 with entry into 11 other Caribbean economies, including Haiti and Trinidad and Tobago.

Digicel also purchased a company in El Salvador and then ventured into Honduras and Panama, although some of these investments were later sold to América Móvil. In 2006 it began to operate in countries of the South Pacific, where it sought to replicate its experience in small economies. Digicel now has operations in Papua New Guinea, Fiji, Vanuatu, Samoa, Tonga and Nauru. It later ventured into Suriname and the British Virgin Islands. In 2012 it acquired its biggest competitor in Haiti for US\$ 97 million, whereby Haiti became the company's main market.

Pursuing a strategy similar to that of its rival in the subregion, Flow, Digicel has managed to combine these small subsidiaries in a single market and thus achieve certain economies of scale. While the quality of telecommunications service in the Caribbean has improved and costs have fallen since deregulation, they are still higher than in other, larger economies.

Source: Olaf De Groot and Miguel Pérez Ludeña, "Foreign direct investment in the Caribbean: trends, determinants and policies," *Caribbean Studies and Perspectives series*, No. 35 (LC/L.3777), Port of Spain, ECLAC subregional headquarters for the Caribbean, 2014.

The same trend towards expansion within the subregion is seen in Central America, although unfortunately there are no official data on foreign direct investment from El Salvador, Nicaragua or Panama. It is safe to assume that Panama is the source of a considerable volume of outward FDI, albeit most of these resources will be "in transit", in other words, investments by transnational companies that have subsidiaries in Panama from which they invest in other countries in the region.

Guatemala is the largest economy in Central America, but its average foreign direct investment over the past five years (2008-2012) is only US\$ 24 million per year. Flows from Costa Rica shot to US\$ 426 million in 2012, thanks to the US\$ 388 million purchase of North American Breweries (NAB) of the United States by Cervecería Costa Rica.

Both the Caribbean and Central America are seeing the same trend as in Chile and Colombia, on a smaller scale. The entry of many foreign companies into these economies has forced local businesses to focus on activities where they are most competitive. Meanwhile, the small size of the local market has meant that they have had to expand abroad. Both Central America and the Caribbean are subregions with a high degree of economic integration and

relatively homogeneous markets, so these companies can invest in neighbouring countries with relative ease. In a very small number of exceptional cases, enterprises in these countries have expanded beyond their own subregion. Moreover, the smallness of these markets makes them unattractive to transnational corporations from outside the region.

Some of the largest trans-Latins in Central America have based their growth on leveraging the inherent advantages of their home markets. The most noteworthy cases have been in the agribusiness sector, with Pantaleón and Corporación Multi Inversiones (Guatemala) and Grupo Pellas (Nicaragua). Pantaleón, which also operates in Honduras and Nicaragua, has managed to expand its sugar cane business (integrating agricultural production, industrial processing and energy generation) beyond Central America; it has substantial assets in Mexico and Brazil. The company's expansion abroad started to accelerate dramatically in 2006 and today approximately 50% of its production comes from outside Guatemala.

Yet most of the Central American and Caribbean trans-Latins are not capitalizing on any of the inherent comparative advantages of their home country but are just seeking in other countries the growth they cannot achieve at home owing to market saturation. The sector where this strategy is most common is food and beverages. In addition to the aforementioned Cervecería Costa Rica, noteworthy in this segment is CBC (the PepsiCo bottler in Guatemala), which stepped up its pace of expansion abroad in 2009 and now has operations not only throughout Central America but also in Colombia, Ecuador, Jamaica, Trinidad and Tobago and Barbados. Cementos Progreso (Guatemala) also expanded its operations to Honduras and Costa Rica. Another case of market-seeking is that of Unicomer, the Salvadoran household goods retailer (with brands such as La Curacao), which has extended its presence throughout Central America and the Caribbean and has recently entered Ecuador.

The real estate sector, often linked to the hotel trade, has been a particularly important area for large business groups in Central America. Many family groups that sold their main businesses to transnational corporations invested the proceeds in residential, commercial or office real estate operations, seeking to capitalize on the expansion of the middle class in these countries (Bull, 2013). They thus adjusted to the opening of the region's economies by deciding against competing with the transnational corporations that were coming in, and focusing instead on sectors where they could leverage their knowledge of the local market and their contact networks. This sector includes Guatemala's Spectrum (part of the same group as Pantaleón) and El Salvador's Poma and Agrisal. Spectrum develops housing and commercial real estate projects in Honduras, Nicaragua and Colombia. Poma and Agrisal focus on the hotel business, operating franchises of international groups (IHG in the case of Agrisal) throughout Central America.

The State-owned hydrocarbon enterprises of Trinidad and Tobago are a case apart. Both Petroleum Company of Trinidad and Tobago (Petrotrin) and National Gas Company (NGC) share extraction, transport and refining operations there with many transnational corporations. In recent years, the Government of Trinidad and Tobago, as part of its strategy to diversify the economy, has been seeking to promote services associated with the oil industry. To this end it has encouraged both State-owned companies to invest abroad directly, particularly in African countries with little background in the sector. While no investments have been made yet, negotiations are under way with Ghana and the United Republic of Tanzania.

In general, foreign direct investment from Central America and the Caribbean is showing an upward trend, especially since 2006. The scope of these companies is almost always restricted to their respective subregions, benefiting from physical and cultural proximity and similar market structures. The fundamental competitive advantage of most of these companies is their knowledge of the local market. Their ability to innovate and to develop new technologies is, naturally, limited, and where they have managed to do so it has often been through partnerships with transnational corporations. Cementos Progreso (with Holcim), CBC (with PepsiCo) and Agrisal (with IHG) are examples of this.

G. Conclusions

The growth of transnational corporations from developing countries is a worldwide phenomenon. Only a decade ago, very little FDI flowed out from these economies; today it accounts for a third of the total. This reflects the new weight of Asia, Africa, Eastern Europe and Latin America in the global economy, a trend that gathered momentum with the global financial crisis that erupted in 2008.

Sustained economic growth over the past decade has been the main factor enabling enterprises in these countries to build up enough size and capacity to undertake and then step up the pace of international expansion. Indeed, in Latin America it is the domestic enterprises that have grown the most over the past two decades, with the region's major corporations pulling ahead of transnationals from the United States and Europe. In 1999, there were 40 private domestic companies among the 100 largest companies operating in Latin America. By 2012, their number had risen to 57 while the number of foreign-owned companies dropped from 47 to 29. This would indicate that major domestic groups capitalized on expansion opportunities in the region's domestic markets better than other firms.

The favourable macroeconomic environment has also enabled companies in Latin America and other developing regions to improve their financing conditions. Most transnationals in developing countries now increase their capital or issue debt in the international markets on terms that are very similar to those of their peers in developed countries, allowing them to compete, for the first time, on a more equal footing for the same acquisitions or investment projects.

However, these new transnationals are not developing in the same way as companies from Europe, the United States or Japan did during the past century. Businesses in Asia, Eastern Europe and Latin America come from countries that still have economic structures and political environments that often do not compare well with those of other countries. These companies are not always at the frontier of their industry in terms of internal capacities. They often lack unique capabilities to give them an advantage over their competitors before investing abroad, as happened with the first transnationals. Instead, they are expanding abroad precisely to acquire such advantages. In particular, this has been the case with companies in developing Asia.

The trans-Latins have followed a different strategy. Most of them have invested abroad to continue with the expansion that was no longer feasible in the domestic market. In other words, domestic market saturation was a push factor driving investments towards other countries.

On other occasions these firms have sought access to natural resources that could not be sourced sufficiently in their home countries. Very few have invested outside their country to undertake different activities and thus scale up the value chain; there are virtually no examples of trans-Latins acquiring strategic assets abroad; that is, buying other companies to gain the technology, trademarks or expertise that would enable them to enhance their global operations.

This feature of their strategies is primarily a result of the pattern of specialization among major domestic groups, and it is also reflected in the sectoral composition of FDI outflows from the region. The major trans-Latins are concentrated in services sectors (telecommunications, retail trade), natural resources (mining and hydrocarbons) and capital-intensive manufactures (steel and cement). There are relatively few trans-Latins engaged in knowledge-intensive activities, where strategic asset-seeking would be of greater relevance.

Another prominent feature of trans-Latin corporations is a preference for investing within the region, with the exception of a handful of the largest companies in Mexico and Brazil that have a substantial footprint in the United States and Canada. The tendency to build regional networks is stronger in companies from smaller economies. In Central America and the Caribbean, many companies have set up networks of subregional subsidiaries.

Focusing on nearby countries is a logical strategy when the objective is to expand the market by replicating the same strategy that was followed in the country of origin. One problem with this strategy is that it makes these companies more vulnerable to changes in the economic cycle in the region than if they expanded to other regions of the world. Noteworthy in this regard is the limited presence of trans-Latins in Asia, indicating that few businesses are in a position to capitalize on the strong expansion of these economies and their integration into global value chains.

Unlike in Asia, none of the countries of the region apart from Brazil has applied an active policy in support of the internationalization of their enterprises. Nor have there been many State-owned trans-Latins, except in the hydrocarbon sector. Brazil has provided public financing to support some of its largest companies as they invest abroad, but this has not made Brazilian firms more likely to invest abroad than companies from other countries in the region.

Outward FDI from the region is already substantial and in some countries (such as Chile, Colombia and Mexico) it stands at half of inward FDI.

Almost all of the major enterprises in the region have investments outside their home country, and it is foreseeable that this trend will continue to rise in the future. This calls for a detailed examination of the impact that the internationalization of these companies will have on the local economy. In this regard, it is worth setting out some of the issues that should be considered in an analysis of this nature.

First, for many trans-Latins, investing abroad is the only way to sustain growth and survive as an independent business enterprise in an intensely competitive environment. The opening of the region's economies to international trade and investment has forced local businesses to specialize and internationalize in order to survive.

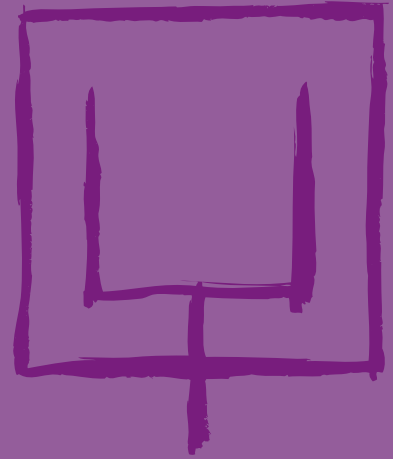
Second, outward FDI has some benefits on top of mere market expansion, mainly linked to the opportunities for learning that it offers to companies operating in different markets, often in strategic partnerships with others. Spreading their operations across several countries also helps companies to diversify risk and better withstand crises.

Lastly, trans-Latin corporations can use their operating and financial capacities to acquire strategic assets in other countries for transforming their operations and improving their processes. While very few companies have chosen this path, the current scenario holds a unique opportunity to emulate leading enterprises in Asia and move towards activities with higher value added and technological content.

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Effects of foreign direct investment on employment in Latin America and the Caribbean

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Annex

A. Introduction

The discussion over the relationship between employment and foreign direct investment (FDI) forms part of the debate on how FDI affects the region's economic development. Employment is a dimension that derives from output, and therefore its dynamics and characteristics are subject to production trends and technological developments in the economy, and to the institutional frameworks in which these trends and developments take shape.

In recent decades, the belief has taken hold in various spheres of decision-making that FDI is a driver of development in recipient economies, since it makes a significant contribution to modernization, increased production and, consequently, job creation. In keeping with this view—which highlights the function of FDI as a complement to domestic savings and a source of new capital contributions— attracting foreign direct investment has been a cornerstone of many countries' development strategies, with the magnitude of inward investment in local economies sometimes even receiving priority over the type of investment received.

There is also a widespread consensus regarding the importance of creating quality jobs in order to share the fruits of economic growth and increased productivity with a greater proportion of the population. Productive, high-quality work performs a key role in achieving sustainable growth patterns. Capital accumulation, technological change and an increasingly qualified labour force, supported by an appropriate regulatory framework, have a positive influence on labour productivity and contribute to high and sustainable economic growth trends. This in turn helps create good quality jobs, making the process socially sustainable, while the rise in consumption stimulates aggregate demand, feeding a virtuous circle of growth (Weller and Kaldewei, 2013). The sectoral dimension is important, since activities with higher knowledge content are favourable to such trends. Especially in countries that are far from the technology frontier, resource allocation patterns guided by short-term efficiency criteria¹ can have long-term effects that undermine the potential for efficiency, dynamism and innovation (Cimoli and others, 2009; Reiner 2007).

In Latin America and the Caribbean, the debate reflects concern over the repercussions of globalization on local production fabrics and on employment. While the intensity of investment flows and the enormous influence that these have exerted over the recipient economies is more worrisome in economies that have been excluded from global value chains, concerns are also arising in respect of the huge concentration of investment in low-value-added activities that tend to reinforce the “lock-in” effect in sectors that are low in technological intensity.

From the specific perspective of the labour market, it is less clear that this type of investment automatically helps to improve the people's living standards, close productivity gaps or improve income distribution.

The evidence indicates that the impact of investment in natural-resource-intensive sectors,² particularly mining and hydrocarbons (which are capital intensive and highly profitable owing to current relative commodities prices), is extremely limited in terms of direct job creation. For this reason, even though these workers' wages tend to be high, the labour market cannot fulfil its role in primary income distribution. The State takes on a decisive role in these sectors.

Investment due to production fragmentation and offshoring strategies involves relocating job creation in the manufacturing and services sectors from developed countries to developing economies. These strategies are a component of the current globalization process and a characteristic of international competitiveness. New productive configurations are established according to the manner in which chains of activities are structured between firms and countries and the segments in which jobs are created. Separating processes into (i) labour-intensive stages, with

¹ Defined by the countries' present capabilities and current relative prices.

² The traditional approach to analysing foreign direct investment processes and their effects on recipient economies is based on recognizing the different strategies that lead parent companies to invest in the region. In literature these are classified as (i) raw material-seeking; (ii) domestic market-seeking; (iii) efficiency-seeking in export platforms; and (iv) seeking access to strategically important assets (technology or highly trained human capital) (Dunning, 2002). These strategies may be associated with different economic sectors: the first is linked to primary and extractive activities; the second to the production of goods and services directed at the internal market (mainly in the largest countries or those with emerging middle classes). The third strategy refers to the tradable goods and services sector and forms part of the offshoring processes designed to secure cost advantages, especially in terms of labour costs and tax benefits, and the fourth strategy refers to sectors with specific technological capacities.

set routines that are transferred to independent companies (suppliers) and (ii) stages without prevailing routines and with skill-intensive functions, favours the creation of a dual wage and benefits structure divided between developed and developing countries. For this reason, a central part of the debate in the current phase of globalization refers to jobs, wages and workers' capacities (Gereffi and Sturgeon, 2004).

From some viewpoints, it is proposed that upgrading processes in recipient economies would help overcome dual configurations of this kind. FDI would initially be geared towards low value-added stages of production and then be concentrated in higher productivity sectors as economies undergo densification and evolution processes that result in more complex production fabrics, as well as developing new capacities. Evidence of this kind of process can be found in Mexico, for example (Carrillo 2010).

Yet the experiences of most Latin American and Caribbean countries indicate that FDI has followed a path that presents a greater risk of deepening lock-in processes by strengthening economies' specialization in low-productivity sectors than a possible way to diversify. As such, the high economic concentration of these processes makes it difficult to counterbalance the growing power of transnational corporations in order to prevent adverse social and environmental impacts (Blackwell, 1997). Examples include the experiences of maquila companies in Central America, and mining operations in Andean regions, underscoring the importance of policies that adjust rates of return through strategies designed to diversify production structures, thereby creating jobs and improving income distribution (Cimoli and others 2009; Khan, 2000).

The changes that have taken place in business practices, in management-school models and in the public policies of countries that are traditionally FDI contributors, and which will affect offshoring strategies, provide another important dimension for analysis.³ These new trends seek to rein in offshoring processes in strategic activity areas that favour innovation capacity and the creation of better quality jobs, for example the manufacturing of advanced materials, biotechnology and nanotechnology (Pisano and Shih, 2013). While these tendencies should not necessarily affect FDI flows into Latin America and the Caribbean, in general they will make it more difficult to attract strategic investments.⁴

The above arguments show the importance of producing more and better knowledge that could improve our understanding of the relationship between FDI and the labour markets, since effective policy actions require a detailed knowledge of how global value chains and social stakeholders work. More precise knowledge of the effects of different types of investment will help improve the design of policies intended to attract quality FDI and strengthen the institutions responsible for regulating labour markets.

The following section gives an analysis of the quantitative effects of FDI in Latin America and the Caribbean. Section C sets out some considerations related to the quality of the jobs created, while section D responds to the question of where jobs are created in foreign investment projects and describes some of the configurations of this type of FDI in the region. The chapter concludes with some final reflections.

B. Effects on employment

One aspect that determines the impact of FDI on employment in recipient countries is the way in which it accesses local production fabrics. Foreign capital is captured through (i) investments in capital goods designed to expand production capacity, such as the creation of new plants, or (ii) changes in the ownership of existing assets, through privatizations of public enterprises or cross-border acquisitions of domestically owned companies. The first mode is

³ A trend towards narrowing labour-cost gaps—especially between China and the United States—has been observed, while the impact of climate change and rising fuel prices mean that transport and logistical costs are taking on greater importance in relation to labour costs, so that geographically dispersed value chains are beginning to be perceived as higher risk. There is also greater recognition that the proximity between production and design is important in sustaining the innovative capacity of firms. These factors led to changes in the outlooks of many business schools, which have recognized that the effects of offshoring were overvalued, culminating in criticism of such management models. Modifications have also been observed in the production policy approaches of traditional FDI source countries, which aim to rebuild industrial ecosystems within territories, especially in strategic sectors that are conducive to improvements in productivity and innovation.

⁴ The preference for short value chains and a heightened perception of the risk involved in offshoring to more distant locations might even encourage European and United States firms to invest in Latin American and Caribbean countries.

associated with new (greenfield) investment, in which the parent companies of transnational firms initiate projects in destination countries through physical investments that usually create permanent jobs. The second mode reflects financial investments (changes in ownership) in which use is made of existing facilities, which are altered, expanded or enhanced after they are acquired by new investors. Its effects on employment depend on changes in business strategy.

In principle, the greater accumulation of production assets resulting from FDI has an invigorating effect on employment. Yet under certain circumstances, FDI can have negative repercussions for employment, as when it destroys jobs as part of modernization processes in existing companies. This is also the case when it forces uncompetitive domestic enterprises out of the market; when local suppliers are replaced with imports, or when labour-saving technologies are introduced. Where investment is channelled into extremely capital-intensive sectors, even the positive impacts on direct employment may be modest.

FDI analysis and statistics habitually relate both to physical investments —i.e. the incorporation of new capital goods in economies— and financial transactions. Considering the effects that these flows have on the real economy of recipient countries, this is a crucial distinction.

Studies on the relationship between FDI flows and labour-market dynamics usually differentiate between these two types of investment. Investment promotion agencies (such as the Invest in France Agency (IFA)) generally focus their reports on physical investment projects, which are more relevant to employment. Nevertheless, in Latin America and the Caribbean, official information is not usually broken down in this way, so that labour-market impacts must be analyzed on the basis of internal estimates, private sources and the results of other research.

Ernst, Berg and Auer (2007) produced a landmark research study in this area. It was designed to analyse the impact of FDI on employment during the period 1990-2004, especially in the three biggest countries in Latin America (Argentina, Brazil and Mexico). The authors observed that the substantial inflow of FDI had negative impacts on employment, largely owing to the characteristics of the FDI received.

The research noted that while circumstances favourable to foreign investment, thanks to a set of reforms implemented in virtually the whole region, had led to the capture of capital intended to create new production capacity during the 1990s,⁵ privatizations and the mergers and acquisitions of private companies had been even more significant, especially in South America.⁶ Mergers and acquisitions accounted for an extremely high share of FDI flows in Argentina (over 80%) and a more moderate share in Mexico (40%) (Ernst, Berg and Auer, 2007).

The study found that most investment during this period did not create new productive activities to spur the recruitment of additional workers. Quite the contrary, as foreign direct investment was associated with the restructuring of companies, which implied rationalization measures and layoffs. A substantial part of FDI was earmarked for services —through the privatization of public utilities and bank restructuring— which tended to use existing assets. Meanwhile, several decades of protection had caused a build-up of excess labour, which was shed during the privatization and subsequent modernization processes. Deregulation brought about greater competitiveness in the manufacturing sector, the second-largest beneficiary of FDI flows and where, as in services, restructuring strategies to enhance productivity took the form of staff reductions (Ernst, Berg and Auer, 2007).

The authors stress that the employment situation in Mexico, where major investment in manufacturing created many jobs, was different to that in Brazil and Argentina. Large maquiladoras invested in new facilities in labour-intensive industries, albeit with sometimes inadequate working conditions. The authors also underscored the emergence of a new generation of maquiladoras that used technology intensively and which employed highly qualified workers.

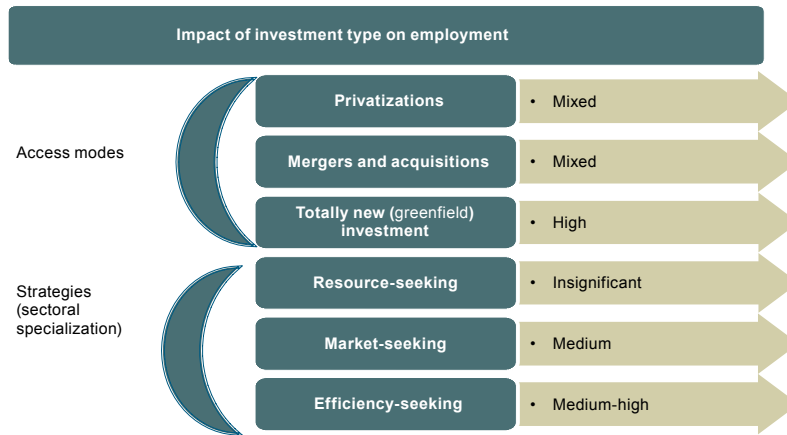
The following diagram summarizes the main findings of this research. On the one hand, the authors clearly differentiate between the modes of FDI access and their effects on employment: investments in new plants are thought to have very significant repercussions, while those of privatizations, mergers and acquisitions are difficult to determine before the event. On the other hand, the authors maintain that efficiency-seeking strategies in global production

⁵ One of the key issues discussed in the Washington Consensus was the proposal that Latin American countries would push through the privatization of their public enterprises. In earlier periods of industrialization —in the 1950s and 1960s— State investment had been encouraged to compensate for the absence of private actors who would assume the cost of accumulation that would trigger continued economic growth. Transferring State-owned enterprises to the private sector meant that fiscal resources filled State coffers, while new actors appeared in the capital accumulation strategy who adopted the logic of profit as a defining parameter for investment and investment destinations.

⁶ This type of FDI carries greater weight in Latin America than in China and India.

chains are those which create the most employment, followed by market-seeking strategies, while natural-resource-seeking strategies have an insignificant impact on jobs. The FDI inflows received by the three countries in the period 1990-2004 reflect very different situations, with these investments having a much more favourable impact on jobs in Mexico than in Argentina and Brazil.

Diagram III.1
Latin America and the Caribbean: types of inward foreign direct investment and effects on employment, 1990-2004



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of C. Ernst, J. Berg and P. Auer, "Employment challenges and policy responses in Argentina, Brazil and Mexico", *CEPAL Review*, No. 91 (LC/G.2333-P/E), Santiago, Chile, April 2007.

Recent decades have witnessed a major transformation in the type of foreign direct investment in the region. During the 1990s, changes in the ownership of local companies (privatizations of public utilities, increased foreign shareholdings in domestically owned companies, and direct acquisitions) were prevalent, while investments in new facilities gradually took on greater importance in the 2000s.

As an ever-greater number of transnational firms consolidate their operations in the region, a third component is assuming a greater role in FDI flows: the reinvestment of earnings by established companies, which may be directed either to physical assets, expanding production capacity, or to financial assets (ECLAC, 2013).

An initial estimate of the size of cross-border transactions as a proportion of total FDI in the period 2003-2013, was made by combining three sources that reflect different aspects of the foreign direct investment process. These were the investment declared by the region's central banks, investment projects (contained in the Financial Times database "fDi Markets") and cross-border acquisitions (reported by Bloomberg).

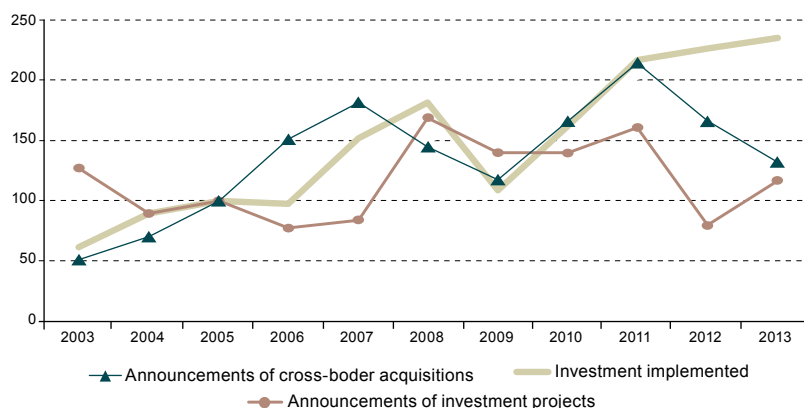
These estimates indicate that cross-border acquisitions accounted for approximately 37% of the region's inward FDI. Between 2003 and 2013, this type of investment gradually diminished in proportional terms, falling from 51% of total FDI in the period from 2003 to 2007, to only 31% between 2010 and 2013.⁷

Figure III.1 shows that capital investment trends vary considerably from one year to the next, largely owing to the occurrence of high-value transactions at specific times. Unlike investment flows, which reflect the timelines for the implementation of projects, investment announcements reflect decision-making patterns, which are more time-concentrated than if the actual incorporation of capital into recipient economies were recorded. This means that both concepts (investment decisions and actual investments) refer to different stages of the capital formation process.⁸

⁷ Estimates for mergers and acquisitions include cross-border transactions between foreign firms (in other words, they do not only reflect foreign purchases of locally owned companies). As a result, the proportion of mergers and acquisitions of total FDI is overestimated and the loss of share over time is underestimated.

⁸ There is a time lag between the moment in which projects are announced and such time as they are actually implemented, meaning that the trends in the two variables (announcements and implementation) do not necessarily coincide. Announcements are a good indicator for predicting the implementation trend.

Figure III.1
Latin America and the Caribbean: trends in capital investment calculated on the basis of announcements of investment projects, announcements of cross-border acquisitions and official estimates of foreign direct investment implemented, 2003-2013
(Index: base year 2005=100)



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

As noted above, it is very difficult to make a priori estimates of the impact of investments consisting of changes in ownership. Nevertheless, section D gives some estimates based on investment project announcements according to which on average about 290,000 jobs per year were directly created in the whole region during the period between 2003 and 2013. It should, however, be pointed out that these are press announcements, and therefore may be extremely optimistic.

To obtain a benchmark, this figure was compared with recorded job creation in 11 of the region’s countries, including the largest ones,⁹ which averaged 5 million jobs per year for the period between 2003 and 2007.

In an optimistic estimate, this analysis suggests that FDI enabled the direct creation of about 5% of new jobs in the period 2003-2013. As a result of this estimate, it was possible to establish an order of magnitude for the impact of FDI on direct job creation. Nevertheless, it must be stressed, as is examined below, that the qualitative impact this kind of investment would have on labour markets is even greater than the quantitative impact, and as such, it must be considered that these investments also contributed to indirect job creation, although gains in this regard could not be estimated.

To determine the magnitude of the effects that transnational corporations have on the labour markets of FDI recipient countries, the percentage of total employment accounted for by subsidiaries in these countries, was also estimated. The scarcity of information for Latin America and the Caribbean regarding employment structures and taking the ownership of companies into account, only allows for a few indicative examples.

The impact of transnational corporations on private wage employment recorded in three countries —Argentina, Chile and Ecuador— was estimated for the manufacturing industry, extractive activities and all economic sectors. This is a measurement, based on the structure of employment, that reflects not just the result of recent FDI flows (in both physical and financial modes), but also the build-up of foreign capital assets in these countries over the long term. For example, in Argentina, it was possible to find industrial subsidiaries of transnational firms that have been established in the country since the early twentieth century.

It was observed that between 12% and 17% of wage employees work in transnational corporations, which indicates the extent to which formal private employment has been transnationalized in these economies. In the manufacturing industry the proportion is greater, albeit with considerable differences between the three countries studied: transnationals account for 19% of formal jobs in Argentina, 28% in Chile and 30% in Ecuador. In the three countries studied, the extractive industries had the largest share of employees working for transnational corporations (about 50% of employees in the sector).

⁹ Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Peru and Uruguay.

Limiting the analysis to only the 500 largest firms yields another measurement of the impact of transnational corporations on employment. This indicator is not representative of economies as a whole, but it shows the significance of transnational corporations in the upper echelons of business in each country. In this case it was possible to estimate indicators for the 6 countries that had at least 20 firms in the ranking produced by *América Economía* magazine, observing an extremely high level of heterogeneity. Transnational corporations accounted for 58% of employment in Peru's 30 largest firms but for only 16% of employment in Chile's largest companies.

Table III.1
Argentina, Chile and Ecuador: transnational corporations' share of total recorded private wage employment, 2012
(Percentages)

Country	Manufacturing industry	Extractive activities	Total
Argentina	19	57	12
Chile	28	43	12
Ecuador	30	54	17

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *América Economía*; for Argentina: Observatory of Employment and Entrepreneurial Dynamics (OEDE), on the basis of figures from the Social Security System, 2009; for Chile: estimates on the basis of "Las 500 mayores empresas de América Latina"; *América Economía* and national accounts; for Ecuador: estimates provided by the Superintendencia de Compañías and National Statistics and Census Institute (INEC), Encuesta Nacional de Empleo, Desempleo y Subempleo (ENEMDU), 2012.

Table III.2
Latin America (6 countries): transnational corporations' share of employment in the 500 largest companies, 2013

Country	Number of cases	Employment in transnationals (percentages)
Chile	65	16
Mexico	117	22
Brazil	195	25
Argentina	22	26
Colombia	27	34
Peru	30	58

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by *América Economía*.

C. Do transnational firms create better quality jobs?

In recent decades, foreign direct investment flows to Latin American and Caribbean countries have risen sharply, which although advantageous for the development of recipient countries, has also aroused concerns over sensitive aspects such as the protection of labour rights.

The potential benefits of FDI for recipient economies have been emphasized in the design of policies. Such benefits may be direct, as when the beneficiaries are the people who work for the subsidiaries of transnational corporations; or indirect, as when they are received by workers in domestic enterprises as a result of interaction with foreign firms (spillover effect).

These employment benefits —better wages and working conditions, and faster job growth— are how the labour market reflects the higher productivity of subsidiaries. Transnationals' management models are characterized partly by their ability to transfer those factors on which their productivity advantages are based, between subsidiaries located in different countries, thus directly benefiting their employees in recipient countries. A similar logic accounts for the indirect benefits, insofar as it is possible to transfer productivity gains from subsidiaries to local firms, resulting in positive externalities for recipient economies.

Working conditions in subsidiaries may be evaluated under different standards: (i) those of the country of origin (parent company); (ii) universal standards deriving from guidelines on rights at work issued by agencies such as the International Labour Organization (ILO); and (iii) those of the country receiving the investment (OECD, 2008).

Subsidiaries' conduct can be evaluated by observing the degree to which they comply, in host locations, with the prevailing standards in the countries where their parent companies are located. Under this approach, it is argued that the workers in countries receiving investments that seek advantages through reduced labour costs do not receive "fair" wages, while workers in the countries of origin suffer from "unfair competition". Such arguments have led to numerous calls for offshoring processes to be restricted, yet it is important to consider that this would also affect the development process in lower-income countries. This approach could be more suitable for evaluating the impact of offshoring in countries of origin, but it is not advisable for analysing the effects on recipient countries.

A more consistent focus, in respect of human and labour rights, is that of "universal" labour standards, which bear no relation to the economic and social development status of origin and destination countries. Drawn up by the International Labour Organization, these standards have been adopted by many companies in the form of codes of conduct (corporate social responsibility actions), which include aspects such as: (i) equal opportunities and non-discrimination on the grounds of gender, ethnicity or beliefs, among others; (ii) labour relations management systems that recognize unions for the purposes of collective bargaining; (iii) support systems for job training and (iv) systems related to occupational health and safety (ILO, 2005). The level of development of these corporate policies is different in each country and to a large extent depends on the regulation of labour in the subsidiaries' home economies. European firms tend to adopt policies that offer greater protection than United States corporations, given that European countries have more extensive regulatory frameworks in respect of job security, unions and collective bargaining. The adoption of these corporate policies by parent companies does not ensure that their subsidiaries will comply with them, which also reduces the efficiency of these codes of conduct in supply chains. The lack of systematic information also limits the potential for comparison between the labour practices of subsidiaries and makes it impossible to evaluate labour practices in respect of universal standards.

A third approach consists in comparing the working conditions of foreign subsidiaries with the standards of recipient countries. To do this, wages and working conditions are contrasted with those of local firms, which are used as a counterfactual parameter to determine whether or not subsidiaries make improvements to the conditions of local workers. This is the only approach that can be adopted with the information available.

1. Effects on wages and working conditions: descriptive statistics

Before examining the evidence for Latin America and the Caribbean, it is useful to give a brief outline of the reasons why subsidiaries might pay higher wages than local firms.

First, the gaps between average wages may reflect differences in the composition of employment: better qualified workers should be better paid. These differences between employees' profiles could be either the result of decisions taken at the time of recruitment, or of the human-resources management practices implemented by both kinds of company. In other words, it is possible that subsidiaries place greater emphasis on training and in-company professional development, which in turn leads employees to improve their profiles over time. Another explanation may be found in the conditions of recruitment. A more elastic demand for labour might give rise to a requirement for higher wages, to compensate for lesser job stability. Workers may also accept lower wages in exchange for the promise of being able to pursue careers within the company (Doeringer and Piore, 1971).

From another viewpoint, it is argued that transnationals' subsidiaries could offer higher wages as part of an "efficiency wage" strategy, designed to discourage voluntary staff turnover and thereby ensure that productivity gains remain within the company and do not spread to the rest of the production system. Different institutional factors, such as the role of the unions and the balance of power in collective bargaining, or consumer pressures in countries of origin, might also partly explain wage differentials (Shapiro, Stiglitz 1984).

The stimulus for better conditions will also depend on the productivity advantages that subsidiary companies have over local firms. Incentives based on working conditions should also be greater for better qualified workers. Activities requiring that workers have specific knowledge should also incentivize greater staff retention through the payment of better wages, especially for those with the highest qualifications.

The effects that subsidiaries of transnational corporations have on the qualitative aspects of labour markets were first measured taking the World Bank's "Enterprise Surveys" as inputs. These surveys were carried out in 2006

and 2010 in many emerging economies, including most Latin American and Caribbean countries (the Brazil survey is from 2009). They covered enterprises from the manufacturing industry, the retail trade and various services (hotels, transport and storage, tourism and services related to information and communication technologies). Mining and the financial sector are not included.

While the surveys were not designed to analyse qualitative aspects of employment, they do permit the study of basic dimensions such as wages, job stability and staff training efforts undertaken by firms. They also allow the measurement of some differences in the employment structures of domestic- and foreign-owned firms, to determine whether there is a preference to recruit personnel with higher levels of formal education or a higher proportion of women.

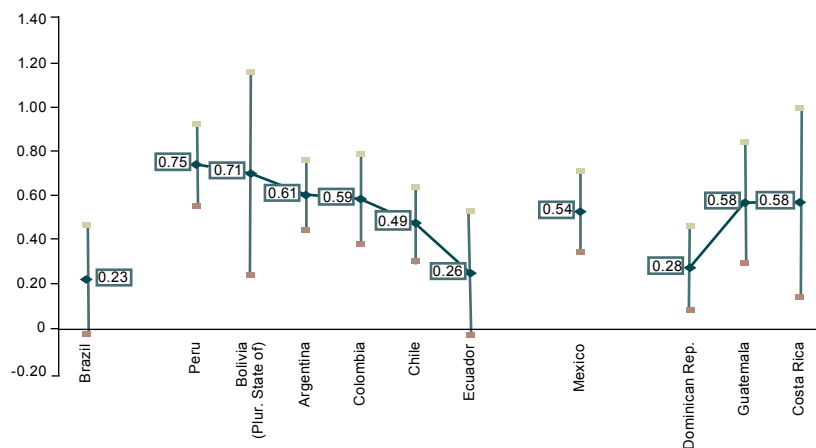
A simple comparison reveals that in all the countries of the region, subsidiaries pay higher wages and offer better working conditions than the other companies. However, this also underscores the fact that subsidiaries are usually larger companies and tend to be geared towards the most productive sectors of recipient economies. It might be especially useful to compare the working conditions of subsidiaries with those of similar companies, of domestic origin, in order to determine the size of the potential gap between domestic and foreign firms.

One especially appropriate comparison is to estimate regressions designed to detect the gaps between populations of similar firms, controlling for a set of relevant variables regarding the firm (size, age and branch of activity) and the workers (education level, gender). This calculation continues to provide a descriptive statistic among panels that are more balanced on the basis of the variables present in the survey.

It is nonetheless important to highlight that these results do not yet allow “causal” relationships to be established. It may be supposed that foreign firms are inherently different to local ones and that, in reality, gaps may be explained by a set of non-observable characteristics other than capital ownership.

The results indicate that, on average, subsidiaries pay wages that are 50% higher than those of their local counterparts. The gaps vary from 26% in Brazil to more than 70% in Peru and the Plurinational State of Bolivia (see figure III.2).

Figure III.2
Latin America (11 countries): wage gaps between local enterprises and subsidiaries of transnational corporations, 2010^{a b}



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

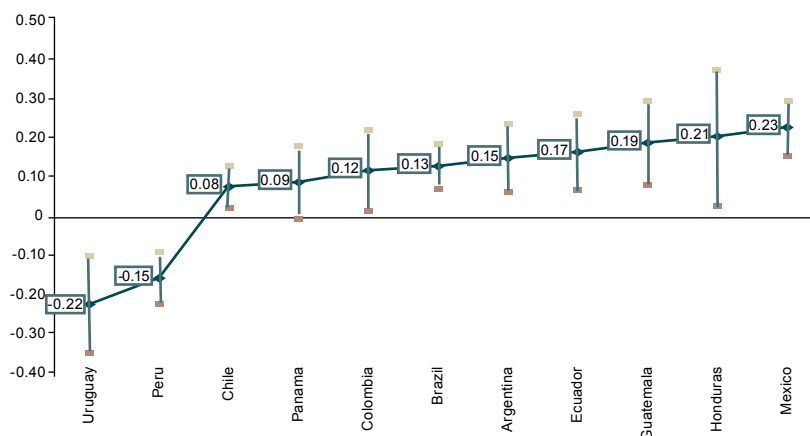
^a Gaps and 95% confidence intervals.

^b Ordinary least squares (OLS) estimation of the logarithm of wages.

No effects were observed in the other dimensions of employment quality that were evaluated, nor were there any significant differences in relation to job stability or regarding the labour participation of women. In other words, subsidiaries are not thought to be pursuing policies designed to improve levels of inclusion.

The results obtained with regard to training efforts were uneven. In 9 out of 11 countries studied, transnational corporations were significantly more willing to incur expenditure on training. In some countries the differences were very narrowly in favour of the subsidiaries, while in Mexico, Honduras and Guatemala the subsidiaries were observed to perform much better than their local counterparts (see figure III.3).

Figure III.3
Latin America (11 countries): training gaps between local enterprises and subsidiaries of transnational corporations, 2010^{a b}

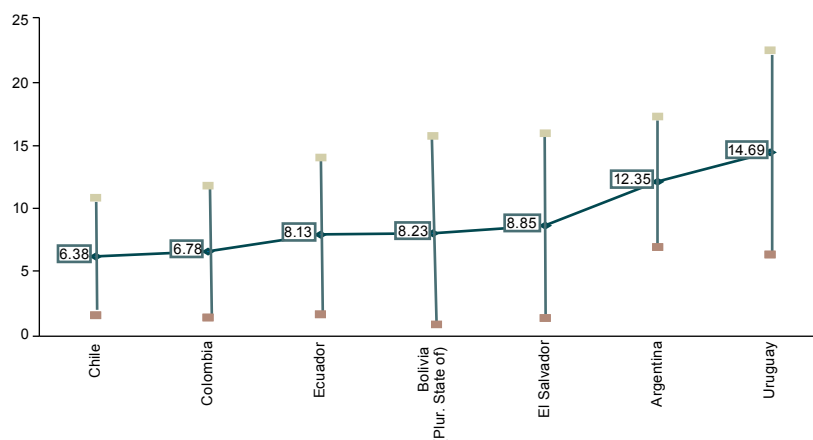


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a Gaps and 95% confidence intervals.

^b Probit estimation.

Figure III.4
Latin America (7 countries): gaps between local enterprises and subsidiaries of transnational corporations in the proportion of workers having completed secondary education, 2010^{a b}



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a Gaps and 95% confidence intervals.

^b Ordinary least squares (OLS) estimation of the percentage of workers having completed secondary education.

While these results offer an initial approach to evaluating employment quality gaps between domestic and local firms, they should be interpreted with caution, since this type of descriptive statistics usually presents biases (of aggregation, selection or endogeneity). A more complex econometric analysis, which improves the quality of the estimates and confirms some of the results, is presented below.

Based on the surveys for Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, the Plurinational State of Bolivia and Uruguay, for the years 2006 and 2010, a cross-country information panel was constructed in order to evaluate the effects on employment, wages, labour productivity and sales. The sample design used by the World Bank repeats approximately one third of the cases in both years, making it possible to construct a panel. A data set with information for 2006 and 2010 was generated on the basis of around 2,400 observations, which allowed for the estimation of lagged variables as controls.

Ordinary least squares models were estimated and the following elements included in the analysis: (i) country fixed effects, (ii) industry fixed effects, (iii) lagged dependent variables, to help control for specific aspects of the enterprise, and (iv) different dependent variables, both in levels and in growth rates (see annex).

The main difference between this method and the estimation of gaps set out above is that the analysis focuses on variables of interest measured for 2010, at the same time as controlling for both the values of these variables and the percentage of foreign ownership in 2006. The objective is to control for the effects of non-observable attributes that may be different between local and foreign firms, and which might be affecting the variables of interest. In other words, the exercise aims to achieve a tighter estimate of the effects of foreign company ownership on changes in the variables of interest.

Different types of models were considered and different control variables used to analyse the impact of transnational corporations on employment. The same conclusion was reached in all cases: there was no evidence that the type of ownership had any effect on the number of workers.

Nevertheless, the estimates made with regard to productivity, measured as the volume of sales per employee, yielded significant results, indicating that productivity grows faster among firms with foreign capital. The estimates indicate that an extra 10 percentage points of foreign capital ownership was associated with a 2% increase in productivity, implying that a completely foreign-owned firm is 20% more productive than a completely locally-owned firm. With regard to sales, the results varied according to the type of model estimated.

Lastly, it was noted that foreign ownership had positive and systematic impacts on average wages. The results indicated that an additional 10 percentage points of foreign capital ownership was associated with a 2% increase in wages.

2. Some evidence regarding the indirect effects of subsidiaries on the rest of the production system

Advances in working conditions may also spill over from subsidiaries to domestic firms, in two ways: (i) through productivity improvements and (ii) through the effects that these large employers have on national labour markets.

There is extensive literature examining the channels through which knowledge may be transferred to local production systems, generating productivity increases in local firms, which in turn may result in better working conditions. The three main channels are: (i) the imitation of good production and management practices; (ii) labour mobility and (iii) the development of supply chains (Dahl 2002; Lundmark and Power, 2004).

The entry of foreign subsidiaries can alter the balance of local labour markets, increasing the demand for labour and exerting upward pressure on wages. Until now only effects on wages have been recorded, though it is possible that workers may have expectations regarding other working conditions, for which no evidence has been noted. In any case, subsidiaries may also reduce the labour supply available for local firms, which could lead the latter to increase their wages. Evidence to that effect has been discovered in various studies carried out on the region.

Tondl and Fornero (2008), in a study of eight economic activities in 14 Latin American and Caribbean countries, observed that the potential of FDI to generate direct and indirect impacts on labour productivity varies considerably between economic sectors. While the study found positive effects on productivity in most sectors, direct impacts were greater in primary and extractive activities (agriculture, mining and the oil industry).

Meanwhile, indirect effects on productivity arise from foreign investments in the manufacturing industry, which then spread into other sectors (transport and telecommunications also registered some indirect effects). The evidence suggests that this occurs because manufacturing generates greater production linkages than other sectors, and subsidiaries demand higher standards of their local suppliers.

A second study (Monge-González, 2009) refers to the effect of knowledge spillover on Costa Rican firms, associated with labour mobility from the transnationals operating in Costa Rica's free trade zones. The impact of this spillover on the performance of local enterprises was measured on the basis of sales, employment and average labour productivity, analysing a panel of local enterprises with data for the period 2007-2009. Using econometric models that allow for the control of fixed effects in the companies, evidence was found that local firms that recruited former employees of transnational corporations posted higher sales and employment growth rates. The same result was not obtained when performance is measured by average worker productivity, partly owing to problems with the measurement of

this variable. The enterprises operating in free trade zones increased their contribution to GDP from 0.5% to 0.9% between the early 1990s and 2007. Free trade zones have increased job opportunities in Costa Rica, especially for highly qualified workers. It was also confirmed that some high-tech transnational corporations established in Costa Rica represent a significant source of training, education and work experience for their employees (Monge-González and González, 2007). The authors of the study claimed that the knowledge acquired by employees in enterprises such as Intel, Cisco and Microsoft was not specific to the industry in which these companies operate.

Leiva, Monge-González and Alegre (2011) observed that entrepreneurs who had previously worked in transnational corporations in Costa Rica welcomed the acquisition of a set of knowledge combining “soft” elements such as communication and negotiation with other, “harder” skills such as those relating to the creation or improvement of new methods or products. The research found evidence of significant positive externalities associated with the dissemination of this knowledge through labour mobility¹⁰ from transnational to local enterprises. Positive externalities were identified deriving from the recruitment of transnational corporations’ former employees by local companies, though the authors indicated that these effects could be greater if local firms were to increase their capacity to absorb, acquire and adapt new technologies and knowledge that would improve their performance.

A study on Argentina —an economy with a high proportion of transnational firms— has contributed some useful inputs to the debate on the indirect impacts of transnational corporations on the labour market. The research demonstrated that given asymmetric working conditions between local firms and subsidiaries, labour mobility patterns prevailed in which it was the subsidiaries, rather than the local firms, that tended to absorb capacities. It was noted that enterprises with foreign ownership paid higher wages and offered greater job stability. Further study on workers’ career paths revealed that subsidiaries of transnational corporations were more inclined to hire those with previous experience in national firms, while local companies pursued recruitment strategies that prioritized the hiring of younger workers moving from the education system into the labour market (Rojo, Tumini and Yoguel, 2012).

The studies by Tondl and Fornero (2008) and Monge-González (2009 and 2010) demonstrate the existence of indirect benefits originating from transnational corporations. However, they do not explain whether these are the result of companies’ ownership structures or other characteristics. In this regard, the results of two research studies on Argentina underscore that the technological complexity of the sector is more important than the profile of the agents when it comes to explaining knowledge dissemination processes. In these studies, designed to measure the indirect effects of innovation policies aimed at local firms in technologically complex sectors (the companies of the Córdoba information and communication technology cluster and the beneficiaries of the research and development support programme of the Argentine Technological Development Fund (FONTAR)), significant evidence was found of indirect impacts on jobs and wages in enterprises that had hired qualified personnel from firms that had benefited from the policies (Castillo and others, 2014a and 2014b).

These results therefore demonstrate the importance of the activity sector in generating knowledge-spillover effects with indirect impacts on working conditions (in other words, the complexity of the sector matters more than the origin of the capital). Even on an equal technological footing, transnational companies are less likely than national firms to give rise to knowledge dissemination processes. This is because the aforementioned asymmetry in labour conditions gives them a greater propensity to absorb skills, rather than to disseminate them through labour mobility.

3. FDI and labour relations

The phenomenon of global economic transnationalization and the spread of transnational corporations throughout the world have led to fierce debate in the specialized literature on labour relations, revolving around the effects of interactions between transnationals and labour institutions in recipient countries.

On the one hand, advocates of the convergence theory predict that the parent companies of transnational corporations will transfer the prevailing labour relations practices in their countries of origin, to the host countries. Accordingly, it is the institutional frameworks of host countries that must adapt to the arrival of these enterprises. In

¹⁰ Labour mobility from transnational to local enterprises in Costa Rica was initially documented by Monge-González, Rosales and Arce (2005), who observed that 36.2% of managers, 27.6% of engineers and 31% of technicians working in local companies supplying consumables to transnational corporations had prior experience with this type of company.

consequence, the most successful transnationals export their labour relations model to the rest of the world, leading to convergence between the regulatory frameworks of the different countries. On the other hand, those who question this vision maintain that convergence is not empirically proven and that, on the contrary, the success of transnational corporations depends on their ability to adapt to the institutional framework of the host country, which is not radically altered to meet the needs of these companies (Senén González, Borromi and Trajtemberg, 2014).

Advocates of the convergence position argue that globalization tends to foster a “top-down” or “bottom-up” homogenization of labour practices, depending on the point of view from which this process is observed (Kellner, 2002). In some quarters it is claimed that jobs have become more precarious (Ritzer, 1998; Carrillo, 2010), while those who support these processes suggest that best practices are transferred from more developed economies to the recipient economies (OECD, 2002).

In any case, it would seem that host countries, especially small ones, can do little about these processes, regardless of their outcomes. Local institutions are seen as a source of resistance to the standardizing pressures from the corporate centre. In this regard, different studies suggest that investments by transnational corporations outside their countries of origin often consist in an attempt to “escape” or “flee” from more demanding labour regimes, seeking greater flexibility or lower costs (Dombois and Pries, 2000).

By carefully observing the complexity and heterogeneity of this globalization process, it can be seen that transnational corporations pursue a broad range of strategies and obtain a variety of results according to countries, sectors or regions within countries, and in view of the differences in markets, institutions and cultures (Bensusán, Carrillo and Ahumada Lobo, 2011). To contribute inputs to this debate in respect of Latin America and the Caribbean, some cases were examined that show marked contrasts: Argentina, Mexico and (especially with regard to the maquila industry) some Central American countries.

The impact of transnational corporations on the Argentine labour relations system has been studied extensively. Senén González, Trajtemberg and Medwid (2011), show the importance of the country of origin for certain indicators affecting unions’ performance within enterprises. The evidence for Argentina shows that many companies of United States origin either do not have unions or have lower rates of union membership than European firms: only 54% of companies headquartered in the United States have trade union delegates, as compared with 75% of European ones. Collective bargaining coverage does not differ according to the origin of capital: both European- and United States-owned companies have more than 80% of workers covered by collective bargaining. Argentine institutions have a significant presence, but this is unable to compensate for the effect of United States firms’ management models.

The researchers noted wide variances in corporate behaviours towards labour relations. While transnational corporations usually had limited union representation schemes (no union delegates, no industrial disputes, low collective bargaining coverage and low union affiliation), transnationals were also observed among the groups of companies with indirect and segmented representation, and direct and dispute-oriented representation (Senén González, Borromi and Trajtemberg, 2014).

A research study on Mexico (Bensusán, Carrillo and Ahumada Lobo, 2011), which investigated whether convergence or divergence processes were taking place in labour relations, uncovered findings that contrasted with those recorded in Argentina. Mexico’s domestic institutional environment has a determinative effect over the forms of worker representation in the country’s transnational corporations (despite the differences that might be expected owing to the various countries of origin). In consequence, a large proportion of companies are unionized, while other forms of individual and direct representation are assuming greater importance. Transnational corporations are going further than mere tolerance for unions, and adapting to the domestic environment. The authors maintain that the unions existing under the Mexican system —selected by the labour authorities— offer more of a labour-protection measure than the practice of a bilateral system between employers and unions.

By contrast, there is evidence that transnational corporations are not passing on best practices in collective bargaining, which are growing in importance in European countries. On the contrary, the research confirms that some characteristics of the Mexican labour relations system are operating as a factor that attracts transnational corporations, because there are fewer restrictions than in the countries of origin. It may be inferred that transnational corporations have an aptitude for adapting to the institutional environment of the Mexican labour market. This conclusion was supported in the different economic sectors examined by the study.

Another case study is that of the maquila industries in Central American countries. These enterprises operate in economic activities that allow the segmentation of productive processes: developed countries specialize in the stages requiring technology, innovation and design, while offshoring a set of routine, labour-intensive activities to economies with lower labour costs. This is a way of transnationalizing the factors of production which is becoming widespread in sectors such as textiles, clothing and electronics. Not only does the maquila industry appear not to reflect convergence processes towards better labour standards; indeed, it has a long history of complaints of non-compliance with labour rights, especially anti-union policies. Since most employees are women, they are the worst affected. In this case, adherence to codes of conduct by the industry organizations belonging to the maquila companies does not appear to be delivering the desired outcomes (Vargas Hernández, 2011).

D. Where does foreign direct investment create jobs in Latin America and the Caribbean?

An analysis of investment project announcements

As stated previously, foreign direct investment geared to the development of greenfield projects is the form most clearly linked to job creation. In the period between 2003 and 2013, new investments accounted for roughly 63% of the region's inward FDI, a proportion that gradually increased over the course of the decade (see section 1). Yet despite the importance of distinguishing between types of inflow, official sources in the Latin American and Caribbean region do not usually specify whether FDI takes the form of physical or financial investment, meaning that recourse to private sources and internal estimates is necessary to study (at least approximately) physical investment and its impacts.

This section looks at the results of the survey carried out by “fDi Markets” from the Financial Times, which despite some limitations regarding its coverage and the type of information contained (investment announcements and a significant proportion of estimated data), enabled the discovery of trends, orders of magnitude and different characteristics of projects in the region. The analysis is intended to develop a microeconomic approach to the problem of foreign direct investment in greenfield projects and production capacity, in order to measure its impacts on job creation.

1. Announced investment projects: investment amounts, job creation and stakeholders

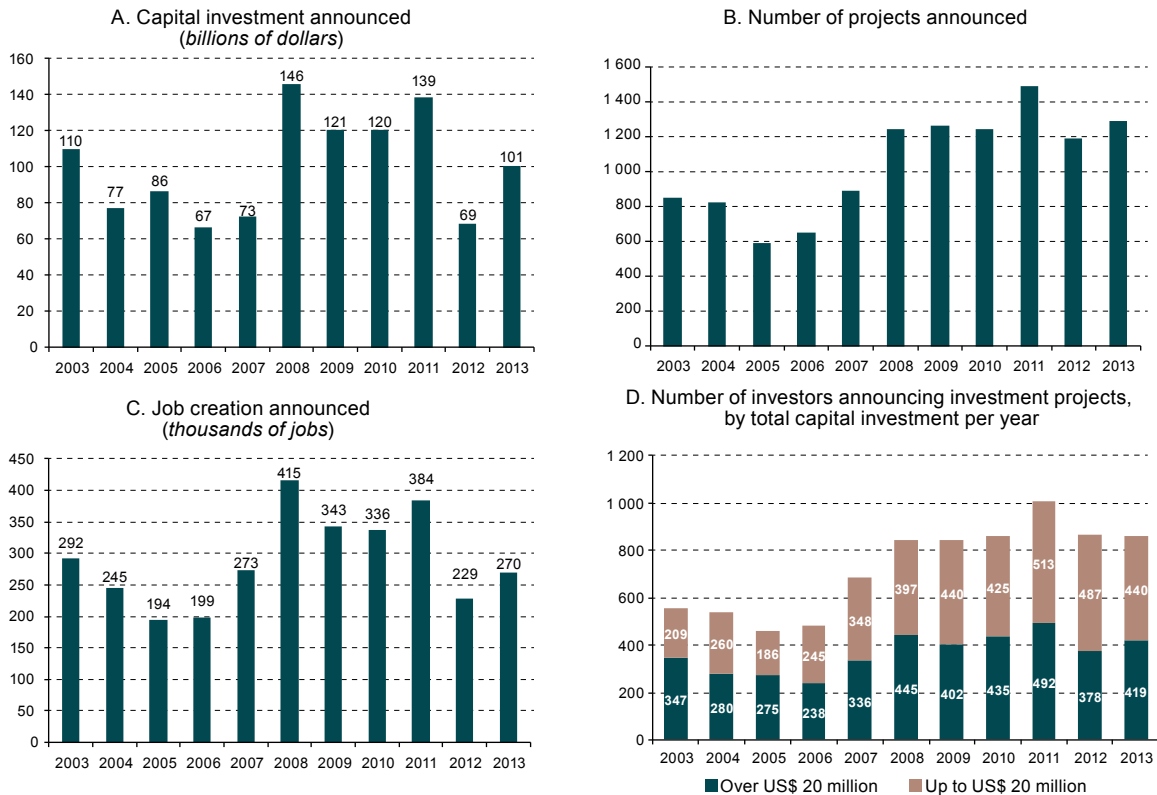
In the 10 years between 2003 and 2013, announced investment amounts jumped by 40% from the period 2003-2007 to the period 2010-2013 (before and after the international financial crisis of 2008-2009). The number of investment projects announced (number of transactions) followed a similar pattern: the strongest growth was recorded between 2003 and 2008, rising from around 800 projects a year in 2003 and 2004, to over 1,200 in 2008, while growth was slower in the next four years (2010-2013) with about 1,300 projects reported for the year 2013 (see figure III.5).

Job creation announcements presented a similar trend, reflecting some volatility in the occurrence of larger scale projects. Nevertheless, job creation was outpaced by the growth in investment amounts, rising from 250,000 jobs per year in the period preceding the 2008-2009 financial crisis, to 300,000 jobs per year in the subsequent period.

In 2013, around 860 investor groups announced the launch of projects in the region, though only 420 of them anticipated operations worth more than US\$ 20 million. The total number of investors surged by more than 60% from the period prior to the financial crisis to the subsequent period, while the number of those planning to invest more than US\$ 20 million rose by 45%. This reflects an increase, since 2009, in the number of investors in smaller projects.

Figure III.5

Latin America and the Caribbean: trends in foreign direct investment announced in terms of capital investment, number of projects, job creation and the number of investors, 2003-2013

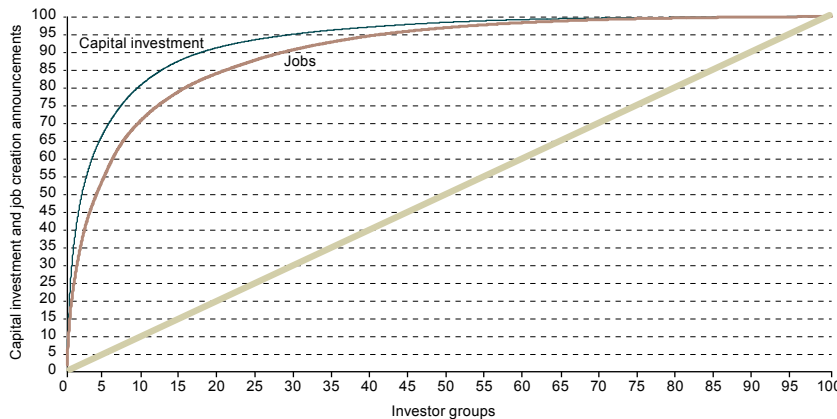


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of "fDi Markets", *Financial Times*.

Direct foreign investment is highly concentrated among very few economic actors, both in terms of investment amounts and job creation. For the period between 2003 and 2013, it was noted that 250 economic groups (5% of all investors) were responsible for 68% of announced investment, and 55% of jobs directly associated with these projects (see figure III.6). Announcements of investment and job creation recorded similar levels of concentration for the periods before and after the 2008-2009 financial crisis.

Figure III.6

Latin America and the Caribbean: cumulative concentration of capital investment in foreign direct investment projects and associated job creation, 2003-2013^a (Percentages)



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

^a Five per cent of firms (250) accounted for 68% of announced capital investment (US\$ 750 million) and 55% of planned job creation associated with investment projects (1.7 million jobs).

Different actors occupy the top 12 places in the investor rankings for capital investment and job creation, reflecting the labour intensity of the economic activities in which they specialize (see diagram III.2). Considering the whole of the period from 2003 to 2013, the leading investors included a heterogeneous set of economic groups in respect of the activities carried out (telecommunications, oil extraction and refining, mining and metal production, the automotive industry and commerce) and were representative of the economic sectors in which investment in the region is concentrated, namely the most profitable sectors and export industries in general.

Diagram III.2
Latin America and the Caribbean: economic groups with the highest share of announced foreign direct investment and associated job creation, 2003-2013

Capital investment announced	Job creation announced
1. Telefónica	1. Wal-Mart
2. Repsol YPF	2. Telefónica
3. ThyssenKrupp (TK)	3. General Motors (GM)
4. BHP Billiton	4. Arcelor-Mittal
5. Arcelor-Mittal	5. Carrefour
6. Fiat	6. Fiat
7. Chevron Corporation	7. BHP Billiton
8. América Móvil	8. Volkswagen
9. Wal-Mart	9. Techint
10. General Motors (GM)	10. LG
11. Anglo American	11. Ford
12. Techint	12. Falabella

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

In the same period, companies engaged in commerce and vehicle assembly increased their presence among the main economic groups that created jobs through foreign direct investment, although there were also some exponents of less labour-intensive activities such as mineral extraction and telecommunications, owing to the magnitude of the investments made.

The highly concentrated nature of job creation as a result of announced investment projects is an important factor for understanding the dynamics of labour relations in the region. As was mentioned in the introduction and in section C, this particular aspect of transnational corporations may create asymmetries in relation to issues such as worker representation and collective bargaining in general.

2. In which geographical areas does investment create the most jobs?

In terms of economic geography, foreign direct investment is regarded as an element of globalization that tends to restructure territories, relocating stages of production processes from “core” countries to other economies, either in search of their natural resources, because they offer labour-cost advantages, or because they provide access to growing markets. As a result, networks of destination and recipient countries are shaped around a series of economic activities and investor groups.

From an employment perspective, the investor country is an important variable, since it establishes not only the specialization in terms of the economic activities carried out, but also certain aspects associated with labour relations, management models, and the degree of autonomy between parent companies and subsidiaries, among others (Carrillo and others, 2011). This section deals with each of these issues in detail, with a view to answering

the following questions: which investor economies create the most jobs in Latin America and the Caribbean? Do they differ according to economic sector? Is it possible to identify territories that correspond to the above-mentioned networks of destination and recipient countries?

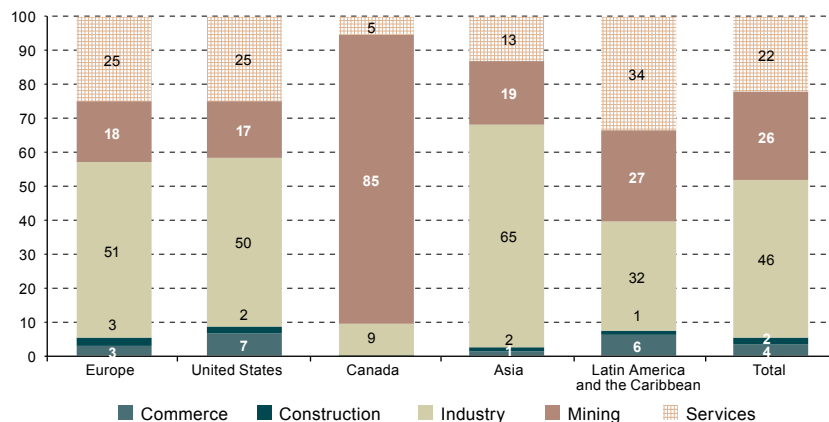
Analysis of the countries that generate foreign investment projects reveals a situation consisting of the same few countries that have traditionally formed the engine for various forms of globalization, with an as-yet limited presence of new actors: the BRIC countries (Brazil, the Russian Federation, India and China) and some Latin American economies. Taking the period from 2003 to 2013 as a whole, investment projects originating in European countries accounted for around 38% of announced job creation, while those of the United States accounted for 27% and those of Canada 6%. Investments from Asia created 17% of new jobs, and those from Latin America 9%. In other words, 64% of new jobs announced as a result of investment projects originated in Europe and the United States, as observed below.

In terms of the average investment amounts and the number of jobs created, the characteristics of investment projects differ according to the region of origin. European countries accounted for about 40% of new investments in Latin America and the Caribbean in terms of the number of projects, capital investment and job creation announced (see figure III.8). Meanwhile, United States firms were responsible for around 31% of announced projects. However, on average these projects were smaller (21% of total capital investment) but had proportionally greater jobs content (27% of announced jobs) in comparison with projects originating in Europe. Few investments were planned by Canadian business groups during this period, but they were high in value and low in job content, reflecting their specialization in the mining sector.

The aforementioned differences in the size and job-creating capacity of projects are explained by the sectoral profile of the investments initiated in each region. The willingness to invest in certain activities appears to depend on the resources, capacities and opportunities offered by recipient economies, as well as on the capacities and technological experience of investor countries.

Investment projects originating in Europe, the United States and Asia specialize in the manufacturing industry, which in each case accounted for more than 50% of new jobs associated with investment announcements, compared with an average of 46% for all inward FDI (see figure III.7). Investments from Canada specialized in mineral extraction, a sector in which 85% of the jobs associated with Canadian FDI were created, compared with an average of 26% for all investors. Further analysis shows that Germany, Italy and the other European Union countries announced job-creating investment projects with a greater specialization in the manufacturing industry, while projects originating in France were especially concentrated in commerce and services. The largest European Union investor, Spain, is highly specialized in services (a sector which accounts for 40% of jobs created thanks to Spanish FDI, compared with 22% on average). In all of these cases, specialization is measured using announced job creation as a reference.

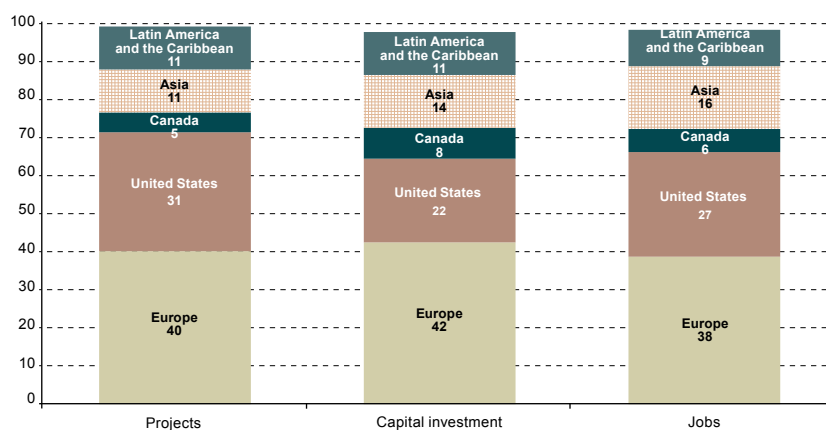
Figure III.7
Latin America and the Caribbean: sector breakdown of new jobs associated with foreign direct investment announcements, by region or country of origin, 2003-2013
(Percentages)



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

Unlike foreign direct investments from Europe, which have a marked specialization profile, but which make up project portfolios with high amounts of capital investment across various sectors, the investment projects announced by Latin American and Caribbean countries are typically more limited in value terms, allowing little diversification. It has also been noted that investment differs according to the country of origin: job-creating investment projects originating in Mexico have a marked specialization in services, while those of Brazil are focused on manufacturing and mining, and those of Chile on commerce and, to a lesser extent, services.

Figure III.8
Latin America and the Caribbean: distribution of the main dimensions of foreign direct investment project announcements, by region or country of origin, 2003-2013
 (Percentages)



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

In the employment transition matrices of the subregions or countries where investment projects are located, according to the country of origin, it is observed that different investor nationalities prefer to implement job-creating investment projects in specific countries of Latin America and the Caribbean. By comparing the transition matrices on job creation for the periods before and after the 2008-2009 crisis, it was discerned that job creation tends to be more focused on Brazil and Mexico rather than on the regional blocs to which they belong (see table III.3).

Investments originating in Europe generally tend to create more employment in the countries of South America (while job creation associated with German and Spanish projects is also overrepresented in Mexico). The jobs announced in this subregion are mainly related to manufacturing activities (especially in the context of projects originating in Germany, Italy and the United Kingdom), and also services (particularly Spanish projects).

Conversely, United States investments reveal a greater tendency towards job creation in Mexico and the countries of Central America and the Caribbean. This is explained by the fact that this job creation is driven by investments specializing in the manufacturing industry, based on labour cost advantages.

Unlike European and North American firms, Asian investors do not seem to have a clear regional preference, focusing job creation on the region's two biggest economies: Brazil and Mexico. Investments from Africa, Canada and Oceania, although not major creators of employment because they are directed at the extractive industries, are present in the blocs to which both of the named countries belong, with a more marked footprint in South America.

Table III.3
Latin America and the Caribbean: transition matrix of job creation associated with foreign direct investment announcements, by country of origin and destination country or subregion, 2003-2007 and 2010-2013
(Percentages)

A. 2003-2007

	Mexico	Central America	The Caribbean	Brazil	Rest of South America	Total
Europe	19	3	4	41	33	100
Spain	30	4	7	18	42	100
Germany	43	1	1	39	15	100
United Kingdom	11	9	2	43	36	100
France	8	2	4	36	51	100
Italy	8	0	1	59	31	100
Rest of Europe	12	1	4	60	23	100
North America	32	14	8	20	26	100
Canada	26	6	7	12	49	100
United States	35	17	8	22	18	100
Asia	30	10	2	41	16	100
China	12	1	0	78	10	100
India	16	1	11	35	36	100
Rest of Asia	37	14	1	35	14	100
Latin America and the Caribbean	10	12	1	10	67	100
Brazil	7	7	1	0	85	100
Mexico	0	35	0	21	43	100
Chile	12	0	0	2	85	100
Africa	1	0	0	28	72	100
Oceania	12	6	0	18	65	100
Total	24	9	5	31	31	100

B. 2010-2013

	Mexico	Central America	The Caribbean	Brazil	Rest of South America	Total
Europe	22	5	3	45	25	100
Spain	27	8	5	27	34	100
Germany	43	4	0	37	16	100
United Kingdom	10	5	2	58	25	100
France	14	3	3	53	27	100
Italy	15	2	1	63	19	100
Rest of Europe	15	7	4	49	24	100
North America	34	14	5	26	21	100
Canada	30	7	9	13	41	100
United States	34	16	4	28	17	100
Asia	30	5	5	41	20	100
China	0	1	10	51	37	100
India	30	9	6	28	27	100
Rest of Asia	39	5	3	40	14	100
Latin America and the Caribbean	11	17	3	12	57	100
Brazil	26	12	3	0	59	100
Mexico	0	17	3	31	50	100
Chile	7	1	0	6	86	100
Africa	81	0	0	15	5	100
Oceania	1	0	4	48	47	100
Total	26	9	4	34	26	100

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

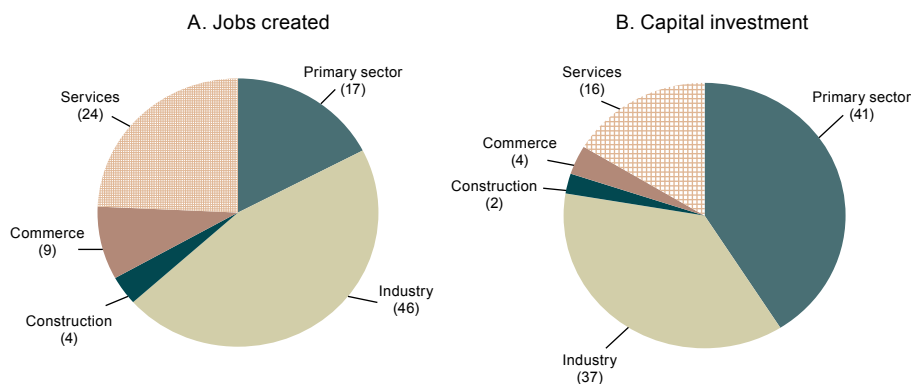
3. Sector-by-sector analysis: the role of technology

One key aspect of the debate in the region regarding the impact on inward FDI on the countries' production structure is whether such investment opens up the potential for diversifying the production structure or whether it tends to consolidate lock-in processes in low-productivity sectors. From this perspective, it is crucial to analyse the sectoral profile of the jobs announced in investment projects, and their dynamics over time, since this has clear consequences not just for the production structure but also for the quality of the employment created.

In the period between 2010 and 2013, manufacturing enterprises accounted for 49% of announced investment amounts, while services companies accounted for 28% and extractive industries 18% (see figure III.10). Compared

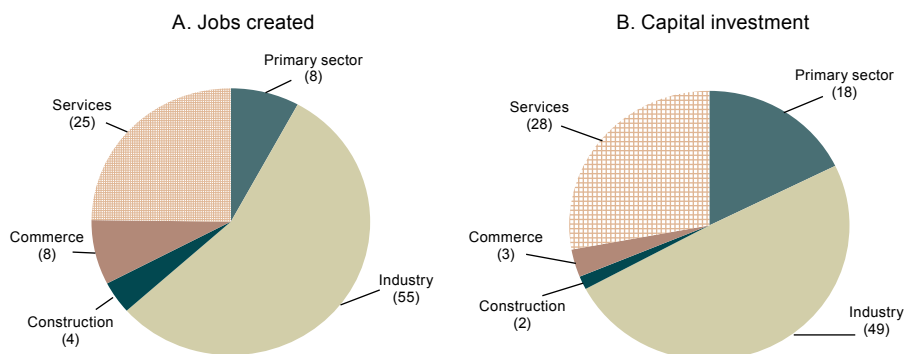
with the period 2003-2007 (see figure III.9), it was observed that the share of investment in manufacturing and services projects increased at the expense of extractive projects, whose share of capital investment fell from 41% to 18% in the period 2010-2013.

Figure III.9
Latin America and the Caribbean: sectoral composition of the cumulative total of jobs created and foreign direct investment announced, 2003-2007
(Percentages)



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

Figure III.10
Latin America and the Caribbean: sectoral composition of the cumulative total of jobs created and foreign direct investment announced, 2010-2013
(Percentages)



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

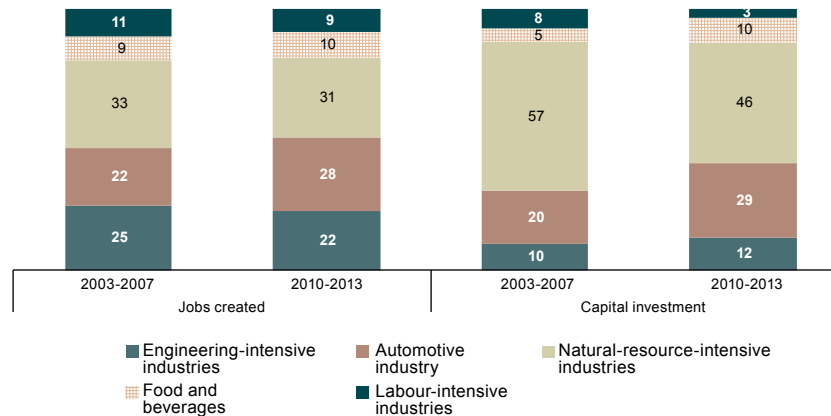
The sectoral distribution of the job creation announced through these projects is different from the sectoral distribution of the investment amounts, since different economic activities have different labour intensities. In the period between 2010 and 2013, the manufacturing industry accounted for 55% of new jobs, with services representing 25% and extractive activities (the primary sector) only 8%. It is important to note that the share of employment generated by these activities (8%) was less than half the sector's share of capital investment (18%), reflecting the fact that extractive industries are substantially less labour-intensive than the other economic activities that receive investment in Latin America and the Caribbean.

Compared with the period between 2003 and 2007, changes were observed in the sectoral distribution of announced job creation, particularly a significant increase (of 9 percentage points) in the share of manufacturing employment, at the expense of lower job creation in the primary sector.

This first glance at the sectoral composition of investment projects and related employment provides a useful overview of the sectors in which physical FDI leads to job creation. However, the problem is complicated by the heterogeneous nature of the region and the diverse motivations of investors, meaning that its analysis requires a more disaggregated perspective.

The break down of capital investment and job creation in the manufacturing industry into different activities classified by intensity of factor use revealed that around 50% of capital investment in this sector (on average 57% between 2003 and 2007, and 46% between 2010 and 2013) refers to natural-resource-intensive manufacturing (not including food and beverages), particularly processes in the metal industry (approximately 60%), petrochemicals (30%), oil refineries, and chemicals and plastics (see figure III.11).

Figure III.11
Latin America and the Caribbean: distribution of total job creation and foreign direct investment announced in the manufacturing industry, by intensity of factor use, 2003-2007 and 2010-2013
(Percentages)



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

This suggests that extractive industries (including primary production and industrial processing stages) account for virtually half of capital investment in announced FDI projects, and a quarter of related job creation.

This result would indicate that new FDI tends to entrench lock-in processes in the region’s production system, in favour of activities that are closely connected with international commodity prices.

When the two periods (2003-2007 and 2010-2013) are compared, it is apparent that labour-intensive sectors suffered a loss of share, both in capital investment and job creation, possibly reflecting a trend for countries to take advantage of labour cost advantages in other regions.

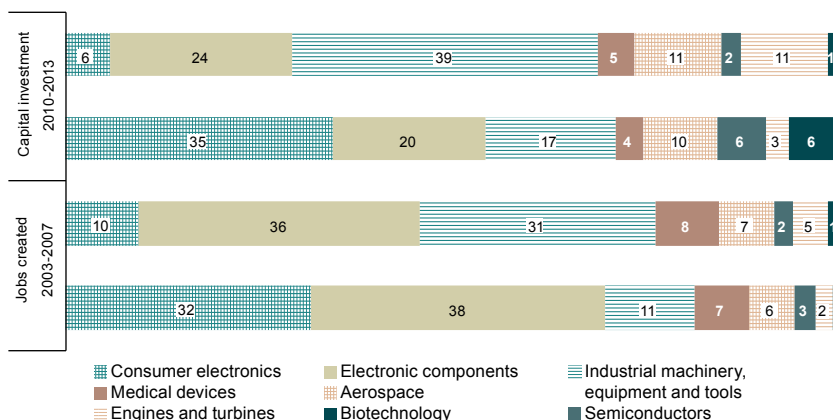
Engineering-intensive sectors, including the automotive industry, accounted for about 40% of capital investment and 50% of announced job creation between 2010 and 2013. During this period, it was observed that these sectors had a greater impact on both variables, largely owing to the expansion of the automotive industry. However, there was considerable heterogeneity within this category of activities. Investments in the automotive sector, in the form of assembly plants and auto parts factories, typically follow efficiency-seeking or market-seeking strategies. The level of technological complexity is high, which is reflected in the wages paid for the jobs created.

Most engineering-intensive manufacturing industries, excluding the automotive industry, undertake activities that generate more jobs (the production of electronic components, consumer goods, machinery and equipment), and which together account for 70% of capital investment and 80% of jobs created in these industries (see figure III.12).

Biotechnology, engines and turbines, medical devices, semiconductors, aerospace and defence form a group of activities that are more complex, less modular and which are traditionally less established. Investor countries’ strategies make it a priority to keep these industries within their territory since they are heavily associated with the development of innovative capacity. During the 10-year study period, investment projects in these activities created 80,000 jobs across the region. However, these industries are a relatively minor component of capital investment

and job creation. Together they account for about 30% of capital investment and 20% of new jobs announced in the engineering-intensive manufacturing sector, figures that remained stable over time. The share of total announced investment was also stable, albeit marginal: 2.5% of jobs and 1.4% of capital investment.

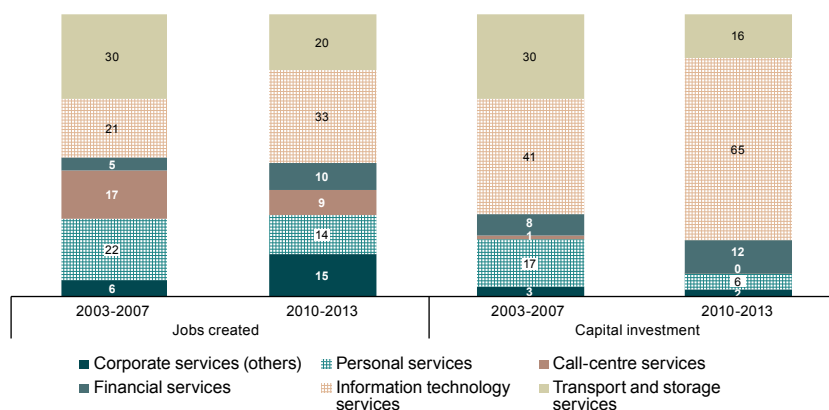
Figure III.12
Latin America and the Caribbean: distribution of job creation and foreign direct investment announced in the engineering-intensive manufacturing sector 2003-2007 and 2010-2013^a
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of “fDi Markets,” *Financial Times*.
^a Excluding the automotive industry.

The services sector is also highly heterogeneous, since it includes services with low technological intensity that generate lots of lower quality jobs (such as those in call centres), to complex services such as software production. The information and communications technology (ICT) services sector (which includes software development) on average accounted for almost 50% of capital investment, and 25% of announced job creation, with a share that rose between the periods 2003-2007 and 2010-2013 (see figure III.13).

Figure III.13
Latin America and the Caribbean: distribution of jobs created and foreign direct investment announced in the services sector, 2003-2007 and 2010-2013
 (Percentages)



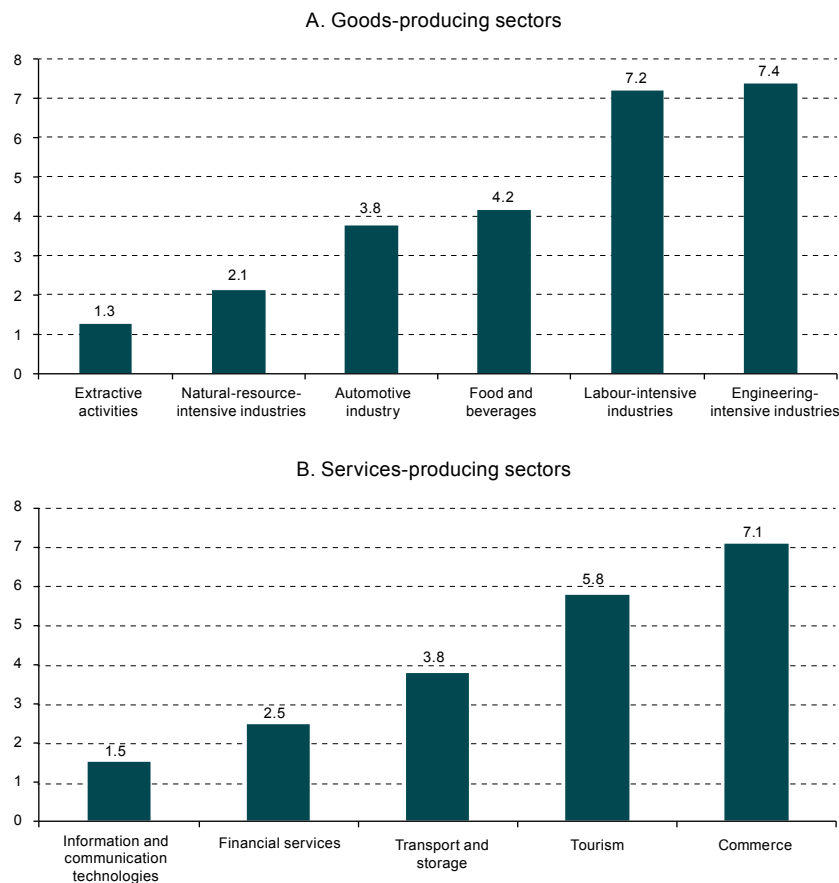
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of “fDi Markets,” *Financial Times*.

As with the jobs created in labour-intensive manufacturing, less complex services —such as call centres and personal services, in which investments are geared towards cost advantages— are beginning to carry less weight in the decisions taken on this kind of investment in the region.

A comparison of announced capital investment and job creation shows, as expected, that sectors differed markedly in terms of the job content of projects. In aggregate terms, commerce and construction activities generate the most employment (seven jobs created per US\$ 1 million invested), followed by manufacturing and services (three jobs per US\$ 1 million). In the extractive industries, one job is created per US\$ 2 million invested.

Labour-intensive manufacturing activities create seven jobs per US\$ 1 million invested, as do engineering-intensive activities (including the automotive industry). Natural-resource-intensive activities (excluding food production) are less labour-intensive, creating two jobs per US\$ 1 million invested (see figure III.14).

Figure III.14
Latin America and the Caribbean: job creation associated with foreign direct investment
by economic activity, 2003-2010
(Number of jobs created per US\$ 1 million invested)



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

Services activities are also highly heterogeneous in terms of job creation associated with investment projects. For example, tourism-related activities (transport and personal services) create more employment than the more modern services in finance and information technology. While it was not possible to use similar indicators for other greenfield investment in the region, there is nothing to indicate that foreign direct investment presents differing degrees of labour intensity in comparison with similar investments (in terms of the size of agents and technology) made by local firms.

Varying intensities of job creation have consequences for income distribution. In countries that specialize in investments with high job content, local labour markets have greater potential to influence primary income distribution, insofar as labour institutions support this process and the size imbalance between investors and local unions permits it. Conversely, in countries where investment has a limited impact on job creation, tax systems must exercise the function of redistributing the income from these investments to the rest of the economy.

While a high proportion of job creation associated with inward FDI in the region is linked to the exploitation of natural resources (extractive industries and industrial processes) and services (almost 25% of new jobs), a comparison of the two study periods (2003-2007 and 2010-2013) reveals encouraging changes. Sectors seeking labour-cost advantages (labour-intensive manufacturing and low-complexity services such as call centres) saw a loss of share, while job creation gained ground in higher productivity sectors: engineering-intensive manufacturing and services related to information and communications technologies.

However, within the sphere of engineering-intensive manufacturing (not including the automotive industry), 80% of new jobs were created in less capital-intensive activities (the production of electronic components, consumer goods, machinery and equipment), while those sectors¹¹ that are usually a strategic priority for investor countries to keep in their territory maintained a low but stable share over time. As mentioned previously, investments in these manufacturing industries are thought to have created 80,000 jobs in the region between 2003 and 2013.

4. Beyond sectors: activities in which jobs are created

In addition to the sectors in which jobs are created as a result of FDI, it is interesting to know which specific activities projects are targeted. For example, an investment in the pharmaceutical sector might involve setting up a production facility, a marketing business, or a research and development laboratory. The consequences for the quality of the employment created differ significantly between the three cases.

Companies may engage in many different activities, internal processes and management areas such as: production, business-to-business services, business-to-customer services, logistics and distribution, sales, decision-making, engineering processes, and others. These activities or management units may present various levels of complexity and require distinct capacities, both in terms of the organization responsible and the type of employment that they generate. The source of information used in this study allows data on projects, capital investment and job creation to be grouped on the basis of an ad hoc approach to these activities or management areas, providing a fairly accurate overview of the types of job that these investments are creating.

Considering the region as a whole for the 10-year study period (2003-2013), it was observed that approximately 60% of jobs that were announced on the basis of investment projects were created in enterprises' production areas, including 51% in manufacturing processes and just 8% in extraction processes (of metals, minerals and hydrocarbons) (see table III.4). In general, these jobs are taken by industrial workers with technical or vocational qualifications. They tend to be more stable than administrative and commercial job profiles, and offer the potential for on-the-job learning, especially in modern organizations with a greater take-up of technology.

Next in importance in terms of job creation are business-to-business and business-to-consumer services, which together account for 19% of total jobs created. These areas include call-centre services with varying degrees of sophistication (from customer contact and technical support centres to service centres), as well as different types of sales jobs. Recruitment to such positions usually requires a higher level of general training, but less specific training. These jobs also offer fewer opportunities for the in-house acquisition of new capacities, and are less stable (Novick and others, 2011; Del Bono and Henry, 2010).

Infrastructure development (construction, electricity lines and infrastructure for information and communication technologies (ICT)) accounts for an estimated 14% of jobs created by these investment projects. While the qualifications requirements vary considerably (they are more easily achievable in the case of construction and more complex in the development of energy and Internet infrastructure and ICT services), these jobs are usually rather unstable and disappear once the project is completed.

On the other hand, the jobs created in the areas of research and development, engineering and design and decision-making centres, have high technical skill requirements, produce high value added and are generally more stable than production and services positions. These areas account for 4% of job creation (1% in decision-making centres and 3% in design areas as a whole).

Over the study period, few changes were observed in the composition of job creation associated with foreign direct investment in management areas. While 2008 and 2009 were atypical owing to the international crisis, in general job creation has since presented the same structure as in the previous years. Nonetheless, some changes were noted, which although not of large magnitude are important on a qualitative level.

¹¹ Aerospace, biotechnology, engine and turbine manufacturing, medical devices and semiconductors.

Table III.4
Latin America and the Caribbean: projects, investment and jobs associated with foreign direct investment announcements, by management area, 2003-2013

Management areas	Projects	Investment (billions of dollars)	Jobs (thousands)	Projects Investment Jobs		
				(percentages)		
Decision-making centres	220	5	24	2	1	1
Business-to-business services	1 635	32	138	15	3	5
Business-to-consumer services	3 384	58	414	30	5	14
Infrastructure	1 572	325	565	14	29	19
Construction	506	89	334	5	8	12
Electricity	234	74	23	2	7	1
Internet infrastructure and ICT ^a services	318	115	50	3	10	2
Logistics, distribution and transport	514	47	158	4	4	5
Production	4 196	707	1 955	35	61	60
Extractive activities	591	201	294	5	16	8
Manufacturing	3 570	501	1 648	30	44	51
Recycling	35	5	12	0	0	0
R&D, engineering and design	531	19	85	5	2	3
Research and development	346	13	67	1	0	0
Design, development and testing	83	1	5	3	1	2
Total	11 538	1 146	3 182	100	100	100

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

^a Information and communications technologies.

First, when the periods 2003-2007 and 2010-2013 were compared, it was observed that job creation doubled in strategic activities (research and development, design, development and testing, and training), both in absolute terms (from 5,000 to 10,000 jobs per year) and as a proportion of total job creation (from 2% to 4%). This was counterbalanced by a slight fall in the proportion of jobs created in the production area of extractive industries (see table III.5).

Table III.5
Latin America and the Caribbean: trends in job creation associated with foreign direct investment, by management areas, 2003-2013

Management areas	Announced job creation ^a (thousands of jobs)			Share of total (percentages)		
	2003-2007	2008-2009	2010-2013	2003-2007	2008-2009	2010-2013
Decision-making centres	1.6	3.2	2.5	1	1	1
Business-to-business services	6.3	19.0	17.2	3	5	6
Business-to-consumer services	31.4	58.8	34.9	13	16	11
Infrastructure	39.3	86.2	49.1	16	23	16
Construction	23.4	60.8	23.8	10	16	8
Electricity	1.1	2.5	3.2	0	1	1
Internet infrastructure and ICT ^b services	1.4	5.6	7.9	1	1	3
Logistics, distribution and transport	13.3	17.3	14.2	6	5	5
Production	156.9	203.5	190.9	65	54	62
Extractive activities	34.6	25.1	17.7	14	7	6
Manufacturing	121.3	177.3	171.8	50	47	56
R&D, engineering and design	5.0	8.4	10.9	2	2	4
Research and development	1.1	1.0	1.6	0	0	1
Design, development and testing	3.7	6.9	8.6	2	2	3
Total	240.5	379.0	305.5	100	100	100

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

^a Annual averages.

^b Information and communications technologies.

Second, jobs created in business-to-business services virtually tripled in number and reflected significant gains as a proportion of job creation (up from 3% to 6%). Meanwhile, business-to-consumer services (including sales services) saw a slight drop in their total share of job creation.

While production activities are still the main driver of new employment, their contribution to total job creation is growing more slowly than the sector average, resulting in loss of share. Job creation was down significantly (by half) in extractive activities, while it steadied in logistics, distribution and transport activities, and surged by 30% in manufacturing.

In short, encouraging trends may be perceived in the specific management areas in which investment projects are creating jobs, particularly as regards the growth of employment in strategic activities (research and development, design, development and testing, and training). Job creation in these areas doubled over the 10-year study period, although they still represent a marginal percentage of total employment.

5. Analysis by destination country: patterns of regional specialization

In this section, some of the core aspects of the above analysis are disaggregated with reference to the countries of Latin America and the Caribbean. First, the region's specialization profile is described in relation to job creation deriving from investment projects, which provides a platform from which to then analyse the different employment intensities of the investments announced in each country. Lastly, a differential structural analysis is carried out, which seeks to isolate the effects of the sectoral profile of investment in job creation from other characteristics inherent to each country.

In recent years, foreign direct investment in the region has shown a certain degree of sectoral specialization. In a stylized manner, it may be asserted that resource-seeking investments have been concentrated in Andean countries which have recently experienced a boom thanks to the high prices of raw materials; that market-seeking investments were focused on the largest countries, taking advantage of their sound economic performance and the existence of a middle class with greater purchasing power, and that investment strategies seeking efficient export platforms, mainly directed at the United States, have predominated in Mexico, Central America and the Caribbean.

Considering the total number of investment projects announced in the period between 2003 and 2013, it was observed that planned investment for Mexico, the countries of the Common Market of the South (MERCOSUR) and Central America tended to display greater sectoral diversification, with the manufacturing industry (comprising labour-intensive and more complex manufacturing) generally accounting for a greater share of these projects than the regional average. Meanwhile capital investment in the Andean countries and some Caribbean ones was very highly concentrated in extractive activities and in natural-resource-processing stages of manufacturing (the metal and petrochemical industries). A fourth group is made up of those countries whose advantageous location allows services projects to predominate: especially tourism, information and communications technology services, and logistics.

It is important to be aware of the sectoral specialization of FDI in each country, because it defines the number of direct jobs that this type of investment contributes to the local labour market. For example, in countries where FDI was concentrated in extractive activities, these investments create about two jobs for every US\$ 1 million dollars invested, while in countries where FDI specializes in services, 4.6 jobs were directly created for every US\$ 1 million invested. In economies where greenfield FDI specializes in manufacturing industries, every US\$ 1 million invested created 6.5 jobs in countries specializing in labour-intensive manufacturing, and 3.9 jobs in countries with more complex manufacturing (see maps III.1 and III.2).

The job content of FDI differs widely between countries, ranging from one job created per US\$ 1 million invested in the Plurinational State of Bolivia, to almost nine jobs for the same investment amount in Nicaragua. While the sectoral specialization of FDI is the main cause of these marked differences, there are additional factors that also help explain the employment intensity of investment.

The Caribbean is the subregion in which the job content of investment announcements presents the widest disparities. The variable gives rise to two contrasting situations: in one set of economies, investment has a high impact on employment, while in a second group, the effects are more modest.

Map III.1
Latin America: sectoral specialization profile of foreign investment projects and intensity of direct job creation, 2003-2013
(Number of jobs created per US\$ 1 million invested)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of “fDi Markets,” *Financial Times*.
Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

Map III.2
The Caribbean: sectoral specialization profile of foreign investment projects and intensity of direct job creation, 2003-2013
(Number of jobs created per US\$ 1 million invested)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of “fDi Markets,” *Financial Times*.
Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

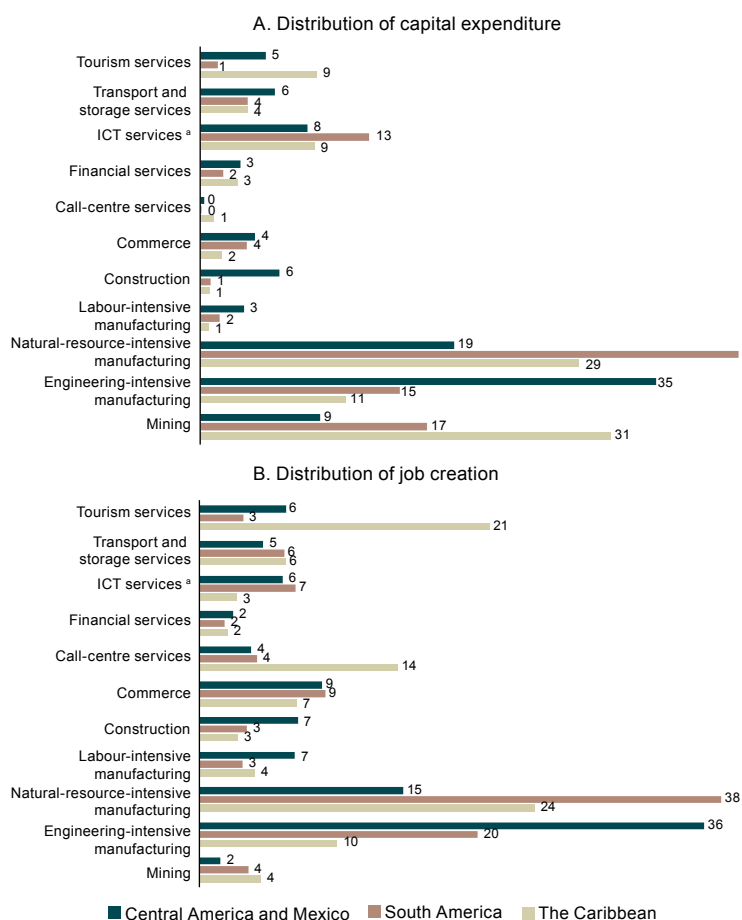
In the first set of countries (mainly comprising the Bahamas, Haiti and Jamaica), FDI is thought to generate around five jobs per US\$ 1 million invested. While only limited amounts of FDI were captured in the period between 2003 and 2013, these were channelled into tourism-related activities (hospitality and transport services). Call-centre services, which create a significant amount of employment in Jamaica, also received notable investment.

In the second set of Caribbean countries (Aruba, the Dominican Republic and Trinidad and Tobago), the situation is almost the complete opposite to that of the first group: although the announced investment is higher, it is estimated that fewer than two jobs are created per US\$ 1 million invested. The sectoral profile of the announced investment is strongly focused on mining, some natural-resource-intensive industrial activities, and the financial sector.

The comparison between Central American and South American countries also reveals clear contrasts associated with the sectors in which investments are made, and the strategies that lead to the inclusion of FDI in local production systems. The Central American countries and Mexico are seeing FDI patterns with high job content, of about five jobs per US\$ 1 million invested. Meanwhile, foreign direct investment in South America has modest effects on job creation, with an average two jobs created per US\$ 1 million invested.

As mentioned previously, the sectoral profiles of foreign direct investment differ by sector and by country (and by region). It is noted that the countries making up each region present a degree of similarity in terms of the sectoral profile of FDI announcements, and larger differences when compared with the countries of other regions. These patterns of new investment are explained by territorial factors (location, availability of resources) and the pre-existing characteristics of local production systems.

Figure III.15
Latin America and the Caribbean: sectoral distribution patterns of projected capital expenditure and job creation based on foreign direct investment announcements, by subregion
(Percentages)



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

^a Information and communications technologies.

To set this out more clearly, the differences between sectoral profiles were examined at subregional level, with telling results. In the Caribbean and South America, it was observed that about 60% of aggregate FDI flowed into extractive activities and natural-resource-intensive manufacturing, while in Central America and Mexico these activities accounted for less than 30% of announced investment. Engineering-intensive and natural-resource-intensive manufacturing (including the automotive and food industries respectively) accounted for 54% of capital investment announced in Central America and Mexico during the period.

The branches of activity receiving the most capital investment are not necessarily the most important in terms of employment. The sectoral distribution of job creation is configured differently to that of investment, as can be seen by comparing the three activities with the highest job content with the three sectors that received the most capital investment.

While sectoral specialization is a major factor in explaining the job content of greenfield investment projects, there are specific factors that may account for differences between projects in similar categories but implemented in different countries.

Use of the labour factor varies substantially in intensity, not just between different economic activities, but also between different projects within the same activity. A range of factors may lie at the root of these variations: the type of technology used, the type of transnational enterprise making the investment (the complexity of the processes carried out, the role performed in the global chain), the institutions operating in each country (especially labour-market regulators and educational institutions) and macrolocal contexts (relative prices), among others.

The impact on the job content of investment projects, as a result of both sectoral specialization and the specific characteristics of projects in a certain country, may be quantified more adequately. To achieve this, the gap that is produced between the number of jobs created per US\$ 1 million invested in that country, and the regional average, is detected by applying a “differential structural” decomposition (see box III.1).

Box III.1

Differential structural decomposition

The aim of this analysis is to break down the gap that exists between the jobs-to-investment ratios (e) of investment announcements in a certain country, on the one hand, and a given benchmark, in this case the regional average, on the other.

The decomposition initially considers that the job content of announced investment e in a country j (e_j), is the result of a weighted average of the job contents e_{ij} , of the different sectors in that country $e_j = \sum_i w_{ij} e_{ij}$.

$$e_j - e = \sum_i w_{ij} e_{ij} - \sum_i w_i e_i = \sum_i (w_{ij} - w_i) e_i + \sum_i e_{ij} + \sum_i (e_{ij} - e_i) (w_{ij} - w_i) = \Delta_w + \Delta_e + \Delta_{we}$$

The structural effect indicates the extent to which the sectoral specialization of investments in a certain country is able to explain the job content gap compared with the regional average. In other words, if investments in a given country specialized more in capital-intensive activities than was the regional average, the structural effect would be negative. Conversely, if these investments were more specialized in labour-intensive activities than the regional average, the sectoral structure would have a positive impact on the job content of investments.

For example, in the Plurinational State of Bolivia, it was found that investment projects created 1.8 jobs fewer (per US\$ 1 million invested) than they did on average in the region, a difference that is largely due to a greater investment focus on mining activities. The structural effect (-1.6) accounts for almost the entirety of the gap.

The differential effect indicates the extent to which investment projects in each activity create more or less employment in a given

country, in comparison with the regional average. The same activity or sector could be more labour-intensive in one country than in another, depending on specific factors such as the institutional context (labour relations, the educational system), geography, the type of investor company and the type of production technologies that are channelled into that particular economy.

e refers to the job content for all investments in the region, while w_i is the sectoral profile of investment in the region as a whole. Three terms are established. The first, “structural effect” accounts for the differences in the sectoral composition of investment amounts in each country; the second, “differential effect” relates to the differences within sectors, and the third term may be regarded as a covariance.

Continuing with the example of the Plurinational State of Bolivia, country-specific factors contribute to a wider gap, in respect of the regional average, in the intensity of job creation as a result of FDI (-0.2). However, they do so only marginally given that practically the entire gap is explained by the structural effect (-1.6). The differential effect manifests itself in the fact that an investment project in a specific sector in the Plurinational State of Bolivia creates fewer jobs than the regional average for the same sector. It is not possible to know from this analysis what these local factors are, but in theory they may relate to the type of technology used, for example.

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

The results show that the greater job content of investment announcements for Central America and Mexico is largely due to the sectoral specialization of projects (structural effect). The differential effect is also positive, meaning that investment projects in similar sectors have a higher job content in Central America than in the rest of the region. In other words, there are factors other than investment sectors at work, favouring investment-led job creation in the subregion. These may relate to labour cost advantages in these countries.

In Caribbean countries where investments are channelled into tourism and other services, the job creation gap is positive, largely owing to the types of sector that attract FDI. Yet the differential effect is largely negative, indicating that investments in the same sector would deliver more job creation in other countries of the region.

Conversely, in the group of Caribbean countries where FDI was directed at financial services and mining, the job content of announced investment presented negative gaps in respect of the regional average. In these countries, both the sectoral profile of investment and local differences accounted for the fact that FDI made only a modest contribution to local employment growth.

With the exceptions of Argentina and Colombia, South American countries tended to report negative gaps in the job content of FDI. In general terms, the structural effect was not conducive to job creation, meaning that these economies attracted investment that was less labour-intensive than the regional average, in sectors such as extractive activities or technology-intensive manufacturing, which create fewer jobs than labour-intensive or natural-resources-intensive manufacturing. Local differential effects, however, were positive. One possible explanation for these specific job-creating effects might be found in the labour institutions (labour relations institutions and wage policies, among others) and educational establishments (type of training given to workers) that operate in the subregion.

Table III.6
Latin America and the Caribbean: differential structural analysis of the job content
of announced foreign direct investment, 2003-2013
(Number of jobs created per US\$ 1 million invested)

	Total gap	Structural effect	Differential effect	Covariance
Mexico	1.4	0.7	1.1	(0.4)
Central America	1.8	1.4	1.0	(0.6)
Costa Rica	2.1	1.7	1.7	(1.3)
El Salvador	2.7	0.6	22.8	(20.7)
Guatemala	0.9	1.0	(0.8)	0.7
Honduras	1.4	0.5	7.1	(6.2)
Nicaragua	6.9	1.0	1.9	4.0
Panama	0.6	1.0	0.8	(1.2)
The Caribbean	(0.5)	0.2	(0.1)	(0.6)
The Caribbean group 1	3.4	6.0	0.2	(2.8)
Bahamas	1.4	0.7	0.1	0.5
Haiti	1.2	(0.1)	(0.6)	2.0
Jamaica	5.8	12.2	(1.3)	(5.1)
The Caribbean group 2	(1.1)	(0.7)	(0.0)	(0.4)
Aruba	(1.7)	(1.7)	(2.2)	2.2
Dominican Republic	(0.4)	0.1	(0.2)	(0.4)
Trinidad and Tobago	(1.3)	(1.2)	(0.9)	0.8
South America	(0.6)	(0.5)	(0.1)	(0.1)
Argentina	0.4	(0.0)	0.7	(0.2)
Bolivia (Plurinational State of)	(1.8)	(1.6)	(0.2)	(0.0)
Brazil	(0.2)	(0.1)	0.0	(0.1)
Chile	(1.1)	(0.3)	(0.3)	(0.5)
Colombia	0.1	(0.5)	0.8	(0.3)
Ecuador	(0.6)	(0.4)	0.1	(0.3)
Paraguay	(1.5)	(0.4)	2.7	(3.8)
Peru	(0.9)	(0.4)	(0.2)	(0.2)
Uruguay	(0.7)	0.4	0.3	(1.4)
Venezuela (Bolivarian Republic of)	(1.5)	(1.6)	1.1	(1.0)

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

E. Closing reflections

Strong investment flows into Latin American and Caribbean countries exert enormous influence over these economies, while also raising a number of concerns over the characteristics that are imprinted on domestic labour markets.

Based on the available information, this chapter examined some of the employment impacts of investment by transnational corporations, in terms of the number and the quality of the jobs created. The goal is to contribute inputs to the debate on the extent to which these social actors can help raise living standards in Latin America and the Caribbean, close productivity gaps and improve the income distribution.

One initial finding of the study is that transnational corporations are a secondary source of job creation.

During the 1990s, it seems that the most significant FDI processes were privatizations, mergers and acquisitions. This was especially the case in South America, particularly Argentina, where these transactions represented an extremely high proportion of FDI, and in Mexico, where they accounted for a more modest share. During this period, most investment would not have created production capacities to spur employment growth, but would have been associated with the restructuring of companies, leading to rationalization processes and layoffs.

Nevertheless, this initial stage, dominated by changes in ownership, also witnessed sustained growth in the proportion of physical investments in different sectors and regions. It is estimated that cross-border acquisitions on average represented about 40% of inward FDI in the region between 2003 and 2013, with this figure trending downward from 50% of FDI in the period 2003-2007 to 30% in 2010-2013.

The fact that greenfield investments accounted for a larger proportion of FDI (60%) in the period between 2003 and 2013 translated into a larger contribution to direct job creation. Yet these investments are only estimated to have led to about 5% of net job creation in the region during that period (in an optimistic calculation).

The job content of these greenfield investments varies extensively according to the sectors and subregions in which they are implemented, and also depends on the nature of the investment portfolios that are attracted. One reason for the low impact of FDI on job creation is the high proportion of investment that is channelled into primary activities and the initial stages of industrial processing, sectors that are more capital intensive. For every US\$ 1 million invested in extractive activities, only one job is created, while the same investment in natural-resource-intensive manufacturing generates two jobs. These sectors accounted for 47% of announced investment amounts over the 10-year study period (2003-2013). Extractive industries thus have a limited impact on direct job creation, and even though the wages paid to these workers tend to be high, the labour market cannot fulfil its role in primary income distribution. The State takes on a decisive role in these sectors.

Investment resulting from fragmentation and offshoring strategies in the manufacturing and services sectors involves separating production processes into labour-intensive stages and skills-intensive stages. This tends to bring about a dual structure of wages and benefits, divided between developed and developing countries. While a large proportion of new jobs are created in labour-intensive sectors, it is becoming increasingly apparent that manufacturing and labour-intensive services projects (textiles, clothing and call centres, for example) are seeing their share of job creation decline at the expense of higher growth in more complex activities.

In Argentina, Chile and Ecuador, it was possible to develop a second approach to the measurement of transnational corporations' impact on employment in Latin America and the Caribbean, which was more structural since it reflected foreign investment accumulation processes over the long term. In these countries, transnational corporations accounted for between 12% and 17% of formal private employment, with a higher share of up to 50% in the extractive industries. Transnationals also had a substantially greater impact on employment when considering the countries' largest firms, a group in which the transnational corporations tend to be overrepresented. While no estimates of the indirect job creation attributable to transnational corporations have been produced at this juncture, previous research indicates that there are few linkages between these firms and local suppliers and customers, meaning that indirect impacts on local employment are expected to be limited (Chudnovsky and López, 2007).

The study demonstrated that transnational corporations tended to offer better paid jobs in the Latin American and Caribbean countries that were studied. Wage gaps varied in size depending on the type of estimate produced, but significant positive results were found in all cases, associated with higher levels of labour productivity. Prior

studies also detected that subsidiaries carrying on knowledge-intensive economic activities were responsible for indirect effects as a result of knowledge spillover to the local production system. However, no evidence was found to confirm impacts on other aspects of employment quality, such as greater job stability or a greater participation of women in the workforce.

The findings of different research studies on labour-relations models in Argentina and Mexico, while highlighting the existence of a wide variety of behaviours, tend to offer greater support for the theory that transnational corporations adapt to local contexts. The effects of the interactions between transnational corporations and labour institutions in host countries are fiercely debated. The convergence theory suggests that transnational corporations transfer the prevailing labour practices in their countries of origin to the host countries, so that it is the institutional frameworks in the host countries that must adapt. The opposing point of view holds that the success of transnational corporations depends on their capacity to adapt to the institutional framework of the host country, which is not significantly altered in their favour.

In Argentina, the evidence indicates that the country's labour institutions generally have an important presence, however this is less prevalent among firms of United States origin, which is confirmed by lower union membership among their workers. In Mexico, it was noted that firms of European origin are not transferring best practices in collective representation, which are assuming greater importance in their home countries, to their Mexican operations. The study of labour relations, not just in the region's large countries but also in smaller ones, is especially important given that foreign direct investment is a highly concentrated economic phenomenon. Indeed, for the period between 2003 and 2013, just 250 economic groups (5% of total foreign investors) accounted for 68% of announced investment amounts and 55% of the direct jobs that were created.

In view of the evidence analysed and considering the complexity and heterogeneity of the globalization process, it was noted that transnational corporations have adopted a range of strategies and obtained various results, depending on the countries, sectors and regions in which investments were made and taking into account the differences in markets, institutions and cultures. In other words, the “representative agent”¹² approach is particularly inadequate for considering this phenomenon.

This means that while it is useful to reach conclusions at an aggregate level regarding the actual contribution of foreign direct investment to the different dimensions of recipient countries' development, this level of analysis is insufficient. It is important to consider the growing heterogeneity of the phenomenon, and to generate an increasing volume of information that will enable an assessment of the investment types with the most favourable impacts on recipient economies.

¹² This approach is based on the concept of the “representative agent”, whose behaviour reflects the dynamics that determine economic growth. According to this view, the diversity of agents and the ways in which they are linked —i.e. structures and institutions— are important only insofar as they influence the behaviour of the “representative agent”.

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Annex

An estimation of the impact of foreign direct investment on employment

This annex studies the impact of the foreign ownership of firms' capital on certain dimensions of employment in Latin America and the Caribbean. Based on the information available, four dimensions were analysed: employment, sales per worker as a proxy variable for productivity, total sales, and wages. The estimates given below are the result of an exploratory analysis designed to obtain some simple conclusions that will be researched more exhaustively in the future.

The type of company ownership may affect these four dimensions, since foreign holdings may improve the functioning of firms, increasing their profitability, their sales and possibly their productivity or their job creation. In particular, it may be expected that productivity gains are associated with higher wages.

The data used are from "Enterprise Surveys" of the World Bank, which were uniformly applied in several countries of the region in 2006 and 2010. This study utilized the results of surveys conducted in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, the Plurinational State of Bolivia and Uruguay. The World Bank uses a standard sampling method with partial overlap, making it possible to build panels using the subset of enterprises interviewed on both occasions (approximately one third of the observations for each year and country). The panel that was employed consisted of 2,402 observations, although comprehensive information was not available in all cases.

The study focused on a limited number of variables that were particularly relevant and which were available in the aforementioned survey. The dependent variables used were total employment (the number of employed persons, both permanent and temporary), sales and wages. One particularly useful aspect of the survey is that it also gathered retrospective information on sales and employment (three years). As regards variables expressed in monetary units, local currencies were not converted into a standard unit (such as the United States dollar), but the original values were expressed in logarithms and in all cases lagged values of these country-specific effect variables were used as controls. This means that results can be detected that have impacts on the variation rates of dependent variables.

This study did not use particularly advanced econometric analyses; instead ordinary least squares (OLS) models were estimated in which the following elements were included:

- (i) Country fixed effects. Country dummy variables were included to filter the effects of prices and productivity differences between countries. This means that the other variables are assumed to have the same relative impact on the results, even when the levels are not the same.
- (ii) Industry fixed effects. Exogenous changes affecting certain sectors, in their entirety, are thus controlled for without distinction as to country (for example, changes in oil prices, to which certain industries are more sensitive than others).
- (iii) Lagged dependent variables. These were included because it is difficult to identify all the necessary variables (which in some cases may not be available or observable). For example, with regard to foreign ownership, it might be assumed that the proportion of foreign ownership is associated with the size of the enterprise. Thus, controlling for the lagged employment (size) of the enterprise and foreign ownership, it is possible to observe the impact of ownership type on current employment and job creation.
- (iv) Different dependent variables. Where available, both absolute values (for example, employment) and growth rates are taken into consideration.

The results presented below have been estimated with robust standard errors and using the individual sampling weights.

Employment

From an analytical perspective, it may be expected that foreign company ownership boosts employment. When foreign firms are more competitive than local ones, this may be manifested in the form of faster growth in output and employment. Yet higher levels of output may also be achieved by improving the efficiency of existing workers. The link between company ownership and variation in employment was studied with a view to supporting one of the above statements.

The results of this analysis are displayed in table III.A.1. The dependent variable is total employment (permanent and temporary) in 2010 and, as stated previously, both country and industry effects are controlled for. The results show that the total number of jobs, in a company in 2010, was largely determined by the same company's employment in 2006, as well as by its sales in the domestic market in 2006. There is no sound explanation for this finding, even though the effect is substantive.

Table III.A.1
Analysis of the impact of the foreign share of company ownership on total employment in 2010,
according to ordinary least squares (OLS) models ^a

	1	2	3	4
Constant	-0.998*** (0.321)	-0.644* (0.347)	-0.491 (0.450)	-0.730 (0.448)
Foreign share _{t-4}	0.156 (0.101)	0.128 (0.106)	0.072 (0.109)	0.079 (0.116)
Ln(sales _{t-4})	0.128*** (0.028)	0.126*** (0.028)	0.078** (0.031)	0.076** (0.031)
Ln(employment _{t-4})	0.765*** (0.050)	0.754*** (0.049)	0.832*** (0.035)	0.842*** (0.035)
Job growth _{t-4}	-0.085 (0.057)	-0.089 (0.058)	-0.061 (0.054)	-0.059 (0.054)
Domestic sales share _{t-4}	0.278*** (0.105)			0.266** (0.129)
Capital problems _{t-4}		-0.019 (0.018)		-0.005 (0.023)
Ln(average wage _{t-4})			0.029 (0.032)	0.034 (0.032)
N	2 082	2 053	1 445	1 424
Adjusted R ²	0.734	0.731	0.736	0.736

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1% respectively.

The second column includes a categorical variable on capital problems, which does not seem to have any impact. The third column includes controls for the average wage in 2006 (even where including this variable entails the loss of many observations). Curiously, there does not appear to be any significant relationship. In the final column, all of these variables are included simultaneously, with no observable reduction in the effect on domestic sales.

The variable of interest in this analysis, the percentage of foreign company ownership, is not significant in any of the estimates produced. Although the coefficient of the variable is positive in all estimates, in no case does it reach acceptable levels of significance. It is therefore possible to state that in this exploratory study, no evidence was found to link higher levels of foreign ownership with larger workforces.

The second dependent variable to be studied is the increase in the number of permanent jobs. The 2010 survey gives the numbers of staff in 2010 and three years previously (2007). This means that the growth rate in the number of permanent jobs between these years can be calculated, considering ownership and other variables from 2006 (the year previous to the period in which growth is measured).

The first column of table III.A.2 gives the results obtained when only company employment (size), the previous trend in job growth (observed between 2003 and 2006), and the share of foreign ownership were controlled for. It is apparent that the previous trend in job growth is (weakly) significant. In the second column, two variables in relation to sales are aggregated, which reduces the number of observations and yields no new knowledge. The third column considers the lagged average wage, with the loss of even more observations. Lastly, the fourth column combines both models, enabling the conclusion that the only significant relationship is that which exists between past and present job growth.

In general, the results of tables III.A.1 and III.A.2 are consistent with each other, inasmuch as they indicate that there was no significant evidence to link foreign company ownership with employment.

Table III.A.2
Analysis of the impact of the foreign share of company ownership on growth in permanent jobs
between 2007 and 2010, according to ordinary least squares (OLS) models ^a

	1	2	3	4
Constant	-0.190*** (0.057)	-0.330** (0.147)	-0.081 (0.676)	-0.005 (0.194)
Foreign share _{t-4}	0.007 (0.038)	-0.003 (0.045)	-0.025 (0.052)	-0.015 (0.059)
Ln(employment _{t-4})	0.006 (0.008)	-0.015 (0.018)	0.011 (0.011)	-0.006 (0.023)
Job growth _{t-4}	0.052* (0.030)	0.065* (0.035)	0.040 (0.036)	0.066* (0.037)
Ln(sales _{t-4})		0.012 (0.012)		0.010 (0.018)
Sales growth _{t-4}		0.016 (0.015)		0.023 (0.017)
Ln(average wage _{t-4})			-0.012 (0.020)	-0.031 (0.027)
N	2 171	1 743	1 428	1 271
R ²	0.105	0.117	0.104	0.118

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1% respectively.

Productivity

A similar analysis to that on employment may be performed for productivity, defined as total sales divided by the number of workers. Table III.A.3 shows a clear positive correlation between the foreign share of ownership and productivity. It is important to specify that by defining productivity as the quotient of sales divided by employment, the lagged values of these variables will, thanks to the way they are constructed, be significant (positive and negative, respectively). Lagged productivity is an interesting variable, since it is effectively the negative interaction term of the above two variables. The different permutations of other cross-cutting variables do not significantly alter the results. Only the “capital problems” variable in the fourth column seems to have a negative impact, although this disappears when the workers’ characteristics are included. It must be recalled that including the lagged workers’ characteristics significantly reduces the size of the sample. It is also interesting to observe that the shares of skilled and unskilled production workers had a negative coefficient, albeit an insignificant one (in comparison with the absent category, “non-production workers”).

A foreign share of company ownership has a consistently positive impact on productivity. Combining this result with the previous ones, which seem to indicate that foreign ownership has no impact (either negative or positive) on employment, it may be deduced that foreign-owned enterprises are capable of increasing production without reducing the labour force. This was corroborated where foreign ownership has a positive impact on output (sales). To quantify the impact of foreign ownership, it was observed that an additional 10 percentage points in foreign ownership entailed an increase of about 2% in sales per employee.

Table III.A.3
Analysis of the impact of the foreign share of company ownership on sales per employee in 2010,
according to ordinary least squares (OLS) models ^a

	1	2	3	4	5
Constant	4.910*** (0.474)	4.785*** (0.559)	5.013*** (0.477)	5.114*** (0.478)	4.873*** (0.611)
Foreign share _{t-4}	0.195** (0.078)	0.175* (0.091)	0.188** (0.078)	0.184** (0.082)	0.165* (0.094)
Ln(sales _{t-4})	0.486*** (0.163)	0.455*** (0.055)	0.487*** (0.046)	0.480*** (0.046)	0.458*** (0.056)
Ln(employment _{t-4})	-0.342*** (0.052)	-0.280*** (0.068)	-0.346*** (0.053)	-0.341*** (0.052)	-0.286*** (0.069)
Job growth _{t-4}	0.163*** (0.058)	0.144* (0.079)	0.161*** (0.058)	0.165*** (0.059)	0.146* (0.081)
Ln(productivity _{t-4})	0.071** (0.029)	0.114*** (0.037)	0.071** (0.029)	0.074** (0.029)	0.111*** (0.037)
Female share _{t-4}		-0.107 (0.148)			-0.107 (0.151)
Share of skilled production workers _{t-4}		-0.144 (0.195)			-0.150 (0.196)
Share of unskilled production workers _{t-4}		-0.042 (0.183)			-0.049 (0.188)
Domestic sales share _{t-4}			-0.114 (0.128)		
Capital problems _{t-4}				-0.050** (0.025)	-0.024 (0.027)
N	1 555	943	1 555	1 541	935
R ²	0.912	0.941	0.912	0.912	0.941

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1%, respectively.

Total sales

Total sales are expected to have a positive correlation with the share of foreign ownership. As in the previous exercises, the lagged value of the dependent variable was included as a control.

The first column of table III.A.4 includes controls for lagged sales, as well as for share of foreign ownership. As expected, both variables are important. Also included was a categorical variable related to capital financing problems, which although not significant, by including dummy variables for the individual impact level of capital problems (no problem, slight problem, moderate problem, large problem, major problem), the results indicated that only the most serious problem category had a significant impact (the others had no impact). The second column includes lagged sales growth (between t-7 and t-4), which has a negative impact on growth in the subsequent period when the lagged sales level is also included as a control. In the third and fourth columns, the domestic sales share and the workers' characteristics are added in separately, while the final column includes all variables. The problem with the last two columns is, once again, the number of observations.

The effect of foreign ownership is consistent through all observations. In each of the regressions considered, it is observed that foreign ownership has a positive impact on total sales. The magnitude of the impact is variable, but it seems that an extra 10 percentage points in foreign ownership accounted for an increase in sales of between 3.5 and 5.5 percentage points in 2010. A secondary conclusion of this part of the analysis is that capital problems actually have a significant negative impact with each step in the categorical variable, associated with a 5 to 7 percentage-point drop in sales.

Table III.A.4
Analysis of the impact of a foreign share of company ownership on total sales in 2010,
according to ordinary least squares (OLS) models ^a

	1	2	3	4	5
Constant	3.072*** (0.527)	3.006*** (0.553)	2.853*** (0.532)	2.098*** (0.491)	1.840*** (0.517)
Foreign share _{t-4}	0.363*** (0.120)	0.379*** (0.131)	0.390*** (0.131)	0.533*** (0.185)	0.560*** (0.191)
Ln(sales _{t-4})	0.849*** (0.025)	0.869*** (0.025)	0.872*** (0.025)	0.912*** (0.025)	0.918*** (0.025)
Capital problems _{t-4}	-0.043 (0.028)	-0.053* (0.028)	-0.053* (0.028)	-0.072** (0.031)	-0.069** (0.032)
Sales growth _{t-4}		-0.105** (0.052)	-0.106** (0.052)	-0.019 (0.048)	-0.020 (0.047)
Domestic sales share _{t-4}			0.140 (0.027)		0.183 (0.144)
Female share _{t-4}				0.368** (0.169)	0.372** (0.170)
Share of skilled production workers _{t-4}				-0.324 (0.228)	-0.294 (0.228)
Share of unskilled production workers _{t-4}				0.033 (0.189)	0.055 (0.188)
N	1 984	1 686	1 686	1 022	1 022
R ²	0.884	0.888	0.888	0.906	0.906

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1%, respectively.

To round off the above analysis, the rate of sales growth was analysed. Using the retrospective survey information on sales (t-3, for 2007), a sales growth variable was constructed for the period between 2007 and 2010. Data from 2006 were used to control for the other variables. This analysis yielded very different results regarding the function of foreign ownership.

In the first column of table III.A.5, it was observed that only the 2006 domestic sales share had a (positive) correlation with sales growth between 2007 and 2010. Neither 2006 sales nor the sales growth rate between 2003 and 2006 had any significant effect on the growth rate in the subsequent period. In the second column, total employment was included, with no results obtained, and in the third column lagged sales growth was replaced with permanent job growth. These variables are correlated, increasing the number of available observations. As a result, the negative effect of total sales becomes significant, which would be a sign of convergence (with larger enterprises that may obtain lower growth rates). The fourth column tests the impact of capacity utilization, which seems to be significant, but which greatly reduces the number of observations. Lastly, the fifth column includes the role of capital problems, which do not appear to have a major impact. The outcome of all these estimates is that the percentage share of foreign ownership continues to have an insignificant yet positive impact.

It is difficult to identify a specific reason why total sales are associated with foreign company ownership when the change in sales is unrelated. In theory, the inclusion of previous sales should have controlled for this effect, but this was clearly not the case. Further research is required to analyse whether companies' sales are linked to a foreign share of their ownership structure.

Table III.A.5
Analysis of the impact of the foreign share of company ownership on the change in sales between 2007 and 2010,
according to ordinary least squares (OLS) models ^a

	1	2	3	4	5
Constant	0.016 (0.196)	0.200 (0.255)	0.308 (0.256)	-0.095 (0.234)	0.167 (0.260)
Foreign share _{t-4}	0.015 (0.055)	0.019 (0.055)	0.069 (0.063)	0.060 (0.053)	0.032 (0.055)
Ln(sales _{t-4})	-0.006 (0.010)	-0.025 (0.019)	-0.036** (0.018)	-0.008 (0.012)	-0.025 (0.019)
Domestic sales share _{t-4}	0.217** (0.090)	0.227** (0.090)	0.222** (0.088)	0.240** (0.102)	0.232*** (0.090)
Sales growth _{t-4}	-0.000 (0.016)	0.002 (0.016)		0.001 (0.018)	0.000 (0.016)
Ln(employment _{t-4})		0.029 (0.022)	0.036 (0.025)		0.030 (0.022)
Job growth _{t-4}			-0.069 (0.060)		
Capacity utilization _{t-4}				0.159* (0.097)	
Capital problems _{t-4}					0.009 (0.014)
N	1 545	1 544	1 706	949	1 530
R ²	0.078	0.080	0.134	0.082	0.081

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1%, respectively.

Wages

The last dimension to be considered is that of wages. Assuming that the markets were efficient, it might be expected that wages would increase in line with productivity. However, it could also be argued that if foreign ownership increases efficiency, the profits could remain in the possession of the firm's owners, without impacting wages.

Table III.A.6 examines the impact of different variables on the average wage in 2010. A broad range of explanatory variables was included, such as workers' characteristics, capital problems, total employment, sales, sales growth, job growth and the lagged average wage. Significances were only obtained for the main explanatory variables, and the number of observations was particularly small. Increasing the size of the sample by discarding worker characteristics, employment and capital problems, in the second column, resulted in sales growth ceasing to have any impact. A further reduction of the explanatory variables in the third column increased the number of observations, but had no bearing on the results.

In the fifth column, lagged workers' characteristics were replaced with current values in an attempt to increase the number of observations. The result was counter-intuitive, in that increasing the proportion of skilled production workers reduced the wage level. However, it must be recalled that this result is only maintained in comparison with the fourth column. The difference between the impact of the share of skilled workers and the share of unskilled workers is not significant. However, this estimate includes the lagged average wage, which may affect these results.

The most relevant contribution of this analysis is the fact that in all estimates, lagged foreign ownership has a positive impact on wage levels. In principle, a 10% increase in the proportion of foreign ownership seems to be associated with a 2% to 3% increase in wage levels. This result is consistent with academic literature and thus cannot be regarded as surprising.

Table III.A.6
Analysis of the impact of the foreign share of company ownership on average company wages in 2010,
according to ordinary least squares (OLS) models ^a

	1	2	3	4	5
Constant	6.665*** (0.888)	7.463*** (0.479)	7.657*** (0.439)	6.836*** (0.803)	7.428*** (0.654)
Foreign share _{t-4}	0.267** (0.123)	0.305*** (0.095)	0.325*** (0.087)	0.298*** (0.107)	0.225** (0.101)
Ln(sales _{t-4})	0.189*** (0.052)	0.111*** (0.020)	0.101*** (0.018)	0.174*** (0.046)	0.143*** (0.045)
Ln(average wage _{t-4})	0.160*** (0.059)	0.156*** (0.044)	0.144*** (0.041)	0.150*** (0.057)	0.137** (0.053)
Sales growth _{t-4}	-0.136*** (0.046)	-0.053 (0.034)			
Job growth _{t-4}	-0.000 (0.000)	-0.000 (0.000)			
Capital problems _{t-4}	-0.022 (0.035)			-0.019 (0.034)	
Ln(employment _{t-4})	-0.067 (0.070)			-0.056 (0.059)	-0.149 (0.054)
Share of skilled production workers _{t-4}	-0.176 (0.234)			-0.250 (0.210)	
Share of unskilled production workers _{t-4}	-0.014 (0.271)			-0.030 (0.238)	
Female share _{t-4}	0.112 (0.199)			0.186 (0.203)	
Share of skilled production workers _t					-0.397* (0.219)
Share of unskilled production workers _t					-0.293 (0.202)
Female share _t					0.164 (0.188)
N	681	1 163	1 329	776	845
R ²	0.914	0.901	0.903	0.911	0.908

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1%, respectively.

Lastly, data from 2006 and 2010 were used to construct a variable referring to the increase in wages. This means that the explanatory variables for 2006 are no longer fully exogenous to the dependent variable, but this is not necessarily a problem. In the first column of table III.A.7, job growth is included along with the basic series of estimators, while the size of the labour force is added in the second column. Neither of these employment-related variables has a significant effect, nor does their simultaneous inclusion in the third column alter the estimation. The fourth column includes the lagged workers' characteristics, which reduces the size of the sample and contributes new knowledge. All of the above indicators were included in the final column.

In all estimates, it was observed that a higher level of foreign ownership is linked to an increase in wages. In fact, even the point estimates are of a similar magnitude to that of the previous analysis, which shows that a 10% increase in the proportion of foreign ownership is associated with approximately 2% additional wage growth.

Table III.A.7
Analysis of the impact of the foreign share of company ownership on the change in company wages
between 2006 and 2010, according to ordinary least squares (OLS) models ^a

	1	2	3	4	5
Constant	7.441*** (0.478)	7.452*** (0.519)	7.378*** (0.527)	6.869*** (0.731)	6.656*** (0.869)
Foreign share _{t-4}	0.311*** (0.095)	0.295*** (0.094)	0.312*** (0.095)	0.207* (0.124)	0.220* (0.123)
Ln(sales _{t-4})	0.110*** (0.020)	0.116*** (0.037)	0.122*** (0.038)	0.148*** (0.024)	0.180*** (0.050)
Ln(average wage _{t-4})	-0.841*** (0.044)	-0.847*** (0.045)	-0.846*** (0.045)	-0.828*** (0.062)	-0.838*** (0.059)
Sales growth _{t-4}	-0.060* (0.034)	-0.056* (0.033)	-0.063* (0.035)	-0.124*** (0.038)	-0.123*** (0.041)
Job growth _{t-4}	0.052 (0.060)		0.054 (0.060)		-0.042 (0.078)
Ln(employment _{t-4})		-0.013 (0.044)	-0.017 (0.045)		-0.045 (0.067)
Share of skilled production workers _{t-4}				-0.186 (0.228)	-0.171 (0.238)
Share of unskilled production workers _{t-4}				-0.046 (0.254)	-0.015 (0.272)
Female share _{t-4}				0.084 (0.187)	0.096 (0.201)
N	1 163	1 189	1 163	705	688
R2	0.459	0.457	0.459	0.482	0.482

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Enterprise Surveys.

^a The symbols *, ** and *** represent significance levels of 10%, 5% and 1%, respectively.

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