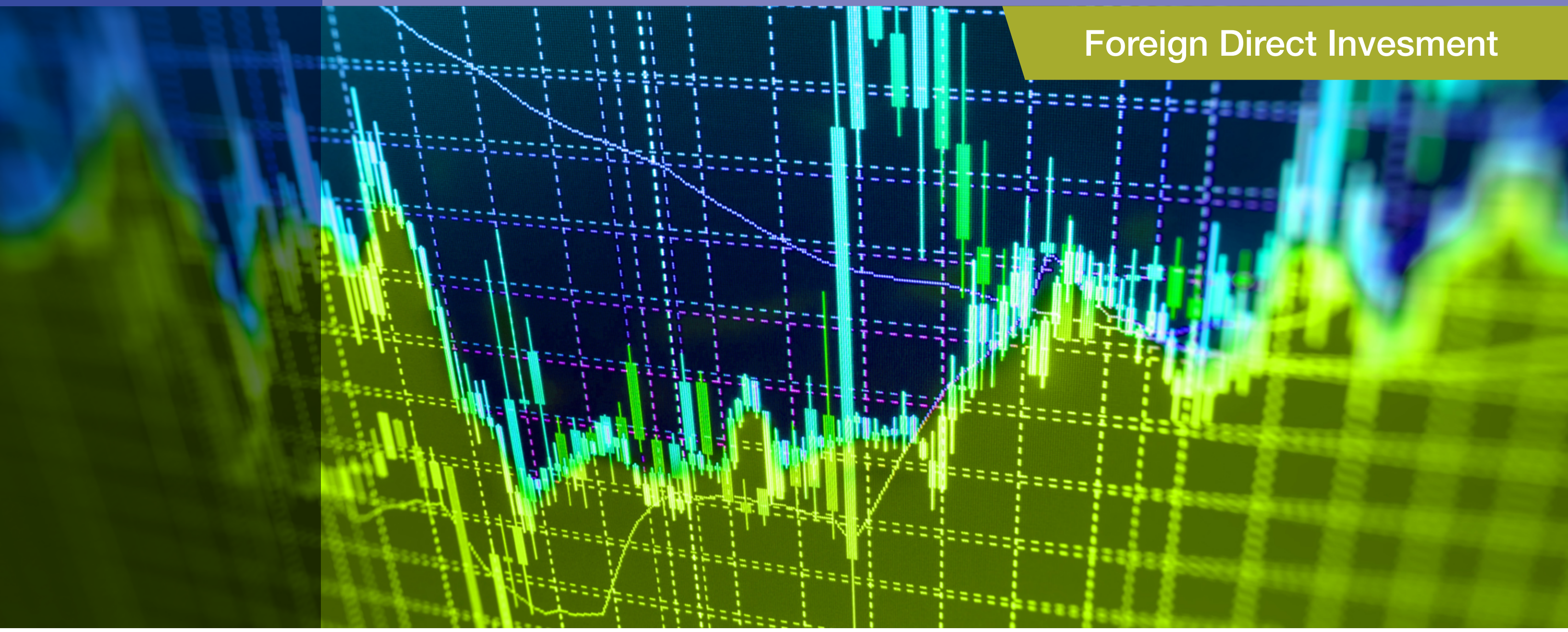
ISSN 2522-7424

ECLAC keynotes for development

N° 3 | April 2018

Foreign Direct Investment



Foreign Direct Investment in Latin America and the Caribbean moves away from natural resources

FDI inflows in Latin America and the Caribbean have been declining since their peak in 2011 and this trend continued in 2017. However, we should note that most of this decline is concentrated in the primary sector, where investors have been discouraged by lower commodity prices. FDI into the primary sector went down by 53% between 2011-2012, at the peak of the commodity boom, and 2015-2016 (the latest years with full data available), but declined by only 5% in the services sector and grew by 3% in manufacturing.

Key Messages

- FDI inflows in Latin America and the Caribbean have been declining since their peak in 2011, and we estimate a further drop in 2017.
- But more than 90% of the drop took place in natural resources while manufacturing and services have been resilient.
- Automotive was a key sector in manufacturing: between 2013 and 2016 Mexico and Brazil received 22 and 16 billion dollars of FDI in this industry, respectively.
- Renewable energy is attracting increasing amounts of foreign investments and is turning the region into a more sustainable energy pattern.
- This shift in the composition of FDI can contribute to the industrial diversification of Latin America and its sustainability.

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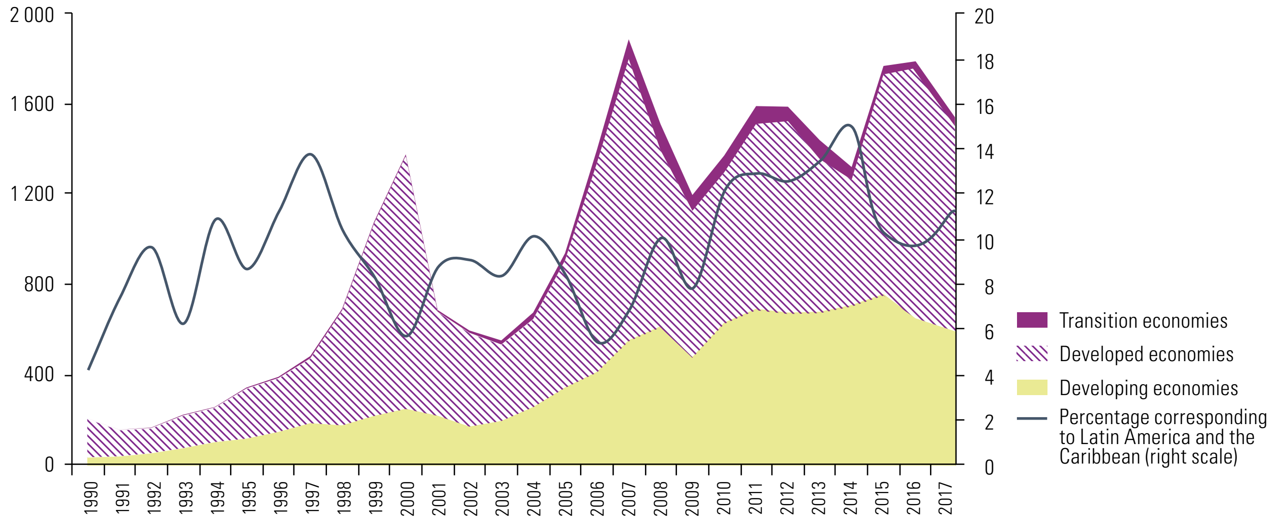
Global FDI flows declined by 16% in 2017 to 1.52 trillion dollars, according to estimations published by UNCTAD. Since the financial crisis of 2008, global annual FDI flows have fluctuated around the average of 1.5 trillion dollars (in nominal terms) with no distinct trend (See Figure 1). The international expansion of companies continues, even if cross border flows have not reached the record levels of 2007.

The drop in 2017 was concentrated in developed economies and was caused by the absence of very large mega-deals like those that propped up inflows in 2016 (in the United Kingdom) and by sharply reduced flows from offshore financial centers (in the United States). FDI into developing countries grew by only 2% and flows into the transition economies of Eastern Europe dropped by 17%. Developing countries now account for 47% of total FDI flows. Developed economies remain the leading host countries, a fact coherent with transnational companies in search of strategic assets and advanced technologies firms, which are located mainly in developed economies.

Figure 1. Global FDI flows by groups of economies, and proportion corresponding to Latin America and the Caribbean, 1990-2017 (Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and United Nations Conference on Trade and Development (UNCTAD), Investment Trends Monitor, Issue 28, January 2018; Geneva.

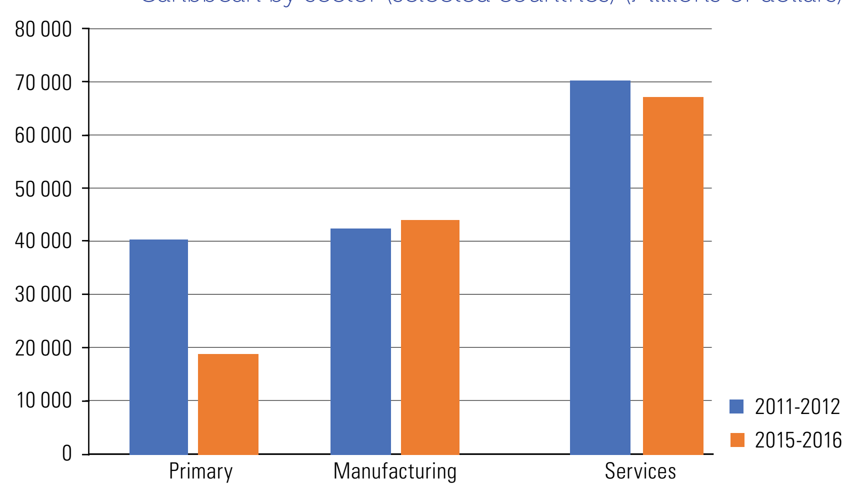
In 2018 FDI flows would be expected to rise because of economic growth, trade expansion and the rise in commodity prices, but political risks and policy uncertainty can undermine these factors.In Latin America FDI flows in 2017 are expected to drop for the third year running, by a further 5%, according to projections published last year. FDI inflows into the region would then be 23% lower than those received in 2011, when they peaked at 207 billion dollars. This trend has been caused mainly by lower commodity prices since 2013, which discouraged investments in mining and hydrocarbons for exports, and by the contraction of the economic activity in 2015 and 2016, which reduced investments oriented to selling goods and services in the domestic market.

South America and, to a lesser extent, the Caribbean economies concentrated the drop in FDI. Central American countries on the other hand have continued to attract increasing amounts of FDI while there has been no clear trend in Mexico.

Most of the decline in FDI inflows took place in the primary sector

91% of the drop in FDI inflows into Latin America and the Caribbean took place in the primary sector (See figure 2) despite receiving only 26% of the flows in 2011-2012.

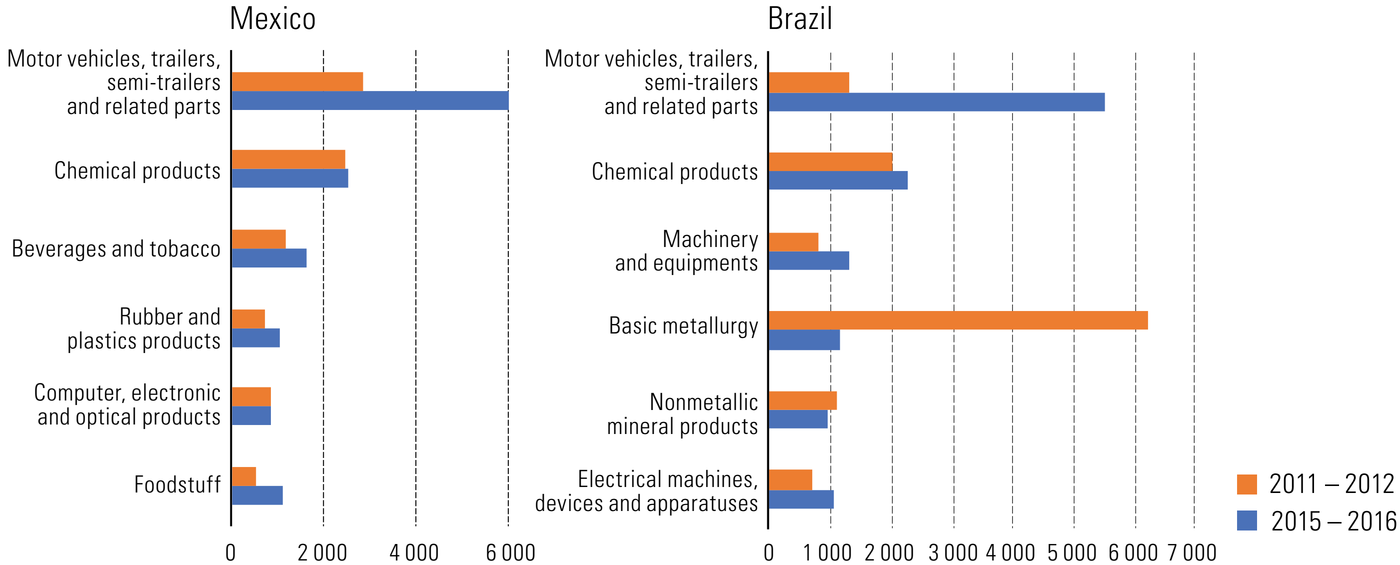
Figure 2. Annual average FDI flows in Latin America and the Caribbean by sector (selected countries) (Millions of dollars)



Note: Includes data from Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Dominican Republic and Uruguay. These countries represent 93% of FDI inflows into Latin America and the Caribbean.

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

Figure 3. Brazil and Mexico: annual average FDI inflows in selected manufacturing sectors (Millions of dollars)



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

Other sectors in the economy were not immune to the economic slowdown - or even recession in some large economies like Brazil. Investment opportunities in services and manufacturing for the domestic market declined along with consumption. FDI into services, accounting for half of total FDI received in the region, was 5% lower in 2016, although in specific sub-sectors inflows grew. Even more resilient were the investments in the manufacturing sector, which grew by 3% in this period.

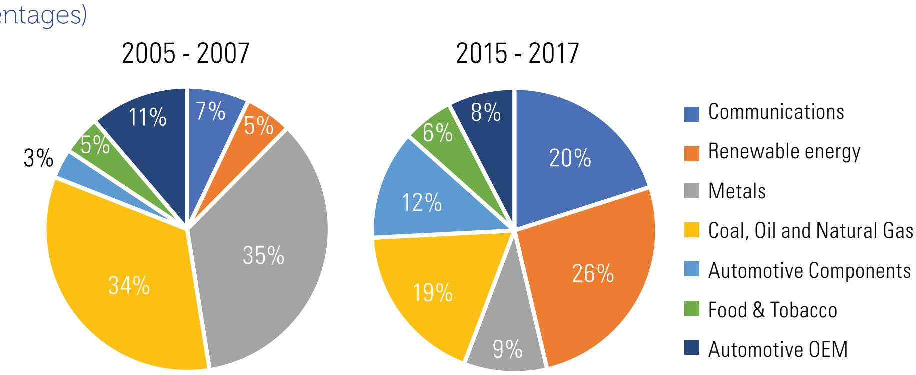
Beyond the current cycle, there are structural trends that should transform Latin American economies away from their current specialization in commodity production. The ongoing technological revolution, the fight against climate change and a greater awareness to promote investments that support sustainable development bring new business opportunities in Latin America and the Caribbean and foreign companies are responding to them.

FDI is supporting the transition to advanced manufacturing and the digital economy

Manufacturing is leading FDI in the largest economies in the region: 61% of total FDI inflows in Mexico and 38% in Brazil went to manufacturing. Robotics and cyber-physical systems are key to sustain a competitive position in advanced manufacturing and FDI has played a major role to promote technological advance.

The automobile industry, which is at the intersection between traditional manufacturing and digital capabilities, was the major host industry in Mexico and Brazil (see Figure 3). The shift to electric cars and autonomous vehicles is reshaping the industry globally from the supply and the demand side, and Mexico and Brazil, and to a lesser extent Argentina, have raised their productive capacities in recent years through massive FDI inflows that reached 22 billion in Mexico and 16 billion in Brazil between 2013 and 2016. Other important manufacturing sectors are also attracting more FDI than a few years ago; on the other hand, inflows into basic metallurgy (a sector whose development was closely linked to the commodity boom) were reduced by more than two thirds.

Figure 4. Latin America and the Caribbean: average announced investments by sector (Percentages)



Note: Included sectors account for 70% of total announced investments.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on Financial Times FDI Markets.

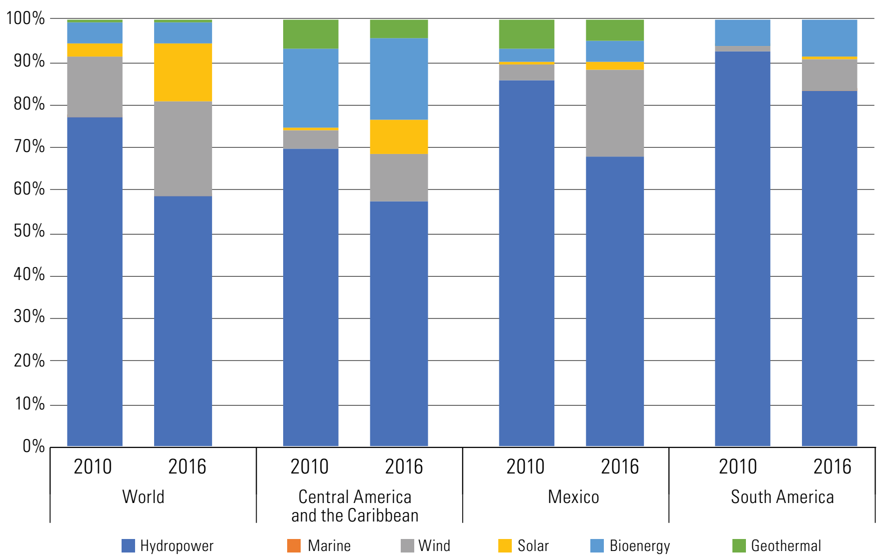
The advance of the new technological paradigm, which requires solid communications infrastructure, the promotion of renewable energies by governments and lower commodities prices, shifted announced investments in the region from natural resources to communications, renewable energy and the automotive industry (see Figure 4). While investments in metal mining and oil were reduced, the total announced value of investments in renewable energy, communications and the automotive industry grew from 18% to 42% between mid-2000 and 2015 – 2017.

Renewable energy continues to rise in Latin America and the Caribbean

Renewable energy sources have developed significantly in Latin America and the Caribbean in recent years, and the sector was the main recipient of new FDI projects (18% of total announcements) in 2016. Investments in new renewable energy, domestic and foreign, in 2017 reached 6.2 billion dollars each in Brazil and Mexico, 1.8 billion dollars in Argentina and 1.5 billion dollars in Chile. In all these countries investments were higher than the previous year, and most of the projects involved foreign companies.

Latin America is already the region with the highest percentage of renewable energy use, but following a global trend the renewable energy installed capacity is diversifying away from hydropower towards wind, solar and geothermal (see figure 3). Between 2005 and 2017 most investments in renewable energy in Latin America and the Caribbean were made in the solar (35%) and wind (32%) technology. Expanding renewable sources is helping the region to become more sustainable.

Figure 5. Selected regions: renewable energy installed capacity, 2010–2016 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on International Renewable Energy Agency (IRENA).

China diversifies away from extractive industries

Chinese investments became important in Latin America in 2010, when several large-scale projects in Brazil, Argentina and Peru were announced. Since then, Chinese FDI flows into the region have been estimated around 10 billion dollars annually, but up to 80% of them went into mining and hydrocarbons, an exceptional level of concentration in extractive industries

In 2017 Chinese investors in the region changed their strategy and expanded into services and manufacturing directed towards the internal market, mostly in Brazil, and slowed down their investments in the mining sector. The largest acquisitions were in the electricity sector, but they have also increased their exposure to finance, transport and manufacturing.

Watch the realeasing **video** of Foreign Direct Investment in Latin America and the Caribbean 2017, Briefpaper (Spanish version) **www.youtube.com/user/CEPALONU**

Foreign Direct Investment in Latin America and the Caribbean 2017, **pdf** download: **www.cepal.org/en/publications/42024-foreign-direct-investment-latin-america-and-caribbean-2017**

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April 2018
LC/M.2018/2