



2019

# Foreign Direct Investment in Latin America and the Caribbean



UNITED NATIONS

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2019

# Foreign Direct Investment in Latin America and the Caribbean



UNITED NATIONS



FOR SUSTAINABLE  
DEVELOPMENT WITH EQUALITY

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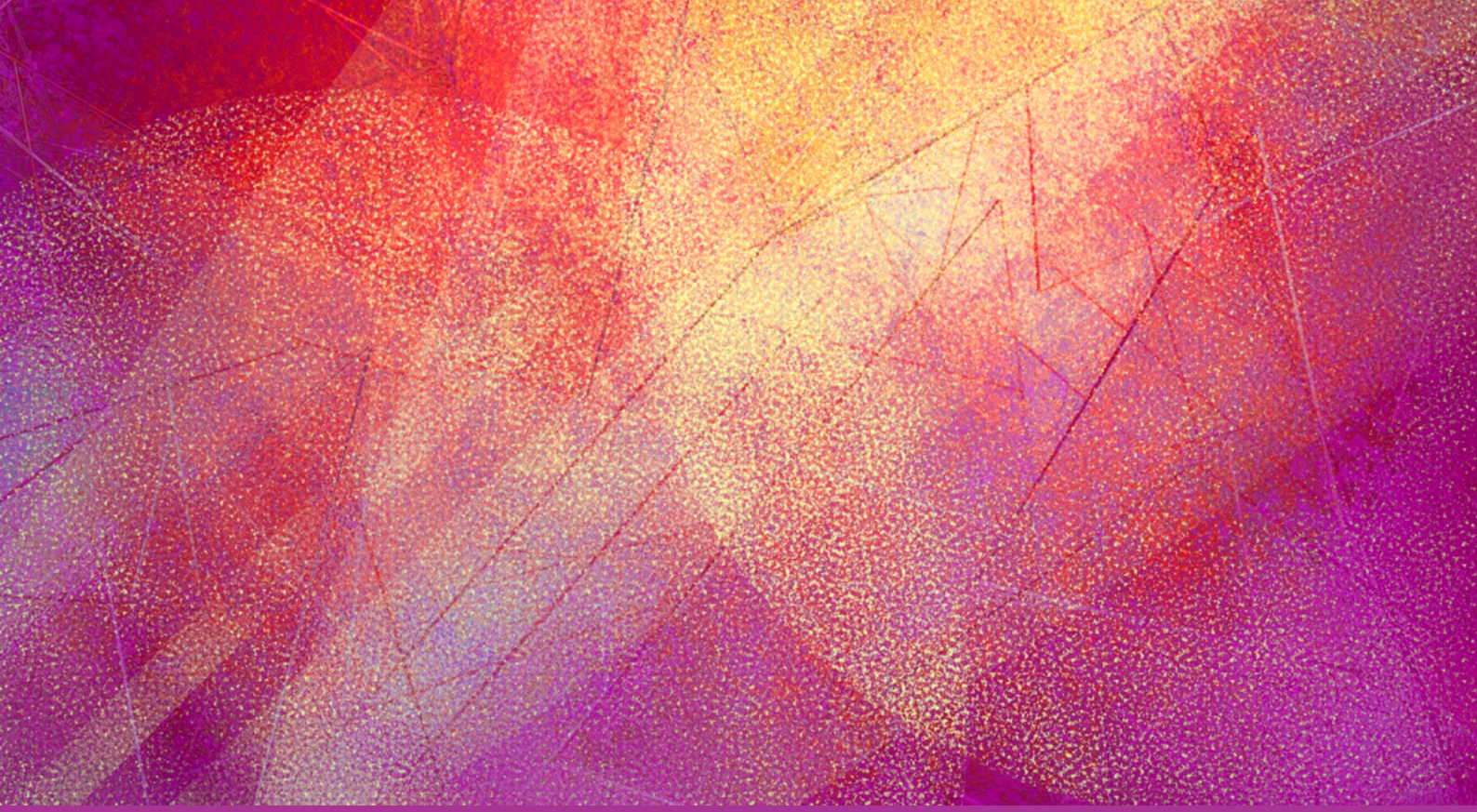
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# Executive summary

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- A. Overview of foreign direct investment in the region
- B. The Republic of Korea's multinational corporations and the economic restructuring of Latin America
- C. Foreign direct investment in the agrifood chain: an opportunity to move towards sustainable growth with greater value added



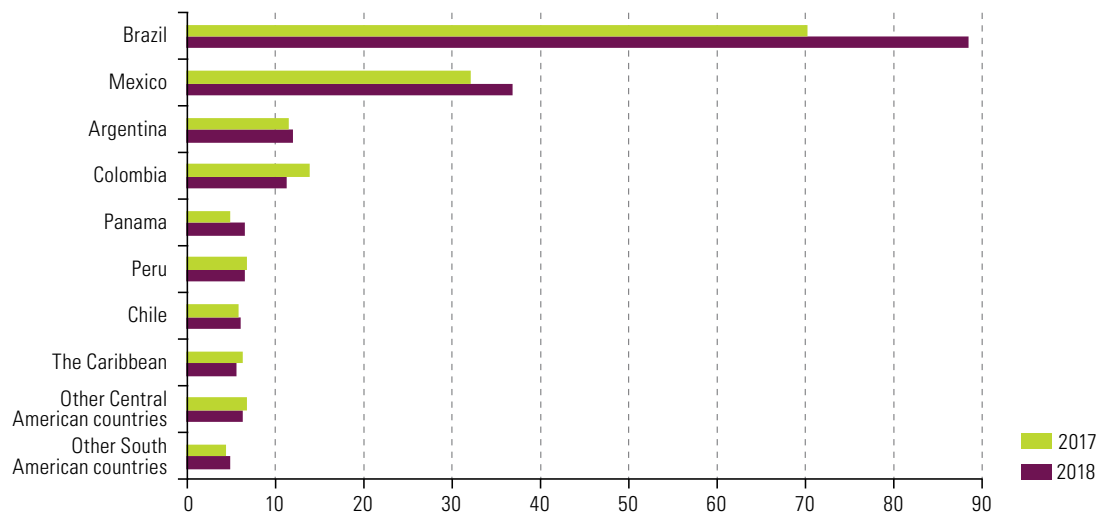
## A. Overview of foreign direct investment in the region

The global economic scenario grew more complex in 2018, amid tensions that went beyond countries' efforts to realign their balance of payments or promote national sectors affected by international competition. Tensions between the United States and China, and between the United States and the European Union, were not confined to the imposition of trade restrictions or closer scrutiny of investments for national security reasons, but increasingly involved concerns over control of strategic assets and advanced technologies, and defence policy.

Transnational corporations do not expect these conflicts to be resolved quickly and this is impinging on medium- and long-term decisions. On the one hand, firms may postpone or even cancel investments and, on the other, they may alter strategies that affect global value chains. In these conditions, in 2018 global inflows of foreign direct investment (FDI) were 13% lower than in 2017, at US\$ 1.3 trillion, similar to the figure recorded in 2010, the first year of recovery after the global financial crisis of 2008. This decline was sharpest in the developed economies (27%), chiefly in Europe, as the impact of the United States tax reform swelled repatriation of profits from Europe to the United States (which registered negative FDI outflows over the year). At the same time, FDI rose slightly in the developing economies (2%), where it has remained stable over the past few years. The expansion of Chinese investment outside Asia slowed, especially in the case of the United States and the European Union.

In Latin America and the Caribbean, FDI inflows were up (by 13.2%) year on year for the first time in five years, at US\$ 184.287 billion. This performance is explained by higher flows into just a few countries, however, mainly Brazil and Mexico (see figure 1). Moreover, it does not reflect equity investment, but higher inflows in the form of intercompany loans and, to a lesser extent, reinvestment of earnings. Manufactures and services were the sectors receiving most equity, although there was a slight rise in investment in natural resource sectors compared with 2018.

**Figure 1**  
Latin America (selected countries and subregions): FDI inflows, 2017–2018  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

**Note:** Information according to Balance of Payments and International Investment Position Manual (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname. No information has been available for the Bolivarian Republic of Venezuela since 2016.

Most of the capital entering the region came from Europe and the United States. Europe has a stronger presence in the Southern Cone, while the United States was the main investor in Mexico and Central America. Meanwhile, intraregional investments have a strong presence in Colombia and in Central America. It must be recalled, however, that official FDI statistics reflect the immediate origin of the capital and many of the flows coming into the region are routed through third countries, so their ultimate origin is not identifiable in the national accounts. This is particularly relevant in the case of Chinese investment, which tends to be underrepresented in the official statistics on FDI inflows by origin. Mergers and acquisitions conducted in 2018 show that Chinese firms made strategic investments in infrastructure and lithium mining in the region, but on a smaller scale than in 2017, especially in Brazil. Transactions by Asian firms thus represented 20% of all mergers and acquisitions in 2018 by amount, compared to 39% in 2017.

The main countries and regions of origin vary by sector. China has focused on acquiring firms in mining and agro-industry, power generation, utilities (electricity, gas and water) and infrastructure. The United States and European countries have a more diversified profile; although they have invested heavily in the same sectors as China, they have also engaged in mergers and acquisitions in high-tech industries (Internet, software and telecommunications). In 2018, however, the Chinese firm Didi Chuxing, a virtual ride-hailing platform, acquired the Brazilian firm 99 Taxi, marking a further step in the firm's regional market expansion strategy and breaking free from the traditional sectoral approach of China's investments in the region. The extension of the Belt and Road initiative to Latin America and the Caribbean also shows China's strategic interest in the region and by mid-2019, 18 of the region's countries, including 10 in the Caribbean, had already signed a memorandum of understanding with China under the initiative.

Lastly, disputes over trade, technology and security policy could lead, in the short run, to higher FDI inflows into sectors that are less affected by the policies deployed by the United States, China and the European Union. This could largely explain the increased interest in the extraction and processing of natural resources, which has been reflected in larger numbers of investment announcements worldwide. Even so, these potential future shifts in FDI are unlikely to be large enough to significantly alter flows to Latin America, as happened during the commodity price supercycle between 2007 and 2012.

In the high-tech sectors, and in the medium term, the international context seems to favour strategies aimed more at generating investment within the leading countries than promoting new FDI flows. Nonetheless, in the medium-technology sectors, a reorganization of international supply chains can be anticipated, which could involve countries in Asia and also some in the region (for example, Mexico), where transnationals have helped develop capabilities in several specific industries. An additional variable to be taken into account is the liquidity that has built up in United States transnationals throughout 2018, and the opportunities that the new tax rules offer to these firms. Nonetheless, the signs in 2018 suggest that United States companies are increasingly seeking acquisitions in Europe, rather than in Latin America.

Modest economic growth is forecast for the region in 2019: ECLAC expects GDP to grow by 0.2% in South America, and by slightly more in Mexico (by 1.0%), Central America (2.9%) and the Caribbean (2.1%).

These factors suggest that the FDI growth of 2018 is unlikely to be maintained in 2019, and inflows to the region could stumble by as much as 5%.

The international context and the global outlook for investment flows thus reveal the potential importance of FDI in helping to build local capabilities, promote sustainable

development and modify the structure of production in the region. As noted in previous reports, large FDI flows alone do not guarantee a contribution to the region's productive diversification and long-term growth.<sup>1</sup>

Achieving those objectives requires identifying and implementing policy guidelines to steer and coordinate the countries' investment priorities. In a world where policies are designed and executed according to large economic blocs, the possibilities for countries to advance individually are quite limited; and the risks of competing for the same sources of investment increase. In contrast, the search for coordination spaces and development plans shared between different countries offer opportunities, both to improve incentives for attracting foreign investment and to integrate FDI into more ambitious development strategies.

In this connection, the Comprehensive Development Plan for Central America,<sup>2</sup> for example, which encompasses El Salvador, Guatemala, Honduras and Mexico, represents an opportunity to propose joint guidelines and incentives to ensure that the activity of transnational corporations in the region contributes to the established development objectives.

Against an international backdrop of dwindling FDI flows and strong competition for investment, policies should not be geared towards recovering the size of FDI flows, but increasingly towards attracting the type of FDI that contributes to the formation of knowledge capital and fosters a shift towards sustainable patterns of production, energy and consumption. The growing incorporation of a sustainable development approach in the strategic decisions of the world's main transnationals provides an opportunity to design policies that support this paradigm shift.

## B. The Republic of Korea's multinational corporations and the economic restructuring of Latin America

The protagonist of one of the twentieth century's most notable development processes, the Republic of Korea began to record significant growth in its outward FDI in the mid-2000s and, by 2018, had become the fourth largest investor in Asia, with FDI outflows of US\$ 39 billion (3.8% of the world total).

Its overseas investments were characterized by the dominance of the large business conglomerates known as chaebol, which developed high levels of specialization in heavy industry and high-technology sectors. Those sectors were heavily promoted during the period of support for industrialization and exports that began in the mid-1960s before coming to an end following the 1997 financial crisis and the economy's liberalization process. From this process emerged companies (such as Samsung Electronics, Hyundai Motor Company and LG Electronics) that are today global leaders in highly sophisticated markets and pursue internationalization primarily by undertaking greenfield projects.

Latin America and the Caribbean has accounted for around 5% of the total FDI outflows by the Republic of Korea. After 2006, Korean FDI outflows to the region grew substantially, and it received an average of US\$ 1.7 billion a year between 2009 and 2018.

<sup>1</sup> See Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2018* (LC/PUB.2018/13-P), Santiago, 2018, and *Foreign Direct Investment in Latin America and the Caribbean, 2017* (LC/PUB.2017/18-P), Santiago, 2017.

<sup>2</sup> See Economic Commission for Latin America and the Caribbean (ECLAC), *Hacia un nuevo estilo de desarrollo. Plan de Desarrollo Integral El Salvador-Guatemala-Honduras-México. Diagnóstico, áreas de oportunidad y recomendaciones de la CEPAL* (LC/MEX/TS.2019/6), Mexico City, 2019.

Two notable elements arise from an analysis of the Republic of Korea's investments in the region, which distinguish the country from China, another leading Asian investor with a growing presence in the region. The first of these is the Korean companies' investment mode, in which greenfield projects are preferred, a characteristic shared by the country's FDI elsewhere in the world. That differentiates it from the recent growth of Chinese FDI in Latin America and the Caribbean, which is based on mergers and acquisitions. The second characteristic is their sectoral specialization, with the manufacturing industry one of the key activities.

Korean FDI flows into the region supported the development of the manufacturing industry in certain high value added segments, most particularly the automobile industry in Mexico and Brazil. The Korean presence has been expanding in almost all the region's countries and has specialized in certain activities, such as the textile industry in the early days, the automobile industry, electronics and steel, mining, construction and, more recently, the energy sector.

The sector specialization of Korean FDI, although focused on technologically complex activities, has not always contributed to building local capabilities in the countries of Latin America and the Caribbean. In the electronics industry, for example, most of the activities involve assembly processes using imported components and therefore leave few of the technological spillovers that could be expected from a business at the cutting edge of technology. By contrast, in the automobile and steel industries, Korean multinationals have provided substantial support for building the region's domestic capabilities. Korean companies are also making growing efforts to develop sustainable development strategies and an increasing number of them publish their sustainability reports in keeping with such global standards as those of the Global Reporting Initiative. A growing number are also listed on the Dow Jones Sustainability Index (DJSI), calculated jointly by S&P Dow Jones Indices and RobecoSAM, which is a signal not only of financial solvency but also social and environmental commitment. The establishment of Korean firms in the region thus offers an opportunity to weave a more sophisticated production fabric.

The experience of the Republic of Korea offers ideas for reflection regarding productive development policies in the region. The different stages of its development process highlight the importance of devising and designing a long-term strategy, and of ensuring the flexibility to adapt as circumstances change, in order to build local capabilities of the highest international standard. The Republic of Korea did not use inward FDI as a mechanism for funding industrial development and, moreover, until the mid-1980s, foreign companies were allowed into the country only in restricted areas and for specific purposes. The goal was to upgrade manufacturing and build local technological capabilities, which was achieved not only by controlling foreign investments but also—and most significantly—by supporting the creation and expansion of strategic industries, promoting exports and the consolidation of companies with minimum efficient scales, tightly controlling the output of those companies and the technologies they used and making major investments in research and development. The country's current vision is to build an inclusive and innovative State and, therefore, the Republic of Korea is redesigning its innovation system, which in the past was successful in rapidly adapting technologies developed by more advanced countries, such as the United States, Japan and Germany, in order to transform itself into a country with a pioneering innovation system that could drive disruptive innovations.

Thus, policies for securing and maintaining FDI acquire a broader meaning and a greater relevance in a context of development policies in which the different arenas for action (industry, technology and internationalization) are coordinated and integrated within a national development project.



This process represents an opportunity for forging even closer ties between the region's countries and the Republic of Korea in order to enhance the region's importance to Korean multinationals and raise those companies' impact on sustainable development processes in the countries of Latin America.

## C. Foreign direct investment in the agrifood chain: an opportunity to move towards sustainable growth with greater value added

The agricultural sector and the food, beverage and tobacco processing sector encompass several interrelated activities that contribute substantially to different aspects of the global and regional economy. Although the contribution of the sector to the world economy has been declining over the past 40 years, it has stabilized over the last decade and even increased slightly.

Various drivers of change can be expected to push up the demand for food in the coming decades and output will have to rise by 50% (according to estimates for 2012–2050) to meet the needs of a global population of 9.7 billion. At the same time, the environmental and productive performance of agriculture is of strategic importance for achieving the targets of the 2030 Agenda for Sustainable Development. Latin America and the Caribbean has great potential to tackle the enormous challenge of producing more food sustainably.

FDI going to agriculture and agro-industry in the region totaled US\$ 77 billion between 2012 and 2017. This represented almost 8% of total FDI flows received by the region during the period and exceeded the investment received in the previous half-decade. In the modern agrifood chain, value creation is concentrated mainly in non-primary production segments, for which reason 90% of FDI goes to the agro-industrial segment, where FDI inflows have also been growing.

FDI in the Latin American agrifood chain is concentrated in three countries: Brazil, Mexico and Argentina. At the same time, the flows received by the likes of Paraguay and Uruguay represent large percentages of their total FDI.

Mergers and acquisitions in this chain are worth far more than greenfield projects. In the past few years, the value of mergers and acquisitions was about double that of the projects announced, which indicates that transnational companies operating in the chain favour the purchase of existing assets in the region over the creation of new capacity. Mergers and acquisitions involving agrifood companies in Latin America and the Caribbean totalled US\$ 145 billion between 2005 and 2018 (7.8% of the regional total) and were on the rise. In the case of greenfield projects in the region's agrifood chain, the value announced was almost US\$ 60 billion in the 14 years of the series, and also showed an upward trend.

Brazil and Mexico have been the leading FDI destinations in the region. In terms of the origin of investment, most mergers and acquisitions have been conducted by trans-Latin firms, while greenfield projects originate mainly with European and United States firms. The main strategy for trans-Latins is to purchase existing assets in the region that already have a consolidated market position, a well-known brand or specific technological capabilities. Of the 20 largest mergers and acquisitions in the agrifood sector, 11 were carried out by Latin American companies, of which 7 were purchases of firms producing non-alcoholic beverages.

Beer features very prominently, but in this case the acquisitions were made by firms from Europe and the United States. Analysis of the regional beer market shows that it is polarized: the largest global companies dominate sales, while smaller local firms find niche markets with differentiated beers. The soybean chain is also analysed in detail, since this product occupies 34% of the region's sown land area. It has expanded rapidly and the development of production capacity has involved large multinationals at all stages. China is the main partner on the demand side, which makes the region heavily dependent on the situation in that market. Leading transnational corporations in the sector, Archer Daniels Midland (ADM), Bunge, Cargill and Louis Dreyfus, have sought protection against price volatility and the entry of new players through mergers and acquisitions.

In both the beer and the soybean chains, more sophisticated consumption patterns and pressure to reduce environmental footprints are shaping the strategies of transnational corporations. They have begun to reduce monocropping and afford emphasis to responsible production, as well as developing schemes to reduce water and energy consumption and their carbon footprints and to benefit local communities. In this regard, FDI can contribute to the shift that is needed in the region's agrifood chains to face the environmental and social challenges of the coming decades. However, public institutions must take urgent steps to channel FDI towards strategic, higher value added links in the chain if those changes are to benefit the region in a sustainable manner.

# Overview of foreign direct investment in the region

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- A. The international context: prolonged tensions expected
- B. A steeper decline in Europe
- C. Growth in the region's major recipients halted the slide in FDI
- D. New strategies for Latin American investments abroad
- E. Conclusions
- F. Country analysis: FDI inflows followed disparate trends in all subregions

Bibliography

Annex I.A1



Click on this icon to open the Excel file containing the data for the tables and figures presented in this chapter.



## A. The international context: prolonged tensions expected

Global foreign direct investment (FDI) declined for the third consecutive year in 2018, with flows weakening to US\$ 1.3 trillion—similar to the amount recorded in 2010, which was the first year of recovery following the global financial crisis of 2008.

Several factors contributed to this adverse performance. The first was the tax reform introduced in the United States in December 2017, which had a significant influence on FDI flows. Many of that country's transnational corporations took advantage of the reform by repatriating large amounts of accumulated profits. This led to a sharp 55% drop in FDI inflows to Europe, which have in fact turned negative in some countries (for example, Ireland, Luxembourg and Switzerland).

The impact of the reform was more pronounced in the first half of the year,<sup>1</sup> when global FDI flows declined by 40% relative to the year earlier period; and it is highly likely that this will have less of an influence in 2019.<sup>2</sup>

A second factor to be taken into consideration is the international scenario which seems increasingly to be characterized by alternating commitments and tensions. The trade disputes between the United States and China fostered a climate of uncertainty throughout 2018 that has gradually generated expectations, among transnational corporations, of a prolonged conflict that goes beyond countries' efforts to realign their balance of payments or promote national sectors affected by international competition. In 2019 these expectations have been borne out with the imposition by the United States of tariffs on a list of products from China worth US\$ 200 billion, to which the latter responded by increasing pre-existing tariffs on US\$ 60 billion worth of United States products from 10% to 25%.

In addition, the United States placed restrictions on its firms' collaboration on software and hardware issues with Chinese companies; and the Chinese Ministry of Commerce announced that it would create its own "unreliable entity list". This would include foreign firms that could endanger China's national security, or do not respect their contractual obligations towards Chinese firms, or adopt measures to discriminate against them. These actions underscore the breadth of the conflict, which includes technological and national security aspects.

Elsewhere, weaker-than-expected economic growth in Europe (1.9% in 2018),<sup>3</sup> in conjunction with the political changes that have taken place in several countries and the United Kingdom's impending exit from the European Union (Brexit), have generated a more complex FDI scenario.

Europe also has worries over the control of strategic assets that could affect the security or control of advanced technologies. These concerns are spawning regulations and instruments that steer the industrial policies of European countries and affect FDI flows. An example is the March 2019 approval by the European Parliament of a regulation for the screening and selection of FDI inflows, for reasons of security or public order, but also with the aim of protecting the European Union's interests in strategic sectors (European Union 2019; ECLAC, 2018).

<sup>1</sup> For example, profit reinvestment by United States transnational corporations posted a negative value of US\$ 200 billion in the first six months of 2018, compared to a positive US\$ 168 billion in the year-earlier period.

<sup>2</sup> The reform introduces a major change in the taxation of transnational corporations in the United States. Previously, these firms paid United States taxes on the profits made by their foreign subsidiaries, once these were distributed in the form of dividends in the United States. Since 2018, however, such profits are exempt from payment of the tax provided the United States corporate shareholder owns at least 10% of the foreign entity. As a transition to the new system, the law provides for a mandatory repatriation of profits accumulated abroad until 2017 at a rate of 15.5% of the cash held in such subsidiaries, and 8% on the profits reinvested in the firm's businesses. The resulting tax can be paid in instalments over a period of eight years. In addition, corporate tax in the United States has been cut from 35% to 21%, with a view to fostering investment in the country.

<sup>3</sup> The GDP of the 28 countries of the European Union grew by 2.4% in 2017; and forecasts indicated growth of 2.1% up to October 2018.

The European Union approved the creation of the European Defence Fund (with initial financing of 11.5 billion euros). This had the twin aims of promoting innovation and enabling economies of scale in defence research and industrial development by supporting collaborative projects, and of strengthening the competitiveness and innovation capacity of the technological and industrial base of the defence sector. The Fund allows participation by companies from third countries, but subject to certain conditions, such as that the intellectual property of the project must remain in the possession of European companies and that the external country cannot restrict the export of the resulting product.

The two aforementioned initiatives firstly affect FDI flows by Chinese companies (in particular mergers and acquisitions); and, secondly, they show that the European Union is also involved in the global struggle to control advanced and strategically important technologies.

The potential for a broader-scope conflict (encompassing trade, technology and security) alters medium- and long-term business decisions; and it causes investments to be postponed or cancelled, and strategies affecting the structure of global value chains to be modified.

In the latter case, global supplier networks in several sectors are likely to change in the coming years, giving rise to a variety of opportunities for developing economies; and, in the short-term, a number of countries could replace exports from the United States in the Chinese market and vice-versa.

A study by Natixis Bank finds that Viet Nam and, to a lesser extent, Indonesia and India may have possibilities in the short term to replace some of China's exports in labour-intensive sectors (such as in the production of garments, clothing accessories, shoes, furniture, leather and so forth). Nonetheless, this substitution would be limited by the dominance that China has been acquiring in the world markets for these products (Natixis 2018).

Moreover, as a large proportion of China's restrictions on products from the United States affect primary goods (soybeans and soybean oil in particular), some Latin American countries could also benefit (especially Argentina and Brazil).

In the medium term, the international context could produce shifts in global value chains and provide incentives for investments in third countries. In this case Viet Nam, Indonesia and India could attract larger investments in labour-intensive goods chains, while Thailand would be well placed for investments in medium-technology products (such as agricultural machinery, electrical appliances, autoparts or electronic medical equipment) (Natixis 2018).

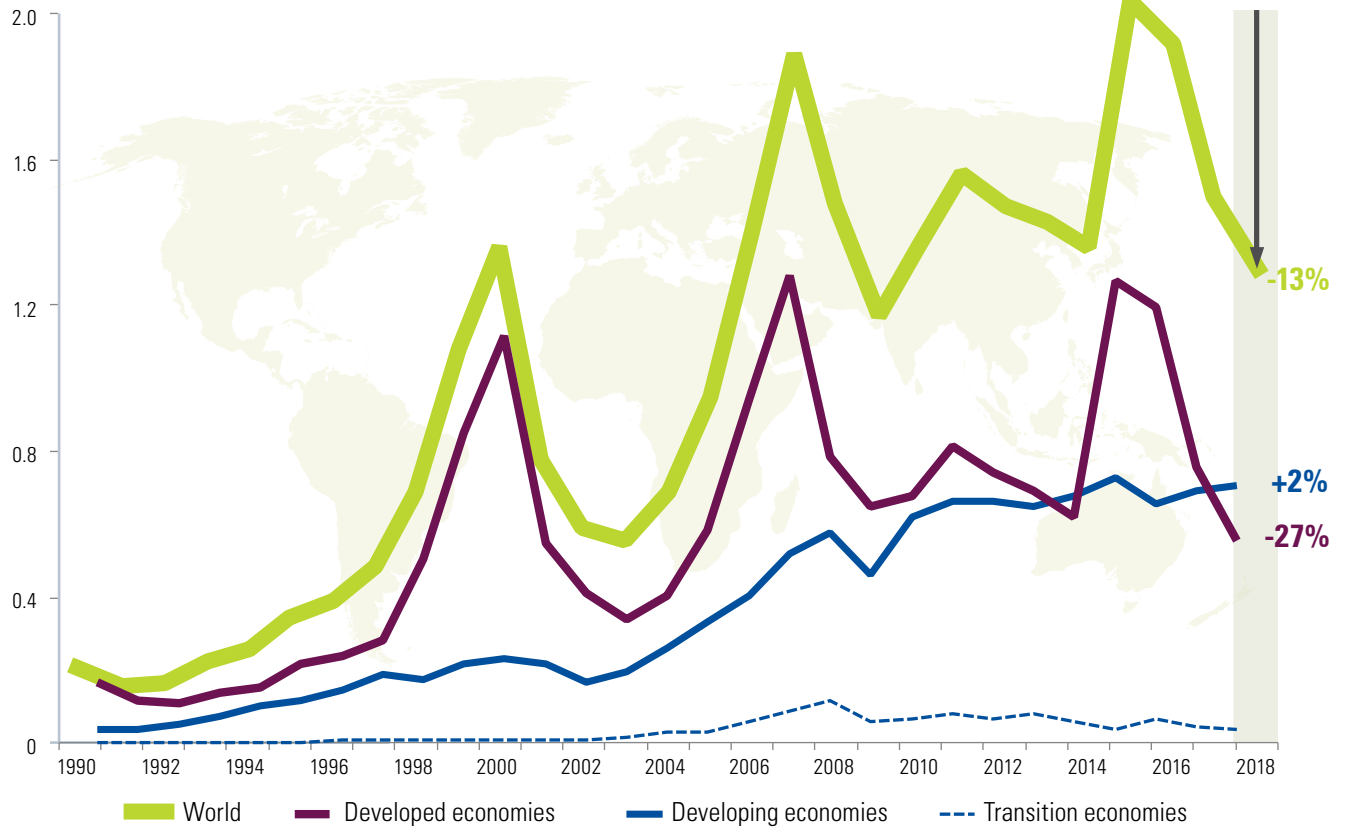
In Latin America, Mexico could benefit from larger investments in medium-technology sectors by transnationals wishing to exploit its potential as a platform for entering the United States market.

## B. A steeper decline in Europe

The fall in FDI was steepest in developed economies (-27%), while flows into the developing economies increased slightly (by 2%). The latter, as a result of the changes mentioned above, grew to account for 54% of global FDI flows, the highest percentage ever recorded (see figure I.1). In contrast, in the transition economies, inflows dropped by 28%, and even more steeply in the case of the Russian Federation (-50%).

The absolute-value variations between 2017 and 2018 demonstrate the collapse of FDI in Europe (see figure I.2). The United States also saw a fall in 2018 (-9%), from US\$ 277 billion to US\$ 252 billion.

**Figure I.1**  
Global FDI inflows, by groups of economies, 1990–2018  
(Trillions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2019*, Geneva, 2019.



**Figure I.2**  
Variation in global FDI inflows, by selected regions and country groupings, 2017–2018  
(Billions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2019*, Geneva, 2019.

Among the developing economies, FDI increased in Asia (+4%), Africa (+11%) and Latin America and the Caribbean (+13%) (see table I.1). The region now receives 14% of all FDI flows, more than the average for 2008–2012, when the world economy was marked by the commodity price supercycle. Nonetheless, the current value of world FDI is less than in that earlier period; and there are other aspects of FDI growth in Latin America and the Caribbean that put this larger share into perspective, as will be analysed in the following section.

**Table I.1**

Global inflows of foreign direct investment, rates of change and distribution by region, 2008–2018 

Grouping by region	Investment inflows (billions of dollars)							Variation (percentages)						Investment inflows (percentages)						
	2008-2012 <sup>a</sup>	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2008-2012 <sup>a</sup>	2013	2014	2015	2016	2017	2018
<b>World total</b>	<b>1 410</b>	<b>1 431</b>	<b>1 357</b>	<b>2 034</b>	<b>1 919</b>	<b>1 497</b>	<b>1 297</b>	<b>-3</b>	<b>-5</b>	<b>50</b>	<b>-6</b>	<b>-22</b>	<b>-13</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Developed economies</b>	<b>734</b>	<b>695</b>	<b>623</b>	<b>1 269</b>	<b>1 198</b>	<b>759</b>	<b>557</b>	<b>-6</b>	<b>-10</b>	<b>104</b>	<b>-6</b>	<b>-37</b>	<b>-27</b>	<b>52</b>	<b>49</b>	<b>46</b>	<b>62</b>	<b>62</b>	<b>51</b>	<b>43</b>
European Union	373	345	266	636	556	341	278	-8	-23	139	-13	-39	-18	26	24	20	31	29	23	21
United States	215	201	202	468	472	277	252	1	0	132	1	-41	-9	15	14	15	23	25	19	19
<b>Economies in transition</b>	<b>78</b>	<b>84</b>	<b>57</b>	<b>36</b>	<b>65</b>	<b>48</b>	<b>34</b>	<b>29</b>	<b>-32</b>	<b>-36</b>	<b>78</b>	<b>-26</b>	<b>-28</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Developing economies<sup>b</sup></b>	<b>598</b>	<b>653</b>	<b>677</b>	<b>729</b>	<b>656</b>	<b>691</b>	<b>706</b>	<b>-2</b>	<b>4</b>	<b>8</b>	<b>-10</b>	<b>5</b>	<b>2</b>	<b>42</b>	<b>46</b>	<b>50</b>	<b>36</b>	<b>34</b>	<b>46</b>	<b>54</b>
Latin America and the Caribbean	166	200	195	174	164	163	184	-6	-3	-11	-6	0	13	12	14	14	9	9	11	14
Africa	53	50	54	57	46	41	46	-12	8	6	-18	-11	11	4	3	4	3	2	3	4
Developing Asia economies	386	415	460	514	473	493	512	2	11	12	-8	4	4	27	29	34	25	25	33	39

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2019*, Geneva, 2019; and official figures and estimates for Latin America and the Caribbean.

<sup>a</sup> Simple average.

<sup>b</sup> The figure does not coincide with the sum of the subregions, since the figure for Latin America and the Caribbean was not obtained from United Nations Conference on Trade and Development (UNCTAD).

In China, FDI inflows grew by 3.7%, confirming that country as the world's second largest recipient, after the United States.

In 2018, China's outward FDI declined for the second straight year, this time by 18%. This is partly explained by the Chinese authorities' instructions to redirect the investments of Chinese transnationals towards national priorities (the "One Belt, One Road" programme and the "Made in China 2025" industrial development strategy), implementation of which began in 2017. The controls and restrictions imposed in certain high-tech sectors, by the United States and by the countries of the European Union, also help to explain the slower pace of acquisitions by Chinese transnationals.

This can be discerned most clearly in mergers and acquisitions (M&A) by Chinese firms in the United States, the value of which has fallen sharply from almost US\$ 30 billion in 2017 to just over US\$ 12 billion in 2018 (after an all-time high that topped US\$ 51 billion in 2016). Mergers and acquisitions are a type of investment that affords immediate access to technological capacities, market positions, energy generation, natural resources or infrastructure. As a result, they have considerable importance in the global strategies of economic and technological leadership. Chinese companies' acquisitions in Europe display similarities with what is happening in the United States, although the reduction in total amounts is less pronounced: from US\$ 42.262 billion in 2017 to US\$ 28.659 billion in 2018 (see figure I.3).

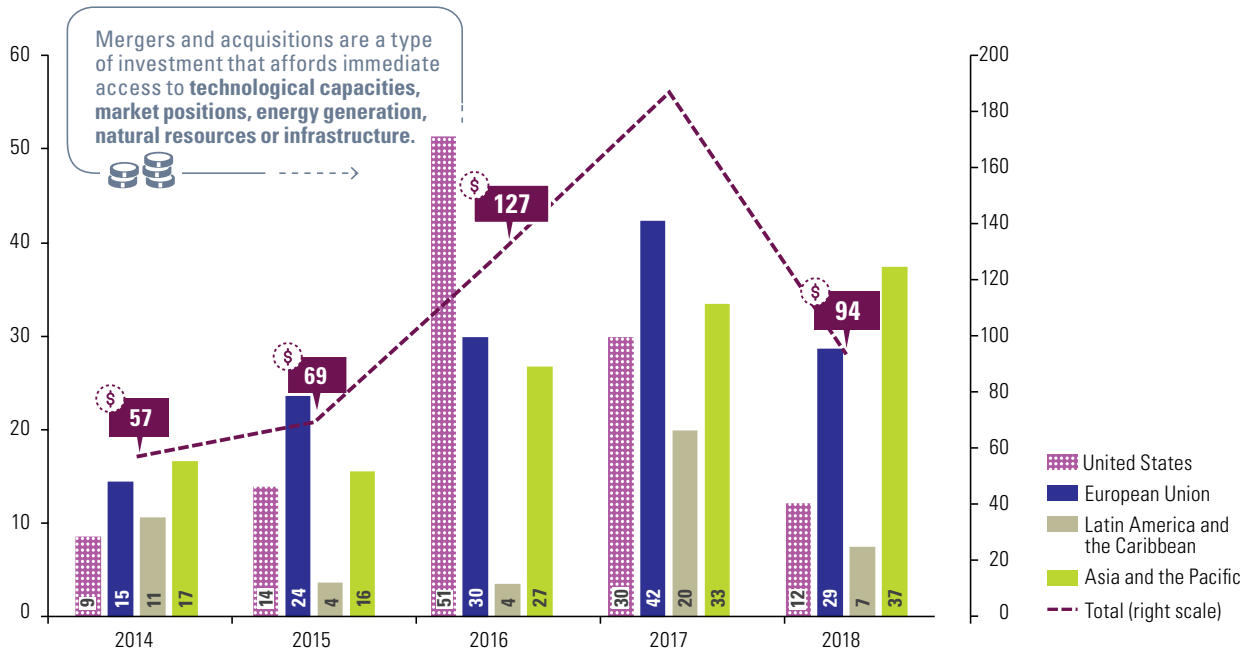
Globally, the value of cross-border M&A grew by 18% in 2018 compared to 2017, to reach a level of US\$ 816 billion. A large portion of this increase may be associated with the changes introduced by the reform of the United States tax system. The liquidity generated through profit repatriation and changes made to the taxation of income earned abroad may



have created foreign investment opportunities for United States firms. In fact, acquisitions by such firms have increased by 120% over the previous year, to US\$ 253.254 billion; and nearly half of this amount involved transactions undertaken in the fourth quarter of 2018 (UNCTAD 2019). The fact that most of these have targeted European firms explains much of the growth in the European Union’s share as an M&A destination (see figure I.4).

Figure I.3

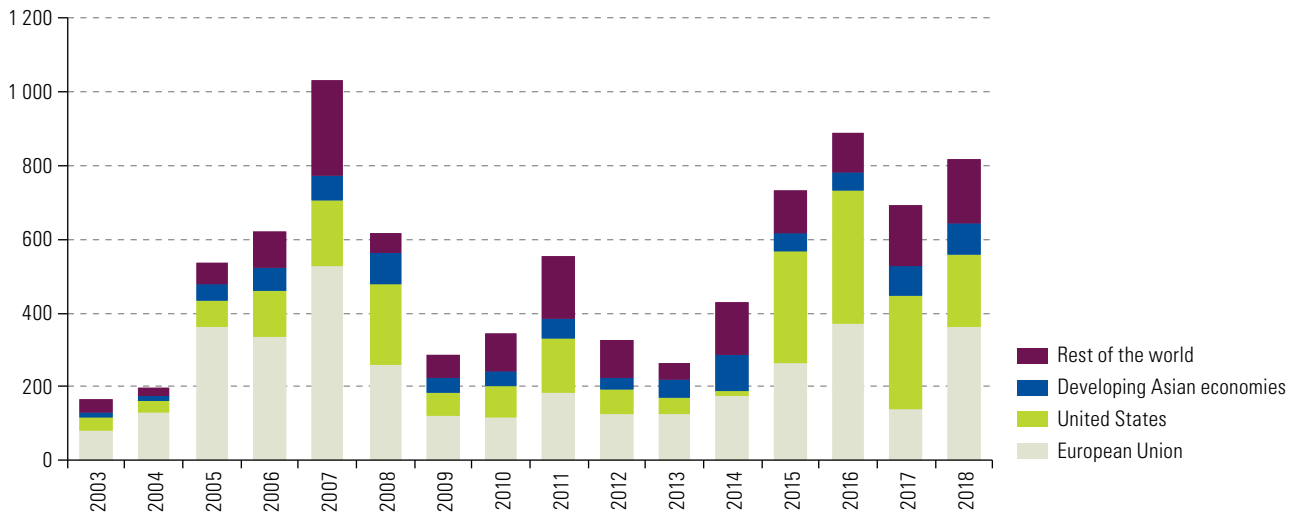
China: mergers and acquisitions, by target region or country, 2014–2018 [🔗](#)  
(Billions of dollars)



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

Figure I.4

Net cross-border mergers and acquisitions, by target region or country, 2003–2018 [🔗](#)  
(Billions of dollars)



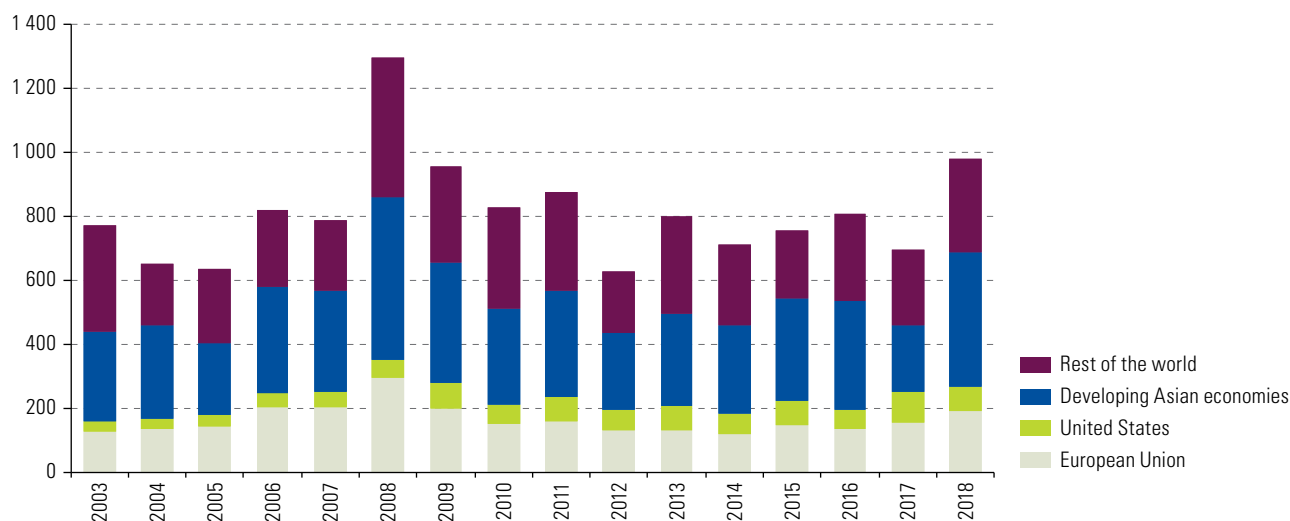
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2019*, Geneva, 2019.

Note: Data for net cross-border mergers and acquisitions used by the United Nations Conference on Trade and Development (UNCTAD) refer to the sales value of companies in the recipient economy to foreign companies, minus the sales value of foreign affiliates in the recipient economy.

In 2018, there was also an increase in the value of investment announcements, which totalled US\$ 980.669 billion, up by 41% on the previous year's level, and the highest value since the peak of 2008 (see figure I.5).

This can be attributed mainly to the growth of investment in developing economies in Asia (up by 101% over the previous year) which accounts for 42% of the total amount by destination.

**Figure I.5**  
FDI announcements, by destination, 2003–2018 [🔗](#)  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2019*, Geneva, 2019.

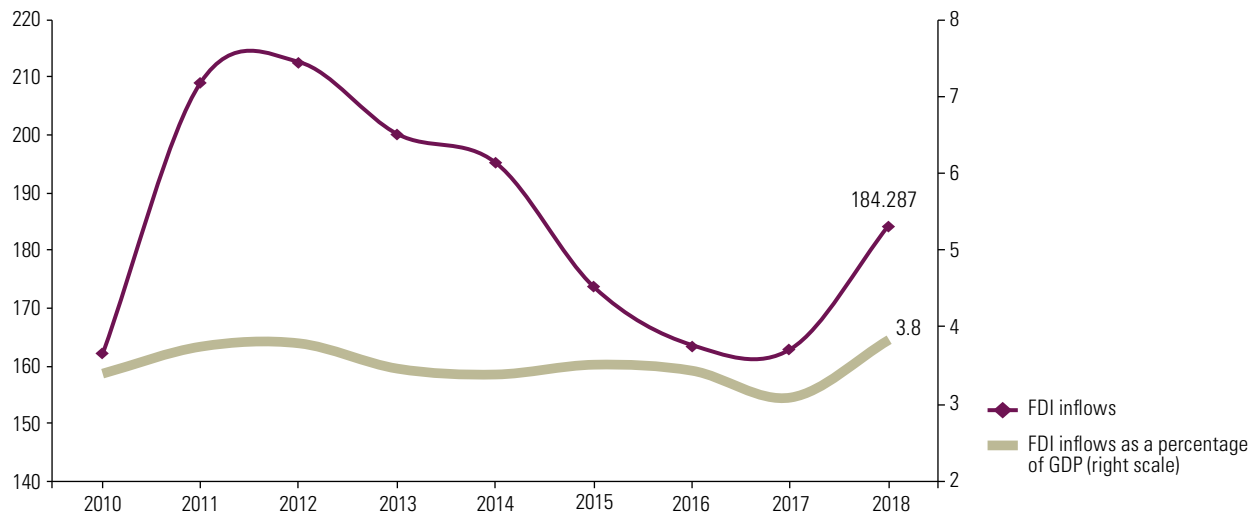
In sectoral terms, there is a certain bias towards commodities and the processing of raw materials. Projects associated with the primary sector are up by 47% in number and by 101% in value terms, due mainly to planned metallic mining projects. Manufacturing projects have also grown by 35% in value terms to represent 48% of the total; but the largest increases occurred in the oil and hydrocarbon derivatives sectors.

## C. Growth in the region's major recipients halted the slide in FDI

### 1. FDI inflows grew by 13.2% in 2018

Foreign direct investment totalling US\$ 184.287 billion entered Latin America and the Caribbean in 2018, 13.2% more than in the previous year. Although the declining trend of the last five years was halted, FDI did not regain the volume of the boom years (see figure I.6), when the expansion of the extractive industries and the buoyancy of the economies attracted attention from transnational corporations. Moreover, as will be seen below, this recent growth is explained by just a few countries and by components of FDI that do not necessarily reflect a growing desire among foreign investors to set up new business in the region. Nonetheless, and given the weak GDP growth of 2018, the FDI share of output grew from 3.1% to 3.8% (the all-time high was 4.5% in 1999).

**Figure I.6**  
Latin America and the Caribbean: FDI inflows, 2010–2018 [🔗](#)  
(Billions of dollars and percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as of 23 July 2019.

**Note:** Information based on the sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6) (IMF, 2009), except in the cases of the Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname. No information has been available for the Bolivarian Republic of Venezuela since 2016.

Larger investments in Brazil and Mexico, and to a lesser extent in Argentina, Ecuador and Panama, underpinned this growth (see table I.2). Investment flows into Chile grew slightly for the second year running, but they are still clearly below the average of the last decade.

In 2018, the five countries with the largest investments were Brazil (accounting for 48% of the total), Mexico (20%), Argentina (6%), Colombia (6%), although investment was lower than in 2017) and Panama (4%).

In a medium-term comparison, despite the growth of FDI in Brazil in 2018, the levels attained in 2011 or 2012 have not yet been regained; and the falls relative to this period are steeper in Chile, Colombia, Peru or the Plurinational State of Bolivia, where investments in extractive industries grew vigorously during the commodity price boom and have not returned to those levels. In Mexico, on the other hand, FDI inflows grew in 2018 to above the US\$ 31 billion average recorded between 2010 and 2017. Despite being in recession, Argentina posted the decade's second highest value in 2018, while Ecuador received the largest FDI inflow since the 1990s, owing to investment in extractive sectors.

Panama was the only country in the region to attract increasing investment throughout the last decade, rising from ninth to fifth in the ranking of FDI recipients between 2010 and 2018. In the latter year it absorbed more investment than Chile, one of the most important markets for transnationals looking to invest in Latin America and the Caribbean. The Panama Canal expansion and the country's development as a logistics and transport hub, together with a sustained defined strategy to attract investment in services, have driven FDI growth and positioned Panama as a platform for access to the region.

Table I.2

Latin America and the Caribbean: FDI inflows, by recipient country and subregion, 2005–2018 

(Millions of dollars and percentage variations)

Country	2005-2009 <sup>a</sup>	2011	2012	2013	2014	2015	2016	2017	2018	Absolute difference 2018–2017	Relative difference 2018–2017 (percentage)
<b>South America<sup>b</sup></b>	<b>68 302</b>	<b>170 076</b>	<b>181 188</b>	<b>138 053</b>	<b>142 604</b>	<b>119 175</b>	<b>110 340</b>	<b>112 740</b>	<b>128 994</b>	<b>16 254</b>	<b>14.4</b>
Argentina	6 204	10 840	15 324	9 822	5 065	11 759	3 260	11 517	11 873	356	3.1
Bolivia (Plurinational State of)	259	859	1 060	1 750	657	555	335	712	316	-397	-55.7
Brazil <sup>b</sup>	32 331	102 427	92 568	75 211	87 714	60 334	73 378	70 258	88 319	18 061	25.7
Chile	12 170	24 150	30 293	20 825	23 736	21 056	12 136	5 852	6 082	230	3.9
Colombia	8 894	14 647	15 039	16 209	16 167	11 723	13 850	13 836	11 352	-2 484	-18.0
Ecuador	465	646	567	727	772	1 323	769	619	1 408	789	127.5
Paraguay	137	581	697	245	412	308	371	456	454	-2	-0.4
Peru	4 978	7 682	13 622	9 826	3 930	8 314	6 739	6 860	6 488	-373	-5.4
Uruguay	1 461	2 504	6 044	758	3 830	2 420	-498	2 630	2 702	73	2.8
Venezuela (Bolivarian Republic of)	1 403	5 740	5 973	2 680	320	1 383	...	...	...		
<b>Mexico</b>	<b>26 273</b>	<b>24 727</b>	<b>17 749</b>	<b>47 269</b>	<b>31 770</b>	<b>37 033</b>	<b>35 834</b>	<b>32 005</b>	<b>36 871</b>	<b>4 866</b>	<b>15.2</b>
<b>Central America</b>	<b>5 815</b>	<b>9 061</b>	<b>9 213</b>	<b>10 498</b>	<b>11 697</b>	<b>11 784</b>	<b>11 776</b>	<b>11 698</b>	<b>12 798</b>	<b>1 100</b>	<b>9.4</b>
Costa Rica	1 584	2 733	2 696	3 205	3 242	2 956	2 620	2 856	2 764	-92	-3.2
El Salvador	662	218	466	179	306	396	348	889	840	-49	-5.5
Guatemala	640	1 026	1 245	1 295	1 389	1 221	1 185	1 170	1 032	-138	-11.8
Honduras	742	1 014	1 059	1 060	1 417	1 204	1 139	1 186	1 226	40	3.4
Nicaragua	394	936	768	816	884	950	899	772	359	-413	-53.5
Panama	1 792	3 132	2 980	3 943	4 459	5 058	5 585	4 826	6 578	1 752	36.3
<b>The Caribbean</b>	<b>6 611</b>	<b>5 377</b>	<b>4 566</b>	<b>4 399</b>	<b>8 734</b>	<b>5 580</b>	<b>5 684</b>	<b>6 349</b>	<b>5 623</b>	<b>-726</b>	<b>-11.4</b>
Antigua and Barbuda	237	68	138	101	46	114	97	157	135	-22	-13.9
Bahamas	1 265	1 409	1 034	1 590	3 551	865	1 260	901	947	46	5.1
Barbados	429	455	535	111	593	153	6	121	91	-31	-25.2
Belize	131	95	189	95	133	65	44	26	120	94	366.3
Dominica	45	35	59	25	14	11	41	24	13	-11	-44.9
Dominican Republic	1 782	2 277	3 142	1 991	2 209	2 205	2 407	3 571	2 535	-1 035	-29.0
Grenada	117	45	34	114	104	153	114	139	154	15	10.8
Guyana	135	247	294	214	255	122	58	212	495	283	133.2
Haiti	69	119	156	162	99	106	105	375	105	-270	-72.0
Jamaica	882	218	413	545	582	925	928	889	775	-114	-12.8
Saint Kitts and Nevis	136	112	110	139	120	129	117	40	94	53	132.6
Saint Lucia	183	100	78	95	93	154	144	38	40	2	6.2
Saint Vincent and the Grenadines	108	86	115	160	110	119	79	153	110	-43	-28.1
Suriname	-141	70	174	188	164	267	309	161	190	29	18.3
Trinidad and Tobago	1 232	41	-1 904	-1 130	661	194	-24	-457	-180	277	60.6
<b>Total<sup>b</sup></b>	<b>107 001</b>	<b>209 240</b>	<b>212 715</b>	<b>200 219</b>	<b>194 805</b>	<b>173 572</b>	<b>163 634</b>	<b>162 793</b>	<b>184 287</b>	<b>21 494</b>	<b>13.2</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates as of 23 July 2019.

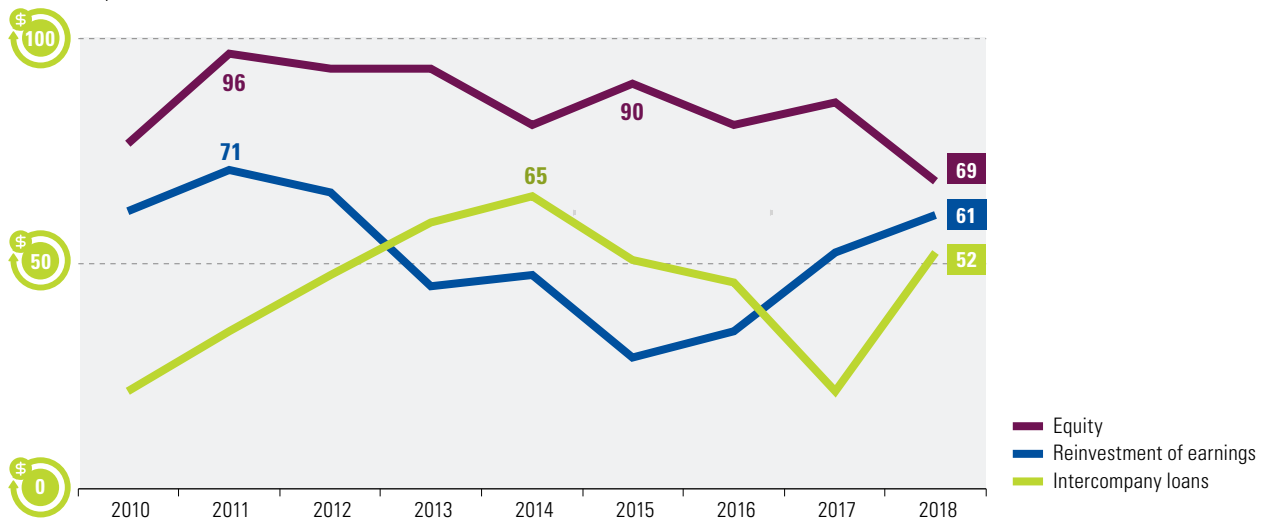
Note: Information according to *Balance of Payments and International Investment Position Manual* (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname.

<sup>a</sup> Simple averages.

<sup>b</sup> Owing to methodological changes in Brazil, data prior to 2010 are not directly comparable with those for 2010 and beyond.

An analysis of the different components of FDI shows that the recovery of inflows in 2018 was not driven by equity, which would be the strongest indicator of renewed interest among firms in setting up new business in the region's countries, but instead by reinvested earnings and intercompany loans (see figure I.7). Although equity inflows fell by 20%, they remained the main component of FDI (38% of the total). In contrast, the reinvestment of earnings, which would reflect the confidence of established firms in the region, grew by 16%, to account for 33% of the total; but FDI inflows in the form of loans between affiliates and their parent companies was the strongest-growing component (+138%), representing 29% of total FDI.

**Figure I.7**  
Latin America and the Caribbean: FDI inflows by component, 2010–2018 [↗](#)  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

**Note:** Information according to *Balance of Payments and International Investment Position Manual* (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname. Belize, the Bolivarian Republic of Venezuela, Suriname, and Trinidad and Tobago are excluded because no data are available for 2018; and El Salvador, Guyana, Haiti, Jamaica, Nicaragua are excluded because no data are available by component. The component data for the Plurinational State of Bolivia represents gross FDI inflows.

Inflows in the form of intercompany loans are difficult to interpret in terms of FDI for development, since these are transactions within firms in which it is impossible to infer the intention of the investment and its consequent impact. The growth of investments in Brazil, Mexico and Panama was explained precisely by an increase in intercompany lending and, to a lesser extent, by the reinvestment of earnings —increases that mitigated the reduction in equity inflows in these markets. In Argentina, on the other hand, inflows in the form of intercompany loans declined and equity increased; while in Chile and Colombia the component that expanded was profit reinvestment (which in Colombia failed to make up for the reduction in the other components).

Half of the capital received in the form of intercompany lending in 2018 represented loans from the foreign affiliates of Brazilian firms to their parent companies in Brazil. According to the methodology of the IMF *Balance of Payments and International Investment Position Manual*, sixth edition (BPM6), loans from affiliates to parent companies are recorded as FDI inflows. In Brazil, US\$ 32.32 billion were received in the form of intercompany loans and 81% corresponded to credits from Brazilian affiliates to their parent firms —the rest are loans from foreign firms to their affiliates in Brazil. Under the BPM6 assets and liabilities criterion, these capital inflows are liabilities for the country (irrespective of the ownership of the entity that supplied the funds in question) and are thus recorded as FDI inflows (see box I.1). Thus, although more foreign exchange entered the country and the region in the form of FDI, the fact is that this growth partly corresponded to lending between trans-Latin firms, mainly Brazilian and to a lesser extent Mexican.

**Box I.1****Methodologies for recording FDI and its impact on the analysis of flows to the region**

The countries of Latin America and the Caribbean use two methodologies to record FDI inflows and outflows: the *IMF Balance of Payments and International Investment Position Manual*, fifth edition (BPM5), which applies a directional criterion, and the more recent *Balance of Payments, International Investment Position Manual*, sixth edition (BPM6), which uses an assets and liabilities criterion.

Most of the countries in Latin America and the Caribbean are already using BPM6 (only nine do not); and all countries are gradually expected to adopt this more recent approach. In some cases, including Brazil and Mexico, the official data are currently being presented in both formats.

In this publication, ECLAC uses the official data published in BPM6 (assets and liabilities criterion) when available. In contrast, the *World Investment Report* published by the United Nations Conference on Trade and Development (UNCTAD) mainly uses the information in BPM5. This difference in methodological criteria generates a discrepancy in the trend of flows to the region in 2018. With the BPM6 data, inflows into the region grew by 13.2%; but the BPM5 data show them diminishing by 5.6% (UNCTAD, 2019).

This discrepancy stems from the methodology for recording FDI inflows and outflows, and in particular, in the data for Brazil (48% of total FDI inflows to the region in 2018) and in those for Mexico (20% of the total).

In Brazil, for example, according to the data used by ECLAC (BPM6), FDI inflows grew 26% in 2018, while the data used by UNCTAD (BPM5) reports them as shrinking by 9% (see table 1). This difference, along with a similar one in Mexico, affects the calculation of FDI inflows in Latin America and the Caribbean and produces different results between the two publications (the present one and UNCTAD, 2019).

**Table 1**

Brazil: FDI flows lows according to the methodologies of the IMF Balance of Payments Manual, 2017 and 2018  
(Millions of dollars)

		Sixth edition (BPM6)			Fifth edition (BPM5)		
		2017	2018	Variation	2017	2018	Variation
Inflows	Capital and reinvestment of earnings	64 008	55 994		64 008	55 994	
	Intercompany loans	6 249	32 320		3 575	5 224	
	<b>Total</b>	<b>70 258</b>	<b>88 314</b>	<b>26%</b>	<b>67 583</b>	<b>61 218</b>	<b>-9%</b>
Outflows	Capital and reinvestment of earnings	19 239	9 769		19 239	9 769	
	Intercompany loans	114	4 291		-2 561	-22 804	
	<b>Total</b>	<b>19 352</b>	<b>14 060</b>		<b>16 678</b>	<b>-13 036</b>	
Net flow FDI (inflows-outflows)		50 905	74 254	46%	50 905	74 254	46%

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 13 June 2019.

As table 1 shows, the key difference between the two criteria is how inter-company lending flows are recorded; and this generates differences in FDI inflows and outflows.

In BPM5, when an affiliate of a domestic firm makes a loan to its parent (for example, an affiliate of Vale in Canada makes a loan to its parent company in Brazil), this is recorded as a negative outflow of FDI in the intercompany lending component and referred to as "reverse investment". The same movement of funds in BPM6 is recorded as an inflow of FDI in the intercompany lending component (dark grey cells in table 2).

Similarly, if an affiliate of a foreign firm lends to its parent company, for example, a Spanish company in Brazil makes a loan to its parent in Spain, in BPM5 it is counted as a negative FDI inflow, while in BPM6 it is counted as a positive FDI outflow (light grey cells in table 2).

Under the MBP6 methodology, all credits granted from abroad to firms located in Brazil are considered part of the country's liabilities with the rest of the world, regardless of the nationality of the institution making the loan; so they are counted as FDI inflows. The same occurs with outflows, all credits granted from the country, regardless of the nationality of the party remitting the capital, are claims that the country has with the rest of the world.

## Box I.1 (concluded)

Table 2

Brazil: Composition of intercompany loan flows, according to the methodologies of the IMF Balance of Payments Manual, 2017 and 2018

(Millions of dollars)

Sixth edition (BPM6)		Fifth edition (BPM6)	
<b>Inflows</b>		<b>Inflows</b>	
Loans from foreign companies to affiliates in Brazil	6 091	Loans from foreign companies to affiliates in Brazil	6 091
Loans from Brazilian affiliates to their parent company in Brazil	26 229	Loans from foreign affiliates to their parent companies	(867)
Total Receipts	32 320	Total Receipts	5 224
<b>Outflows</b>		<b>Outflows</b>	
Loans from foreign affiliates to their parent companies	867	Loans from Brazilian affiliates to their parent company in Brazil	(26 229)
Loans from Brazilian parent companies to their affiliates	3 425	Loans from Brazilian parent companies to their affiliates	3 425
Total departures	4 291	Total departures	(22 804)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 13 June 2019.

**Note:** Credits are expressed net of amortization payments.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Central Bank of Brazil.

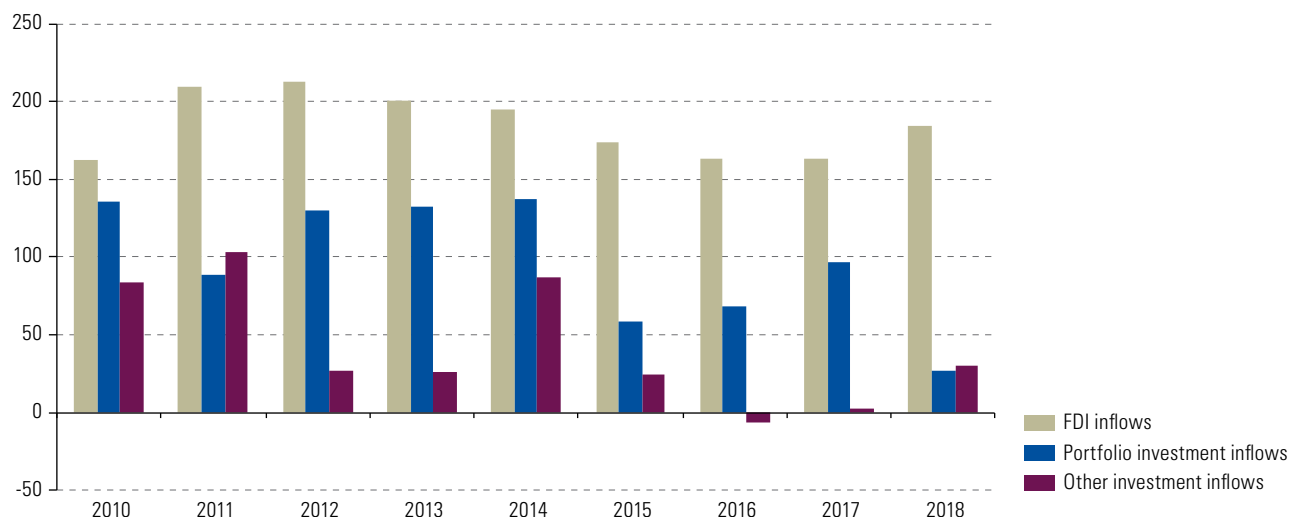
## 2. Average FDI profitability grew for the second consecutive year

On the financial account, FDI inflows have remained the principal and most stable component, since they are investments decided upon over a medium- and long-term horizon and are therefore less sensitive to short-term fluctuations than are portfolio or other investment inflows (see figure I.8). In 2018, FDI inflows expanded; portfolio investment inflows were unable to sustain the growth of 2017 and recorded the lowest value in recent years; while inflows in the “Other investment” category increased, following two years in which they were negative or almost non-existent.

Figure I.8

Latin America and the Caribbean: cross-border capital inflows, 2010–2018 [↗](#)

(Billions of dollars)

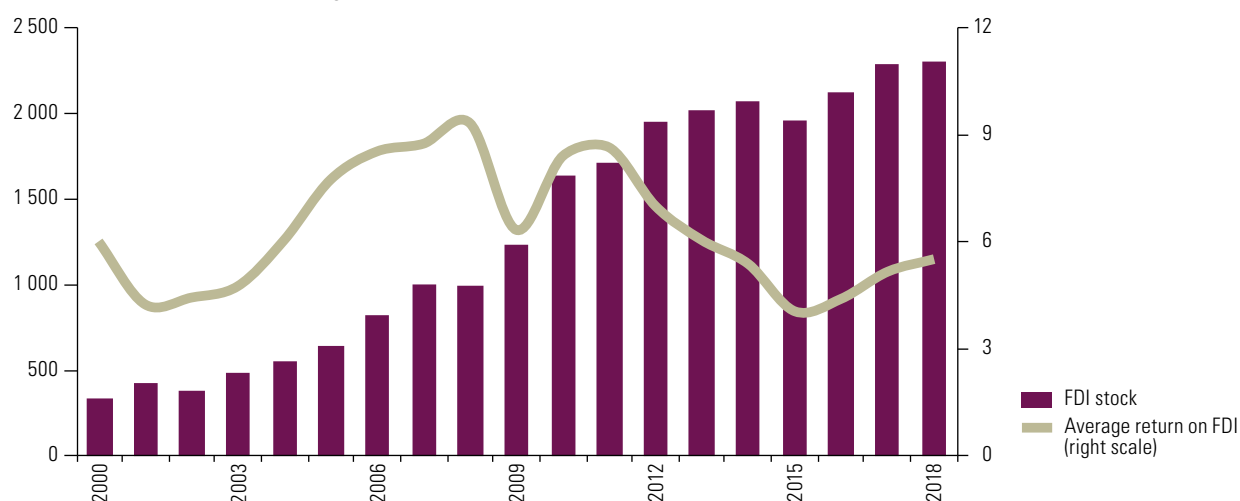


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

The stock of FDI in the region was estimated at US\$ 2.3 trillion as of 2018 (see figure I.9); and the countries with the largest share of foreign capital liabilities were Brazil (33% of the total), Mexico (24%), Chile (12%), Colombia (8%), Peru (5%) and Argentina (3%). The growth in FDI income recorded in 2017 was sustained in 2018, which caused the average return on FDI to edge up to 5.5%. Nonetheless, the average profitability levels recorded during the commodity price boom cycle (8.1% on average in 2005–2012) were not attained. This is in line with the global scenario, where average returns have not regained the levels reached before the international financial crisis of 2008 (UNCTAD, 2019).

The overall current account deficit widened to 1.9% of GDP in 2018, having narrowed in each of the two previous years (see figure I.10). Capital outflows on the income account, which include income from FDI and other capital, had the greatest impact on this deficit, representing 3.0% of the total in 2018. The increase in net current transfers and a larger merchandise trade surplus were insufficient to offset shortfalls on the services and income accounts.

**Figure I.9**  
Latin America and the Caribbean:<sup>a</sup> FDI stock and average return, 2000–2018 [🔗](#)  
(Billions of dollars and percentages)

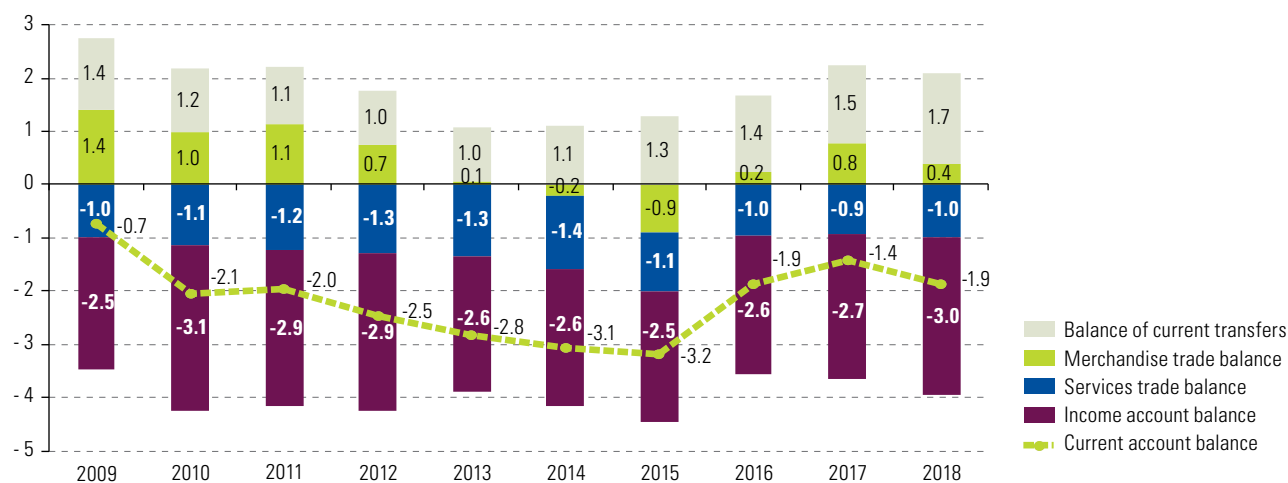


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

**Note:** Average profitability is calculated as the quotient between FDI income (debit) and the FDI stock.

<sup>a</sup> The Bolivarian Republic of Venezuela, Jamaica, and Trinidad and Tobago were excluded because of a lack of data for 2018.

**Figure I.10**  
Latin America and the Caribbean: balance-of-payments current account, by component, 2009–2018 [🔗](#)  
(Percentages of GDP)



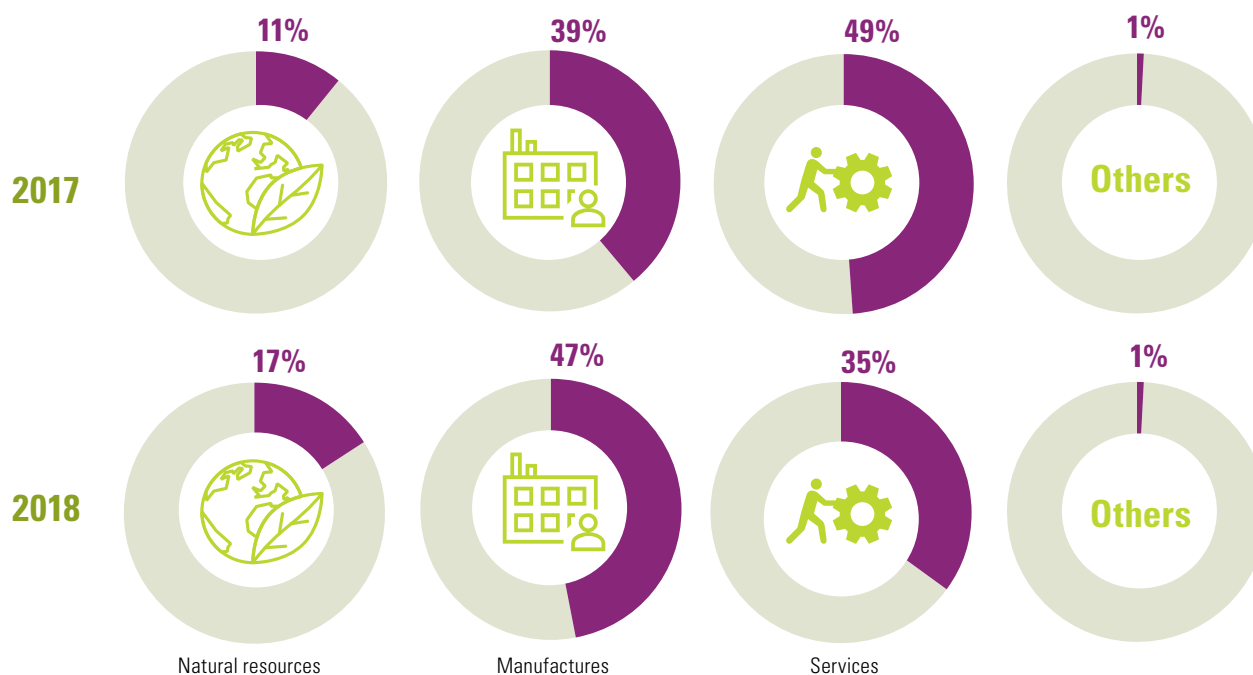
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean, 2019* (LC/PUB.2019/12-P), Santiago, 2019.



### 3. Manufacturing and services consolidated as the most attractive sectors

Manufacturing and services consolidated their position as the major target sectors of foreign capital, continuing with the sectoral recomposition that began at the end of the commodity price boom (see analysis in ECLAC, 2018). Considering the countries that publish sectoral information, 47% of FDI inflows corresponded to manufacturing in 2018, 35% to services and 17% to natural resources (see figure I.11).

**Figure I.11**  
Latin America and the Caribbean (14 countries): FDI inflows by sector, 2017 and 2018 [↗](#)  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.


**Note:** The countries included were those with sectoral data for 2018, namely Belize, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua and Plurinational State of Bolivia.

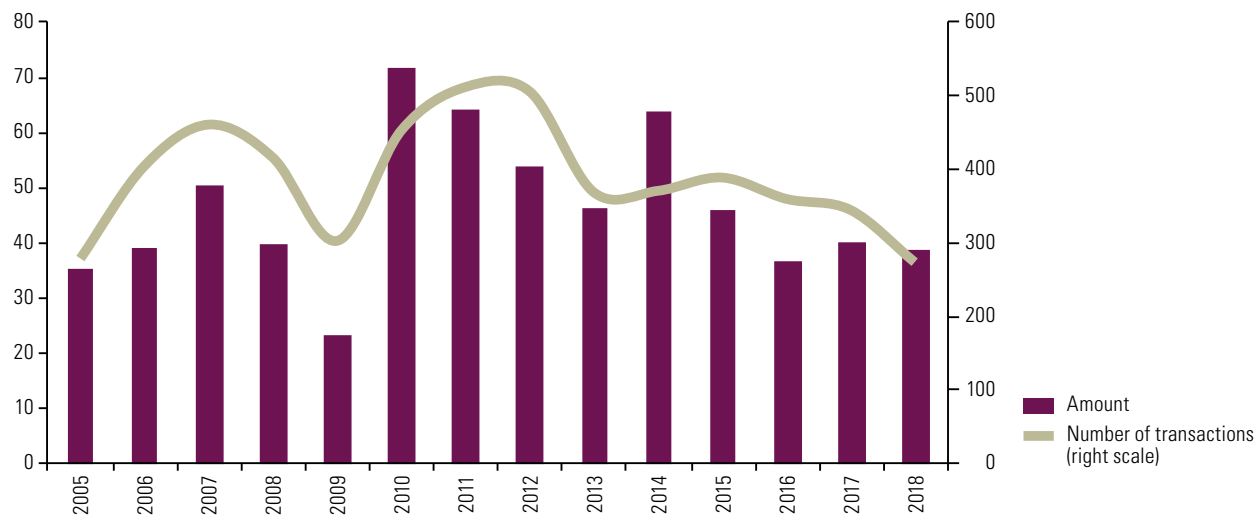
While the recovery in raw material prices may have driven the larger share of FDI in natural resources in 2018, this remained below the 2008–2013 levels of above 20% (30% in 2010). In fact, in Chile in 2017 (the last year for which sectoral data is available), inflows into natural resources accounted for 2% of FDI, compared to half of the total in 2011 and 2012.

Cross-border mergers and acquisitions are a good indicator of interest among transnationals in positioning themselves in the region by acquiring pre-established capacities in specific sectors of production. In the last three years they remained relatively stable, having posted the highest values between 2010 and 2014 (averaging US\$ 60 billion per year) (see figure I.12). In 2018, operations with target firms in the region totalled US\$ 38.5 billion, despite a 21% drop in the number of transactions.<sup>4</sup>

<sup>4</sup> These figures include cross-border transactions completed as at 31 December of each year, along with those that are considered FDI under the BPM6 criterion (more than 10% of the capital). However, not all flows represent capital inflows into the region, because the data include operations where the vendor firm is also foreign.

**Figure I.12**

Cross-border mergers and acquisitions involving target firms in Latin America and the Caribbean, 2005–2018   
(Billions of dollars and number of transactions)



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

**Note:** Cross-border transactions completed as at 31 December of each year and those that are considered FDI under the criterion of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) (more than 10% of capital) are considered. The completion of a transaction does not imply that capital inflows to the region will be generated; firstly because the data include operations where the selling firm is also foreign; and, secondly, because the payment modalities will not always include cross-border capital flows between the countries of the parties involved.

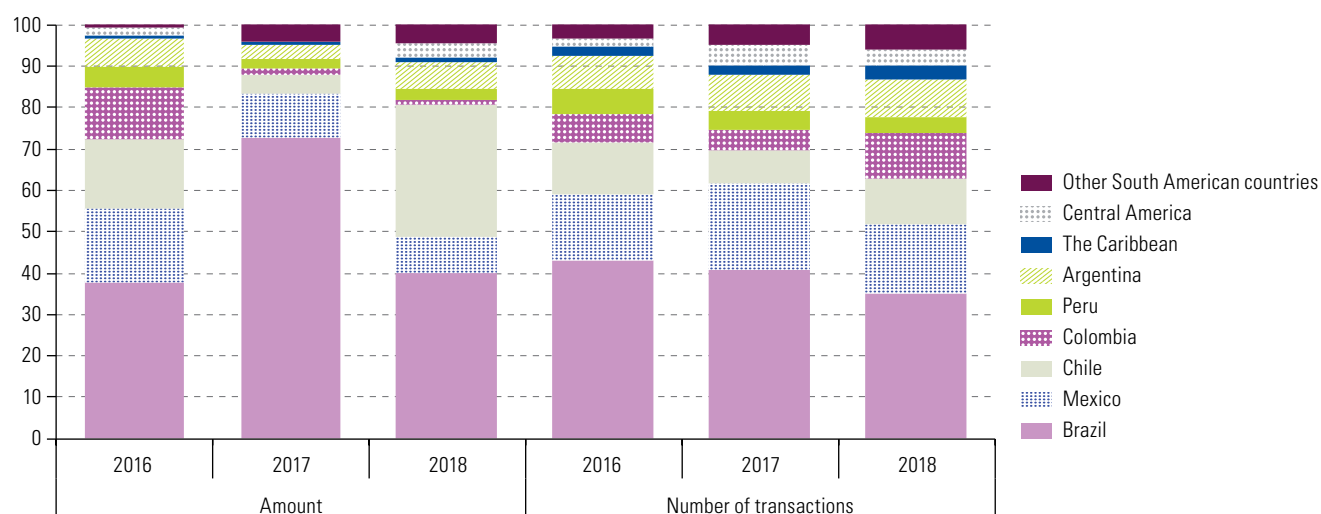
The largest transactions in 2018 involved the hydrocarbons industry, both in the extractive phase and in fuel refinery and distribution. There were also large-scale ventures in mining, as well as operations in basic services (electricity and water), financial services, medical services, telecommunications, transportation, and in beverage manufacturing and agrochemicals.

Interest among transnational firms in the region was concentrated in Brazil (44% of the value of M&A between 2005 and 2018), Mexico (17%), Chile (12%) and Colombia (7%). Brazil maintained its position of leadership in 2018, despite fewer and smaller transactions than in the previous year. On the other hand, interest grew in firms located in Chile, where five of the 20 largest transactions were completed, thus overtaking Mexico as a destination for acquisitions, and also in Argentina (see figure 13). As half of the 274 transactions that took place in 2018 did not disclose the value in question, the number of transactions will also be used as an indicator to identify sectoral trends.

The largest transaction of the year took place in Chile, when the Chinese company Tianqi Lithium paid US\$ 4.066 billion for 24% of Sociedad Química y Minera de Chile (SQM), the world's second largest lithium producer (23% of the market in 2017 (Statista, 2019)). This gave the Chinese firm a total stake of 25.86% in SQM (see table I.3). As the shares in question were previously held by the Canadian firm, Nutrien, the funds do not represent FDI inflows into the Chilean market; but it is a strategically important sale because it makes Tianqui the world's leading lithium producer (it accounted for 14% of total output in 2017); and lithium mining in the region is fuelling growing investment interest (see box I.2). Moreover, Chile had 57% of the world's lithium reserves in 2018 (14% of known resources) (USGS, 2019), and it has the lowest-cost production with current technologies (FNE, 2018). The takeover process was investigated and approved by Chile's national economic prosecutor's office, which judged sufficient the measures to be adopted by the buyer to mitigate risks to competition, in particular those that aim to eliminate access to sensitive commercial data (FNE, 2018).

Figure I.13

Cross-border mergers and acquisitions with target firms in Latin America and the Caribbean, by country or subregion of location, 2017–2018 [↗](#)  
(Percentages of the amount and number of transactions)



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

Table I.3

Latin America and the Caribbean: 20 largest cross-border mergers and acquisitions, 2018 [↗](#)

Firm	Country of origin	Assets acquired	Asset location	Country of seller	Sector	Amount (millions of dollars)
TianqiLithium	China	Sociedad Quimica y Minera de Chile S.A. (24%)	Chile	Canada	Mining	4 066
UnitedHealth Group	United States	Banmedica S.A. (96%)	Chile	Chile	Medical services	3 245
Enel	Italy	Metropolitan Eletropaulo Eletricidade de São Paul (93.3%)	Brazil	Brazil	Basic services (electricity)	2 703
Scotiabank	Canada	Scotiabank Azul S.A. (BBVA Chile) (68%)	Chile	Spain	Financial	2 283
Equinor ASA (ex-Statoil)	Norway	Roncador oil field (25%)	Brazil	Brazil	Natural gas and oil	2 000
Mosaic Company	United States	Vale fertilizer business	Brazil	Brazil	Agrochemicals	1 992
Digital Realty Trust Inc	United States	Ascenty Data Centres Locação e Serviços S.A.	Brazil	United States	Technology/ Telecommunications	1 800
China Southern Power Grid Co. Ltd	China	Transelec S.A. (27.7%)	Chile	Canada	Basic services (electricity)	1 300
Actis LLP	United Kingdom	InterGen Assets in Mexico	Mexico	Netherlands	Energy (electricity)	1 256
Millicom International Cellular S.A.	Luxembourg (Sweden)	Cable Onda S.A. (80%)	Panama	Panama	Telecommunications	1 002
China Merchants Port Holdings Company Limited	China	TCP Participações S.A. (90%)	Brazil	Brazil	Transport (port)	924
Raízen Energia S.A.	Brazil	Royal Dutch Shell Operations in Argentina	Argentina	Netherlands	Natural gas and oil	916
China Gezhouba Group Co Ltd	China	São Paulo São Lourenço Water Supply Co.	Brazil	Brazil	Basic services (water)	869
Exxon Mobil Corporation	United States	Block BM-S-8 (36.5%)	Brazil	Norway	Natural gas and oil	800
Empresas COPEC	Chile	ExxonMobil operations in the countries concerned	Colombia, Ecuador, Peru	United States	Natural gas and oil	747
Vista Oil & Gas S.A.B. de C.V.	Mexico/Argentina	Petrolera Entre Lomas S.A.	Argentina	Argentina	Natural gas and oil	700
Arca Continental S.A.B. de C.V.	Mexico	Lindley Corporation S.A. (38.52%)	Peru	United States	Beverages	507
Glencore	Switzerland	Ale Fuels (78%)	Brazil	Brazil	Natural gas and oil	440
Alpek S.A.B. de C.V.	Mexico	Petrochemicals Suape and Citepe	Brazil	Brazil	Petrochemical	435
Accor SA, Algeciras SA/Chile	France and Chile	11 Atton hotels (100%)	Chile	Chile	Hotels	365

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

**Box I.2**

## Growing interest in lithium mining in the region

Lithium is not a scarce metal, but prospects of growing demand are fuelling expectations in Latin American countries, because Argentina, Chile and the Plurinational State of Bolivia possess more than half of the world's identified resources as of 2018 (USGS, 2019).

This growing interest is due to the fact that lithium is one of the key inputs for the manufacture of lithium-ion batteries, which store the energy that powers mass-market electronic devices (such as telephones, tablets, laptop computers, wireless tools), automobiles and other electric vehicles, as well as electric power grids (when connected to wind turbines and photovoltaic cells). Generally speaking, lithium, along with other metals such as cobalt, will be in increasing demand if a low-carbon development model takes root, where electro-mobility, renewable energies and accumulation systems are adopted on a large scale.

The electric vehicle market, mainly in developed countries and China, is the largest source of lithium demand. For example, an electric vehicle requires between 10 and 63 kg-LCE (lithium-carbonate-equivalent) (a Tesla Model S needs 51 kg-LCE), while a mobile phone battery uses 2–3 grams. In fact, 41% of global lithium demand was destined for battery manufacture in 2017; and this share is expected to rise to 76% by 2025. Thus, the demand for lithium will more than triple between 2017 and 2025 (from 214 kMt-LCE to 669 kMt-LCE) (McKinsey 2018).

Although burgeoning demand has pushed prices up, supply is keeping pace since lithium resources and reserves are abundant. In 2015 global reserves represented 594 times world production; and, even if output were to triple by 2025 to meet growing demand, the world would still have reserves for the next 185 years (in most natural resources, reserves are sufficient to supply markets for between 15 and 100 years) (Deutsche Bank, 2016).

Nonetheless, securing lithium supply has become a priority for technology firms in the United States and Asia; and several strategic alliances and joint ventures have been formed between technology firms and mining companies to ensure a reliable and diversified supply.

Against this backdrop, lithium-related investment projects continued to increase in the region. Latin America is the world's second largest supplier, with Argentina, Chile, and the Plurinational State of Bolivia making up the "lithium triangle"; and 72% of the reserves (identified exploitable resources) are in Chile and Argentina (57% and 14% of global reserves in 2018, respectively). Nonetheless, Australia is thus far the world's largest producer (60% in 2018), while Chile produced 19% and Argentina 7.3% (ranked fourth after China, which accounted for 9.4%) (USGS, 2019).

In Chile, the largest merger and acquisition (M&A) operation in 2018 related to the strategic positioning of one of the world's largest lithium producers, the Chinese firm Tianqi Lithium, which paid US\$ 4.066 billion for a 24% stake in Sociedad Química y Minera de Chile (SQM), the world's second largest lithium producer. While the portfolio of projects in Chile will exceed US\$ 1.8 billion in 2019 (more than in 2017), it will still be a very small market compared to copper mining (Cochilco, 2018). It is estimated that by 2027, lithium will be equivalent to just 9% of the copper market (SQM, 2018).

Investments to extract lithium in Argentina have also been increasing; and, according to the Ministry of Energy and Mining (2017), at least US\$ 2 billion had been invested in the sector by 2017. The Korean firm POSCO announced its intention to invest US\$ 450 million in a project to produce lithium at Salar del Hombre Muerto, where it acquired a deposit in 2018; and it estimates that production will start in 2021. Another major project was announced by France's Eramet, the world's largest producer of nickel and magnesium, which will invest US\$ 380 billion in Salta for the production of lithium carbonate which should start production in 2020. The start of construction of South America's first lithium battery factory was also announced, resulting from a partnership between the province of Jujuy and the Italian firm SERI. The factory, representing an estimated investment of US\$ 60 million, will be managed by Jujuy Lito S.A., a joint venture between Jujuy Energía y Minería Sociedad del Estado (JEMSE) (60%) and SERI (40%).

There are also projects in the Plurinational State of Bolivia aimed at further industrialization of the value chain. Although 9 million tons of the resource have been identified in the country (16% of the global total), the country still does not produce lithium. Nonetheless, the government has announced its intention to invest in the sector and has signed two agreements for the industrial production of lithium. One of these is between the State enterprise Yacimientos de Lito Bolivianos (YLB) and the German ACI Systems Germany GmbH (Acisa), for an estimated investment of US\$ 1.3 billion. In late 2018 a joint venture for the sustainable extraction and production of lithium hydroxide was set up in Salar de Uyuni, Potosí. In a second stage, it was agreed to form another joint venture to manufacture cathode and battery systems material in the Plurinational State of Bolivia and in Germany. Another agreement was signed with China, for the creation of a joint venture in 2019 to undertake lithium industrialization projects in the salt flats of Pastos Grandes (Potosí) and Coipasa (Oruro), with an expected investment of over US\$ 2 billion.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Chilean Copper Commission (COCHILCO), *Mercado Internacional del litio y su potencial en Chile*, 2018 [online] <https://www.cochilco.cl/Mercado%20de%20Metales/Informe%20Litio%209%2001%202019.pdf>; Deutsche Bank, *Lithium 101*, Deutsche BankMarkets Research, 2016 [online] <http://www.metalstech.net/wp-content/uploads/2016/07/17052016-Lithium-research-Deutsche-Bank.compressed.pdf>; Mc Kinsey, "Lithium and cobalt: A tale of two commodities", 2018 [online] <https://www.mckinsey.com/industries/metals-and-mining/our-insights/lithium-and-cobalt-a-tale-of-two-commodities>; Ministry of Energy and Mining, "Argentina lithium map" [online] 2017 <https://www.minem.gob.ar/mineria/prensa/26810/litio-informe-conjunto-del-servicio-geologico-de-ee-uu-y-el-segemar>; SQM, *Lithium Market Outlook*, 2018 [online] [http://s1.q4cdn.com/793210788/files/doc\\_news/2018/6/Foro-del-Litio-2018-Lithium-Market-Update-20180808-FINAL.pdf](http://s1.q4cdn.com/793210788/files/doc_news/2018/6/Foro-del-Litio-2018-Lithium-Market-Update-20180808-FINAL.pdf); United States Geological Service (USGS) "Lithium", 2019 [online] <https://prd-wret.s3-us-west-2.amazonaws.com/assets/palladium/production/atoms/files/mcs-2019-lithi.pdf>.

Also in the domain of natural resources, the pre-salt oil field in Brazil and the Vaca Muerta basin in Neuquén in Argentina, have been the scene of large-scale operations. The Norwegian State-owned firm, Equinor, increased its assets by paying Brazil's Petrobras US\$ 2 billion for stake in the Roncador deposit in the Campos basin. This was the year's fifth largest transaction and part of a strategic technical collaboration partnership. As announced by the participating firms, Equinor will contribute its experience and technology in enhanced oil recovery from the Norwegian continental shelf, and Petrobras will bring its experience as the world's largest deep-water and pre-salt operator, thereby maximizing value creation and longevity of the field (Equinor, 2019). In addition, in a reorganization of the BM-S-8 exploration block in the Santos basin, Equinor sold a 36.5% stake to the United States firm Exxon Mobil Corporation for US\$ 800 million. In Argentina, Vista Oil & Gas, a company incorporated in Mexico and managed by a team of Argentine oil industry experts, completed the acquisition of the firm Petrolera Entre Lomas, to become Argentina's fifth largest oil operator and producer.<sup>5</sup>

Fuel refining and distribution activities generated major transactions in 2018, mainly for trans-Latin firms. Brazil's Raízen expanded its activities in South America by acquiring Argentine assets held by the Netherlands firm Royal Dutch Shell (a refinery, 645 service stations, marine fuel businesses, aviation, lubricants, among others, as well as supply and distribution activities). These add to the operations it has had in Paraguay, the Plurinational State of Bolivia and Uruguay since 2011. The Chilean firm, COPEC, through its Terpel affiliate, acquired the operations in Colombia, Ecuador and Peru of the American firm ExxonMobil, before going on to gain control of Mobil's lubricants business in Colombia, Ecuador and Peru, as well as the operation and marketing of fuels for the Jorge Chávez International Airport in Lima, Peru, and ExxonMobil's fuel business in Ecuador. The Swiss firm Glencore acquired Ale Combustíveis, the fourth largest fuel distributor in Brazil, with a network of 1,500 service stations and 260 convenience stores, in order to take advantage of the growth of the domestic market where supply will be mainly sourced from imports (Glencore, 2019).

In addition to the takeover of SQM, two of the five largest M&A operations in 2018 took place in Chile. In health services, the United States insurer UnitedHealth Group purchased a majority stake in Chile's Banmédica from the local Penta and Fernández León groups, thus acquiring operations in Chile, Colombia and Peru. UnitedHealth Group has operations in 130 countries and arrived in Latin America five years ago via Brazil. In financial services, the Canadian Scotiabank purchased a majority stake in the Spanish bank BBVA, as part of its strategy to expand into the countries of the Pacific Alliance; and while the merger is in process, it will operate until November 2019 under the brand name Scotiabank Azul, to facilitate the process of integrating customers of the two banks.

The third largest operation of the year took place in the electricity sector, where Italy's Enel continues to expand its presence in Latin America. In 2018, it acquired Eletropaulo Metropolitana Eletricidade de São Paulo for US\$ 2.703 billion, surpassing the bid submitted by Spain's Ibérdrola, another of the key European electric power operators in the region. With this purchase, the Italian group consolidated its position as the largest electricity distributor in Brazil, with 17 million customers and a distribution market share of 20% (Enelamericas, 2019), surpassing CPFL Energía, controlled by the Chinese firm State Grid. However, China also maintained its strategic interest in the energy industry in Latin America; and, after expansion in Brazil in 2016 and 2017, in 2018 it gained a foothold in Chile, where China Southern Power Grid International Co. acquired 27.7% of Transelec, the country's largest distributor with 10,000 km of transmission lines, from the Canadian fund Brookfield Infrastructure Partners.

<sup>5</sup> See [online] <http://www.vistaoilandgas.com/nosotros/>.

Beyond the energy sector, China continued to expand its infrastructure presence in Brazil. China Merchants Port Holdings Company Limited. purchased the Paranaguá container terminal concession (TCP), the second largest in Brazil and the only one with direct rail transport. This acquisition forms part of the company's global expansion strategy, adding Latin America to its continental operations and projecting it as a global leader in port services (Mundomarítimo, 2018). In addition, the State-owned construction and engineering company China Gezhouba Group acquired the special-purpose company Sistema Produtor São Lourenço, which seeks to improve the water supply of the city of São Paulo, from Companhia de Saneamento Básico do Estado de São Paulo (SABESP).

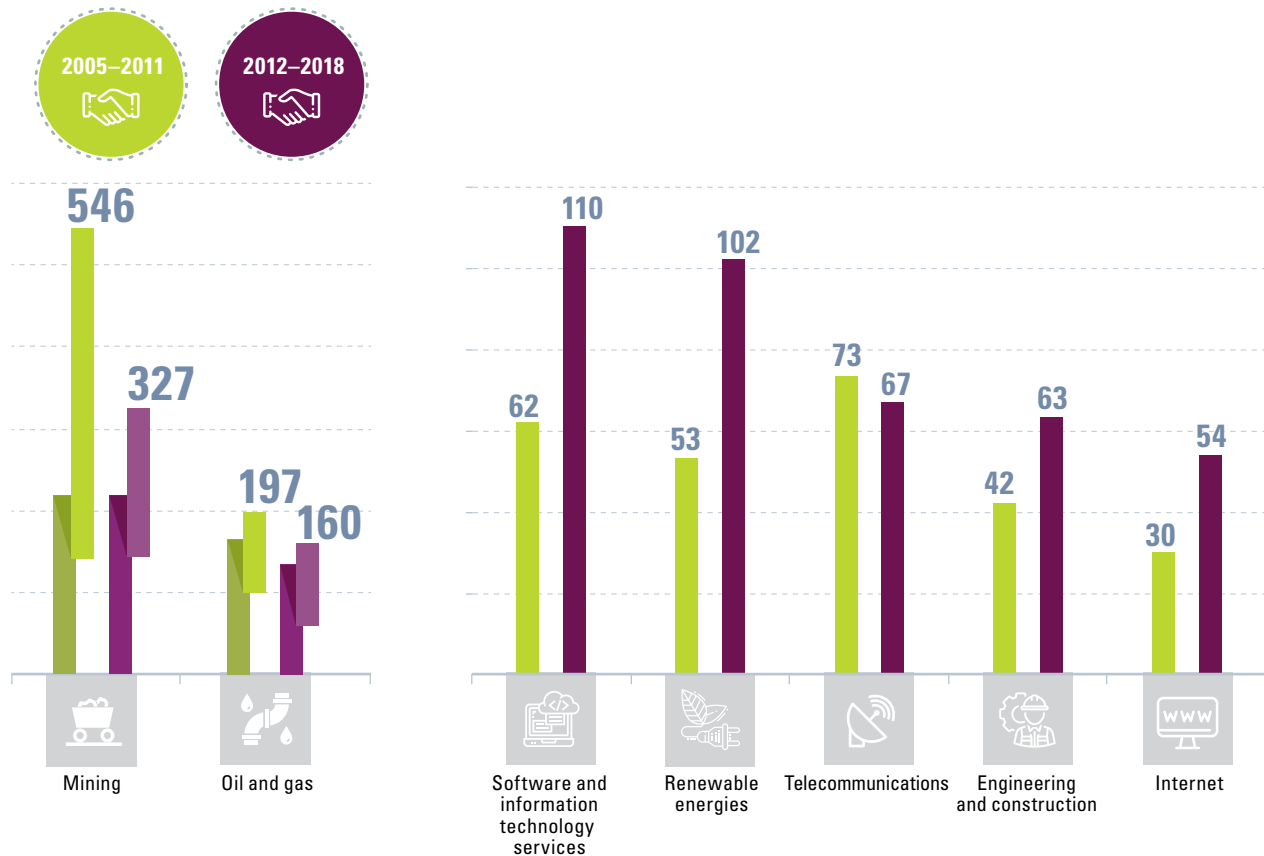
In the telecommunications sector, investors from the United States and Europe led the way in transactions in the region. One of the largest of these was between United States firms, as Digital Realty Trust Inc. (in partnership with the Brookfield investment fund) bought Ascenty from Great Hill Partners. Ascenty was incorporated in 2012 and is the largest provider of data centres in Latin America, with eight centres already built and a further nine under construction (all in Brazil, except for one under construction in Santiago, Chile). The firm's competitive advantages include its ownership of 4,500 km of fibre optics that connect its centres and provide access to telephone operators, link points and submarine cable networks. With this acquisition, Digital Realty Trust Inc. has consolidated its presence in five continents and enters Latin America as a leader. A smaller-scale operation, but nonetheless relevant because it targeted a Latin American firm, occurred in Panama, where the Luxembourg-based Swedish firm Millicom International Cellular S.A., which operates under the Tigo brand, acquired a majority stake in Cable Onda S.A., Panama's main broadband, fixed- telephony, cable television and business-to-business (B2B) communications operator. This acquisition forms part of Millicom's strategy to speed up the deployment of high-speed data networks in Central and South America. With its purchase of Cable Onda S.A., Millicom now has operations stretching from Guatemala to Colombia, which will enable it to better exploit its B2B communication capacities, especially considering the expansion of Panama as a regional logistics and business hub.

In the manufacturing sector, two of the three largest operations involved processes of concentration in strategic assets and debt reduction among Brazilian firms. The Vale company sold its fertilizer business to Mosaic, a United States-based specialist in the sector, in what was the largest operation in Mosaic's history; while Companhia Petroquímica de Pernambuco (Petroquímica Suape) and Companhia Integrada Têxtil de Pernambuco (Citepe) were sold by Petrobras (as had been announced at in late 2016) to the Mexican sector leader Alpek. Arca Continental S.A.B. de C.V., the region's second largest Coca-Cola bottler, increased its majority stake in Peru's Corporación Lindley S.A., and now holds 99.78% of the voting shares.

Although a large proportion of the largest mergers and acquisitions in 2018 involved the extractive industries (unsurprisingly since these are businesses with large-scale investments), the sector profile of investments has been changing since the end of the commodity price boom. In a medium-term comparison, the number of transactions in mining and oil and gas has decreased, while remaining very significant. In contrast, the fastest growing sectors were linked to the expansion of the digital economy, with an increasing number of businesses in software and computer services and the Internet, the development of renewable energies (which also include operations in hydroelectric plants) and engineering and construction services (see figure I.14).

**Figure I.14**

Latin America and the Caribbean: cross-border mergers and acquisitions, selected sectors, 2005–2011 and 2012–2018 [↗](#)  
(Number of transactions)



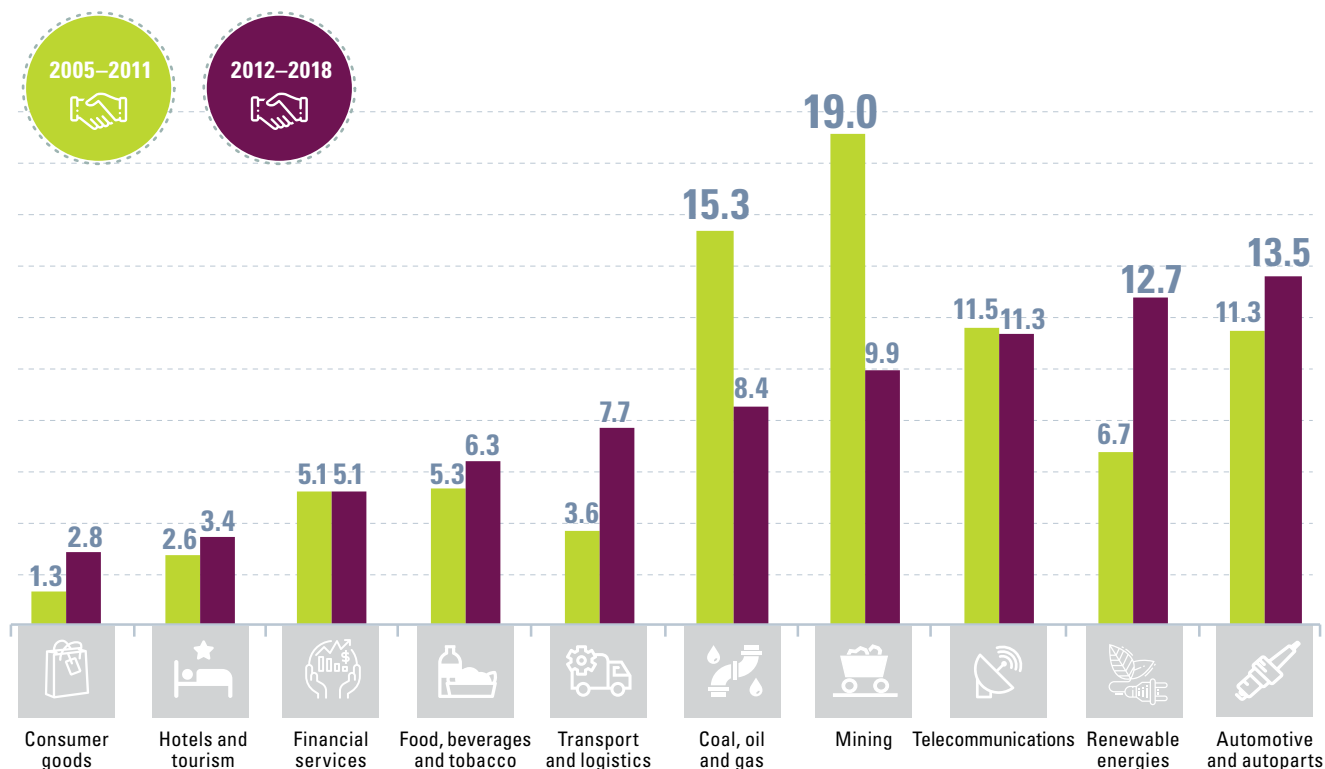
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

This change in sector composition could also be discerned in the investment announcements made in the region. Measured by project value, the automotive and autoparts industry was the sector that aroused the greatest interest among transnationals in 2012–2018, as shown by the increase in announcements in this industry, mainly in Mexico, Brazil, and on a smaller scale in Argentina. In contrast, the greatest growth with strongest to the comparable period (2005–2011) was in renewable energy (see figure I.15). Investment announcements in the mining and hydrocarbons sectors decreased substantially, and went from being the top destinations for foreign investment projects in 2005–2011 to occupy fourth and fifth place in recent years (2012–2018). In transport and logistics, projects in freight and distribution services and warehousing and storage led the increase. In the consumer goods sector the growth in investment projects was explained by the expansion of retail chains (such as Falabella, Home Depot and Ripley, among others), as well as announcements of the construction of manufacturing plants by some of the key transnational consumer goods manufacturers (Lego, Unilever, Procter & Gamble, among others).

Figure I.15

Latin America and the Caribbean: FDI announcements, by sector, 2005–2011 and 2012–2018 

(Percentages of the cumulative amount)



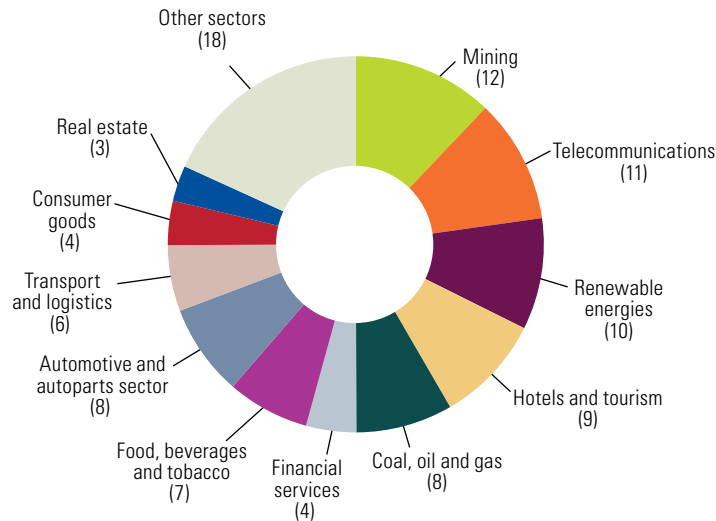
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets [online database] <https://www.fdimarkets.com/>.

**Note:** The selected sectors represented 82% and 81% of the total amount of announcements in 2005–2011 and 2012–2018, respectively.

The sectoral distribution of projects in 2018, measured by amounts, is similar to the pattern of previous years, despite a number of changes (see figure I.16). Firstly, after peaking in 2014 and 2015, projects in the automotive and autoparts industry have been trending down, both in value terms and in the number of announcements. As a result, their share as the destination of announced investments has shrunk. Projects in the renewable energies sector also fell back relatively, since they decreased in 2017 and did not recover growth in 2018 (either in value terms or in the number of projects). Nonetheless they consolidated their position among the region's main investment sectors—a far cry from a decade ago when they represented just 5% of all projects (average 2005–2008). The geographic profile of these investments also changed, with Mexico and Brazil overtaking Chile as a project destination (these three countries accounted for 36%, 34% and 24%, respectively, of projects announced, by amount).

The extractive industries remained active in terms of FDI announcements in 2018, with the share of mining increasing because of the scale of the projects in question (despite decreasing in number); while in hydrocarbons there was an increase in the number of announcements and associated amounts. In metallic mining, Southern Copper, part of Grupo México, won the tender for the Michiquillay mining project in Peru, in what was the first mining megaproject awarded via public tender in the last seven years (*América Economía*, 2018). This project represents an investment of US\$ 2.5 billion and will start operating in 2022. In Chile, the Polish State-owned KGHM, which operates the Sierra Gorda copper mine together with the Japanese firm Sumitomo, obtained environmental approval in 2018 for a project to optimize its operations (at a cost of US\$ 2 billion), which will also allow it to increase the capacity of its concentrator plant.





**Figure I.16**  
Latin America and the Caribbean: share of total FDI announcements, by sector, 2018 [↗](#)  
(Percentages of the total amount)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets [online database] <https://www.fdimarkets.com/>.

Telecommunications projects also remained at a high level, with Telefónica making the largest number of announcements in 2018. Investments in the sector can be expected to increase in the near future, if the development of the fifth-generation mobile phone technology (5G) infrastructure prospers, which is necessary for universal access to the Internet of Things or for the development of remote medicine. In April 2019, Uruguay announced a small-scale project to deploy 5G Internet in two localities in the country, developed by the State telecommunications company (Antel) and the Finnish firm Nokia; and it is expected that by the end of the year devices to use this network will start to become available (Office of the President of the Eastern Republic of Uruguay, 2019). Currently, the Republic of Korea is the only country in the world that offers 5G technology access throughout its territory, while the United States has inaugurated its first 5G network in two cities (Chicago and Minneapolis).

The most vigorous investment growth in 2018 was seen in the hotels and tourism sector, owing to a record number of projects (133 new investment announcements in 2018, compared to the previous decade average of 34 per year). The Panamanian chain, Selina, which started operating in 2014 and has a strategy targeted on young people that combines different housing options with coworking spaces, announced a major expansion plan in 2018, which includes 32 hotel openings in 11 countries in the region. In addition, Wyndham Worldwide, one of the world's largest hotel chains, aims to further strengthen its presence in Latin America and the Caribbean and announced 17 projects in eight countries during 2018.

An analysis of the firms making the largest number of announcements (see table I.4) reveals growing interest in the region's consumer market, where the population's average income level has increased substantially in the last decade. There is also increasing interest in setting up firms with new business models, such as coworking or delivery services using mobile phone applications.

**Table I.4**  
Latin America and the Caribbean: firms with the most FDI announcements, by amount and number, in 2018 

Firm	Sector	Origin	Amount (millions of dollars) <sup>a</sup>	Number of projects
<b>Projects in excess of US\$ 1 billion announced in the region</b>				
Mexico Group	Metals	Mexico	2 500	1
Petronas	Coal, oil and gas	Malaysia	2 305	2
KGHM	Metals	Poland	2 000	1
Telephone	Telecommunications	Spain	1 676	9
Selina	Hotels and tourism	Panama	1 463	32
Constellation Brands	Beverages	United States	1 450	2
Enel	Renewable energies	Italy	1 370	10
Volkswagen	Automotive (original equipment manufacturer)	Germany	1 144	5
Wyndham Worldwide	Hotels and tourism	United States	1 133	17
Pan American Energy (PAE)	Coal, oil and gas	Argentina	1 098	2
Iberdrola	Renewable energies	Spain	1 023	2
Lenzing	Paper and pulp	Austria	1 000	1
<b>More than 10 projects announced in the region</b>				
WeWork (We Holdings)	Real estate	United States	80	42
Selina	Hotels and tourism	Panama	1 463	32
Inditex	Clothing, retail	Spain	171	29
Santander Group	Financial services	Spain	119	28
Wyndham Worldwide	Hotels and tourism	United States	1 133	17
Glovo App	Food and tobacco delivery services	Spain	133	13
VF Corporation	Clothing, retail and manufacture	United States	48	12
Nestle	Food and tobacco	Switzerland	440	11
Enel	Renewable energies	Italy	1 370	10
Falabella	Consumer goods	Chile	423	10
LVMH Group	Luxury consumer goods	France	136	10
Hennes & Mauritz (H&M)	Clothing, retail	Sweden	25	10

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets [online database] <https://www.fdimarkets.com>.

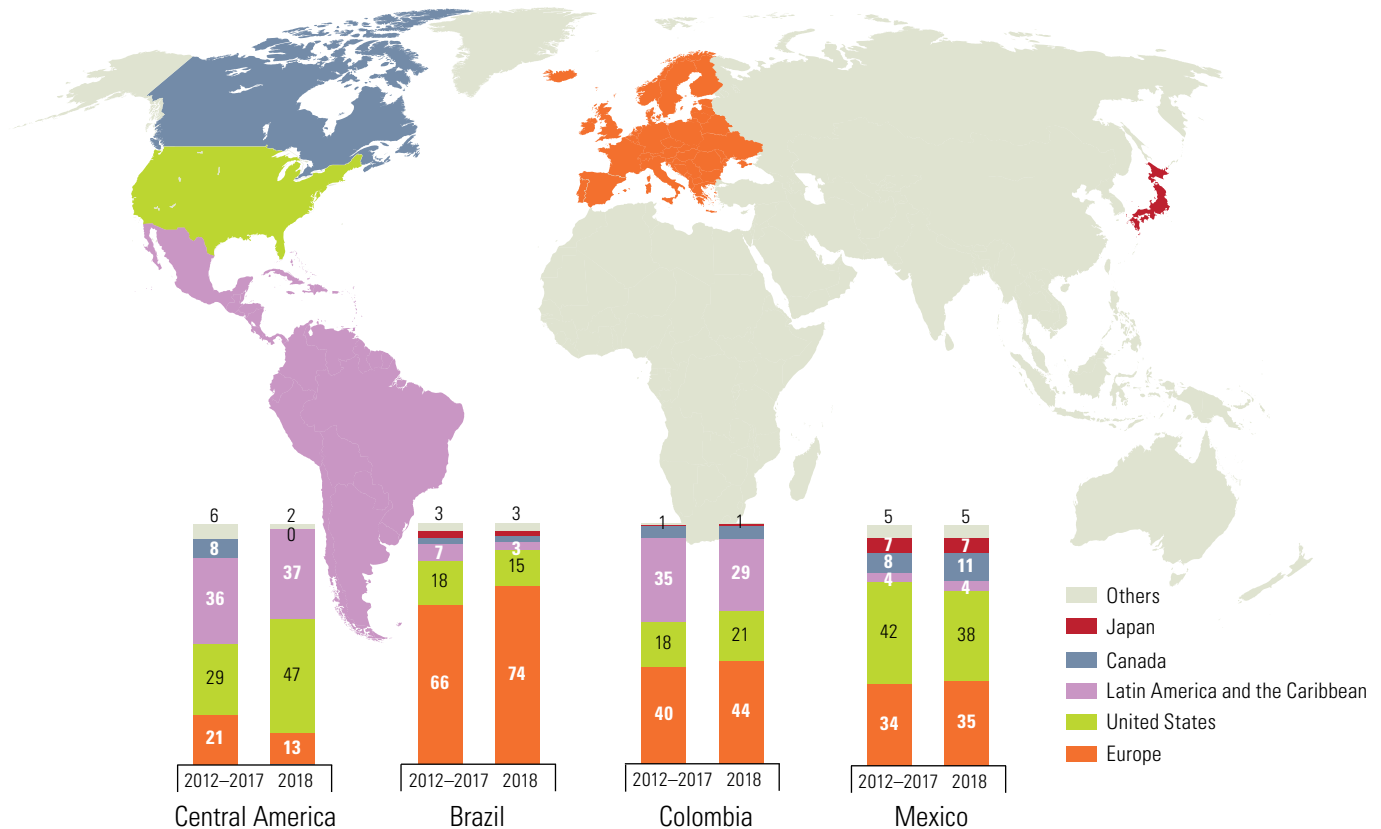
<sup>a</sup> The project amount may be an estimation from the data source.

## 4. Europe, the United States and China were the largest investors

As noted in previous editions of this report, identification of the origin of FDI through national account data is imprecise, because it refers to the immediate provenance of the funds in question, but it does not reveal the source of the capital that entered the region through third markets. With this caveat, it can be said that the origin of investments has remained stable in recent years: most of the capital entering the region came from Europe and the United States. Europe has a stronger presence in the Southern Cone, mainly in Brazil where it was the source of 74% of the capital inflow, while the United States was the main investor in Mexico and Central America (see figure I.17). Trans-Latin firms have a strong presence in Colombia, surpassing even the inflows from the United States, and in Central America.

**Figure I.17**

Latin America (selected subregions and countries): FDI inflows by origin, 2012–2017 and 2018 [↗](#)  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

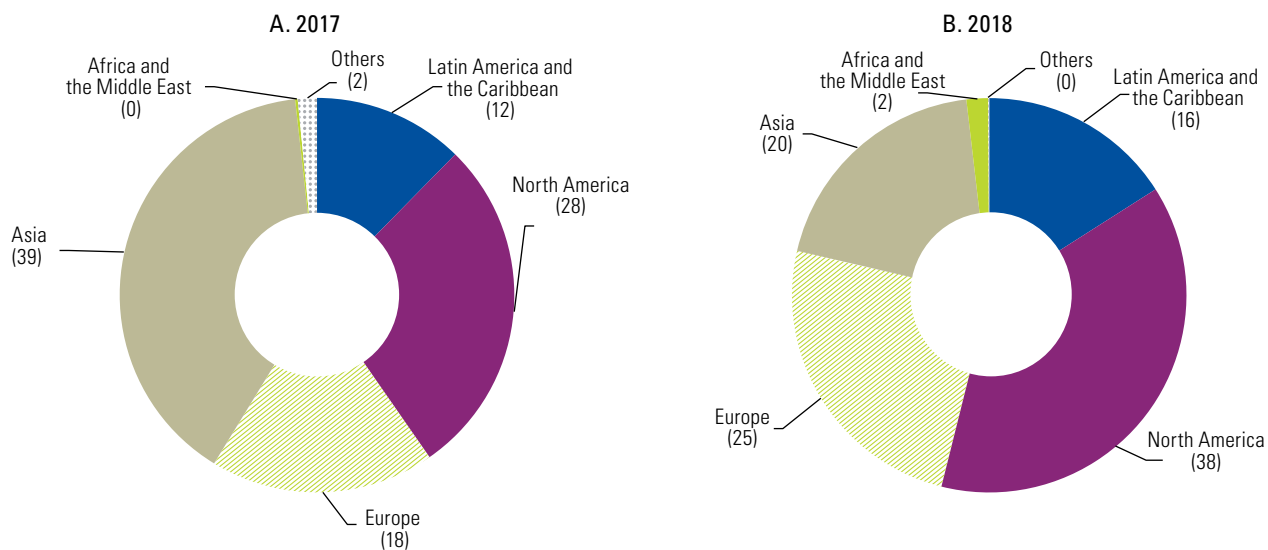
By the amount involved in mergers and acquisitions operations occurring in 2018, the United States and Europe regained the leadership they had lost to China in the previous year (see figure I.18). Chinese firms made a number of strategic investments in infrastructure and lithium mining, but on a smaller scale than in 2017, so their share as a source of these mergers and acquisitions shrank (from 37% of all cross-border mergers and acquisitions in the region in 2017 to 19% in 2018).

The three leading origins display different sector profiles. China focused on acquiring firms in the extractive industries and agribusiness, power generation, utilities (electricity, gas, water) and infrastructure. The United States and Europe were more diversified, making substantial investments in the same sectors as China, but also supporting the development of other industries. An analysis of mergers and acquisitions in high-tech industries (Internet, software and telecommunications), shows that North American and European countries have been the key investors while China played a minor role. In 2018, however, the Chinese firm, Didi Chuxing, a virtual ride-hailing platform, acquired the Brazilian firm, 99Taxi, marking a further step in the firm's regional market expansion strategy, thus breaking free from the traditional sectoral approach of China's investments in the region.

The extension of the Belt and Road initiative to Latin America and the Caribbean also shows China's interest in the region. In 2017, Panama was the first country in the region to join the initiative. It was not alone, however, and by mid-2019, 18 of the

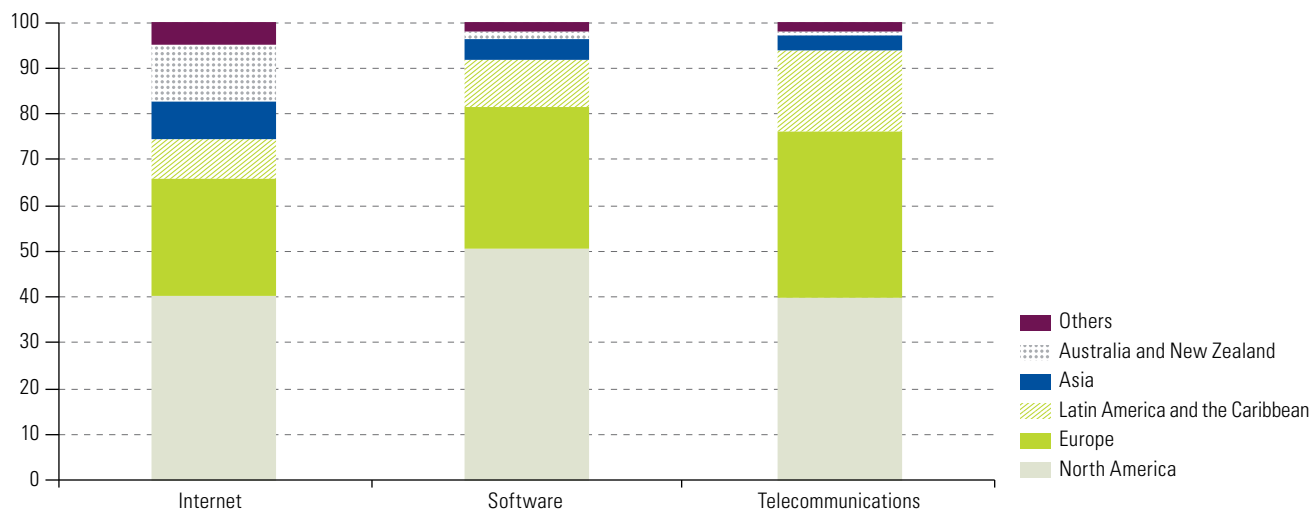
region's countries, including 10 in the Caribbean, had already signed a memorandum of understanding with China under the initiative. Such agreements could attract more Chinese investment in infrastructure, industry and services and increase the country's influence in the region.

**Figure I.18**  
Latin America and the Caribbean: cross-border mergers and acquisitions, by origin of the acquiring firm, 2017 and 2018  
(Percentages of total amount)



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

**Figure I.19**  
Latin America and the Caribbean: cross-border mergers and acquisitions in high-technology sectors, by origin of the acquiring firm, 2005–2018  
(Percentages of the number of transactions)




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

## D. New strategies for Latin American investments abroad

In 2018, outward FDI from Latin American countries shrank for the fourth successive year, coming in at US\$ 37.870 billion, 2.5% less than in 2017.

In recent years, most of the region's outward FDI has come from Brazil, Chile, Colombia and Mexico, with 83% of FDI from Latin America originating in these four countries in 2018 (see table I.5).

**Table I.5**

Latin America and the Caribbean (selected countries): outward foreign direct investment flows, 2005–2018   
(Millions of dollars and percentage variations)

	2005-2009 <sup>a</sup>	2010	2011	2012	2013	2014	2015	2016	2017	2018	Absolute change 2017–2018 (million of dollars)	Relative change 2017–2018 (percentages)
Argentina	1 471	965	1 488	1 055	890	1 921	875	1 787	1 156	1 802	647	56.0
Brazil <sup>b</sup>	14 067	26 763	16 067	2 083	15 644	20 607	3 134	14 693	19 352	14 060	-5 292	-27.3
Chile	5 117	9 461	20 252	20 556	9 888	12 800	15 931	6 994	5 172	1 949	-3 223	-62.3
Colombia	2 786	5 483	8 420	-606	7 652	3 899	4 218	4 517	3 690	5 122	1 432	38.8
Mexico	7 295	8 038	12 398	18 700	13 605	7 130	11 891	6 013	3 181	10 457	7 276	228.8
Uruguay	-26	60	7	3 869	-2 034	1 319	1 605	619	4 794	3 339	-1 455	-30.3
Venezuela (Bolivarian Republic of)	1 227	2 492	-370	4 294	752	1 024	...	...	...	...		
Other	1 304	1 293	2 006	3 458	1 606	4 376	1 673	2 828	1 503	1 141	-362	-24.1
Latin America and the Caribbean <sup>b</sup>	33 242	54 554	60 268	53 409	48 003	53 075	39 327	37 452	38 846	37 870	-976	-2.5

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

**Note:** Information according to *Balance of Payments and International Investment Position Manual* (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname.

<sup>a</sup> Simple averages.

<sup>b</sup> The figure for 2005–2009 does not include reinvested earnings, so it is not directly comparable with the figures from 2010 onwards.

Balance-of-payments figures are one indicator of the internationalization strategies being pursued by firms in the region. Nonetheless, as the internationalization process consolidates and firms become integrated into global financial circuits, FDI data underestimate the scale of the process. In this context, the information needs to be supplemented by background data on investments announced and acquisitions made by Latin American firms outside their home markets.

Amid adverse international conditions for many of the largest trans-Latins specializing in the exploitation and processing of natural resources and in services, new firms and mechanisms for exploiting external markets are starting to appear. Against this backdrop, the actions taken by Chilean and Mexican firms from stand out.

To grow and diversify their revenues, many large Mexican firms have combined their experience in the local market and their alliances with international companies to tackle new markets abroad. This process has intensified in recent years as a result of slow GDP growth, compounded by clear signs of saturation in some sectors of the domestic market and regulations that constrain growth in Mexico.

In 2018, the 100 most globalized Mexican firms generated 41.1% of their total sales and 29.2% of total employment outside Mexico (*Expansión*, 2019a). Although this group of firms has a presence in 82 countries, the United States is the main

market focus. A total of 73 of the 100 most globalized Mexican firms have operations in the United States. Other key markets are South America, Central America and the European Union, in the latter case heavily concentrated in Spain.<sup>6</sup>

The Mexican firms with a presence in the largest number of countries are Mexichem (present in 45 countries), followed by Grupo Bimbo (32), Alfa (28), América Móvil (25) and Cemex (20). In terms of revenues and jobs generated abroad, the telecommunications firm América Móvil is the clear leader, with more than US\$ 36.4 billion in revenues and 103,000 employees in 2018. Further behind are Cemex, FEMSA, and the Alfa, Bimbo and Mexico groups (*Expansión*, 2019a). However, the results of América Móvil and Cemex are sharply contrasting.

Since its inception, América Móvil has pursued a very active internationalization strategy; and it is currently present in 25 countries, holding leadership positions in several Latin American markets. In recent years, it has focused on downscaling its participation in the Mexican market in order to comply with antitrust laws, and on consolidating its operations in Latin America and Europe without making new acquisitions. The Mexican firm's last major purchase enabled it to gain control of the Austrian operator Telekom Austria in 2014,<sup>7</sup> and operate with it in seven countries of Central and Eastern Europe (Austria, Belarus, Bulgaria, Croatia, Slovenia, North Macedonia and Serbia).

Nonetheless, in early 2019, América Móvil resumed its international expansion strategy by taking over a number of telecom operators. It first acquired the operations in Guatemala and El Salvador of its main competitor in Latin America, the Spanish firm, Telefónica, for US\$ 648 million. As a result, the latter started to withdraw from Central American territory and probably also from Mexico<sup>8</sup> (*Expansión*, 2019b). Meanwhile, América Móvil strengthened its position further as one of the leading providers of telecom services in Central America. In March 2019, it acquired Nextel's operations for US\$ 905 million, the fifth largest operator in Brazil with 3.3 million active mobile lines (*El Economista*, 2019). With this transaction, the firm consolidated its leadership in the Brazilian market, strengthening its network capacity, its radio spectrum portfolio and subscriber base, as well as the coverage and quality of its mobile network, particularly in the cities of São Paulo and Rio de Janeiro.

For CEMEX, in contrast, the last few years have been difficult. After acquiring the Australian firm Rinker for US\$ 15.3 billion in 2007, as the culmination of an aggressive internationalization strategy, the cement manufacturer has since faced a difficult financial situation. The economic crisis of 2008 hit the construction sector hard and, with it, the demand for cement. At the time, CEMEX was the global leader in the sector, but it had a very high level of debt and a declining business.

Faced with falling sales and financing difficulties, it was forced to sell some of its operations in the United States, Europe, Mexico, and the Philippines. At the same time, the firm has taken steps to reduce costs and improve its operational efficiency; and, in the last five years, it has reduced its debt by about US\$ 6.121 billion (*Expansión*, 2018). In mid-2018, CEMEX announced that it would continue with its divestment plan, from which it expects to obtain between US\$ 1.5 billion and US\$ 2 billion by the end of 2020. More recently, the company has announced the sale of assets in Baltic and

<sup>6</sup> In 2018 the markets in which the 100 most globalized Mexican companies are present, apart from United States, are: Brazil (33% of those firms), Colombia (32%), Guatemala (29%), Costa Rica (28%), Peru (30%), Argentina (26%), Chile (26%), El Salvador (22%) and Spain (20%) (*Expansión*, 2019).

<sup>7</sup> Between July and October 2014, América Móvil increased its stake in Telekom Austria from 27.33% to 59.7%, for which it paid about US\$ 1.3 billion.

<sup>8</sup> Telefónica is the most highly leveraged operator in Europe, which has led it to implement a plan to divest non-strategic assets. In the first two months of 2019, it sold its Central American subsidiaries: those in El Salvador and Guatemala to América Móvil; and those in Costa Rica, Nicaragua and Panama, for US\$ 1.65 billion, to Millicom. Senior executives of the Spanish operator have also expressed their dissatisfaction with the results of its operations in Mexico, which has fuelled rumours of a possible sale.

Nordic countries (385 million euros), a riverside cement distribution terminal located in Manaus in Brazil (US\$ 30 million), aggregates and concrete assets in Germany (87 million euros) and the white cement business, including the Buñol cement plant in Spain (US\$ 180 million), among other divestments (*Expansión*, 2019c).

In the last decade, Coca-Cola FEMSA and Arca Continental,<sup>9</sup> the two leading Mexican bottlers of Coca-Cola products, have been pursuing an intensive growth and international diversification strategy. The Coca-Cola Company has played a key role in this process. In the early years of the 2000 decade, it sought to rationalize the number of partners it has outside the United States by creating “anchor bottlers”;<sup>10</sup> for which Coca Cola FEMSA was very well positioned in Latin America. From 2013 onwards, Coca-Cola has deployed a strategy aimed at abandoning low-margin segments, such as bottling and distribution, in its home market. Accordingly, the company offered Coca Cola FEMSA and Arca Continental the possibility of taking control of important markets such as California and Texas. While the former turned down the offer, the latter accepted the challenge, hoping to generate synergies between its plants on both sides of the border and, above all, to strengthen and consolidate its relationship with The Coca-Cola Company.

In this scenario, these two Mexican firms have deployed very different strategies over the last two years. Arca Continental decided to enter the United States and strengthen its position in some South American markets. In contrast, Coca Cola FEMSA was attempting to resolve difficulties in some major markets, such as the Philippines and the Bolivarian Republic of Venezuela, while also continuing to move ahead in terms of geographic and product diversification.

In 2017, Arco Continental made a powerful incursion into the United States market through four operations. First, it signed an agreement with The Coca-Cola Company to become the exclusive bottling company mainly in the southwest of the country (the state of Texas and parts of Oklahoma, New Mexico and Arkansas), where the Mexican firm took control of nine production plants through Coca-Cola Southwest Beverages (CCSWB) (*El Economista*, 2017).<sup>11</sup> Second, it paid US\$ 215 million to acquire the Great Plains Coca-Cola Bottling Company, which supplies cities of Oklahoma and Tulsa (*Forbes*, 2017). Third, as part of its renewed relationship with The Coca Cola Company, Arco Continental assigned it the rights to its mineral water Topo Chico in the United States for US\$ 220 million (*Expansión*, 2017). Fourth, it purchased the Deep River Snacks factory in Connecticut, strengthening its position in this segment in the United States market (*Reforma*, 2017). Thus, Arco Continental became the first foreign company to bottle, distribute and market Coca-Cola brands in the United States. Continuing with this dynamic, in May 2018, Arco Continental announced the construction of a new production plant and distribution centre in Houston, Texas, for which it would invest some US\$ 250 million. This complex will be the first Coca-Cola production plant built in the United States in the last decade (*El Universal*, May 30, 2018).

Prior to its entry into the United States, Arca Continental’s internationalization strategy focused on South America, prioritizing the acquisition of local bottlers in

<sup>9</sup> Arca was born in a context of high competition, with efforts by The Coca Cola Company to consolidate its regional operations throughout the world and Coca-Cola FEMSA further consolidating its strong position in the Mexican market. The new company is the result of the merger of three family businesses in northern Mexico engaged in bottling, distributing and selling Coca-Cola. Procor de Monterrey and Arma (Coahuila) and Argos (Chihuahua) were merged in 2001; and then Arca and the Continental Group, headquartered in Tampico (Tamaulipas), merged in 2011, giving rise to Arca Continental.

<sup>10</sup> The main anchor bottlers include the following: Coca-Cola European Partners in Europe, Coca-Cola Amatil in Asia and the Pacific, Coca-Cola İçecek in the Middle East and Coca-Cola FEMSA in Latin America.

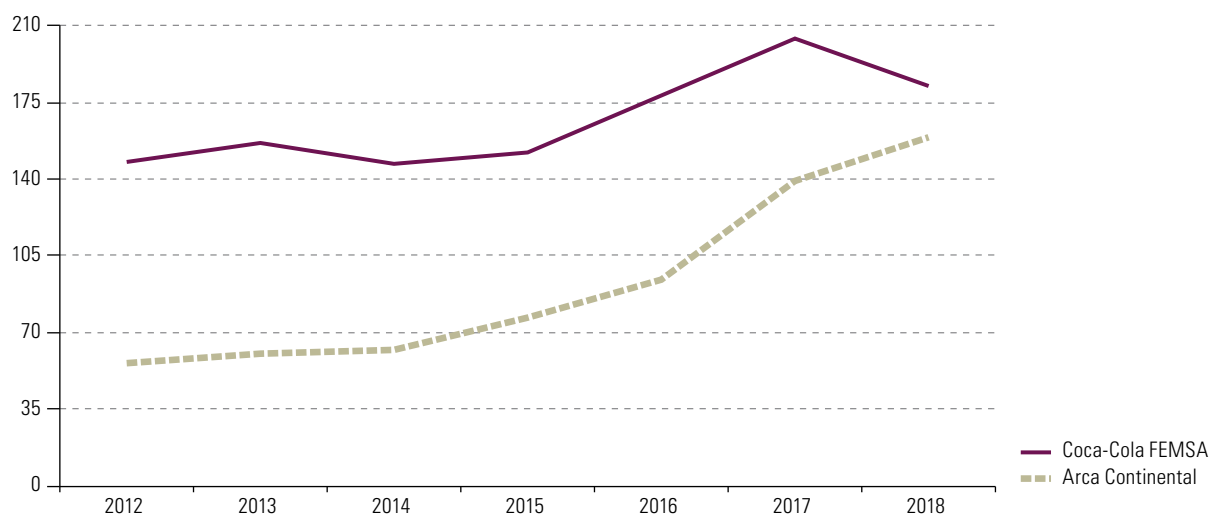
<sup>11</sup> The agreement between Arca Continental and The Coca Cola Company included the following points: (i) the Mexican company transfers to Coca-Cola Refreshments (CCR), which is a subsidiary of The Coca-Cola Company, 20% of AC Bebidas, a subsidiary that has operations in the beverage segment in Argentina, Ecuador, Mexico and Peru; and (ii) CCR transferred to AC Bebidas 100% of the capital of Coca-Cola Southwest Beverages (*El Economista*, 2017).

Argentina, Ecuador and Peru. In 2008, it acquired two bottling plants in northern Argentina. In 2010, it signed a strategic alliance with the controlling shareholders of Ecuador Bottling Company, the only Coca-Cola bottler in Ecuador. In 2014, together with The Coca Cola Company, it bought a majority stake in the Ecuadorian dairy producer Tonicorp for US\$ 400 million (*Expansion*, 2014). In 2015, Arca Continental also signed an alliance with Lindley Corporation, the only Coca-Cola bottler in Peru and creator of the soft drink Inka Cola, for which it acquired 47.5% of the shares of the Peruvian firm for US\$ 760 million (*América Economía*, 2015). In September 2018, it acquired 99.8% of Lindley Corporation after purchasing 38.5% of the shares held by The Coca Cola Company's affiliate, Peru Beverage, for US\$ 507 million (*Semana Económica*, 2018a). With these operations, Arca Continental has consolidated itself as the second largest Coca-Cola bottler in Latin America, and is rapidly approaching Coca-Cola FEMSA's sales volume (*Forbes*, 2018a) (see figure I.20).

**Figure I.20**

Arca Continental and Coca Cola FEMSA: net sales, 2012–2018 [🔗](#)

(Billions of Mexican pesos)



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

Unlike Arca Continental, Coca-Cola FEMSA has been pursuing an internationalization strategy for almost three decades. Although this began in Argentina, the major leap was made in 2003, when it acquired Panamerican Beverages Inc. (PANAMCO) —at that time, one of the three largest Coca-Cola bottlers in the world, and Latin America's largest— for US\$ 3.6 billion, which enabled it to expand into seven new markets: the Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Guatemala, Nicaragua and Panama. Subsequently, it continued to purchase various bottling plants mainly in Brazil and Colombia; and, in 2013, it expanded its geographic scope to the Asian market by purchasing 51% of Coca-Cola Bottlers Philippines Inc. (CCBPI) in the Philippines for US\$ 688.5 million (FEMSA, 2012).<sup>12</sup>

Nonetheless, additional taxes on sweetened beverages, compounded by higher raw material prices (sweeteners, PET resin and concentrates) and exchange rate pressures, have eroded the profitability of some foreign operations. In late 2018, the firm announced

<sup>12</sup> As part of the agreement, Coca-Cola FEMSA will have the option of acquiring the remaining 49% of Coca-Cola Bottlers Philippines Inc. at any time during the next seven years following the completion of the transaction (FEMSA, 2012).



the reorganization of its operations in the Bolivarian Republic of Venezuela, significantly downsizing its workforce, as the prolonged economic crisis and hyperinflation have undermined both production and consumption (*La Jornada*, 2019). In early 2019, Coca Cola FEMSA sold its stake in CCBPI, for about US\$ 715 million, which it would use for new acquisitions (*Expansión*, 2019d).

In 2018, Coca Cola FEMSA paid US\$ 178 million to acquire two bottlers of Coca Cola products in Guatemala: Comercializadora y Distribuidora Los Volcanes (US\$ 124.6 million) and Alimentos y Bebidas del Atlántico (US\$ 53.4 million). In addition, it paid US\$ 251 million for the bottling company Montevideo Refrescos S.R.L (MONRESA), which is responsible for the production and distribution of Coca-Cola products in Uruguay (*El Financiero*, 2018).

In order to diversify its operations in the face of growing issues surrounding sweetened beverages, the FEMSA group has made major incursions in two segments. First, in conjunction with The Coca Cola Company and other regional bottlers, it has expanded its presence in new niches such as juices, dairy products and plant-based protein beverages. Examples include the acquisitions of firms with regional presence such as Jugos del Valle and AdeS. Second, it has extended its strong presence in the convenience store and pharmacy segment to the international arena. In this line of business, it acquired the pharmacy chains Cruz Verde in Chile and Acuña in Colombia, as well as the Big John convenience store chain in Chile, where it has transferred the Oxxo model, which has been highly successful in Mexico. As a result, its revenues from commercial activities have quickly surpassed those of the bottling segment. Between 2014 and 2018, FEMSA's commercial segment increased its share of the firm's total revenues from 40% to 54%.

The international expansion of Coca Cola FEMSA has also elicited movements in some of its suppliers. In early 2018, in anticipation of the bottling plant's arrival in Uruguay, Envases Universal, another Mexican firm bought Cristalpet, an affiliate of Cristalerías del Uruguay, which has three production plants, one in Uruguay and two in Brazil (*DNegocios*, 2018). Similarly, the Mexican petrochemical firm, Alpek, bought Companhia Petroquímica de Pernambuco and Companhia Integrada Têxtil de Pernambuco, producers of PET resin and PTA raw material, for US\$ 435 million from Petroleo Brasileiro S.A. (Petrobras) (*LexLatin*, 2018).

In a market such as that of sweetened beverages, with high sales volumes, thin profit margins and a product that is increasingly under attack, it is difficult to predict the winning strategy between these two large Mexican bottlers.

Whereas firms that are pioneers in internationalization consolidate their foreign operations organically, new Mexican firms, which are constrained by domestic conditions, prefer to start this process through acquisitions.

The pharmaceutical group Invekra embarked on an international expansion plan, with a strategic focus on South America. In 2017, it acquired 51% of Laboratorios Portugal, a leading manufacturer of pharmaceuticals and personal care products in Peru; and then it announced the purchase of the Hersil laboratory for US\$ 55 million in the same country. However, the operation has apparently been abandoned (*Semana Económica*, 2018b).

A particularly interesting recent internationalization model has been that of Vista Oil & Gas, led by former executives of Argentine energy companies.<sup>13</sup> In August 2017, Vista Oil & Gas was floated on the Mexican Stock Exchange as a special-purpose acquisition

<sup>13</sup> Members of the founding group previously held senior positions at various oil companies in Argentina: Miguel Galuccio, Pablo Manuel Vera and Pinto Juan Garoby at YPF; Gastón Remy at Dow; and Alejandro Cheriákov at Jagercor Energy Corp.

company (SPAC).<sup>14</sup> These firms do not own assets, but raise funds through the initial public offering (IPO) mechanism, which they then use to buy different assets, companies or projects. In this way, Vista Oil & Gas raised about US\$ 650 million, which it used to purchase a variety of oil assets in Mexico and mainly in Argentina. In the latter country it acquired the oil company, Entre Lomas (PELSA), for US\$ 700 million, in addition to other assets for about US\$ 100 million,<sup>15</sup> to gain a foothold in the extraction segment in the Vaca Muerta oilfield, located mainly in the province of Neuquén. Vista Oil & Gas obtained eight exploitation concessions, one exploration agreement and one evaluation lot, which would rank it as the fifth largest oil producer and operator in Argentina. At the same time, it was negotiating with China Petroleum & Chemical Corporation (Sinopec) to acquire oil assets after the Chinese company announced that it wanted to leave Argentina as a result of the depressed oil price and high levels of union conflict.<sup>16</sup> Subsequently, conditions began to change for Sinopec, and it halted the sale of its assets in Argentina. In late 2018, Vista Oil & Gas swapped assets in Vaca Muerta with Anglo-Dutch Shell, whereby it obtained 90% of the rights in the Águila Mora area, becoming the operator.

In Chile, a number of firms have reactivated their internationalization process, but with different strategic focuses. An example is Falabella, a retailer that was one of the internationalization pioneers and achieved leadership positions in Argentina, Brazil, Colombia, Mexico, Peru and Uruguay. In the past decade, the firm has made considerable progress in expanding its stores, improving logistics and distribution, and entering new markets. Between 2013 and 2018, Falabella increased its number of physical stores from 296 to 504. In the last year, however, it has made course changes. First, Falabella obtained the IKEA franchise for several South American countries, which will enable it to expand its range of specialized stores. Second, it opened its first home improvement store in Mexico, under the Sodimac brand.<sup>17</sup> Third, and perhaps most significantly, it has made a firm commitment to strengthening its position in e-commerce, spurred in part by Amazon's announced arrival in the Chilean market and rapid changes in consumption patterns. To finance these initiatives, Falabella made a capital increase of US\$ 800 million (*Estrategia*, 2018).

In this latter line of business, Falabella acquired the Mexican online trading company Linio for US\$ 138 million, thereby enabling it to enter markets where it still has no physical or online presence.<sup>18</sup> It plans to invest US\$ 147 million to boost Linio in Latin America; and, in 2019, it expects to have all its department stores, as well as the Sodimac chain, available on the Linio platform.

In March 2018, the fuel distributor Compañía de Petróleos de Chile (COPEC) used its Terpel affiliate<sup>19</sup> to acquire ExxonMobil's operations in Colombia, Ecuador and Peru, for US\$ 747 million. Terpel gained control of the lubricants segment in Ecuador and Peru, while operations in Colombia will be sold to a third party that is independent of the fuel business, pursuant to local regulations. Terpel also gained control of the fuel business in Ecuador; the fuel trading operation for the Jorge Chávez International Airport in Lima, Peru; and the production plants in Callao, Peru, and Cartagena de

<sup>14</sup> The Mexican Stock Exchange introduced the special purpose acquisition company modality, with a view to attracting new participants into the stock market. This mechanism allows the fund-raising firms to deposit the capital in a custody account; and they have 24 months to develop their business plan, basically consisting of asset acquisitions. If the shareholders do not approve the business plan, the capital is returned, and the company has to close down.

<sup>15</sup> Vista Oil & Gas acquired these assets from Pampa Energía and Pluspetrol Resources Corporation, two of the largest Argentine firms in the sector.

<sup>16</sup> The bid made by Vista Oil & Gas for SINOPEC's oil assets in Argentina was on the order of US\$ 600 million, which surpassed those submitted by YPF and Canada's Madalena Energy, but was well below the US\$ 2.45 billion that SINOPEC had paid to the American firm Occidental Petroleum Corp. in 2010.

<sup>17</sup> In 2016, Falabella signed a memorandum of understanding with Soriana, Mexico's second-largest supermarket chain, to jointly develop the financial services business and a chain of home improvement stores.

<sup>18</sup> Linio operates in eight countries: Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Mexico, Panama, and Peru. It also has offices in the United States and China.

<sup>19</sup> In 2010, COPEC extended its operations outside Chile after buying a majority stake in the Colombian fuel distributor Terpel, which owns more than 1,200 service stations in Chile, Ecuador, Mexico, Panama and Peru.

Indias, (Colombia). With this operation, Exxon Mobil and COPEC signed an agreement in 2016 for the manufacture and distribution of Mobil lubricants on the South Pacific coast (*La Tercera*, 2016).

One month later, COPEC, used its Alxar affiliate to buy 40% of the Peruvian mining company, Cumbres Andinas, which is responsible for development of the Mina Justa project, from the local Breca group for US\$ 200 million. Minsur, which is part of the Breca Group, will keep 60% of Cumbres Andinas and operate the project, which is set to come on stream between 2020 and 2021, requiring an investment of US\$ 1.6 billion. Once Mina Justa is fully operational, it is expected to produce about 100,000 tons of fine copper per year.

The fuel refining, transportation, distribution and marketing segments have also been concentrated in Brazil, where local business groups are taking advantage of the departure of transnational companies with a longstanding presence in Latin America.

In early 2018, Raízen Combustíveis, a venture created from the merger of part of the Brazilian businesses of the Brazilian Cosan group and those of Royal Dutch Shell,<sup>20</sup> acquired the latter's refining, transport and downstream assets in Argentina for US\$ 916 million. The transaction included the Buenos Aires Refinery and a network of 665 service stations, among other assets. This will give Raízen a share of roughly 20% of the fuel distribution market in Argentina. Raízen outbid other major industry players, such as the Argentine oil company YPF S.A., the Chilean firm, Quiñenco S.A., and China National Petroleum Corp (*Econo Journal*, 2018).

This operation is part of Royal Dutch Shell's asset rationalization strategy, which includes a US\$ 30 billion global divestment program, having taken over the BG Group for about US\$ 52 billion (Reuters, 2016).

## E. Conclusions

In 2018, FDI flows to Latin America and the Caribbean increased following five years of decline. This result contrasts with dwindling global FDI inflows, although growth of up to 10% is expected in 2019 (UNCTAD, 2019). In the case of Latin America and the Caribbean, however, the increase in FDI inflows is concentrated in a few countries and cannot be associated with equity inflows, but instead with intercompany loans and reinvested earnings.

It has also been noted that the world stage has become more complex owing to commercial, technological and security policy disputes involving the United States, China and the European Union. Transnational corporations do not expect these conflicts to be resolved quickly, which in the short term may fuel increases in FDI to sectors that are less affected by the policies implemented by the United States, China and the European Union. This could largely explain the increased interest in the extraction and processing of natural resources, which has been reflected in larger numbers of investment announcements worldwide. These potential future shifts in FDI are unlikely to be large enough to significantly alter flows to Latin America, as happened during the commodity price boom cycle between 2007 and 2012.

In the high-tech sectors, and in the medium term, the international context seems to favour strategies aimed more at generating investment within the leading countries than promoting new FDI flows. Nonetheless, in the medium-technology sectors, a reorganization of international supply chains can be anticipated, which could involve

<sup>20</sup> Raízen was formed in 2011 by merging Cosan's sugar and ethanol production and power generation units, together with Shell's fuel marketing and distribution operations in Brazil, thus becoming the Shell brand owner in that country.

countries in Asia and also some in the region (for example, Mexico), where transnationals have helped develop capabilities in several specific industries.

An additional variable to be taken into account is the liquidity that has built up in United States transnationals throughout 2018, and the opportunities that the new tax rules offer to these firms. Nonetheless, the signs in 2018 suggest that United States companies are increasingly targeting acquisitions in Europe, rather than in Latin America.

Modest economic growth is forecast for the region in 2019: ECLAC expects GDP in South America to grow by 0.2%, and by slightly more in Mexico (by 1.0%), Central America (2.9%) and the Caribbean (2.1%).

These factors suggest that the FDI growth of 2018 is unlikely to be maintained in 2019, and inflows to the region could stumble by as much as 5%.

The international context and the global outlook for investment flows thus reveal the potential importance of FDI in helping to build local capabilities, promote sustainable development and modify the structure of production in the region. As noted in previous reports, large FDI flows alone do not guarantee a contribution to the region's productive diversification and long-term growth (ECLAC, 2017 and 2018).

Achieving those objectives requires identifying and implementing policy guidelines to steer and coordinate the countries' investment priorities. In a world where policies are designed and executed according to large economic blocs, the possibilities for countries to advance individually are quite limited; and the risks of competing for the same sources of investment increase. In contrast, the search for coordination spaces and development plans shared between different countries offer opportunities, both to improve incentives for attracting foreign investment and to integrate FDI into more ambitious development strategies.

In this connection, the Comprehensive Development Plan for Central America (ECLAC, 2019), for example, which involves El Salvador, Guatemala, Honduras and Mexico, represents an opportunity to propose joint guidelines and incentives to ensure that the activity of transnational corporations in the region contributes to the established development objectives.

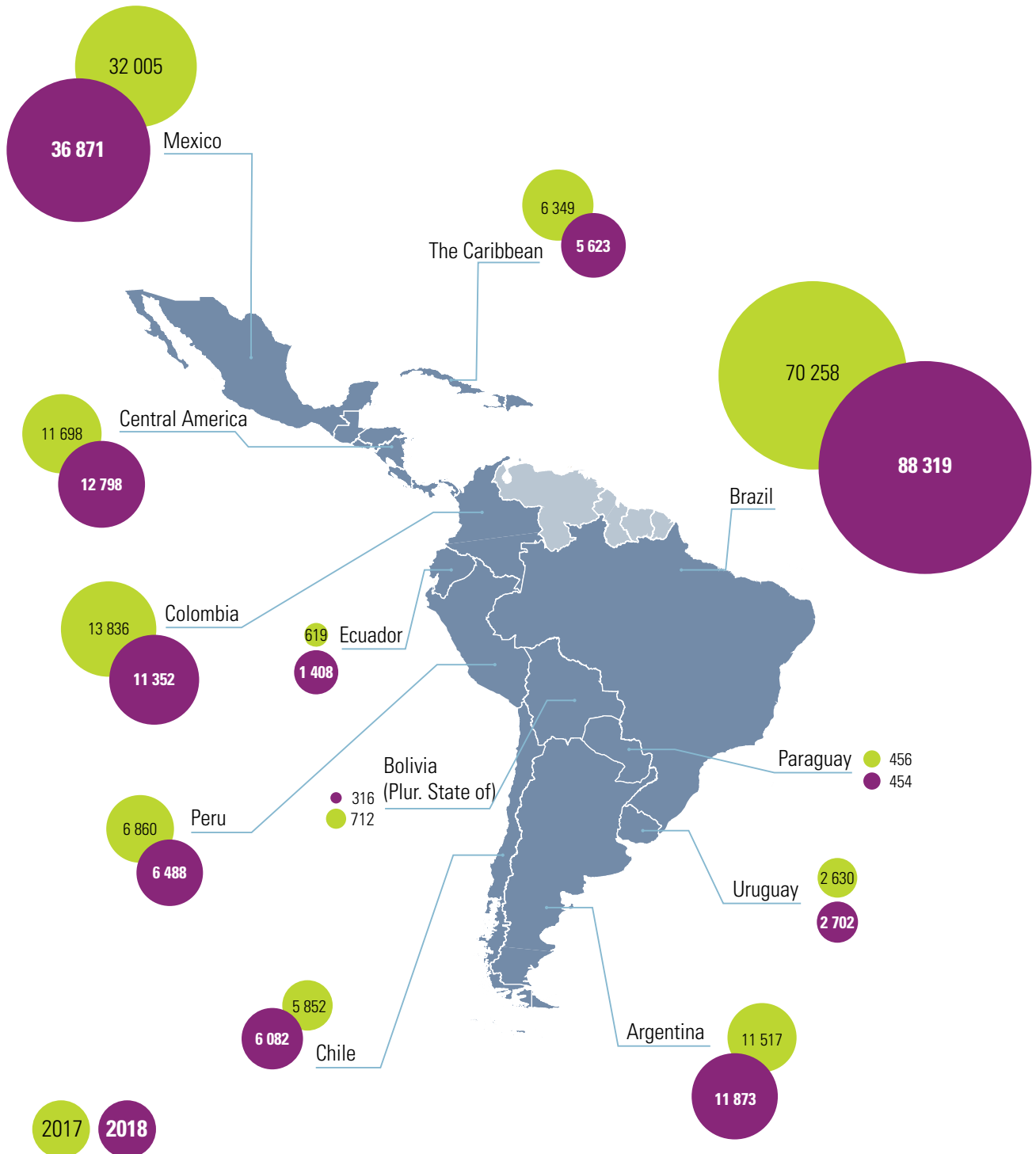
Against an international backdrop of dwindling FDI flows and strong competition for investment, policies should not be geared towards recovering the size of FDI flows, but increasingly towards attracting the type of FDI that contributes to the formation of knowledge capital and fosters changing patterns of sustainable production, energy and consumption. The growing incorporation of a sustainable development approach in the strategic decisions of the world's main transnationals provides an opportunity to design policies that support this paradigm shift.

## F. Country analysis: FDI inflows followed disparate trends in all subregions

In recent years, FDI flows have not followed uniform trends among countries and subregions; 2018 was no exception (see map I.1). In South America, investment inflows increased in three countries of the Southern Common Market (MERCOSUR), namely, Argentina, Brazil and Uruguay, and in two Andean countries, Chile and Ecuador, while they decreased in the other countries. In light of the tensions with the United States, FDI grew in Mexico, while flows into Central America only increased with respect to 2017 in Panama and Honduras. In the Caribbean, where, given the predominance of tourism, FDI flows are relatively more homogeneous in terms of the destination sector, inflows slowed due to lower investments in the main recipient country, the Dominican Republic.

Map I.1

Latin America and the Caribbean (selected subregions and countries): FDI inflows, 2017 and 2018 [🔗](#)  
 (Millions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

**Note:** Information according to *Balance of Payments and International Investment Position Manual* (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname.

## 1. Increased FDI flows into Brazil were mainly explained by intercompany loans

With a population of 213 million people and a GDP of US\$ 1.8 trillion on the basis of current dollars (2018), Brazil is the market that attracts the most foreign capital flows into the region. Despite low economic growth in recent years, FDI inflows increased (25.7%) in 2018, totalling US\$ 88.319 billion, although analysis of the components responsible for the rise shows that it was not necessarily the result of foreign transnationals' greater interest in moving into the Brazilian market.

Intercompany loan capital flows played a decisive role in the increase, as they grew fivefold compared to 2017, accounting for 37% of total FDI. While these loans are considered to be foreign-exchange earnings under the balance of payments and contribute positively to the country's capital balance, there is no indication of what the underlying motivation was or what the impact of this investment may be within the production sphere. Reinvestment of earnings also increased (49%), which can be interpreted as a sign of confidence in the companies' performance in the country. Meanwhile equity flows decreased (down 24%), although they remained the largest component of FDI (accounting for 46% of the total).

Investments from the Netherlands grew substantially, accounting for 33% of the total received in 2018.<sup>21</sup> Since the national accounts record the origin of the immediate investor rather than that of the ultimate investor, this means that it is not necessarily transnational firms based in the Netherlands that are investing in Brazil, as companies sometimes use the Netherlands market for financial transactions. The situation is similar with regard to investments originating in Luxembourg, which accounted for 8% of the total in 2018. Much of China's investment in Brazil, for example, are carried out via Luxembourg or the Netherlands. Nevertheless, European transnationals have a significant market presence in Brazil and, in addition to the aforementioned countries, there were notable capital inflows from Switzerland (accounting for 8% of the total), Germany (5%), Spain (4%) and France (4%). The United States was the second largest investor in Brazil (14%), even though inflows fell by 28.6% compared to 2017, while FDI flows from Canada rose (reaching 2% of the total). Capital inflows from China grew by 5.4%, accounting for 1% of the total; however, in light of the completed merger and acquisition transactions, its share is likely to be undervalued. Japan accounted for 2% of FDI inflows, up from the negative flows recorded in 2017.

Most FDI flows went to the manufacturing industry (56% of the total), up 63% from 2017. This growth was mainly due to increased flows to the coke, petroleum products and biofuels sector, which, at close to US\$15 billion, accounted for 36% of total FDI destined for manufacturing in 2018. However, inflows also increased significantly to the automotive, pulp, paper and paper products, and chemical industries, sectors in which transnationals are particularly active in Brazil. All three sectors recorded their highest levels of FDI since 2010, accounting for 19%, 17% and 11% of flows to manufacturing, respectively. Meanwhile, inflows to other industries that have been major recipients of foreign capital, such as food and beverages or basic metal production, ebbed compared to 2017.

FDI in the natural resources sector more than doubled (up 130%), accounting for 16% of the total, as a result of larger investments in hydrocarbons and metal mining. Pre-salt oil production has boosted merger and acquisition transactions, with Petrobras's sale of the Roncador field, the third largest in its portfolio, to the Norwegian transnational Equinor (formerly Statoil) for US\$2 billion the most notable.

<sup>21</sup> Reinvestment of earnings is excluded from the data disaggregated by sector and origin.

Meanwhile, the value of FDI flows to the service sectors was the lowest since 2010, meaning that services had one of the lowest shares of FDI in recent years (26%, compared to an average of 35% between 2010 and 2017). This is partly explained by the fact that, while electricity and gas was the most attractive service sector (accounting for 27% of FDI in services in 2018), it attracted record inflows in 2017 (the year of comparison) in the form of acquisitions by Chinese companies. Similarly, the largest cross-border transaction of 2018 was the acquisition of Eletropaulo Metropolitana Eletricidade de São Paulo S.A., which distributes and sells electricity in the metropolitan region of São Paulo, by the Italian company Enel, for US\$ 2.703 billion. The transport, storage and logistics, and trade sectors also received less investment than in 2017 (amounts fell by 65%, 46% and 36%, respectively), although they remained among the activities with the highest capital inflows (they accounted for 6%, 8% and 10% of FDI in services, respectively). Inflows to the financial sector increased significantly (81%), making it the second largest service sector recipient of FDI (13%).

Investment in telecommunications appears to be on hold, pending the introduction of future technological changes needed to deploy new infrastructure, which will facilitate greater digitization, such as fifth-generation mobile telephony (5G). On average, between 2010 and 2015, 21% of FDI in services went to the telecommunications sector. This share decreased to 11% in 2016, while in 2017 and 2018 there was an outflow of capital from the sector, albeit a very small one (1% of the total). In 2018, capital outflows from subsidiaries of telecommunications companies (US\$ 479 million) exceeded capital inflows (US\$ 357 million), generating a deficit of US\$121 million. No information is available on reinvestment of earnings by sector.

In contrast, the information technology services sector, which is dominated by transnationals in Brazil, saw increased FDI in 2018 (25%), accounting for 4% of the services total. A major transaction was carried out in the data centre sector, but between two United States capital firms, so it is not included in the flows into Brazil, however it does indicate the importance of that market: Digital Realty acquired Ascenty, a leading data centre provider in Latin America, in a deal valued at \$1.8 billion.

Overall, fewer mergers and acquisitions took place in 2018 than in 2017 (96 transactions, compared to 141 in 2017), resulting in a 46.7% drop in the total value of these deals. Of those that were concluded in 2018, most continued to be in the hydrocarbons, basic services, infrastructure and energy sectors. Some of the major transactions were driven by efforts to restructure and reduce the debt of the larger Brazilian transnationals. In addition to Petrobras's sale of a pre-salt oil field, mining giant Vale divested itself of its fertilizer business, which was acquired by the United States firm, Mosaic Co., the world's leading producer of phosphate fertilizers, for US\$1.992 billion. After remarkable growth in 2017, acquisitions by Chinese firms slowed in 2018 (down from 14 to 4) and were outstripped by United States companies, which were responsible for 32% of the transactions (39% of the total value).

Investment announcements in Brazil saw a return to growth in 2018, in terms of both quantity and value, following a downturn since their peak in 2011. Renewable energies and telecommunications were the sectors with the highest announcement values (16% and 15% of the total, respectively), followed by financial services (12%), the automotive and autoparts sector (11%), the paper and paper products sector (8%) and the chemical industry (7%).

In the renewable energy sector, the Spanish company Iberdrola, through its subsidiary Neoenergia, announced the construction of a facility with 18 wind farms in the north-east of Brazil (Paraíba) that will add 471 megawatts (MW) of installed capacity to the already operational 94.5 MW. The complex will be located in one of the areas with the most wind power potential on the continent and Siemens Gamesa will supply

the wind turbines, to be manufactured at its plant in Brazil. The project is also expected to generate 1,200 construction jobs. Thanks to this facility, Brazil will become the Latin American country with the most wind power potential for the Iberdrola Group, with a total of 1,000 MW (Iberdrola, 2018). The Italian company Enel, which has the largest renewable energy installed capacity in Brazil (approximately 3,000 MW, including 1,269 MW in hydroelectric power, 842 MW in wind power and 820 MW in solar power), continues to expand its capacity with a build, sell and operate (BSO) strategy. In 2018, it announced the construction of a 475 MW solar park in Piauí, of which 388 MW were already earmarked under 20-year power supply contracts (A-4 public tender held in 2017) and the remainder will be offered to the market. In 2019 it announced the sale of three renewable plants with a total capacity of 540 MW to the Chinese company CGNEI, a transaction worth approximately US\$ 780 million. This sale is expected to finance future renewable energy projects, while Enel will continue to operate and manage the assets sold.

In the manufacturing sector, the Austrian company Lenzing, which specializes in fibres made from wood and cellulose, increasingly in demand as alternative fabrics to cotton, and the Brazilian company Duratex, maker of wood panels, announced a joint venture valued at US\$ 1 billion to build a dissolving wood pulp plant in the state of Minas Gerais. Meanwhile, in the automobile industry, the German carmaker Volkswagen announced an expansion of its plant in Paraná, with an investment of some US\$ 540 million, to produce the T-Cross, the company's first sport utility vehicle (SUV) manufactured in Brazil, designed to appeal to South American consumers. According to the Paraná Development Agency the project integrates the state into a new development cycle in the Brazilian automotive industry (APD, 2018).

## 2. The fall in investment in extractive industries in South America was stemmed

In 2018, FDI inflows into **Argentina** totalled \$11.873 billion dollars, 3.1% more than in 2017, making it the third largest recipient after Brazil and Mexico. Flows have normalized since 2017, after the atypical levels recorded in the period 2012–2016. In particular, a set of regulations governing foreign currency outflows in force during the period 2012–2015 encouraged the reinvestment of profits and reduced the weight of equity. Then, in 2016, after the foreign exchange regulations were lifted, FDI remained low due to the net payment of debts between parent companies and subsidiaries (because of the settlement of debts for services, among other reasons), and to the decline in reinvested earnings.

The increase in 2018 is explained to a greater extent by equity, which increased by 66.4% and accounted for 27% of FDI inflows. The reinvestment of earnings was the main component (61% of total flows), which remained at a level similar to that of 2017 (it edged up by just 0.8%). Meanwhile, intercompany loans fell (down 41.2%) as a result of the higher cost of international financing.

Mergers and acquisitions in the extractive industries were buoyant and accounted for almost half of the 25 transactions completed in 2018 (seven in mining and five in oil and gas). The Argentine company Pampa Energía sold its stake in Petrolera Entre Lomas plus several oil and gas fields in the province of Neuquén to Vista Oil & Gas (headquartered in Mexico but founded in Argentina, in a deal valued at US\$ 916 million). Other transactions took place between foreign companies operating in the country. In the mining sector, POSCO, based in the Republic of Korea, bought the lithium mining rights in the Catamarca province from the Australian company Galaxy Resources for US\$ 280 million, an acquisition that secures a supply of lithium for POSCO plants producing



batteries for automobiles and other devices. In the oil sector, the Netherlands-based company Shell sold its downstream business, including a refinery and 665 service stations, to Brazil's Raizen.

A joint venture was also announced in 2018 between Argentina's State-controlled company YPF and Malaysia's Petronas, both with equal stakes, to exploit the Vaca Muerta oil fields. This would increase the production of YPF by 30% by 2022 (Reuters, 2018).

Meanwhile, in the industrial sector, the Chilean brewer CCU ceded its rights to distribute the American Budweiser brand in Argentina to the Belgium-based company AB InBev in return for US\$ 400 million and the rights to seven other brands. In the area of agricultural machinery, the United States firm John Deere acquired the PLA Group of Santa Fe, which specializes in the manufacture of sprayers and planters, for US\$ 75 million, as part of its expansion strategy that included the purchase of King Agro, an Argentine manufacturer of carbon fibre components which is headquartered in Spain with a production facility in Campana (*El Cronista*, 2018).

Lastly, 2018 saw a rise in announcements of new investments, in terms of both quantity and value. The largest amounts announced were for projects in the oil and gas (33% of the total), telecommunications (17%) and mining (10%) sectors. In the manufacturing sector, it was announced that the German wind-turbine manufacturer, Nordex, had entered into an agreement with Fábrica Argentina de Aviones "Brig. San Martín" S.A (FAdeA), to set up a new wind turbine assembly plant in Córdoba. In telecommunications, the United States company, Amazon, announced that it will invest in infrastructure to boost the performance of Amazon Web Services (AWS) in Argentina.

With inflows of US\$ 11.352 billion in 2018, **Colombia** was the fourth largest recipient of FDI in the region, even though investments declined by 18% compared to 2017. This decrease must be qualified however; inflows in 2017 were exceptionally high, as a result of the fine paid by the Mexican company Claro and Spain's Telefónica, after an arbitration court ruled in favour of Colombia in the matter of the ownership of national networks, which pursuant to a clause in the contracts signed between the companies and the State in 1994, were supposed to be returned to the State after 10 years. Accordingly, as is discussed below, the telecommunications sector and investments originating in Mexico and Spain were the areas that contracted the most. In addition, the amount of FDI received is close to the target of US\$ 11.500 million set out in the National Development Plan 2018–2022, a target that shows that in the short run the government does not expect a return to investment levels of the magnitude received during the commodity boom.

With regard to FDI components, capital contributions posted the largest year-on-year decline (down 43%), accounting for 40% of total FDI flows, while reinvested earnings grew by 27% compared to 2017, making up 46% of inflows. Intercompany loans also contracted (down 10.6%), but, unlike other economies, they are a negligible source of income in Colombia.

The oil industry was the sector that attracted the most FDI to Colombia and, despite contracting 18.3% compared to 2017, accounted for 22% of the total. The sharpest falls in investments were in telecommunications (56.3%) and manufacturing (55.8%), which meant that both sectors were no longer the main recipients after oil, accounting for 13% and 10% of the total, respectively. The two sectors that superseded them were financial and business services and mining, with FDI inflows growing by 19.3% and 76.1%, with shares of 17% and 15% of the total, respectively.

Investments from Spain and Mexico fell significantly (by US\$ 1.158 billion and US\$ 1.056 billion, respectively), which is explained by the extraordinary payments of 2017. The United States was the largest investor in 2018 (its investments accounted for 22%

of the total and were up 14.1% over 2017), followed by Spain (13% of the total, despite the contraction), the United Kingdom (12%) and Panama (10%).

Unlike previous years, there were no major mergers or acquisitions in 2018. However, there was an increase in investment announcements, which included projects in the telecommunications, real estate, hotel and tourism, and oil and gas sectors.

The repercussions of the fall in the international commodity prices in 2018 were felt in the level of FDI received by **Peru**, which totalled US\$ 6.488 billion, down 5.4% on 2017. This can be explained by the structure of Peru's exports, with mineral and metal products accounting for 70%, and by the fact that a large number of transnational companies' projects are directly or indirectly linked to this sector. After two years of improvements, the terms of trade began to worsen in January 2018 as a result of, on the one hand, the stagnation and subsequent fall in international gold and copper prices and, on the other hand, the rising oil price (Peru is a net importer), which may have affected investment prospects in the extractive sector.

Most of the inflows came from firms already operating in the country (86% of FDI were reinvested earnings) and only 10.5% were capital contributions. Five major mergers and acquisitions took place in 2018, four with Chilean buyers, in copper mining, road concessions, alcoholic beverages and retail. Another transaction, in the agribusiness sector, was the acquisition of the natural colour business of the supply company GlobeNatural by the United States' Sensient Technologies Corporation.

In 2019, the Chinese State-controlled company, COSCO Shipping Ports, signed a deal worth US\$ 3 billion to acquire a 60% stake in Terminales Portuarios Chancay and develop the berth capacity, with a first stage investment of US\$ 1.3 billion.

Investments in **Chile** totalled US\$ 6.082 billion in 2018, which, despite being slightly higher than inflows in 2017 (up 3.9%), was still far short of the FDI received during the commodity boom between 2008 and 2015, when inflows averaged US\$ 21 billion per year. The increase in 2018 was the result of a greater reinvestment of earnings, the main FDI component, which offset a slight decrease in capital contributions and a more negative flow of intercompany loans.

As in 2017, FDI as a percentage of GDP remained close to historically low levels in 2018 (2.2%), similar to the levels seen between 1990 and 1993 (when it averaged 2%). The persistently low levels of FDI compared to those seen in the previous decade seems to indicate the end of the cycle of investment in large mining projects, a theory that appears to be confirmed by sectoral data: in the period 2006–2015, mining accounted for 36% of FDI inflows; in 2016–2017, its share was 8%.

Meanwhile, the sector with the largest share of FDI inflows in 2016 and 2017 was financial services, mainly as a result of reinvested earnings. This could create opportunities as, insofar as attractive investment projects are developed in the country, the resources available in the financial system will allow capacities to be built in various sectors and throughout the country.

In 2019, InvestChile, the country's foreign investment promotion agency, has held a series of meetings with representatives of global investment funds in order to attract financing for projects with development potential, especially those related to the production, distribution and consumption of non-conventional renewable energies (InvestChile, 2019; Ministry of Energy of Chile, 2019). Moreover, in its 2017 report, the International Energy Agency (IEA) said that Chile had emerged as a world-class destination for investment in various renewable energies, notably photovoltaic solar, wind and marine energy (IEA, 2018). In the last decade, Chile has been the main destination in the region for foreign investments in renewable energy projects, receiving 33% of the total investment amount announced.

FDI in **Uruguay** totalled US\$ 2.702 billion in 2018, 2.8% more than the previous year, thanks to the growth in capital contributions and reinvested earnings (up 77.2% and 62.2%, respectively). The main source of foreign capital in 2018 was reinvested earnings (68% of total). In 2017 (the last year for which sectoral data are available), most of the inflows went to the financial services and insurance sector (Uruguay XXI, 2019).

Analysis of the activities of foreign companies that participated in Uruguay's investment promotion scheme (overseen by the Commission for the Enforcement of the Investment Law (COMAP)) reveals that the food industry received the most investment in 2018 (accounting for some 55% of the total amount of projects under the scheme), followed by the trade, telecommunications and hotel sectors (Uruguay XXI, 2019). Meanwhile, while they do not count as FDI inflows because they are acquisitions between foreign companies, transactions between transnational companies in the energy sector indicate the importance of this sector's development in the country. One such transaction was the sale of a 50 MW wind farm by the Italian utility Enel to Atlantica Yield, headquartered in the United Kingdom, for US\$ 120 million.

After two years of low inflows, FDI into **Ecuador** grew significantly in 2018 (up 127.5% compared to 2017), amounting to US\$ 1.408 billion. This increase is largely the result of higher intercompany loans in the extractive sector. Within this sector, major mining exploration projects were put on hold in 2018 due to the opposition of local communities, but it marked the beginning of a good period for the oil industry, with an oil rights auction raising more than US\$ 700 million in investment (*El Telégrafo*, 2018). This is significant because the contribution of the oil sector to national GDP is more than seven times that of the mining sector.

Some important reforms also took place in 2018. In addition to uniting the ministries for energy, mining and hydrocarbons in a single Ministry of Energy and Non-Renewable Natural Resources, the process began to merge the State-owned companies Petroecuador and Petroamazonas.<sup>22</sup> This merger seeks to optimize resources by consolidating administrative and logistical activities, without the company losing productive or commercial capacity. Safeguarding the operational efficiency of this new State-owned company—which is expected to be established towards the end of 2020—will be paramount, since, by virtue of specific service provision contracts and the new type of production sharing contracts introduced in 2018, the company will be responsible for attracting the investment needed to ramp up the exploration and exploitation of national oilfields, in addition to refining and exporting the output. In this process, ensuring a high-quality new corporate governance structure, establishing transparent tender mechanisms and safeguarding operational efficiency would seem to be priority tasks if the positive results achieved thus far are to be maintained.

The situation in **Paraguay** was largely unchanged from 2017. It received FDI in the amount of US\$ 454 million in 2018, almost the same as the previous year (decreasing slightly by 0.4%). The three FDI components all followed similar trends, with capital inflows being the main source of income (73% of the total). The development of the telecommunications infrastructure encouraged investment from the Swedish company (headquartered in Luxembourg) Millicom, which, through its subsidiary Telefónica Celular del Paraguay S.A. (Tigo), acquired 2.5 MHz of the spectrum for a total of US\$ 36.33 million to expand its 4G service in Paraguay. Meanwhile, there were several transactions in the

<sup>22</sup> The public company Petroecuador was founded in 1989 to undertake the operations previously performed by the consortium between the State-owned Corporación Estatal Petrolera Ecuatoriana (CEPE) and Texaco, among others. In addition to establishing this public company, its subsidiaries, Petroproducción, Petroindustrial and Petrocomercial, were also created. In 2007, Petroamazonas was incorporated as a limited liability company, with equity held by Petroecuador (80%) and Petroproducción (20%), to undertake the operations of the United States' company, Occidental Petroleum Corporation, which at that time was withdrawing from the Ecuador. Petroamazonas became a public enterprise in 2010, setting in motion the merger with Petroproducción, and in 2012 it officially took over the upstream operations at Petroecuador's last oil fields. Thus, Petroamazonas was the public company responsible for production, the crucial link in the oil chain, and Petroecuador continued to focus on refining, transportation and commercialization activities.

manufacturing sector during the year. Elkem, a Norwegian firm owned by China National Chemical Corporation (ChemChina), invested some US\$ 40 million to open a ferroalloy foundry, which uses charcoal and quartz. The United States-based Ball Corporation announced plans to construct a manufacturing plant for aluminium beverage cans, an estimated investment of some US\$100 million.

FDI in the **Plurinational State of Bolivia** fell by 56% in 2018 to US\$ 316 million, the lowest level since 2006. These investments were equivalent to 0.8% of GDP, much lower than that of other countries of the region with major extractive sectors, such as Peru (where FDI was equivalent to 3% of GDP in 2018) and Chile (2.2% of GDP). However, there has also been a persistent decline in FDI in these economies since 2014, caused by the downturn in international mineral prices.

Acquisitions of subsidiaries of North American companies by Peruvian firms in the agribusiness sector were completed in 2018, with transactions valued in excess of US\$ 400 million. Two major investment projects were also announced in 2018: the first was the construction of the New Santa Cruz urban megaproject by Korea Land & Housing Corporation (based in the Republic of Korea) together with the Lafuente Business Group; the second was the exploration and exploitation of gas reserves in the department of Chuquisaca by the Russian State-owned company Gazprom and the Bolivian State-owned YPFB.

Supreme Decree No. 3469 on Contracts for Joint Investment Strategic Partnerships was also signed in 2018, which regulates the creation of public-private partnerships for investment in large projects. Like the Investment Promotion Act of 2014, the main aim of this Decree is regulatory. However, if the aim of promoting foreign investment is also to be pursued, lessons should be learned from the experiences of the recently-created foreign investment promotion agencies of some countries of the region, which, operating within the scope of the ministries for production development and planning, are tasked with promoting and actively seeking foreign investments that further the country's strategic development objectives.

### 3. In Mexico, FDI in the manufacturing sector boosted the growth in inflows

In the region's second largest recipient of FDI, inflows amounted to US\$ 36.871 billion in 2018, 15.2% higher than in 2017, and accounted for 20% of total flows to Latin America and the Caribbean.<sup>23</sup> As with the changes seen in Brazil, the increase was not due to capital contributions, which saw a year-on-year fall (down 2%), but to larger flows from intercompany loans (42%) and reinvested earnings (11%), which together accounted for 69% of inflows (36% and 33%, respectively).

In line with the trend followed since the mid-1990s, the manufacturing industry was Mexico's main FDI draw, receiving investment amounts that exceeded those of 2017 by 9% and accounted for half of inflows in 2018.<sup>24</sup> The service sectors attracted a substantial share of capital flows (46%), but less than in 2017 (down 10%), while increased flows went to natural resources (10%), as a result of higher investments in

<sup>23</sup> Total FDI and flows by component are consistent with the data published by the Bank of Mexico, produced in accordance with the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual* of the International Monetary Fund (IMF).

<sup>24</sup> Flow data by sector and origin are those published by the Secretariat of Economic Affairs, produced in accordance with the methodology of the fifth edition of the *Manual of Balance of Payments and International Investment Position* of the International Monetary Fund (IMF). Differences arise with the year-on-year analysis of the National Foreign Investments Commission (CNIE) because comparisons are made with the latest data available from 2017, not with preliminary data.

the hydrocarbons and metal mining sectors, although they still amounted to less than those in other productive activities.

The investments by transnationals in the automotive and autoparts industry were up 3.7% compared to 2017 and accounted for 24% of total inflows to the country in 2018. Although less capital flowed to vehicle manufacturing (down 14%), autoparts production received more than in 2017 (21%), meaning that investment in the sector as a whole reached record levels in 2018 (with inflows close to US\$8 billion). The basic metal, electronics and chemical industries also received more investments, while FDI inflows were lower in the plastics and beverages and tobacco sectors.

The considerable growth of FDI in the electricity generation, transmission and distribution sector (which saw inflows 140% higher than in 2017) meant that it was the second largest recipient of capital (16% of the total), but this was not enough to offset reduced flows to other services. Civil engineering and natural gas pipeline projects led to record inflows in 2017, which could not be sustained in 2018: these sectors accounted for 9% and 7% of total FDI, respectively, in 2017, but in 2018 their shares fell to 2% and 3%, respectively. Likewise, the flows received in the trade, financial and insurance services, and transport and storage sectors, which together accounted for 18% of total inflows in 2018 (with shares of 8%, 6% and 4%, respectively), were lower than those of 2017. Meanwhile, inflows to the telecommunications sector were 130% higher than in the previous year, and the hotel and restaurant sector also saw an increase (10%), with both sectors each accounting for 3% of FDI entering Mexico.

Transnationals' greater interest in energy assets was also evident in the mergers and acquisitions in this sector, which accounted for 24% of the total number of completed transactions. The largest transactions were among foreign firms, so they are not reflected as income in the balance of payments, but they do highlight the sector's importance. For example, the British firm Actis acquired the Mexican portfolio of InterGen (owned by Chinese and Czech companies) for US\$ 1.256 billion. This portfolio includes 2,200 MW in operation with six combined-cycle gas turbine projects and a 155 MW wind project.

Historically, United States-based transnationals have been responsible for most of the FDI inflows into Mexico, and 2018 was no exception (when they accounted for 38% of the total), despite a year-on-year fall of 17% in the amounts received. Approval of the United States-Mexico-Canada Agreement by the United States Congress could have an impact on investment from United States companies in the near future (see box I.3). Investments from the European Union grew by 24%, making the bloc the second largest source of Mexican FDI (with 33% of the total), with increases in inflows from Spain (20%) and Germany (13%), which accounted for 12% and 9% of the total, respectively. Capital flows from Italy ebbed (down 8%), although it is still ranked as the third largest European investor (5% of the total). Of the Asian investors in Mexico, most FDI originated in Japan (6% of the total), despite a decrease in amounts (down 11%), while flows from the Republic of Korea grew (accounting for 2% of the total). Despite growing significantly in 2018 (49%), investments from China and Hong Kong (Special Administrative Region of China) still have for a low share in the Mexican market (1% of the total).

The number of investment announcements was similar to that of 2017, with most concerning the automotive and autoparts industry (15% of the total), followed by the renewable energy, coal, oil and natural gas, and hotels and tourism sectors (10% each).

**Box I.3****Effects of the new United States-Mexico-Canada Agreement****The renegotiation of the agreement**

On 30 September 2018, it was announced that Canada, the United States and Mexico had reached agreement on a new trade agreement to take the place of the North American Free Trade Agreement (NAFTA). The new agreement is set to enter into effect in late 2019 or early 2020.

The new round of negotiations began in 2017 at the behest of the United States but were put on hold in the second half of 2018 in the run-up to the November midterm elections in that country. The text of the agreement was finalized and signed on 30 November 2018 (in time for its signing by the outgoing Administration in Mexico). The next step is for Congress to give the go-ahead for its entry into force.

On 29 January 2019 (60 days after the signing of the agreements required by the United States Trade Promotion Authority), the head of the Office of the United States Trade Representative (USTR) informed Congress of the changes in United States laws that would have to be made in order for the country to honour the commitments assumed under the new agreement. Following the passage of all the proposed amendments and the submission of the report of the United States International Trade Commission (USITC) on the likely impact of the agreement on the United States economy (the report was delivered a month after the 15 March deadline), the President can submit the agreement to Congress for its consideration with the endorsement of the Speaker of the House of Representatives. The Means and Ways Committee of the House will then have 45 days to present the bill and 15 more days to put it to a vote in the House. Then, 15 days after that, the Senate Committee on Finance will put the bill to a vote in the Senate. The Speaker of the House of Representatives has made approval of the agreement contingent upon the reform of Mexico's labour laws (Lancien, 2019).

The new agreement consists of 34 chapters, 3 schedules, 18 annexes and 12 side letters. Its numerous provisions will govern US\$ 1.2 trillion in trade per year among the three countries. Five of the ways in which it will have the greatest impact are: (i) changes in rules of origin determining how much North American content must be incorporated into products in order for them to qualify for duty-free treatment; (ii) changes in the dispute settlement mechanism, which until now has been based on the rulings of international dispute panels; (iii) changes in environmental and labour provisions; (iv) the inclusion of a chapter on digital trade; and (v) the inclusion of a sunset clause (proposed by the United States) under which the agreement has a renewable term of 16 years and the parties are to meet at least once every 6 years (starting from the joint review) to decide whether to renew the agreement for another 16 years.

**The implications for Mexico**

According to Moody's, the agreement will be beneficial for Mexico and Canada because it will reduce trade uncertainty and bolster the near-term outlook for growth and investment (Moody's Investors Service, 2018). Another study, which reflects the opinions on the new agreement of 90 senior executives of medium-sized and large firms in Mexico, sees the main risks for Mexico as being associated with negative international macroeconomic shocks (Deloitte, 2017).

A recent USITC report indicates that United States exports to Mexico are projected to grow by 6.7%, while Mexican exports to the United States are expected to expand by only 3.8% (USITC, 2019). United States exports to Canada are projected to increase by 6%, while the forecast for Canadian exports to the United States estimates their growth at 4.8%.

The impact of the agreement will certainly vary across different industries. International panels will continue to resolve disputes that arise in sectors such as the oil, gas, energy and infrastructure industries, while the greatest impact of the rules of origin and labour provisions will be felt in the manufacturing sector.

The United States and Mexico agreed to alter the rules of origin applying to motor vehicles by raising the regional content requirement to 75% (from 62.5%) and introducing the requirement of a minimum wage of US\$ 16 per hour for 40% of the labour value content of motor vehicles. In addition, 70% of the steel used in each vehicle must come from North America, and the Mexican automotive industry's duty-free exports to the United States are capped at 2.4 million passenger vehicles (today it exports 1.7 million) and US\$ 108 billion in auto parts.

Moody's Investors Service (2018) expects the changes to be modestly negative for the North American automotive sector because its production and compliance costs will increase, since meeting the new requirements will oblige it to make changes in its supply network and production processes. Automakers can absorb the effects of these changes, however, by planning out their cost systems. On the other hand, the tariff-rate quotas will reduce the room for growth of automotive exports to the United States. According to USITC (2019), the increase in production costs will be passed on to consumers in the form of somewhat higher prices for passenger vehicles and light trucks in the United States, resulting in a slight decline in the consumption of these vehicles in the market.

**Box I.3 (concluded)**

One element that will fuel uncertainty in the automotive industry is the imposition of a 25% tariff on United States imports of aluminium and steel from Canada and Mexico in June 2018; agreements had been reached on this point, but some of the parties later changed their position on the issue (Embassy of Mexico in the United States, 2019).

The introduction of the minimum wage requirement will also pose a major challenge for Mexico, as the average wage is currently around US\$ 2.50 per hour (the increase will be equivalent to a maximum of US\$ 8 per hour for workers associated with export products). The wage hike, which is expected to be around 17%, will have a direct impact on manufacturers' costs in Mexico. In addition to the difficulties involved in fully implementing this provision within a span of two years, as is called for by the new agreement, another potential problem for Mexico is the possibility that the manufacture of high-value components (such as engines, chassis or tyres) may be moved to factories in the United States or Canada (Mendoza Escamilla, 2019; Keenan, 2019).

**The impacts observed so far**

The agreement provides a basis for the protection of investment in the United States, Mexico and Canada. It also clarifies issues such as the application of most-favoured-nation status, national treatment and minimum standards of treatment. One of the key points made in the chapter on investment has to do with the dispute settlement mechanism.<sup>a</sup> The changes made in this area are expected to trigger a decline in United States companies' and their affiliates' investments in Mexico. The hardest-hit sectors are likely to be manufacturing and the mining industry, with some investment in those activities being shifted to the United States.

According to the FDI study prepared by the Secretariat for Economic Affairs of Mexico, the United States is the country's biggest source of investment in the aerospace, automotive, retail trade, energy, food and chemicals industries, while Canada is one of the five top investors in the aerospace, automotive and energy sectors. Given the preponderant role played by these two countries in trilateral trade, it is unlikely that investment flows will remain unchanged during the first few years after the agreement enters into force.

Even though FDI flows to the energy sector rose in 2018, the National Energy Centre (CENACE) —the independent operator of the National Electrical Power System (SEN) and the administrator of the Wholesale Electrical Power Exchange (MEM) in Mexico— announced the cancellation of the 2018 long-term energy auction (SLP-1/2018) on 31 January 2019, following the suspension in December of the auction review process by the previous Administration. These decisions coincided with the announcement of the new agreement with the United States and Canada, the world's two biggest investors in Mexico's energy industry.

The slowing of the international economy and world trade have also influenced investment inflows. The effects of the slowdown in China —Mexico's second-largest trading partner— are also a factor. This relationship may be affected by the agreement under the terms of chapter 32, which provides that, in the event that one of the parties enters into trade negotiations with a non-market country, that party must inform the other parties at least three months in advance and must disclose as much information as possible concerning the aims of those negotiations. Article 32.10 provides that, if a party enters into a free-trade agreement with a non-market country, the other parties may terminate their obligations to that party under the agreement by giving six months' notice. The direction in which these changes will lead will depend not only on the final details worked out in the course of the ratification process in each country's legislature, but also on the adaptability and flexibility exhibited by companies in each country as they adjust to these changes. The direct impacts of the new agreement, however, will only be seen (in terms of data) some time after it has entered into force.

**Source:** Laboratorio de Análisis en Comercio, Economía and Negocios (LACEN), *Boletín*, No. 242, 22 April 2019, and *Boletín*, No. 230, 2 October 2018; Moody's Investors Service, "Government of Mexico: Mexico's agreement with the US on NAFTA revisions reduces trade-related uncertainty, a credit positive", *Issuer Comment*, 29 August 2018, and "Revised NAFTA deal reduces trade-related uncertainty, a credit positive for Mexico and Canada", *Sector Comment*, 3 October 2018; Deloitte, *Enfrentando el TLCAN: encuesta sobre prácticas and tendencias para mejorar los márgenes en México*, 2017 [online] [https://www2.deloitte.com/content/dam/Deloitte/mx/Documents/strategy/TLCAN\\_v1.pdf](https://www2.deloitte.com/content/dam/Deloitte/mx/Documents/strategy/TLCAN_v1.pdf); United States International Trade Commission (USITC), *U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*, 18 April 2019 [online] <https://www.usitc.gov/publications/332/pub4889.pdf>; Embassy of Mexico in the United States, "Acuerdo entre Estados Unidos and México sobre la Sección 232 Aranceles al acero and aluminio", 17 May 2019 [online] <https://embamex.sre.gob.mx/eua/index.php/es/recientes/1537-acuerdo-entre-estados-unidos-y-mexico-sobre-la-seccion-232-aranceles-al-acero-y-aluminio>; V. Mendoza Escamilla, "El TLCAN renegociado viene con freno a la inversión automotriz en México", *Forbes*, 31 October 2018 [online] <https://www.forbes.com.mx/el-tlcan-renegociado-viene-con-freno-a-la-inversion-automotriz-en-mexico/>; G. Keenan, *North America's New Free Trade Agreement: Impacts on the North American Auto Sector*, Wilson Center's Canada Institute/Mexico Institute, January 2019 [online] [https://www.wilsoncenter.org/sites/default/files/keenán\\_north\\_america\\_auto\\_sector\\_jan\\_2019.pdf](https://www.wilsoncenter.org/sites/default/files/keenán_north_america_auto_sector_jan_2019.pdf).

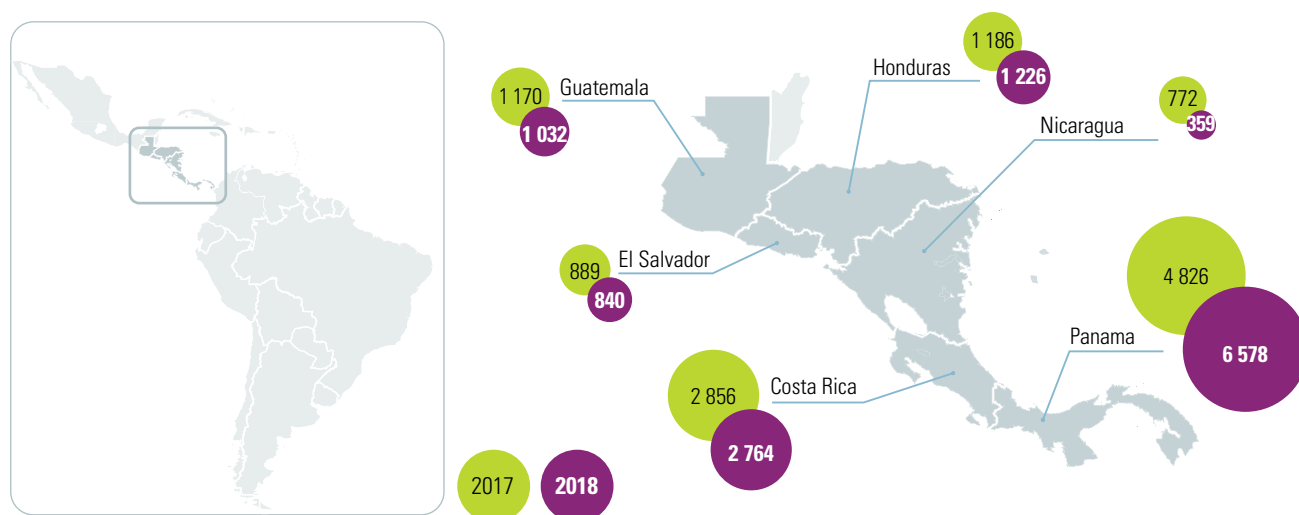
<sup>a</sup> This portion of the agreement provides that only firms in five sectors (oil and natural gas, power generation, telecommunications, transportation services and some types of infrastructure) that are party to a covered government contract can directly file claims with the investor-State dispute settlement mechanism.

## 4. Panama and Costa Rica consolidated their position as Central America's biggest FDI destinations

The expansion of investment flows to Panama, which accounted for 51% of the subregion's total inflows, accounted for the upswing seen in 2018 in Central America (9.4%), since all the Central American countries except Panama and Honduras took in less FDI than they had in 2017 (see map I.2). The second-biggest recipient was Costa Rica (22% of the subregion's total), which, although it has not repeated the highs seen in 2013–2015, has nonetheless been posting higher levels of FDI than it did in the 2000s. Medium-term FDI growth was also strong in El Salvador (despite a year-on-year decline), with the country averaging US\$ 319 million in inflows per year between 2011 and 2016.

Map I.2

Central America (selected countries): foreign direct investment inflows, 2017 and 2018 [🔗](#)  
(Millions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

**Note:** Information according to *Balance of Payments and International Investment Position Manual* (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname.

Ever since topping US\$ 1 billion in 2004, FDI inflows to **Panama** have been on an upward trend, with just four year-on-year decreases (in 2007, 2009, 2012 and 2017) since then. In 2018, inflows were up by 36.3% for a total of US\$ 6.578 billion, making the country the fifth-largest FDI recipient in Latin America and the Caribbean.

Capital contributions accounted for a very small portion (1%) of total FDI in 2018, while the largest share was made up of reinvested profits (50%), although they rose only slightly (4%) from their previous year's level. As was also the case in Brazil and Mexico, intercompany loans (which nearly doubled) were the main factor behind the upturn in FDI inflows.

The latest available figures, which are for 2017, show that the services sector took in the most FDI, at 67% of the total, with transport and telecommunications being the largest recipients, followed by commerce, hotels and restaurants, with financial



services coming in third. FDI directed towards natural resource sectors also climbed, representing 30% of inflows for that year.

Although sectorally disaggregated information is not yet available for 2018, the mining industry is expected to have retained its buoyancy thanks to the operations of the Canadian company First Quantum Minerals at the Cobre Panama mine. In early 2018 that company's board of directors approved an estimated US\$ 300 million investment to ramp up production capacity and then, in June 2019, the firm made its first shipment of copper concentrate and announced a further expansion (starting in 2023) entailing an estimated investment of US\$ 327 million. In the telecommunications sector, an 80% stake in the country's largest wide-band, cable television and landline telephone service provider, Cable Onda, was bought up by the Swedish firm (headquartered in Luxembourg) Millicom International Cellular for US\$ 1.002 billion as part of its continuing bid to expand its operations in Central America.

Investment announcements were fewer in number than they had been in 2017 but included the opening of an office by the Danish transport and logistics firm DSV. Panama's strategic position as a distribution hub for Central America and the Caribbean, and the presence of the free-trade areas, were the reasons cited for this decision. China, too, has been showing a growing interest in the transport and logistics sector and in Panama's strategic position (Fariza, 2019). Panama was the first of a series of countries in the region to join the Belt and Road Initiative, and in 2018 a Chinese consortium won the tender for the construction of a fourth bridge over the Panama Canal—a US\$ 1.42 billion megaproject (Agencia Efe, 2018). This operation will not be a source of FDI inflows for the country, but it is nonetheless a demonstration of China's growing interest in doing business and strengthening its position in the region.

**Costa Rica** has shown itself to be an attractive destination for transnational corporations. In 2018 it took in US\$ 2.764 billion in FDI. This was down slightly from its 2017 figure (-3.2%) but still made it the eighth-largest FDI recipient in Latin America and the Caribbean.

The downswing was chiefly attributable to a decrease in the tourism sector, which received US\$ 21 million in investment in 2018 versus US\$ 444 million in 2017.<sup>25</sup> As in previous years, the manufacturing sector received the most (51% of the total), although investment in this sector was down as well (by 11%). The medical devices and equipment industry is one of the fastest-growing sectors in the country and has fielded a successful strategy for attracting investment, as well as having built-in capacity that acts as a draw for transnational corporations. For example, Align Technology, a United States company that produces medical devices and has been operating in the country for 17 years, continues to expand its operations and opened new facilities representing an investment of US\$ 50 million in 2018. In the Lima de Cartago free-trade zone, the German medical equipment company Heraeus Medical Components has invested some US\$ 15 million to expand its factory, as has the Danish firm Coloplast, which has announced that it will open a new plant in the same free-trade zone by 2020.

Business service centres have continued to expand and were already serving 147 firms in 2016. In 2018, expansion plans were announced by the British enterprise GlaxoSmithKline (GSK) and the German firm Bayer in the pharmaceuticals industry, by the German firm DHL in the logistics sector, by the United States Citigroup in the financial services market and by the British firm Smith & Nephew in the sports medicine market, where it will add a service centre to its operations.

The second-most popular destination for FDI in 2018 (15%) was the information and communications sector, which took in approximately US\$ 347 million. Ever since the

<sup>25</sup> The sectoral data and the data on origins were compiled using the methodology set out in the fifth edition of the International Monetary Fund's *Balance of Payments and International Investment Position Manual*.

telecommunications market was opened up in 2008, transnational corporations have been expanding their operations in the country. In 2018, three telephony operators—Tigo (owned by the Swedish firm Millicom, which is headquartered in Luxembourg), Claro (part of the Mexican enterprise América Móvil) and Spanish giant Telefónica—announced that they were going to invest in upgrading their networks. In addition, Liberty Latin America, which is based in the United States and has operations in Chile under the name VTR and in Jamaica, the Bahamas and other Caribbean countries, acquired an 80% stake in Cabletica, one of the largest cable operators in Costa Rica, for US\$ 250 million (*BusinessWire*, 2018).

**Honduras** was the third-largest recipient of FDI in Central America, with inflows amounting to US\$ 1.226 billion (up 3.4% from 2017). The reinvestment of earnings was the main source of FDI (75% of the total), followed by capital contributions (16%); upturns in both categories offset the decline in intercompany loans. The United States was the source of 25% of the inflows, but the Latin American countries as a group were the largest investor, with Panama, Mexico, Guatemala and Colombia accounting for 43% of the total.

Investment was concentrated in two sectors, each of which took in about a third of total FDI receipts: FDI jumped by 55.6% in the export processing (maquila) industry and climbed by 12.6% in financial services, insurance and business services. Investment in non-maquila manufacturing was down.

FDI inflows to **Guatemala** fell by 11.8% from their 2017 level to US\$ 1.032 billion. The lion's share of this total came from the reinvestment of profits (92%). The slippage was a consequence of lower investment levels in manufacturing and in financial services, which received 17% and 16%, respectively, of total FDI in 2018, but investment in the commercial sector rose, accounting for 32% of the total.

The United States is still the largest investor (24% of the total), but countries of the region, particularly Mexico (18%) and Colombia (13%), also play a prominent role.

Despite a 5.5% drop from its 2017 level, **El Salvador** took in a total of US\$ 840 million in 2018, which was far more than double its average level of inflows between 2011 and 2016 (US\$ 319 million). Manufacturing was the main destination sector (70% of the total) and saw a 28.7% increase in receipts over 2017. A steep reduction in FDI in services (-53.8%) resulted in a downward trend in total flows, however. Within the services sector, the largest shares went to commerce (13%) and electrical power (9%), but FDI levels were lower than the year before in both of these cases.

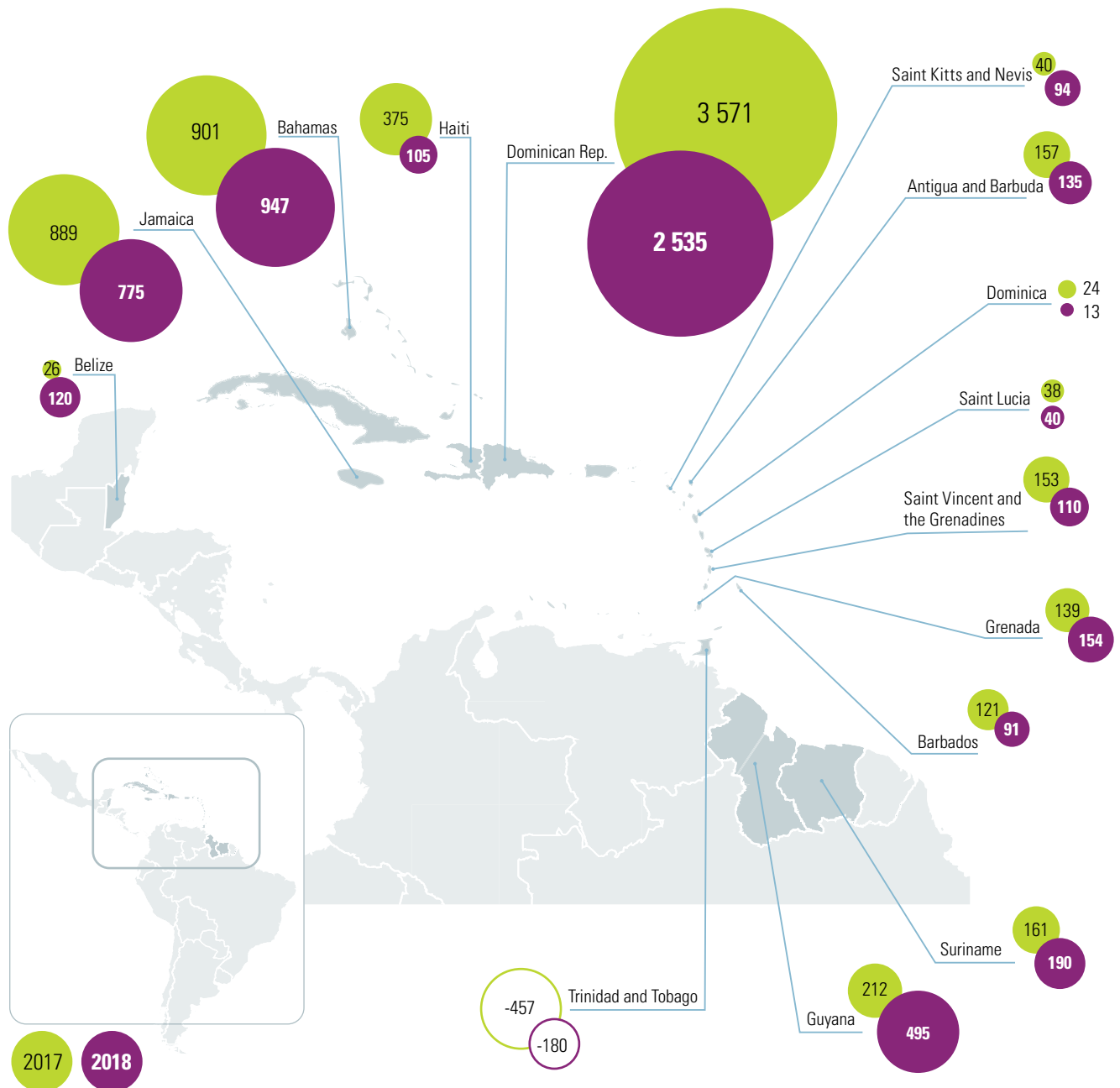
Overall, 40% of the country's investment inflows in 2018 came from the United States, 22% from Panama and 9% from Mexico. Aeroman, an aeronautics maintenance firm of MRO Holdings that has been operating in El Salvador for 35 years, announced the opening of a new airframe maintenance centre representing a US\$ 45 million investment in 2018 (Molina, 2018). With the addition of this sixth hangar, which is already up and running, it became the continent's largest aeronautics maintenance centre (Forbes, 2019). Meanwhile, the United States textile firm Hanesbrands, which is the country's largest employer, announced a US\$ 10 million expansion plan (Pastrán, 2018).

Amid social and political tensions and a shrinking economy, FDI inflows to **Nicaragua** plummeted by 53.5% from their 2017 level of US\$ 359 million, which was about where they had stood a decade earlier. The sharpest contraction of all was in the manufacturing sector, where FDI plunged from inflows of US\$ 324 million in 2017 to an outflow of US\$ 19 million in 2018. FDI in telecommunications also dropped off steeply (-48%), while investment in the energy and mining sectors was nil. The British firm Condor Gold, which has 15 concessions for gold-mining operations in the country, did, however, obtain the necessary environmental permits for the development, construction and operation of a new mine involving an investment of US\$ 120 million (*La Jornada*, 2018). FDI was up in the commercial sector and in the "other sectors" category, which accounted for 32% and 52% of the total, respectively.

## 5. FDI levels in the Caribbean were variable, but tourism was strong throughout the subregion

FDI flows to the Caribbean totalled US\$ 5.623 billion in 2018. This reduction of 11.4% relative to 2017 was chiefly due to a poor showing in the Dominican Republic. Nevertheless, that country accounted for 44% of the subregion’s total FDI (see map I.3), followed by the Bahamas (18%), Jamaica (14%) and Guyana (9%), which marked up a 20-year high in FDI inflows. Tourism continued to attract the largest share of FDI as large transnational chains move ahead with the expansion of their increasingly sophisticated operations in the subregion. Business service centres are also attracting increasing amounts of FDI. (Data on Cuba are unavailable).

**Map I.3**  
The Caribbean (selected countries): foreign direct investment inflows, 2017 and 2018   
(Millions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.  
**Note:** Information according to *Balance of Payments and International Investment Position Manual* (sixth edition), published by the International Monetary Fund (IMF, 2009), except in the cases of Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname.

Citizenship by investment programmes in the countries of the Organisation of Eastern Caribbean States (OECS) (Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines) have drawn in significant amounts of investment in government-approved projects that have provided funding for tourism and real estate development.

FDI inflows to the **Dominican Republic** were down by 29% from their 2017 level to US\$ 2.535 billion. This drop was less serious than it might appear to be at first sight, however, since inflows were still above their average level for 2010–2017 and, what is more, FDI receipts in 2017 represented a 25-year high (driven by the sale of a new block of shares in Cervecería Nacional Dominicana to Ambev for US\$ 926.5 million). Its 2018 FDI inflows made this country the ninth-largest recipient in Latin America and the Caribbean.

The contraction was mainly attributable to a 60.5% drop in the commercial and industrial sector, which nevertheless accounted for the second-largest share (21% of the total). Inflows to the real estate sector (accounting for 20% of the total) also weakened, slipping by 5.1%, as did receipts in export services (the free-trade zones), which represented 9% of the total and fell by 11.2%, and receipts in mining, which accounted for 7% of the total and were off by 54.9%. Tourism was by far the sector with the strongest showing, taking in 34% of total FDI and marking up a 21.3% increase over 2017.

Over the medium term, the development of the tourism industry has fuelled a steep increase in foreign capital inflows, which have climbed from an annual average of US\$ 150 million for 2010–2012 to one of US\$ 780 million over the past three years, while large international hotel chains continue to expand their properties and to announce new investment projects. The Grupo Posadas, of Mexico, has announced that it will build a US\$ 130 million resort in Punta Cana (Forbes, 2018b). The Spanish company Meliá Hotels International has invested US\$ 140 million to open a new luxury hotel and to remodel another of its properties. In 2018 the French chain Club Med, which is owned by the Chinese Fosun Tourism Group, also finished the construction of a new hotel complex in Miches, which, at an estimated investment of US\$ 100 million, is the company's most ambitious project in the last 40 years (Travel Agent Central, 2018). These are just some of the projects that demonstrate transnational chains' interest in being able to offer a wide array of sophisticated leisure options in the country.

In the manufacturing sector, some medical device and equipment exporters have announced investment projects, but they are fairly small in scale. Business service centres continued to expand, and Santo Domingo is in sixth place in the *fDi Intelligence* world ranking of outsourcing centres (*fDi Intelligence*, 2019). In the financial sector, the sale of Banco Dominicano del Progreso to Canada's Scotiabank for US\$ 330 million was announced in 2018 and finalized in 2019.

The **Bahamas** received 5.1% less FDI in 2018 —US\$ 947 million— than it had in 2017 and was the second-biggest destination for FDI in the Caribbean. Equity flows were higher (rising by 63.3%) and accounted for the largest share of inflows (61%), while intercompany loans were lower (-32.0%). The attractiveness of these islands for tourists continues to drive investment. In the cruise ship segment, Royal Caribbean International invested US\$ 200 million in renovating its properties on CocoCay, an island that it leases in its entirety (*Chicago Tribune*, 2018). The Walt Disney Company has purchased a large part of Eleuthera Island from the United States conglomerate Meritage Hospitality Group (GlobeNewswire, 2018), where it will spend between US\$ 250 million and US\$ 400 million to construct a port for its cruise ships and other facilities; as part of the deal, it has made a commitment to provide jobs and business opportunities for

citizens of the Bahamas (Government of the Bahamas, 2019). Margaritaville Enterprises has also announced plans to build a new luxury hotel complex in Nassau; that project is valued at an estimated US\$ 250 million (Hospitality Net, 2019).

In an effort to diversify the economy, in 2018 the country promulgated the Commercial Enterprises Act, which is intended to promote the development of small and medium-sized local businesses and to attract foreign investors in areas such as nanotechnology, informatics, software design, data storage, maritime trade and manufacturing. The first investor to sign on to this initiative is GIBC Digital, of the United States, which is a provider of informatics and operational service logistics strategies.

FDI inflows to **Jamaica** declined by 12.8% in 2018 to US\$ 775 million. Investments in mining (mainly bauxite and aluminium) nearly doubled, with this sector accounting for 52% of the country's total FDI inflows in 2018. The tourism sector's inflows, which represented 13% of the total, were down, but it continues to attract a great deal of interest. The purchase by the United States firm Playa Hotels & Resorts of the hotels owned by the financial services and insurance company Sagicor Group Jamaica for an estimated US\$ 300 million was concluded in 2018. Playa Hotels & Resorts owns 21 all-inclusive facilities in Mexico, Jamaica and the Dominican Republic under such brand names as Hyatt, Hilton and Jewel. Flows are likely to swell in the future, as two Spanish hotel chains are going ahead with projects valued at a total of about US\$ 750 million (Ministry of Tourism of Jamaica, 2019).

Business service centres continue to attract investment, and Kingston is ranked in fourth place on the 2019 world outsourcing centre index published by *fDi Intelligence* (*fDi Intelligence*, 2019). Events announced in 2018 include the opening of a new business centre by the United States firm Sutherland Global Services, investment in a new centre by the Dutch company KPMG and the expansion of the operations of Fusion BPO Services of Canada.

**Guyana** took in US\$ 495 million in FDI in 2018, which was more than double what it had received in 2017, marking up a 25-year record high. This steep upturn was driven by investment in the hydrocarbons sector (which accounted for 77% of total FDI), much of which was channelled into the development of the oil fields discovered by ExxonMobil in 2015. In the first phase of this venture, the Liza oil field is expected to begin producing up to 120,000 barrels of oil per day by early 2020. The company estimates these oil reserves at 5.5 billion barrels (*Offshore Energy Today*, 2018a). It is projected that, in a decade from now, Guyana could become the second-largest oil producer in Latin America and the Caribbean, after Brazil (*The Economist*, 2019). FDI inflows to sectors other than the oil industry (accounting for 9% of the total) also grew. As one example, the firm Movie Towne, of Trinidad and Tobago, has invested US\$ 50 million in an entertainment centre which opened in 2018.

FDI inflows to **Suriname** climbed by 18.3% to US\$ 190 million in 2018. Gold, bauxite, forestry and petroleum are the sectors that have historically attracted the interest of transnational corporations.

One of the largest divestments in recent years was undertaken by Alcoa, a United States firm. When it set up its operations in the country in 1950, it signed a 75-year contract with the government for the construction of a dam, an alumina refinery and an aluminium smelter. In 1999 it shut down the smelter, in 2015 it closed the refinery, in 2018 it began the demolition of these facilities and, in a very controversial move, in 2019 it plans to hand over its hydroelectric plant to the government (Boselovic, 2018). Seven Stars Mining, which is a joint venture of the Spanish firm Arcillas Refractaria (ARCIRESA) (60%) and the local firm Hazlo Geo-solutions (40%), plans to invest US\$ 30 million in the production of refractory bauxite.

**Grenada** posted inflows of US\$ 154 million in FDI in 2018, which was 10.8% more than in 2017. Most of this came in the form of capital contributions (82%), and the largest projects were all sited in the tourism sector. One of the largest investment projects is being undertaken by Canada's Sunwing Travel Group, which owns tourism operators, air transportation services and a number of hotel chains and has built a Royalton luxury resort in the country that is to come on stream in 2019. The country's citizenship by investment programme is also attracting investors to this sector.

FDI in **Antigua and Barbuda** was down by 13.9% to a total of US\$ 135 million in 2018. As in the other countries of the Eastern Caribbean, the tourism and real estate sectors were the main recipients, but investment was also channelled into the development of clean energy sources. The British- and Swiss-owned solar energy supplier PV Energy Limited recommenced a joint venture with the State-owned Antigua Public Utilities Authority (APUA) and the Citizenship by Investment Unit to set up a solar power plant and storage system (PV Energy, 2018).

Antigua and Barbuda is one of the 10 Caribbean countries to have signed a memorandum of understanding on deals relating to China's Belt and Road Initiative in the subregion. The construction of the controversial Yida residential complex, first announced in 2014, appears to be gathering momentum (Handy, 2018).

**Belize** posted FDI inflows of US\$ 120 million in 2018 – four times as much as in 2017 (when inflows hit their lowest mark in the decade). The main recipients were real estate and construction (with 30% and 26% of the total, respectively), and in both cases tourism was the driving force. FDI was also higher in agriculture, which accounted for 14% of the country's total.

With an increase of 15% in the number of tourists (overnight stays) and of 20% in the number of cruise ship visitors in 2018, Belize is one of the fastest-growing tourist destinations. The number of overnight tourists climbed from 232,249 in 2009 to 489,261 in 2018 (Belize Tourism Board, 2019). The country's popularity is also reflected in the investments announced in 2018: Dream Hotel Group, of the United States, unveiled plans to build two new hotels, and the luxury hotel chain Margaritaville Enterprises announced that it will open its first resort in Belize in 2020 (Mest, 2018).

FDI flows to **Saint Vincent and the Grenadines** slumped by 28.1% in 2018, falling to US\$ 110 million, with capital contributions making up almost all of that sum (97%). Saint Vincent and the Grenadines is the only member country of OECS that does not have a citizenship by investment programme. One landmark event in 2018 was the announcement that St. Vincent Electricity Services Limited (VINLEC) had signed an agreement for the construction of a geothermal power plant with Canada's Emera Inc. and the Icelandic firm Reykjavik Geothermal. This US\$ 27 million project was launched in 2019 and will give the country a new source of renewable energy.

After a steep upswing in 2017 that boosted FDI inflows to a record level —thanks to the purchase by Rubis, a French company, of the country's main fuel distributor, DINASA, for over US\$ 280 million— FDI flows to **Haiti** plummeted by 72.0% in 2018 to US\$ 105 million. Although the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE) gives Haiti preferential access to the United States market, the country's main foreign investors are European.

In **Saint Kitts and Nevis**, after having declined in 2017, FDI inflows doubled in 2018, rising to US\$ 94 million. The Citizenship by Investment Programme continues to channel capital flows to the country but has on occasion given rise to disputes and criticism. One example of a case in which it has come under fire is the Beijing-based Caribbean Galaxy Real Estate Corporation's project for the construction of a five-star Ramada Inn, which was launched in 2014 but had still not reached completion as of the end of 2018 (*Caribbean News Now*, 2018). The tourism industry continues to flourish as new international chains enter the market. As one example a new Wyndham Grand hotel is set to open in Nevis in 2020 (Valadez, 2018).

FDI inflows to **Barbados** slid by 25.2% in 2018 to US\$ 91 million, as outflows of intercompany loans and a reduction in reinvested profits more than offset the growth of capital contributions. The tourism industry continues to expand, with a 2.5% year-on-year increase being posted in 2018 for tourist arrivals by air. The Sandals hotel chain, of Jamaica, and Wyndham Worldwide, of the United States, both announced plans to expand their operations in the country.

In the manufacturing sector, the Canadian firm Gildan Activewear, which makes outerwear, t-shirts and underwear, will expand its operations in Barbados. In the information technologies and communications industry, the United States firm J2 Global bought the online sales service provider Reinvent International Inc. for an undisclosed amount.

FDI inflows to **Saint Lucia** remained steady at the previous year's level of US\$ 40 million. In addition to tourism, the country is positioning itself to develop its business process outsourcing sector. In 2018, for example, the United States companies KM<sup>2</sup> Solutions and PwC both announced that they were opening new offices on the island.

In **Dominica**, FDI inflows amounted to US\$ 13 million in 2018, for a 44.9% drop relative to 2017. In addition to helping to bring in investment funds for reconstruction in the wake of Hurricane María, which inflicted an estimated US\$ 1.3 billion in damage, the country's Citizenship by Investment Programme provides 52% of the government's revenues (IMI, 2018) and is the country's biggest source of FDI (Bruckner, 2018). An important event in the tourism sector was the arrival of Kempinski Hotels, which continues to expand its properties in the Caribbean. In 2019 the company opened its Cabrits Resort & Spa Kempinski in Dominica, which was the first real estate project approved by the government under the Citizenship by Investment Programme.

**Trinidad and Tobago** registered a net outflow of FDI for the third year in a row. In 2018, the net sum leaving the country amounted to approximately US\$ 180 million. This was 60.6% less than in 2017, however. Intercompany loans in the energy sector are the main driver behind this trend.

The oil industry has been the main destination for FDI in the country. Although in recent years this industry has been hurt by low hydrocarbon prices and the increasing maturity of its oil fields, British Petroleum (BP) has announced it is embarking on new projects that could generate as much as US\$ 8 billion in investments over the coming 10 years (*Offshore Energy Today*, 2018b).

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## Annex I.A1

Table I.A1.1

Latin America and the Caribbean: foreign direct investment inflows by country, 2003–2018<sup>a</sup>

(Millions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Antigua and Barbuda	179	95	238	361	341	161	85	101	68	138	101	46	114	97	157	135
Argentina	1 652	4 125	5 265	5 537	6 473	9 726	4 017	11 333	10 840	15 324	9 822	5 065	11 759	3 260	11 517	11 873
Bahamas	713	804	1 054	1 492	1 623	1 512	646	1 097	1 409	1 034	1 590	3 551	865	1 260	901	947
Barbados	185	229	390	343	477	615	320	451	455	535	111	593	153	6	121	91
Belize	-10.9	111	127	109	143	170	109	97	95	189	95	133	65	44	26	120
Bolivia (Plurinational State of)	197	85	-287.8	281	366	513	423	643	859	1 060	1 750	657	555	335	712	316
Brazil	10 123	18 161	15 460	19 418	44 579	50 716	31 481	82 390	102 427	92 568	75 211	87 714	60 334	73 378	70 258	88 319
Chile	4 026	6 797	7 462	7 586	13 475	18 473	13 855	16 020	24 150	30 293	20 825	23 736	21 056	12 136	5 852	6 082
Colombia	1 720	3 116	10 235	6 751	8 886	10 584	8 035	6 430	14 647	15 039	16 209	16 167	11 723	13 850	13 836	11 352
Costa Rica	575	794	861	1 469	1 896	2 078	1 615	1 907	2 733	2 696	3 205	3 242	2 956	2 620	2 856	2 764
Dominica	32	27	32	29	48	57	58	43	35	59	25	14	11	41	24	13
Dominican Republic	613	909	1 123	1 085	1 667	2 870	2 165	2 024	2 277	3 142	1 991	2 209	2 205	2 407	3 571	2 535
Ecuador	872	837	493	271	194	1 057	309	166	646	567	727	772	1 323	769	619	1 408
El Salvador	123	366	398	267	1 455	824	366	-225.6	218	466	179	306	396	348	889	840
Grenada	91	66	73	96	172	141	104	64	45	34	114	104	153	114	139	154
Guatemala	263	296	508	592	745	754	600	806	1 026	1 245	1 295	1 389	1 221	1 185	1 170	1 032
Guyana	26	30	77	102	152	178	164	198	247	294	214	255	122	58	212	495
Haiti	14	6	26	161	75	30	55	178	119	156	162	99	106	105	375	105
Honduras	403	547	600	669	928	1 006	509	969	1 014	1 059	1 060	1 417	1 204	1 139	1 186	1 226
Jamaica	721	602	682	882	866	1 437	541	228	218	413	545	582	925	928	889	775
Mexico	18 225	24 916	26 018	20 678	33 078	32 224	19 369	20 925	24 727	17 749	47 269	31 770	37 033	35 834	32 005	36 871
Nicaragua	201	250	241	287	382	627	434	490	936	768	816	884	950	899	772	359
Panama	771	1 012	1 027	2 498	1 777	2 402	1 259	2 363	3 132	2 980	3 943	4 459	5 058	5 585	4 826	6 578
Paraguay	25	28	36	114	202	263	71	462	581	697	245	412	308	371	456	454
Peru	1 335	1 599	2 579	3 467	5 491	6 924	6 431	8 455	7 682	13 622	9 826	3 930	8 314	6 739	6 860	6 488
Saint Kitts and Nevis	78	63	104	115	141	184	136	119	112	110	139	120	129	117	40	94
Saint Lucia <sup>a</sup>	112	81	82	238	277	166	152	127	100	78	95	93	154	144	38	40
Saint Vincent and the Grenadines	55	66	41	110	121	159	111	97	86	115	160	110	119	79	153	110
Suriname	-76.1	-37.3	28	-163.4	-246.7	-231.4	-93.4	-247.7	70	174	188	164	267	309	161	190
Trinidad and Tobago	808	998	940	883	830	2 801	709	549	41	-1 904.4	-1 129.9	661	194	-24.0	-456.9	-180.1
Uruguay	416	332	847	1 493	1 329	2 106	1 529	2 289	2 504	6 044	758	3 830	2 420	-497.6	2 630	2 702
Venezuela (Bolivarian Republic of) <sup>b</sup>	2 040	1 483	2 589	-508.0	3 288	2 627	-983.0	1 574	5 740	5 973	2 680	320	1 383	...	...	...
<b>Total</b>	<b>46 508</b>	<b>68 794</b>	<b>79 350</b>	<b>76 711</b>	<b>131 231</b>	<b>153 132</b>	<b>94 580</b>	<b>162 120</b>	<b>209 240</b>	<b>212 715</b>	<b>200 219</b>	<b>194 805</b>	<b>173 572</b>	<b>163 634</b>	<b>162 793</b>	<b>184 287</b>

<sup>a</sup> Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

<sup>b</sup> The data by sector are compiled using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual* (used for part of the series of the following countries: Antigua and Barbuda, Bolivarian Republic of Venezuela (from 2003 to 2015), Dominica, Dominican Republic (from 2003 to 2009), Grenada, Guatemala (from 2003 to 2007), Mexico and Nicaragua (from 2003 to 2005), Panama (from 2003 to 2014), Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia (from 2003 to 2013), Trinidad and Tobago (from 2003 to 2010), and Uruguay (from 2003 to 2011)).

<sup>c</sup> The data for 2015 refer to the first three quarters only.

**Table I.A1.2**  
Latin America and the Caribbean: foreign direct investment inflows by destination sector, 2008–2018 &  
(Millions of dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Argentina<sup>a</sup></b>											
Natural resources	1 537	946	2 741	1 056	6 586	5 084	-828.6	2 141	352	...	...
Manufactures	5 477	264	3 991	4 096	3 963	3 841	5 850	6 420	-1 577.5	...	...
Services	5 126	2 556	4 140	5 830	6 295	4 511	6 454	6 704	1 620	...	...
<b>Belize</b>											
Natural resources	37	7	13	29	100	22	10	12	22	10	21
Manufactures	-	-	-	-	-	-	-	-	-	-	-
Services	117	93	79	59	90	64	113	40	5	8	120
Other	16	9	5	5	6	9	9	13	6	7	10
<b>Bolivia (Plurinational State of)<sup>b</sup></b>											
Natural resources	859	420	531	622	1 166	1 550	1 558	916	372	638	441
Manufactures	154	74	276	240	119	317	390	23	137	260	98
Services	290	193	128	171	220	162	173	227	592	312	314
<b>Brazil<sup>c</sup></b>											
Natural resources	11 210	4 288	20 251	8 895	10 136	17 180	9 428	5 965	10 139	5 696	13 099
Manufactures	9 763	9 952	25 862	33 550	37 550	39 323	42 484	34 349	37 146	25 245	41 201
Services	9 091	5 667	7 250	28 580	27 528	23 873	34 545	27 512	21 594	29 161	18 952
<b>Chile</b>											
Natural resources	4 599	6 062	6 053	12 673	15 222	2 262	4 971	8 360	-1 103.0	101	...
Manufactures	1 570	28	1 572	-54.1	311	2 186	1 510	-491.3	469	830	...
Services	8 725	7 092	7 805	12 918	9 760	11 335	10 111	3 441	9 124	7 534	...
Other	256	674	589	-1 387.2	4 999	5 041	7 144	9 741	3 884	-2 045.9	...
<b>Colombia</b>											
Natural resources	5 176	5 672	4 976	7 336	7 970	8 382	6 516	3 351	2 560	4 304	4 441
Manufactures	1 696	1 364	210	1 214	1 985	2 365	2 967	2 661	1 839	2 532	1 119
Services	3 693	999	1 244	6 097	5 084	5 462	6 684	5 711	9 452	7 000	5 792
<b>Costa Rica<sup>d</sup></b>											
Natural resources	71	78	-3.2	-18.7	20	2	13	403	110	-1.2	90
Manufactures	431	373	980	887	399	329	614	622	953	1 280	1 142
Services	1 696	875	530	1 548	1 847	2 392	2 271	1 726	1 138	1 470	1 000
Other	122	118	176	45	-7.8	19	27	1	3	-6.4	5
<b>Dominican Republic</b>											
Natural resources	357	758	240	1 060	1 169	93	-38.5	6	486	410	185
Manufactures	574	280	566	355	1 257	404	607	368	413	1 365	540
Services	1 938	1 128	1 218	862	716	1 494	1 640	1 831	1 508	1 795	1 811
<b>Ecuador</b>											
Natural resources	265	58	189	380	243	274	724	628	505	193	801
Manufactures	198	118	120	122	136	138	108	264	38	144	103
Services	595	133	-143.1	142	189	315	-59.9	431	225	281	497

Table I.A1.2 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>El Salvador</b>											
Natural resources	31	9	1	-0.6	-2.6	6	1	1	1	1	-
Manufactures	28	92	-65.3	149	-49.2	285	83	290	267	457	588
Services	479	243	-224.8	66	490	-147.2	245	77	81	374	173
Other (Inaquila)	365	21	59	4	29	35	-22.5	28	-1.5	58	78
<b>Guatemala</b>											
Natural resources	174	139	120	325	418	335	201	156	28	64	-2.1
Manufactures	175	51	299	150	145	186	179	205	261	218	175
Services	369	401	363	544	636	707	951	759	739	807	713
Other	36	9	23	7	46	67	58	101	157	80	146
<b>Honduras</b>											
Natural resources	4	10	84	62	41	70	72	64	-93.8	32	1
Manufactures	267	98	341	392	438	325	667	385	430	457	467
Services	736	402	545	560	579	665	678	755	803	697	758
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Mexico<sup>d</sup></b>											
Natural resources	4 578	1 407	1 655	1 000	3 224	5 956	2 709	1 743	955	1 329	1 457
Manufactures	9 240	7 230	14 445	11 429	9 664	31 337	18 537	17 576	17 456	14 899	16 268
Services	15 651	9 429	11 160	13 173	9 058	11 107	8 632	16 455	12 123	16 687	14 969
<b>Nicaragua</b>											
Natural resources	57	47	77	191	123	272	109	32	-11.8	107	-
Manufactures	122	70	108	226	302	234	246	280	378	324	-19.2
Services	447	318	323	550	347	350	378	501	385	224	192
Other	-	-	-	-	22	125	151	137	147	118	187
<b>Panama</b>											
Natural resources	-59.0	-33.9	77	94	1 164	468	27	1 679	783	1 357	...
Manufactures	161	104	-113.8	298	520	142	250	-7.6	255	170	...
Services	2 106	1 190	2 760	2 761	1 526	2 957	4 182	2 885	3 829	3 041	...
<b>Paraguay</b>											
Natural resources	7	7	-1.0	20	34	45	74	30	-7.9	1	...
Manufactures	201	-33.4	302	210	409	-29.8	-286.0	103	101	261	...
Services	55	98	160	351	254	237	624	175	278	194	...
<b>Uruguay<sup>d</sup></b>											
Natural resources	604	253	329	383	455	348	61	75	177	-86.9	...
Manufactures	261	242	131	190	566	501	669	159	-792.0	-148.8	...
Services	1 003	962	1 010	1 360	1 071	2 503	1 438	699	-609.3	-819.0	...
Other	238	71	820	572	57	27	15	35	27	-2.8	...
<b>Total</b>											
Natural resources	29 506	20 125	37 332	34 106	48 068	42 350	25 607	25 562	15 272	14 154	20 534
Manufactures	30 317	20 305	49 024	53 454	57 717	81 882	74 877	63 206	57 773	48 293	61 662
Services	52 115	31 777	38 349	75 571	65 689	67 987	79 061	69 927	62 887	68 765	45 290
Other	1 032	903	1 672	-753.3	5 151	5 324	7 382	10 056	4 223	-1 792.8	427

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

**Note:** Since the information by sector for some countries is updated with a lag, the sum of the sectors may not coincide with the total presented in table I.A1.1.

<sup>a</sup> According to data from the Central Bank of Argentina.

<sup>b</sup> Data refer to gross foreign direct investment flows, without disinvestment.

<sup>c</sup> Data do not include reinvestment of earnings.

<sup>d</sup> The data by sector are compiled using the methodology of the fifth edition of the Balance of Payments and International Investment Position Manual of the International Monetary Fund (IMF).

**Table I.A1.3**  
Latin America and the Caribbean: foreign direct investment inflows by country of origin, 2007–2018  
(Millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Argentina<sup>a</sup></b>												
Spain	2 191	812	1 248	1 166	217	2 835	2 354	-2 323	3 310	1 275	...	...
Panama	592	1 153	107	476	840	3 170	2 345	2 629	1 621	477	...	...
Venezuela (Bolivarian Republic of)	103	372	664	48	-8	450	1 249	722	329	332	...	...
Bermuda	200	116	515	730	273	403	369	336	65	151	...	...
Chile	560	862	245	1 080	1 085	1 255	590	838	929	120	...	...
Samoa	229	256	-107	368	167	-65	-79	18	276	95	...	...
Mexico	549	545	123	309	407	611	-94	312	381	68	...	...
Germany	385	342	317	578	221	525	927	749	528	62	...	...
<b>Bolivia (Plurinational State of)<sup>b</sup></b>												
Sweden	242	339	22	169	280	178	347	15	79	-13	413	212
Spain	50	25	145	271	235	364	676	537	369	164	167	208
Peru	35	26	40	82	12	56	101	442	-5	247	13	112
United Kingdom	24	48	70	11	11	111	309	442	143	31	61	54
France	13	36	22	89	55	73	220	200	185	207	131	52
<b>Brazil<sup>c</sup></b>												
Netherlands	6 840	3 136	3 803	2 762	18 693	15 365	23 614	24 650	23 907	23 885	9 443	24 429
United States	2 851	2 207	1 277	7 180	4 531	20 926	10 715	11 530	10 162	8 616	14 597	10 424
Switzerland	791	663	-66	8 346	1 644	5 957	3 790	4 687	-459	1 787	-462	6 016
Luxembourg	2 696	5 337	-648	9 174	2 472	7 771	9 737	8 679	6 936	9 841	5 399	5 719
Germany	1 339	839	2 365	604	1 322	1 200	1 983	2 670	3 877	1 930	4 392	3 685
France	1 118	2 167	1 895	3 007	4 352	2 827	2 981	3 947	-477	3 352	4 656	3 125
Spain	1 732	2 594	3 016	632	9 965	2 450	2 180	6 356	5 311	2 482	1 020	2 976
Bahamas	602	1 082	47	-7	-178	64	801	514	384	634	1 534	2 724
<b>Chile</b>												
Italy	0	0	316	392	268	-687	-273	259	831	979	4 739	...
United Kingdom	0	0	23	1 042	1 598	1 024	278	813	1 196	-851	2 260	...
Iceland	0	0	1 717	2 345	227	-1 871	1 080	3 170	3 476	-1 211	1 467	...
Brazil	0	0	63	1 020	531	1 594	-134	539	-157	1 983	1 105	...
Canada	0	0	423	515	3 244	4 231	4 439	2 853	-906	1 970	931	...
<b>Colombia</b>												
United States	2 697	2 874	2 343	1 593	2 154	2 476	2 838	2 240	2 123	2 099	2 172	2 479
Spain	572	1 040	830	113	1 164	628	884	2 214	1 324	1 463	2 612	1 454
United Kingdom	1 580	1 505	1 400	949	1 408	1 357	1 400	1 088	718	879	1 260	1 341
Panama	839	1 141	789	1 368	3 508	2 395	2 040	2 436	1 650	1 433	1 429	1 176
Switzerland	122	140	166	180	994	698	2 096	2 804	958	731	741	973
Mexico	390	573	-464	-296	455	849	556	663	-130	789	1 721	675

Table I.A1.3 (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Costa Rica<sup>d</sup></b>												
United States	803	1 352	1 008	1 107	1 499	907	449	797	1 263	764	1 561	1 328
Netherlands	29	16	22	7	30	32	78	-81	460	367	102	127
Panama	-4	19	22	37	-7	1	154	175	39	28	94	90
Mexico	69	16	5	40	172	225	160	234	114	115	90	72
Colombia	30	49	6	98	138	104	57	170	135	84	174	64
Switzerland	35	79	-36	68	5	-3	-7	36	-43	41	267	51
<b>Dominican Republic</b>												
United States	536	360	455	1 055	499	252	374	321	405	356	732	709
Canada	113	383	773	696	1 126	851	143	158	91	480	473	329
Spain	605	181	151	203	137	128	33	7	32	281	206	288
Brazil	60	54	85	24	-2	1 042	52	428	-425	148	999	71
Netherlands	54	-73	96	50	28	10	83	70	-134	35	31	37
<b>Ecuador</b>												
Bermuda	2	3	2	4	2	7	7	0	0	0	4	200
Canada	49	58	65	105	252	59	28	229	74	-31	-75	197
Netherlands	8	-8	-4	11	7	11	48	76	293	390	42	186
Spain	85	190	51	-17	52	50	71	67	71	102	80	174
Uruguay	2	-37	-13	40	3	6	115	62	43	0	61	90
Venezuela (Bolivarian Republic of)	16	20	8	14	24	18	20	20	22	4	11	68
<b>El Salvador</b>												
United States	499	129	74	-99	23	3	31	116	248	49	24	335
Panama	841	321	80	206	27	-514	236	12	120	226	367	183
Guatemala	0	0	0	54	-44	31	4	53	-4	41	12	130
<b>Guatemala</b>												
United States	326	229	151	343	127	227	221	441	385	349	175	246
Mexico	76	76	50	97	81	96	143	105	60	186	173	182
Colombia	3	15	21	22	155	48	155	142	164	124	282	133
Luxembourg	37	37	21	6	0	0	25	39	47	52	57	78
Spain	43	66	64	50	2	49	74	43	62	68	28	52
Panama	5	9	6	11	13	27	3	18	19	49	28	44
Peru	10	0	0	12	5	5	15	15	-4	-11	-3	34
<b>Honduras</b>												
United States	460	449	92	185	141	173	128	-256	140	1	202	...
Panama	22	16	1	14	16	22	63	152	232	273	237	...
Mexico	92	30	168	124	154	192	266	140	134	154	68	...
Guatemala	15	44	14	61	44	52	37	88	60	158	114	...
Colombia	0	0	0	0	20	22	31	128	97	99	104	...
Germany	18	3	12	19	29	32	-5	7	45	153	100	...



Table I.A1.3 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Mexico<sup>d</sup></b>												
United States	16 237	12 043	8 919	11 032	13 152	9 715	16 984	10 327	19 050	10 892	14 853	12 310
Spain	4 562	5 285	2 744	3 993	3 528	-363	418	4 480	4 040	3 563	3 326	3 975
Canada	1 685	4 855	2 145	2 107	1 540	1 831	5 049	2 949	1 080	2 247	2 958	3 685
Germany	737	716	236	634	827	1 111	1 932	2 072	1 322	2 673	2 582	2 911
Japan	685	821	768	1 236	939	2 338	1 642	2 415	2 200	1 936	2 411	2 153
Italy	131	167	79	161	289	579	-292	269	659	805	1 870	1 714
Argentina	1 927	114	4	-13	94	409	64	356	518	287	350	1 045
<b>Nicaragua</b>												
United States	84	126	88	88	159	121	244	...	...	...	...	...
Mexico	128	164	48	90	115	149	125	...	...	...	...	...
Venezuela (Bolivarian Republic of)	47	132	147	29	45	210	108	...	...	...	...	...
Panama	5	4	1	1	34	78	77	...	...	...	...	...
Spain	45	59	25	33	116	-19	74	...	...	...	...	...
<b>Panama</b>												
Canada	18	35	16	9	48	1 097	505	29	1 387	646	2 159	...
Mexico	60	69	154	-9	171	-51	367	20	95	-14	795	...
United States	163	224	-19	1 120	652	28	715	2 154	711	1 277	747	...
Colombia	134	60	135	82	486	9	29	1 162	659	930	348	...
United Kingdom	208	6	68	114	486	-701	78	101	193	268	219	...
Taiwan (Province of China)	28	126	15	130	114	1	3	-487	101	236	159	...
Venezuela (Bolivarian Republic of)	57	72	68	76	-2	25	55	126	30	185	143	...
<b>Paraguay</b>												
Brazil	41	2	22	108	84	169	73	161	45	32	224	...
Spain	19	16	24	35	22	94	19	-58	47	49	141	...
Guatemala	0	0	0	0	29	0	2	46	29	139	76	...
Japan	-13	-25	-11	-30	3	29	27	25	-69	-14	63	...
Colombia	0	0	1	0	0	0	2	19	22	19	21	...
<b>Trinidad and Tobago</b>												
Barbados	0	0	0	0	0	0	0	0	0	-162	-46	127
Canada	3	2 194	4	3	352	-1 178	48	-34	43	-387	-102	1
Netherlands	0	0	0	0	0	0	0	0	0	7	1	-2
United States	574	403	469	363	-403	-502	299	-447	379	408	-58	-117
<b>Uruguay<sup>d</sup></b>												
Spain	153	232	55	75	194	204	429	1 042	-30	519	743	...
Singapore	0	0	0	0	0	58	104	-79	240	101	550	...
Brazil	86	183	110	108	170	331	515	-249	541	-851	235	...
Argentina	373	534	432	588	809	243	293	-262	47	232	174	...
Italy	0	4	0	2	0	2	-19	5	232	-68	163	...
United Kingdom	66	82	14	135	2	63	-3	47	90	-67	89	...

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

<sup>a</sup> According to data from the Central Bank of Argentina.

<sup>b</sup> Data refer to gross foreign direct investment flows, without disinvestment.

<sup>c</sup> Data do not include reinvestment of earnings.

<sup>d</sup> The data by country of origin are compiled using the methodology of the fifth edition of the Balance of Payments and International Investment Position Manual of the International Monetary Fund (IMF).

**Table I.A1.4**  
Latin America and the Caribbean: foreign direct investment inflows by component, 2007–2018<sup>a</sup>  
(Millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Antigua and Barbuda</b>												
Equity	328	149	79	96	61	110	65	67	94	94	151	129
Intercompany loans	0	0	1	1	2	6	29	-25	-6	-4	-7	-7
Reinvestment of earnings	12	12	5	5	5	22	7	5	26	8	12	13
<b>Argentina</b>												
Equity	2 578	4 552	2 133	2 504	4 508	4 861	2 784	-112	1 319	3 716	1 958	3 259
Intercompany loans	1 846	4 777	-1 010	3 507	2 600	3 120	-783	-945	2 382	-4 732	2 422	1 424
Reinvestment of earnings	2 050	396	2 894	5 322	3 732	7 343	7 821	6 121	8 058	4 276	7 137	7 191
<b>Bahamas</b>												
Equity	887	1 032	753	960	971	575	868	617	560	511	351	573
Intercompany loans	736	481	-107	137	438	458	723	2 934	304	749	550	374
Reinvestment of earnings	0	0	0	0	0	0	0	0	0	0	0	0
<b>Barbados</b>												
Equity	421	340	140	393	227	230	136	307	397	114	229	259
Intercompany loans	25	231	167	45	324	122	-117	-76	-454	-279	-266	-292
Reinvestment of earnings	32	45	13	13	-95	184	92	362	210	171	159	124
<b>Belize</b>												
Equity	100	141	80	80	103	193	101	145	57	19	3	...
Intercompany loans	13	8	6	2	1	0	0	0	0	0	0	...
Reinvestment of earnings	30	21	23	15	-8	-4	-6	7	7	14	22	...
<b>Bolivia (Plurinational State of)<sup>b</sup></b>												
Equity	27	45	1	1	5	19	17	313	20	406	152	70
Intercompany loans	654	850	177	141	130	282	331	889	741	568	417	347
Reinvestment of earnings	272	407	509	793	899	1 204	1 682	919	405	127	640	436
<b>Brazil</b>												
Equity	26 074	30 064	19 906	40 117	54 782	52 836	42 152	47 501	49 520	44 511	53 959	41 014
Intercompany loans	18 505	20 652	11 575	13 470	16 451	22 541	38 346	39 040	18 446	24 525	6 249	32 320
Reinvestment of earnings	0	0	0	28 803	31 194	17 192	-5 288	1 174	-7 632	4 342	10 049	14 984
<b>Chile</b>												
Equity	2 622	7 775	1 905	4 662	10 921	8 532	4 806	10 524	6 494	6 148	2 070	2 032
Intercompany loans	661	1 869	763	3 318	3 155	10 949	8 598	8 807	10 633	2 654	-1 039	-1 548
Reinvestment of earnings	10 192	8 829	11 187	8 040	10 073	10 811	7 421	4 406	3 929	3 334	4 821	5 599
<b>Colombia</b>												
Equity	7 024	7 861	4 907	3 741	8 282	9 091	9 755	9 181	7 360	6 461	7 924	4 518
Intercompany loans	-121	47	731	-635	1 872	1 239	2 368	2 493	2 006	4 675	1 794	1 604
Reinvestment of earnings	1 983	2 657	2 396	3 325	4 493	4 710	4 086	4 494	2 357	2 714	4 118	5 230

Table I.A1.4 (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Costa Rica</b>												
Equity	1 377	1 594	1 050	818	959	852	1 704	1 352	1 180	414	1 020	769
Intercompany loans	-2	39	-174	150	711	1 136	714	912	665	1 153	446	794
Reinvestment of earnings	521	446	471	497	509	708	788	978	1 110	1 054	1 390	1 201
<b>Dominica</b>												
Equity	28	39	39	28	25	45	16	8	9	36	26	15
Intercompany loans	9	9	13	13	7	9	4	2	-7	0	0	0
Reinvestment of earnings	10	9	6	3	2	4	5	4	9	6	-2	-1
<b>Dominican Republic</b>												
Equity	1 616	2 199	704	667	804	1 256	233	955	995	1 126	2 403	1 513
Intercompany loans	-446	278	1 096	554	468	904	471	-166	18	66	-162	-141
Reinvestment of earnings	498	394	365	803	1 005	982	1 286	1 420	1 192	1 214	1 331	1 164
<b>Ecuador</b>												
Equity	151	229	278	265	252	227	424	848	985	679	521	470
Intercompany loans	-368	530	-225	-312	66	40	-7	-390	51	-110	-63	706
Reinvestment of earnings	411	298	256	213	328	301	310	314	287	200	161	232
<b>Grenada</b>												
Equity	140	128	97	56	39	29	109	70	126	87	122	126
Intercompany loans	17	1	2	3	1	0	0	22	-3	22	0	10
Reinvestment of earnings	15	12	5	5	5	5	5	12	31	4	16	18
<b>Guatemala</b>												
Equity	260	198	94	265	198	446	208	138	712	146	100	96
Intercompany loans	-30	75	19	-102	58	219	416	431	-452	50	238	-9
Reinvestment of earnings	515	482	488	643	770	580	672	820	961	989	832	945
<b>Honduras</b>												
Equity	220	568	84	29	284	310	174	248	137	201	156	192
Intercompany loans	203	-40	65	378	56	52	240	253	229	-42	135	120
Reinvestment of earnings	505	479	360	562	674	697	645	917	838	981	895	913
<b>Mexico</b>												
Equity	18 110	13 051	11 258	15 832	9 799	4 656	22 390	6 017	13 816	10 853	11 825	11 569
Intercompany loans	6 458	9 876	2 779	-139	4 304	2 558	6 661	8 244	11 128	14 872	9 343	13 236
Reinvestment of earnings	8 510	9 297	5 332	5 232	10 624	10 535	18 218	17 509	12 089	10 109	10 837	12 066
<b>Panama</b>												
Equity	719	918	898	948	759	1 561	1 614	687	77	923	-24	78
Intercompany loans	178	136	105	540	1 224	682	550	343	1 599	2 258	1 682	3 220
Reinvestment of earnings	879	1 348	257	874	1 150	737	1 779	3 429	3 382	2 404	3 168	3 281
<b>Paraguay</b>												
Equity	43	66	152	93	399	421	333	693	442	348	334	333
Intercompany loans	129	73	-58	149	316	40	-321	-460	-143	-80	71	71
Reinvestment of earnings	31	124	-23	220	-134	236	233	180	9	103	51	50

Table I.A1.4 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Peru</b>												
Equity	733	2 981	1 828	2 445	896	5 387	3 013	-1 139	4 060	2 574	1 944	681
Intercompany loans	924	656	-782	693	2 117	899	2 555	1 479	1 271	560	-710	231
Reinvestment of earnings	3 835	3 287	5 385	5 317	4 670	7 337	4 258	3 589	2 983	3 606	5 627	5 576
<b>Saint Kitts and Nevis</b>												
Equity	135	178	132	116	107	106	137	118	132	108	31	81
Intercompany loans	3	3	1	1	1	2	0	0	-7	0	4	4
Reinvestment of earnings	2	2	2	2	4	1	1	1	3	9	5	8
<b>Saint Lucia</b>												
Equity	254	135	135	109	80	54	76	71	83	134	44	40
Intercompany loans	8	21	13	13	15	16	10	11	11	-5	-11	-5
Reinvestment of earnings	15	11	3	4	5	8	9	11	60	15	5	5
<b>Saint Vincent and the Grenadines</b>												
Equity	102	142	100	91	79	112	157	101	118	110	153	107
Intercompany loans	8	8	8	2	2	2	2	2	5	-17	9	10
Reinvested earnings	11	9	2	4	4	1	1	7	-3	-14	-9	-7
<b>Suriname</b>												
Equity	0	0	0	0	0	0	0	0	...	...	...	...
Intercompany loans	-247	-231	-93	-248	-51	113	71	-21	...	...	...	...
Reinvestment of earnings	...	...	...	0	121	11	69	27	...	...	...	...
<b>Trinidad and Tobago</b>												
Equity	554	2 322	426	309	517	-251	-1 899	518	-206	-261	...	...
Intercompany loans	-21	-16	-12	-11	-476	-1 653	769	143	400	245	...	...
Reinvestment of earnings	297	495	296	251	0	0	0	0	0	0	...	...
<b>Uruguay</b>												
Equity	550	1 012	990	1 617	1 412	1 163	1 715	1 689	1 365	1 172	578	1 024
Intercompany loans	448	540	82	8	263	2 473	-1 503	1 581	2 430	-1 048	925	-149
Reinvestment of earnings	331	554	457	664	828	2 408	546	561	-1 374	-622	1 127	1 827
<b>Venezuela (Bolivarian Republic of)</b>												
Equity	-806	302	-3 348	-1 319	-495	-307	-79	139	...	...	...	...
Intercompany loans	773	-11	367	1 457	2 752	3 292	1 784	-967	...	...	...	...
Reinvestment of earnings	3 321	2 336	1 998	1 436	3 483	2 988	975	1 148	...	...	...	...
<b>Total</b>												
Equity	64 247	78 019	44 820	74 921	95 973	92 512	91 009	81 055	89 850	80 629	86 031	68 947
Intercompany loans	30 361	40 859	15 508	23 135	36 806	49 501	61 912	64 537	51 250	46 078	22 028	52 318
Reinvestment of earnings	34 279	31 948	32 688	63 047	74 342	69 000	45 615	48 414	28 936	35 041	52 390	60 856

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

<sup>a</sup> The data by sector are compiled using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual* of the International Monetary Fund (IMF), except in the cases of the Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname. The methodology of the fifth edition of the *Balance of Payments and International Investment Position Manual* is used for part of the series of the following countries: Antigua and Barbuda, Bolivarian Republic of Venezuela (from 2003 to 2015), Dominica, Dominican Republic (from 2003 to 2009), Grenada, Guatemala (from 2003 to 2007), Mexico and Nicaragua (from 2003 to 2005), Panama (from 2003 to 2014), Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia (from 2003 to 2013), Trinidad and Tobago (from 2003 to 2010), and Uruguay (from 2003 to 2011).

<sup>b</sup> Data refer to gross foreign direct investment flows, without disinvestment.

**Table I.A1.5**  
Latin America and the Caribbean: foreign direct investment inward stocks, by country, 2001, 2005, 2012–2018  
(Millions of dollars and proportions of GDP)

	2001	2005	2012	2013	2014	2015	2016	2017	2018	2001	2005	2012	2013	2014	2015	2016	2017	2018
Argentina	79 504	55 139	98 706	88 338	89 716	79 773	74 868	80 700	72 573	27	27	17	14	16	12	13	13	19
Bolivia (Plurinational State of)	5 893	4 905	8 809	10 992	11 785	11 598	11 565	11 758	11 940	72	51	33	36	36	35	34	31	30
Brazil	121 949	181 344	731 175	724 781	725 872	568 226	703 328	767 757	761 981	22	20	30	29	30	32	39	38	43
Chile	...	78 991	210 593	218 846	229 972	239 052	256 325	281 583	276 134	...	64	79	79	88	98	102	101	100
Colombia	15 377	36 987	112 924	128 190	141 786	149 151	164 500	179 542	189 091	16	25	30	34	37	51	58	58	63
Costa Rica	3 600	7 510	22 302	26 271	30 046	33 539	36 625	39 952	43 100	23	38	48	53	59	61	64	69	76
Dominican Republic	...	...	25 143	26 660	29 035	31 309	33 820	37 396	40 209	...	...	41	43	44	46	47	49	50
Ecuador	6 876	9 861	13 072	13 799	14 571	15 894	16 663	17 282	18 689	28	24	15	15	14	16	17	17	17
El Salvador	2 252	4 167	8 763	8 895	9 314	9 995	10 178	10 351	10 919	19	28	41	40	41	43	42	42	42
Guatemala	...	3 319	8 938	10 255	11 977	13 189	14 603	16 125	16 365	...	12	18	19	20	21	21	21	21
Haiti	99	150	900	1 061	1 160	1 265	1 370	1 745	1 850	3	4	12	13	13	15	18	20	23
Honduras	1 585	2 870	9 024	10 084	11 501	12 704	13 844	15 029	16 255	21	29	50	55	60	62	66	65	69
Jamaica	3 931	6 918	12 119	12 664	13 246	14 171	15 099	15 987	16 620	43	62	82	89	95	100	107	108	104
Mexico	156 583	211 235	521 440	553 149	552 057	563 655	536 628	546 157	544 401	21	24	43	43	42	48	50	47	46
Nicaragua	1 565	2 461	6 385	7 200	8 084	9 034	9 933	10 705	11 064	29	39	61	66	68	71	75	77	86
Panama	7 314	10 167	26 762	30 677	35 135	39 629	44 839	50 174	54 675	58	61	66	67	70	73	77	81	84
Paraguay	1 016	1 127	4 957	4 979	5 707	4 781	5 305	6 029	6 482	10	10	15	13	14	13	15	15	16
Peru	11 835	15 889	64 281	74 107	78 037	86 351	93 090	99 950	106 438	23	21	33	37	39	45	49	47	50
Suriname	...	...	1 035	1 232	1 397	1 477	1 784	1 991	2 185	...	...	21	24	27	31	56	65	61
Uruguay	2 406	2 844	40 969	40 845	44 981	45 433	44 225	48 346	50 380	12	16	80	71	79	85	84	81	89
Venezuela (Bolivarian Republic of)	39 074	44 518	40 180	33 018	30 139	...	...	...	...	32	31	11	9	...	...	...	...	...
<b>Total</b>	<b>460 857</b>	<b>680 402</b>	<b>1 968 476</b>	<b>2 026 040</b>	<b>2 075 515</b>	<b>1 930 227</b>	<b>2 088 590</b>	<b>2 238 558</b>	<b>2 249 501</b>	<b>23</b>	<b>26</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>39</b>	<b>44</b>	<b>43</b>	<b>48</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

**Table I.A1.6**  
Latin America and the Caribbean: foreign direct investment outflows by country, 2002–2018<sup>a</sup>  
(Millions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Antigua and Barbuda	13	15	17	2	2	2	4	5	3	4	6	6	14	38	-2	-30
Argentina	774	676	1 311	2 439	1 504	1 391	712	965	1 488	1 055	890	1 921	875	1 787	1 156	1 802
Bahamas	72	169	143	333	459	410	217	150	524	158	277	2 679	170	359	151	117
Barbados	25	54	157	45	82	74	64	320	561	32	34	-72	301	-24	31	32
Belize	0	0	1	1	1	3	0	1	1	1	1	3	0	2	0	1
Bolivia (Plurinational State of)	3	3	3	3	4	5	-4	-29	0	77	-255	-33	-2	89	80	-89
Brazil	229	9 822	2 910	28 798	17 061	26 115	-4 552	26 763	16 067	2 083	15 644	20 607	3 134	14 693	19 352	14 060
Chile	1 709	2 145	2 135	2 212	4 852	9 151	7 233	9 461	20 252	20 556	9 888	12 800	15 931	6 994	5 172	1 949
Colombia	938	192	4 796	1 268	1 279	3 085	3 505	5 483	8 420	-606	7 652	3 899	4 218	4 517	3 690	5 122
Costa Rica	152	206	150	219	430	197	274	318	405	894	804	424	414	493	273	581
Dominica	0	1	13	3	7	0	1	1	0	0	2	-2	-12	1	0	0
El Salvador	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grenada	1	1	3	6	16	6	1	3	3	3	1	7	19	17	-1	2
Guatemala	0	0	0	0	0	0	26	24	17	39	34	106	117	117	169	211
Honduras	12	-6	1	1	2	-1	4	-1	2	208	68	103	252	239	173	80
Jamaica	116	52	101	85	115	76	61	58	75	90	75	59	34	270	34	13
Mexico	1 253	4 432	6 474	5 337	10 307	3 194	11 164	8 038	12 398	18 700	13 605	7 130	11 891	6 013	3 181	10 457
Paraguay	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peru	60	0	0	0	66	736	411	436	343	1 756	492	1 107	189	1 156	500	19
Saint Kitts and Nevis	2	7	11	4	6	6	5	3	2	2	2	2	-5	-3	2	0
Saint Lucia	5	5	4	4	6	5	6	5	4	4	3	3	23	9	-11	24
Saint Vincent and the Grenadines	0	0	1	1	2	0	1	0	0	0	0	0	5	-17	9	10
Suriname	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	225	25	341	370	0	700	0	0	67	189	63	-18	153	83	94	171
Uruguay	-15	-18	-36	1	-89	11	-16	60	7	3 869	-2 034	1 319	1 605	619	4 794	3 339
Venezuela (Bolivarian Republic of)	1 318	619	1 167	1 524	-495	1 311	2 630	2 492	-370	4 294	752	1 024	...	...	...	...
<b>Total</b>	<b>6 894</b>	<b>18 402</b>	<b>19 702</b>	<b>42 655</b>	<b>35 615</b>	<b>46 492</b>	<b>21 746</b>	<b>54 554</b>	<b>60 268</b>	<b>53 409</b>	<b>48 003</b>	<b>53 075</b>	<b>39 327</b>	<b>37 452</b>	<b>38 846</b>	<b>37 870</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates at 23 July 2019.

<sup>a</sup> The data by sector are compiled using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual* of the International Monetary Fund (IMF), except in the cases of the Bahamas, Barbados, Ecuador, Guyana, Haiti, Honduras, Paraguay, Peru and Suriname. The methodology of the fifth edition of the *Balance of Payments and International Investment Position Manual* is used for part of the series of the following countries: Antigua and Barbuda, Bolivarian Republic of Venezuela (from 2003 to 2015), Dominica, Dominican Republic (from 2003 to 2009), Grenada, Guatemala (from 2003 to 2007), Mexico and Nicaragua (from 2003 to 2005), Panama (from 2003 to 2014), Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia (from 2003 to 2013), Trinidad and Tobago (from 2003 to 2010), and Uruguay (from 2003 to 2011).

# Republic of Korea's multinational corporations and the economic restructuring of Latin America

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## Introduction

- A. The Republic of Korea's economic transformation
- B. Korean investments have supported the region's industrialization
- C. Outward FDI promotion policies and strategies for sustainable development
- D. Conclusions

## Bibliography

## Annex II.A1







## Introduction

The countries of Latin America and the Caribbean receive most of their foreign direct investment (FDI) from the European Union and the United States, although recently there has also been an upswing in investment from China. Because of that situation, together with the fact that tensions for geopolitical leadership between the United States, China and the European Union are having an increasingly visible impact on business decisions, it is not always possible to draw attention away from the largest trading partners and to analyse the influence that multinational corporations from other countries have on Latin American and Caribbean economies. To cast some light on that issue, this chapter describes and analyses the investments in Latin America and the Caribbean made by companies from a country that, over the past 70 years, has managed to recover from the aftermath of war and successfully transform its economy and its society: the Republic of Korea.

The Republic of Korea's development process has been studied extensively, given that it combines high rates of growth and structural change with high levels of equity and social cohesion and a transition towards full democracy, revealing a solid ability to design, implement and reorient development strategies after successive crises endured by the economy. In simple terms, this process of economic transformation was based on two pillars: industrialization and globalization (Sakong, 2018). Those two concepts are common to the economic models of many emerging countries, particularly in Asia. The Republic of Korea, however, is especially notable because of the success it attained, because of the role played by the State—which implemented a series of development strategies with a major industrial policy component—and because of the leading part played by the large business conglomerates known as chaebol.

In mid-2000s the country devised a strategy for sustainable development with a vision for low-carbon green growth, which was added to its strategies for industrialization, increased productivity and high levels of investment in research and development (R&D). As a result, Korean companies have positioned themselves as global leaders in certain leading-edge high-technology sectors. The Republic of Korea's current strategy is to construct an inclusive State, centred around innovation and with high levels of investment in the deployment of new infrastructure (5G) and in information and communications technologies (ICTs).

The first section following this introduction offers a summary overview of the country's economic transformation process, emphasizing its policies related to industrialization and FDI. That is followed by a brief analysis of how the Republic of Korea's global investments have evolved and the main form those investments now take, before concluding with an overview of the country's investments in Latin America and the Caribbean.

### A. The Republic of Korea's economic transformation

Of the world's most ten valuable brands in 2019, two alone are not United States properties. Of those two, the better positioned is the Republic of Korea's Samsung, which ranks seventh and is valued at US\$ 53.1 billion (Forbes, 2019).<sup>1</sup> In 2018, a further 16 Korean companies were listed among the world's 500 largest corporations by

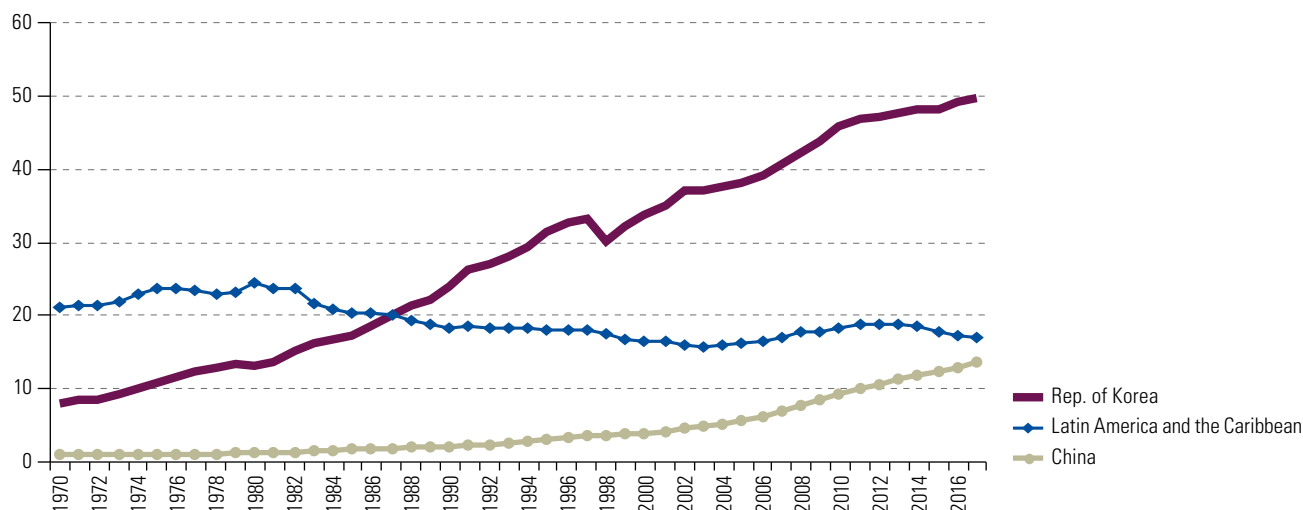
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<sup>1</sup> The other brand is Japan's Toyota, ranked ninth and valued at US\$ 44.6 billion.

revenue, 11 of which had first appeared on the list in 1998 (Fortune, 2018). Companies with such high competitiveness rankings would be a feather in the cap for any advanced economy, but their presence in the rankings is even more notable because they are based in a country with a per capita GDP that is only half that of the United States (the country with the largest number of companies on the list). Moreover, 50 years ago, the Republic of Korea had a per capita income level equal to 8% of that of the United States (see figure II.1).

**Figure II.1**

Selected countries and regions: per capita GDP compared to the United States, 1970–2017  
(Percentages of GDP on the basis of dollars at constant 2010 prices)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), UNCTADStat [online database] <https://unctadstat.unctad.org>.

In 1970, when the Republic of Korea had an annual per capita income of US\$ 1,817, it would have been almost impossible to imagine that by 2017 that figure would rise to US\$ 26,400 and that, in addition, several of the country's companies would stand at the cutting edge of technology, competing with the world's most advanced nations.<sup>2</sup> To place this in context, global per capita GDP stood at US\$ 5,141 in 1970, the average in Latin America and the Caribbean was US\$ 4,745, and the United States had already attained a per capita GDP of US\$ 22,549. In 2017, the world's average per capita GDP was US\$ 10,604, in Latin America and the Caribbean it had risen to US\$ 9,023, and in the United States it stood at US\$ 53,136.

Not only did the Republic of Korea's process of economic and social transformation raise income levels; it also enabled profound structural change in the country. That growth was marked by cycles of boom and bust, and it was not free of social conflict or corruption scandals. Nevertheless, the path chosen by the Republic of Korea undeniably enabled the country to position its economy and several of its companies at the heart of the global economy.

<sup>2</sup> Per capita GDP at constant 2010 prices. See United Nations Conference on Trade and Development (UNCTAD), UNCTADStat [online database] <https://unctadstat.unctad.org>.

## 1. Background: promoting industrialization and exports

The end of the Second World War in 1945 also brought an end to Japanese dominion over the Korean peninsula; efforts began to reconstruct the economy, but they were interrupted in 1950 with the outbreak of the Korean War (1950–1953). Between 42% and 44% of the country's productive facilities had been destroyed (Kim and Roemer, 1979, cited in Lee and others, 2018) and the post-war reconstruction process remained ongoing until 1959. During this period, assistance from the United Nations and from the United States played a key role in meeting the population's basic needs and in covering the trade deficit. The primary sector dominated the economy: in 1953, for example, agriculture, forestry and fisheries accounted for 47% of GDP and employed around 70% of the workforce (Koh and others, 2018).

In the 1950s, the country adopted a protectionist trade policy, with multiple parallel exchange rates and an overvalued currency. Imports were restricted in order to promote industrialization through import substitution, interest rates and bank loans were stringently controlled, the central bank was not independent and, although this period saw a rapid growth among the chaebol, there is no consensus about whether the revenue earned through the financial and exchange-rate controls was used efficiently or whether the rapid growth of the chaebol was more on account of their privileged access to foreign currency and credit, cheap real-estate and non-competitive concessions for contracts with the government and the United States Army (Koh, 2018).

Between 1960 and 1979, at the urging of the military government that took power in 1961, the country embarked on a development strategy based on government-driven industrialization and export promotion.<sup>3</sup> That strategy was partly motivated by “revanchism against Japan and by the military threat from its communist neighbours” (Chang and Zach, 2018), and partly because the government held that dependence on foreign capital was the gravest economic problem facing the country, one that could only be resolved by building an economy with enough technological capacity to allow a reasonable standard of living without a chronic deficit in the balance of payments, the main cause of which was believed to be low levels of development in industries producing intermediate and capital goods (Chang, 1993). In fact, the Republic of Korea ran a negative balance of payments until 1986, although the 1970s saw the fastest growth in its share of global goods exports from an average of 0.1% in the 1960s to 0.6% in 1970, before rising to 3.1% of the global goods export total in 2018 (see figure II.2).

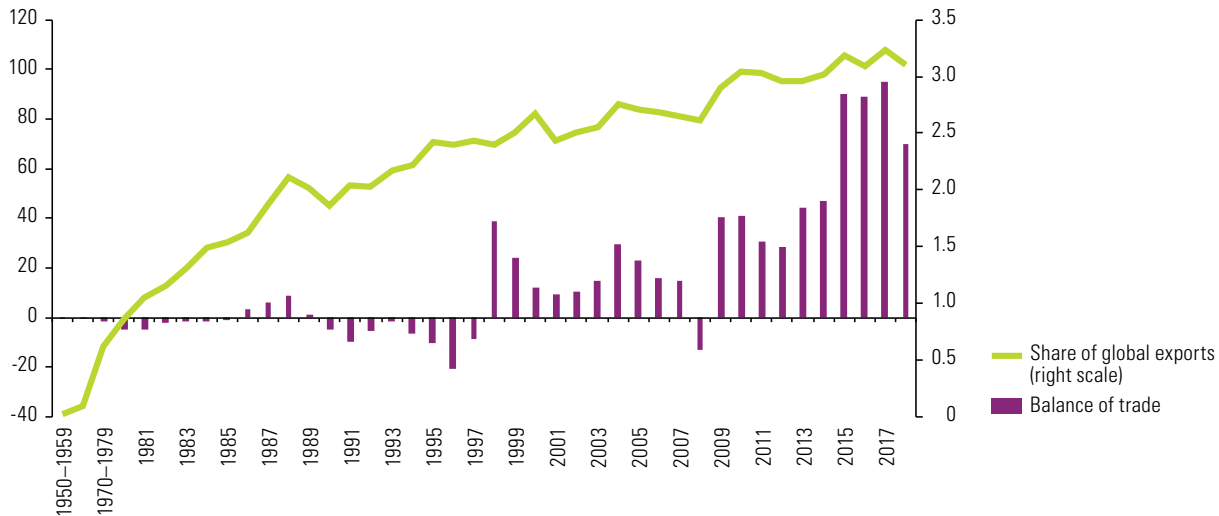
The influence of planning ideologies from Japan, the Soviet Union and China was apparent in the strategy, in spite of the regime's loyalty towards the United States: the government implemented a strategy based on five-year plans under the oversight of the Economic Planning Board, with detailed sectoral plans overseen by the Ministry of Trade and Industry (Chang and Zach, 2018). That approach was toned down towards the end of the 1980s, the structure was dismantled in 1993 with the closure of the Economic Planning Board and, following the 1997 financial crisis, those policies were liberalized.

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<sup>3</sup> One relevant element in the development process was the Agrarian Reform Act of 1949, as amended in 1950. The reforms led to “compensated confiscations and non-free distribution” of land, whereby the government bought land from landowners at fixed prices and sold it to farmers at less than its market value (Koh, 2018). These reforms, which weakened the landowning class, along with a ban on political organization by the working class and farmers, produced a social structure without a powerful social class that could counteract the State's power, and that probably facilitated the implementation of the development strategies (Chang, 1993).

**Figure II.2**

Republic of Korea: balance of trade and share of global goods exports, 1950–2018  
(Billions of dollars and percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), UNCTADStat [online database] <https://unctadstat.unctad.org>.

The successive strategies followed during the period prior to the 1997 crisis were aimed at protecting the country's nascent industries and providing incentives to control outbound capital flows and FDI flows, and to develop export industries in high-technology sectors, accompanied by copious investments in education and in research and development and by zoning plans that led to large—and, on occasions, forced—displacements of the rural population (see Sakong and Koh (2018) for a full analysis of these policies).<sup>4</sup>

In addition, restraint in consumption was encouraged. State banks refrained from consumer lending, and indirect taxes (despite being regressive in distributive terms) were justified on account of their dampening effect on consumption. Consumption requiring foreign currency was tightly restricted, with very high rates of domestic tax imposed on imported luxury goods, and foreign holidays were prohibited until the early 1980s. Evidence of these stringent restrictions can be seen in the fact that although the country was an automobile manufacturer and exporter, in 1985 there were 73.5 people for each car, compared to 27 in Taiwan Province of China, 21.8 in Chile and 15.2 in Brazil (Chang, 1993).

The focus of industrial policy from 1960 onwards was to build a more sophisticated industrial structure. To that end, the State selected priority industries—those with the potential for high levels of productivity growth—which were encouraged and subjected to performance controls. The selected industries were afforded priority access to State loans (sometimes subsidized), preferential access to foreign currency, tax breaks and import protections, while entry restrictions were placed on new business competitors looking to enter the sector.

The sectors that received priority promotion in the first five-year plan included cement, fertilizers and oil refining. Later, under the heavy- and chemical-industry plan announced in 1973, emphasis was placed on steelmaking, non-ferrous metals, machinery, shipbuilding, electronics and chemical engineering, with later expansions bringing on board the automobile and high-technology sectors (semiconductors, new materials and biotechnology). The rate of growth in the country's manufacturing output peaked between 1970 and 1990, reaching 15.8% in 1970–1980 and 12.2% in 1980–1990, with even higher rates in heavy

<sup>4</sup> Kim (2011) contains a compilation of the main economic laws enacted by the Republic of Korea during its development process.

industry and the chemicals sector (17.2% and 14.4%, respectively) (Lee and others, 2018). Later, although the growth rate slowed down, the share of output commanded by heavy industry and chemicals continued to rise (see table II.1).

**Table II.1**

Republic of Korea: sectoral composition of gross value added, 1960–2018  
(Percentages)

	1960–1969	1970–1979	1980–1989	1990–1999	2000–2009	2010–2018
Agriculture, forestry, fisheries	35.4	23.9	12.0	5.8	3.2	2.3
Mining	1.9	1.3	1.1	0.5	0.2	0.2
Manufacturing	17.1	23.0	27.6	27.2	28.1	30.4
Light industry	-	10.1	8.7	5.8	4.1	3.6
Heavy industry and chemicals	-	12.9	18.9	21.4	24.0	26.8
Services	45.7	51.8	59.3	66.5	68.5	67.1

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bank of the Republic of Korea, Economic Statistics System (ECOS) [online database] <https://ecos.bok.or.kr/>.

The government adopted an export promotion programme, most particularly after 1964, whereby it expanded subsidized export credits and permits for input imports and created institutions to work in close collaboration with the export industry, such as the Korean Trade-Investment Promotion Agency (KOTRA) in 1962 and the Korea International Trade Association (KITA) in 1964. The government's control over the financial sector enabled it to use loans to channel investments into the strategic sectors.

Between 1962 and 1985, 57.9% of all bank loans were subsidized credits extended to priority industries (Chang, 1993). During recessions, this development policy ensured those sectors access to funding to the detriment of the others. The government believed that short-term injustices were justified by the long-term benefits that would come from faster growth and efficient structural change (Chang, 1993). The dearth of financial support for other productive sectors, however, contributed to imbalances between light and heavy industries and between the largest conglomerates and small and medium-sized enterprises (Kim and Koh, 2018).

Imports were strictly regulated, with caps that remained in place until the 1980s and high tariffs. In 1982, 93% of the country's imports, by value, were subject to some form of restriction (Chang, 1993). Access to foreign exchange was also severely restricted, which helped control imports further, and priority access was granted solely for some capital goods and intermediate components. At the same time, subsidized government credits that could amount to as much as 90% of the total cost were granted for purchases of machinery made domestically (Chang, 1993).

In contrast to its promotion policies, the State controlled the technology used by companies, together with their expansions of capacity and their prices. Companies were thus subject to monthly checks on their exports and other performance variables. Subsidies—including export subsidies—were contingent on improvements in export performance or on capacity-building in research and development: if the recipient failed to meet the targets, the subsidies were withdrawn. Moreover, if companies failed to meet their installed capacity expansion commitments or filed false information, they were fined and their executives could even be sent to prison. In late 1980, rationalization plans were implemented, which also introduced measures to increase productivity, such as subsidies for investing in research and development, training programmes and joint research programmes with State research centres.

One concern at the time this strategy was launched was the large-scale of the high-productivity industries, as a result of which companies had to attain minimum efficient scales of production rapidly. To this end, exports were emphasized from the

very start of operations and, if the companies involved were small, the State encouraged mergers and provided subsidies for them. Likewise, efforts were deployed to prevent excessive competition and, to avoid the inefficient price wars typical of industries with high costs sunken into specific assets, the State regulated entries into the market and expansions of installed capacity (Chang, 1993).

The State's influence in the economy at this stage not only involved granting incentives and credit; on occasions, it imposed its will on business-owners' decisions. Investment in naval construction, for example, was a personal mandate of the President of the Republic of Korea to the chairman of Hyundai Group, who at first was opposed to the idea (Chang, 1993): a surprising fact, given that the Republic of Korea is currently the world's biggest shipbuilder. When the private sector was reluctant to invest in sectors the government deemed strategic, the State would create a company; one example of this is POSCO, the world's fifth largest steel manufacturer (World Steel Association, 2018), which was incorporated in 1968 and privatized in 2000 (Chang and Zach, 2018).

The literature contains differing opinions on what exact role these policies played in the country's industrialization process. The mainstream position is that the greatest boost for economic growth and development came from macroeconomic stability, openness and investment in human capital, while the heterodox view also underscores the central role played by the State's export promotion and industrialization policies, within which particular emphasis was placed on the development of heavy industry and the chemical sector.<sup>5</sup> That debate and an analysis of the policies' effectiveness is beyond the scope of this chapter. However, if FDI by the Republic of Korea's main transnational corporations is examined, a relationship can be seen between their sectoral specialization and the history of industrial policy. Thus, the concentration of economic power in the chaebol enabled them to expand internationally, although that concentration might now pose problems for the country's economy (Kim and Koh, 2018).

Exports began to expand rapidly in 1960 as a result of the exchange-rate policy and thanks to a major devaluation in 1964 (Lee and others, 2018). Imports—chiefly of materials and capital goods—also rose. The share of trade in goods and services in GDP began to trend upwards, rising from an average of 50% in the 1970s to 60% in 1980 and 74% in the first decade of the new century, and reaching 81% in 2017 (World Bank, 2019).

The export mix also evolved: initially, primary exports and light industry were at the forefront, capitalizing on the advantages of cheap labour, with heavy industry and chemicals replacing them over time. In 1970, mining and fisheries accounted for 17% of total exports, light industry for 70%, and heavy industry and chemicals for 13%. By 2008, the shares of the primary sector and light industry had fallen to 2% and 6%, respectively, while heavy industries and chemicals had risen to 92% (Kim and Koh, 2018). That evolution was also reflected in the country's main export products: between 1970 and 2018, textiles and light industry gave way to semiconductors and capital goods (see table II.2).

**Table II.2**

Republic of Korea: shares of the five main export products in the total value of exports, 1970–2018  
(Percentages)

1970		1990		2008		2018	
Textiles	40.8	Apparel	11.7	Ships and parts thereof	10.2	Semiconductors	18.1
Plywood	11.0	Semiconductors	7.0	Petroleum products	8.9	Petroleum products	7.4
Wigs	10.8	Footwear	6.6	Telephony	8.5	Automobiles	6.3
Iron ore	5.9	Video equipment	5.6	Automobiles	8.3	Autoparts	3.2
Electronic goods	3.5	Ships	4.4	Semiconductors	7.8	Ships and parts thereof	3.1

**Source:** Prepared by the authors, on the basis of D. Kim and Y. Koh, "Korea's industrial development", *The Korean Economy: Six Decades of Growth and Development*, I. Sakong and Y. Koh (eds.), Seoul, Korea Development Institute, 2010; Korea International Trade Association (KITA) [online] <http://www.kita.net>.

**Note:** Four-digit product codes per the Harmonized Commodity Description and Coding System.

<sup>5</sup> For a more detailed analysis of the opposing views, see Koh (2018), Lee and others (2018), Chang (1993) and Chang and Zach (2018).

The liberalization of the Republic of Korea's economy sped up following the 1997 financial crisis, under the terms imposed by the rescue agreement signed with the International Monetary Fund (IMF). Trade subsidies, import licences and other commercial restrictions were lifted and, at the same time, processes were invested with greater transparency and the country began to pursue free trade agreements (Lee and others, 2018).

During this stage of the liberalization process, one key element in the positioning of the country's companies on the global market was kept in place: the emphasis on technological progress and on investments in research and development, in particular in the area of ICTs, so that the Republic of Korea would evolve from being an importer of technologies to become a technological leader. In fact, in 2019 it became the first country in the world to commercialize 5G mobile technology nationwide (see box II.1). The research and development institutions funded by the State in the 1960s and 1970s played a leading role in the 1980s and 1990s. Later, investments made by companies, universities and a rise in the number of private research centres made additional contributions to that process. Investment in R&D rose from 1.7% of GDP in 1990 to 2.4% in 1996, 3.4% in 2008 and 4.2% in 2016, and the private sector's share increased to between 70% and 80% of the total (Kim and Koh, 2018).

Against that backdrop, industries with connections to ICTs were strengthened. However, a mismatch remained between the evolution of the chaebol and that of small and medium-sized enterprises (SMEs); likewise, the effects of the international financial crisis and the economic liberalization process negatively impacted agriculture, fishing and labour-intensive light industries such as textiles and footwear (Kim and Koh, 2018).

#### Box II.1

##### Deployment of the first 5G mobile network at the national level

On 5 April 2019, the Republic of Korea became the first country in the world to commercialize 5G mobile technology nationwide. The 5G network transfers data faster than the 4G network, since it reaches a maximum of 10 Gbps compared to 150 Mbps with 4G technology, and its latency is 1 millisecond, compared to 50 milliseconds with 4G, characteristics that allows the digitalization of societies to move into a new phase (Hill, 2019).

The deployment of the 5G mobile network was achieved through cooperation between the Ministry of Science and ICT, the three leading mobile operators in the country —KT, SK Telecom and LG U Plus— and mobile telephone manufacturers, pursuant to the Innovation Growth Engine policy which was launched in 2017 to nurture new industries based on research and development and transform the country by 2020. The development of intelligent infrastructure is one of the five pillars of this policy, and the 5G and Internet of Things (IoT) hyperconnection services are central to meeting the goal of developing convergence services (personalized health services, smart cities, virtual and augmented reality and smart robots), with a goal of 30 million IoT subscriptions (connected devices) by 2022 (Ministry of Science and ICT, 2018).

With this launch, the Government of the Republic of Korea is looking to become the global standard-setter for 5G infrastructure. The government and the private sector will jointly invest more than US\$ 25 billion (30 trillion won) to establish a nationwide 5G network by 2022 and will help to Foster new 5G-based industries and services, ranging from network equipment, next generation smartphones, smart robots and drones to self-driving vehicles, smart factories and smart cities. As announced by the President, the government and affiliated organizations will be the first parties to utilize 5G and to carry out testing, to help the market take off as quickly as possible. In that regard, tax credits will be provided for establishing 5G networks, world-class test beds will be formed and assistance will be provided to establish 1,000 5G factories to foster manufacturing innovation in SMEs, as well as large manufacturers (Cheong Wa Dae, 2019).

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of S. Hill, "5G vs. 4G: How will the next generation improve on the last?", 30 April 2019 [online] <https://www.digitaltrends.com/mobile/5g-vs-4g/>; Ministry of Science and ICT "The innovation growth engine: Leading preparations for the Fourth Industrial Revolution", 9 July 2018 [online] <https://k-erc.eu/korea-rd-research-trends-and-results/the-innovation-growth-engine/>, and Cheong Wa Dae, "Remarks by President Moon Jae-in at ceremony celebrating Republic of Korea launching world's first 5g commercial service", 8 April 2019 [online] <http://english1.president.go.kr/BriefingSpeeches/Speeches/566>.

## 2. Foreign direct investment and its recent evolution

During the industrialization process that took place between 1960 and 1970, FDI was strictly controlled. Funding for the balance of payments deficit was secured through overseas loans, since the government was concerned about foreign companies dominating local industry and it understood that loans were easier to control (Lee and others, 2018).

The assimilation of leading-edge technologies by the country's companies was seen as a necessary condition for industrialization. Therefore, since the aim was to boost the acquisition of capabilities by domestic companies instead of allowing foreign companies with greater technological capacities to set up operations, strict controls were placed on FDI. Even technology licensing was banned in those industries where the government believed that the local technology had promising potential (Chang, 1993). Outside the free trade zones, majority foreign ownership was not allowed. Investors also had to meet performance targets for local content and transfers of technology.

In 1984, the policy for inward FDI was changed from a positive to a negative list system, in order to expand the number of categories where inbound investments would be liberalized and, at the same time, the horizontal 50% cap on foreign capital was lifted (Lee and others, 2018). However, the restrictions were kept in place for certain priority or nascent industries: those using high levels of raw materials; manufacturers of consumer goods (particularly luxury items); polluting industries; and agriculture and fisheries. The presence of foreign companies was still negligible in the late 1980s: only 6% of the multinationals in the country were wholly-owned foreign subsidiaries, compared to 50% in Mexico and 60% in Brazil at the same time (Evans, 1987; Chang, 1993).

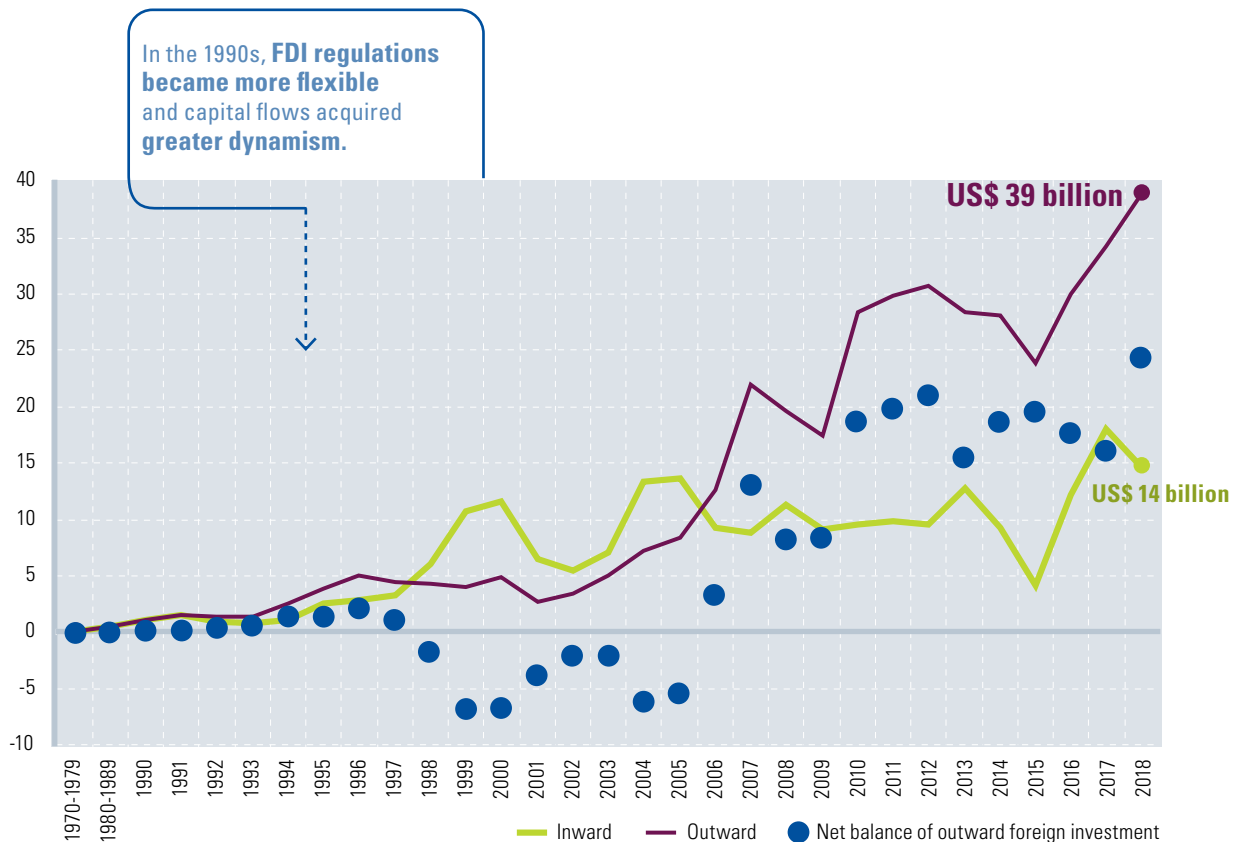
The secondary role assigned to FDI in the first stage of the country's industrialization, together with the restrictions placed on it, were reflected in capital flows during the 1970s and 1980s, with average annual inward investments of US\$ 109 million in the 1970s and US\$ 529 million in the 1980s. In the 1990s, FDI regulations became more flexible and capital flows acquired greater dynamism (see figure II.3). In 1996, when the country joined the Organization for Economic Cooperation and Development (OECD), foreign capital was allowed into the financial services, telecommunications and distribution services sectors. In addition, in 1997 foreign companies were allowed to acquire domestic companies and, in 1998, that was expanded to allow mergers and hostile takeovers. Foreigners were also allowed to buy property, and the Foreign Investment Promotion Act was adopted, which granted 10-year tax exemptions. An institutional framework for FDI was also set up with the creation of the Korea Investment Service Centre (KISC) —later renamed "Invest Korea"— as a one-stop shop for investors, and free economic zones were established.

During the recovery period that followed the 1997 financial crisis and up until 2006, the balance of FDI inflows was positive. In the industrial restructuring process fostered by the government, many local companies were bought out by foreign capital and FDI played a major role in the accumulation of foreign exchange, which helped the country overcome the effects of the crisis (Lee and others, 2018). In addition, the balance of trade reported surpluses over that period and continued to do so except during the 2008 international financial crisis (see figure II.2). In 2006, outbound FDI began to outstrip incoming investments and the Republic of Korea consolidated its position as a net investor. In spite of that, in 2018 the country was one of the world's top 20 FDI destinations and, thanks to inflows worth over US\$ 14.479 billion, accounted for 1.1% of total global inward FDI.



**Figure II.3**

Republic of Korea: foreign direct investment flows, 1970–2018  
(Billions of dollars)



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

As for the evolution of outward FDI, because of the balance of payments deficit, until the 1980s Korean companies were prohibited from investing abroad except when necessary to secure access to natural resources, to open up export markets or to support certain particular activities that would earn foreign exchange. This led to very low levels of overseas investment during the 1970s, averaging US\$ 10 million per annum. This situation was upturned in the mid-1980s, when export growth and the current account surplus fuelled the international expansion of Korean companies, both to set up businesses in markets where commercial access had been restricted—the rapid growth in the country’s exports had led to commercial restrictions in some destination markets—and to ensure cost efficiencies and counteract the effect of rising domestic wages (ECLAC, 2007). That led to a growth in average annual outward FDI, which reached US\$ 442 million in the 1980s.

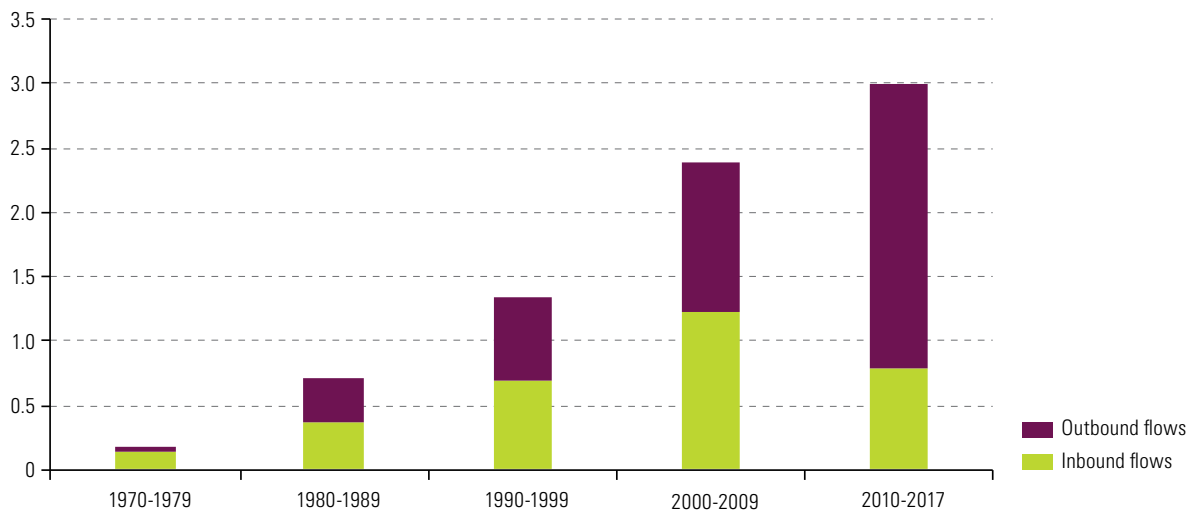
During the 1990s, the leading chaebol adopted strategies to globalize their businesses and began to invest abroad, as a result of which the country was a net overseas investor between 1990 and 1997 (see figure II.3). During the 1997 financial crisis, many Korean companies went into liquidation and others had to restructure their internationalization strategies and close overseas subsidiaries. The shortcomings in how the conglomerates managed their assets abroad were broadly lambasted by domestic public opinion, which led to a second wave of internationalization by the companies

beginning in the mid-2000s (ECLAC, 2007). Starting in 2006, the balance of payments surplus was used to support an active strategy of encouraging companies to invest abroad, in order to consolidate international production networks and bolster efforts to ensure cutting-edge research; in addition, the government lifted the restrictions on overseas projects, which were previously subject to a cap of US\$ 300 million per project (Nicolas, Thomsen and Bang, 2013).

This growth in both incoming and outgoing investment flows increased the weight of FDI in the economy, which rose from 0.2% of GDP in the 1970s to 3% (0.8% inbound and 2.2% outbound) between 2010 and 2017 (see figure II.4). Even so, the weight of incoming FDI in the economy remains low compared to the global average and to other advanced economies where, between 2010 and 2017, inbound FDI was equal to an average of 1.9% of GDP. Comparing the weight of trade in the Korean economy to that of FDI reveals a model of international insertion in which, to date, trading relations have been more important than securing capital flows and allowing transnational corporations to set up businesses in the country. In contrast, the past decade has seen an upswing in the internationalization of Korean companies.

**Figure II.4**

Republic of Korea: foreign direct investment flows as a proportion of GDP, 1970–2017  
(Percentages)



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

### 3. Leading Korean companies in the electronics and heavy-industry sectors

The growth in the Republic of Korea's foreign investments since 2006 made it the world's ninth largest overseas investor in 2018, with outbound FDI worth US\$ 38.917 billion (3.8% of the global total), and the fourth largest in Asia after Japan China and Hong Kong Special Administrative Region of China (which accounted, respectively, for 14.1%, 12.8% and 47%).<sup>6</sup> The country's total overseas investment portfolio was worth close to US\$ 356 billion: similar to that of Brazil (US\$ 359 billion), more than Mexico (US\$ 180 billion), but still below Japan and China (US\$ 1.5 trillion each).

<sup>6</sup> United Nations Conference on Trade and Development (UNCTAD) figures used for global comparisons. The analysis of investment destinations and sectors uses official figures for the country published by the Export-Import Bank of the Republic of Korea.

The main players in this stage of the internationalization process were companies belonging to the large business conglomerates known as *chaebol*: diversified corporate groups, controlled by one or two families, similar to the Japanese productive and financial conglomerates known as *zaibatsu*, except that the Korean versions do not own their own banks (Chang, 1993). Most of the country's *chaebol* began consolidating their presence during the reconstruction period that followed the end of the Korean War (1950–1953), although some trace their origins back to the Japanese colonial occupation of 1910 to 1945 (Rhyu, 2005). Most of them are leading international players in the electronics and telecommunications industries, oil and gas, chemicals, automobiles, steel, shipbuilding, construction, electricity and retail commerce (see box II.2).

**Samsung:** The Republic of Korea's largest conglomerate dates back to 1938, when it was founded as a export company supplying foodstuffs, fruit, dried fish and noodles, primarily to the Chinese market. Led by the Lee family, it has interests in electronics, insurance, shipping, luxury hotels, hospitals, an amusement park and an affiliated university. Samsung Electronics is the group's best known subsidiary.

**Hyundai:** Hyundai Group began in the construction sector in 1947 and later diversified into the automobile industry, shipbuilding, finance and electronics. In 2003, following the Asian financial crisis and the death of its founder Chung Ju-yung, the *chaebol* was split into five companies. These include Hyundai Motor Group, the world's third largest automobile manufacturer, and Hyundai Heavy Industries, the planet's biggest shipbuilder.

**SK Group:** Known as SK Holdings, this conglomerate traces its origins to 1950, when the Chey family acquired Sunkyong Textiles. The *chaebol* currently controls around 80 subsidiaries, primarily in the energy, chemicals, financial, shipbuilding, insurance and construction sectors. Notable components of the conglomerate include SK Telecom, the Republic of Korea's largest provider of wireless services, and SK Hynix, the world's second biggest maker of memory chips.

**LG Corporation:** A merger between Lucky and Goldstar led to the rise of this conglomerate, which began operations in 1947 in the chemicals and plastics industries. Under the leadership of the Koo family, in the 1960s the company began to invest in consumer electronics, telecommunications networks and power generation, along with its chemicals business, which supplies cosmetics and household goods. In 2005 LG split and the GS *chaebol* was created, which has interests in the energy, retail commerce, sports and construction sectors.

**Lotte:** Founded in Japan in 1948 as a chewing-gum company, Shin Kyuk-ho moved the company to the Republic of Korea in 1967. The conglomerate's core business is foodstuffs, discount stores, department stores, hotels, amusement parks and entertainment, in addition to finance, construction, energy and electronics. Lotte Confectionery is the world's third-biggest manufacturer of chewing gum and, in 2017, the company inaugurated the 123-floor Lotte World Tower in Seoul, the highest building in the Republic of Korea.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Albert, "South Korea's *Chaebol* Challenge", New York, Council on Foreign Relations, 2018 [online]. <https://www.cfr.org/backgrounders/south-koreas-chaebol-challenge>.

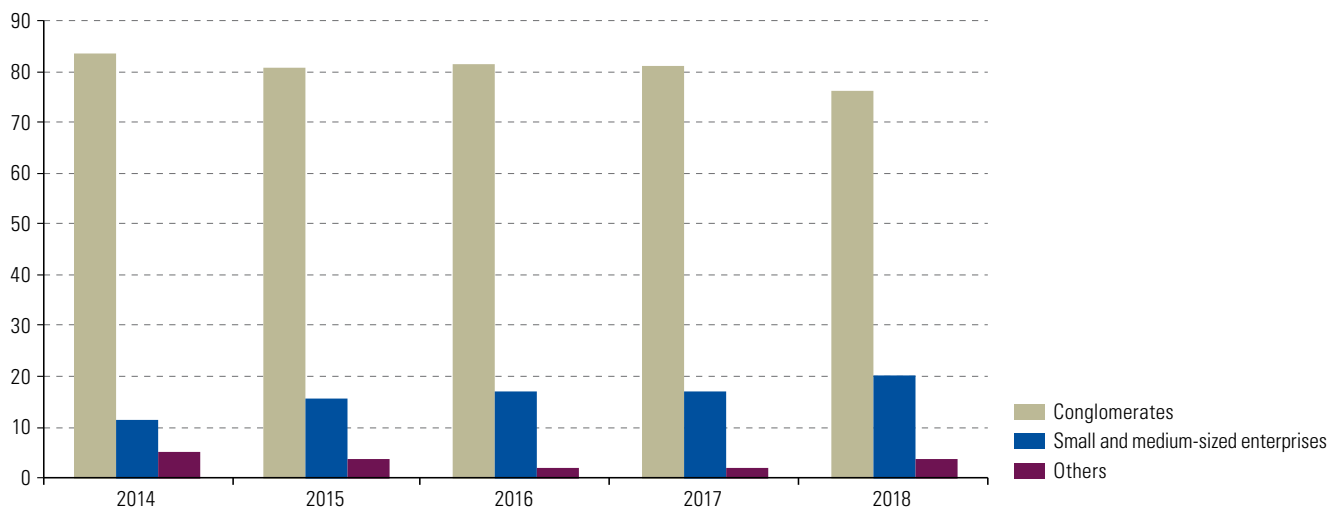
### Box II.2

The Republic of Korea's five largest *chaebol*

At present 45 conglomerates exist that meet the traditional definition of *chaebol* and the 10 largest account for 27% of all business assets in the Republic of Korea (Pae, 2018). Their share of assets is greater than their impact on employment, given that they employ 12% of the workforce; SMEs are the country's largest source of jobs (Albert, 2018). These conglomerates enjoy a high market value, and the *chaebol* account for 77% of the market capitalization of Korean companies on the Asia300 index: Samsung 41%, Hyundai 13%, LG 9%, SK Group 7% and other *chaebol* 7%, with companies not belonging to these conglomerates making up the remaining 23% of the total (Albert, 2018).

Despite the global market dominance of the largest conglomerates, the Government of the Republic of Korea is making efforts to promote the internationalization of smaller companies. Support for SMEs is one of the priority issues on the current agenda and, in 2017, the Ministry of SMEs and Startups was established as part of a reorganization that expands the scope of action of the Korea Trade-Investment Promotion Agency in furthering the international development of smaller companies, chiefly through export promotion but also by backing the expansion of overseas investments. The term SME covers companies with average sales of between 80 billion and 150 billion won (between US\$ 68 million and US\$ 127 million) over the last three years, with assets worth no more than 500 billion won (US\$ 424 million) and that employ fewer than 300 people (in the manufacturing sector) and fewer than 100 or 200 in other sectors. The share of Korean SMEs in outward FDI peaked in 2000 (42%) and has been shrinking as that of large-scale mining projects, which are carried out by large companies, has grown (Mah, 2018). In recent years, this trend has started to be reversed, and in 2018 FDI outflows by SMEs grew more rapidly than that of the conglomerates, accounting for 20% of the country's total (see figure II.5).

**Figure II.5**  
Republic of Korea: FDI outflows by company size, 2014–2018  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

In broad terms, the Republic of Korea's overseas investments share three defining characteristics: (i) an internationalization strategy based more on establishing new investment projects (greenfield investments) than on mergers and acquisitions, (ii) high levels of geographical and sectoral specialization, with investments concentrated in certain sectors and specialized in terms of their target markets, and (iii) the dominant presence of companies belonging to the main chaebol, along with State-owned companies.

Globally, mergers and acquisitions accounted for almost 40% of outward FDI between 1990 and 2017, while the figure for the Republic of Korea over the same period was a mere 14% (UNCTAD, 2018). This underscores the principal internationalization model followed by Korean companies, which emphasizes the development of greenfield projects (see figure II.6). This is in contrast to the recent strategy adopted by China's international expansion, in which businesses secure a presence in markets of interest by acquiring leading companies in strategic sectors, with a particular focus on technology sectors in the United States and Europe and on natural resources and energy in developing economies (ECLAC, 2018).

**Figure II.6**

Modalities of global investments by Korean companies: announcements and mergers and acquisitions, 2006–2018  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg and fDi Markets [online database] <https://www.fdimarkets.com/>.

**Note:** Mergers and acquisitions are listed under the years in which they were concluded, not when they were announced.

The largest acquisition by a Korean company took place in 2017, when Samsung paid US\$ 8.6 billion for Harman, a leading United States company in the design and manufacture of audio and video products, automation solutions and related services for automobile manufacturers, consumers and businesses. With that, in 2017, the value of Korean companies' mergers and acquisitions reached a record level, although the dynamism did not continue into 2018.

In terms of geographical specialization, the Republic of Korea's multinational companies focused their attention on two markets: Asia and North America.<sup>7</sup> Between 1990 and 2018, of the Republic of Korea's FDI for which the destination can be identified, 69% went to one of those two regions. A comparison of the last 12 years (2007–2018) with the first period when internationalization was promoted (1990–2006) reveals that Asia remained the principal destination, albeit with a diminishing share, while investments in North America, Europe and Oceania increased (see figure II.7). At the same time, Latin America and the Caribbean maintained a position of relative importance, receiving almost 5% of Korean FDI, above both Africa and the Middle East.

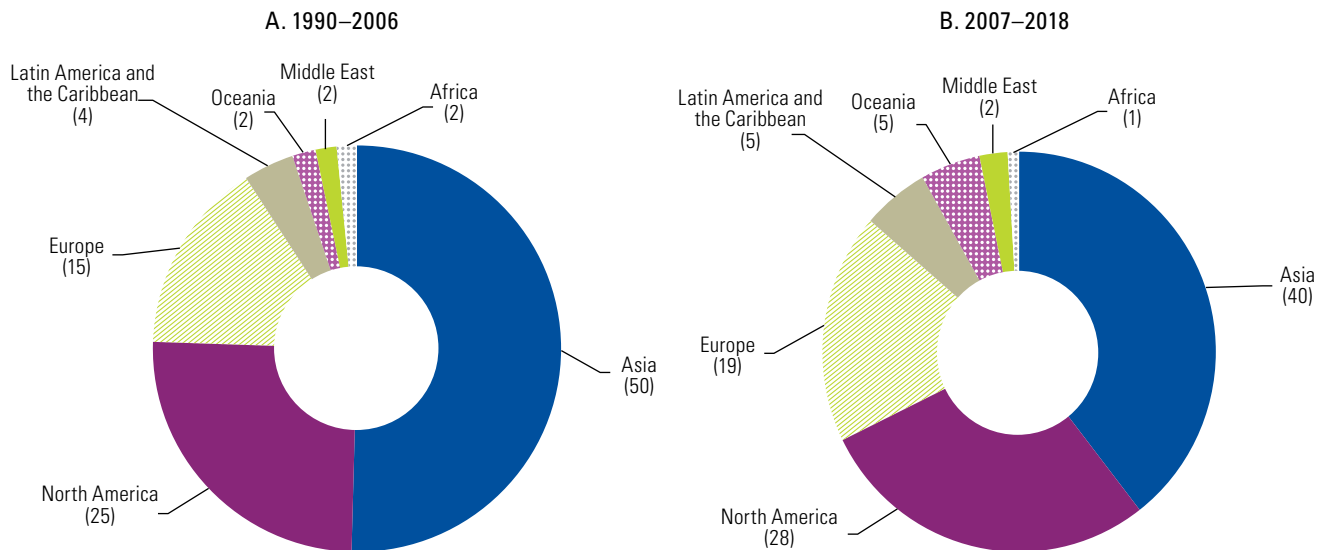
The leading destination was the United States, followed by China (including Hong Kong Special Administrative Region (SAR) of China), accounting, respectively, for 23% and 18% of the total. Other than those two countries, investments were distributed in a relatively uniform pattern, with Viet Nam receiving 4%, Australia 3% and the United Kingdom 3%; in Latin America, Brazil (2%) and Mexico (1%) were ranked 11th and 14th among FDI recipients between 1990 and 2018. It can be seen that although the Republic of Korea's FDI is focused on two main destinations, companies are expanding their markets and diversifying their targets, which rose from 67 countries in 1990 to 149 in 2018. More recently, the number of countries receiving more than US\$ 1 billion (cumulative) in FDI rose from 22 between 2000 and 2009 to 38 between 2010 and 2018.

Traditionally, the Republic of Korea's foreign investment was focused on four sectors, which accounted for 76% of total outbound FDI between 1990 and 2018: manufacturing (34%), mining (15%), finance and insurance (15%) and commerce (12%). During the commodity price boom, mining investments grew impressively but, in recent years, they have fallen; meanwhile, in 2018, investments in manufacturing and the financial sector acquired a greater relevance (see figure II.8).

<sup>7</sup> This analysis excludes FDI flows towards financial centres in the Caribbean (Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles) and Bermuda.

**Figure II.7**

Republic of Korea: outward foreign direct investment by destination region, 1990–2018  
(Percentages)

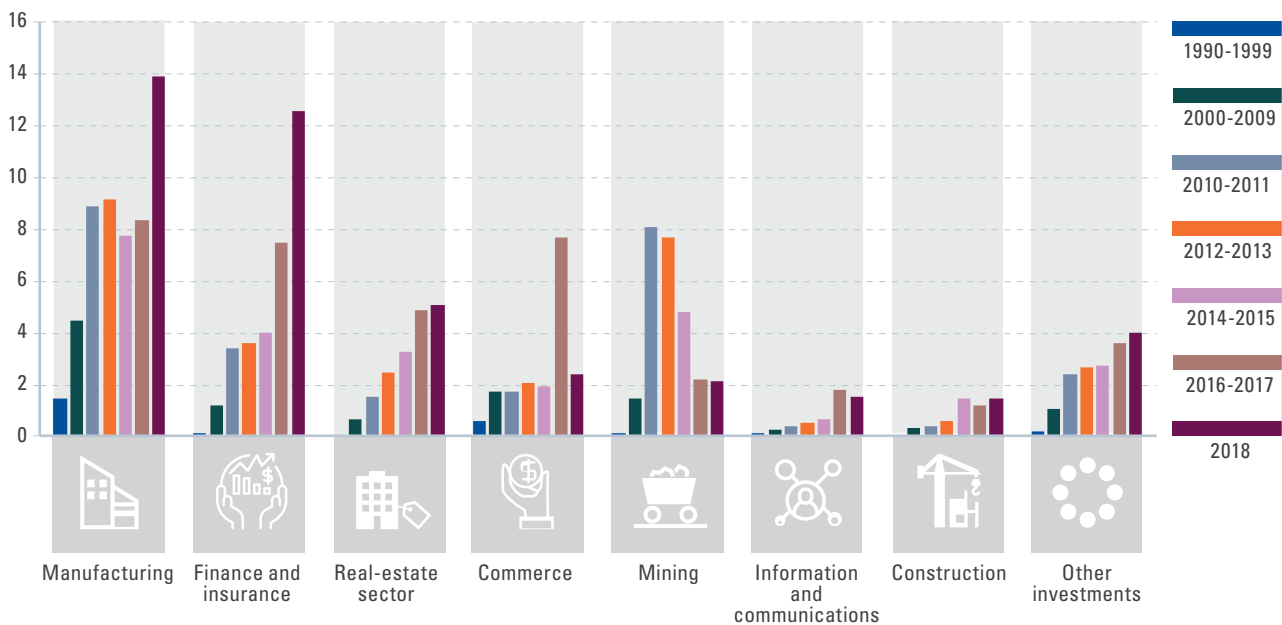


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Note:** Does not include FDI flows towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles or Bermuda.

**Figure II.8**

Republic of Korea: outward foreign direct investment by sector, annual averages, 1990–2018  
(Billions of dollars)

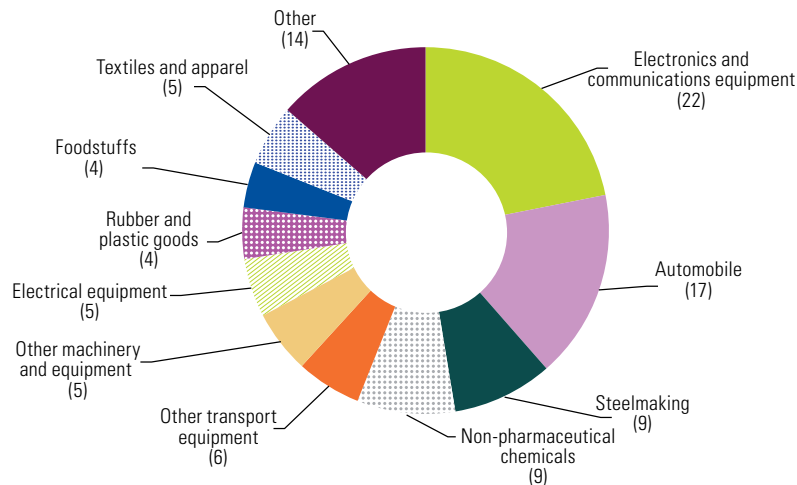


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Note:** Does not include FDI flows towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles or Bermuda.

The United States was the main destination for investments in commerce, real estate, and finance and insurance, accounting for 46%, 41% and 38%, respectively, of outward FDI in those sectors over the past decade (2007–2017). The concentration in mining activities was lower, and three countries received 49% of the total investments: the United States (18%), Australia (17%) and Canada (15%). China (including Hong Kong SAR) was the main recipient of investments in manufacturing, receiving 40% of the total, followed by Viet Nam (10%), the United States (10%), Brazil (4%), Indonesia (4%) and Mexico (3%).

Heavy industry and chemicals, which received a major boost from the industrialization and export promotion campaigns, accounted for most of the outbound FDI destined for the manufacturing sector: between 2007 and 2017, 77% of FDI went to industries producing electronics and communications equipment, automobiles and other forms of transport, steel, chemicals, rubber, plastic goods and electrical equipment (see figure II.9).



**Figure II.9**  
Republic of Korea:  
outbound foreign  
direct investment for  
manufacturing, by  
subsector, 2007–2017  
(Percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.  
**Note:** Does not include FDI flows towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles or Bermuda.

The investment announcements identify more clearly the geographical and sectoral specialization of this international expansion. Between 2006 and 2018, Korean companies announced investments worth US\$ 362 billion, and five sectors accounted for 52% of that total: automobiles and autoparts (12%), coal, oil and gas (11%), semiconductors (10%), electronic components (10%) and metals (9%). The investments announced for semiconductor manufacturing were mostly concentrated in China and the United States, while China and Viet Nam were the targets of the electronic component announcements (see table II.3). Mexico is the only country in the region that appears among the five leading destinations for Korean investment projects, in the automobile/autoparts subsector, although with 15% of announced investment, it also receives a significant share of Korean FDI for the consumer electronics industry.

The sectors with the most mergers and acquisitions by Korean companies were oil and gas and real estate, with purchases worth close to US\$ 25 billion between 2006 and 2018 (23% of the total). Mining, renewable energies, Internet and autoparts were notable by reason of the number of operations but, because they were smaller transactions, those sectors accounted for a lower weight in the total. In contrast, in the audio and video sectors and in heavy machinery, there were few very large transactions. In addition to Samsung's acquisition of Harman (described above), another notable operation was Doosan Infracore's 2007 purchase, for US\$ 4.9 billion, of the Bobcat Company, a leading United States producer of compact equipment for construction, agriculture, mining and industry.






Finally, the growth of Korean companies over recent decades can be seen in their positions in business rankings, such as Fortune magazine's listing of the world's 500 biggest companies. Samsung Electronics rose in the Global 500 listing from 142 in 1998 to 12 in 2018, the best result of any Korean company (see diagram II.1). The semiconductor boom was the main driving force behind the position attained by Samsung Electronics, a company whose total assets outstripped the budget of the Government of the Republic of Korea in 2017.<sup>8</sup> It is currently the largest private Korean conglomerate and has achieved extraordinarily high levels of penetration in the global electronics market. In Latin America and the Caribbean, for example, Samsung led sales of smartphones in 2017, accounting for 38% of all units sold in the region.<sup>9</sup>

<sup>8</sup> See [online] [http://news.chosun.com/site/data/html\\_dir/2019/02/20/2019022000272.html](http://news.chosun.com/site/data/html_dir/2019/02/20/2019022000272.html).

<sup>9</sup> See [online] <https://www.statista.com/>.

**Table II.3**

Foreign investment announcements by Korean companies, five main sectors and destinations, 2006–2018  
(Percentages of total investment amounts)

									
Automobiles and autoparts		Coal, oil and gas		Electronic components		Semiconductors		Metals	
China	20	Viet Nam	27	China	44	China	57	India	33
Mexico	18	Indonesia	8	Viet Nam	28	United States	36	China	17
India	13	Myanmar	5	United States	7	Philippines	4	Viet Nam	15
United States	12	Iran (Islamic Republic of)	5	Poland	5	Singapore	3	Iran (Islamic Republic of)	5
Slovakia	7	India	5	Malaysia	3	Japan	0	Indonesia	5
<b>Others</b>	<b>31</b>	<b>Others</b>	<b>50</b>	<b>Others</b>	<b>13</b>	<b>Others</b>	<b>1</b>	<b>Others</b>	<b>25</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of fDi Markets [online database] <https://www.fdimarkets.com/>.

**Diagram II.1**

Top Korean companies in the Global 500 listing, 1998, 2008 and 2018  
(By ranking and revenue in millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Fortune*, "Global 500", 2018 [online database] <https://fortune.com/global500/2018/search/>.  
Note: Revenue data for 1998 not available.



## B. Korean investments have supported the region's industrialization

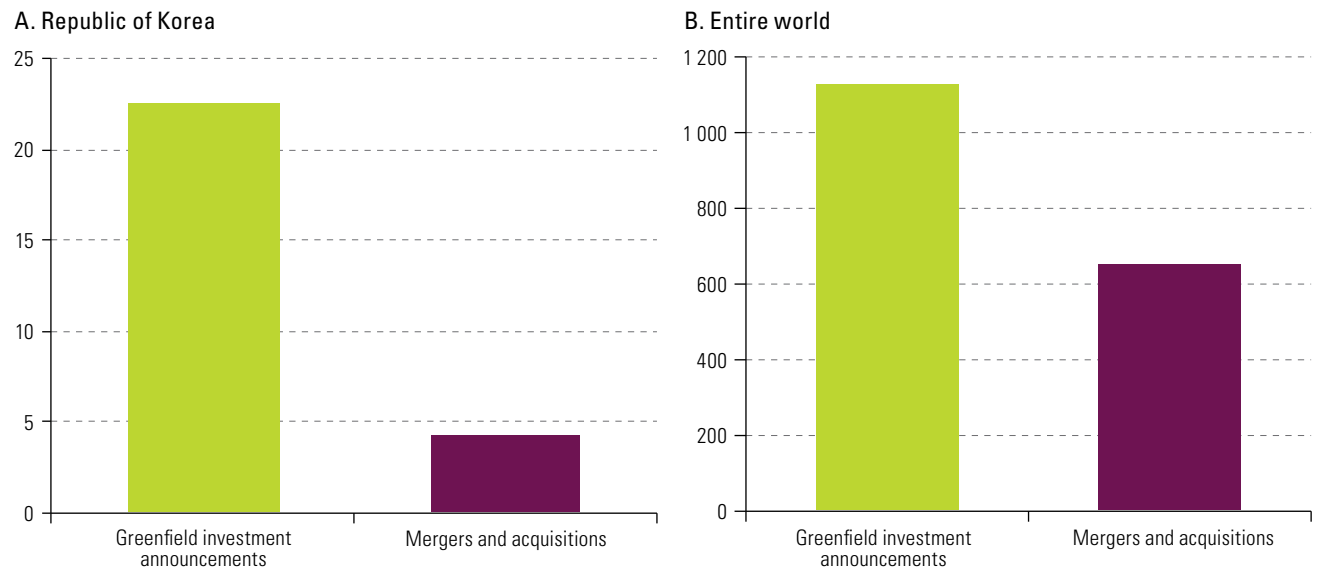
The presence of companies from the Republic of Korea in Latin America and the Caribbean is not a new phenomenon, but it has grown in importance over the past 15 years. In the 1970s, when the Republic of Korea still imposed restrictions on mass outflows of capital, there were already liaison offices and subsidiaries of Korean conglomerates in Brazil and in Panama. In recent decades, and most particularly following the expansion of outward FDI in the mid-2000s, the presence of Korean multinationals has been expanding in almost all the region's countries. They have specialized in certain activities, such as the textile industry in the early days, the automobile industry, electronics and steel, mining, construction and, more recently, the energy sector.

Two notable elements arise from an analysis of the Republic of Korea's investments in Latin America and the Caribbean, which distinguish the country from China, another leading Asian investor with a growing presence in the region. The first of these is the Korean companies' investment methods, in which greenfield projects are preferred (see figure II.10), a characteristic shared the country's FDI elsewhere in the world. That differentiates it from the recent growth of Chinese FDI in Latin America and the Caribbean, which is based on mergers and acquisitions. The second characteristic is their sectoral specialization, with manufacturing industry one of the key activities.

**Figure II.10**

Greenfield investment announcements and mergers and acquisitions in Latin America and the Caribbean, accumulated total for 2005–2018

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg and fDi Markets [online database] <https://www.fdimarkets.com/>.

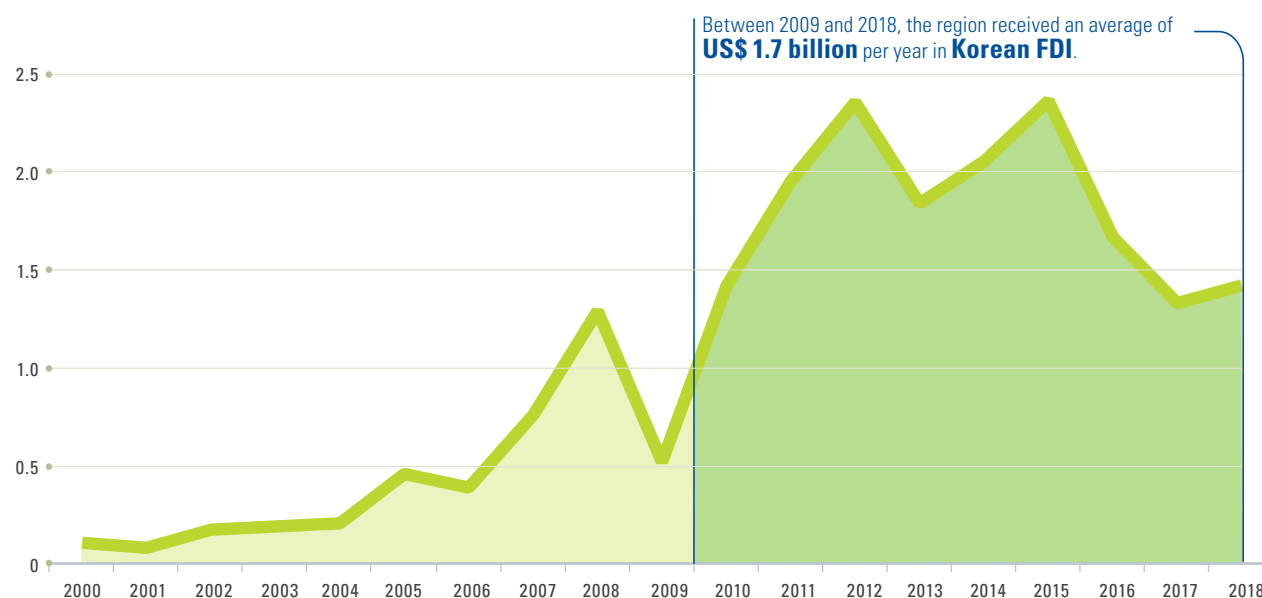
### 1. Greenfield projects explain the growth in FDI over the past decade

Over the past decade, the Republic of Korea's outward foreign direct investment (FDI) to Latin America and the Caribbean has been increasing (see figure II.11). Between 1990 and 2018, FDI outflows to the region amounted to close to US\$ 22 billion, 5% of

the country's total foreign investment over the period. These flows grew steadily after the 2008 international financial crisis, and the accumulated total between 2009 and 2018 was almost five times the amount received during the previous decade. Thus, between 2009 and 2018, the region received an average of US\$ 1.7 billion dollars a year in Korean FDI.

**Figure II.11**

Republic of Korea: foreign direct investment flows into Latin America and the Caribbean, 2000–2018  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Note:** Outbound FDI by destination country. Excludes FDI towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles and Bermuda.

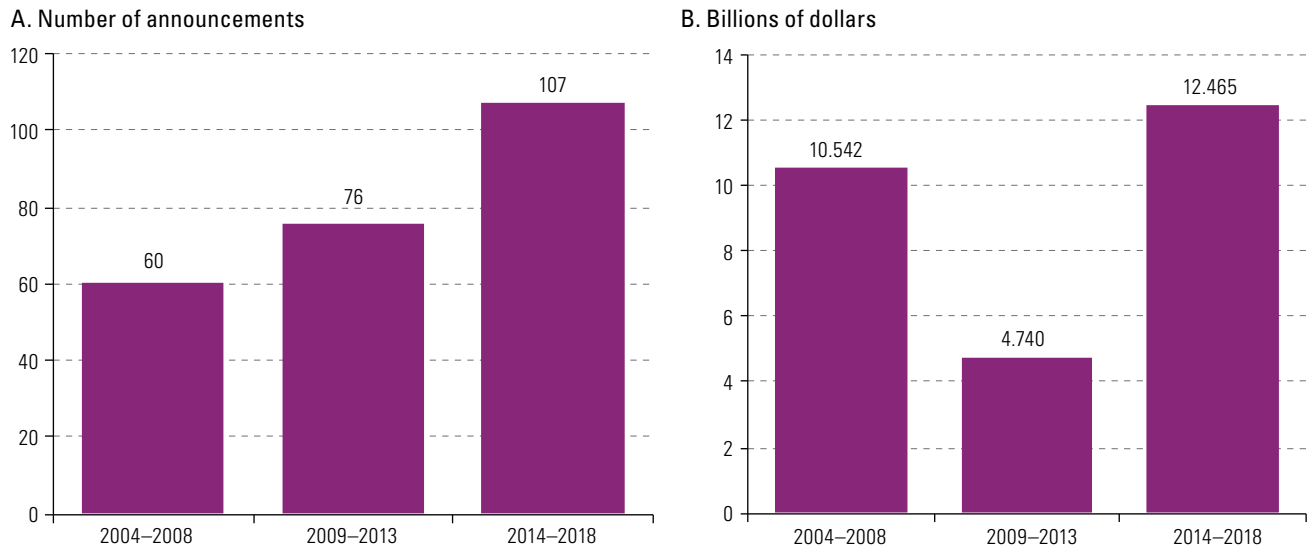
How investment announcements have evolved also reflects the growing interest in pursuing projects in Latin America and the Caribbean. The number of announcements has risen by almost 80% over the past 15 years, while the total amount invested in projects grew by 18% (see figure II.12). The volume of announced investments between 2004 and 2008 was due to two very large projects, which in turn explains the lower growth in the total amount invested. Those projects were the 2006 announcement by Dongkuk Steel of the construction of a new steel plant through a joint venture between POSCO and the Brazilian company Vale in the State of Ceará (Companhia Siderúrgica do Pecém, CSP) for a total amount of US\$ 4 billion, and the expansion of LG's electronics plant in Reynosa, Mexico, announced in 2005 and valued at around US\$ 1.3 billion. The CSP plant ultimately entailed an investment of US\$ 5.5 billion and came on line in June 2016 (Jung, 2016); this showcases the long lead-times and vast investments needed by projects seeking to exploit the mining value chain, which are necessary if the region is to create more wealth out of its natural resources.

The Republic of Korea accounts for only 3.3% of the total investments announced in Latin America and the Caribbean in the past five years. As will be seen in the following subsection, however, the sectoral specialization of those investments gives them substantial weight in certain industries.

As for the destinations of these investments, Brazil and Mexico accounted for the majority of the capital outflows to the region, but almost all the countries received some FDI from the Republic of Korea (29 countries between 1990 and 2018), including the whole of South America and Central America, Mexico and 12 Caribbean countries (see figure II.13).

**Figure II.12**

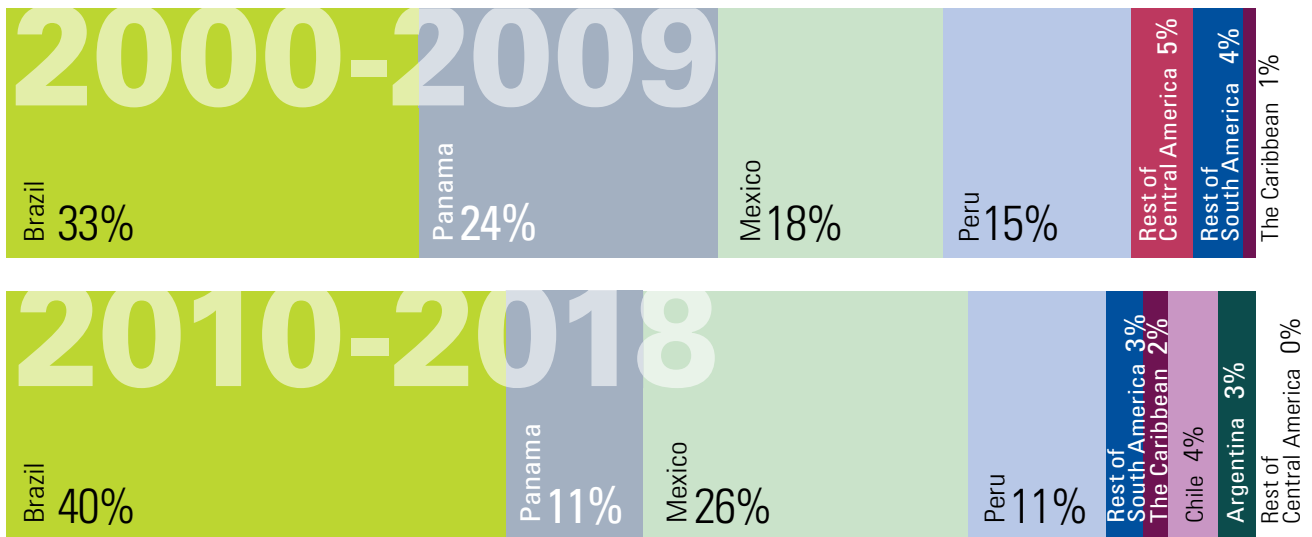
Republic of Korea: foreign direct investment announcements in Latin America and the Caribbean, accumulated total for 2004–2018



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of fDi Markets [online database] <https://www.fdimarkets.com/>.

**Figure II.13**

Republic of Korea: FDI outflows to Latin America and the Caribbean, by destination country, 2000–2009 and 2010–2018 (Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Note:** Does not include FDI flows towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles or Bermuda. Figures for the Caribbean also include Guyana, Belize and Suriname.

Compared to the previous decade, between 2010 and 2018 there was an upswing in the concentration of investments in Brazil and Mexico, while Central America’s share dropped as a result of falling investment flows into Guatemala, Honduras and El Salvador. The Central American countries, excluding Panama, went from accounting for 5% of the total in 2000–2009 to a share of less than 1%; in contrast, the share received by Chile, Argentina and the Caribbean increased. The reduced FDI in Central America was on account of lower investments in manufacturing, particularly in the textile and apparel

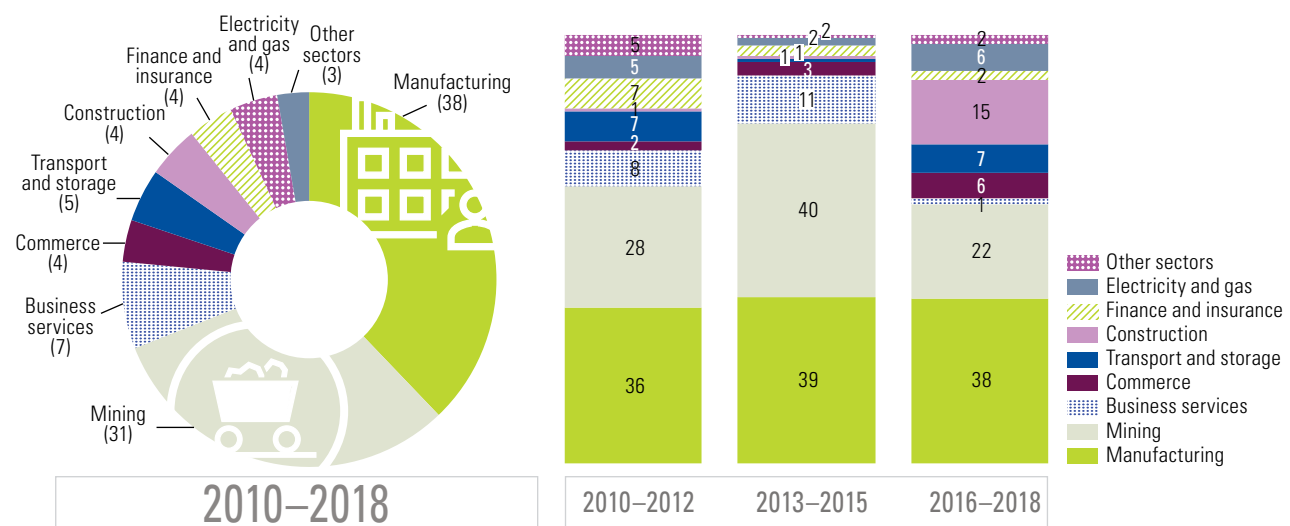
industries. Investments in Panama grew less than in the other countries. The growth in Argentina reflected recent mining investments associated with lithium extraction, whereas in Chile it was because of the energy and mining sectors. The increase in the Caribbean was the result of increased FDI flows in 2011 and 2012 into the energy sector in Barbados.

## 2. High value added manufacturing was the main target for FDI

Since 2010, FDI outflows from the Republic of Korea to Latin America and the Caribbean were concentrated on manufacturing and mining (see figure II.14). The investments in manufacturing were chiefly intended to expand markets and, in certain cases, reduce costs, while those in mining were aimed at ensuring stable supplies of natural resources.

**Figure II.14**

Republic of Korea: foreign direct investment in Latin America and the Caribbean, by destination sector, cumulative total for 2010–2018  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Note:** Does not include FDI flows towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles or Bermuda.

Mining investments grew steadily during the commodity price boom, and the period between 2010 and 2015 accounted for 61% of the mining FDI received since 2000. Those investments went primarily to Peru (34% of the total between 2000 and 2018), Brazil (30%) and Mexico (24%) and, to a lesser extent, to Argentina and Chile. Peru's natural resource riches were a factor behind the country's signing of a free trade agreement with the Republic of Korea in 2011 (Invest Korea, 2019) and FDI outflows for the mining sector show that the Republic of Korea is still interested in access to a stable source of natural resources.

The past three years have seen impressive growth in FDI for construction, transport and storage, and the electricity sector, areas in which Korean companies are beginning to expand their activities. Their investments in the construction industry were concentrated

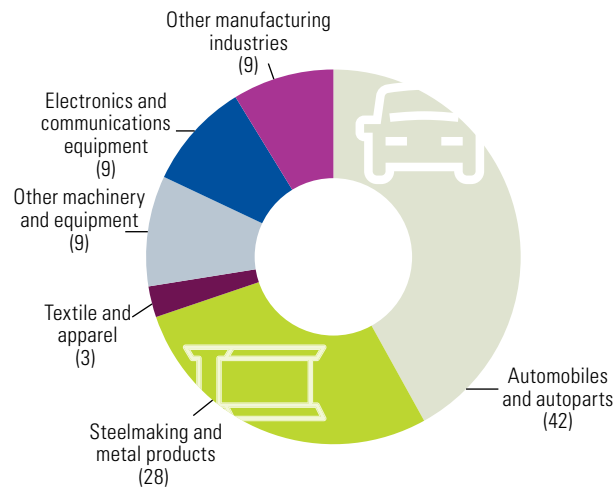
in Brazil (64% of the sector total between 2016 and 2018), although the Plurinational State of Bolivia also accounted for a sizeable share (16%). Brazil also took the largest portion of FDI for transport and storage (75%), followed by Panama (24%); energy investments, in contrast, mostly went to Chile (97%).

The Republic of Korea's investments in the manufacturing industry bolstered the growth of high value added sectors, such as the automobile and autoparts industries, electronics and communications equipment, and other machinery and equipment, along with the processing of natural resources thanks to the establishment of steel plants (see figure II.15A). In this way, Korean companies played an important role in the development of the automobile and autoparts industry in Mexico and Brazil (which received, respectively, 64% and 36% of the region's FDI in that sector) and in that of the steel industry (with Brazil taking 80% of that sector's FDI and Mexico a further 17%).

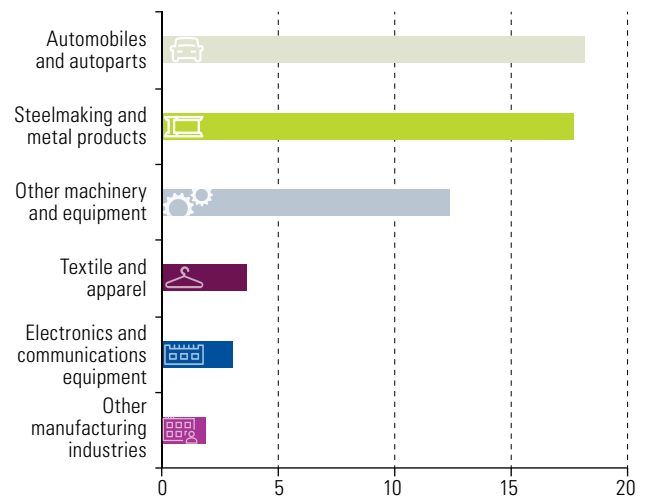
**Figure II.15**

Republic of Korea: FDI in manufacturing in Latin America and the Caribbean, 2007–2017  
(Percentages)

**A. Manufacturing FDI outflows by sector**



**B. Region's weight in Korean global FDI outflows by sector**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Note:** Does not include FDI flows towards the Cayman Islands, British Virgin Islands, United States Virgin Islands, Netherlands Antilles or Bermuda.

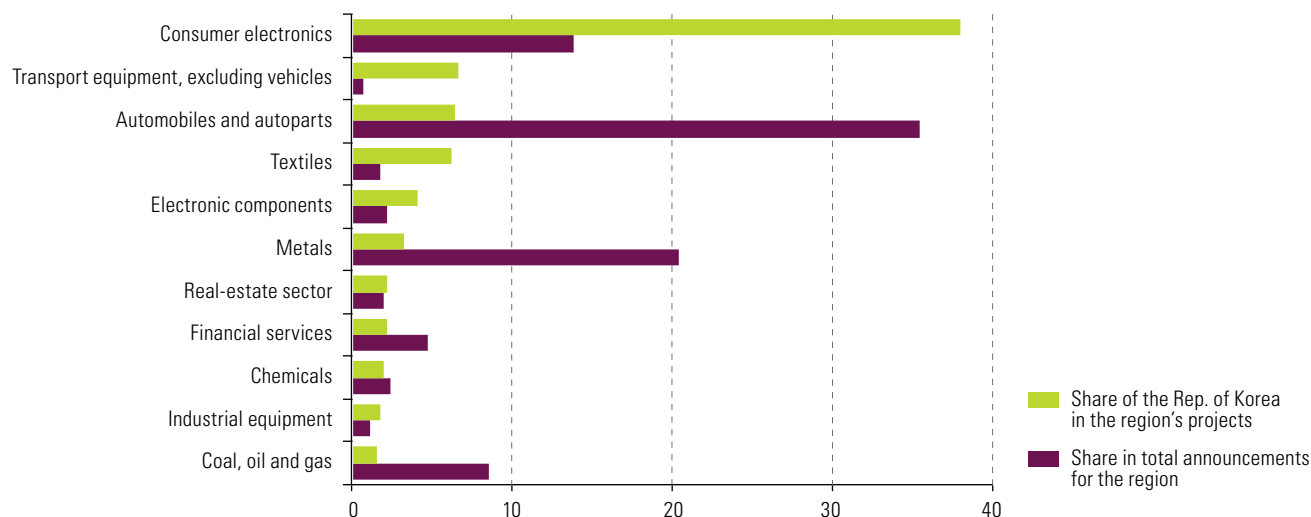
Moreover, in those industries, the Latin American and Caribbean region has consolidated its position as a leading destination for the internationalization of Korean multinationals. In the automobile and steel sectors, 18% of the Republic of Korea's outbound FDI was invested in the region (cumulative total for 2007–2017) (see figure II.15B). The textile industry displayed a high level of dynamism in previous years, but investments in that sector have come to a halt over the past three years; meanwhile, in the apparel sector, a flow of investments was maintained into Haiti and, to a lesser extent, into Central America. In any case, in terms of the Republic of Korea's total outbound FDI, the region does not appear to be a strategic market for the internationalization of production in either the textile and apparel industries or in the electronics and communications equipment sectors.

In the same way that Latin America and the Caribbean positioned itself as an important destination for Korean multinationals in certain industrial sectors, investments from the Republic of Korea played an important role in the development of certain high value added manufacturing industries in the countries of Latin America. Consumer electronics projects were led by Korean companies, which were responsible for 38% of the total investment amount announced for that industry in the region between 2005 and 2018 (see figure II.16). Korean companies played a major role in developing transport industries, excluding automobiles and the automobile and autopart sectors, by supplying 7% of the total projects announced for Latin America and the Caribbean. In addition, the size of the projects in those sectors was also relevant in terms of the announcements made by the Republic of Korea for the region. Between 2005 and 2018, Korean companies announced investments worth US\$ 27.2 billion in Latin America and the Caribbean, mostly in the automobile and autoparts sectors (35% of the total) but also with a significant share for the consumer electronics industry (14% of the total).

**Figure II.16**

Korean companies' share of FDI projects in Latin America and the Caribbean, leading sectors, cumulative total for 2005–2018

(Percentages)



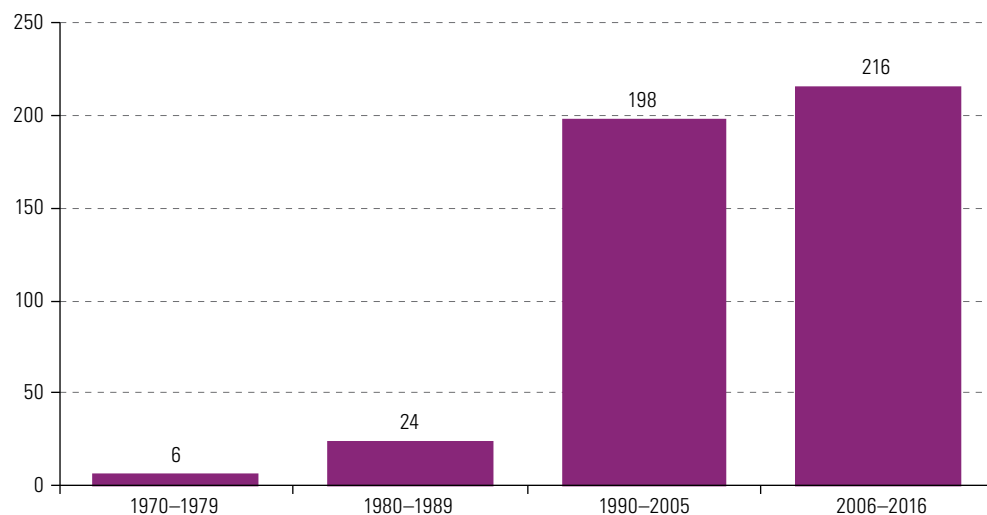
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of fDi Markets [online database] <https://www.fdimarkets.com/>.

### 3. Korean multinationals in the region seek market expansion

According to the records of the Korea Trade-Investment Promotion Agency, in 2016 there were at least 444 establishments of Korean companies operating in Latin America and the Caribbean. That figure does not cover all the Korean companies present in the region but does include multiple offices of a single company; consequently, it does not represent the total number of companies that have invested in Latin America and the Caribbean. It does, however, provide an overview of how the presence of Korean companies in the region has evolved and of the shape taken by their investments.

Most of these offices began operations in and after 2006 (see figure II.17), at the start of the most recent stage in the expansion of the Republic of Korea's FDI. However, there are records of liaison offices being opened as early as the mid-1970s: for example, POSCO in the steel, engineering and construction sectors in Brazil, the Korea Exchange Bank in financial services and Samsung C&T America and Hyosung Corporation in commerce in Panama, and Samsung Electronics in Panama, which

began operations in 1989.<sup>10</sup> The most widely used investment method has been the establishment of subsidiaries (83% of all the recorded companies), which means that the establishments have an independent legal identity but corporate headquarters in the Republic of Korea owns 50% or more of the company and has decision-making power (OECD, 2008). In contrast, branches, which are not legally independent from corporate headquarters, account for 12% of the total number of companies, whereas 5% are liaison offices only. Thus, in most of the investments, corporate headquarters retained control of decision-making.



**Figure II.17**  
Korean-owned establishments operating in Latin America and the Caribbean, by year operations began, 1970–2016 (Number of establishments)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of fDi Markets [online database] <https://www.fdimarkets.com/>.

It should be noted that although the five biggest chaebol (see box II.1) made investments in the region, not all the Korean companies with a presence in Latin America and the Caribbean belong to those conglomerates. In fact, information from the Export-Import Bank of the Republic of Korea (Korea Eximbank) indicates that around 2018, a total of 636 companies had made investments in Latin America and the Caribbean and, of those, 45% belonged to one of the conglomerates, with the remainder made up of smaller companies (46%) and other kinds of organizations (9%). For example, the Mexican office of the Korea Trade-Investment Promotion Agency is currently supporting between 10 and 15 smaller companies with investment projects, although the agency's support has also been essential in large-scale projects such as the Hyundai Motor Group's Kia Motors plant in the State of Nuevo León.

As is to be expected given the sectoral breakdown of the investment flows, most of these companies (222) belong to the manufacturing sector. In contrast, mining activities—which accounted for a significant share in the total investment amount—focused on a very limited number of companies (see figure II.18A). In manufacturing industry, companies in the automobile and autoparts sector (70) led the investments. Beyond that, there is an interesting diversification of activities, with around a dozen companies participating in the region with businesses involving different manufacturing activities.

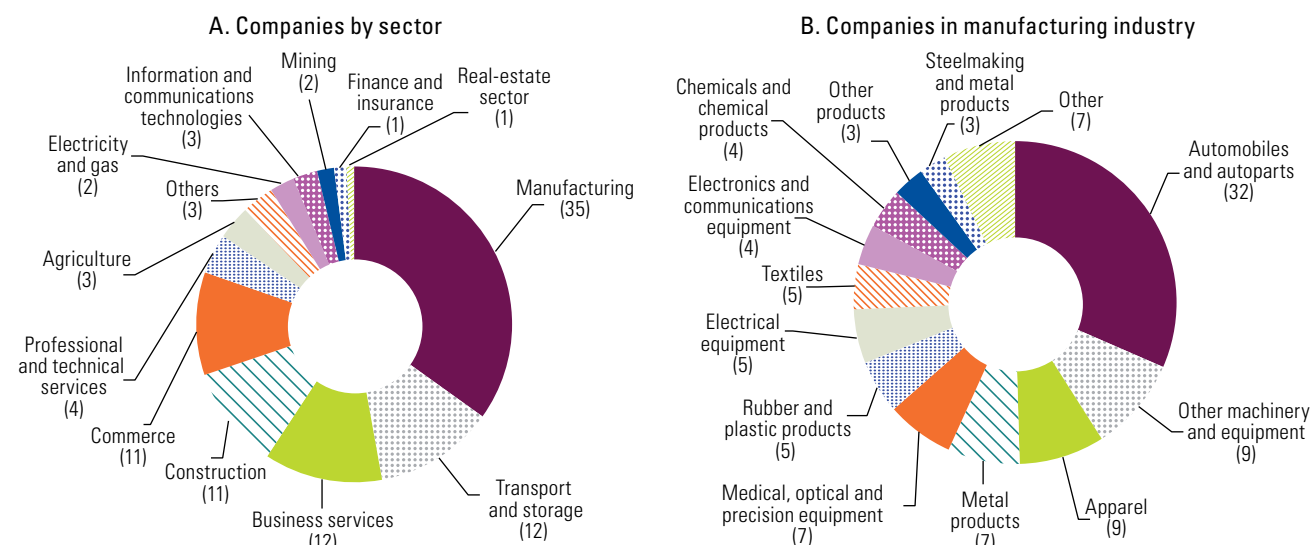
Within the automobile industry, Hyundai Motor was the company with the most investment announcements in the region, including the construction of the Kia Motors plant in Nuevo León, Mexico, announced in 2014 with an investment of US\$ 3 billion, and the Hyundai Motor plant in São Paulo, Brazil, in 2008 for US\$ 600 million (see table II.4).

The Kia plant in Mexico was opened in 2016 and led to the location there of Korean suppliers.

<sup>10</sup> Trading relations with Panama date back further, with Samsung exporting its first black and white televisions to Panama in 1973.

**Figure II.18**








Number of Korean companies making investments in Latin America and the Caribbean by FDI destination sector, around 2018  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.

**Table II.4**

Korean companies with the largest foreign direct investment announcements in Latin America and the Caribbean, 2003–2018  
(Millions of dollars and number of projects)

Company	Main activity	Amount	Number
Hyundai Motor	 Automobiles	8 865	39
Dongkuk Steel Mill	 Steel	4 000	1
LG	 Consumer electronics	3 134	32
Samsung	 Consumer electronics and electronic components	2 189	52
POSCO (POSCO Daewoo)	 Steel	1 825	17
Korea Gas Corporation (KOGAS)	 Energy (gas)	1 500	1
Sae-A Trading	 Textiles	832	7
Korea Electric Power Corporation (KEPCO)	 Electricity (fossil fuels)	500	1
Korea Land and Housing Corporation	 Construction	400	1
Shinhan Financial Group	 Retail banking	339	3
Halla Group	 Autoparts	338	3
Hansae	 Apparel	323	2
798 other companies		4 757	101

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Export-Import Bank of the Republic of Korea.



## Autoparts

According to information provided by 11 autopart industry supply companies in Mexico, most of them (64%) set up their facilities in the country during the past five years. The opening of the Kia Motors plant fuelled a sharp increase in the number of Korean businesspeople and the size of the Korean community in the area which, according to one businessman who has been in the country for decades, rose from 500 to 5,000 over the past 15 years.

Of the companies surveyed, eight responded to the question about the previous year's sales volume, with a majority (five companies) reporting annual sales of less than US\$ 50 million; one company reported sales of between US\$ 50 million and US\$ 100 million, and two gave a figure in excess of US\$ 100 million. Market expansion was the main factor behind the investments for almost all the companies consulted (91%), while labour costs were mentioned as an advantage of locating in Mexico by 45% of the businesses. Of the companies, 73% were engaged in exports, and half of them exported more than 80% of their output. The common destination of all those exports was the United States; two companies also exported to Europe, while another also exported to Canada.

Access to the United States market is a key element in Korean FDI in Mexico, and the signing of the new Agreement between the United States of America, the United Mexican States and Canada could bring new opportunities for investments in Mexico. Moreover, the rivalry between the United States and China could create incentives for investments in Mexico rather than in China for products destined for the United States market. In fact, the United States trade sanctions on China encouraged a number of Korean companies to set up subsidiaries in Viet Nam, in order to avoid exporting from China to the United States (Korea Economic Research Institute, 2018). Concern exists, however, that over the next five to ten years, those protectionist measures could be extended beyond China: and, in a situation in which other Asian countries were affected, investments in Mexico would be an alternative to be considered by companies from the Republic of Korea. However, conflicts with Mexico itself are creating pressure in the other direction. At the same time, the prospects for the passage of the Agreement between the United States of America, the United Mexican States and Canada are positive and, if it is ratified, companies can be expected to increase their investments and also to expand their customer portfolios in the United States, since in many cases, the smaller companies sell almost all their output to the large Korean multinationals established in Mexico.

Nine of the companies that responded to the survey said that they contracted basic and financial services in the local market (six companies contracted more than 50% of these services locally), while their purchases of raw materials, machinery and capital goods were primarily sourced abroad (five companies bought less than 10% of their capital goods locally, and four bought less than 30%). According to the companies, the quality and price of local goods and services need to improve (54% are dissatisfied with quality and 64% with prices and delivery times); however, they are optimistic, with 82% expecting this improvement to occur. Some of the difficulties of operating in Mexico they identified were public security, along with problems of infrastructure and low productivity, which prevented them from making greater use of local suppliers.

Providing personnel with training is a generalized practice (10 of the 11 companies do so); in addition, most of the companies (82%) believe that technological change and the social and environmental requirements of sustainable development will impact FDI and demand greater investments. Seven companies responded that they did carry out research and development activities and innovation, on an in-house basis, but none said they pursued such endeavours in conjunction with local research institutes,

universities or technology centres. Most of the companies take steps in pursuit of more sustainable production methods, with waste management the most frequent such activity (7 out of 11).

Staff training is one area where some Korean companies installed in Mexico are pursuing initiatives, after indicating that they had encountered difficulties in finding qualified personnel as well as in dealing with absenteeism. Some companies are launching training programmes so their workers can obtain secondary-school diplomas, given that many of them have reached the maximum earnings possible as production operators and require a secondary-school education before they can be promoted. Accordingly, programmes are being developed to enable workers to present the necessary exams. Such programmes can be expensive, but the companies believe they are necessary to increase worker productivity.

### Consumer electronics

In the consumer electronics industry, as with the automobile manufacturers, the arrival of globally well-positioned multinationals such as Samsung and LG helped attract suppliers, even though assembly operations account for a large part of the sector's activities.

In this sector, the expansion of the electronics company LG's plant in Reynosa, Mexico —announced in 2005 and worth US\$ 1.3 billion— was the largest project in recent years. In turn, Samsung was the company with the largest number of project announcements: 52 since 2003, albeit of relatively smaller size (see table II.5). In 2018 Samsung Electronics had three manufacturing plants in the region (in Brazil and Mexico), seven sales offices, a research and development centre, a design centre, and ten other offices (Samsung, 2018). Also present in Mexico is Winia Daewoo, which began expanding its operations in the Mexican market in 1993 and, after Mabe, is the second largest domestic appliance company in that market. Almost 90% of the output of its plant in Querétaro is for the domestic market, with the remaining 10% exported to the United States.

### Other industries

Cutting-edge projects relating to electromobility and smart cities are areas that have not yet been developed in Mexico. The sources consulted reported the existence of some interesting projects (for example, in smart farming and the smart grid) but, for the moment, these are very small —and, in some cases, experimental— initiatives and so require multilateral funding to conduct pilot testing. Innovative and advanced manufacturing projects require solid and well-connected infrastructure, which are areas in which Mexico still suffers from shortcomings. For instance, one of the requirements for electric transport is stable infrastructure equipped with a highway network, where Mexico still has room for improvement.

At the same time, there are few companies engaged in extractive industries, where most FDI is channelled into mergers and acquisitions (see table II.5). Because the extractive industries used this type of investment the most, this sector reported its highest number of mergers and acquisitions by Korean companies in 2011, the last year of the commodity price boom. The most recent took place in 2018, when POSCO bought Salar del Hombre Muerto in Argentina from the Australian company Galaxy Resources, following which it announced it would be investing US\$ 450 million for the production of lithium (lithium hydroxide and lithium carbonate) (América Economía, 2018).

**Table II.5**  
Latin America and the Caribbean: 10 largest mergers and acquisitions by Korean companies, 2006–2018

Year	Company	Assets acquired (percentages)	Assets located in	Seller's country	Sector	Amount (millions of dollars)
2011	POSCO	Consortio Santos CMI (70)	Ecuador		 Engineering and construction	720
2011	POSCO, EQ Partners	Compañía Brasileña de Metalurgia y Minería (5) <sup>a</sup>	Brazil		 Mining	650
2012	Polaris Shipping	10 ships for transporting iron	Belize	Brazil	 Maritime transport	600
2017	CJ CheilJedang, STIC Investments	Sementes Selecta (90)	Brazil		 Non-alcoholic beverages	322
2011	Korea Electric Power Corporation	Jamaica Public Service (JPS) (40)	Jamaica		 Electricity	300
2018	POSCO	Salar del Hombre Muerto (100)	Argentina	Australia	 Mining	280
2011	Korea Resources Corporation	Santo Domingo project (30)	Chile	Canada	 Mining	219
2010	Samsung C&T Corp, Korea Resources Corporation	Mining assets (30)	Chile		 Energy	190
2012	Korea Panama Mining Corporation	Minera Panamá (20)	Panama	Canada	 Mining	169
2011	LG International Corporation	GeoPark Ltd (20)	Chile	Bermuda	 Hydrocarbons	142

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

<sup>a</sup> Since the percentage acquired was below 10%, the operation was not registered as a flow of FDI in the national accounts. It is nevertheless included because it helps illustrate the presence of Korean companies in the region.

In the construction sector, POSCO Engineering & Construction (POSCO E&C) started operations in Latin America 13 years ago in 2006, when it was awarded a turnkey engineering, supply and construction contract for a coal-fired power station in Chile, the Nueva Ventanas project. It was the first Korean company to build a power generation facility in Latin America and, since then, has finalized projects in the region worth a total of US\$ 10 billion (POSCO, 2019). It has built plants in Chile, Peru and Panama, where, in 2018, it concluded a combined-cycle plant and a terminal for liquefied natural gas. In 2019 the company entered the Mexican market with a contract to build a combined heat and power (CHP) plant in the State of Coahuila, the first of its kind for a Korean company in the region.

As late entrants into a sector in the region where European businesses—primarily Spanish—have had a significant presence, the Republic of Korea's companies are seeking to differentiate themselves through their high levels of efficiency and transparency. In addition, they abide by the established budgets and deadlines (only in one project in Brazil was it necessary to extend the construction period) and are willing to sacrifice profits in order to meet the agreed conditions. In that context, participation in public procurement is an unexplored market. In Mexico, since the Republic of Korea is not

a partner in a free trade agreement, it cannot participate on an equal footing in public tendering. Activities are therefore limited to the private sector, but if a trade agreement were to be struck, enabling them to participate in public works contracts under more advantageous conditions, it could be an interesting market in which to expand.

At the same time, the POSCO E&C experience in engineering, procurement and construction projects (EPC)—and, in particular, with power plants—gives it a competitive advantage that could form the basis for the development of a more efficient energy mix. Mexico's current energy policy entails using traditional sources as the country transitions towards renewables. Thanks to their experience in this field, the Korean companies that have worked to reduce energy dependence and carbon emissions have solid technologies for building efficient power plants that use traditional sources with low emissions. That experience could be of use in future energy projects in Mexico.

## C. Outward FDI promotion policies and strategies for sustainable development

There are two salient elements in the recent internationalization of Korean companies. First, the public policy context supporting outward FDI, in which two agencies play a key role: the Korea Trade-Investment Promotion Agency and the Export-Import Bank of the Republic of Korea (Korea Eximbank). SMEs are major beneficiaries of the programmes of both institutions. Korea Eximbank has lent SMEs up to 90% of the funds needed for outward FDI projects (Mah, 2018). Second, the growing concern among Korean companies to include sustainable development in their business strategies and thus become agents for change towards new productive models.

### Korea Trade-Investment Promotion Agency

Founded in 1962 and funded and operated by the Government of the Republic of Korea, this organization works for the development of the national economy through trade and investment promotion. It is one of the institutions with the greatest international presence and its primary objective is to bolster exports, which are one of the country's growth engines. The agency's task is therefore to support companies as they begin exporting and diversifying their export products and destinations.

Present in 83 countries, it runs 124 business centres, 12 of which are located in Latin America and the Caribbean (Asunción, Bogotá, Buenos Aires, Guatemala City, Havana, Lima, Mexico City, Panama City, Quito, Santiago, Santo Domingo and São Paulo).

In the current economic conditions, with the re-emergence of protectionist policies and ever fiercer competition in strategic industries, the Government of the Republic of Korea has set job creation as its priority task. Accordingly, the agency will focus its efforts on four key areas (Kwon, 2019): (i) support for SMEs in identifying international opportunities, (ii) global job creation, (iii) diversification of exports and markets, and (iv) the identification of new opportunities for overseas expansion.

This focus on small and medium-sized enterprises stands at the forefront of the current agenda. As an example, the office of the Korea Trade-Investment Promotion Agency in Mexico is currently supporting between 10 and 15 smaller companies that are seeking to invest in the country. In addition, to bolster exports, the agency's services include acting as a branch, with a person assigned to support companies' exports. At present, 57 selected SMEs are making use of that service.

For investment promotion, one of the activities of the Korea Trade-Investment Promotion Agency is to organize seminars on possible overseas investment opportunities.

At those seminars, the competent authorities for FDI from foreign governments and the agency's trade centres provide an overview of prospects for the industries in each market and of local investment promotion policies. Research missions are also sent to potential markets to gather preliminary information, and to destination countries with high levels of demand for investments, to offer programmes that include seminars on legal and administrative formalities, market research, visits and case studies of Korean companies already investing in those countries. Finally, consultancy services are offered for the first stages in investments, through which experts in each country provide free advice regarding procedures, institutions and investment conditions.

To support companies already established abroad, there are 13 business centres in seven countries (China, India, Indonesia, Myanmar, Philippines, Poland and Viet Nam), where Korean companies can attend information sessions on accounting practices, taxes and the labour market. They can also consult with lawyers and accountants, receive support for local marketing and exports to third countries, and lodge complaints about difficulties encountered in their investment processes. In addition, the agency provides materials on incorporating companies abroad, consultancy services and local networking with experts from the competent authorities, lawyers and accountants.

One very interesting element is its operation of intellectual property centres abroad, called IP-Desks, which were created to protect Korean companies' intellectual property. These currently operate in China, Germany, Japan, Thailand, the United States and Viet Nam, offering assistance for applying for and registering trademarks and designs, providing support to cover part of the costs of customs records and of investigations into breaches of intellectual property and administrative procedures, and creating a joint response council for Korean companies.

### **Export-Import Bank of the Republic of Korea (Korea Eximbank)**

Founded in 1976, this is an official export credit agency that offers complete loan and guarantee programmes to assist Korean companies doing business abroad with both their commercial activities and their investments. It has also supported the Republic of Korea's economic cooperation with foreign countries. In Latin America it has offices in São Paulo and Mexico City.

Access to loans from the Export-Import Bank was one of the main changes that drove the internationalization of the Republic of Korea's companies (ECLAC, 2007). Thus, the bank oversees two government funds that assisted the liberalization process: the Economic Development Cooperation Fund, and the Republic of Korea's official development assistance programme.<sup>11</sup>

In 2014 the bank's regulatory act was amended, partly to strengthen its support for Korean companies pursuing overseas projects. Restrictions on direct capital investment were reduced, enabling it to provide a comprehensive funding package that includes an equity investment component in addition to loans and guarantees. Following the amendment, the bank created the Financial Investment Department and agreed to speed up the participation of Korean companies in projects that involved all stages in an investment, from project development and execution through to operation. As well, the bank can support companies' internationalization by directly investing in shares of their subsidiaries abroad, in addition to extending loans and guarantees.

Following on from the legal reforms, in 2014 the bank expanded its investment fund programme. In order to promote investments and facilitate access to global markets through investment funds, in late 2017 the bank set up 15 funds: 11 private capital funds and four special asset funds targeting specific industries and companies.

<sup>11</sup> It also manages the Inter-Korean Cooperation Fund, an economic cooperation programme that works to promote exchanges with the Democratic People's Republic of Korea.

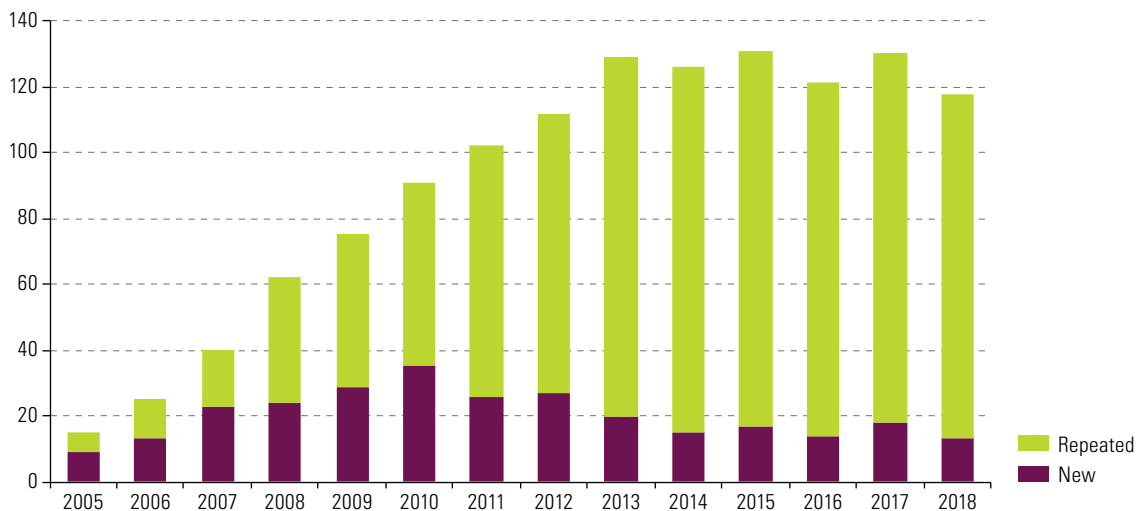
In 2017 it created two funds that could be of particular interest in supporting the development of projects in the economies of Latin America and the Caribbean. The first of these is the Global Infrastructure Risk Fund, which was set up to support Korean companies engaged in overseas infrastructure development projects. This is a public-private partnership for the early stages of development (such as feasibility studies, financial models and legal reviews) with US\$ 72 million in capital (as of July 2019, 85 billion won), 23.5% of which was provided by the Export-Import Bank of the Republic of Korea. The second is the Fund for SMEs Abroad, comprising three subfunds, which aims to help Korean SMEs improve their overseas commercial activities, such as exports and FDI. Its total capital is estimated at US\$ 739 million (as of July 2019, 873 billion won), of which the bank committed 3.4%. Its other funds targeting specific areas of interest include funds for investing in certified emission reductions and in natural resource projects.

Finally, many Korean multinationals have adopted sustainable business practices, which, in addition to being a form of competitive differentiation, raises the quality of development projects.

Progress with sustainable development models demands increased transparency and private sector accountability. The United Nations Global Compact is a voluntary initiative based on commitments assumed by companies for the implementation of the principles of universal sustainability and the adoption of measures in pursuit of the Sustainable Development Goals (SDGs). Currently, there are 249 Korean participants among the 13,538 adherents to the United Nations Global Compact, including 163 private sector partners, of which 120 are large corporations and 43 are SMEs. Although the level of participation or its duration varies from one participant to the next, Korean companies—including SMEs—have a high level of awareness about sustainable business management.

In addition, the commitment of Korean companies to sustainable management can also be seen in the publication of a greater number of sustainability reports (see figure II.19). In those reports the organizations report on the economic, environmental and social impact of their activities and showcase the relationship between their strategies and their commitment towards sustainable development, combining their analyses of financial and non-financial performance.

**Figure II.19**  
Sustainability reports published by Korean companies, 2005–2018  
(Number of companies)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Korean Standards Association (KSA).

Korean companies publish their sustainability reports in keeping with such global standards as those of the Global Reporting Initiative (GRI). The Korean Standards Association is the GRI's local certification partner. In addition to guaranteeing the sustainability reports, it provides other services to support Korean companies' commitment to sustainable management, such as training for planning and implementing sustainable management strategies and for presenting GRI reports, support for report drafting, analysis and verification of the effectiveness of greenhouse gas reductions, certification of Korean industrial standards and international certifications.

Another indicator used to determine the value of sustainable business practices is the Dow Jones Sustainability Index (DJSI), calculated jointly by S&P Dow Jones Indices and RobecoSAM. Launched in 1999, the index analyses more than 600 variables, including environmental, social and governance factors, in order to identify and rank the world's leading sustainable companies. Publicly traded companies that meet certain criteria may apply for listing on this index, which provides investors with a point of reference indicating not only financial solvency but also social and environmental commitment. There is currently a global index, four regional indices, one for emerging economies and three country indices (Australia, Chile and the Republic of Korea).

Twenty Korean companies secured listings on the 2018 global index, for which 2,521 companies were assessed and 317 were granted inclusion. For the Asia Pacific DJSI, 612 companies were assessed and 150 were admitted, including 35 Korean companies. For the Republic of Korea Index, 203 companies sought inclusion, of which 39 were successful. Significantly, many of those companies have been listed on the DJSI for several years in succession, or for periods as long as a decade (annex II.A1 contains a complete listing of the Korean companies included in each index, by sector).

According to the DJSI, there were improvements in sustainable management in the personal items, household appliances, oil and gas, and communications industries. In the personal items sector in particular, the average score of the companies listed on the Republic of Korea DJSI was significantly higher than those on the global list.

## D. Conclusions

The protagonist of one of the twentieth century's most notable development processes, the Republic of Korea began to record significant growth in its outward FDI in the mid-2000s and, by 2018, had become the fourth largest investor in Asia.

Its overseas investments were characterized by the dominance of the large business conglomerates known as chaebol, which developed high levels of specialization in heavy industry and high-technology sectors. Those sectors were heavily promoted during the period of support for industrialization and exports that began in the mid-1960s before coming to an end following the 1997 financial crisis and the economy's liberalization process. From this process there emerged companies that are today global leaders in markets with high levels of technological sophistication, and pursue internationalization primarily by undertaking greenfield projects.

From the liberalization of FDI outflows in the 1990s up until 2018, the manufacturing industry remained the main destination for Korean overseas investments, despite a recent significant upswing in investments in the financial and insurance sectors. The international fragmentation of production in the electronics sector, the automobile industry, the textile and apparel industries fuelled those overseas investments, assisted by investments to secure raw materials for the petrochemical industry and steel making.

The Republic of Korea's investments were concentrated in Asia and the United States, while Latin America and the Caribbean accounted for around 5% of the total.

After 2006, Korean FDI outflows to the region grew substantially and supported the development of manufacturing industry in certain high value added segments, most particularly the automobile industry in Mexico and Brazil. That growth was one of the results of the Republic of Korea's general strategy of expansion into external markets. This process represents an opportunity for forging closer ties between the region's countries and the Republic of Korea in order to enhance the region's importance to Korean multinationals and raise those companies' impact on sustainable development processes in the countries of Latin America.

An analysis of Korean companies' internationalization processes reveals a strategy of sectoral specialization that, although focused on activities with high levels of technological complexity, has not always contributed to building local capabilities in the countries of Latin America and the Caribbean. In the electronics industry, for example, much of the activity involves assembly processes with imported components and therefore leave few of the technological spillovers that could be expected from a business at the cutting edge of technology. In contrast, in the automobile and steel industries, Korean multinationals have provided support for building the region's domestic capabilities.

Meanwhile, the support provided by the Korean Trade-Investment Promotion Agency (KOTRA) in the internationalization process of SMEs could be a reference case for the countries of the region that are looking to design programmes to support local companies' foreign investments.

One significant element in the historical process of internationalization pursued by companies from the Republic of Korea is the impact of industrial and macroeconomic policies on the consolidation and strategies adopted by the largest business groups. The Republic of Korea did not use inward FDI as a mechanism for funding industrial development and, moreover, until the mid-1980s, foreign companies were only allowed into the country in restricted areas and for specific purposes. The goal was to upgrade manufacturing and build local technological capabilities, which was achieved not only by controlling foreign investments but also—and most significantly—by supporting the creation and expansion of strategic industries, promoting exports and the consolidation of companies with minimum efficient scales, tightly controlling the output of those companies and the technologies they used and making major investments in research and development. The country's current vision is to build an inclusive and innovative State and, therefore, the Republic of Korea is redesigning its innovation system, which in the past was successful in rapidly adapting technologies developed by more advanced countries, such as the United States, Japan and Germany, in order to transform itself into a country with a pioneering innovation system that could drive disruptive innovations.

Accordingly, the Republic of Korea's experiences, along with the contributions that its multinationals are making in various sectors in Latin America, offer ideas for reflection regarding productive development policies in the region. The different stages in the Republic of Korea's development process highlight the importance of devising and designing a long-term strategy, and of ensuring it the flexibility to adapt as circumstances change, in order to build local capabilities of the highest international standard. Thus, policies for securing and maintaining FDI acquire a broader meaning and a greater relevance in a context of development policies in which the different arenas for action (industry, technology and internationalization) are coordinated and integrated within a national development project.



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## Annex II.A1

### Korean companies listed on the Dow Jones Sustainability Index (DJSI)

Number	Sector	Name	Dow Jones Sustainability Index (DJSI) Korea		Asia and the Pacific		World	
				Participation in index		Participation in index		Participation in index
1	Gas utility	Korea Gas Corporation			●	6 years		
2	Home appliances	LG Electronics	●	10 years	●	9 years	●	7 years
3	Personal items	LG Household & Health Care	●	6 years	●	9 years	●	New
4		Amorepacific	●	9 years				
5	Construction and engineering	Samsung Engineering	●	8 years	●	6 years		
6		GS Engineering & Construction	●	4 years	●	9 years		
7		Hyundai Engineering & Construction	●	10 years	●	9 years	●	9 years
8	Construction materials	LG Hausys	●	4 years				
9	Financial services	Mirae Asset Daewoo	●	9 years	●	9 years	●	7 years
10		Samsung Securities	●	10 years	●	9 years	●	9 years
11	Equipment and electrical installation	Doosan Infracore	●	9 years				
12		Doosan Heavy Industries & Construction	●	5 years				
13		Samsung Heavy Industries	●	8 years				
14	Durable goods	Coway	●	New	●	6 years	●	3 years
15	Wireless communication	SK Telecom	●	2 years	●	10 years	●	11 years
16	Semiconductor	SK Hynix	●	8 years	●	9 years		
17	Composite industry	SK Holdings	●	9 years	●	7 years	●	7 years
18		Doosan Corporation	●	5 years	●	5 years		
19		Samsung C&T	●	2 years	●	3 years	●	2 years
20	Leisure	Kangwon Land	●	8 years	●	8 years		
21	Commercial service supply	KEPCO Plant Service & Engineering	●	10 years				
22	Life insurance	Samsung Life Insurance	●	7 years				
23	Petroleum and gas	SK Innovation	●	2 years	●	2 years	●	2 years
24		S-Oil			●	9 years	●	9 years
25	Indemnity insurance	DB Insurance	●	10 years			●	6 years
26		Samsung Fire & Marine Insurance	●	10 years	●	6 years	●	5 years
27	Food	CJ CheilJedang	●	4 years	●	4 years		
28	Logistics	Hyundai Glovis	●	4 years	●	4 years		
29	Wire communication	KT Corporation					●	9 years
30	Bank	BNK Financial Group			●	4 years		
31		DGB Financial Group	●	10 years	●	9 years		
32		KB Financial Group	●	10 years	●	10 years	●	3 years
33		Shinhan Financial Group	●	10 years	●	10 years	●	6 years
34		Hana Financial Group			●	3 years		
35	Automotive parts	Hankook Tire	●	8 years	●	6 years	●	3 years
36		Hyundai Mobis	●	9 years	●	9 years		
37	Electricity utility	Korea Electric Power Corporation	●	7 years	●	5 years		
38	Electrical equipment and parts	Samsung SDI	●	7 years	●	10 years	●	4 years
39		Samsung Electro-Mechanics	●	10 years	●	10 years	●	10 years
40		LG Display			●	6 years		
41	Steel	POSCO			●	10 years		
42		Hyundai Steel	●	New	●	10 years	●	New
43	Computer and office equipment	Samsung Electronics	●	2 years				
44	Chemicals	LG Chem	●	10 years	●	10 years		
45		OCI Company	●	10 years				
46		Lotte Chemical Corporation	●	10 years	●	8 years		
<b>Total</b>				<b>39</b>		<b>35</b>		<b>20</b>

Source: Korea Productivity Center/S&P Dow Jones Indices/RobecoSAM, "보도자료", 2018 [online] [http://djsi.or.kr/wp/wp-content/uploads/2018/09/2018-KPC\\_DJSI\\_L\\_%ED%8F%89%EA%B0%80%EA%B2%B0%EA%B3%BC%EB%B3%B4%EB%8F%84%EC%9E%90%EB%A3%8C\\_vweb.pdf](http://djsi.or.kr/wp/wp-content/uploads/2018/09/2018-KPC_DJSI_L_%ED%8F%89%EA%B0%80%EA%B2%B0%EA%B3%BC%EB%B3%B4%EB%8F%84%EC%9E%90%EB%A3%8C_vweb.pdf)



# Foreign direct investment in the agrifood chain: an opportunity to move towards sustainable growth with greater value added

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- A. Global and regional characteristics
  - B. Foreign direct investment in the agricultural and agro-industrial sector of Latin America and the Caribbean
  - C. The strategies of transnationals in two regional agrifood chains
  - D. Chinese investment in the agrifood chain of Latin America and the Caribbean
  - E. Conclusions
- Bibliography





## A. Global and regional characteristics

### 1. A group of sectors of great importance to growth and food security

The agricultural sector (crops, livestock, forestry, aquaculture and fishing) and the food, beverage and tobacco processing sector encompass several interrelated activities that contribute substantially to different aspects of the economy. These sectors accounted for about 6% of world GDP in 2016, while in Latin America and the Caribbean shares range from less than 1% in a number of Caribbean countries to more than 17% in Haiti and Paraguay. Although the contribution of the agrifood sector to the world economy has been declining over the past 40 years, it has stabilized over the last decade and, in the case of the agricultural sector, even increased slightly. This increase is due to growth of the sector in Asian economies, as a share of GDP, and relative stabilization in other regions, including Latin America and the Caribbean. Generally speaking, and especially in low- and middle-income countries, the agrifood sector is not capital-intensive but labour-intensive, creating economic and social spillovers between suppliers of agricultural commodities (downstream), at the marketing stage (upstream) and in associated industries and services such as equipment and logistics. For this reason, it is estimated that one job in the agrifood industry generates four jobs in other sectors of the economy (Rastoin, 2012).

The agricultural sector often acts as a buffer to moderate growth deterioration in the context of an economic crisis. The global economic crisis of the last decade is no exception, as the sectoral share of output has either increased or held over recent years (Rama, 2015; Zhang, Rozelle and Huang, 2001; Da-Rocha and Restuccia, 2006). Furthermore, a range of threats—including climate change, food security, price volatility, social strains and mass migration—have given the sector strategic importance in recent decades.

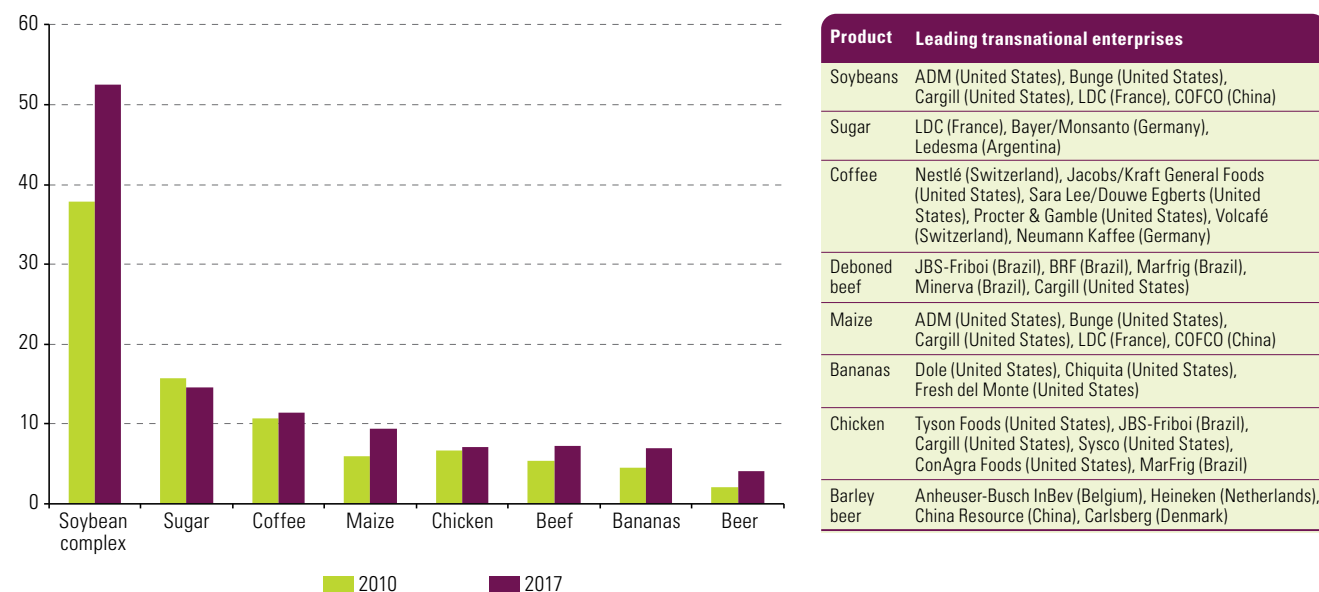
Various drivers of change can be expected to push up the demand for food in the coming decades. Food, feed and biofuel output will have to rise by 50% between 2012 and 2050 to meet the needs of a population of 9.7 billion (FAO, 2017). Latin America and the Caribbean has great potential to respond to this enormous challenge, with 16% of the world's agricultural land (756 million hectares), according to the Food and Agriculture Organization Corporate Statistical Database (FAOSTAT), and 33% of the suitable, but currently unused, agricultural land. The region has the world's largest reserve of land with agricultural potential (Deininger and Byerlee, 2012). In addition, Latin America and the Caribbean has 35% of the world's renewable water resources, according to the Global Information System on Water and Agriculture (AQUASTAT), 23% of the world's forest area and 50% of global biodiversity, according to recent calculations by the United Nations Environment Programme (UNEP, 2016).

This need to increase supply is evident in real terms. The rapid growth of China, India and other Asian countries is generating greater demand for food, especially vegetable protein, with urbanization and incomes on the rise. The consolidation of the middle class has entailed a change in consumption patterns: meat, dairy products, eggs, vegetables, vegetable oil and many highly processed new products are beginning to form part of the diet of this segment of the population (which in China alone numbers around 700 million people, with another 40 million being added each year). Consumption gaps with the developed countries suggest that there is still great scope for increasing consumption of certain foods in the coming decades, which should generate new opportunities for Latin America and the Caribbean.

Transnational corporations are part of this dynamic, have a strong presence in the main regional agrifood export chains (see figure III.1) and play a critical role extending beyond the specific link in the production chain in which they specialize.

**Figure III.1**

Latin America and the Caribbean: production chains, agrifood exports and the leading transnational corporations  
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

## 2. Climate change and developments in food consumption are transforming the agrifood sector

World food production is subject to supply- and demand-side pressures that shape its performance and evolution over time. Although population growth has always been crucial, other factors have gained importance over recent decades because of their potential to affect where and how food is produced, and in what quantities. Some aspects in particular can have a great impact on the dynamics and evolution of the agrifood system.

- Population growth and urbanization generate dietary changes and shifts in agrifood system dynamics. Although world population growth is slowing, populations in some regions will continue to expand beyond 2050 or even 2100. In addition, more people now live in cities (54%) than in rural areas, and this process of urbanization is expected to accelerate as the population grows. Latin America, and South America in particular, was the developing region that urbanized the earliest and fastest, and more than 80% of its population now live in cities (FAO, 2017). The fact that urban incomes are higher than rural incomes boosts demand for processed and prepared foods and for animal foods, fruits and vegetables to the detriment of cereals. At the same time, better access to information has led to the emergence of a new type of consumers who are more aware of the environmental and social consequences of their choices and in turn are placing pressure on companies to implement more sustainable practices, both



in the productive segment and in transport and distribution. These trends are strengthening and diversifying agro-industrial links and the associated services, such as food transport, processing, preparation and marketing.

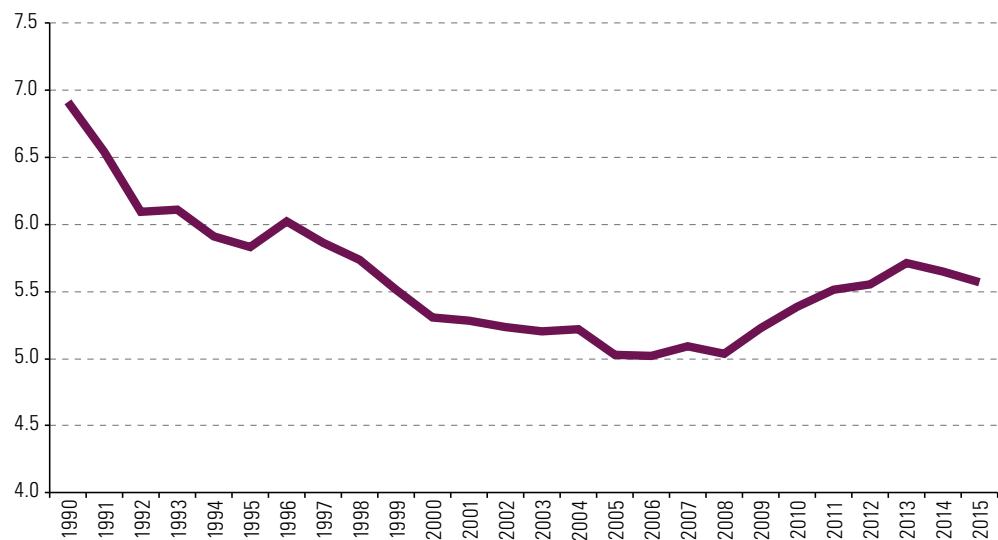
- Economic growth projections, particularly in low- and middle-income countries, point to a significant impact on the volumes, values and composition of future agricultural demand. The consequences of the global growth of the middle class have included changes not only in the quantity of food consumed (high income elasticity of demand) but also in the composition of demand. The trend is towards greater consumption of meats, dairy products and other foods whose production makes intensive use of natural resources, and requires the incorporation of processing, packaging, transport and marketing services.
- If current levels of investment in agriculture are maintained, income growth will not be sufficient to eradicate hunger by 2030. Over the past 25 years, capital intensity in agriculture has increased in Asia (especially China) and Europe while decreasing in Africa and in Latin America and the Caribbean. A lack of financial, human and technological resources, together with national and regional conflicts and the negative impact of natural disasters resulting from the increased frequency of extreme events and the growing vulnerability of territories and populations, have weighed on investment in many countries. The Food and Agriculture Organization of the United Nations (FAO) estimates that US\$ 265 billion per year of extra investment is needed globally to end hunger by 2030, most of which (US\$ 198 billion) would have to go into production activities benefiting the lowest-income population, particularly agriculture and related services. Tackling hunger means not only improving subsistence farming conditions but also increasing access to food through the market, which would generate business opportunities for the entire agrifood system.
- Rising competition for natural resources could limit food production and increase costs. Projections for 2050 suggest that natural resources for agriculture will become increasingly scarce, either because they are degraded or because of increased competition with other uses. More than a third of the world's agricultural land is moderately to highly degraded, and there are few areas left where farmland could be expanded (FAO, 2017). In the case of water, it is estimated that extraction for agriculture accounts for about 70% of total extraction, with significant differences between countries and regions. Urbanization and climate change have increasingly concentrated water supply and demand in space and time, and these forces do not necessarily coincide. At the same time, production of biofuel from cereals, oilseeds and sugar cane has increased in recent years, as has the use of biomass as a substitute for petrochemicals. These trends are expected to strengthen in the future.
- The adverse effects of climate change are expected to hit hardest in low- and middle-income countries, where agriculture is very important. Climate change may have a substantial negative impact on per capita calorie availability in these countries, with serious consequences for public health (FAO, 2017). Increasingly variable precipitation and more frequent droughts, floods and other extreme climate-related events will result in yields that fluctuate more from year to year, with a general downward trend. For the most important cereals, which are the world's main food source, the global trend of projected yields is downward, although regional results are expected to be heterogeneous. At the same time, agriculture and its impact on land use (such as deforestation) are the main sources of greenhouse gas emissions, accounting for about 21% of the world total. Agricultural production that releases fewer greenhouse gas emissions per unit of food is required, while adaptation to climate change will need new investment in infrastructure, adaptation of plant strains, risk management mechanisms (such as insurance) and so on.

Agriculture will have to produce much more by 2050 if it is to meet the world's growing and dynamic demand for food, mainly by increasing yields and reducing avoidable waste rather than by greatly expanding the area under cultivation. Although historically there have been larger increases in agricultural production in comparable time frames, the situation presents more factors of risk and uncertainty now than in the recent past (including particularly the impact of climate change on agrifood systems and pressure on natural resources). In addition, it is imperative for changes in modern agriculture to take place on the basis of greater environmental sustainability, which also poses a number of challenges. One of these is that low investment and the existence of technology and income gaps between producers limit the widespread take-up of appropriate technological solutions. These constraints can only be overcome through public policies integrated across sectors, greater investment and public-private partnerships that capitalize on the opportunities offered by the growing demand for food even as yields are sustainably increased.

### 3. Agrifood sectors convoke a complex network of local and global actors

The agrifood chain, which includes agricultural, forestry and fishing activities and food, beverage and tobacco production, generated an aggregate value of US\$ 4.1 trillion globally in 2015, or 5.5% of world GDP, according to FAOSTAT data (see figure III.2). Although the sector's contribution to GDP has trended downward over the past half-century, it has tended to stabilize since around 2005 and increased since 2008, coinciding with the years of strongest commodity price growth, but also with the slowdown in world growth. Between 1970 and 2017, world agricultural GDP grew at an average annual rate of 2.8%. Between 2008 and 2017, the annual growth rate, calculated from World Bank data, was 2.9%.

**Figure III.2**  
Share of the agrifood chain in world GDP, 1990–2015  
(Percentages)



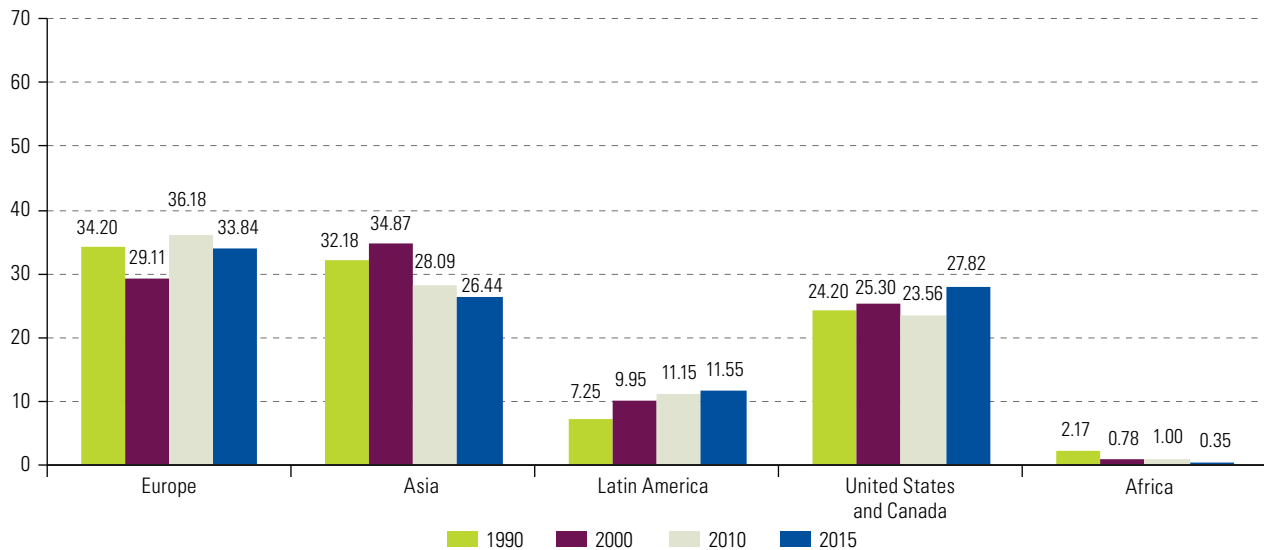
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

The agrifood chain includes not only the production of primary goods but also the industrial activity involved in the production of food, beverages and tobacco. The different regions' shares are more homogeneous in this global agro-industrial sector

than in primary production, and there has been no structural change in the composition of production by region (see figure III.3), with Latin America increasing its share of global agro-industry (from 7.2% in 1990 to 11.6% in 2015).

**Figure III.3**

Selected regions and countries: shares of world agro-industrial GDP, 1990–2015  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

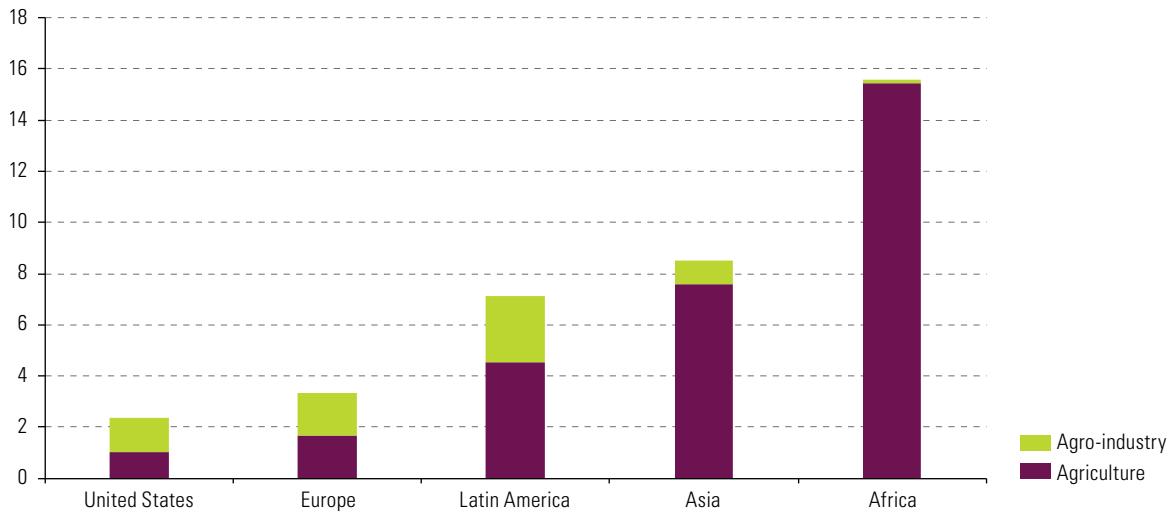
The region's agrifood sector exports were worth a total of US\$ 238 billion in 2017, representing 25.8% of total exports of US\$ 921.7 billion. The sector's exports have grown at an average annual rate of 8% since 2000, which is higher than the average for other sectors (5.3%), so that they have accounted for an ever-larger share of total exports (in 2000, the sector accounted for 18.4% of the total).

A review of the relationship between the primary and secondary sectors of the agrifood chain shows that the share of the industrial or secondary sector in this chain is inversely related to the chain's share of the overall economy (see figure III.4).

This relationship also reveals a connection with countries' income levels, as the degree of industrialization in a country's agrifood chain is linked to its per capita GDP (see figure III.5). However, there are countries such as New Zealand, Switzerland and the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) that are exceptions to this rule.

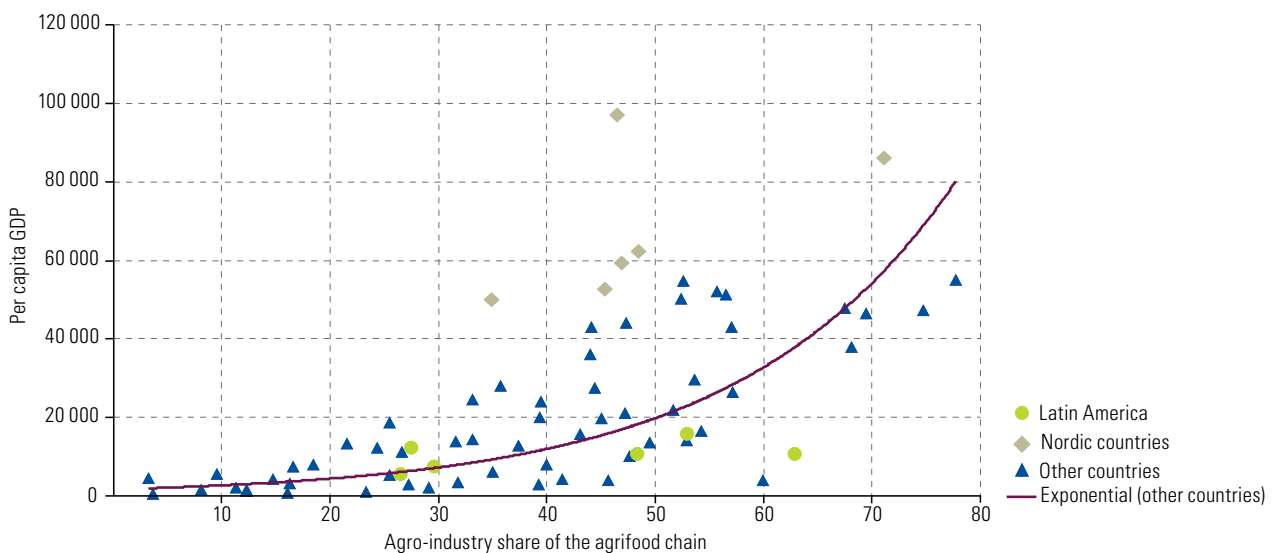
The theory and evidence for country-level structural change show that when commodities are processed by the manufacturing industry, there are spillover effects for other sectors via production linkages and employment and production multipliers. Agro-industry uses more sophisticated, specialized and knowledge-intensive technologies and services that in turn provide a basis for the development of non-agrifood industries.

**Figure III.4**  
Shares of the agricultural and agro-industrial sectors in total GDP, 2015  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

**Figure III.5**  
Relationship between the agro-industry share of the agrifood chain and per capita GDP, 2015  
(Percentages and dollars)

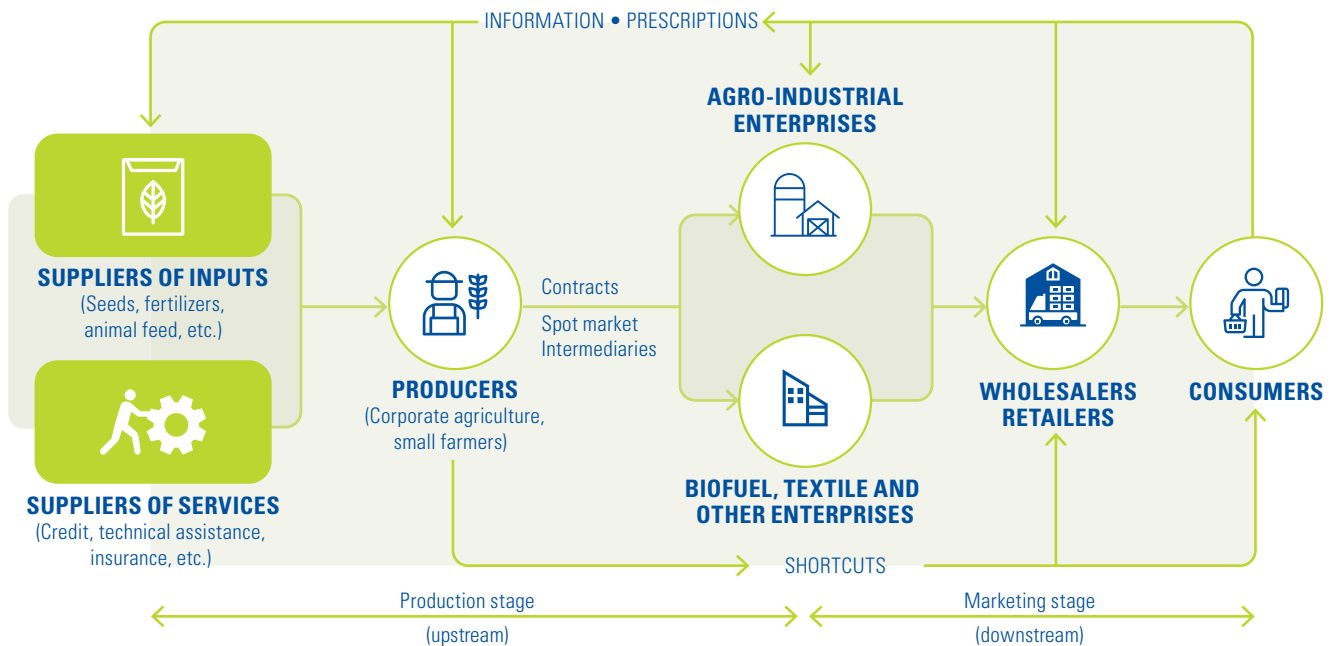


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

The complexity of the agrifood sector can be seen both in the diversity of its products and in the variety of actors involved in its value chains. Actors range from subsistence farmers to private sector companies (both local and foreign) that produce, process and market food and other agricultural commodities or agricultural inputs. Agrifood value chains can be long, and many different actors, both local and foreign, are involved at each stage (see diagram III.1). A typical agrifood chain includes the production of inputs (important agricultural inputs besides land and water include seeds, agrochemicals such as fertilizers and pesticides, and machinery) that sustain agricultural production, leading on to transport and logistics, industrial processing and, finally, the retail trade.

**Diagram III.1**

Agricultural producers and agro-industrial enterprises in the value chain



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

In the modern agrifood chain, value creation is concentrated mainly in non-primary production segments where processing operations and services are added to agricultural products. Upstream, for example, value may be added in the form of biotechnology-enhanced seeds or other inputs or technical assistance activities, depending on the chain. This has a critical effect on the distribution of value between the different actors in the chain, usually favouring agro-industrial activities and services to the detriment of agriculture. In response to this trend, policies and private initiatives have been implemented in a number of countries with a view to reducing intermediation in the food production chain and rebalancing the distribution of production value in favour of farmers. Diagram III.1 shows how a chain can be deliberately shortened by short circuit policies and practices that do away with intermediation and directly link producers with consumers. Although these are still considered to be niche practices and are mainly confined to the marketing of fresh and unprocessed products, they represent major opportunities for farmers to capture a larger share of value in agrifood chains. ECLAC (2016) has provided some examples of such practices in Latin America and the Caribbean and other regions of the world.

## B. Foreign direct investment in the agricultural and agro-industrial sector of Latin America and the Caribbean

### 1. Foreign direct investment is oriented towards agro-industrial segments

An important characteristic of the agrifood chain is that, of all its different links, the agro-industrial segment is the most internationalized. For one thing, while primary agricultural production tends to be concentrated in certain geographical areas because of soil and climate conditions that favour one crop or another, the sources of competitive advantage in the agro-industrial segment are much more mobile. In addition, land ownership regulations in many countries limit foreign investment in the agricultural sector. As world agriculture has improved the quality of its products and processes via standardization and progressive regulatory improvements and become able to deliver raw materials to processing companies when needed and to the requisite quality and safety standards, the sources of competitive advantage in the agrifood sector have shifted to other segments where globally active companies tend to concentrate their activities.

Foreign direct investment (FDI) flows in the manufacture of food, beverages and tobacco has tripled in the last 15 years at the global level, a growth rate equivalent to twice that of overall FDI, which has increased by a factor of 1.5 over the same period. The burgeoning of agro-industrial FDI is due to various political and socio-economic changes, including greater liberalization of capital and trade, expansion of trade agreements, advances in communication and transport technologies and increasing globalization of food production and consumption habits. The dynamism of food consumption, especially in emerging economies, and its prospects for growth in the coming decades also play a central role in the behaviour of sectoral FDI flows.

In Latin America and the Caribbean, FDI in the agrifood chain, i.e. in agriculture and agro-industry combined, totalled US\$ 77.012 billion (an average of US\$ 13 billion a year) between 2012 and 2017.<sup>1</sup> This represents 7.9% of the total FDI flows received by the region during the period (see table III.1), although in that period it was greater in relative terms (9.5% of total FDI). The great bulk of these flows went to the agro-industrial component of the chain (see figure III.6), which also accounted for most of the increases in absolute values between the two periods.

The scale of FDI in agriculture varies by crop: it is generally minimal for staple foods and relatively large in certain commercial crops (with the greatest presence on international and stock markets). For some of the most important agricultural products, however, such as soybeans, the strategies of transnational corporations tend to emphasize control of the value chain through marketing and logistics, while participation in primary production is mainly through contractual arrangements.

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<sup>1</sup> The information is for 14 countries of the region: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, the Plurinational State of Bolivia and Uruguay.

**Table III.1**

Latin America and the Caribbean (13 countries): flows of total and agrifood sector foreign direct investment, 2007–2011 and 2012–2017  
(Millions of dollars and percentages)

	2007–2011				2012–2017			
	Total FDI	Agrifood FDI	Agrifood FDI/ total FDI	Percentages of regional agrifood FDI	Total FDI	Agrifood FDI	Agrifood FDI/ total FDI	Percentages of regional agrifood FDI
Argentina	46 041.5	5 808.1	12.6	11.6	57 414.7	6 807.9	11.9	8.8
Bolivia (Plurinational State of)	4 910.9	11.9	0.2	0.0	7 923.6	1.1	0.0	0.0
Brazil	200 865.0	24 756.5	12.3	49.4	439 626.0	36 791.5	8.4	47.8
Chile	54 024.4	225.5	0.4	0.5	114 696.9	848.9	0.7	1.1
Colombia	48 561.2	309.3	0.6	0.6	86 825.2	1 269.0	1.5	1.6
Costa Rica	9 997.0	670.2	6.7	1.3	15 624.0	721.9	4.6	0.9
Ecuador	2 369.9	109.4	4.6	0.2	4 775.2	311.8	6.5	0.4
Honduras	4 426.1	54.8	1.2	0.1	7 064.3	66.7	0.9	0.1
Mexico	132 832.2	14 801.2	11.1	29.6	198 873.1	28 656.0	14.4	37.2
Nicaragua	2 917.9	154.3	5.3	0.3	5 212.6	76.9	1.5	0.1
Panama	7 135.3	99.7	1.4	0.2	25 227.4	38.1	0.2	0.0
Paraguay	1 579.0	603.8	38.2	1.2	2 496.2	362.0	14.5	0.5
Uruguay	9 757.0	2 482.7	25.4	5.0	6 856.7	1 059.9	15.5	1.4
Latin America and the Caribbean (13 countries)	525 417.4	50 087.4	9.5	100.0	974 312.3	77 011.6	7.9	100.0

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

**Figure III.6**

Latin America and the Caribbean: foreign direct investment in the agrifood chain (Percentages)

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

These strategies are reflected in a low share for agriculture in global FDI stocks and flows. According to the United Nations Conference on Trade and Development (UNCTAD), the stock of FDI in agriculture accounted for only 0.4% of the total global FDI stock in 2012, while the food and beverage industry accounted for about 3% of this total stock.<sup>2</sup> Moreover, while agricultural FDI is mostly a North-South phenomenon, agro-industrial FDI remains predominantly North-North. Developing countries' share of the global stock of agricultural FDI is 76%, while for agro-industrial FDI it is 32%.

Although primary sector (agriculture, forestry and fisheries) FDI is more modest in absolute terms, certain aspects of it have important social and economic implications.

In 2012 ECLAC analysed foreign investment in the agricultural and agro-industrial sector in its foreign direct investment report (ECLAC, 2013). On that occasion, it investigated the purchase and leasing of large tracts of agricultural land in the region (known at the time as "land grabbing"), concentrating mainly on developments in Argentina and Brazil, where there had been some large transactions.<sup>3</sup> The Land Matrix database indicated at that time that major operations had been carried out by trans-Latin enterprises (48%), followed by investors from North America (21%), East Asia (14%), Europe (10%) and the Middle East (7%). Most of these operations were aimed at the production of flex crops, i.e. crops to meet the growing demand for food, forage and biofuel in the region and globally.

Another trend identified in the report were takeovers of existing local companies through mergers or acquisitions channelled through joint ventures or local subsidiaries. These mergers and acquisitions reflect a desire to set up quickly in local markets without having to go through all the stages involved in creating a new company from the ground up. In both cases, the conclusion was that the main players were not only the large international corporations in the grain processing and agricultural input supply sectors, but also trans-Latin companies, which were particularly interested in the meat, wheat and ethanol production chains.

Several governments responded by restricting international land transfers, including Argentina, Brazil and Uruguay, which legislated on the issue and put in place a number of restrictions to prevent such purchases (ECLAC, 2013). This, coupled with public alarm at some of these operations, meant that the phenomenon was short-lived. In addition, the attractiveness of land has declined now that international food prices have fallen back to levels last seen in the early 1980s. In fact, there were no major new land acquisitions in the region between 2013 and 2016. However, it has been argued that certain pension funds in Argentina, Brazil and, especially, developed countries (Canada, Germany, the Netherlands, the Republic of Korea, Sweden, the United Kingdom and the United States) continued to purchase land (GRAIN, 2018). Although the scale of the phenomenon is not what it was in the 2000s, closer monitoring is required to measure it, as it is difficult to detect all such acquisitions (see figure III.7).

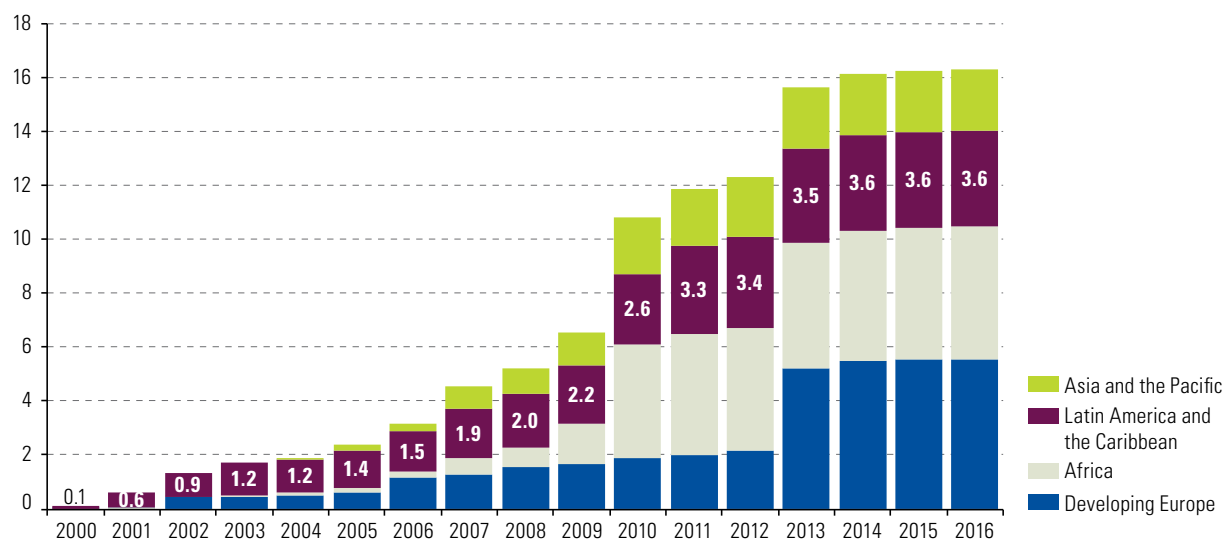
<sup>2</sup> The figure for 2012 is given because it is the latest year with information available.

<sup>3</sup> Land grabbing is defined as purchases of large tracts of agricultural land by foreign investors with support from their governments for food security purposes (Soto Barquero and Gómez, 2011).



**Figure III.7**

Agricultural land under foreign control, by geographical region, 2000–2016

*(Millions of hectares)*

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Land Matrix [online] <https://landmatrix.org/>.

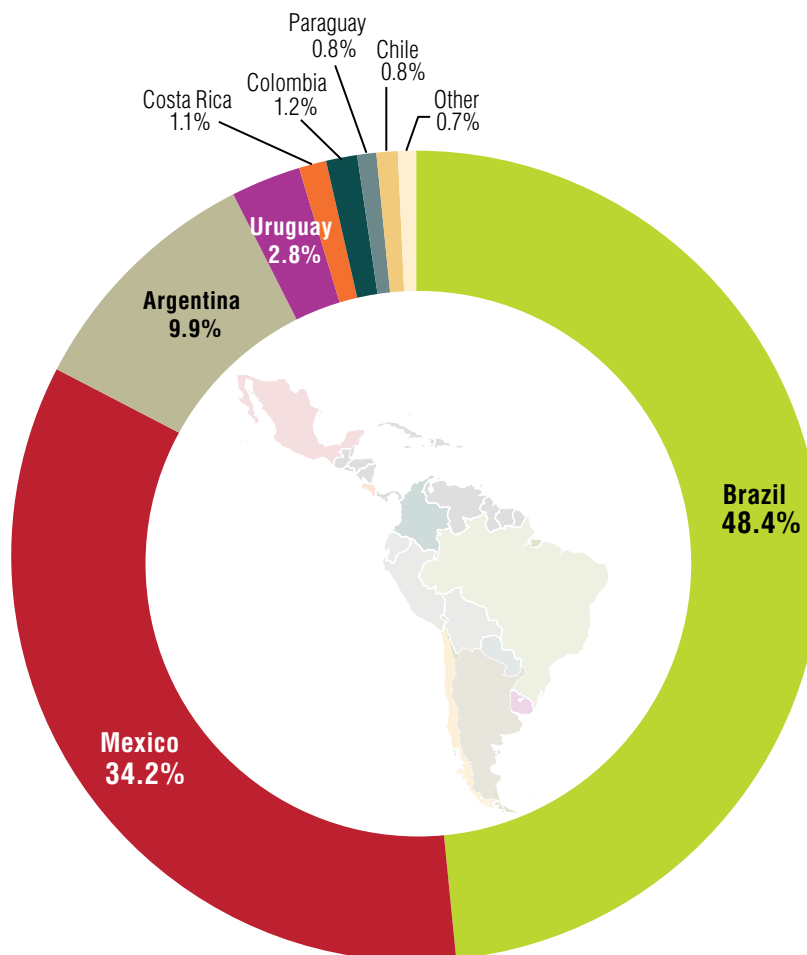
## 2. Investment is concentrated in a few countries and sectors, with strategies that differ depending on the origin of the transnational enterprises

In both the first and second periods considered in table III.1, FDI in the Latin American agrifood chain was quite concentrated in three countries: Brazil, Mexico and Argentina, accounting between them for more than 90% of the total FDI going into the agrifood chain. In Argentina and Mexico, the percentages of total FDI represented by these capital flows are well above the regional average: 12.6% between 2007 and 2011 and 11.9% between 2012 and 2017 in Argentina and 11.1% and 14.4%, respectively, in Mexico (see table III.1).

At the same time, the flows received by the likes of Paraguay and Uruguay, whose shares of the region's agrifood FDI are quite low, represent even greater percentages of their total FDI: 38.2% and 14.5% in the two subperiods in Paraguay and 25.4% and 15.5%, respectively, in Uruguay.

In Brazil, which accounts by itself for almost half of all agrifood chain FDI (see figure III.8), the percentage was well above the regional average in the first period. This shows that the chain is a considerably more important source of FDI flows for a number of Latin American countries than the regional average indicates.

**Figure III.8**  
Latin America (selected countries): foreign direct investment in the agrifood chain, 2007–2017 (Percentages)



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

Mexico's share has increased since 2012, essentially owing to the acquisition of Grupo Modelo by Anheuser-Busch InBev of Belgium for some US\$ 17 billion in 2013.

Analysis of merger and acquisition operations and investment announcements reveals some characteristics of FDI and of the transnational enterprises involved in the agrifood chain.<sup>4</sup>

The Bloomberg mergers and acquisitions database records 11,122 operations between 2005 and 2018 in Latin America and the Caribbean. Of these, 876 (7.9% of the total) targeted firms in the agrifood chain worth a total of US\$ 144.57 billion, representing 7.8% of the total by value in the region. Although operations relating to the chain declined between 2012 and 2018 from earlier years, their share of total value increased from 6.3% in 2005–2011 to 11.2% in 2012–2018, which confirms how important agrifood businesses are for FDI in the region (see figures III.9 and III.10).<sup>5</sup>

<sup>4</sup> The information used is from the databases of Bloomberg (mergers and acquisitions) and the Financial Times, fDiMarkets (investment announcements). Certain constraints on the analytical use of these data should be taken into account: (i) the announcement of an investment project does not mean that this project has been implemented; (ii) values may be estimates; (iii) the databases do not cover the entire universe of FDI but only investments that have been publicly announced.

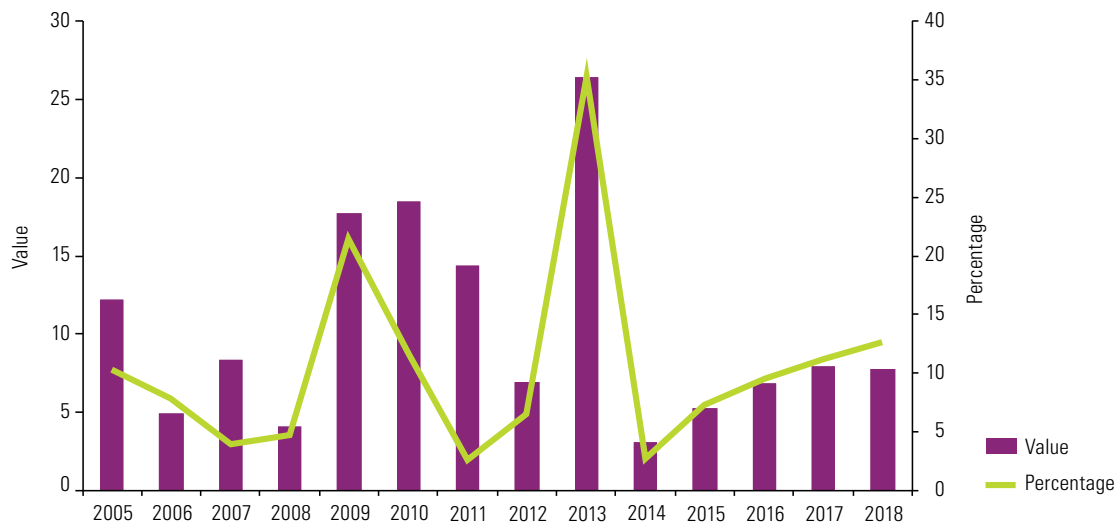
<sup>5</sup> Even if the purchase of Grupo Modelo by Anheuser-Busch InBev is excluded because of its exceptional cost, the proportion is still higher in the second subperiod than in the first, amounting to 8.5% of the total value of mergers and acquisitions in the region.



**Figure III.9**  
Latin America and the Caribbean: mergers and acquisitions in the agrifood chain, by number  
(Percentages of all mergers and acquisitions)

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

**Figure III.10**  
Latin America and the Caribbean: mergers and acquisitions in the agrifood chain, by value  
(Percentages of all mergers and acquisitions and billions of dollars)



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

The share of the chain in investment projects is smaller. The *Financial Times* database, fDiMarkets, records 17,400 investment projects in Latin America and the Caribbean, 901 (5.2%) of them in the agrifood system (see figure III.11).<sup>6</sup> Projects announced in the regional agrifood sector were worth US\$ 59.744 billion over the 14 years of the series, with growth of 14.5% in the second half of the period relative to the first (see figure III.12).

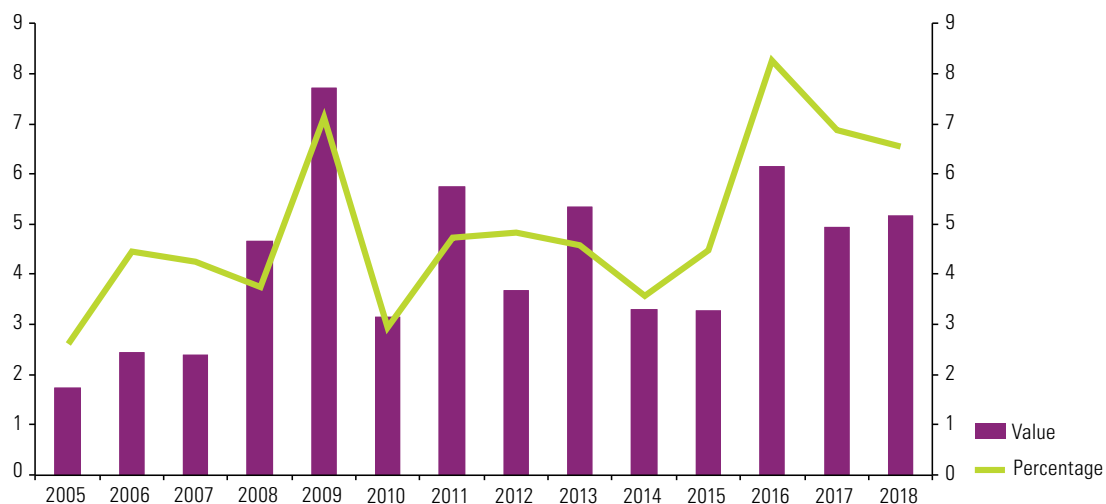
<sup>6</sup> The subsectors selected include the production and processing of food and beverages, tobacco, wood, agrochemicals and biomass for power generation.

**Figure III.11**  
Latin America and the Caribbean: number of investment projects  
(Percentages of the total)



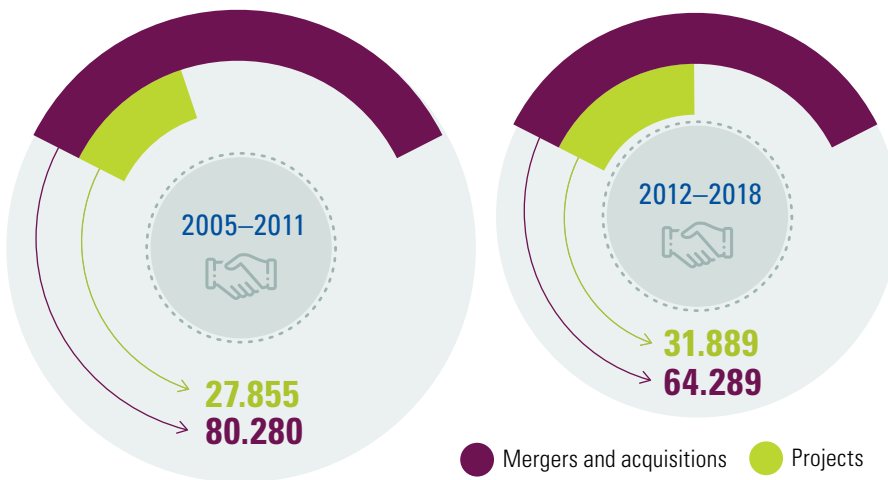
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Financial Times*, fDiMarkets.

**Figure III.12**  
Latin America and the Caribbean: value of agrifood chain investment projects  
(Percentages of all projects and billions of dollars)



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

Mergers and acquisitions in this chain are worth far more than projects (see figure III.13). The value of mergers and acquisitions was almost triple that of the projects announced between 2005 and 2011 and about double in the seven years thereafter. If all sectors of the Latin American and Caribbean economy are taken together, on the other hand, the situation is the opposite: projects announced are worth more than mergers and acquisitions (between 2012 and 2018, for example, the former were worth 71% more than the latter).

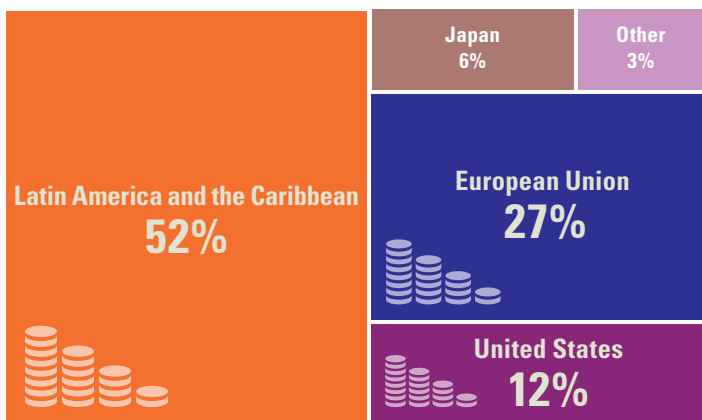


**Figure III.13**  
Latin America: value of investment projects and mergers and acquisitions in the agrifood chain (Billions of dollars)

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

Transnational companies operating in the chain therefore seem to favour the purchase of existing assets in the region over the creation of new capacity. In part, this situation is due to the fact that this is a consolidated set of activities with a long track record in Latin America and the Caribbean, which has a large accumulated stock of high-quality assets and established brands attractive to large foreign companies. To understand the different strategies of transnational firms, however, it is also important to consider the origins of different types of operations, mergers and acquisitions, and investment projects.

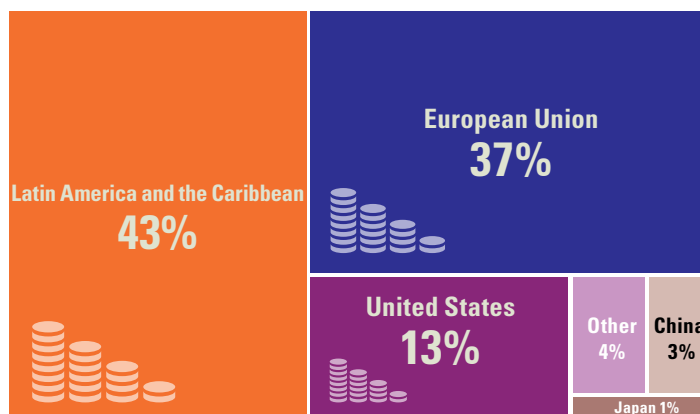
Companies from the region itself are the main drivers of mergers and acquisitions, accounting for 48% of the total by value between 2005 and 2018. European Union firms are in second place with 31% and United States firms in third place with 12% (see figures III.14 and III.15). The value of intraregional agrifood mergers and acquisitions fell by 38% between the two subperiods considered, while the value of those originating in the European Union increased by 11%, essentially because of the operation associated with the purchase of the Modelo brewing group. This explains the increased share of European firms as originators of mergers and acquisitions after 2011. There has also been increased investment from China in operations of this kind over recent years.



**Figure III.14**  
Mergers and acquisitions by origin, 2005–2011 (Percentages)

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

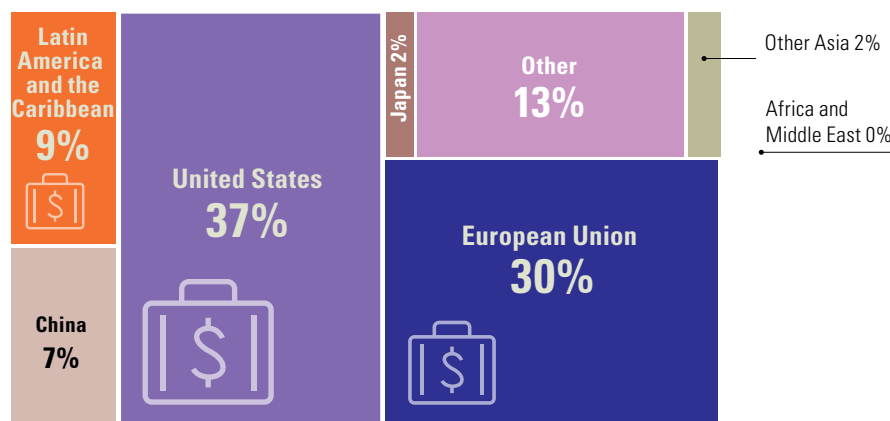
**Figure III.15**  
Mergers and acquisitions  
by origin, 2012–2018  
(Percentages)



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

The situation with investment projects is quite different. Most of these projects involve transnationals from the United States and Europe, which accounted for 37.3% and 30.5%, respectively, of the value announced between 2005 and 2018 (see figure III.16). Investment projects originating in these two areas mainly involve the brewing and distilling, non-alcoholic beverages, agrochemicals, sugar, dairy and grain sectors in Latin America and the Caribbean. The largest investors are Coca-Cola, Constellation Brands, Nestlé, Heineken and Anheuser-Busch InBev. Although they have increased in recent years, investments announced by trans-Latin companies in the agrifood chain represented only 8.6% of the total value for the period 2005–2018.

**Figure III.16**  
Investment projects  
by origin, 2005–2018  
(Percentages)



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

This difference in the origins of mergers and acquisitions and of investment projects shows that trans-Latin firms have a different strategy from other transnationals. In fact, without the transactions (executed or announced) of Latin American firms, the amounts involved in investment projects come much closer to —although fall short of matching— those involved in mergers and acquisitions in the agrifood chain.

The purchase of existing assets thus seems to be the leading strategy for trans-Latins. In other words, these firms prefer to acquire assets in the region that already have a consolidated market position, a well-known brand or specific technological capabilities, whereas embarking upon new projects or expanding existing activities is a secondary line of action.

For other transnationals, conversely, and particularly those of the United States and Europe, the Latin American agrifood chain also represents an opportunity to create new capacity in the region.

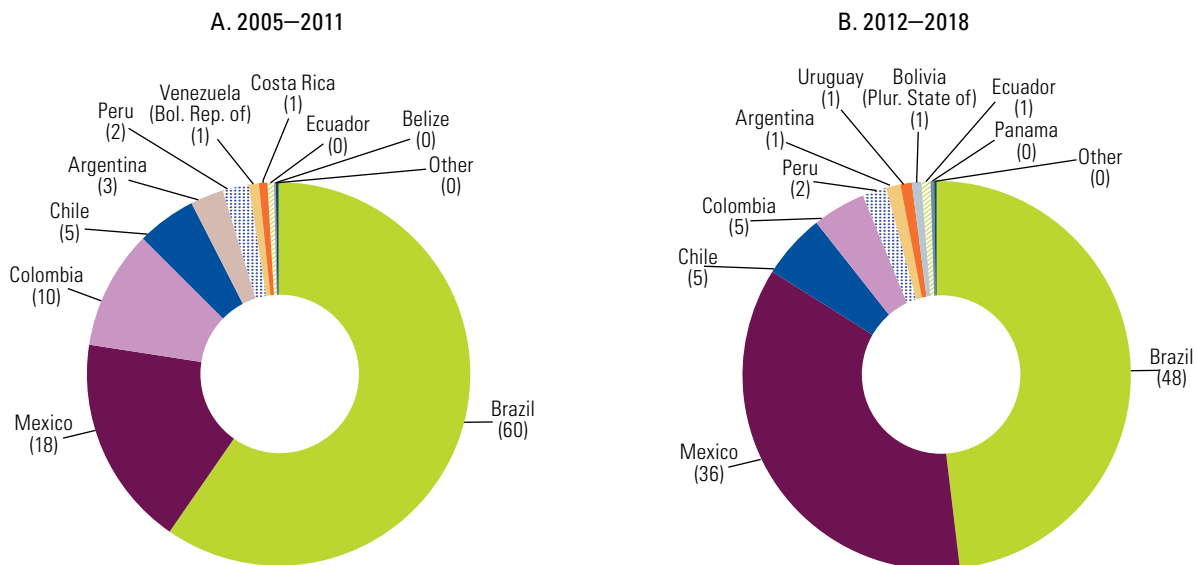
### 3. Sectoral destinations and specificities

Information on mergers and acquisitions and investment projects confirms that Brazil and Mexico are the leading investment destinations in the region.

In the case of mergers and acquisitions, these two countries accounted for 81% of the value of these operations between 2005 and 2018. It should be noted that Mexico recorded a significant increase after 2011, essentially because of the purchase of the Modelo brewing group, as mentioned earlier (see figure III.17). The third-ranking destination is Colombia, with approximately 8% of the total value of mergers and acquisitions in the agrifood chain.

**Figure III.17**

Latin America and the Caribbean: country shares as destinations for mergers and acquisitions in the regional agrifood sector  
(Percentages)

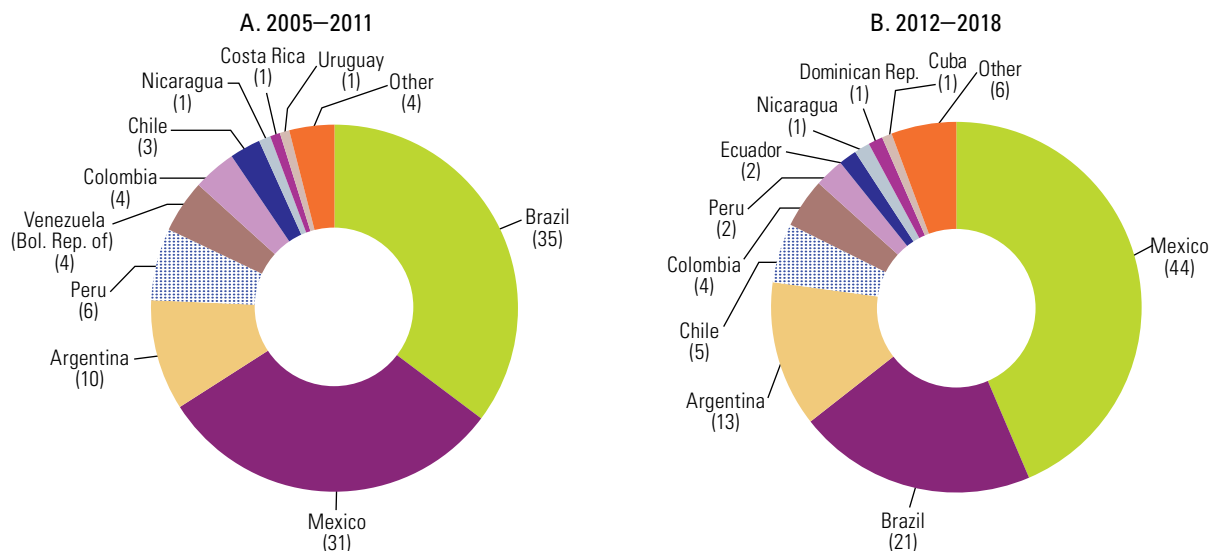


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

The degree of concentration is slightly lower where investment projects are concerned, but one destination for FDI in the chain still stands clear of all the others: Mexico ranks first with 38% of announced investment by value, and Brazil comes next with 28%. The Mexican share increased after 2011 in this case as well (see figure III.18).

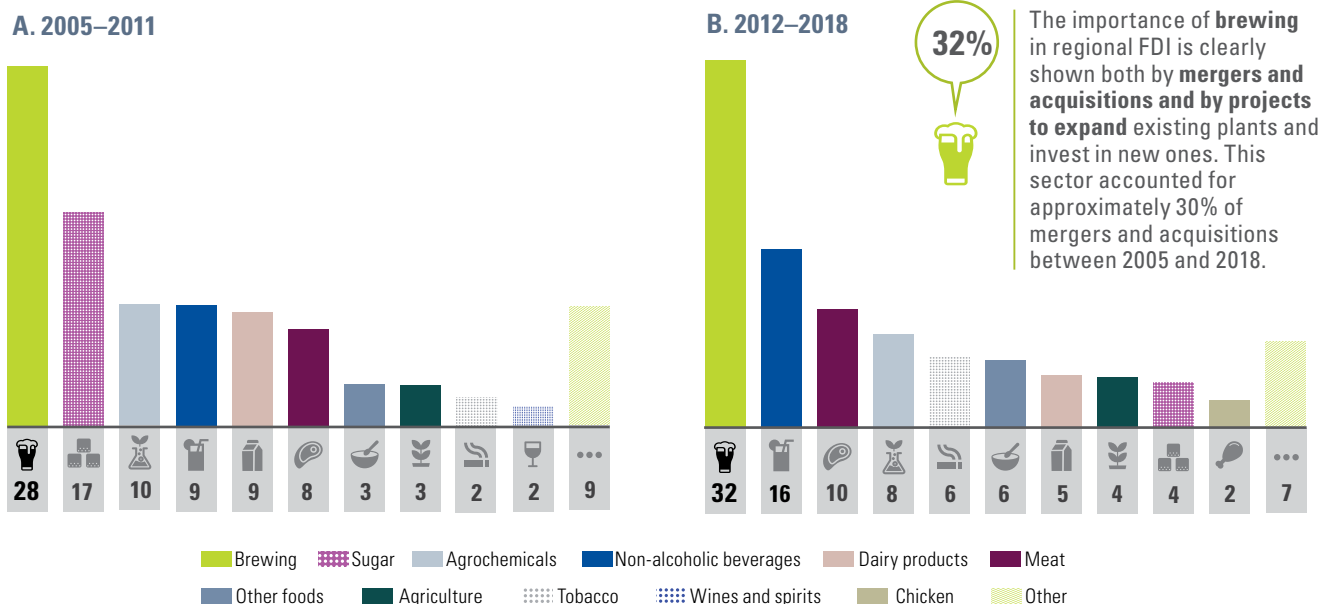
Considering the region as a whole, figures III.19 and III.20 show which agrifood subsectors are the most important as destinations for mergers and acquisitions and investment projects in the region, by shares of total value. Although the two variables have somewhat different sectoral classifications, the most important agrifood subsectors for mergers and acquisitions and for investment announcements coincide to some extent, as do some of the changes observed in recent years. Thus, the importance of brewing in regional FDI is clearly shown both by mergers and acquisitions and by projects to expand existing plants and invest in new ones. This sector accounted for approximately 30% of mergers and acquisitions between 2005 and 2018.

**Figure III.18**  
Latin America and the Caribbean: country shares as destinations for investment projects in the regional agrifood sector  
(Percentages)



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

**Figure III.19**  
Latin America and the Caribbean: agrifood subsectors' shares of the value of mergers and acquisitions in the region  
(Percentages)

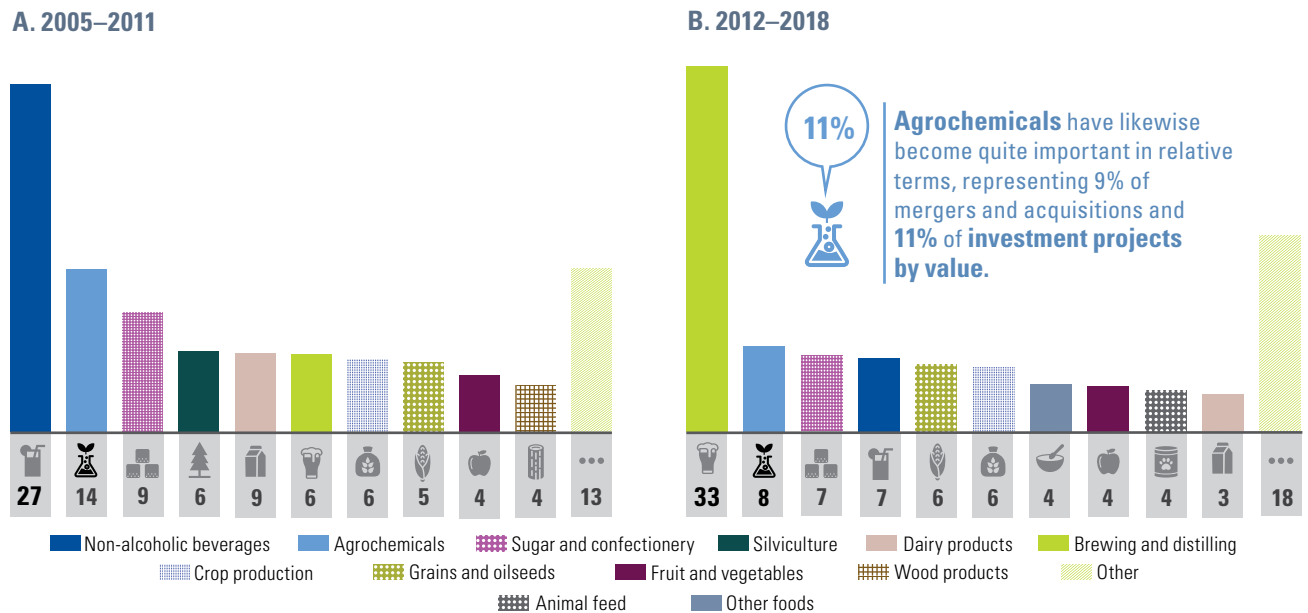


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.



**Figure III.20**

Latin America and the Caribbean: agrifood subsectors' shares of the value of investment projects announced in the region  
(Percentages)



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

The non-alcoholic beverage segment is another important destination for transnationals, accounting for 12% of mergers and acquisitions and 16% of investment projects in the aforementioned period. Agrochemicals have likewise become quite important in relative terms, representing 9% of mergers and acquisitions and 11% of investment projects by value. In recent years, investments more directly linked to the agricultural sector in the areas of fruit and vegetables, meat, sugar and fishing have also gained ground, to the detriment of other activities such as forestry and wine production.

#### 4. Transnational enterprises implement different strategies to control the segments of their respective chains

Transnational food and beverage firms are attracted by emerging economies with dynamic demographic trends and greater consumption power, such as the so-called BRICS (Brazil, the Russian Federation, India, China and South Africa) (Rama, 2015). The pull factors are usually the size of the domestic market, per capita GDP growth, the percentage of the population living in urban areas, levels of trade protection for the food industry and the availability of cheap inputs and raw materials. Participation in a trading bloc is often presented as an additional advantage. Conversely, these firms no longer seem particularly interested in low-wage countries, given the high capital intensity of the modern agrifood industry.

Of the 100 largest publicly traded non-financial transnational corporations, classified by the value of their foreign assets, eight are agrifood businesses in the processed foods, beverages and tobacco segments, and all are headquartered in developed countries (see table III.2).<sup>7</sup> In 2017, these companies accounted for 8.2% of the foreign asset value of those 100 companies and 9.6% of their employees abroad. Their level of internationalization

<sup>7</sup> Some transnationals with a strong influence on strategies in the agricultural sector, such as certain trading companies and firms in the processed food sector, are privately owned and consequently not included in the lists of the largest companies prepared by different sources.

is relatively high: while the transnationalization index averages 66% for the 100 largest transnational corporations, the average for agrifood companies is 85%.<sup>8</sup> The international activities of these companies are highly concentrated, with the three largest accounting for 62% of the foreign assets of the eight largest agrifood transnationals as a group.

**Table III.2**

Agrifood companies ranking among the top 100 non-financial transnationals by assets, sales and employees, 2017  
(Millions of dollars and number of employees)

Ranking		Firm	Country	Sector	Assets		Sales		Employees		Transnationalization index (percentages)
Assets abroad	Transnationalization index				Abroad	Total	Abroad	Total	Abroad	Total	
8	5	British American Tobacco PLC	United Kingdom	Tobacco	189 214	190 643	25 844	26 116	78 843	91 402	94.8
11	29	Anheuser-Busch InBev NV	Belgium	Food and beverages	165 176	205 173	38 429	47 052	156 544	200 000	80.2
29	7	Nestlé SA	Switzerland	Food and beverages	106 790	133 627	89 905	91 186	312 867	323 000	91.8
41	19	The Coca-Cola Company	United States	Food and beverages	81 191	87 896	24 773	35 410	57 085	61 800	84.9
63	21	Unilever PLC	United Kingdom	Food and beverages	58 025	64 189	40 828	53 764	129 566	160 566	82.3
68	23	Mondelez International, Inc.	United States	Food and beverages	53 040	63 109	19 621	25 896	71 000	83 000	81.8
77	17	Danone Groupe SA	France	Food and beverages	49 388	53 092	25 449	27 821	79 681	10 4843	86.8
98	31	Imperial Brands PLC	United Kingdom	Tobacco	41 338	41 491	32 925	38 297	18 300	33 800	79.9

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018: Investment and New Industrial Policies*, Geneva, 2018.

The selection of the largest agrifood companies has been conservative, insofar as only companies whose foreign assets are mainly in food and beverage production and tobacco manufacturing are considered. Other global companies with strong ties to the agricultural sector have not been considered because they are diversified firms operating in generic sectors, such as chemicals and pharmaceuticals, or in retail. Thus, large transnationals such as Dow DuPont (United States), Novartis (Switzerland), BASF and Bayer (Germany) were not included in table III.2 even though a substantial portion of their assets is used to produce seeds and agrochemicals.

Similarly, and although they usually have close links with the agricultural sector via different contractual forms of food procurement, transnational corporations in the retail sector were also excluded from table III.2. These corporations have significant buying power vis-à-vis agricultural suppliers and are therefore able to influence price formation, logistics and value distribution along the chain, as well as the agricultural production process. Both the main global retail chains (such as Walmart of the United States and Carrefour of France) and the merchant firms that dominate the agricultural commodity trade (such as Louis Dreyfus of France and ADM, Cargill and Bunge of the United States) are key players in agrifood value chains, and their purchasing and contract farming plans have a major impact on primary agricultural production.

The largest agribusiness transnationals have operated abroad for many decades, and although some have invested heavily in agriculture at one time or another, they now exert an indirect influence by controlling international value chains through various forms of non-equity participation (e.g. contract farming and other forms of vertical coordination). A general feature of large agribusiness transnationals is that, in addition to vertical integration (agricultural FDI or contract farming), they are often involved in

<sup>8</sup> The transnationalization index is calculated as the average of the following three ratios: assets abroad over total assets, sales abroad over total sales and employees abroad over total employees.

downstream activities (distribution and marketing). For example, some of the most important assets of the brewing transnationals are their distribution networks and points of sale (the latter also operate as marketing tools in a highly competitive market). Diversification into activities closer to the final consumer is, in effect, a strategy aligned with the objectives of achieving greater competitiveness.

Although developed-country agribusiness transnationals dominate international markets, developing-country corporations, including some trans-Latins, are also becoming major players in the global production of food and non-food products.

Table III.3 presents information on the companies in the food and beverages sector that rank among the 100 largest publicly traded transnational corporations based in developing countries. These companies, from Brazil, China, Mexico, the Philippines and Singapore, accounted for 7% of foreign assets in the list of the 100 largest companies and 11% of jobs abroad. Transnational agrifood corporations originating in developing countries are, however, less internationalized than their counterparts from developed countries, with an average transnationalization rate of 51%.

In addition to the opportunities presented by the dynamism of food consumption in developing countries, a major driver of South-South investment growth has been concerns about food security in net food-importing countries or those that anticipate strong population growth in the coming decades without a commensurate expansion in food production. Thus, the last decade has witnessed increased investment by China, the Republic of Korea and West Asian countries, all major grain importers with high population densities relative to arable land. This flow of investments motivated by food security considerations involves not only private companies but also governments, usually through public agencies or enterprises. These investments trended upward during the last period of rising food prices, between 2007 and 2012. Some investment has gone into the purchase of agricultural land for primary production, although there have also been flows into the agro-industrial sector, especially at a more basic level of agricultural commodity processing and marketing.

The main mergers and acquisitions carried out between 2012 and 2018 reveal some important aspects associated with the transnational companies operating in the agrifood chain. In the first place, table III.4 shows the leading role of firms from the region in this type of operations: of the 20 largest mergers and acquisitions, 11 were carried out by Latin American companies, of which 7 were purchases of firms producing non-alcoholic beverages. Beer features very prominently, but in this case the acquisitions were made by firms from Europe and the United States. Of particular note is the largest transaction in the history of the global brewing sector, the purchase of Grupo Modelo by Anheuser-Busch InBev. The main transactions also included the purchases of the Japanese-owned brewery Brasil Kirin Holding SA in Brazil and of a brewery in Mexico by Constellation Brands.

This segment of the agrifood chain features even more prominently among the largest investment projects: five out of every six of the largest projects are associated with new investments or the expansion of existing beer production capacity (see table III.5). The United States company Constellation Brands announced investments worth US\$ 4.6 billion in 2012–2018 (14.4% of the total for agrifood investment projects announced for the region), mainly because of the expansion of its beer production activities in Mexico. Among the projects are several closely linked to the agricultural sector: crop production, animal production, sea products, grains and oilseeds. China's role in regional FDI appears most clearly in subsectors with less industrial processing. There is a different strategy here, then, than in the case of beer investment, which has concentrated on taking advantage of the proximity of Mexican plants to the United States market and its growth in recent years. In the case of agricultural commodities, projects have sought to secure the supply of commodities for export to the countries of origin of the FDI and also to other markets, and to take advantage of linkages with the region's agricultural sector.

**Table III.3**

Agrifood companies ranking among the top 100 non-financial developing-country transnationals by assets, sales and employees, 2017

(Millions of dollars and number of employees)


Ranking		Firm/ Country 	Sector	Assets 		Sales 		Employees 		Transnationalization index (percentages)
Assets abroad	Transnationalization index			Abroad	Total	Abroad	Total	Abroad	Total	
26	50	JBS SA Brazil	 Food and beverages	22 997	31 593	21 267	48 902	109 285	237 061	54.1
28	34	Wilmar International Limited Singapore	 Food and beverages	21 886	37 877	33 615	42 471	52 005	90 000	64.9
37	4	First Pacific Company Ltd. Hong Kong (Special Administrative Region of China)	 Food and beverages	17 116	17 215	6 439	6 779	101 941	102 530	97.9
42	40	Fomento Económico Mexicano SAB Mexico	 Food and beverages	15 508	26 417	21 381	21 381	65 779	266 144	61.1
61	95	Cofco Corp China	 Food and beverages	10 396	72 072	6 127	61 265	4 350	145 013	9.1
63	37	Grupo Bimbo SAB de CV Mexico	 Food and beverages	10 072	12 547	9 639	14 317	56 916	130 913	63.7
65	85	San Miguel Corp Philippines	 Food and beverages	9 831	26 355	1 753	14 428	3 478	22 396	21.7
67	38	WH Group Limited Hong Kong (Special Administrative Region of China)	 Food and beverages	9 539	13 609	14 871	21 511	50 514	104 000	62.6
80	64	BRF S.A. Brazil	 Food and beverages	8 218	13 196	5 432	9 682	16 151	102 463	44.7
87	12	Golden Agri-Resources Ltd Singapore	 Food and beverages	7 296	7 530	5 049	7 272	46 300	46 300	88.8

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018: Investment and New Industrial Policies*, Geneva, 2018.

Table III.4

Latin America and the Caribbean: 20 largest mergers and acquisitions by value announced, 2012–2018

(Millions of dollars)

Year	Target firm 	Target country	Sector firm operates in	Acquiring firm 	Acquiring country	Value announced
2013	Grupo Modelo SAB de CV	Mexico	 <b>Brewing</b>	Anheuser-Busch InBev SA/NV	Belgium	17 231
2015	Souza Cruz Ltda	Brazil	 <b>Tobacco</b>	British American Tobacco PLC	United Kingdom	3 247
2013	Zenda & Seara Brasil assets	Brazil	 <b>Meat</b>	JBS SA	Brazil	2 726
2018	Keystone Foods Holdings LLC	Brazil	 <b>Meat</b>	Tyson FoodsInc	United States	2 500
2018	Fertilizer Assets	Brazil	 <b>Agrochemicals</b>	Mosaic Co/The	United States	1 992
2013	Spaipa S/A Industria Brasileira de Bebidas	Brazil	 <b>Non-alcoholic beverages</b>	Coca-Cola Femsa SAB de CV	Mexico	1 855
2017	Vigor Alimentos SA	Brazil	 <b>Dairy products</b>	Grupo Lala	Mexico	1 837
2017	Moy Park Holdings Europe Ltd	Brazil	 <b>Poultry</b>	Pilgrim's Pride Corp	United States	1 300
2017	Brasil Kirin Holding S.A.	Brazil	 <b>Brewing</b>	Heineken NV	Netherlands	1 298
2017	Dow AgroSciencesSementes & Biotecnologia Brasil Ltda	Brazil	 <b>Agrochemicals</b>	CITIC Agricultural Industry Fund Management Co., Ltd.	China	1 100
2016	Vonpar SA	Brazil	 <b>Non-alcoholic beverages</b>	Coca-Cola Femsa SAB de CV	Mexico	1 086
2012	Embotelladoras Coca-Cola Polar SA	Chile	 <b>Non-alcoholic beverages</b>	Embotelladora Andina SA	Chile	931
2015	Corp Lindley SA	Peru	 <b>Non-alcoholic beverages</b>	Arca Continental SAB de CV	Mexico	760
2013	Tresmontes Lucchetti SA	Chile	 <b>Diversified foods</b>	Grupo Nutresa SA	Colombia	758
2013	Grupo Yoli SA de CV	Mexico	 <b>Non-alcoholic beverages</b>	Coca-Cola Femsa SAB de CV	Mexico	681
2016	Grupo Fertinal	Mexico	 <b>Agrochemicals</b>	PetroleosMexicanos	Mexico	625
2016	ObregonBrewery	Mexico	 <b>Brewing</b>	Constellation Brands Inc	United States	600
2013	Tortuga Co Zootecnica Agraria	Brazil	 <b>Agricultura</b>	Koninklijke DSM NV	Netherlands	574
2016	Arca Ecuador SA, Arca Continental Argentina SL	Mexico	 <b>Non-alcoholic beverages</b>	Arca Continental SAB de CV	Mexico	573
2013	CIA de Bebidas Ipiranga	Brazil	 <b>Non-alcoholic beverages</b>	Embotelladora Andina SA	Chile	535

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

Table III.5

Latin America and the Caribbean: 20 largest agrifood investment projects announced, by value and number of jobs created, 2012–2018

(Millions of dollars and number of jobs)

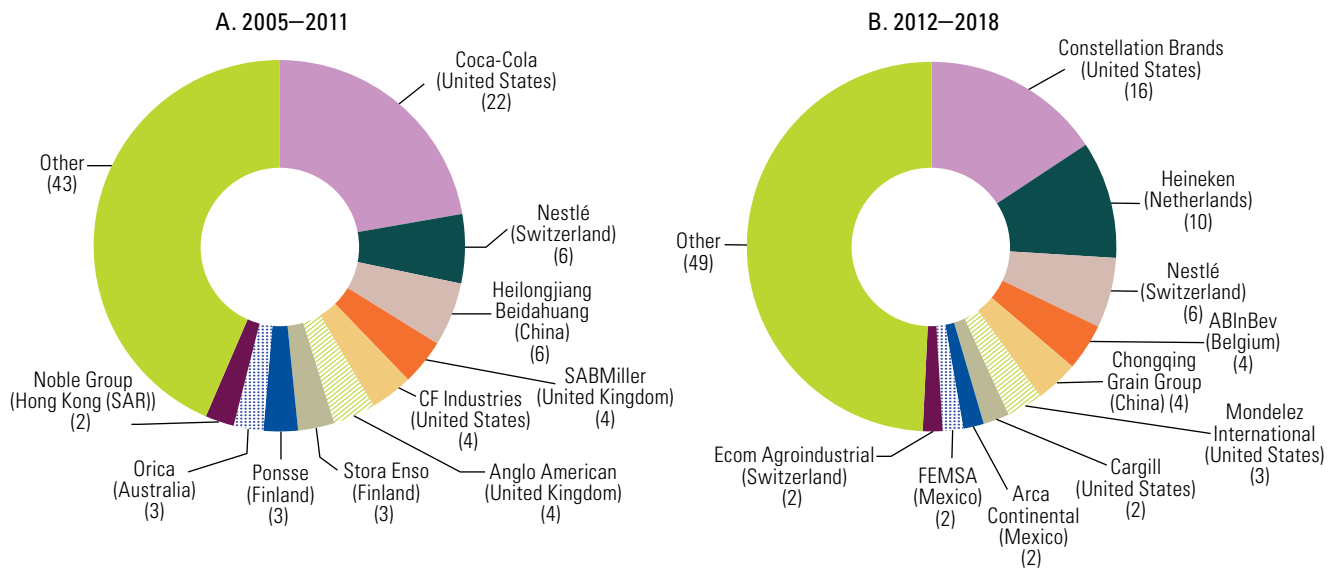
Year	Investing firm	Parent firm/ Home country 	Destination country	Subsector 	Investment amount	Jobs created 	Type of investment
2013	Constellation Brands	Constellation Brands United States	Mexico	 Brewing and distilling	1 650	3 000	Expansion
2016	Constellation Brands	Constellation Brands United States	Mexico	 Brewing and distilling	1 500	3 000	New
2012	Chongqing Grain Group	Chongqing Grain Group China	Argentina	 Crop production	1 200	3 000	New
2018	Constellation Brands	Constellation Brands United States	Mexico	 Brewing and distilling	900	450	Expansion
2017	Grupo Modelo	Anheuser-Busch InBev (AB InBev) Belgium	Mexico	 Brewing and distilling	756	1 200	New
2017	Compañía de Cervecerías Unidas (CCU)	Heineken Netherlands	Chile	 Brewing and distilling	660	2 111	Expansion
2013	Mondelez International	Mondelez International United States	Mexico	 Sugar and confectionery	600	3 000	New
2018	Constellation Brands	Constellation Brands United States	Mexico	 Brewing and distilling	550	925	Expansion
2017	Granjas Carroll de México	Ecom Agroindustrial Switzerland	Mexico	 Animal production	550	2 673	Expansion
2015	Heineken	Heineken Netherlands	Mexico	 Brewing and distilling	474	500	New
2014	Compañía de Cervecerías Unidas (CCU)	Heineken Netherlands	Colombia	 Brewing and distilling	400	1 279	New
2013	Nestlé	Nestlé Switzerland	Mexico	 Fruit and vegetables	400	350	New
2017	Gomes da Costa (GDC Alimentos)	Grupo Calvo Spain	Brazil	 Sea products	347,6	1 177	Expansion
2012	Monsanto	Monsanto United States	Argentina	 Grains and oilseeds	334	400	New
2017	Heineken	Heineken Netherlands	Mexico	 Brewing and distilling	321,5	507	Expansion
2013	BBCA Group	BBCA Group China	Brazil	 Grains and oilseeds	310,9	400	New
2016	UPL (United Phosphorus)	UPL (United Phosphorus) India	Brazil	 Agrochemicals	310	261	New
2016	Alltech Lexington Brewing and Distilling	Alltech Lexington Brewing and Distilling United States	Mexico	 Brewing and distilling	307,4	208	New
2016	Heineken	Heineken Netherlands	Mexico	 Brewing and distilling	307,4	208	Expansion
2016	Heineken	Heineken Netherlands	Mexico	 Brewing and distilling	307,4	208	Expansion

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

Figure III.21 presents the 10 largest companies with investment projects announced for Latin America and the Caribbean in the agrifood sector. It is interesting to note that only Nestlé (Switzerland) appears among the top companies in both periods considered. Coca-Cola (United States), the largest investment company in the region during the second half of the 2000s, does not feature in the top 10 in more recent years. In contrast, Constellation Brands (United States), although not among the world's largest agrifood companies, with net sales of approximately US\$ 7.3 billion in 2017, is one of the largest in the alcoholic beverages segment, with operations in around 100 countries and facilities in more than 40. It is the third-largest beer producer in the United States and the top wine producer in New Zealand. Its product portfolio includes beer, wine and spirits, but beer accounts for the bulk of net sales.

**Figure III.21**

Latin America and the Caribbean: company shares of agrifood investment projects announced in the region  
(Percentages)



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

The sale of Mexican beer brands in the United States is currently the largest component of Constellation Brands' business, and drives its interest in expanding operations in Mexico (Constellation Brands, 2018). Since 2013, the company has been systematically expanding the production capacity of its Nava plant (Coahuila de Zaragoza, Mexico), and in 2017 it increased output from 10 million hectolitres to 25 million hectolitres. It has also begun to build a new state-of-the-art plant in Mexicali (Baja California, Mexico), located near the state of California, its main market in the United States. Lastly, the company has been investing in optimization to increase output from its Obregon plant, acquired in December 2016. These moves to expand, build and optimize beer production plants in Mexico reflect the company's expectations of future growth.

The company with the next-largest amount of agrifood investment announced in the region in recent years also belongs to the brewing sector: Heineken of the Netherlands, with US\$ 3.1 billion, representing 8% of total investment in the sector in the region. Its main investment projects were in Chile, Colombia and Mexico.

As noted earlier, the implementation of new projects, or the expansion of existing capacity, does not seem to be a priority for the most important trans-Latins operating in this chain. No regional firm figures in the 20 largest regional projects, although it is worth noting the presence of two Mexican companies among the top 10 with investments announced in the Latin American agrifood sector. Fomento Económico Mexicano

SAB de CV (FEMSA) operates in the beverage industry (but also in commerce and the restaurant sector) in 10 countries of the region. This company is, among other things, the world's largest bottler in the Coca-Cola system, and it has been quite heavily involved in the purchase of assets in other countries of the region. In 2013, for example, it paid US\$ 1.855 billion for the Brazilian company Spaipa SA Industria Brasileira de Bebidas, which produces and distributes Coca-Cola, Kuat and Del Valle beverages in the states of São Paulo and Paraná. That same year, FEMSA bought Companhia Fluminense de Refrigerantes SA, which produces and distributes The Coca-Cola Company products in the states of Rio de Janeiro, Minas Gerais and São Paulo, for US\$ 448 million. Subsequently, in 2016, FEMSA acquired Vonpar, one of the largest privately owned bottlers in the Brazilian Coca-Cola system, for US\$ 1.09 billion. The second company is Arca Continental, SAB de CV, also a bottler of non-alcoholic beverages, which operates in Argentina, Ecuador, Peru and the United States, in addition to Mexico.

## C. The strategies of transnationals in two regional agrifood chains

### 1. Soybean production: major players at odds

Soybeans are an important input for many agro-industrial chains, as they offer a relatively low-cost protein source.<sup>9</sup> This characteristic has made them a focal point of strategic interest for investors and governments all over the world (ECLAC, 2013).

Soybean production has grown strongly in South America over recent decades, with the subregion increasing its share of global output from 29% to 52% between 1997 and 2017. Production takes place essentially in Argentina and Brazil, and the two countries doubled their share of world output in the period.<sup>10</sup> This was paralleled by a progressive increase in the productivity of this crop, especially in Brazil. In 2017, Brazil had the best soybean yield of the world's major producers, at 3.4 tons per hectare (see table III.6).

**Table III.6**

Main soybean-producing countries: land area, output and yield, 2017

	Land area		Output		Yield
	(millions of ha)	(percentages)	(millions of tons)	(percentages)	(t/ha)
Argentina	17.3	14	55.0	16	3.2
Bolivia (Plurinational State of)	1.3	1	3.0	1	2.4
Brazil	33.9	27	114.6	32	3.4
Paraguay	3.4	3	10.5	3	3.1
Uruguay	1.1	1	1.3	0	1.2
United States	36.2	29	119.5	34	3.3
Canada	2.6	2	7.7	2	2.9
World total	123.6		352.6		2.9

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

These results are a consequence of agronomic research and the application of advanced technology packages, a feature of soybean cultivation since its beginnings in the 1960s, when Argentina and Brazil adopted the United States model. This technological development involves large-scale use of new technologies such as direct seeding, double cropping (first-crop and second-crop soybeans), genetically modified seeds (Roundup Ready (RR) soybeans), associated herbicides (glyphosate) and fertilizers. This dynamic is now being consolidated with the rapid adoption of the

<sup>9</sup> Soybeans are usually rotated with other crops (wheat, maize and cotton). They are now part of an integrated high-technology production system that includes genetics, direct seeding, mechanized harvesting and other advanced technologies. Soybeans are marketed in the form of beans, crude oil, refined oil, meal and feed pellets. They are also used to produce biodiesel.

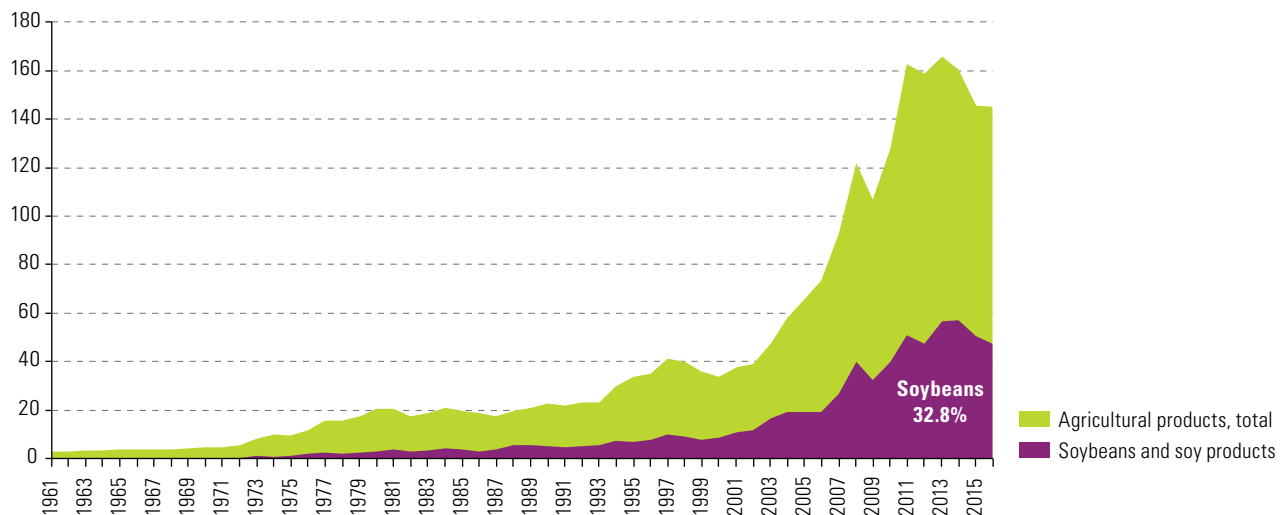
<sup>10</sup> Argentina and Brazil increased their shares of world soybean output from 8% to 16% and from 18% to 32%, respectively, between 1997 and 2017.



new paradigm of Agriculture 4.0.<sup>11</sup> By contrast with the United States (and to a lesser extent Brazil), there is a clear tendency towards monoculture in Argentina, Paraguay and the Plurinational State of Bolivia, and this has caused concern because of its economic and environmental effects (Cap and Malach, 2012; Trigo, 2016).

External demand is the main driver of soybean production. Between 1976 and 2017, the share of soybeans and their by-products increased from 16% to 33% of total South American agricultural exports (see figure III.22).

**Figure III.22**  
South America: soybeans in agricultural exports  
(Billions of dollars a year)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

The main South American producers of soybeans, Argentina and Brazil, have very different patterns of export specialization.

In Argentina, a very advanced soybean oil production capacity has developed as a result of an industrialization strategy initiated in the late 1980s, making the country very competitive with the industries of Brazil and the United States (ECLAC, 2013). This specialization has allowed it to significantly increase the value of each ton traded, which has benefited the industrial link in the chain. Argentina is now the world's largest exporter of soybean oil, far outstripping Brazil and the United States (see table III.7). Between 1990 and 2017, soybean oil exports increased from US\$ 514 million to US\$ 3.726 billion. The country has also become a world leader in the export of soybean meal, a by-product of oil production. This dynamic has also meant the development of a machinery industry and associated services (seeds, herbicides, etc.), as well as improvements in infrastructure and logistical capacities. Other factors have contributed to this performance over the last decade. These include: tax incentives to encourage the production, domestic consumption and export of biofuels; the establishment of a differentiated scheme of export taxes (withholding taxes) and export refunds applied to soybeans and their by-products; and the technical support provided by the National Institute of Agricultural Technology (INTA). However, monoculture has resulted in soil depletion and a greater need for fertilizers, with negative effects on the environment.

<sup>11</sup> In 2018, for example, harvesting of extensive crops in Argentina was carried out with 11,240 yield monitors that covered practically 100% of the land area used (Méndez and Vélez, 2018). In addition, the leading transnational grain companies—Archer Daniels Midland (ADM), Bunge, Cargill, Louis Dreyfus Company (LDC) and China National Cereals, Oils and Foodstuffs Corporation (COFCO)—have partnered to standardize data and digitize global agricultural shipping transactions using digital technologies such as blockchain and artificial intelligence. This will increase the transparency and efficiency of the chain worldwide (Business Wire, 2018).

**Table III.7**  
World soybean market: largest exporters, 2017

	Soybeans				Soybean oil				Soybean cake				Total	
	Volume		Value		Volume		Value		Volume		Value		Value	
	(millions of tons)	(percentages)	(billions of dollars)	(percentages)	(millions of tons)	(percentages)	(billions of dollars)	(percentages)	(millions of tons)	(percentages)	(billions of dollars)	(percentages)	(billions of dollars)	(percentages)
Argentina	7.4	5	2.7	5	5.0	45	3.7	42	28.3	43	9.1	40	15.5	17
Bolivia (Plurinational State of)	0.0	0	0.0	0	0.3	2	0.2	2	1.2	2	0.4	2	0.6	1
Brazil	68.2	47	25.7	44	1.3	12	1.0	12	14.2	22	5.0	22	31.7	35
Paraguay	6.1	4	2.1	4	0.7	6	0.5	5	2.3	3	0.7	3	3.3	4
Uruguay	3.3	2	1.2	2	0.0	0	0.0	0	0.0	0	0.0	0	1.2	1
United States	49.8	34	21.5	37	1.1	10	0.9	10	8.6	13	3.1	14	26.4	29
Canada	4.7	3	1.9	3	0.1	1	0.1	1	0.2	0	0.1	0	2.1	2
World total	145.4	100	58.0	100	11.0	100	8.9	100	65.8	100	22.9	100	91.6	100

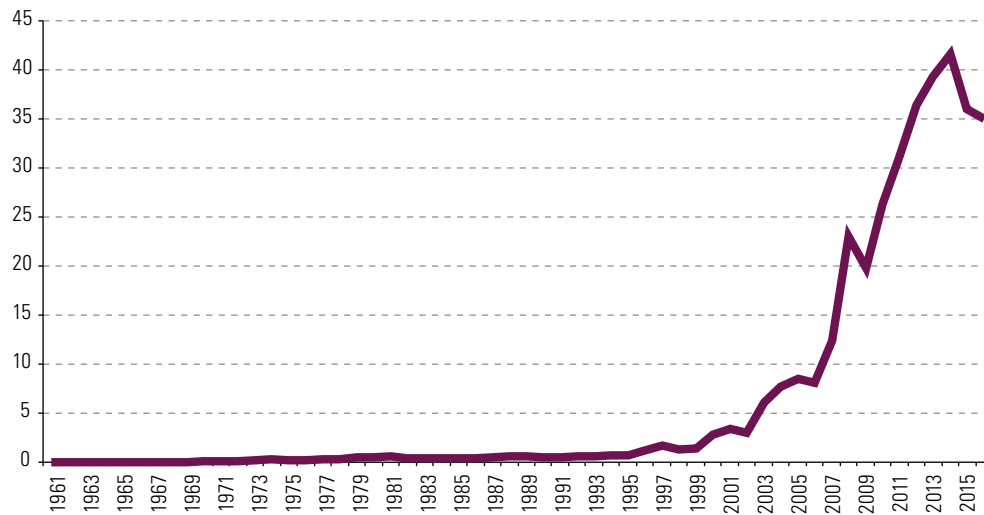
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

In Brazil, on the other hand, soybeans are the main agricultural export product, with exports worth US\$ 25.7 billion in 2017. This is due to four main factors: (i) more flexible government policy regarding land use and relatively cheap agricultural land; (ii) the tax on the circulation of goods and services (ICMS), which taxes interstate movements of production for purposes of processing and exempts exports of raw materials (Kandir Law); (iii) the size of the domestic market, which absorbs 85% of the oil produced locally; and (iv) the fact that importing countries, especially China, have factories to produce meal and oil and generally show more interest in the beans. However, this strong growth has come at the expense of nature reserves, which has increased concern about deforestation in the Amazon and the Cerrado region.

The sharp increase in South American soybean exports is largely due to increased demand from China in recent years (see figure III.23), as the country uses soybeans to feed cattle (consumption of which is a recent development for the new Chinese middle classes) and fish (aquaculture and fishing). In 2017, China was the main destination for unprocessed soybean exports from Argentina (88%) and Brazil (79%). This pattern has been intensified as a result of trade tensions between China and the United States. In mid-2018, the Chinese government imposed a 25% tariff on United States soybeans, which led to a large shift in international soybean trade patterns. The United States was worst affected by this situation, while Brazil and to a lesser extent Argentina benefited.

The conflict raised the relative prices of soybeans produced by Brazil, stimulating exports. Between 2017 and 2018, Brazilian exports increased from 63 million tons to 83 million tons, benefiting oilseed producers. In Argentina, the government adopted measures that favoured the export of unprocessed soybeans, undermining the competitiveness of processed products.<sup>12</sup> Thus, bean exports increased unusually strongly in the second half of 2018, reversing the trend of recent years. On the other hand, the Argentine oil industry became the main destination for unprocessed soybean exports from the United States, another very unusual situation. Besides the complexities of the international situation, macroeconomic instability has encouraged the use of unprocessed soybeans as a source of savings that are relatively easy to liquidate, and as a hedge against uncertainty. Thus, unprocessed soybeans are generating higher export returns than derivatives. However, the situation remains very unsettled, and its evolution will depend on the measures adopted by China and the United States, both in the field of trade negotiations and as part of the effort to achieve self-sufficiency in the Chinese market.

<sup>12</sup> The Government did away with the export tax differential of 3 percentage points between soybeans and products made from them.



**Figure III.23**  
China: imports of unprocessed soybeans, 1961–2016  
(Billions of dollars a year)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <http://www.fao.org/faostat/en/>.

In this situation, foreign direct investment in the soybean chain worldwide has reinforced the concentration of production in order to reduce costs and improve competitiveness. The four largest transnational agricultural commodity companies—Archer Daniels Midland (ADM), Bunge, Cargill and Dreyfus, known by the acronym ABCD—have a long-standing presence in Latin America, in some cases spanning more than 100 years. During the twentieth century, they made numerous investments to build up a robust infrastructure, including mills, collection and storage networks, ports and transportation, with which they now compete in a high-volume, low-margin industry.

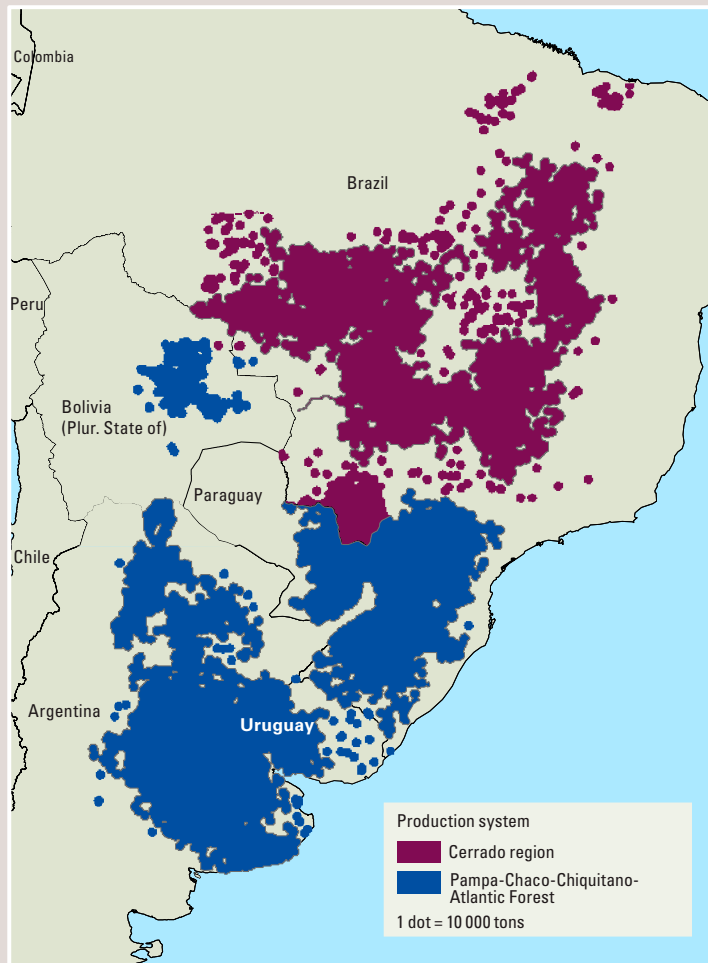
Transnational corporations have strengthened their presence in the main soybean-producing countries of Latin America in the last two decades. In Argentina and Brazil, exports are led by the big four, ABCD, recently joined by the State-owned food processing company China National Cereals, Oils and Foodstuffs Corporation (COFCO). The latter seeks to challenge the supremacy of ABCD, to which end in recent years it has acquired the Dutch trading company Nidera and the agricultural commodities business of Noble Group, based in Hong Kong (Special Administrative Region of China). These acquisitions have given it a presence and storage capacity in Argentina, Brazil, Paraguay and Uruguay. In 2014, Asian traders (including COFCO) displaced ABCD for the first time by buying 45% of Brazil's soybean, maize and soybean meal production, while the established ABCD firms acquired only 37% (Bonato, 2016). This trend has been accentuated in the years since, as evidenced by the 327% increase in purchases of Brazilian grains by COFCO between 2016 and 2017, taking it past ADM and Dreyfus (Gomes, 2018).

The strong presence of transnational commodity corporations is partially offset by some large local groups. In Argentina, Aceitera General Deheza (AGD), Vicentin SAIC and Molinos Río de La Plata are the leading companies, while in Brazil it is the Amaggi group, which also has a presence in Argentina.

Concentration should continue to increase in this industry. In 2018, the United States company ADM made clear its interest in Bunge and the Argentine company Molinos Agro. Although the negotiations have not concluded, they reflect the pursuit of economies of scale and new synergies as firms seek to hold their own in an increasingly competitive market (Huffstutter and Stauffer, 2019). Fluctuations in commodity prices, the low margins in the business and the uncertainty caused by trade tensions between China and the United States will surely encourage the stronger players to seek to consolidate their position by absorbing companies that have not been able to cope with this challenging situation.

**Box III.1****South America:  
two major soybean  
production systems**

Soybean cultivation is carried out in two major production systems. There is the Pampa-Chaco-Chiquitano-Atlantic Forest area, which includes southern Brazil and the producing areas of Argentina, Paraguay, the Plurinational State of Bolivia and Uruguay, where soybeans were grown as fodder for cattle during the first half of the twentieth century before progressively becoming an export crop from the mid-1960s. This area is characterized by the good quality of its soils (especially the Argentine Pampa), connectivity with waterways and ports (usually no more than 500 km away from the production areas) and a level of technological development that encompasses large-scale use of new technologies, such as direct seeding, double cropping (first-crop and second-crop soybeans), genetically modified seeds (Roundup Ready (RR) soybeans), associated herbicides (glyphosate) and fertilizers. In Argentina, Paraguay and the Plurinational State of Bolivia, there is a clear tendency towards monoculture, which some authors have measured by means of a "soy-ization" index (Cap and Malach, 2012; Trigo, 2016). In this region, and especially in Argentina, an important role is played by sowing pools, companies that buy in technical expertise, rent equipment and machinery, lease land and make large-scale use of new technologies (Bisang, Anlló and Campi, 2008). Despite the concentration of the sector, cooperatives are also important in this area. In the case of southern Brazil, they purchase two thirds of grain production (IBGE, 2013), while in Argentina they account for around 25% of total exports (Telam, 2014).



**Source:** G. Oliveira and S. Hecht, "Sacred groves, sacrifice zones and soy production: globalization, intensification and neo-nature in South America", *Journal of Peasant Studies*, vol. 43, No. 2, March 2016.

## Box III.1 (concluded)

The other major production system is the Cerrado region, located in the centre-north of Brazil, with 204.7 million hectares of tropical savannah that played only a marginal role in agricultural and livestock production until the mid-1980s. Thanks to the application of public policies, especially the Polocentro and Prodecer programmes, together with the work of the Brazilian Agricultural Research Enterprise (EMBRAPA) to adapt technology packages to local conditions (control of soil acidity and improvement of soil fertility, introduction of new varieties), in just 25 years the Cerrado became one of the world's main grain-producing regions (Hosono, Campos da Rocha and Hongo, 2016). With 17 million hectares allocated to soybeans in 2016, the Cerrado produced 50% of Brazil's output of this crop (GTC, 2017), using a production model based on owner-run medium-sized and large companies that have their own land and are well-established in their territories.

Alongside rising yields, much of the increase in production has been due to the expansion of cultivated land. Between 2010 and 2017, the global soybean growing area increased by 20% with the addition of 20.7 million hectares. Slightly more than half this increase occurred in Brazil, where the area under soybean cultivation grew by 45% to 33.9 million hectares (27% of the world's total soybean growing area). The area under cultivation is expected to reach 36 million hectares in 2019 (USDA, 2019). The natural vegetation of the Cerrado is less valuable than that of the Amazon, allowing these increases to be partially absorbed, always provided that more sustainable technology packages are applied. However, the expansion of growing areas is also putting pressure on the Amazon forests, something that is of global concern given the role the region plays in global environmental equilibria. In both cases, it is imperative to seek an ecological transition geared towards establishing new models of production and consumption.

Soy production models can be expected to undergo a process of more rapid change in the coming years, driven by new consumer preferences, increasingly stringent environmental regulations and the existence of voluntary quality certification schemes. Public initiatives include action plans to control deforestation in the Amazon (PPCDAm) and the Cerrado (PPCerrado), complemented by the exporter-led moratorium on soybean production in the Amazon biome and the Soja Plus extension programme initiated by private sector actors in Brazil. Major private sector initiatives include the Certified Agriculture (CA) standard of the Argentine Association of Direct Seeding Producers (100,000 hectares certified in 2016) and the international Round Table on Responsible Soy (RTRS) Standard for Responsible Soy Production, created in 2006 to promote responsible soybean processing and marketing, thereby reducing social and environmental impacts. By 2017, 947,000 hectares had been certified in Brazil, 170,000 hectares in Argentina, 22,000 hectares in Paraguay and 15,000 hectares in Uruguay (RTRS, 2017).

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Cap and V. Malach, "The changing patterns in land allocation to soybeans and maize in Argentina and the Americas and the role of GM varieties: a comparative analysis", paper presented at the Triennial Conference of the International Association of Agricultural Economists (IAAE), Foz do Iguaçu, 18–24 August 2012; E. Trigo, *Veinte años de cultivos genéticamente modificados en la agricultura argentina*, Buenos Aires, Argénbio, 2016; R. Bisang, G. Anlló and M. Campi, "Una revolución (no tan) silenciosa: claves para repensar el agro en Argentina", *Desarrollo Económico*, vol. 48, No. 190–191, July–December 2008; Brazilian Geographical and Statistical Institute (IBGE), "Banco de dados agregados", 2013 [online] <http://www.sidra.ibge.gov.br>; United States Department of Agriculture (USDA), "Brazil oilseeds and products update", *GAIN Report*, No. BR 1903, Washington, D.C., Global Agricultural Information Network [online] [https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Oilseeds%20and%20Products%20Update\\_Brasilia\\_Brazil\\_2-15-2019.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Oilseeds%20and%20Products%20Update_Brasilia_Brazil_2-15-2019.pdf); A. Hosono, C. M. Campos da Rocha and Y. Hongo, *Development for Sustainable Agriculture. The Brazilian Cerrado*, Palgrave Macmillan, 2016 and Grupo de Trabalho do Cerrado (GTC), "Análise geoespacial da dinâmica da soja no bioma Cerrado: 2014 a 2017", Florianópolis, 2017.

**Box III.2****The agro-industrial hub of Rosario (Argentina)**

Rosario, known for its leading role in Argentine and regional agro-industry, has 9 million hectares given over to agriculture and forestry (National Agricultural Census of 2018), is home to 19,214 agricultural businesses, contains 8% of all the country's farms (236,601) and accounts for 78% of the country's oilseed industrial complex, comprising the factories of the leading multinationals in the sector, such as Bunge, ADM, Glencore, Cargill and Louis Dreyfus. Its port infrastructure, with 20 terminals along the Paraná River, consolidates Greater Rosario as the country's main soybean meal export complex. In 2018, more than a third of the 28 million tons of Argentine soybeans exported left from these terminals. Rosario commands 43% of the soybean meal market, surpassing Brazil and the United States. It is also Argentina's main metallurgical hub, producing 70% of agricultural machinery and equipment.

**The AgTech ecosystem**

Rosario has a large technology platform that makes it possible to view all operations in real time and monitor the state of the environment and any changes in it. Satellite imagery is used to apply precision agriculture so that farmers can differentiate between growing areas and work with inputs such as seeds and fertilizers.

The ecosystem also allows producers and suppliers to connect via the Internet. One of the platforms set up for this purpose is Agrofy, where 7,000 companies trade over 70,000 products. The platform connects all actors in the agro chain across 15 categories, such as agricultural inputs, machinery, vehicles and land. In 2018, Agrofy (with earnings of US\$ 6 million) was led by SP Venture, Brazil's largest AgTech venture capital fund. It already operates in four Latin American countries, and will hopefully extend its operations to Chile, Colombia and Peru in 2019.

The business model of the Rosario hub, based on cooperativism and partnership between different actors in the agricultural value chain, has attracted the attention of several investors. In 2016, The Yield Lab (originally from St. Louis, Missouri), the world's first AgTech incubator and accelerator, set up an operation. The partnership between Rosario and St. Louis has made it possible to experiment all year round with different Argentine and United States technologies for extensive soybean and maize growing.

Within this framework, some major acquisitions have been made recently. In 2018, John Deere (part of the Rosario ecosystem) bought two Argentine companies: King Agro, which specializes in carbon fibre, and Pla, the region's leading producer of self-propelled sprayers. John Deere has created an online platform that connects farmers and businesses. This platform provides internal and external information on finance and the rural climate.

The potential of the Rosario ecosystem has also attracted the attention of the provincial government, which announced that 0.5% of Rosario's provincial budget would be earmarked for research and development projects by 2022. Together with universities, technology centres, start-ups, investment funds and private companies, the provincial government is designing a road map to boost the ecosystem.

For its part, the national government has already taken the first steps towards forming the Trust Fund for the Development of Venture Capital (FONDCE) with the selection of 20 technology accelerators. The State will match the accelerators' funding, thereby turning projects into Argentine ones.

In the latest investment round, Agrofy had to change its strategy because of the economic crisis in Argentina, which has frightened away investors, adopting the profile of a multi-Latin venture to secure United States investment, which makes up 70% of the fund.

**Source:** *América Economía*, "Rosario Valley: súper innovación en el granero del mundo", No. 131, May–June 2019.

## 2. The brewing sector has polarized, with a heavy concentration of global brands and a proliferation of local ones

World beer production totalled 1.95 billion hectolitres in 2017, with average annual growth of 1.7% between 2005 and 2017 (see table III.8). The distribution of production between countries has changed greatly in recent years, mainly because of the impressive increase in the volume produced in China. However, the increase in world production over recent years has been due not only to higher output in China, but also to growth in other emerging countries: Brazil, Mexico and especially Viet Nam.

	Countries		Firms	
	2005	2017		2017
China	306 156	440 150	AB InBev (Belgium)	612 500
United States	230 991	217 753	Heineken (Netherlands)	218 000
Brazil	91 072	140 000	China Resource (China)	126 000
Mexico	72 558	110 000	Carlsberg (Denmark)	113 400
Germany	107 678	93 013	Molson-Coors (United States/Canada)	99 600
Russian Federation	89 200	74 400	Tsingtao Group (China)	78 000
Japan	63 430	51 610	Asahi (Japan)	58 200
Viet Nam	13 783	43 750	Yanjing (China)	43 000
United Kingdom	56 021	43 300	BGI/Groupe Castel (France)	38 800
Poland	30 300	40 500	Kirin (Japan)	29 900
Other countries	540 846	697 272	Other firms	533 891
Total	1 602 035	1 951 748	Total	1 951 291

**Table III.8**  
Beer: global production, by country and firm, 2005–2017  
(Thousands of hectolitres)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Barth-Haas Group, *The Barth Report 2017/18*, Nuremberg, July 2018.

Beer production in Latin America and the Caribbean is around 355 million hectolitres and the main producing countries are Brazil, Mexico, Colombia, Argentina, Peru and Chile. The Latin American beer market is dominated by the two largest global companies in the sector: Anheuser-Busch InBev and Heineken. Together, they account for more than 95% of sales in the main regional markets. Generally speaking, Anheuser-Busch InBev tends to dominate the Southern Cone (Argentina, Brazil and Uruguay) and in the Plurinational State of Bolivia, while Heineken is the leader in the other Andean countries and Central America. In Mexico, the market is split more evenly between Anheuser-Busch InBev and Heineken. The large shares held by the world's leading companies in the main Latin American markets have been made possible by their strategy of buying local companies and, usually, maintaining their brands.

Beer exports account for only a small share of output (about 8%).<sup>13</sup> The main exporting countries are Mexico (32 million hectolitres), the Netherlands, Germany, Belgium and France. The main importing country is the United States (39 million hectolitres), followed a long way behind by the United Kingdom, France, Germany and Italy. The United States market attracts 80% of Mexican beer exports, and that flow accounts for 17% of global trade in the product.

The predominant penetration and growth strategy of transnational companies has been the implementation of mergers and acquisitions and the purchase of equity in local firms. Joint ventures and partnerships tend to be infrequent among leading companies in the brewing sector (Madsen, Pedersen and Lund-Thomsen, 2011). However, this trend may be changing now that the market seems increasingly consolidated. For example, there has recently been a joint venture between Anheuser-Busch InBev and EFES in the Russian

<sup>13</sup> Only barley beer is considered.

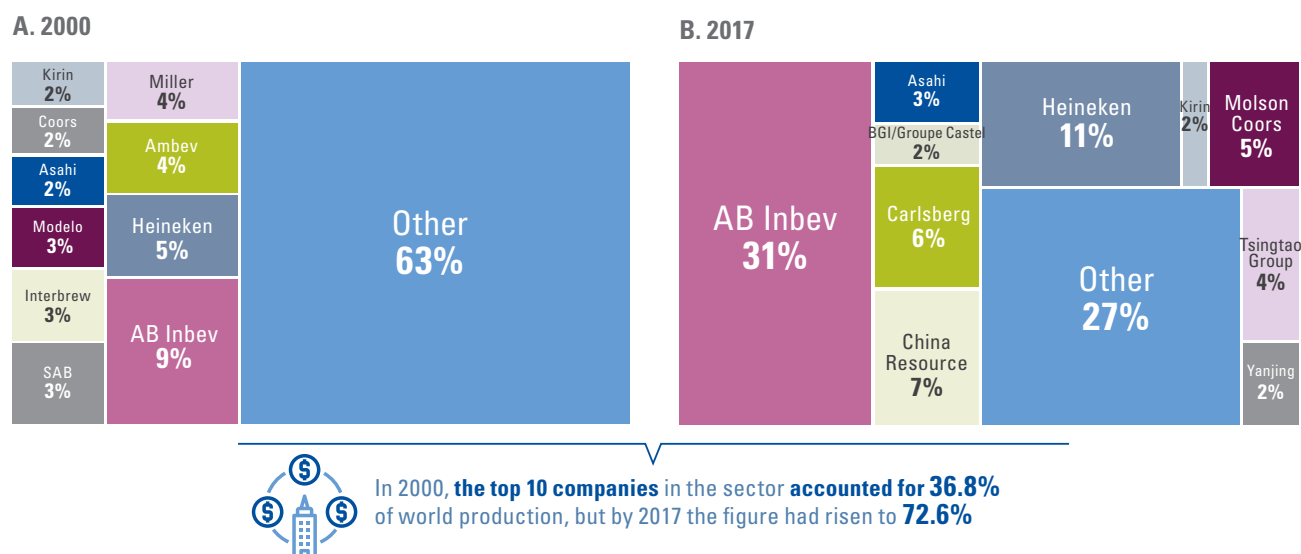
Federation and Ukraine. This was announced in 2017 and approved in March 2018, and now the new unit has emerged as a strong competitor in the Russian market, occupying the number two market position behind Carlsberg Group's Baltica (The Barth-Haas Group, 2018).

### (a) The world's leading brewers have doubled their market share by acquiring large competitors

The global brewing industry has undergone major transformations in recent years. An important trend among the leading companies in the sector has been towards the acquisition of large global companies rather than local groups, resulting in a marked increase in concentration. In 2000, the top 10 companies in the sector accounted for 36.8% of world production, but by 2017 the figure had risen to 72.6% (see figure III.24). The origin of the increase in concentration can be found in mergers and acquisitions by leading companies, although in the case of the Chinese companies that have recently moved into the top 10 (China Resource, Tsingtao and Yanjing), the increase in market share has mainly been due to investments to expand their production capacity.

Figure III.24

Market shares of the leading companies in the brewing sector, 2000 and 2017  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Barth-Haas Group, *The Barth Report 2017/18*, Nuremberg, July 2018.

The company with the most aggressive global strategy was Anheuser-Busch InBev. With the acquisition of the Mexican company Grupo Modelo in 2013 and the British company SABMiller in 2016, the Belgian transnational tripled its share of the world market, gaining ground in developing country markets. Grupo Modelo was the leading Mexican brewery until its acquisition, with large shares not only of the Latin American market but also of that of the United States. SABMiller had been formed from the combined holdings of two leading companies, South African Breweries and Miller, and its strategy of buying local companies in China and some African countries had given it a strong position in many emerging markets (Madsen, Pedersen and Lund-Thomsen, 2011).

Anheuser-Busch InBev, headquartered in Leuven (Belgium), is the world's largest brewer and ranked 170th in the Fortune ranking of the largest companies in 2018. Thanks to the mergers and acquisitions pursued by the company over the last few years, it now has a large portfolio that includes more than 200 brands of beer, some global (Budweiser, Stella Artois, Beck's), some international (Hoegaarden, Leff) and some local (Brahma, Skol, Quilmes). The main transactions carried out by the company in Latin America were the merger with Brazil's Ambev (Companhia de Bebidas das Américas) in 2004,



the purchase of Quinsa of Argentina (the owner of the Quilmes brand) through its Ambev subsidiary, and the acquisition of Mexico's Grupo Modelo.<sup>14</sup> The acquisition of SABMiller allowed Anheuser-Busch InBev to improve its position in the markets of Colombia, Ecuador and Peru, even though SABMiller is not a Latin American company.

Heineken, the world's second-largest brewer, radically changed its position in Latin America with the acquisition of the beer division of Mexico's Fomento Económico Mexicano SAB de CV (FEMSA) in 2010. From having five plants and an output of 18.8 million hectolitres (including joint ventures and licensed producers) in the Americas (including Canada and the United States) in 2009, the company grew to 19 plants and a production volume of 60.2 million hectolitres in 2011. Direct employment in the continent increased from 1,800 to 23,500 over the same period.

The acquisition of FEMSA increased Heineken's global market share and allowed the company to reduce its dependence on the European market at a key time, given the shock caused by the global economic crisis and the stagnation of per capita beer consumption in the region over the years that followed. Prior to the transaction with FEMSA, Heineken was present in Latin America through a stake in Compañía de Cervecerías Unidas (CCU), with operations in Argentina and Chile, and a small holding in FEMSA. Subsequently, in 2017, Heineken acquired Brasil Kirin Holding SA, which belonged to the Japanese group Kirin Holdings Company, thereby strengthening its competitive position against Anheuser-Busch InBev, the dominant player in the Brazilian market.

The oligopoly of the leading brewers in the Latin American market reduces the scope for the entry of large new competitors. The regional dominance of the two largest world leaders reduces the attractiveness of the remaining regionally owned companies, whose operations tend to be mainly confined to a single country. The regional market is therefore tending to concentrate at two extremes: while the large global companies divide the bulk of sales by volume between them, small local firms carve out places in niche markets with differentiated beers.

### **(b) The strategies of the sector's leading firms are being shaped by sophisticated consumers and pressure to reduce their climate footprint**

In addition to the increase in the volume of consumption worldwide, changes in consumer tastes and habits are also affecting the policies of transnational corporations, so that strategies are being generated to differentiate the products offered (premium beers, craft beers, gourmet beers, beers with designations of origin, seasonal beers, etc.).

The degree of concentration in the sector, and hence the market power of the world's leading companies, tends to vary according to consumers' preference for local brands, which in turn tends to increase with the degree of maturity of the market, the existence of established brands and the extent of product differentiation, sometimes with a strong geographical component. In this situation, the investment strategies of the world's leading brewers differ according to the type of market. In general, emerging markets, including those of Latin America and the Caribbean, are more homogeneous than the European market, although recent trends show that there is also room in these countries for product differentiation and the development of market niches.

Regulation has tended to increase, as with all alcoholic beverages, and this is opening up opportunities for differentiation into low-alcohol and alcohol-free segments. The tax burden is also trending upward, something that is associated both with increased regulation and with periods of economic crisis, when there is a tendency to reduce taxation on the consumption of products deemed essential and revenue has to come

<sup>14</sup> As part of the offsetting measures required by the United States Department of Justice to prevent monopoly practices arising in the United States beer market, Anheuser-Busch InBev had to agree to sell the Modelo plant in Piedras Negras (Mexico) to Constellation Brands, as well as 50% of its holding in Crown Imports, among other conditions.

from other sources. Lastly, in recent years there has been increasing pressure from both regulators and consumers to make production environmentally sustainable. This creates opportunities for companies in the sector to differentiate themselves with strategies that include the development of programmes to reduce, reuse and recycle materials, cut down water and energy consumption and the carbon footprint, encourage responsible consumption and benefit local communities.

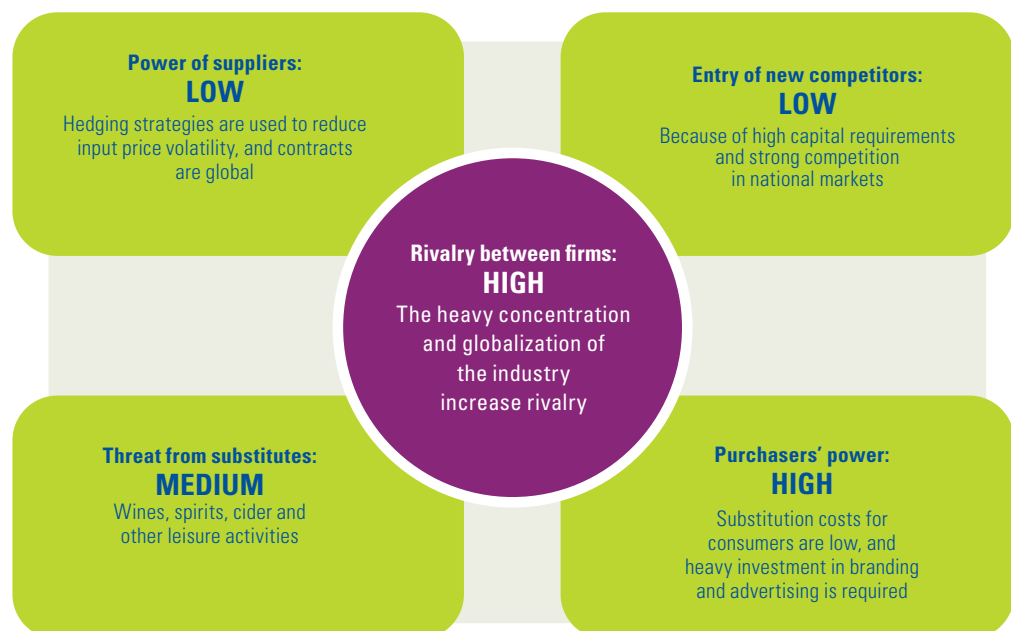
### (c) Brewing transnationals have great market power relative to farmers, but remain dependent on high-quality raw materials

Beer is the main alcoholic beverage produced in the world, and it is linked to the agricultural sector through the purchase of cereals and hops, two of its main ingredients. According to FAO (2009b), malt (germinated and dried barley) accounts for about 30% of the cost of beer production and hops for about 3%, while barley is responsible for 70% of the cost of malt production. Other grains, such as rice, maize, wheat and sorghum, are also widely used in the brewing industry, although this does not have a major impact on the sales volume of these agricultural commodities. In the case of barley, while the main use is in animal feed, the brewing industry absorbs approximately 13% of world production (FAO, 2009b).

A study carried out in Europe shows that around 18% of brewing industry expenditure goes to the agricultural sector, which is less than the combined expenditure on packaging and transport (16% and 10%, respectively) (Ernst & Young, 2006). Meanwhile, agriculture accounts for 43% of indirect employment generated in the sector, a larger share than packaging, transport and advertising combined (12%, 9% and 12%, respectively). This disconnect between employment and expenditures in the brewing chain reflects the low labour costs per worker in the agricultural sector compared to the rest of the industry.

One of the competitive advantages of globally operating brewers is their market power relative to suppliers, among whom farmers are probably the most vulnerable. Other sources of competitive advantage include the extent of the capital, branding, scale, distribution assets, regulatory compliance, etc., that a firm requires to establish itself in the sector. These act as major barriers to entry for new competitors. The main threats, meanwhile, are the strength of the rivalry between firms and the ease of substitution by consumers both between brands and with similar products (see diagram III.2).

**Diagram III.2**  
Main sources of competitiveness in the brewing industry



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of S. Sekan, "The global brewery industry", 2010 [online] <https://www.slideshare.net/sobithan/the-global-brewery-industry2>.

In this situation of growing internationalization, strong rivalry and pressure to reduce their environmental footprint, and given the new opportunities being opened up by the increasing sophistication of consumer tastes, transnational brewers have implemented a number of strategies that affect the agricultural sector either directly or indirectly.

One of these strategies concerns technological innovation in the primary sector. Although the brewing industry purchases only a small proportion of barley and other agricultural products, it usually plays a vital role in technological innovation and improvements in the quality of the raw material. The high quality standards that the brewing industry imposes on suppliers of raw materials have shaped production practices, genetic enhancement, the selection of varieties and, more broadly, the technology available in the sector producing barley for malt. Because high-quality malt cannot be produced from low-quality barley, firms wishing to brew the premium beers that are gaining ground in the market need to start their product selection and differentiation efforts in the primary sector.

Malt barley quality has been shown to improve in certain areas as a result of interventions by major brewers. A study of the situation with malting barley production in the countries of the Balkans and the Commonwealth of Independent States (former Soviet republics) showed an increase in investment and an improvement in the quality of the crop associated with the expansion of brewers' activities (FAO, 2009a). As a result, the shares of local producers in these firms' procurement of malting barley and processed malt have increased substantially in some cases.

As the major brewers have expanded into developing countries, the search for local sources of raw materials has intensified. However, the use of malt imported from the main supplier countries (Australia, Belgium, Canada and France) still predominates. The main suppliers in Latin America are Argentina and Uruguay, which rank sixth and ninth in the world, respectively. The region's largest importers, meanwhile, are Brazil (ranking first in the world) and Mexico (ranking tenth), although their main suppliers tend to differ by virtue of geographical proximity, trade agreements and the strategies of the major firms in the sector. Thus, Brazil imports mainly from Argentina and Uruguay, which have positioned themselves strongly in the Brazilian market in recent years, while Mexico is supplied almost exclusively from Canada and the United States. Rising malt imports have accompanied the growth of beer production in these countries, with the beer then being sold not only in their flourishing domestic markets, but also to other countries of the region.

A second strategy involves greater purchases of commodities under contract and commodity hedging in financial markets. Rising international prices for the main agricultural inputs used by the brewing industry have led the leading firms in the sector to make greater use of these two types of operations in order to reduce the risk and insecurity generated by price variability.<sup>15</sup>

Derivatives markets extend to agricultural and agro-industrial products (barley, wheat, rice, maize, sugar, malt) and non-agricultural ones (aluminium, natural gas) that are subject to great price variability. Other documented strategies include new investments in malt production plants and diversification of supplier portfolios. Some of these strategies could have a positive impact on the agricultural sector by enhancing producer security as regards sales volume and the prices fetched, creating opportunities for production in new areas and increasing investment and productivity in the sector.

Changes in the global outlook for the brewing business create opportunities for Latin America and the Caribbean. Strategies to increase the local content of production, whether out of cost considerations or the need to reduce environmental footprints, mean more involvement in developing countries. This could lead to investments in new technologies adapted to local conditions, higher employment and income right along the production chain, including agriculture and other traditionally low-income sectors, and the collection of materials for recycling.

<sup>15</sup> A ton of barley, for example, cost 2.3 times as much in real terms in 2012 as in 2000. The prices of other products such as maize, rice and sugar rose by even more last decade.

## Box III.3

## Megamergers in seed and agrochemical markets have altered the global and regional outlook

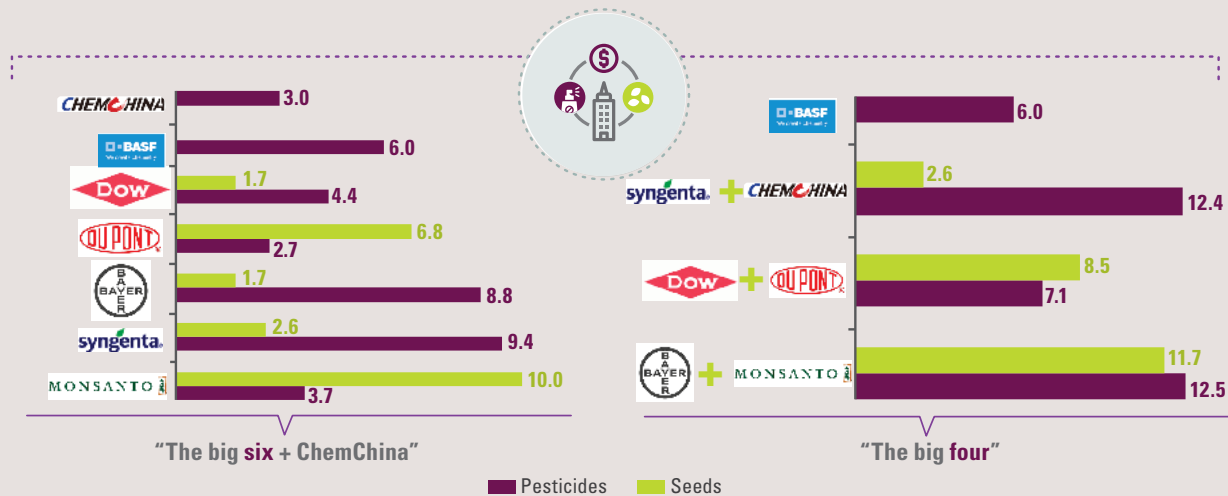
Up until the middle of the last century, seeds were regarded as a common good, uncontrolled by the public authorities, with any innovations spilling over to all users. This situation then changed substantially, however, and the right to keep and replant seeds is increasingly restricted, while supply is dominated by a few actors. This trend intensified in the 1980s with the patenting of genetically modified crops, something that favoured the entry of pharmaceutical and chemical firms into the seed market. Most farmers now have to buy in seeds, fertilizers and pesticides produced by a handful of global firms. These corporations often operate with technology packages that include seeds and chemicals, which tend to increase farmers' costs per hectare.<sup>a</sup>

The development of hybrid seeds and their rapid take-up by producers, along with better protection for intellectual property rights under international agreements, meant that the amount of private capital invested in the seed industry and the number of private sector firms engaged in plant improvement grew quickly, peaking in the early 1990s. In subsequent years, however, the trend has been towards rapid consolidation throughout the industry, with fewer firms capable of investing in the amount of research needed to develop new varieties. This has led to greater concentration, and most seed sales have come to be controlled by a few large firms (Maisashvili and others, 2016).

Since the middle of the last decade, successive mergers and acquisitions have unified the seeds and agrochemicals markets, leaving them concentrated in the hands of the so-called "big six" (BASF, Bayer, Dow, DuPont, Monsanto and Syngenta) (UNCTAD, 2005; Shand, 2012; Howard, 2015). Three major mergers and acquisitions among the big six have been announced in the past four years, and can be expected to substantially increase the level of concentration in the sector (see figure below). These mergers and acquisitions are expected to affect the prices of agricultural inputs and the amount and orientation of research and development (R&D) in the sector, and to continue consolidating what is already a very concentrated market (USITC, 2018).

## Total sales of seeds and agrochemicals by the largest transnationals in the sector, 2016

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of S. Bonny, "Corporate concentration and technological change in the global seed industry", *Sustainability*, vol. 9, No. 9, 2017.

The first of these three operations was the so-called "merger of equals" between Dow and DuPont in December 2015. The goal of this operation was to create a new company whose ownership would be divided equally between the two firms, and which will be divided again later into three new companies specializing in the market for agricultural products (seeds and agrochemicals), material sciences (plastics, wrappings, etc.) and special products (new industries that share investment characteristics and market approaches, such as industrial biosciences, health and nutrition, and electronic and communications security and protection). This merger was completed in September 2017, with a value estimated at US\$ 130 billion, while the creation of the first of the three new planned companies (the material science division) was completed in April 2019. Corteva, the new agricultural products unit, was separated from the new DuPont specialist chemicals manufacturer on 1 June 2019.

## Box III.3 (concluded)

The second operation was the purchase of Monsanto of the United States by Germany's Bayer. In May 2016, the Bayer pharmaceuticals company made an unsolicited offer to buy Monsanto for a sum estimated at about US\$ 66 billion. The agreement required the approval of regulators in 30 countries and was the highest-value transaction ever carried out abroad by a German firm (Kumar, 2018). In March 2018, the European Commission approved the transaction with the proviso that the number of competitors in the seeds, non-selective agrochemicals and digital agriculture markets did not decline. Bayer's proposal to transfer these three units to BASF was accepted, so that the German firm would enter markets in which it did not formerly compete (European Commission, 2018). With the merger, Bayer became the world's largest supplier of seeds and agrochemicals. It is hoped that the combined resources of Bayer and Monsanto will speed up the launch of new packages of seeds and agrochemicals, which would increase the firm's market power in the agrifood value chain.

The third operation was the purchase of the world's largest supplier of agrochemicals, Syngenta of Switzerland, by China National Chemical Corporation (ChemChina). This agreement differs from the above in that the acquirer is State-owned and had virtually no prior involvement in the seed market. Although the company lacked any significant involvement in this market, it had managed to compete at the global level in the agrochemicals market after acquiring a majority shareholding in Adama, an Israeli firm that competes in this niche at the global level, in 2011 (Mitchell, 2017). The involvement of ChemChina in the seed market increased in late 2017 when, through Syngenta, it took over the Latin American seed unit that COFCO had previously acquired from Nidera.

The acquisition of Syngenta by ChemChina is in line with its strategy of focusing on the life sciences, advanced materials and environmental markets between now and 2020 (Alperowicz, 2016). Consistent with this strategy is the firm's acquisition, in November 2017, of a licence to use the CRISPR genetic editing technique, applicable to agricultural products. This technology serves to modify the DNA of organisms without the need to introduce genes from another external life form. This is important, because the hope is that genetic editing will end the debate about the acceptability of genetically modified seeds (Hayley, 2016; Bunge, 2017).

## Acquisitions of seed and agrochemical firms or units based in the region, 2015–2018

Year	Target firm	Country of target firm	Acquiring firm	Country of acquiring firm	Selling firm	Country of selling firm
2018	Seeds business/Latin America	Brazil	Syngenta AG	Switzerland	COFCO Corp	China
2018	Fertilizer Assets	Brazil	Mosaic Co	United States	Vale SA	Brazil
2017	Bug Brasil	Brazil	Koppert BV	Netherlands	Inseed Investimentos	Brazil
2017	Dow Agrosciences Sementes & Biotecnologia Brasil Ltda.	Brazil	CITIC Agricultural Industry Fund Management Co., Ltd.	China	Dow AgroSciences LLC	United States
2017	Grupo Agricerter S.A.	Costa Rica	American Vanguard Corp.	United States		
2017	Emerger Fertilizantes S.A.	Argentina	Linea Ltd./Bermuda	Bermuda		
2017	Labtec Laboratorio de Ciencia e Tecnologia S.A.	Brazil	Invivo Group SASU	France		
2017	Sinagro Produtos Agropecuarios S.A.	Brazil	UPL Ltd	India		
2016	Fertilizers Blending Unit	Brazil	Yara International ASA	Norway	Aubos Sudoeste Ltda	Brazil
2016	Fertilizantes Tocantins Ltda.	Brazil	EuroChem Group AG	Switzerland		
2016	Field and laboratory GLP business/Brasil	Brazil	SynTech Research Inc.	United States	Syngenta AG	Switzerland
2016	Majestic Semillas	Mexico	Chromatin Inc	United States		
2015	Coodetec's seeds business	Brazil	DowDuPontInc	United States	Cooperativa Central de Pesquisa Agrícola	Brazil
2015	Fertilizantes Heringer S.A.	Brazil	OCP S.A.	Morocco		

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

These global movements have had their counterparts in the region, with over a dozen acquisitions of seeds or agrochemicals firms or units in countries of the region over the past four years alone. Most of these transactions have taken place in Brazil, and although several agrochemical giants have been among the purchasers, firms from emerging and developing countries such as India and Morocco have also entered the regional market.

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

<sup>a</sup> Data from the United States Department of Agriculture show that the cost per acre of soybean and maize seed in the United States increased by all of 351% and 321%, respectively, between 1995 and 2014, a period in which the large seeds and agrochemicals transnationals moved strongly to introduce technology packages. Although maize and soybean yields also increased in the period, the trend was fairly similar to that of earlier decades (Kelloway and Miller, 2019).

## D. Chinese investment in the agrifood chain of Latin America and the Caribbean

In the context of increasing FDI from China (ECLAC, 2017), the sectors of the agrifood chain have gained importance for different reasons: the growth of the middle class and its increasing demand for imported meat, dairy products and vegetables, as well as healthy products; domestic environmental sustainability; and the quest for greater access and market power throughout the chain.<sup>16</sup>

Investment by Chinese firms in Latin America and the Caribbean was oriented towards the Peruvian fishing sector from the mid-2000s, diversifying only in the last five years in terms both of productive sectors and of recipient countries (see table III.9).

China Fishery Group, part of the Chinese holding company Pacific Andes International Holding (PAIH), made the original acquisitions in Peru. This firm was constituted in Peru in March 2006 with the purchase of the Carmen processing business (March 2006), followed by Grupo Alexandra SAC (June 2006), Comanche SAC (October 2006), Pocoma SAC (May 2007), Pilar y Maru (July 2007), Chimbote Sur (September 2007), Epesca Pisco (April 2008), Pesquera Ofelia SRL (April 2008), Mistral SAC (2009), Rafmar SAC and Consorcio Vollmatch (both in December 2011).<sup>17</sup> Bloomberg has recorded six of these operations between 2006 and 2008 in Peru and two acquisitions of fishing firms in Panama.

With a fleet of 20 boats (fishing capacity of 9,000 metric tons) and 7 industrial plants in Peru, these acquisitions reflect China's interest in accessing the fishing quotas implemented by the Peruvian Government in 2010 and thereby expanding its involvement in the fish meal and fish oil market. In addition to these purchases, there was the acquisition of Copeinca, the owner of the largest anchoveta fishing quota (16.9%), in 2013 by China Fishery Group from Grupo Dyer for US\$ 809 million. However, the increasing scarcity of anchoveta in Peruvian seas in the following years, combined with management problems, meant that the bonds issued by PAIH to buy these firms could not be paid. In June 2016, China Fishery Group filed for voluntary bankruptcy in the New York courts, and this led to negotiations over the sale of its assets to other interested Chinese and Russian firms (Perú Pesquero, 2017). Although the firm is still operating for the time being, in 2018 the courts authorized the sale of some specified assets to reduce its debt, while negotiations over the sale of Copeinca and the other firms continue (*Diario El Comercio*, 2018).

Investment in Chile has focused on the wine sector. The State-owned firm China National Cereals, Oils and Foodstuffs Corporation (COFCO) acquired part of the Bisquertt vineyard in 2010 for US\$ 18 million, and two firms, Yantai Changyu and Yanghe, recently acquired stakes in the Bethwines and San Pedro Tarapacá vineyards for US\$ 110 million. In addition, in early 2017 COFCO went into partnership with the Santa Rita vineyard to distribute wines in China (InvestChile, 2018).

<sup>16</sup> A recent example of the push for domestic environmental sustainability is the increase in the price of pork resulting from the implementation of environmental regulations on pig rearing close to cities and rivers, since pig dung is the main cause of water pollution in the country (Bloomberg News, 2017).

<sup>17</sup> See "CFG Investment" [online] [www.cfgperu.com/nuestra\\_empresa.html](http://www.cfgperu.com/nuestra_empresa.html).

Table III.9

China: acquisitions in the Latin American and Caribbean agrifood sector, 2005–2018

(Millions of dollars and percentages)

Year	Target firm 	Target country	Sector of target firm	Acquiring firm 	Value of operation	Percentage acquired
2017	Dow AgroSciences Sementes & Biotecnologia Brasil Ltda.	Brazil	 Agrochemicals	CITIC Agricultural Industry Fund Management Co., Ltd.	1 100	100.0
2016	Fiagril Ltda.	Brazil	 Agriculture	DIFA	200	57.6
2017	Belagrícola Comércio e Representação de Produtos Agrícolas Ltda.	Brazil	 Agriculture	DIFA	124.9	49.7
2017	Lirtix S.A.. Rondatel S.A.	Uruguay	 Agriculture	Sundiro Holding Co Ltd	82.3	100
2016	Mataderos y una unidad de engorda	Argentina	 Other foods	Heilongjiang Foresun Group	75.0	100
2018	Viña San Pedro Tarapacá S.A.	Chile	 Wines and spirits	Jiangsu Yanghe Brewery Joint-Stock Co Ltd	65.0	12.5
2007	Inversionista La Candelaria S.A.. Altoreal S.A.	Panama	 Fishing	China Fishery Group Ltd.	26.0	100
2008	Epesca Pisco SAC	Peru	 Fishing	China Fishery Group Ltd.	19.9	100
2010	Viña Bisquertt	Chile	 Wines and spirits	COFCO Corp.	18.0	100
2007	Fishmeal Plant/Chimbote	Peru	 Fishing	China Fishery Group Ltd.	15.3	100
2007	Grenadine Bay Inc.	Panama	 Fishing	China Fishery Group Ltd.	14.0	100
2008	Pesquera Mistral SAC	Peru	 Fishing	China Fishery Group Ltd.	11.7	100
2007	Pesquera Pocoma SAC	Peru	 Fishing	China Fishery Group Ltd.	10.5	100
2006	Pesquera Isla Blanca SA	Peru	 Fishing	China Fishery Group Ltd.	4.4	100
2008	Pesquera Islaya SAC	Peru	 Fishing	China Fishery Group Ltd.	4.3	100
2017	Belagrícola Comércio e Representação de Produtos Agrícolas Ltda.	Brazil	 Agriculture	DIFA	0.1	4.3
2017	Landco Administradora de Bens e Imóveis S.A.	Brazil	 Agriculture	DIFA	n. d.	49.0

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

In Jamaica, there has been investment in the sugar industry. The Chinese firm China National Complete Plant Import Export Corporation (Complant) acquired three sugar mills in 2011 (Bernard Lodge Sugar Estate, Monymusk Sugar Estate and Frome Sugar Estate) after the Jamaican State decided to divest itself of assets in the sector. Joyful Right Co. was set up to run the three sugar mills and the processing plants of the latter two. This conglomerate is the country's largest processor of sugar cane and has invested over US\$ 260 million in modernizing its industrial plants, even as it has struggled to make a profit.

Besides these operations, China's presence in the Latin American agrifood chain has been oriented towards securing access to grains (particularly soybeans) by controlling the trading networks and logistics infrastructure associated with them.

In Brazil, Chinese investment in the sector has gone into the market for the supply of agricultural inputs and services (including logistics) for grain production, especially during the last two years, following the acquisition of Fiagril and Belagrícola (Reuters, 2017) by Hunan Dakang International Food & Agriculture Co. (DIFA). The first of these firms is a major trader of agricultural inputs and fertilizers and supplier of technical assistance for the production of soybeans, maize, cotton, sorghum, beans and rice, as well as logistical services for exporting, in addition to producing biodiesel. The second of the firms acquired is one of Brazil's largest suppliers of agricultural inputs and technology solutions, in addition to providing commercial services.

In 2017 CITIC Agricultural Industry Fund Management Co., Ltd. purchased the Brazilian component of Dow's maize seed business for US\$ 1.1 billion. The sale of these assets was one of the conditions imposed on the United States firm for it to proceed with its merger with DuPont. The agreement included its seed processing plants and research centres and its licence to use a copy of the Brazilian maize germplasm bank. Lastly, COFCO has recently shown an interest in enhancing its involvement in the Brazilian sugar industry (it already owns four plants with a processing capacity of 15 million tons of sugar cane a year) by acquiring one of Renuka's mills in the country that are to be auctioned off because of restructuring (Gomes, 2017).

In 2014, COFCO purchased Nidera, a large Dutch grain marketer, and Noble Agri Ltd., a grain processor and merchant headquartered in Hong Kong (Special Administrative Region of China). These acquisitions did not involve movements of FDI to Latin America, as they were conducted outside the region, but they increased the power of COFCO over the production and export of grain from Latin America. While Noble operates in the soybean, coffee, sugar cane, biodiesel and cotton sectors of Argentina, Brazil, Paraguay and Uruguay, Nidera is present in those same countries and has a quite well-developed logistics and distribution infrastructure in the Latin American soybean complex, including fertilizers and pesticides (Da Rocha and Bielschowsky, 2018).

It is important to note that COFCO is the leading Chinese food company. Its character as a State enterprise, with 12,000 employees in 35 countries, a trading volume of 105 million tons in 2017 including commodities (grains, oilseeds, sugar, coffee and cotton) and branded products, and sales of US\$ 34 billion mean that this firm plays a key role in China's global food strategy.

Chinese investment in Argentina and Uruguay has concentrated on soybeans, the refrigeration industry and beef production. In 2017, China permitted the import of chilled meat on the bone from Argentina, which makes it possible to sell higher-quality, higher-value cuts. China has also gained importance as a marketer of agricultural products in the region, since COFCO took over the port terminals of Noble and Nidera when it acquired them and is now the largest exporter of grains from Argentina (the second-largest if by-products are also included) and the third-largest from Brazil (Parera, 2018; Da Rocha and Bielschowsky, 2018). Furthermore, in April 2017 China Communications Construction



Company (CCCC) signed the investment agreement for the construction of a new port in San Luis de Maranhao (Brazil), whose main shipments are agriculture-related.

China's strategy in the agrifood chain of Latin America and the Caribbean, apart from the diversification referred to (from sugar to meat and wine), is marked first and foremost by the purchase of existing assets that serve to control grain production, logistics and infrastructure services, with a focus on soybeans. It is important to emphasize that about 60% of China's soybean imports come from Latin America, and that the country has processing capacity for this commodity. Thus, Chinese transnationals, rather than directly controlling soybean production, which would mean competing directly with the big four traders of food grains or perhaps provoking local conflicts over land purchases, prefer to intervene in other links of the chain that ensure a degree of control over exports of primary production to China (Da Rocha and Bielschowsky, 2018).<sup>18</sup>

## E. Conclusions

Agrifood sectors are interlinked in a complex chain involving a variety of firm types, from transnationals and trans-Latins to small and medium-sized enterprises. This chain contains links that have taken on particular importance because of their ability to generate value and influence the functioning of production activities that are important for GDP and exports (soybeans, but also other grains). FDI and transnationals play an active part in these linkages.

Overall, agrifood sector FDI represented 7.9% of total FDI received by Latin America and the Caribbean between 2012 and 2017. The share is considerably larger for some countries, in particular Argentina, Mexico, Paraguay and Uruguay, and also Brazil in some periods. The FDI received by the region has been increasingly concentrated in the agro-industrial segment (90.2% between 2012 and 2016), where trans-Latin enterprises play an important role.

At the same time, the chain is of strategic importance when it comes to achieving goals set in the 2030 Agenda for Sustainable Development. The agricultural and agro-industrial sector is composed of over 16 million family farms (many engaged in subsistence farming) and thousands of medium-sized and large agricultural firms, small and medium-sized rural firms, and agro-industrial and services enterprises whose environmental and productive performance is crucial to the attainment of the Sustainable Development Goals (SDGs). This is particularly true of Goals 1 (End poverty) and 2 (Zero hunger), but a broader and more coherent vision also requires consideration of Goals 3 (Health), 4 (Education), 5 (Gender equality), 6 (Water and sanitation), 7 (Energy), 8 (Decent work and growth), 9 (Industrial innovation and infrastructure), 12 (Responsible consumption and production), 13 (Climate action), 14 (Marine biodiversity), 15 (Land biodiversity), 16 (Peace, justice and strong institutions) and 17 (Partnerships for sustainable development), which can be attained through the contributions this chain has to offer (Rodríguez, 2017). This indicates that the regional agrifood chain could play a key role in the design and implementation of a low-carbon development style with a smaller environmental footprint.

Latin America and the Caribbean has assets and capabilities that are important to the chain. In the agro-industrial segment alone (the highest value added component of the chain), the region's share of the total value added generated by the chain globally rose from 7.2% to 11.6% between 1990 and 2015.

<sup>18</sup> The big four global food grain trading companies are Archer Daniels Midland (ADM), Bunge, Cargill and Louis Dreyfus, known as "ABCD".

However, breaking down FDI flows by type, destination country and destination sector reveals a considerably more complex situation. First, FDI is largely confined to a few products (particularly beer and non-alcoholic beverages). Second, the prevalence of mergers and acquisitions versus new projects shows a greater interest in acquiring existing assets than in creating new capacity in the different segments of the chain. It should also be noted that it is the region's own transnationals that are most prominent in acquisitions of this type, and that they are motivated more by gaining market share than the creation of new productive activities.

A collective effort from public institutions is necessary to orient FDI towards higher value added links in the agrifood sector in order to capture its full potential. This is possible and desirable in agro-industrial segments where product processing and differentiation are more important (e.g. processed foods with quality characteristics that make them attractive to segments of consumption with more dynamic and sophisticated demand).

The mechanisms used to promote sector-specific investment, such as tax benefits and policies to encourage the formation of joint ventures, are not adequate for this purpose. More generally, regulations need improvement (on market access, employment conditions, the environment and links to communities, among other things) and technological and regulatory capabilities should be sufficient to ensure product quality. Certification systems, for example, regarding attributes of interest to consumers, will help build up a good reputation for product quality. The technological and innovation capabilities required for strong product differentiation also need to be developed. These public-private policy areas are essential for increasing participation in the higher value added segments of the chain and, by their very nature, transcend the promotional activities traditionally carried out by investment agencies. In this area, the sector's development requires a broader technological and industrial policy vision.

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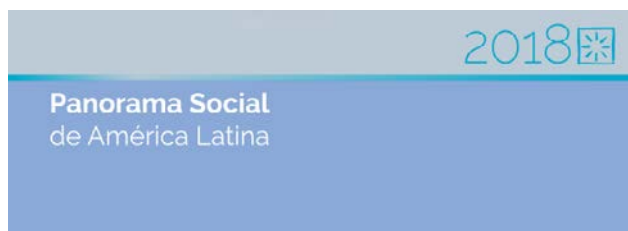
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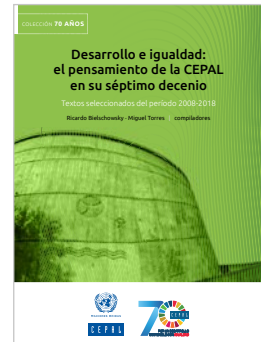
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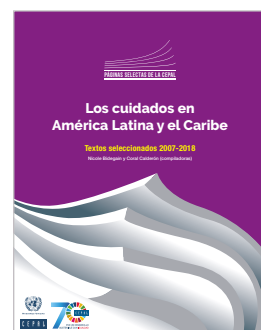


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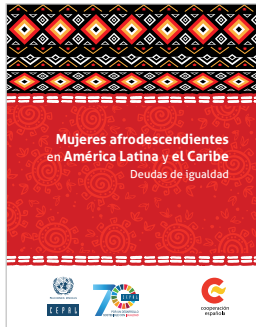
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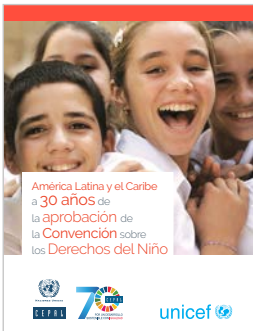
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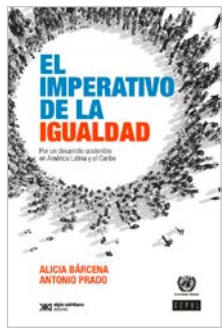
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