

# INVESTING FOR THE FUTURE IN LATIN AMERICA AND THE CARIBBEAN



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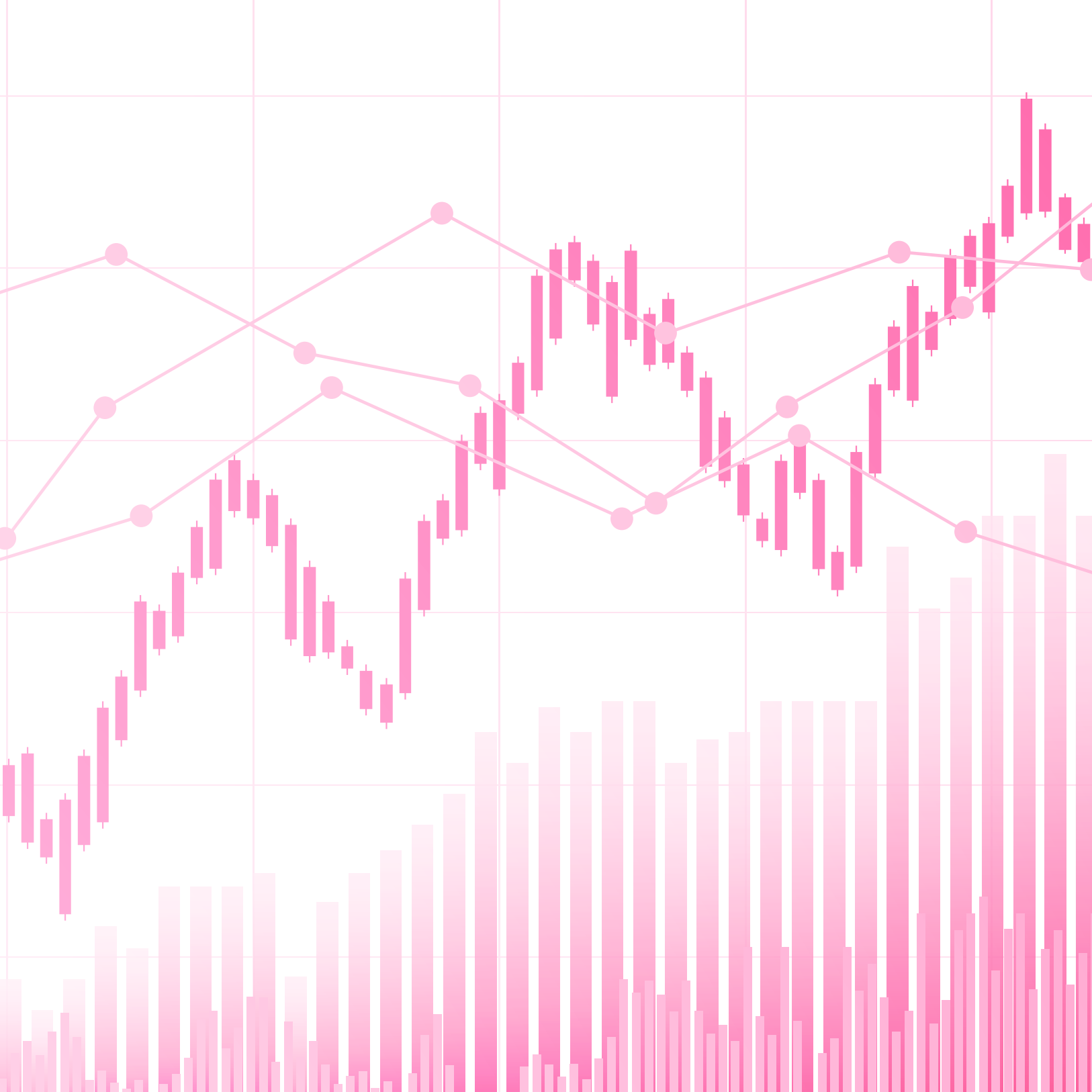
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**INVESTING**

FOR  
THE **FUTURE** IN

**LATIN AMERICA**

AND  
THE **CARIBBEAN**



## Foreword

This document was prepared by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) for the tenth edition of the Annual Investment Meeting (AIM), to be held in Dubai from 24 to 26 March 2020, on the theme of “Investing for the Future: Shaping the Global Investment Strategies”.

The tenth edition of AIM will take place at a time when the global economic scenario is becoming more complex and humanity is facing grave challenges, including poverty, inequality and mass migrations, together with environmental crises, climate change and the still uncertain impact of the digital revolution. Against this backdrop, the countries of Latin America and the Caribbean face several challenges on their path to achieving inclusive and sustainable development. Inequality and low growth are compounding one another and undermining development, innovation, inclusion and productivity in the region. Therefore, universal policies for social and labour inclusion are needed to build human capacities, boost productivity and economic growth, and establish a culture of rights and social citizenship.

Foreign direct investment (FDI) has the potential to help build local capacities, promote sustainable development and modify the region’s production structure. Nevertheless, large FDI flows alone will not guarantee the region’s economic diversification and long-term growth. Achieving these objectives requires public policy guidelines to steer and coordinate countries’ investment priorities.

In an effort to inform discussions at the meeting, this document seeks to provide an overview of investment in Latin America and the Caribbean, focusing on four of the six pillars of AIM: FDI, small and medium-sized enterprises (SMEs), future cities and the Belt and Road Initiative. It also seeks to highlight the main areas where there are opportunities for investment and for the development of economic relations between Latin America and the Caribbean and the countries of the Gulf Cooperation Council (GCC) (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).



The document is divided into six sections. Section I gives a brief overview of the main demographic and economic variables in Latin America and the Caribbean. Section II describes the FDI characteristics and trends in the region. Section III focuses on the relationship with the GCC countries and highlights opportunities to strengthen it through trade and investment. Section IV examines the importance of SMEs and the growing role of start-ups in the digital economy. Section V analyses investment opportunities in connection with the development of cities of the future. In a region where more than 80% of the population lives in urban areas, the development of clean, liveable, inclusive and smart cities is of growing importance. Lastly, section VI gives a brief outline of the Belt and Road Initiative in Latin America and the Caribbean. China's global investment strategy has been expanding into developed and developing countries over the last decade and the region is no exception. The Initiative focuses mainly on building infrastructure which is crucial to fostering inclusive and sustainable development in Latin America and the Caribbean.

**Alicia Bárcena**

Executive Secretary

Economic Commission for Latin America  
and the Caribbean (ECLAC)

A.

**Latin America and the Caribbean: a heterogeneous developing region with 642 million inhabitants and a combined nominal GDP of US\$ 5.4 trillion**

- Latin America and the Caribbean refers to a large and very diverse region, extending from the Bahamas and Mexico in the north to the southern cone of Chile and Argentina.

**Map 1**

**Latin America and the Caribbean: per capita gross domestic product (GDP) and population, 2018**

(United States dollars and thousands of inhabitants)

**Latin America**



The region comprises **33 countries** with a total population of **642 million**. It is extremely heterogeneous in terms of biodiversity, culture and economy

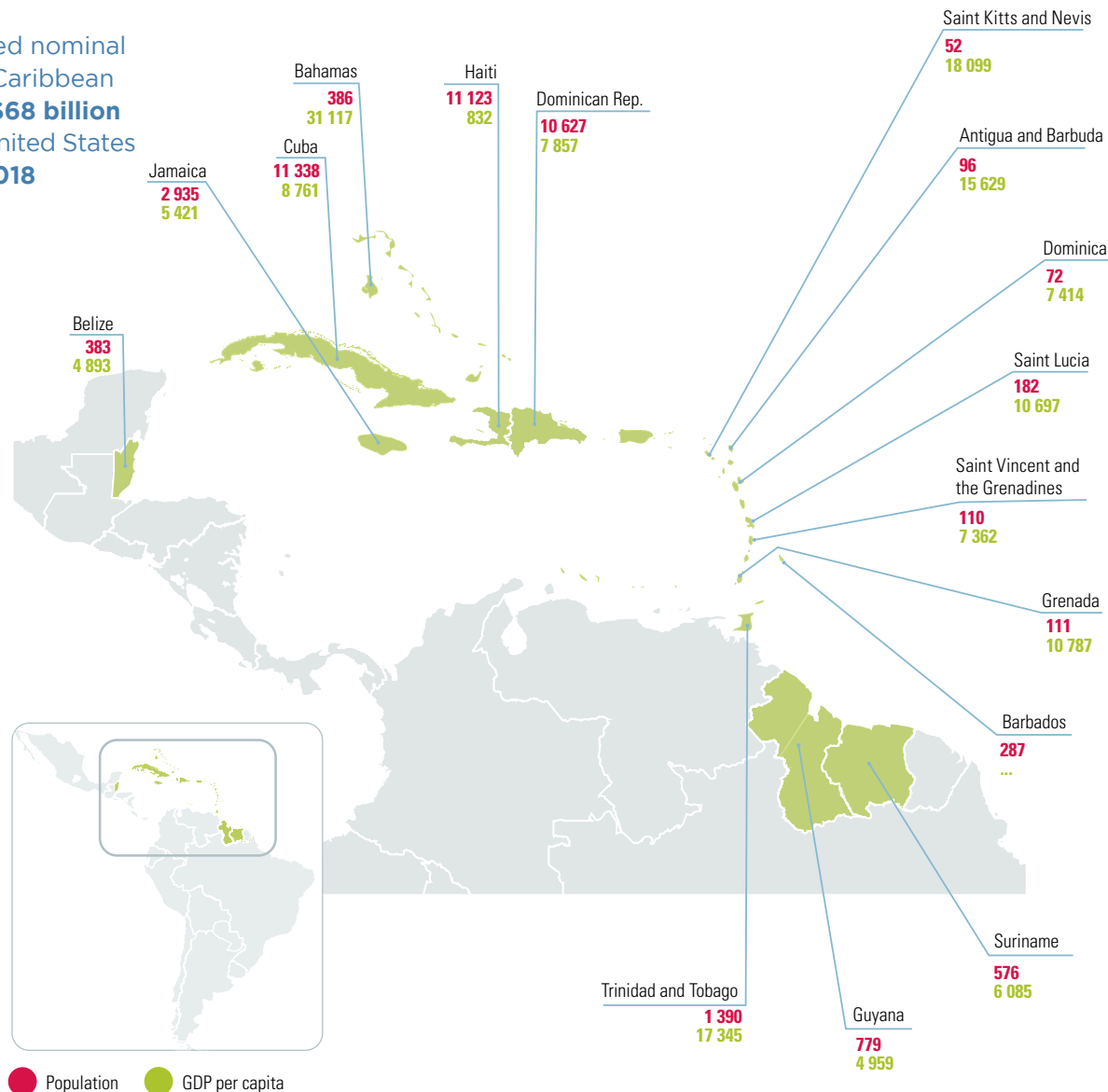
The GDP of the region has **doubled between 1990 and 2018**, reaching **US\$5.4 trillion** (in current United States dollars) in **2018**, while the average **per capita GDP in 2018 was US\$8,383** (in current United States dollars)

● Population ● GDP per capita

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on Cepal Stat <https://estadisticas.cepal.org>.

## The Caribbean

The combined nominal **GDP** of the Caribbean reached **US\$68 billion** (in current United States dollars) in **2018**

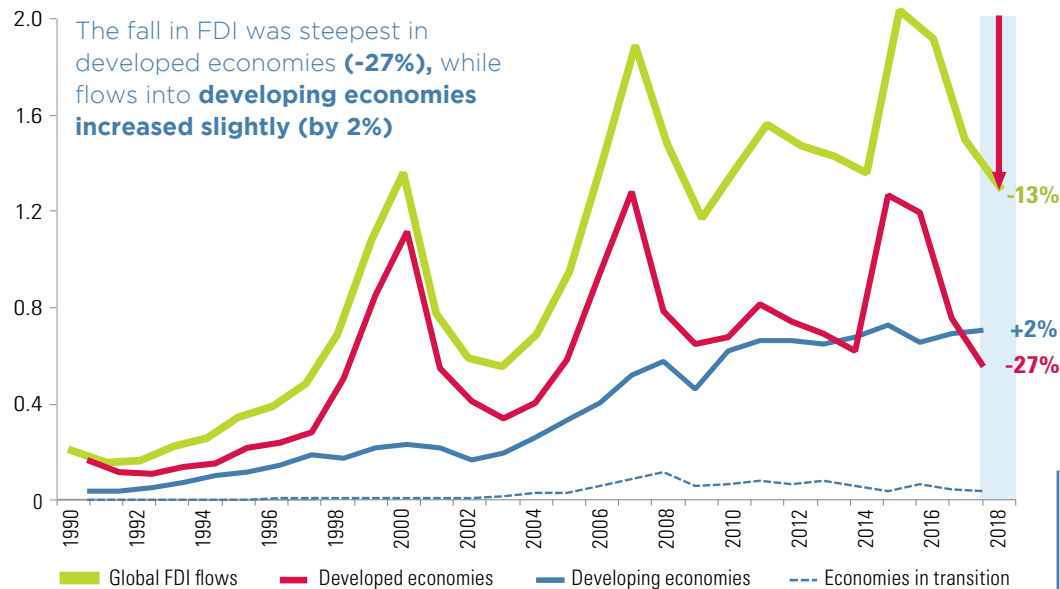


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on Cepal Stat <https://estadisticas.cepal.org>.

## B. The countries of the region are open to FDI: in 2018 they received 14% of global inflows and accounted for 6% of world GDP

- In the last three years global FDI flows have slumped. FDI inflows declined for the third consecutive year in 2018, weakening to US\$ 1.3 trillion, the lowest level since 2009 (see figure 1). The fall in FDI was steepest in developed economies (-27%), while flows into the developing economies increased slightly (by 2%). In Europe, the United States tax reform had a significant impact and led to a sharp 55% drop in FDI inflows, as United States transnational corporations took advantage of the reform by repatriating large amounts of accumulated profits.

**Figure 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.

The region's **two largest economies** were among the top 15 FDI recipient countries in 2018: Brazil was ranked seventh and Mexico was thirteenth

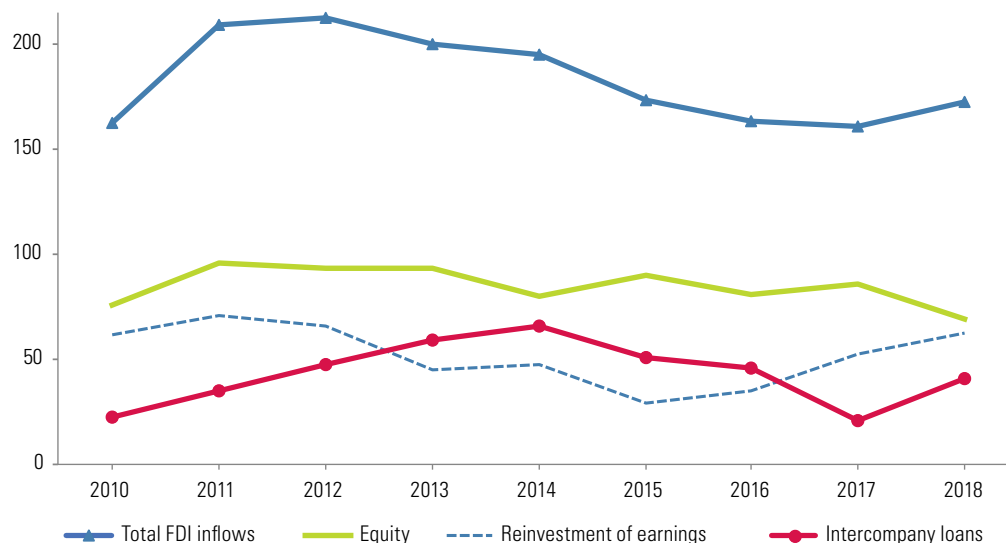
## 1. The region received US\$ 172 billion in FDI in 2018, up 7.0% on 2017

- Although the declining trend of the last five years was halted, FDI has yet to regain the volume of the boom years (2010 and 2011), when the expansion of extractive industries and the economies' buoyancy attracted the attention of transnational corporations (see figure 2). 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).<sup>1</sup>
- An analysis of the different components of FDI shows that the recovery in inflows seen 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.
- Investment is a key mechanism by which new technology can be assimilated into the region's production structure and processes, providing space to reinforce productivity and competitiveness. Sound, high-quality investments create opportunities and jobs and have the potential to contribute to sustainable development in the region.

**Figure 2**  
Latin America and the Caribbean: FDI inflows by component, 2010–2018

(Billions of dollars)

While global inflows decreased, Latin America and the Caribbean received FDI totaling **US\$ 172 billion** in 2018, up **7.0%** on the previous year



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates as at 3 December 2019.

**Note:** Information based on the sixth edition of *Balance of Payments and International Investment Position Manual (BPM6)* of the International Monetary Fund (IMF, 2009), except for the 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 represent gross FDI inflows.

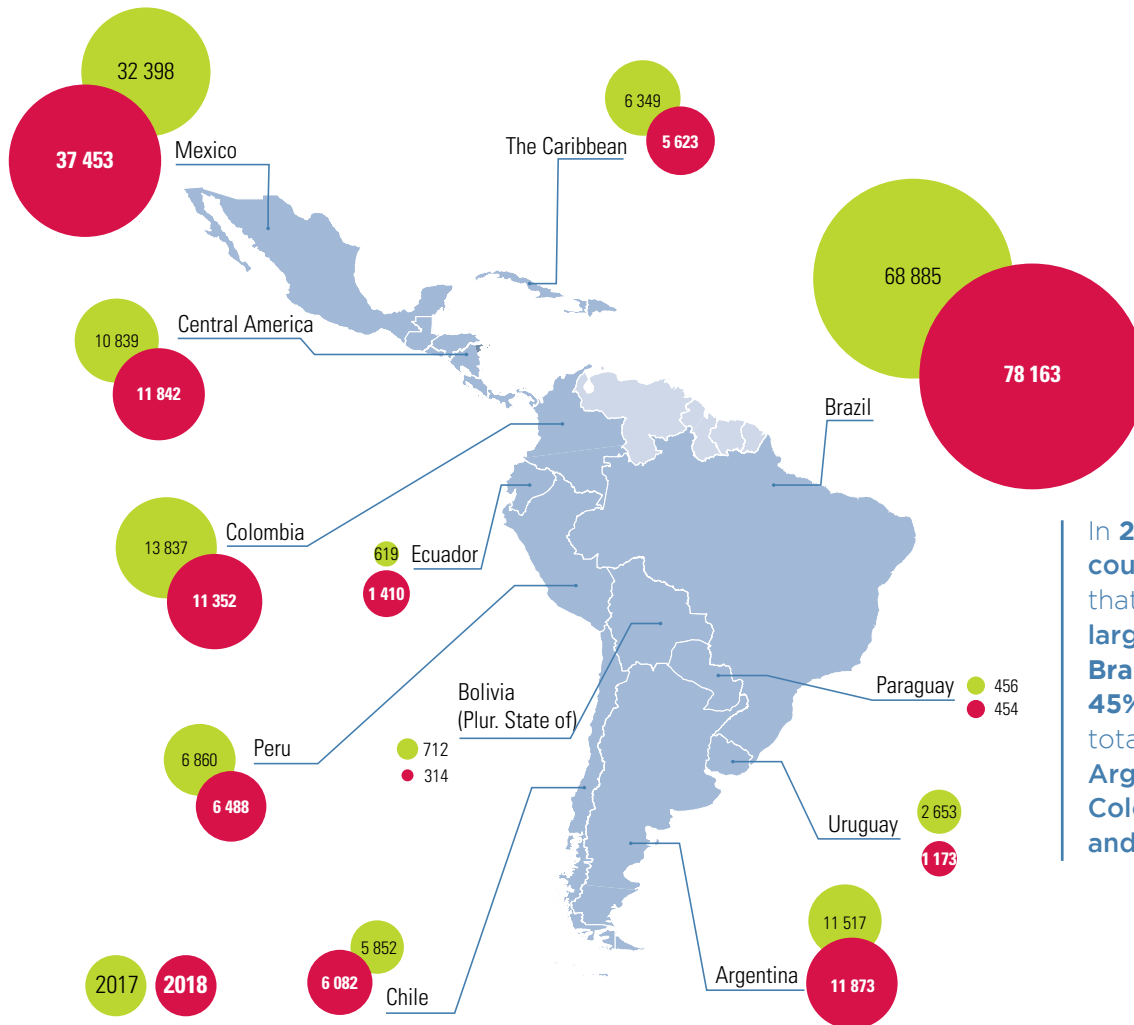
<sup>1</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2019*, (LC/PUB.2019/16-P), Santiago, 2019. Data updated as at 3 December 2019.

## 2. Brazil and Mexico accounted for the majority of the region's FDI inflows

Map 2

Latin America and the Caribbean (selected subregions and countries): FDI inflows, 2017 and 2018

(Millions of dollars)



In **2018**, the **five countries** in the region that received the **largest inflows** were **Brazil** (accounting for **45%** of the regional total), **Mexico (22%)**, **Argentina (7%)**, **Colombia (7%)**, and **Peru (4%)**

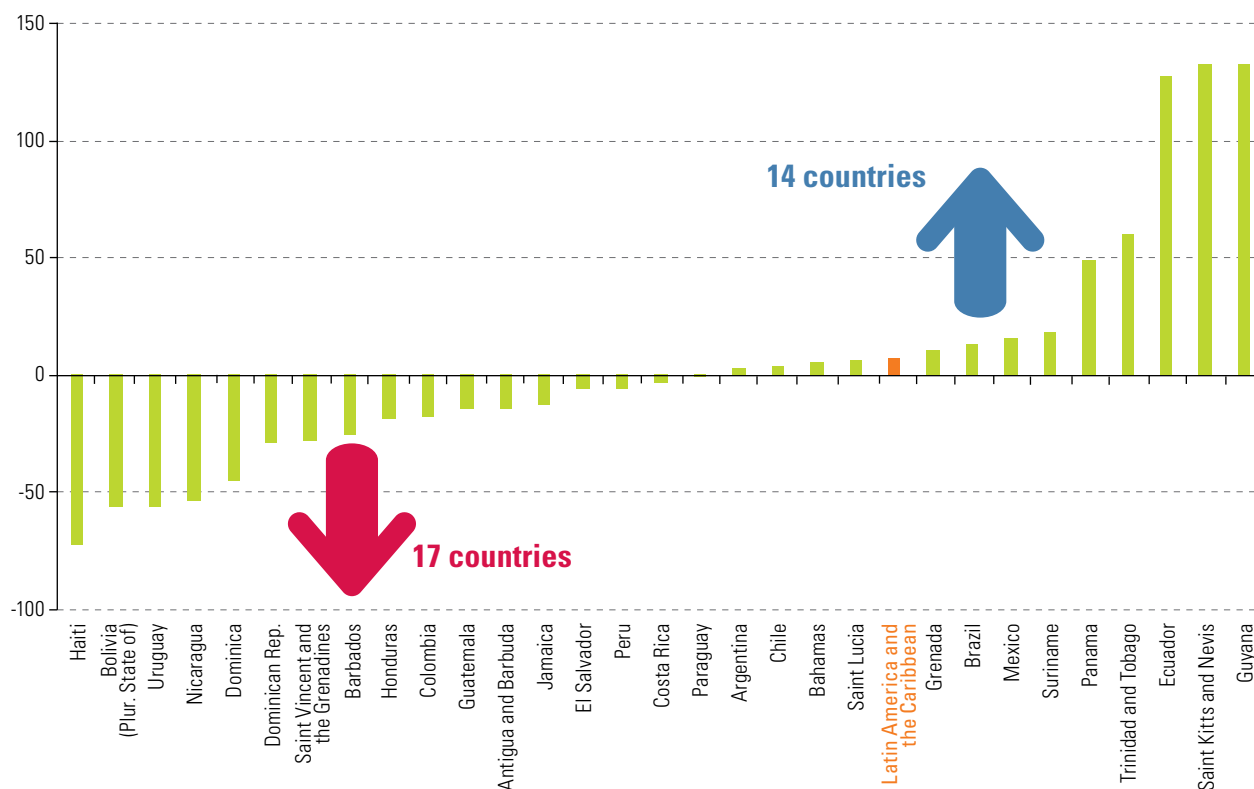
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2019* (LC/PUB.2019/16-P), Santiago, 2019.

**Note:** Updated on the basis of official figures and estimates as at 3 December 2019.

### 3. Countries' year-on-year variations in FDI inflows were different with no regional pattern

- After the commodities boom cycle end, FDI inflows have not followed uniform trends among countries and subregions; 2018 was no exception. In South America, investment inflows increased in two countries of the Southern Common Market (MERCOSUR), Argentina and Brazil, and in two Andean countries, Chile and Ecuador, while they decreased in the other countries (see figure 3). Despite the tensions with the United States, FDI grew in Mexico, while flows into Central America only increased with respect to 2017 in Panama. In the Caribbean, where FDI flows are relatively more homogeneous in terms of the destination sector (tourism), inflows slowed due to lower investments in the main recipient country, the Dominican Republic.

**Figure 3**  
**Latin America and the Caribbean: variation in FDI inflows, 2017–2018**  
*(Year-on-year percentage variation)*



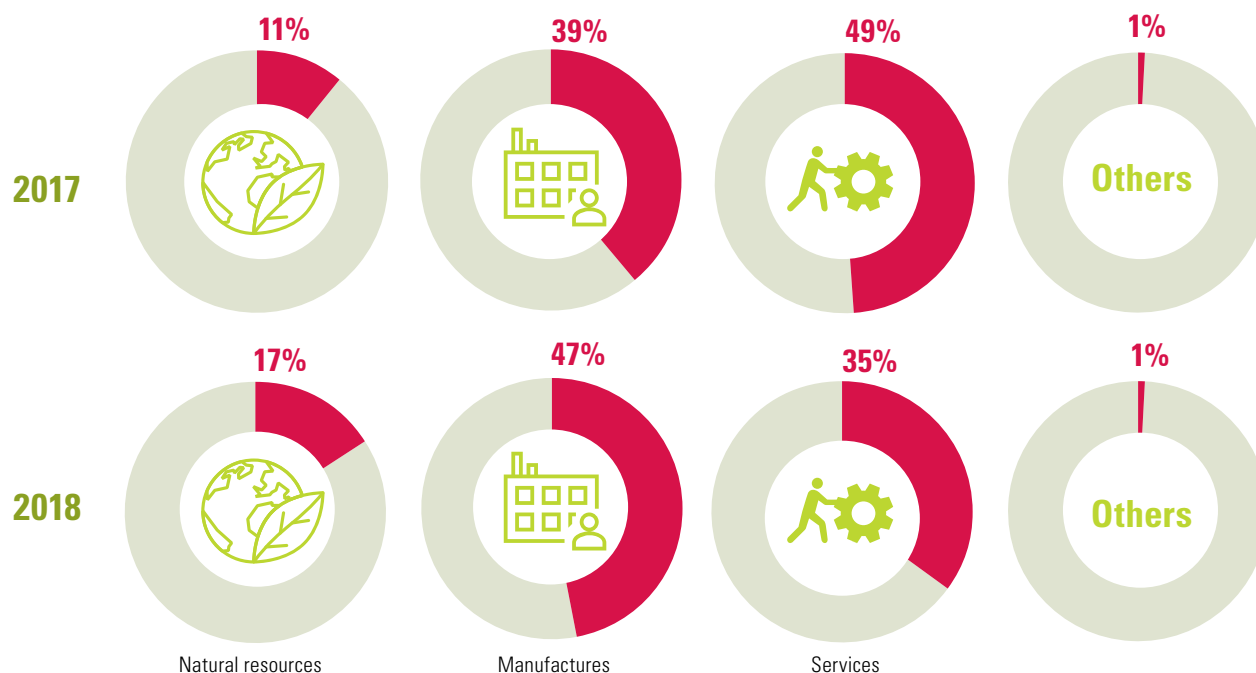
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates as at 3 December 2019.

**Note:** The percentage for Belize was too large (366%) to be included in the figure.

## 4. In recent years, manufacturing and services received more investment than natural resources

- Latin America and the Caribbean is rich in natural resources. Throughout history, foreign investors have been attracted by the exploitation of its mineral, hydrocarbon and agricultural resources. Nevertheless, in recent years, manufacturing and services have 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. In 2018, 47% of FDI inflows corresponded to manufacturing, 35% to services and 17% to natural resources (see figure 4). 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). For example, in Chile in 2017, inflows into natural resources accounted for 2% of FDI, compared to half of the total in 2011 and 2012.

**Figure 4**  
**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), *Foreign Direct Investment in Latin America and the Caribbean*, 2019 (LC/PUB.2019/16-P), Santiago, 2019.

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

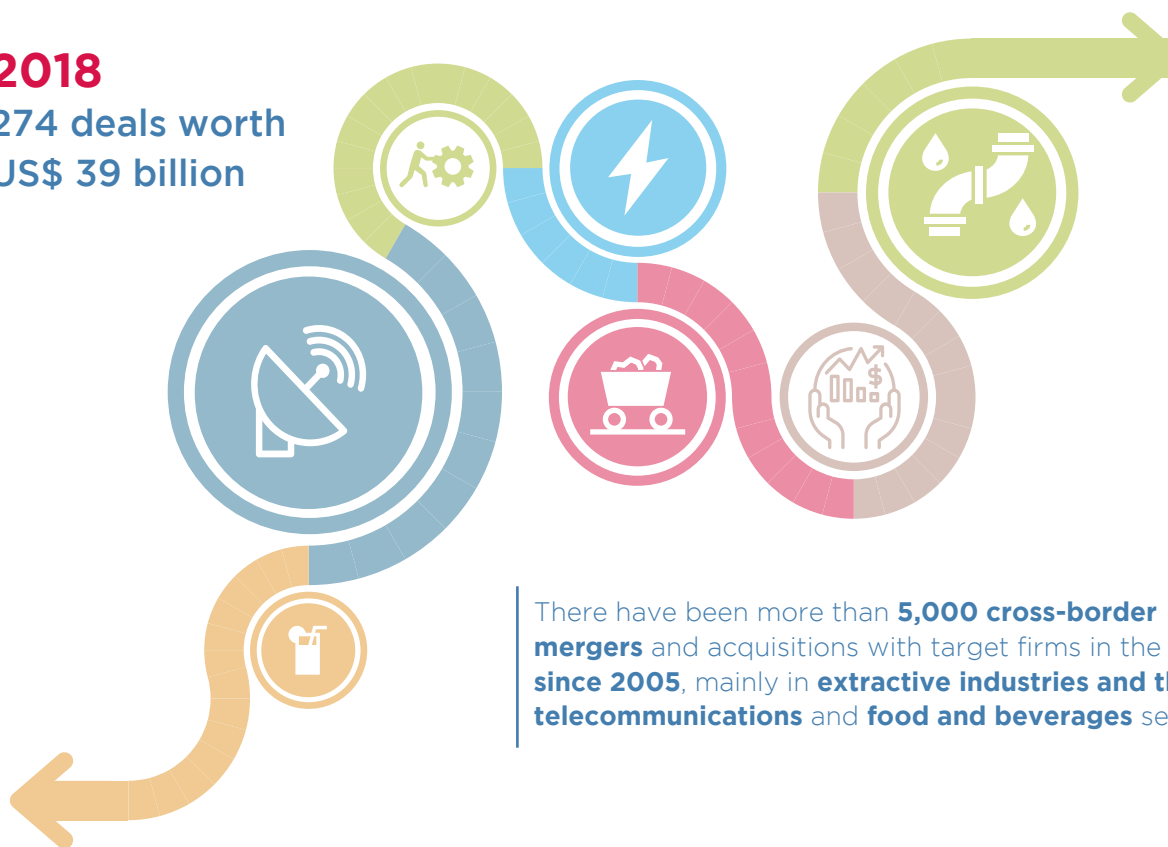


## 5. There have been more than 5,000 cross-border merger and acquisitions with target firms in the region since 2005, mainly in extractive industries, telecommunications and food and beverages sectors

- The largest deals have been in the food and beverages, mining, utilities, telecommunications, finance and transportation sectors (see table 1). Analysis of the country of origin of the top acquiring companies of the last decade reveals that China has become a key player in the region, a development that will be examined later in the document.
- In 2018, 274 deals were confirmed, of which the value was disclosed in 50% of the cases (in the other 50% it was not), totalling US\$ 39 billion.





















**2018**

274 deals worth  
US\$ 39 billion



There have been more than **5,000 cross-border mergers** and acquisitions with target firms in the region **since 2005**, mainly in **extractive industries and the telecommunications** and **food and beverages** sectors

**Table 1**  
**Latin America and the Caribbean: 20 largest cross-border mergers and acquisitions by announced value, 2008–2018**

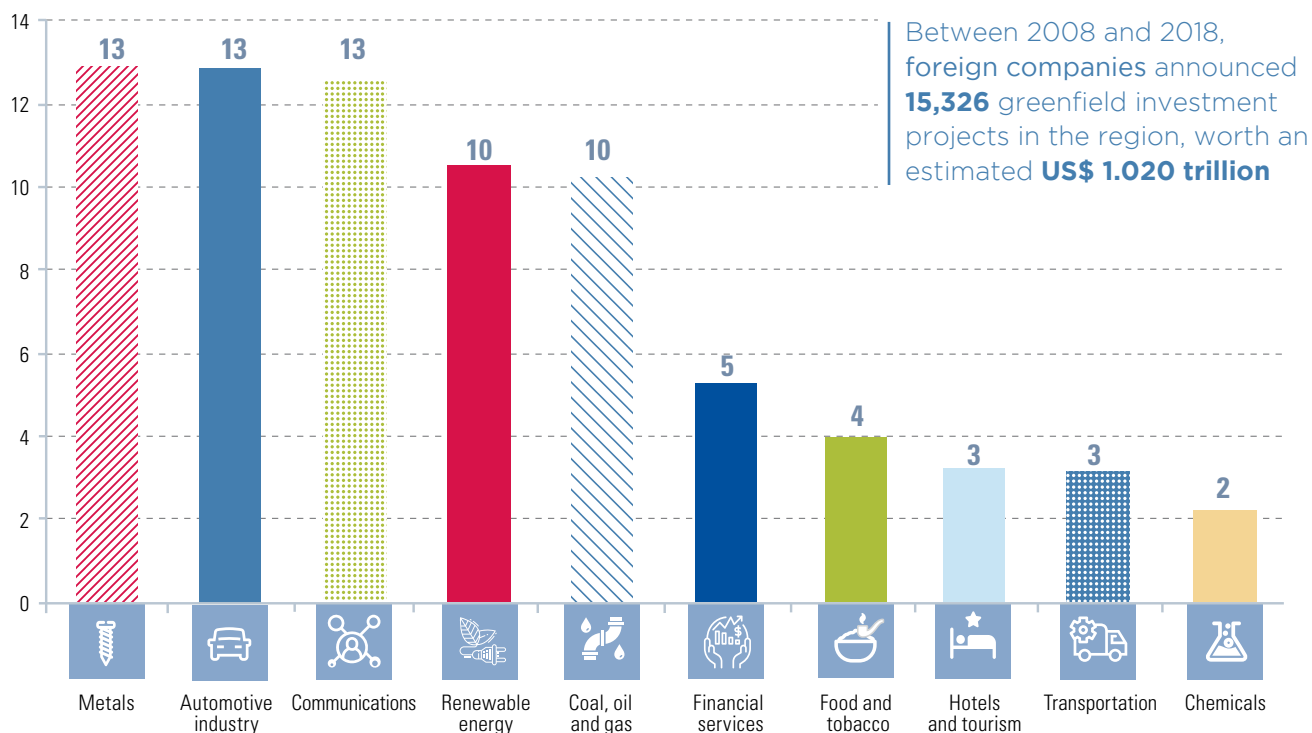
Year	Firm	Country of origin	Assets acquired	Asset location	Sector	Amount (billions of dollars)
2013	Anheuser-Busch InBev S.A./N.V.	Belgium	Grupo Modelo S.A.B. de C.V. (64.69%)	Mexico	 Beverages	17.231
2015	Telefonica Brasil S.A.	Spain	Global Village Telecom (Holding) S.A.	Brazil	 Telecommunications	10.285
2010	Telefonica S.A.	Spain	Brascel N.V. (50%)	Brazil	 Telecommunications	9.557
2010	Heineken N.V.	Netherlands	FEMSA Beer Operations	Mexico	 Beverages	7.439
2010	China Petroleum & Chemical Corp.	China	Repsol Sinopec Brasil S.A. (40%)	Brazil	 Oil and gas	7.100
2014	MMG Ltd, CITIC Metal, CNIC Corp. Ltd	China	Las Bambas copper mine	Peru	 Mining	7.005
2014	Naturgy Energy Group S.A.	Spain	Cia. General de Electricidad S.A./OLD (96.5%)	Chile	 Electric	5.606
2012	Plains Exploration & Production Co.	United States	Former BP oil and gas properties in the Gulf of Mexico	Mexico	 Oil and gas	5.500
2011	Norsk Hydro ASA	Norway	Aluminium assets of Vale S.A.	Brazil	 Mining	5.270
2017	GIC Pte Ltd, Brookfield Infrastructure Partners LP, China Investment Corp.	Canada and China	Nova Transportadora do Sudeste S.A. (90%)	Brazil	 Gas	5.200
2010	Repsol YPF S.A., Oil & Natural Gas Corp., Indian Oil Corp., Petrolim Nasional Bhd, Oil India Ltd	Spain	Carabobo-1 project (40%)	Venezuela (Bol. Rep. of)	 Oil and gas Services	4.848
2012	China Petroleum & Chemical Corp.	China	Petrogal Brasil, Ltda (30%)	Brazil	 Oil and gas	4.800
2010	Vivendi S.A.	France	Global Village Telecom (Holding) S.A.	Brazil	 Telecommunications	4.186
2014	Royal Dutch Shell PLC	Netherlands	LNG portfolio	Peru	 Oil and gas	4.100
2018	Tianqi Lithium Corp.	China	Sociedad Química y Minera de Chile S.A. (23.77%)	Chile	 Chemicals	4.066
2011	Grupo de Inversiones Suramericana S.A., Grupo Bolivar S.A., General Atlantic LLC, International Finance Corp.	Colombia	ING Latin American businesses	Mexico	 Insurance	3.759
2015	China Three Gorges Corp.	China	Jupiá and Ilha Solteira hydropower plant concessions	Brazil	 Energy-Alternate Sources	3.680
2008	Anglo American PLC	United Kingdom	Anglo Ferrous Brazil S.A. (63.5%)	Brazil	 Iron and steel	3.493
2012	LAN Airlines S.A.	Chile	TAM S.A.	Brazil	 Airlines	3.447
2014	Abbott Laboratories	United States	CFR Pharmaceuticals S.A. (99.6%)	Chile	 Pharmaceuticals	3.384

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

## 6. Between 2008 and 2018, the largest greenfield announcements in the region by transnational companies were in metals, the automotive industry, communications, renewable energy, and coal, oil and gas

- Foreign companies announced 1,740 greenfield investments in Latin America and the Caribbean in 2018, 33% more than in 2017, with a correspondent rise in the total amount of 15%.





















**Figure 5**  
Latin America and the Caribbean: top 10 sectors by the value of greenfield investment announcements, 2008–2018  
(Percentages)



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

- The top 20 firms whose greenfield announcements have the largest values of are from the United States and the European Union, which are historically the main investors in the region (see table 2). Investments from the United States predominated in the north of the region—Mexico, Central America and the Caribbean—while investments from the European Union were more common in the Southern Cone. Firms from Australia, Japan and the Republic of Korea were also in the top 20, and the Latin American company with largest FDI projects within the region is from Mexico.

**Table 2**  
**Top 20 firms by value of greenfield investment announcements in Latin America and the Caribbean, 2008–2018**

Firm	Country of origin	Industry	Estimated value (billions of dollars)	
Telefónica	Spain	 Communications	20–30	
General Motors (GM)	United States	 Automotive OEM	15–20	
Fiat Chrysler Automobiles (FCA)	Italy	 Automotive OEM	10–15	
Enel	Italy	 Energy		
América Móvil	Mexico	 Communications		
Repsol S.A.	Spain	 Coal, oil and gas		
Ford	United States	 Automotive OEM		
Volkswagen	Germany	 Automotive OEM		
BHP	Australia	 Mining, and coal, oil and gas		
Techint	Italy-Argentina	 Metals		
Anglo American	United Kingdom	 Mining		5–10
Telecom Italia	Italy	 Communications		
Hyundai Motors	South Korea	 Automotive OEM		
Abengoa	Spain	 Energy		
Chevron Corporation	United States	 Coal, oil and gas		
Nissan	Japan	 Automotive OEM		
Walmart	United States	 Food and tobacco		
Iberdrola	Spain	 Energy		
Thyssenkrupp	Germany	 Metals		
Daimler AG	Germany	 Automotive OEM		

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

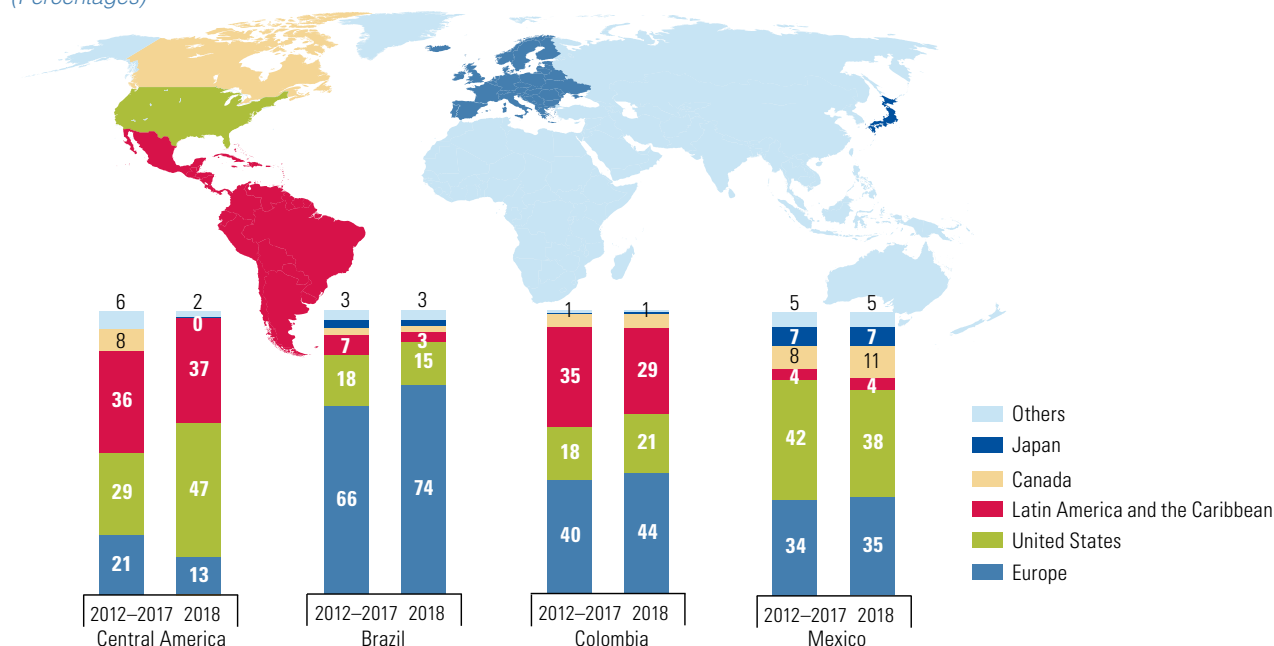
**Note:** “OEM” stands for “original equipment manufacturer”.

## C. Investment and trade relations with the GCC countries are currently concentrated on infrastructure and energy, the changing global scenario offers new opportunities to explore

### 1. Companies from Europe and the United States still dominate FDI in Latin America and the Caribbean

- The origin of the FDI in Latin America and the Caribbean has remained stable: most of the capital 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 in 2018, while the United States was the main investor in Mexico and Central America (see figure 6). FDI inflows to Mexico from the United States in 2018 were 17% lower than in 2017 and those from the European Union were 24% higher. Trans-Latin firms have a strong presence in Colombia and Central America.

**Figure 6**  
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 at 23 July 2019.

**Note:** Central America excludes Panama, because it did not report country-level data for 2018.

- 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 ultimate source of the capital that entered the region through third markets. For example, in Brazil, approximately 80% of Chinese investments entered the country via third countries, mainly Luxembourg and the Netherlands.<sup>2</sup>

<sup>2</sup> Central Bank of Brazil, *Relatório de Investimento Direto no País*, May 2018 [online] <https://www.bcb.gov.br/publicacoes/relatorioid>.

- With this caveat, it can be said that direct investment flows from the GCC countries into the region have been modest. According to available data, the United Arab Emirates is the largest GCC investor, with direct FDI inflows to Argentina totalling US\$ 56 million (2005–2016) and to Brazil of US\$ 129 million (2010–2018).<sup>3</sup>












## 2. Mergers and acquisitions in the region undertaken by companies from GCC countries between 2005 and 2018 are valued at US\$ 4.7 billion, and are concentrated in the transportation, energy, commercial and financial services, agriculture and tourism sectors

- Several companies from GCC countries have also invested in the region via merger and acquisitions. Since 2005, 19 deals have been confirmed. Of them, the value of the deal was disclosed for 11, totalling US\$ 4.7 billion (see table 3).
- The largest deal negotiated in the period 2005–2018 was undertaken by Qatar Petroleum in 2014. In 2019, a consortium of Qatar Petroleum, Total and Petronas won the exploration and production rights for the fourth time in a deep offshore block in Brazilian waters.

**Table 3**

**Latin America and the Caribbean: mergers and acquisitions by firms from GCC countries by disclosed value, 2005–2018**

Transportation, energy, commercial and financial services, agriculture and tourism are some of the industries of interest to companies from the GCC countries

Year	Firm	Country of origin	Assets acquired	Asset location	Sector	Amount (millions of dollars)
2014	Qatar Petroleum	Qatar	Parque das Conchas (BC-10) (23%)	Brazil	 Oil and gas	1 000
2014	Mubadala Development Co. and Trafigura Beheer B.V.	United Arab Emirates, Netherlands	MMX Porto Sudeste do Brasil (65%)	Brazil	 Transportation	971
2016	Qatar Airways Q.C.S.C.	Qatar	Latam Airlines Group S.A. (10%)	Chile	 Airlines	613
2016	Abu Dhabi Investment Authority	United Arab Emirates	Abertis' Chilean assets (20%)	Chile	 Toll road operator	548
2009	Abu Dhabi National Energy Co. (TAQA)	United Arab Emirates	Marubeni's Caribbean power portfolio (50%)	Jamaica	 Electricity	320
2018	DP World PLC	United Arab Emirates	Cosmos Agencia Maritima S.A.C.	Peru	 Transportation	316
2008	Nakheel Hotels	United Arab Emirates	One&Only Palmilla Resort (50%)	Mexico	 Hotels and tourism	315
2018	Alta Growth Capital S.C., the Abraaj Group	United Arab Emirates	Docuformas S.A.P.I. de C.V. (51.3%)	Mexico	 Financial services	265
2016	Saudi Agricultural and Livestock Investment Co.	Saudi Arabia	Minerva Foods S.A. (19.95%)	Brazil	 Food	225
2011	Almarai Co.	Saudi Arabia	Fondomonte Sandoval S.A.	Argentina	 Agriculture	73
2014	Mubadala Development Co.	United Arab Emirates	Prumo Logística S.A. (10.44%)	Brazil	 Transportation	71

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

<sup>3</sup> Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 23 July 2019.

### 3. Firms based in GCC countries have announced 75 greenfield investments in Latin America and the Caribbean since 2005, with an estimated value of US\$ 9 billion, of which 61% was destined to warehousing services

- While investment is still limited, given the potential of both the Gulf and Latin American and the Caribbean, some multinationals are already working on both continents. Firms from Brazil and Mexico have five affiliates operating in GCC countries, and companies from Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates have 56 affiliates in Latin America and the Caribbean.<sup>4</sup>
- One of the largest GCC investors in Latin America is Dubai World, majority owner of DP World, the Dubai-based company that started as a container port operator and now sells itself as a “leading enabler of global trade”.<sup>5</sup> DP World is estimated to have invested around US\$ 5 billion across Latin America and the Caribbean, with concessions and operations in seven countries (Argentina, Brazil, Chile, the Dominican Republic, Ecuador, Peru and Suriname), and is currently exploring investment opportunities in Panama.
- Greenfield investment announcements provide more details about the bilateral economic relationship between the two regions. Of the announced 75 greenfield investments in Latin America and the Caribbean, firms from the United Arab Emirates accounted for 80% of that figure, companies from Qatar and Saudi Arabia have 9% each and 2% is held by Kuwaiti companies.<sup>6</sup>
- Infrastructure and energy are key areas for GCC investments in the region. Warehousing has been the leading sector within greenfield projects, representing 61% of the announced value in that period, followed by coal, oil and gas (8%) and renewable energies (8%) (see figure 7).

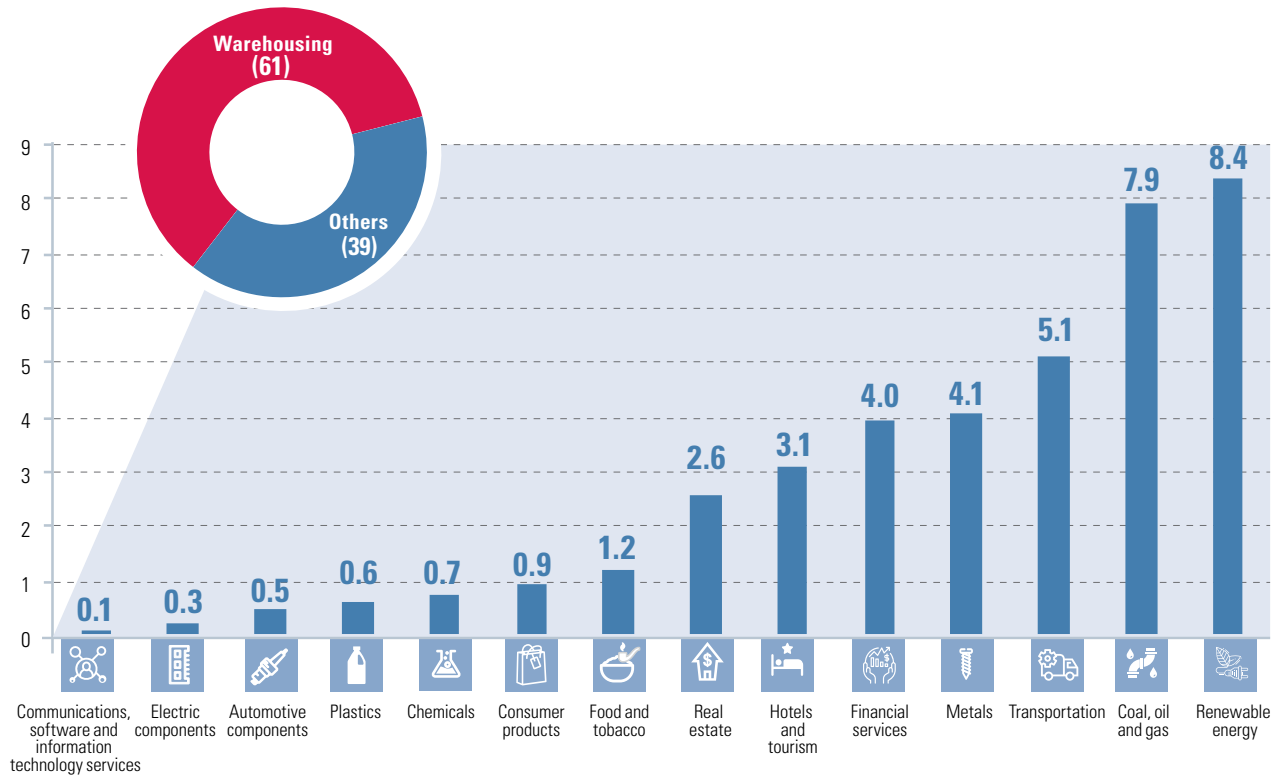
<sup>4</sup> F. Estrázulas and R. Bebczuk, *New Horizons for Trade and Investment: Strategies for the Gulf Countries and Latin America and the Caribbean*, Washington, D.C., Inter-American Development Bank, 2019.

<sup>5</sup> See [online] <https://www.dpworld.com/who-we-are/about-us>.

<sup>6</sup> When the investment announcement does not indicate the amount, the fDi Markets database estimates a value based on the industry and type of project.

**Figure 7**  
**Latin America and the Caribbean: greenfield investment announcements by firms from GCC countries, by sector, 2005–2018**

(Percentages)

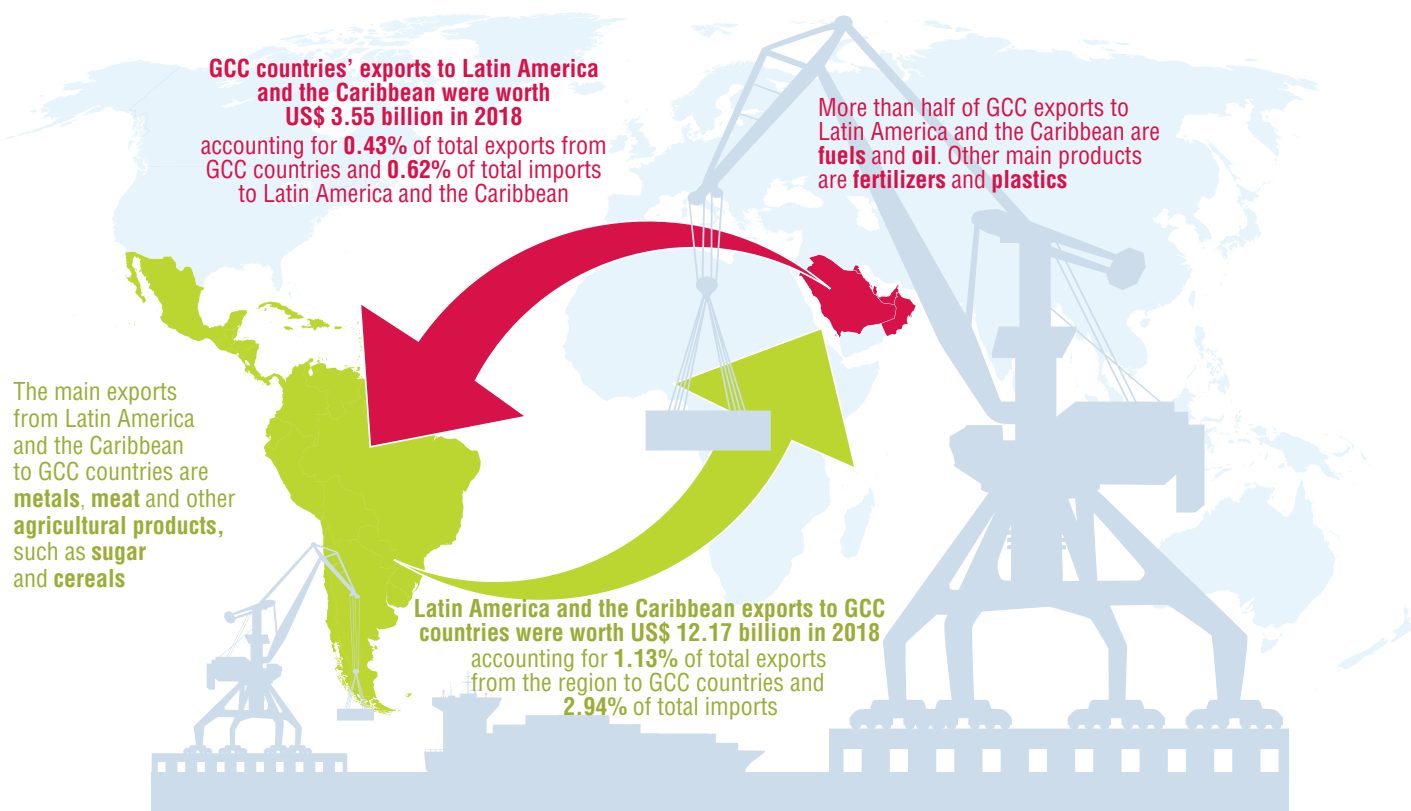


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets [online database] <https://www.fdimarkets.com/>.



#### 4. Given that bilateral trade accounts for a small share of both regions' total trade, countries should exploit synergies to reap more of the benefits

- Although trade between the two regions is still limited, governments and businesses are making an effort to boost it in the coming years. For example, according to a plan set out by the Dubai Chamber of Commerce and Industry in 2017, Latin America's share of Dubai's total trade was destined to double from 3% to 6% within just three years and reach double digits by 2022.<sup>7</sup>
- A key component of this relationship will be food security, as Latin America and the Caribbean have important agricultural resources, while the Gulf countries, in particular the United Arab Emirates, import as much as 90% of their food. Meanwhile, the region of Latin America and the Caribbean urgently needs good quality infrastructure to achieve the Sustainable Development Goals (SDGs). In order to close the infrastructure gap, countries should accelerate the rate of investment in infrastructure, an area in which some transnational companies based in GCC countries have extensive expertise.<sup>8</sup>



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Trademap [online database] [www.trademap.com](http://www.trademap.com).

<sup>7</sup> Arabian Business, "Dubai's next frontier: Latin America", 4 July 2017 [online] <https://www.arabianbusiness.com/the-next-frontier-677927.html>.

<sup>8</sup> R.Sánchez, and others "Inversiones en infraestructura en América Latina: tendencias, brechas y oportunidades", *Natural Resources and Infrastructure series*, No. 187 (LC/TS.2017/132), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2017.

## D. Small and medium-sized enterprises have the potential to attract investment to develop the digital economy

### 1. Micro-, small and medium-sized enterprises employ 61% of the formal workforce in the region<sup>9</sup>

- Micro-, small and medium-sized enterprises are a fundamental component of the economy of Latin America. Their importance is evident from several factors, such as their share of the total number of enterprises and jobs. In the formal economy, they account for 99.5% of firms in the region, the vast majority of which are micro-enterprises (88.4% of the total), and for 61% of formal jobs (of those jobs, 27% are in micro-enterprises, 20% in small enterprises and 14% in medium-sized enterprises). Yet their share of regional GDP is just 25%.
- Micro- and small enterprises are large employers in the services sector, particularly wholesale and retail trade (67% of total formal employment in that sector) which accounts for 42% of all micro-enterprises and 31% of all small firms. Low barriers to entry favour the proliferation of very small firms whose existence often owes more to self-employment and economic survival strategies than to any real business development process.
- With regard to manufacturing, 49% of formal employment in that sector is in micro-, small and medium-sized enterprises, with 19% of all medium-sized firms and 14% of all small firms in that sector.
- According to another study by ECLAC,<sup>10</sup> the number of exporting firms of all sizes in the Latin American and Caribbean region is relatively small (less than 1%) compared to that in more developed countries (5% in Belgium, Spain or France). This is due, in part, to the region's lower productivity, which restricts the internationalization process of companies.
- The exports of the region are primarily concentrated in the hands of a few companies, while a high number of SMEs enter and leave the export sector each year. Although the contribution of SMEs to the total value of exports is low, it is significant in terms of the number of products, number of destinations, technological intensity and innovation.

<sup>9</sup> Data for 2016, based on M. Dini and G. Stumpo (coords.), "Mipymes en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento. Síntesis", *Project Documents* (LC/TS.2019/20), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2019.

<sup>10</sup> H. Park, R. Urmeneta and N. Mulder, "El desempeño de empresas exportadoras según su tamaño: una guía de indicadores y resultados", *Project Documents* (LC/TS.2019/41), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2019.

## 2. Venture capital for start-ups in the digital economy has been growing since 2017, reaching US\$ 2.6 billion by the end of the first half of 2019

- The increasing importance of the digital economy means that a growing number of start-ups are now part of the region's business landscape. While technology-based start-ups only represent a small fraction of businesses in the region, they can play a crucial role in fostering innovation and the emergence of brand-new sectors in the economy. In that context and in an effort to tap into that potential, several business accelerators have been created, an example of which is Start-Up Chile (see box 1).

### Box 1 Start-Up Chile

Start-Up Chile is a business accelerator, created by the Government of Chile in 2010, to encourage innovative entrepreneurs to base themselves in Chile. Its mission is to foster entrepreneurship and innovation in order to improve productivity in Chile.

Currently, Start-Up Chile is the leading business accelerator in Latin America and is among the top 10 globally, comprising the largest and most diverse community of start-ups in the world. Start-Up Chile has changed the world's vision of entrepreneurship, with some 50 countries setting up similar programmes in its wake.

Since 2016, the new objectives of Start-Up Chile are to ensure that Chile remains a global hub for technological entrepreneurship and innovation and that its start-ups have a positive effect on the local economy.

Currently, Start-Up Chile brings between 200 and 250 companies a year to Chile.

**Source:** Start-Up Chile, "About us" [online] <https://www.startupchile.org/about-us/>.

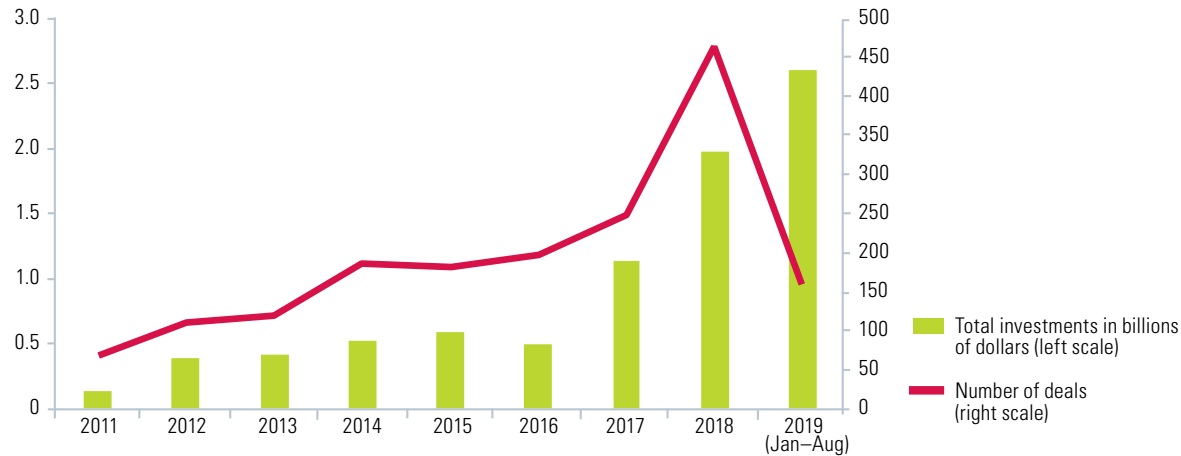
- As the start-up ecosystem has begun to mature, venture capital investments have also surged, doubling, for the second consecutive year in 2018, to just under US\$ 2 billion (see figure 8).<sup>11</sup>
- The positive trend continued in 2019. In March of that year, Japan's SoftBank Group announced plans to launch a US\$ 5 billion innovation fund for Latin America, to which it has already committed an initial US\$ 2 billion.
- According to the Association for Private Capital Investment in Latin America (LAVCA), investment in Latin American start-ups already totaled US\$ 2.6 billion by the first half of 2019, spread across 160 transactions.<sup>12</sup> This represents a 30% increase compared to total investments for the whole of 2018. The average deal is also getting bigger, which indicates that the market in the region is maturing.

<sup>11</sup> Association for Private Capital Investment in Latin America (LAVCA), "LAVCA's Annual Review of Tech Investment in Latin America, 2019", 2019 [online] <https://lavca.org/industry-data/inside-another-record-breaking-year-lavcas-annual-review-of-tech-investment-in-latin-america/>.

<sup>12</sup> M. A. Azevedo, "As billions flow into Latin America, its startup scene scales", 9 October 2019, Crunchbase [online] <https://news.crunchbase.com/news/as-billions-flow-into-latin-america-its-startup-scene-scales/>.

**Figure 8**  
**Latin America: venture capital investments, 2011–August 2019**

(Billions of dollars and number of deals)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Association for Private Capital Investment in Latin America (LAVCA), "LAVCA's Annual Review of Tech Investment in Latin America, 2019", 2019 [online] <https://lavca.org/industry-data/inside-another-record-breaking-year-lavcas-annual-review-of-tech-investment-in-latin-america/>.



### Top venture capital deals in 2018

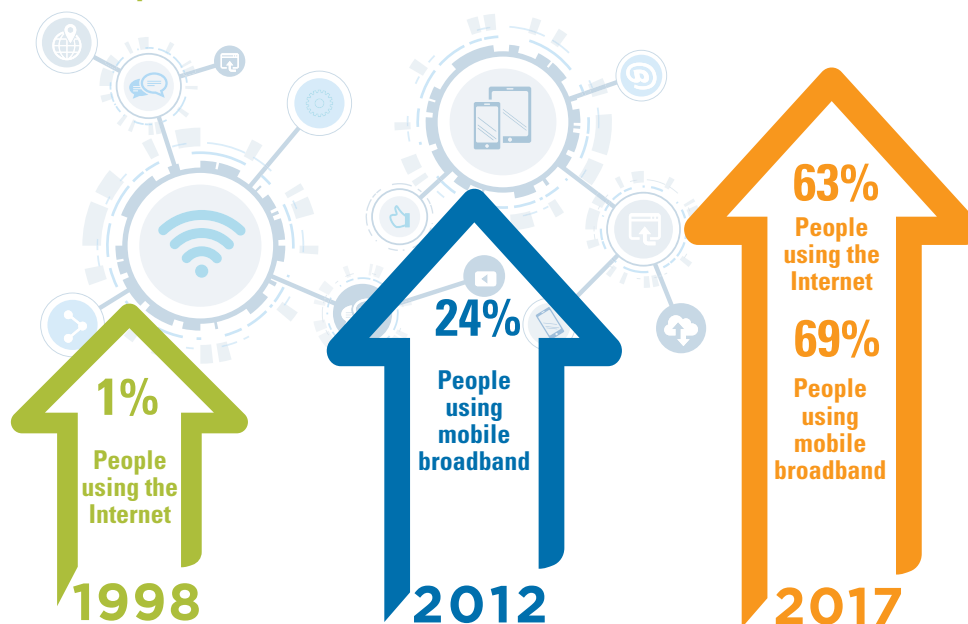


### Growing interest of major global tech players in the payments sector



## E. The development of the cities of the future requires investments in renewable energy and in infrastructure for the digital economy

### 1. Latin America and the Caribbean has a large urban population and a rising Internet penetration rate



#### The digitalization process is changing the economy and society

In less than **20 years**, the proportion of people using the Internet in Latin America and the Caribbean has jumped

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Telecommunication Union (ITU), World telecommunication/ICT Indicators Database [online] <https://www.itu.int/pub/D-IND-WTID.OL/en>.

- Smart cities are not only the future, but the digital and technological transformation of the public space is already happening around the world, not just Latin America and the Caribbean. The rapid urbanization of recent decades has led to more than 80% of the region's population living in urban areas.<sup>13</sup>
- In this context, smart cities solutions are important tools to improve the quality of life in and the sustainability of urban areas. A report by McKinsey Global Institute finds that applying smart city digital solutions could improve some key quality-of-life indicators by 10–30%. Moreover, using the current generation of smart solutions effectively could help cities make significant or moderate progress towards meeting 70% of the SDGs.<sup>14</sup>
- In Latin America and the Caribbean, investment will be key to driving the technological paradigm shift needed to build smart cities. Therefore, policies to attract FDI together with a sustainable development strategy are crucial. For example, with regard to an FDI strategy, Bogotá is ranked fourth in the world according to the “Smart Locations of the Future 2019/20” ranking by fDi Intelligence, in the light of the strategy being implemented to transform it into a smart city.<sup>15</sup>

<sup>13</sup> Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT [online database] <https://estadisticas.cepal.org/>.

<sup>14</sup> McKinsey Global Institute *Smart Cities: Digital Solutions for a More Livable Future*, New York, 2018.

<sup>15</sup> See [online] <https://www.fdiintelligence.com/Locations/Singapore-tops-fDi-s-Smart-Locations-of-the-Future-2019-20-ranking>.

- The transformation of cities through technological advancements is behind the idea of smart, greener cities. Nevertheless, the path to becoming a smart city includes diverse and complex processes and should be rooted in a shared vision of sustainability and social justice coupled with technological advancements, issues that are beyond the scope of this document.<sup>16</sup> Therefore, in order to identify investment areas that can provide opportunities for technological advancement, this section briefly examines aspects of investing in renewable energy, electromobility and infrastructure for the digital economy in Latin America and the Caribbean.

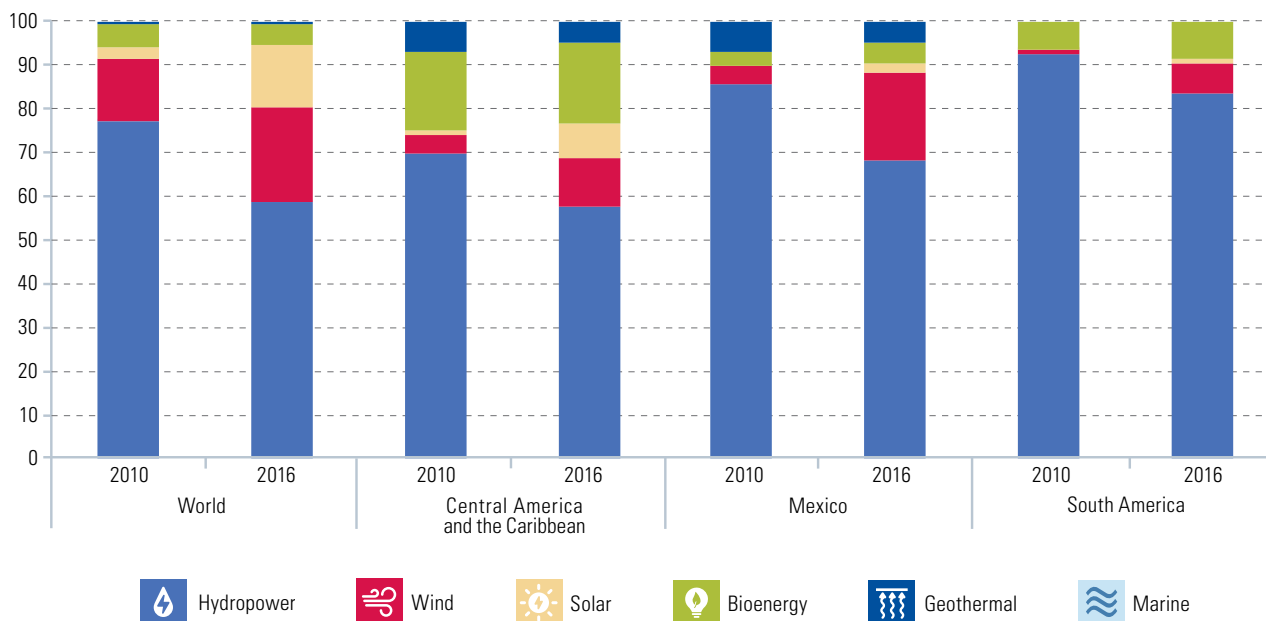
## 2. Renewable energy sources are flourishing, and transnational companies are key players in the sector in Latin America and the Caribbean

- The development of a renewable and clean energy sector is key to power smart and green cities. Investment in the sector continued to grow in the world as well as in Latin America and the Caribbean, particularly in Brazil, Chile and Mexico. According to FS-UNEP/BloombergNEF (2019),<sup>17</sup> global investment in renewable energy capacity was US\$ 272.9 billion in 2018. While this was 12% down over the previous year, 2018 was the fifth successive year in which capacity investment exceeded US\$ 250 billion, a figure that was about three times the global investment in coal and gas-fired generation capacity combined. This came despite further reductions in 2018 in the average capital cost per megawatt (MW) of solar and wind projects, and despite a policy change that hit financing of Chinese solar projects in the second half of the year.
- In recent years, sources of renewable energy have been developed significantly in Latin America and the Caribbean. In 2016, they accounted for the largest share of the total value of greenfield FDI projects announcements (18%), and in 2017 they ranked second, with 12%. These figures represent a huge improvement compared to the situation a decade ago: in 2005 renewable energy only accounted for 1.3% of greenfield announcements in Latin America and the Caribbean. The increase reflects the enormous potential of the region's countries to develop renewable energies and to support global efforts to address and mitigate the effects of climate change through the development of clean and efficient alternative energy sources.
- In addition, the share of non-conventional renewable energies —mainly solar and wind— has increased as a percentage of the world's total installed capacity, a trend also mirrored in the region (see figure 9). Most investment in renewable energy in Latin America and the Caribbean between 2005 and 2017 was made in solar (35%) and wind (32%) technology. While hydropower is still the foremost technology in the region in terms of installed capacity, it accounted for only 12% of the value of FDI announcements in this period. Following the global trend, renewable energy installed capacity in Latin America and the Caribbean is diversifying away from hydropower, with the emergence of wind, solar and geothermal power as significant elements in the energy mix.

<sup>16</sup> D. Hoornweg, "A smart approach to building a better city, from the sidewalk up" 5 March 2018, Metroland Durham Region Media Group [online] <https://www.durhamregion.com/opinion-story/8299786-a-smart-approach-to-building-a-better-city-from-the-sidewalk-up/>.

<sup>17</sup> Frankfurt School–UNEP Collaborating Centre for Climate & Sustainable Energy Finance (FS-UNEP)/BloombergNEF, *Global Trends in Renewable Energy Investment 2019*, Frankfurt am Main, 2019.

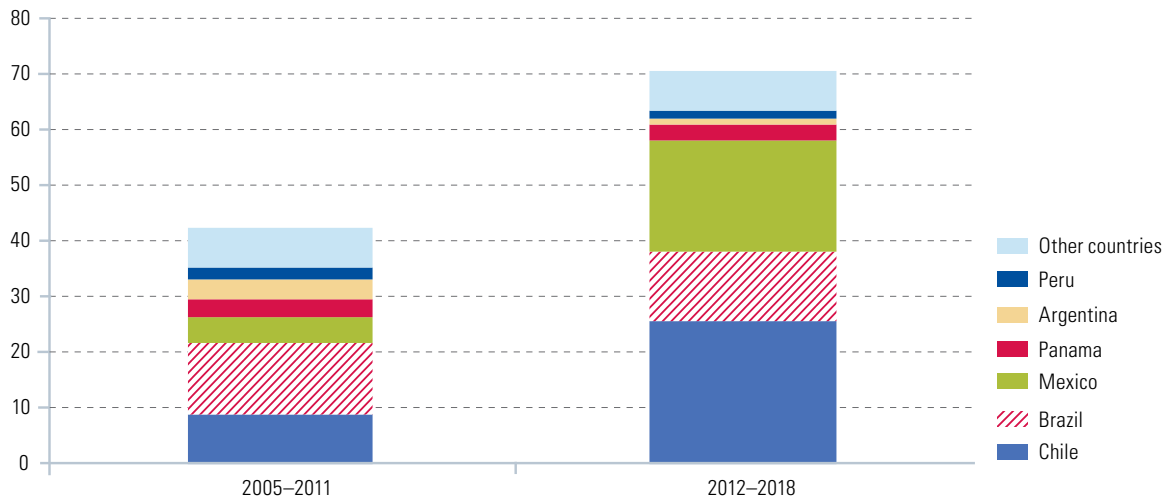
**Figure 9**  
**Selected regions: renewable energy installed capacity, 2010–2016**  
*(Percentages)*



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

- Between 2005 and 2018, Chile was the leading destination for renewable energy FDI announcements (30% of the total value), followed by Brazil (23%) and Mexico (22%) (see figure 10). It should be borne in mind that in 2016 the Mexican energy market was reformed, and a new tender process was introduced in Chile. That same year, Chile and Mexico each received one third of total investments announced in the region. Moreover, renewable energy projects have increased in most countries, with 324 projects in 7 South American countries (including Chile and Brazil); 127 in Mexico; 49 in 6 Central American countries; and 30 projects in 9 Caribbean countries.

**Figure 10**  
**Latin America and the Caribbean: FDI announcements in the renewable energy sector**  
**by country of destination, 2005–2018**  
*(Billions of dollars)*



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

### 3. As the energy mix gets greener, electromobility offers opportunities to foster sustainable development

- The automotive industry is facing disruptive changes, shaped by convergence with the digital economy, shifts in the concept of mobility and in consumption patterns, and stricter regulatory requirements in the fields of safety, the environment and energy efficiency.<sup>18</sup>
- In this scenario, new forms of mobility have emerged and the production and sales of electric vehicles have been boosted: in 2018, the global electric passenger car fleet exceeded 5.1 million, up 2 million from 2017 and 13 times the fleet in 2013. China remains the world's largest electric car market in terms of volume, with 45% of the fleet, followed by Europe (22%) and the United States. Norway is the global leader in terms of electric vehicles' market share (48%).<sup>19</sup>
- Policies are key for the development of electric mobility. Leading countries in this area offer incentives to stimulate demand, given the higher prices of electric vehicles, and support for the deployment of charging infrastructure. Moreover, several countries are addressing the strategic importance of the battery technology value chain.

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

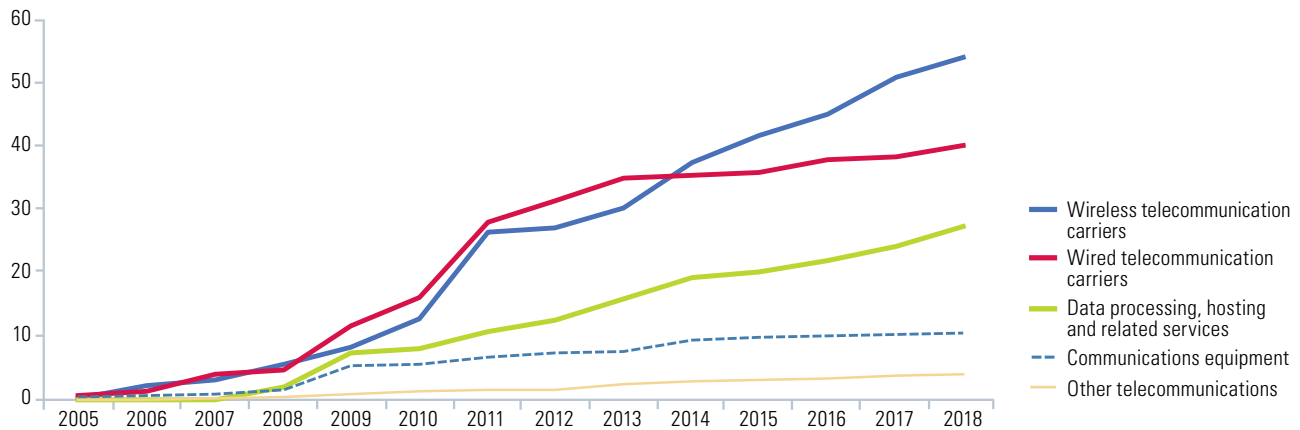
<sup>19</sup> International Energy Agency (IEA), *Global EV Outlook 2019*, Paris, 2019.



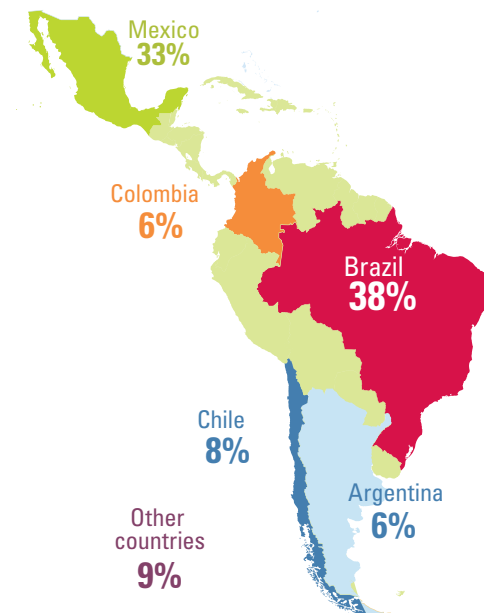
- Several cities in Latin America and the Caribbean have adopted plans to promote electromobility in public transport. A growing number of cities in Argentina, Brazil, Chile, Colombia and Ecuador have bought electric buses from two leading Chinese manufacturers (BYD and Yutong). For example, in Colombia, the city authorities of Bogotá and Medellín bought 118 electric taxis and buses from BYD between 2013 and 2018. In Chile, the public transport provider in Santiago bought around 100 electric buses from BYD and another 100 from Yutong. In response to demand in the region, BYD opened an electric vehicle plant in Campinas (Brazil) in 2015, with an investment of about US\$ 65 million. BYD also signed a contract worth some US\$ 650 million with the city of Salvador de Bahia (Brazil) to build a new monorail. In Mexico, BYD, which also manufactures batteries, announced a two-year collaboration agreement with the Mexican finance group Pireos Capital to finance projects combining photovoltaic energy and energy storage systems with 100 MW capacity.

#### 4. The region is attracting substantial investments to deploy the infrastructure for the digital economy

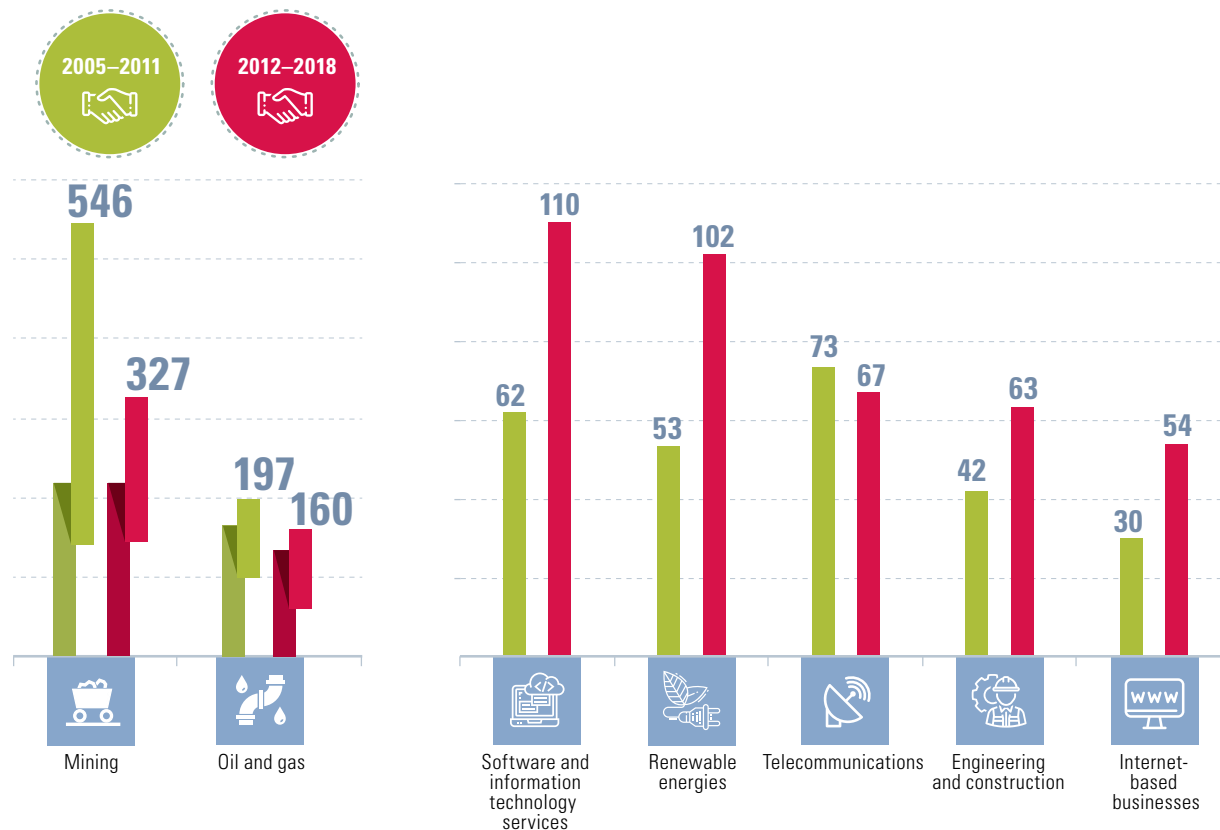
- Investments in other key sectors for the development of smart cities, such as data centres, and other high-technology sectors are still relatively small in Latin America and the Caribbean. However, there has been significant investment in communications infrastructure since 2005, which will also be key to the development of smart cities; it is impossible to imagine the deployment of public services based on Internet of Things or big data analysis without an advanced and highly reliable digital infrastructure.
- Multinational enterprises have played a key role in the evolution of communication services in Latin America and the Caribbean. For example, the largest providers include América Móvil from Mexico, Telefónica from Spain, AT&T from the United States, Oi from Brazil, Telecom from Argentina, TIM Brazil (a subsidiary of Telecom Italy), Millicom from Sweden and Entel from Chile.
- Between 2005 and 2018, the accumulated total of greenfield FDI announcements in the communications sector in the region was estimated to be some US\$ 136 billion. By 2018, the accumulated value of announcements in wireless telecommunication carriers was the largest (40% of the total), while data processing, hosting and related services projects saw the largest growth rate over the whole period, reaching a share of 20% of the total value (see figure 11).
- Brazil and Mexico attracted most of the data processing, hosting and related services projects, however, several other countries have received FDI in the subsector (see map 3), including countries from the Caribbean —the Bahamas, Barbados, the Dominican Republic, Jamaica and Trinidad and Tobago— and Central America.
- A cross-sectoral, medium-term comparison of mergers and acquisitions with target firms in the region shows that the fastest growing sectors are linked to the expansion of the digital economy and the pursuit of a greener energy mix. The number of deals in the traditional extractive industries remained high, but it has decreased, and since 2012 there is an increasing number of confirmed deals in areas such as software and computer services, Internet-based companies, the development of renewable energies (which also includes operations in hydroelectric plants) and engineering and construction services (see figure 12).

**Figure 11****Latin America and the Caribbean: FDI announcements in the communications sector, by subsector, accumulated total for 2005–2018***(Billions of dollars)*

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

**Map 3****Latin America and the Caribbean: FDI announcements in data processing, hosting and related services, by country of destination, 2005–2018***(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/>.

**Figure 12****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), *Foreign Direct Investment in Latin America and the Caribbean, 2019* (LC/PUB.2019/16-P), Santiago, 2019.

- In the telecommunications sector, companies from the United States and Europe led the way in deals in the region in 2018. One of the largest transactions was the acquisition of Ascenty by the United States firm Digital Realty Trust, Inc. (in partnership with the Brookfield investment fund) for US\$ 1.8 billion. Ascenty is the largest provider of data centres in Latin America, with 17 centres in Brazil, one under construction in Santiago<sup>20</sup> and three projects for new data centres, one in Chile and two in Mexico. Meanwhile, in Panama, 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, for US\$ 1 billion.<sup>21</sup>

<sup>20</sup> See [online] <https://www.ascenty.com/en/data-centers>.

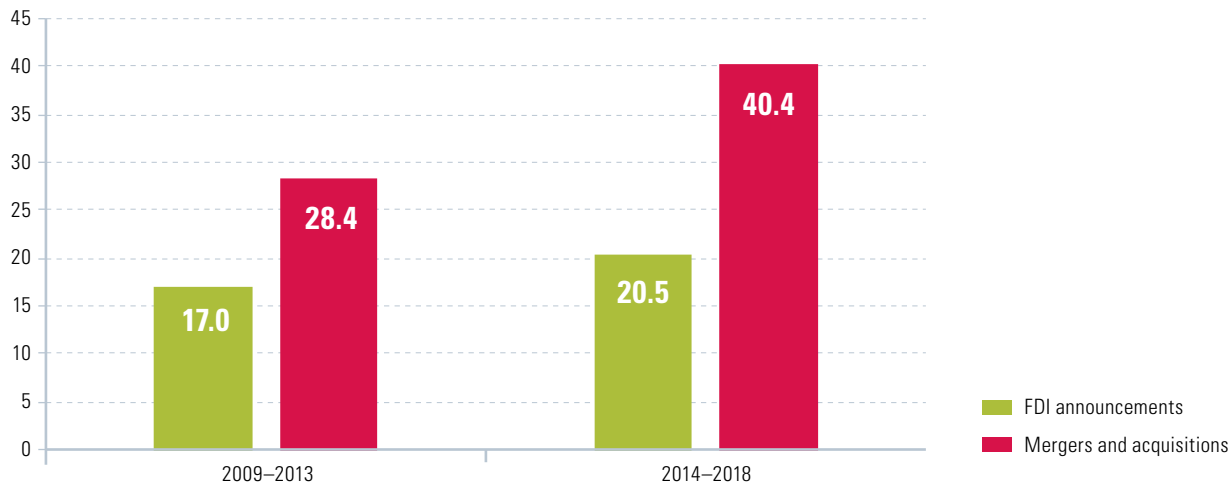
<sup>21</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2019* (LC/PUB.2019/16-P), Santiago, 2019.

## F. The extension of the Belt and Road Initiative into Latin America and the Caribbean is bringing Chinese companies into the region

- When it was launched in 2013, the Belt and Road Initiative originally encompassed Asia and Europe, but since 2017 Chinese diplomats and officials have referred to Latin America and the Caribbean countries as “part of the natural extension of the Maritime Silk Route and [...] indispensable participants in international cooperation of the Belt and Road”.<sup>22</sup> Today, 19 Latin American and Caribbean countries, mainly small ones, have now signed non-binding Belt and Road Initiative memorandums of understanding with China.<sup>23</sup> Some larger countries, including Brazil, have not signed up formally, but have already received significant amounts of Chinese financing, and some projects have been rebranded as part of the Belt and Road Initiative.
- This is in line with China’s growing influence in Latin America and the Caribbean as evidenced by the increasing number of investments by Chinese firms. So far, Chinese companies tend to favour mergers and acquisitions over greenfield projects when investing in Latin America and the Caribbean (see figure 13), with identified deals between 2005 and 2018 worth US\$ 72 billion. Meanwhile, FDI announcements by companies from China and Hong Kong (Special Administrative Region of China) regarding greenfield projects in Latin America and the Caribbean between 2005 and 2018 totalled an estimated US\$ 47 billion.

**Figure 13**  
**Latin America and the Caribbean: FDI announcements and confirmed mergers and acquisitions by Chinese firms, by amount, 2009–2013 and 2014–2018**

(Billions of dollars)



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

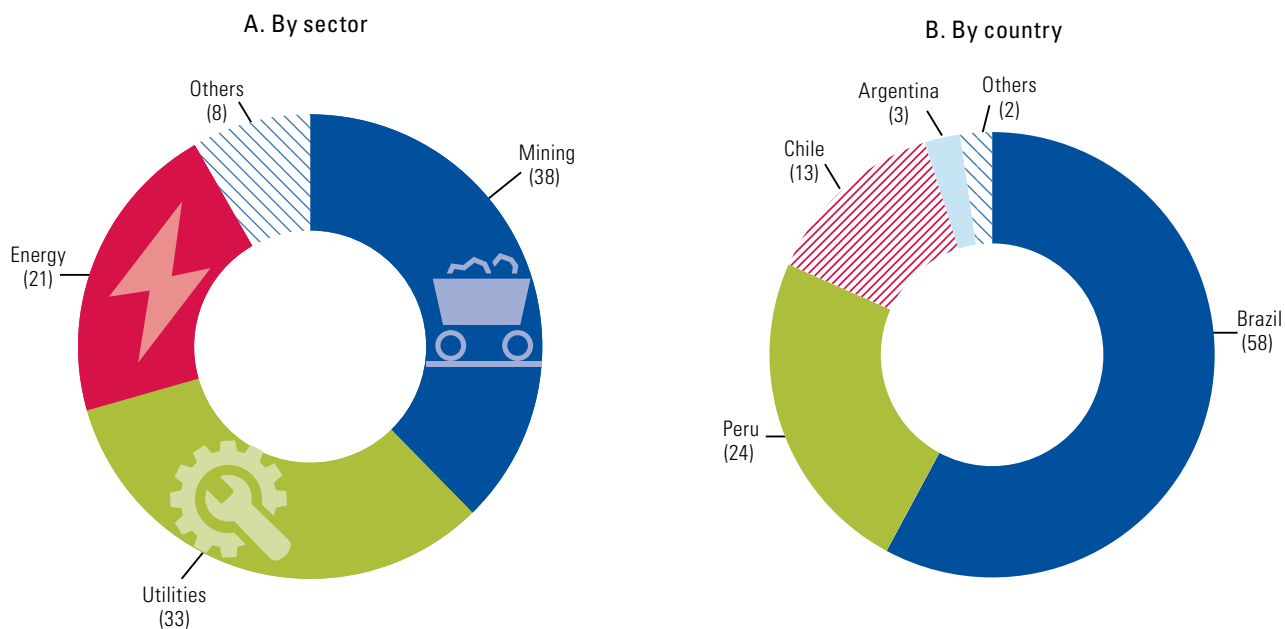
<sup>22</sup> See “Special Declaration of Santiago of the II Ministerial Meeting of the CELAC-China Forum on the Belt and Road Initiative” [online] <http://www.itamaraty.gov.br/images/2ForoCelacChina/Special-Declaration-II-CELAC-CHINA-FORUM-FV-22.1.18.pdf>.

<sup>23</sup> Namely: Antigua and Barbuda, Barbados, the Bolivarian Republic of Venezuela, Chile, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guyana, Jamaica, Panama, Peru, the Plurinational State of Bolivia, Suriname, Trinidad and Tobago, and Uruguay.

- The number of mergers and acquisitions by Chinese firms have increased since 2010 and accounted for 11% of confirmed deals with target firms in the region between 2005 and 2018. The Chinese share of confirmed deals in the region peaked at 37% in 2017, before sliding back to 19% in 2018.
- In the last five years, Chinese investments through mergers and acquisitions mainly targeted firms in the energy, mining and utilities sectors (see figure 14). Although Chinese firms undertook fewer mergers and acquisitions in the region in 2018 compared to 2017, the largest deal of the year (the acquisition of 24% of Sociedad Química y Minera de Chile (SQM) for US\$ 4.066 billion) was made by the Chinese company, Tianqi Lithium.

**Figure 14**  
**Latin America and the Caribbean: most valuable mergers and acquisitions by Chinese firms, by sector and by country, 2014–2018**

(Percentages)

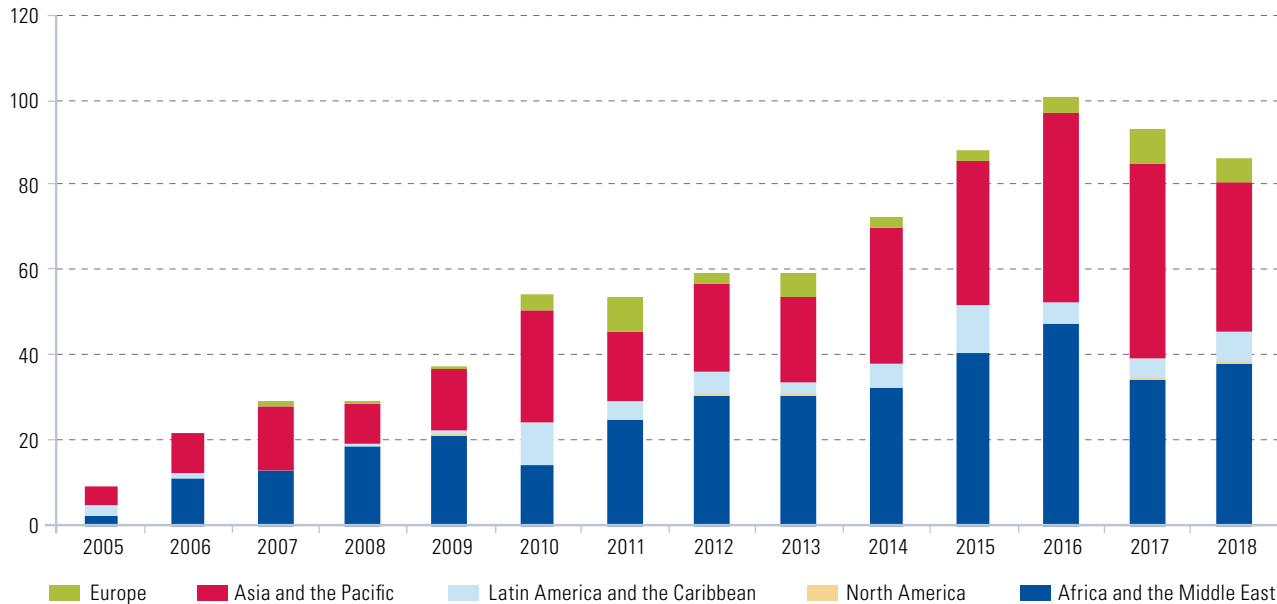


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Bloomberg.

- Although it does not count as FDI, Chinese transnational companies are also increasingly present in the region through construction contracts: between 2005 and 2018, contracts with Chinese firms totalled close to US\$ 60 billion (8% of the value of Chinese construction contracts around the world) (see figure 15). The Bolivarian Republic of Venezuela (US\$ 15 billion), Argentina (US\$ 13 billion) and Ecuador (US\$ 7 billion) are the top three target countries of these contracts, which are concentrated in the energy and transport sectors. Capital loans from China are used to finance a significant percentage of these works.

**Figure 15**  
**Chinese construction contracts by region, 2005–2018**

(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of American Enterprise Institute/The Heritage Foundation, China Global Investment Tracker [online database] <https://www.aei.org/china-global-investment-tracker/>.

- The Belt and Road Initiative offers Latin America and the Caribbean countries new opportunities in terms of infrastructure investment and funding. However, these funding opportunities have been linked to the growing indebtedness of some countries of the region. For example, it is estimated that the debt of the Bolivarian Republic of Venezuela, Ecuador and the Plurinational State of Bolivia with China is equivalent to more than 10% of the GDP of these countries. Gallagher and others (2019)<sup>24</sup> estimate that Chinese loans to the Bolivarian Republic of Venezuela amount to some US\$ 67.2 billion, while those to Brazil are worth around US\$ 28.9 billion and those to Ecuador US\$ 18.4 billion.

<sup>24</sup> K. Gallagher and M. Myers, China-Latin America Finance Database, Washington D.C., Inter-American Dialogue, 2019 [online database] [https://www.thedialogue.org/map\\_list/](https://www.thedialogue.org/map_list/).



Latin America and the Caribbean is a large, heterogeneous region that has been open to foreign direct investment (FDI) and is home to two of the top FDI recipient economies in the world: Brazil and Mexico. The trade and investment relationship between the region and the member States of the Gulf Cooperation Council (GCC) (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) has been concentrated on infrastructure and energy, and to a lesser extent commercial and financial services, agriculture and tourism. Both regions could exploit synergies to benefit more from bilateral relations. In addition, in a changing global scenario, small and medium-sized enterprises have the potential to attract investment to develop the digital economy; venture capital for digital start-ups in Latin America and the Caribbean has risen steeply in recent years. Meanwhile, in a region where more than 80% of the population lives in urban areas, the development of clean, livable, inclusive and smart cities is of growing importance. Lastly, the extension of the Belt and Road Initiative into Latin America and the Caribbean is attracting Chinese companies into the region. The main focus of the Initiative is infrastructure development, which is crucial for fostering sustainable and inclusive development in Latin America and the Caribbean.

The logo for ECLAC, consisting of the letters E, C, L, A, and C in a white, sans-serif font, each inside a black square, which are then arranged in a row within a larger black rectangular background.

**E C L A C**

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Comisión Económica para América Latina y el Caribe (CEPAL)  
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