

# Press release

## Structural weaknesses to hold FDI back in Latin America

September 5, 2006—Foreign direct investment (FDI) into Latin America and the Caribbean rose by US\$75bn in 2005, according to *World Investment Prospects to 2010: Boom or Backlash* released today by the Economist Intelligence Unit (EIU) and the Columbia Program on International Investment (CPII). According to Karl P. Sauvart, Executive Director, CPII, and one of the editors of the report, “good regional growth and resource-seeking investors were the principal forces behind this performance”,. “However”, cautions Laza Kekic, Director, Country Forecasting Services, EIU, and the other editor of the report, “structural weakness will constrain FDI into Latin America during the years ahead”.

### FDI inflows into Latin America (US\$ bn)

	2005	2006	2010
<b>In current US\$ terms</b>			
Inflows	75.2	72.1	87.7
% of world total	7.9	6.2	6.2
Brazil*	15.2	17.2	19.9
Mexico*	17.8	15.0	21.0
Chile*	7.2	9.7	11.8

Source: *World Investment Prospects to 2010: Boom or Backlash?*

\*Top three recipients of FDI in region in terms of 2006 performance

### Key findings and trends:

- **Latin America FDI inflows rising.** FDI into Latin America and the Caribbean rose to US\$75bn in 2005. The principal forces behind the high level were strong growth in the US; a regional economic recovery; an improved macroeconomic environment; high demand for commodities; and increased policy support.
- **Mexico is the region’s top recipient of FDI.** With FDI inflows of US\$18bn in 2005, Mexico beat Brazil for the fifth consecutive year as the top FDI destination in the region. Mexico’s manufacturing sector received the majority of FDI, much of which flowed via the maquila free economic zones. The fastest-growing subsector is the automobile industry, where established foreign companies have extended their operations and new investors, including from Japan, are entering the market.
- **FDI inflows remain robust in Brazil, and are recovering in Argentina.** Although Mexico continues to dominate in Latin America, Brazil is also one of the main emerging-market FDI recipients outside Asia. Inflows of US\$15bn in 2005 meant that investment was only a little lower than in the previous year, despite the 2004 total being boosted by the one-off effect of a large investment in the brewing sector. FDI inflows into Argentina continued to recover, to and reached US\$5bn in 2005. This figure is low compared with the inflows of around US\$10bn per year that were recorded prior to the Argentinean financial crisis, but it is nevertheless a rebound from the depressed levels of 2001-03.

- **Structural weaknesses will constrain FDI growth.** Over the medium term only modest further growth in FDI inflows into the region is expected, and the peak of the late 1990s is not expected to be repeated by 2010. The region's prospects remain constrained by structural weaknesses, as well as the burden of servicing substantial levels of external debt. FDI inflows will also be hindered by costs to business deriving from excessive bureaucracy, deficiencies in infrastructure and under-investment in human capital.
- **Uncertainty on policy could impede investment.** Disenchantment with market-oriented reforms is unlikely to translate into a full-scale backlash against foreign investors, but enthusiasm for foreign investment could become distinctly more qualified than in the past.

The full version of ***World Investment Prospects to 2010*** is available from <http://www.store.eiu.com> and is priced at £50/\$95

A **free Special Edition** is available from [www.eiu.com/wip](http://www.eiu.com/wip) or [www.cpii.columbia.edu](http://www.cpii.columbia.edu)

Copies are available for members of the press from the PR contacts below.

**FDI Trends Webcast:** Visit [www.eiu.com/world](http://www.eiu.com/world) or [www.cpii.columbia.edu](http://www.cpii.columbia.edu) for views and analysis from the authors of *World Investment Prospects*. Registration for the webcast will begin on September 1st. The webcast itself will begin at 11:00am EDT on September 5th.

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**About the Economist Intelligence Unit**

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 500 analysts, we continuously assess and forecast political, economic and business conditions in 195 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies. More information about the Economist Intelligence Unit can be found on the Web at [www.eiu.com](http://www.eiu.com).

**About the Columbia Program on International Investment**

The Columbia Program on International Investment (CPII), headed by Karl P. Sauvant, is a joint undertaking of the Columbia Law School, under Dean David M. Schizer, and The Earth Institute at Columbia University, directed by Jeffrey D. Sachs. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. The CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. More information about the Program can be found on the Web at [www.cpii.columbia.edu](http://www.cpii.columbia.edu).