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THE COLUMBIA PROGRAM ON INTERNATIONAL INVESTMENT
A JOINT PROGRAM OF THE COLUMBIA LAW SCHOOL AND THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

Press release

FDI flows into Latin America are set for strong growth in 2007

September 5, 2007–Foreign direct investment (FDI) inflows into Latin America and the Caribbean fell slightly, to US$103bn, in 2006, but are set to increase by 20% to some US$123bn in 2007, despite the impact of recent global financial turbulence according to *World Investment Prospects to 2011: Foreign direct investment and the challenge of political risk.* The report, produced by the Economist Intelligence Unit in co-operation with the Columbia Program on International Investment (CPII), charts global FDI trends over the next five years, including on the basis of a global survey of more than 600 direct investors.

Inflows of US$103bn to Latin America and the Caribbean in 2006 represented a decline on the 2005 total of US$106bn. Nevertheless, inflows into the region had already more than doubled in 2004-05, after being reduced to a low of US$47bn in 2003. The performance in 2006 was still respectable and according to **Karl P. Sauvant** - Executive Director, CPII, and one of the editors of the report - "this was sustained by the region's economic recovery, improved macroeconomic environment and strong demand for commodities." However, the inflows in 2004-06 were still far below the record highs seen in 2001. FDI inflows into the region will grow in 2007, led by very strong inflows into Brazil. FDI inflows into Brazil surged in the first half of 2007 as a result of a liquid global market, favourable financing conditions, and increased investment in export-oriented manufacturing and extractive sectors. Several large deals were concluded, including the acquisition of Arcelor Brasil by Arcelor Mittal (Netherlands) for US$5.4bn.

Over the medium term, after a slight decline in 2008 - in line with expected global trends - further growth in FDI inflows into the region is expected, albeit at a relatively modest pace. The peak of the late 1990s is not expected to be repeated by 2011. Real GDP growth in the region will gradually slow and commodities prices are likely to decline from their recent exceptionally high levels. Some domestic factors behind recent strong growth in the region will weaken and international financing conditions are likely to tighten.

The survey revealed that Latin America does not feature prominently on corporate investment agendas, and reinforced the picture of modest prospects for medium-term FDI flows. When asked to assess the importance in their companies of various destinations for FDI, only 14% of those surveyed considered Brazil to be of "critical importance" to their investment plans, and 37% considered it of "moderate importance". The corresponding percentages for Mexico were 11% and 33%, and for the rest of Latin America and the Caribbean, only 8% and 27%. These were significantly lower percentages than for many other FDI destinations (16 in all). However, significantly higher ratings for Latin America were given by investors from North America compared with investors from other regions.

	2004	2005	2006	2007	2008	2009	2010	2011
Latin America & the Caribbean								
Inflows (US$ bn)	105.0	106.3	102.5	123.0	121.2	125.8	131.9	138.1
% of world total	14.4	10.9	7.7	8.3	8.6	8.6	8.6	8.6
% of emerging markets total	29.9	25.0	20.1	23.0	23.0	23.1	23.4	23.5
% change, year on year	123.8	1.2	-3.6	20.1	-1.5	3.8	4.8	4.8
% of GDP	5.0	4.1	3.4	3.7	3.4	3.4	3.4	3.4

Source: *World Investment Prospects to 2011*

Brazil and Mexico dominate inflows

As usual, FDI inflows into Brazil and Mexico dominated regional FDI in 2006 (comprising more than one-third of total inflows). FDI inflows to Chile increased to US$8.1bn as a result of strong growth in reinvested earnings in the mining sector. By contrast, FDI inflows to Colombia declined sharply from one-off, privatisation-related record inflows of US$10.3bn in 2005. In the Andean countries, a trend towards greater state control of the natural resources sector and less favourable fiscal regimes for investors in Bolivia, Ecuador and Venezuela dampened investment.

Given its reasonable growth prospects and large domestic market, Brazil will receive sizeable inflows of FDI into the medium term and Mexico will also remain an attractive destination. However, FDI into the region will continue to be hindered by problems in the operating environment, such as deficiencies in infrastructure and underinvestment in human capital. This is also captured by the Economist Intelligence Unit's business environment rankings model which measures the attractiveness of the operating climate for investment across 82 countries on the basis of 91 qualitative and quantitative indicators for 10 categories of the business environment. Many Latin American countries slip down the business environment rankings in 2007-11, as the pace of improvement is slow compared with other regions.

The region's difficult operating environment is illustrated by some of the findings of the survey: 20% of companies operating in the region had been unable to convert or transfer currency; 17% reported experiencing contract cancellations or official requests for renegotiations; 15% had experienced payment defaults by a government buyer; 10% had suffered some form of asset expropriation; 9% had a blocked M&A deal and 8% reported suffering the cancellation of import or export licences. On the positive side, political risks such as the threats from political violence or from geopolitical tensions were of far less concern to investors in Latin America than in some other emerging market regions.

FDI protectionism

The left-wing nationalist tone adopted by governments in Bolivia, Ecuador and Venezuela is also likely to deter FDI inflows. In the survey, 23% assessed as "high" the risk of FDI protectionism in the region over the next five years--a high share compared with most other regions. However, although instances of protectionism are likely in some countries, these are very unlikely to translate into a full-scale regional backlash against foreign investors.

World Investment Prospects to 2011 is available from www.eiu.com/wip or www.cpii.columbia.edu

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

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The Emerging Markets Conference, 24-25 September
The main findings of the report will be presented at the Economist Conference's Emerging Market Summit at the Millennium Hotel London, on the 24-25th September. *For more information: http://www.economistconferences.com*

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.

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.

FDI inflows to select Latin American economies (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Argentina	2.1	1.7	4.6	5.0	4.8	5.2	5.8	6.6	7.2	7.9
Brazil	16.6	10.1	18.2	15.2	18.8	34.5	27.0	25.0	25.0	26.0
Chile	2.6	4.3	7.2	7.0	8.1	10.0	9.8	10.9	11.8	12.0
Colombia	2.1	1.8	3.1	10.3	6.3	8.0	6.5	6.0	5.5	5.5
Costa Rica	0.7	0.8	0.8	0.9	1.4	1.0	1.0	1.0	1.0	1.0
Cuba	0.1	0.1	0.2	0.4	0.6	0.6	0.5	0.5	0.6	0.6
Dominican Republic	0.9	0.6	0.9	1.0	1.2	1.4	1.5	1.5	1.7	1.8
Ecuador	1.3	1.6	1.2	1.6	2.1	2.0	1.5	1.3	1.3	1.3
El Salvador	0.5	0.1	0.4	0.5	0.2	0.5	0.6	0.6	0.7	0.7
Mexico	19.3	15.3	22.4	19.7	19.0	21.3	21.5	22.5	23.7	24.5
Peru	2.2	1.3	1.8	2.5	3.5	2.2	2.0	1.9	2.0	2.0
Venezuela	0.8	2.0	1.5	2.6	-0.5	-2.4	1.2	2.0	2.1	2.1

Source: *World Investment Prospects to 2011*