



VALE COLUMBIA CENTER
ON SUSTAINABLE INTERNATIONAL INVESTMENT
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND
THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues by
the Vale Columbia Center on Sustainable International Investment

No. 12, August 17, 2009

Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)

Editor: Lisa Sachs (Lsachs1@law.columbia.edu)

Special Editor for this Issue: Vishwas Govitrikar (Vishwas.Govitrikar@law.columbia.edu)

Outward investment by Trans-Latin enterprises: reasons for optimism

by

Michael Mortimore and Carlos Razo *

Despite the current economic crisis, outward foreign direct investment (OFDI) by Latin American and Caribbean enterprises continued its upward trend in 2008 (annex figure 1). OFDI by firms in the region reached nearly USD 35 billion in 2008, an increase of 42% with respect to 2007 (ECLAC, 2009a). However, several of the factors that fostered such growth have recently changed, possibly affecting OFDI prospects for 2009. This *Perspective* briefly explores these changes and their potential effects on firms' investing behavior, as well as some important countervailing factors that may cushion the effects of the economic crisis on Latin American firms' investment plans.

The recent increase is the result of the accelerated efforts of some Latin American companies (Trans-Latins) to expand operations beyond their borders (annex table 1). Brazilian firms led this trend, as their OFDI in 2008 accounted for over 60% of the region's total. Chile was the second highest investor, followed by Venezuela (annex figure 2). In contrast, Mexico's Trans-Latins were severely hit by the economic downturn in the North American market. This was manifested in the sharp contraction of the country's OFDI from over USD 8 billion in 2007 to USD 686 million in 2008, although it did recover in early 2009.

The internationalization trend of Trans-Latin enterprises resulted from a combination of factors: global and regional economic growth trends,¹ increases in productivity and innovation, knowledge transfer, improved supply chain capabilities, high international commodity prices, improved access to credit, and strong corporate profits among others. A number of these conditions have now changed. GDP in Latin America is expected to contract by 1.9% in 2009 (ECLAC, 2009b) and, coupled with falling commodity prices, tightening credit markets and increasing debt levels, will undoubtedly make investment more difficult for most Latin American firms.

*Michael Mortimore is ex-Chief, Unit on Investment and Corporate Strategies, UN Economic Commission for Latin America and the Caribbean (UN-ECLAC), Santiago, Chile and can be reached at michaeldmortimore@gmail.com. Carlos Razo is an Economics Affairs Officer with UN-ECLAC and can be reached at carlos.razo@cepal.org. The authors are grateful to Harvey Arbeláez, Jerry Haar and Beatriz Nofal for their suggestions. **The views expressed in this article do not necessarily reflect the opinions of Columbia University or its partners and supporters.** *Columbia FDI Perspectives* is a peer-reviewed series.

¹ In 2008, Latin America and the Caribbean achieved its sixth consecutive year of positive economic growth (see ECLAC 2008).

The global crisis has already hit some of the iconic Trans-Latin corporations hard. For example, CEMEX, the Mexican cement giant burdened with a USD 14.5 billion loan for the acquisition of the Australian firm Rinker in 2007 and most of its assets concentrated in the deteriorated North American market, was forced to cut capital investment by over 50% in 2009 and attempted to sell assets to pay off its current debt (ECLAC, 2009a). Sudamericana de Vapores (Chile), the biggest shipping company in the region, searched for buyers for certain operations in order to acquire cash. Sadia (Brazil), the region's biggest chicken producer, had losses of over USD 800 million in the last quarter of 2008, mostly as a result of investment in financial derivatives (*America Economía*, 2009). In other words, some Trans-Latins are feeling the effect of the current crisis quite severely.

Nevertheless, there are some powerful countervailing factors that may keep the Trans-Latin expansion going, especially by firms with low debt levels and good liquidity positions. For instance, Latin America, the main market of the Trans-Latins, has been contracting at a slower pace than other regions since the crisis began, making it more attractive for investment.

Investment in natural resources, an important niche of Trans-Latin companies, usually focuses on long-run prospects. Projects in oil, gas and mining mature slowly, making some investments relatively less sensitive to the current recession. In the oil sector, Petrobras (Brazil) announced at the beginning of 2009 a rise in its investment plan for the next four years² and Ecopetrol (Colombia) increased its planned investment by 35% over 2008 (*PODER*, 2009).

The expansion of Trans-Latins will also continue in sectors in which the income-elasticity of demand is relatively low (e.g., products for mass consumption). For instance, Bimbo (Mexico) has acquired the assets of the baked products branch of Weston (Canada) in the US (annex table 2). New investment will take place in countries or markets with better prospects. As an example, the Chilean retailer, Cencosud y Falabella, will probably continue expanding its business to countries such as Peru, Colombia and Brazil.

A third factor that may encourage Trans-Latin outward investment has to do with the steps taken by Latin American governments to confront the current economic crisis.³ One of the most widely used measures is the promotion of investment in infrastructure. Such measures may trigger investment not only by firms in the construction business, such as the Mexican firms IDEAL and ICA, or Brazilian companies like Oderbrecht and Camargo Correa, but also by some natural-resource-based manufacturers, such as the iron and steel producers Gerdau (Brazil) and Ternium (part of the Argentine Techint group).

Also worth mentioning because of its resilience in the current crisis, and the important role played by one of the biggest Trans-Latins in it, is the information technology (IT) sector. Digital convergence obliges providers to invest in mobile and internet technologies and networks to remain competitive in the region. In this regard, América Móvil (Mexico) is expected to invest another USD 3 billion in the region.

All this said, it should nonetheless be emphasized that there are no guarantees that outward investment by Latin American firms will continue growing or will outpace investment by firms from other regions. Whether that happens depends largely on the particular circumstances of a relatively small number of firms in a handful of countries in Latin America. This corporate concentration is greater than in other regions and the corporate response thus depends on fewer investors.

Still, first indications are positive. According to the latest available figures, although OFDI from the top regional investors as a *group* is down by 28% in the first quarter of 2009, compared to the same period in 2008, some countries (Argentina, Chile, Colombia and Mexico) have registered increases in their OFDI (annex table 2).

A number of favorable impacts of OFDI on the home country have been identified, especially with regard to international competitiveness. If governments in the region wish to see their OFDI increase

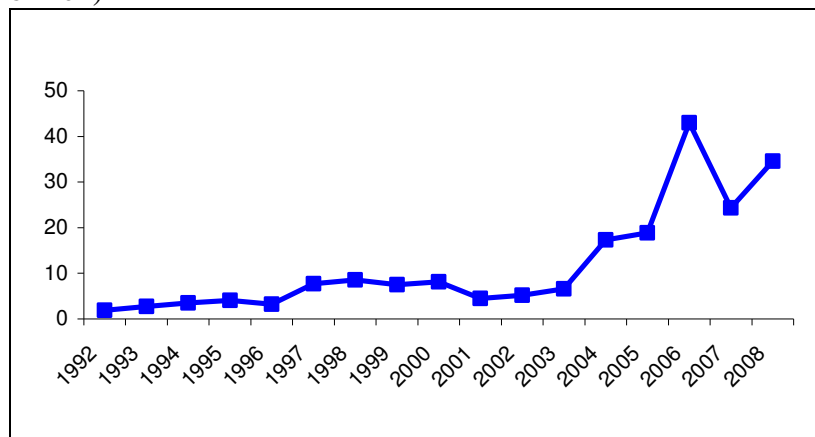
² The Petrobras investment plan for 2009-2013 amounts to USD 174 billion, from which 10% is expected to be invested abroad in exploration and production in West Africa, Latin America and the Gulf of Mexico (ECLAC, 2009a).

³ For more details about the different measures taken by the governments of the region to confront the crisis, see ECLAC, 2009c.

they are advised to design and implement more focused national policies for that purpose. Such initiatives range from eliminating barriers to OFDI (relaxing controls and raising financial limits for investments abroad) to actively promoting OFDI as a strategic tool to integrate with global markets and production systems (by way of the provision of information, matchmaking, incentives and insurance coverage, etc.).⁴ In this, Latin America and the Caribbean is far behind the policy initiatives of many Asian developing countries.

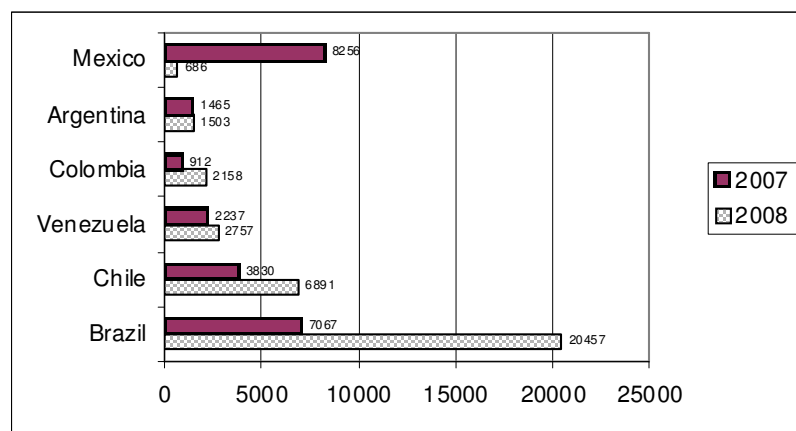
ANNEX

Annex figure 1. Latin America and the Caribbean: net OFDI flows, 1992-2008 (USD billion)



Source: ECLAC (2009a).

Annex figure 2. Latin America and the Caribbean, OFDI by principal investor countries, 2007-2008 (USD million)



Source: ECLAC, 2009a.

⁴ For further discussion of these points, see UNCTAD, 2006.

Annex table 1. The top 25 non-financial companies and groups of Latin America and the Caribbean with investments outside of their country of origin, ranked by 2008 sales (USD million)

	Company	Sales	Country	Sector
1	PDVSA	115,446	Venezuela	Petroleum/gas
2	Petrobras	111,967	Brazil	Petroleum/gas
3	América Móvil/Telmex	33,960	Mexico	Telecommunications
4	Cia Vale Do Rio Doce	30,184	Brazil	Mining
5	TECHINT (Tenaris, Ternium)	20,598	Argentina	Steel, steel pipes, construction, others
6	Gerdau	17,932	Brazil	Iron and steel/ metallurgy
7	Cemex	17,582	Mexico	Cement
8	Codelco	14,425	Chile	Mining
9	GrupoJBS	12,983	Brazil	Food products
10	Ecopetrol	12,283	Colombia	Petroleum/gas
11	Coca-Cola FEMSA	12,147	Mexico	Beverages
12	ENAP	10,095	Chile	Petroleum/gas
13	Cencosud	9,459	Chile	Commerce
14	Grupo Alfa	8,400	Mexico	Various diversified
15	Grupo Camargo Correa	7,175	Brazil	Diversified
16	Cia. Siderurgica Nacional	7,118	Brazil	Iron and steel/ metallurgy
17	Falabella	6,132	Chile	Commerce
18	Grupo Bimbo	5,951	Mexico	Food products
19	Embraer	5,725	Brazil	Aerospace industry
20	Grupo Modelo	5,448	Mexico	Beverages
21	Sadia	5,341	Brazil	Food products
22	TAM	5,201	Brazil	Transportation/logistics
23	Odebrecht	4,950	Brazil	Construction, others

Source: The authors, based on information from *América Economía* (2009) and *PODER* (2009).

Annex table 2. Latin America's top six foreign investors, OFDI first quarter 2008 and 2009 (USD million)

Country	First quarter 2008	First quarter 2009	Difference (percentage)
Argentina	346	393	14
Brazil ^a	7,537	944	-87
Chile	1,959	2,193	12
Colombia	384	1,168	204
Mexico	-501	2,939	...
Venezuela	1,068	80	-93
Total	10,793	7,717	-28

Source: The authors, on the basis of official figures as of 20 July 2009.

^aReported OFDI for Brazil covers the period January to May 2009.

Annex table 3. Main acquisitions by Trans-Latins outside their countries of origin, announced or concluded in 2009 (USD million)

Company or assets acquired	Country of company or assets acquired	Acquired by	Country of origin of acquiring company	Seller	Country of seller	Announced Value	Sector
Operations announced prior to 2009 and concluded in 2009							
Fresh bread & baked goods business	USA	Grupo Bimbo	Mexico	Weston (George) LTD	Canada	2,500	Food
Coal assets	Colombia	Vale	Brazil	Cementos Argos SA	Colombia	305	Mining
Operations announced and concluded in 2009							
Offshore International Group	USA	Ecopetrol SA, Korea National Oil Corp.	Colombia, Republic of Korea			900	Petroleum
INB Financial Corp/McAllen TX	USA	Grupo Financiero Banorte	Mexico	INB Financial Corp/McAllen TX	USA	146	Finance
Potash Assets	Argentina, Canada	Vale	Brazil	Rio Tinto PLC	United Kingdom	850	Mining
Operations announced in 2009							
Refinería Dominicana de Petróleo	Dominican Republic	PDVSA	Venezuela	Dominican Republic (Government)	Dominican Republic	130	Petroleum
Petro Andina Resources	Argentina, Colombia, and Trinidad and Tobago	Pluspetrol S.A.	Argentina	Petro Andina Resources	Canada	320	Petroleum
Celulosa y Energía Punta Pereira SA, Eufores SA, Zona Franca Punta Pereira SA.	Uruguay	Arauco, Stora Enso.	Chile, Finland	Grupo empresarial ENCE S.A.	Spain	344	Paper/pulp

Source: ECLAC, on the basis of data provided by Bloomberg as of July 20, 2009.

REFERENCES

América Economía (2009), "Especial Multilatinas: Ser global en una crisis global", 10 May.

ECLAC (Economic Commission for Latin America and the Caribbean) (2008), *Preliminary Overview of the Economies of Latin American and Caribbean 2008* (Santiago, Chile: United Nations Publication).

ECLAC (2009a), *Foreign Direct Investment in Latin America and the Caribbean 2008* (Santiago, Chile: United Nations Publication).

ECLAC (2009b), *Economic Survey of Latin America and the Caribbean 2008-2009* (Santiago, Chile: United Nations Publication).

ECLAC (2009c), *The Reactions of the Governments of Latin America and the Caribbean to the International Crisis: An Overview of Policy Measures up to 31st May 2009* (Santiago, Chile: United Nations Publication).

La Tercera (2009), "Inversión en Uruguay hará de Arauco el primer productor mundial de celulosa", 28 June.

PODER (2009), "500 Empresas más poderosas de América Latina y el Caribe", 13 April.

UNCTAD (2006), *World Investment Report 2006 – FDI from Developing and Transition Economies: Implications for Development*, (New York and Geneva: United Nations Publication).

The material in this Perspective may be reprinted if accompanied by the following acknowledgment: "Michael Mortimore and Carlos Razo, 'Outward Investment by Trans-Latin Enterprises: Reasons for Optimism,' Columbia FDI Perspectives, No. 12, August 17, 2009. Reprinted with permission from the Vale Columbia Center on Sustainable International Investment (www.vcc.columbia.edu)." A copy should kindly be sent to the Vale Columbia Center at vcc@law.columbia.edu.

For further information please contact: Vale Columbia Center on Sustainable International Investment, Karl P. Sauvant, Executive Director, (212) 854-0689, Karl.Sauvant@law.columbia.edu or Lisa Sachs, Assistant Director, (212) 854-0691, Lsachs1@law.columbia.edu.

Vale Columbia Center on Sustainable International Investment (VCC), led by Dr. Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

Previous Columbia FDI Perspectives

- No. 1. Karl P. Sauvant, "The FDI Recession has Begun," November 22, 2008.
- No. 2. Mark E. Plotkin and David N. Fagan, "The Revised National Security Review Process for FDI in the US," January 7, 2009.
- No. 3. Anne van Aaken and Jürgen Kurtz, "The Global Financial Crisis: Will State Emergency Measures Trigger International Investment Disputes?" March 23, 2009.
- No. 4. Gert Bruche, "A New Geography of Innovation—China and India Rising," April 29, 2009.
- No. 5. Ken Davies, "While Global FDI Falls, China's Outward FDI Doubles," May 26, 2009.
- No. 6. Christian Bellak and Markus Leibrecht, "Improving infrastructure or lowering taxes to attract foreign direct investment?" June 3, 2009.
- No. 7. Susan D. Franck, "International Investment Arbitration: Winning, Losing and Why," June 15, 2009.
- No. 8. Lorenzo Cotula, "Land grab or development opportunity? International farmland deals in Africa," June 22, 2009.
- No. 9. Veljko Fotak and William Megginson, "Are SWFs Welcome Now?" July 22, 2009.
- No. 10. Subrata Bhattacharjee, "National Security with a Canadian Twist: The Investment Canada Act and the New National Security Review Test," July 30, 2009.
- No. 11. Jaya Prakash Pradhan, "Indian FDI falls in global economic crisis: Indian multinationals tread cautiously," August 17, 2009.