European Union and Latin America and the Caribbean:

Investments for growth, social inclusion and environmental sustainability

UNITED NATIONS

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This document was prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) for the Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) and the European Union to be held in Santiago on 26 and 27 January 2013.

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I. Foreword

This document is a contribution by the Government of Chile and the Economic Commission for Latin America and the Caribbean (ECLAC) to preparations for the first Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) and the European Union, which will be held in Santiago on 26 and 27 January 2013. It seeks to provide a broad and well-informed view of the main dimensions of development in the countries of both regions, as well as insights into the central theme of the Summit: "Partnership for sustainable development: promoting investments of social and environmental quality". A first version of this document was presented at the seminar on investments for economic growth, social inclusion and environmental sustainability, which was organized jointly by ECLAC, the Ministry of Foreign Affairs of Chile, the European External Action Service (EEAS) and the European Union, Latin America and Caribbean (EU-LAC) Foundation, and held at ECLAC headquarters in Santiago on 4 and 5 October 2012.

Investment is a key variable amalgamating economic growth, social inclusion and environmental sustainability into the sort of development that can bring about structural change capable of reducing inequality, as ECLAC argued in the document *Structural Change for Equality: An Integrated Approach to Development*, which was presented at the thirty-fourth session of ECLAC in San Salvador in August 2012.

Investment is the mechanism by which progress can be made towards a more knowledge-intensive and fruitful production structure with a strong job creation capacity. It is fundamental for assimilating the technological revolution that is currently under way, which will open up opportunities, not only to make strides in productivity and competitiveness, but also to create quality jobs and generate the conditions for sustainability. In today's world, technical progress, creating good jobs, reducing inequality and fostering sustainability all go hand-in-hand.

ECLAC contends that there is strong complementarity within the relations between the European Union and Latin America and the Caribbean, and great potential for building and strengthening a partnership that can benefit the peoples of both regions.

The European Union is the Latin American and Caribbean region's foremost provider of cooperation, leading direct investor and second largest trading partner. The European Union is also a steadfast advocate of regional integration, environmental protection, sustainable development and multilateralism. Latin America and the Caribbean, with its large endowment of strategic global resources, has stable democracies and has made strides towards regional integration. Its economy has performed well in the current complex conditions, thus improving its international standing. In sum, the two regions are natural allies who share a history, culture and values, and are well placed to adopt joint stances on current global challenges and to boost economic development in a sustainable manner on both sides of the Atlantic.

Europe has had a key influence at several stages of the development of Latin America and the Caribbean and trade relations between the two regions have been complemented by the mass arrival of migrants and companies in the region. These companies contribute to the production of goods and services, exports and the creation of quality jobs, with positive spillovers for poverty reduction, social inclusion, equality and environmental sustainability within the framework of the Millennium Development Goals.

From the mid-1980s to the early 2000s, the economic and social development policies and patterns of the two regions were particularly complementary. Latin America was striving to achieve deeper integration into the global economy, using foreign direct investment (FDI) as a source of financing and as an instrument of production upgrading. At the same time, Europe was striding ahead with reforms to create a deep economic union, which increased pressure on its companies to expand and compete more efficiently in the European and global markets.

The European Union became Latin America's primary source of FDI, and this region became the top destination for European investments in emerging economies. For many European companies, the Latin American market has been an important source of revenue at times when their local markets have been sluggish. In the other direction, some Latin American companies —referred to as "trans-Latins"— began to invest outside their home countries, albeit not on the same global scale as their European counterparts. At first those companies had a strong regional focus and specialized in commodities and services, and did not, in general, consider the European Union to be a priority or even a possible destination.

Recently, there has been a loss of momentum in this regard, with a lull in the flow of European investments in Latin America and a failure to stimulate and foster the incipient expansion of the trans-Latins in the European Union. The United States therefore retains its predominant role in the region, while emerging economies such as China and India are becoming increasingly important trade partners. This standstill has related, in part, to the accession of new European Union member States, the growing importance of the Middle East and North Africa in Europe's foreign affairs agenda and the severe financial crisis in the European Union. In addition, some countries in Latin America have been less FDI-friendly and the region is thus less attractive to investors than Asia, for example, as an actor in global markets.

In order to regain the momentum, fresh efforts are needed to bring together governments, companies and social actors from the two regions with a view to facilitating investment. We must look beyond the economic complementarities that have been exploited to date. The key to the interaction between the social, environmental and economic dimensions of development is encouraging investment in production activities by companies from both regions. A deeper partnership between Latin America and the Caribbean and the European Union would speed up economic development in the region, propel a structural change towards more knowledge-intensive sectors, reduce poverty, increase social inclusion and protect the environment through activities such as:

- Deepening trade agreements that open up opportunities for investment, particularly in new knowledge-intensive activities and sectors that provide quality jobs.
- Stimulating the establishment of small enterprises through job creation in global value chains and networks.
- Fostering innovation and broadening access to new technologies, especially information and communication technologies (ICTs).
- Implementing inclusive infrastructure projects and providing access to basic services within a new urban development framework.
- Promoting investments in climate change mitigation technologies to offset the negative externalities of economic growth.
- Expanding the use of environmentally friendly energy sources and diversifying the energy matrix by increasing the share of non-conventional renewable sources, following the lead of European companies in this area in order to make strides towards a green economy.

The European Union would also benefit in the following key areas that benefit economic and social well-being and, undoubtedly, job creation as well:

- New business opportunities for companies in non-traditional areas, including new technologies, the green economy and social networks.
- Expansion of traditional markets in the telecommunications, motor vehicle, pharmaceutical, electricity and banking sectors, among others.
- Opening up markets for small and medium-sized enterprises.
- Taking advantage of the internationalization of Latin American companies to revitalize productive sectors in Europe that are facing mounting global competition.
- Securing the supply of natural resources and food, while supporting the protection of biodiversity and environmental sustainability.
- Mitigating migration-related issues.

The Latin American and Caribbean region is weathering the global economic crisis with resilience and various regions and countries are seeking closer ties with our continent. Today, a unique opportunity is emerging to design a strategy that will underpin a new strategic relationship with the European Union in a multipolar world. Ties between the two regions must reflect the heterogeneity within both, paying particular heed to the opportunities available to and the constraints facing the less developed economies.

The outcome of the Summit will strengthen political and economic relations between the two regions, based on historical ties, a cultural affinity and a shared vision of society. The issues at hand have a strong economic, social and environmental policy component and require coordination between the public and private sectors —something which calls for reflection at the highest level. What is more, with 60 countries represented at the Summit (33 from CELAC and 27 from the European Union), making it one of the largest global forums, this biregional partnership can and must make itself heard in the necessary process of restructuring the multilateral economic system. This could be more easily achieved since —for the first time— the Latin American and Caribbean region will be speaking with the European Union with a single voice: CELAC. This new organization is engaged in forging a continental integration agenda based on a few key agreements, with great political will for achieving consensus and developing a more fluid dialogue between the two blocs.

The Summit represents an opportunity to make headway on framework agreements for a new partnership between the two regions based on investments that represent the tangible outcome of the combined efforts of companies, social actors and governments. This would lend continuity to and follow up on the agreements of the Madrid Declaration concluded at the sixth EU-LAC Summit held in Madrid on 18 May 2010, which emphasized “innovation and technology for sustainable development and social inclusion”. These investments would lay the foundations for economic and social change that would bring about a deeper structural change incorporating knowledge-intensive technologies, promote environmental protection, and reduce poverty and social inequalities.

Alicia Bárcena
Executive Secretary
Economic Commission for Latin America and the Caribbean

II. An overview of the economies of the European Union and Latin America and the Caribbean

A. The economic dimension

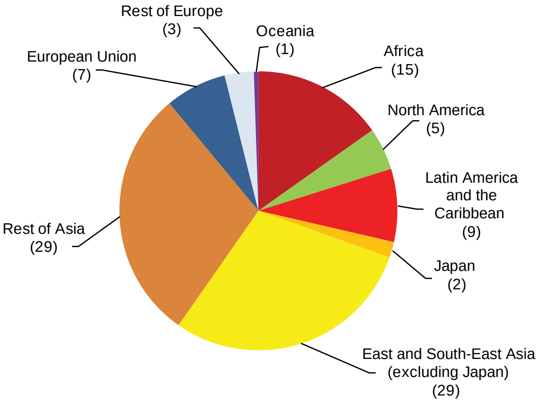
1. Latin America and the Caribbean has more inhabitants than the European Union, but its share of the world economy is much smaller

- Today, the world's population is estimated at 7.058 billion people, more than half of whom live in Asia and the Pacific. Latin America and the Caribbean is home to 599 million people, or 9% of the world's population. The European Union has 502 million inhabitants, 7% of the total.
- The strongest population growth over the coming years is expected to be in Asia and Africa, with the shares of Latin America and the Caribbean and the European Union declining.
- At present, the European Union, North America and Japan between them generate 60% of the world's gross domestic product (GDP).
- The European Union is the largest economic bloc, accounting for a quarter of world GDP, which is slightly higher than the share of the United States and Canada. Latin America and the Caribbean accounts for 8% of global GDP, half as much as East and South-East Asia.

■ **Figure II.1** ■

Distribution of world population, mid-2012

(Percentages of the world total)

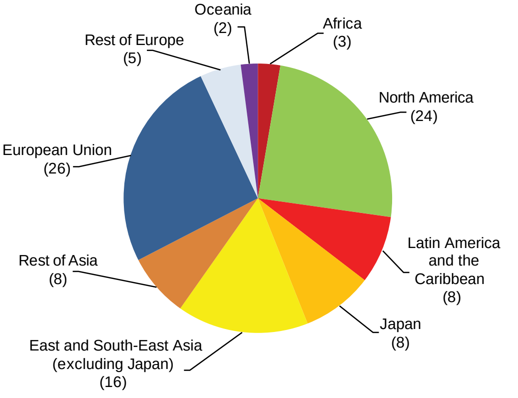


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Population Reference Bureau, 2012 World Population Data Sheet, Washington, D.C. [on line] www.prb.org.

■ **Figure II.2** ■

Distribution of world GDP, 2011

(Percentages of the world total in current dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.

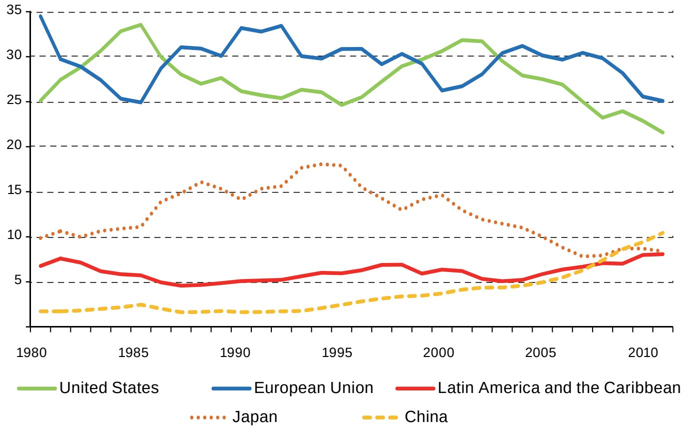
2. The advanced countries, including the European Union, have been seeing their share of the world economy decline, while the share of emerging economies, particularly developing Asia and, to a lesser extent, Latin America and the Caribbean, has been increasing

- The structure of the world economy has undergone significant changes, heightened in the recent period by the international financial crisis that has hit the advanced economies hard. Like the United States and Japan, the 27 member countries of the European Union have seen their share of the world economy decline, to the benefit of emerging economies.
- Between 2000 and 2011, developing Asia increased its share of world GDP from 7% to 16%, with China leading the way.
- Latin America and the Caribbean has held its ground in the world economy, with a slight increase in the recent period. Between 2000 and 2011, the region increased its share of world GDP from 6.4% to 8.1%. While positive, this dynamic is far from matching the results achieved by the Asia and the Pacific region. China's economy was half the size of Latin America and the Caribbean's in 1998, roughly the same size 10 years later, and 30% larger by 2011.

■ **Figure II.3** ■

Countries and regions: share of world GDP, 1980-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Bank, World Development Indicators.

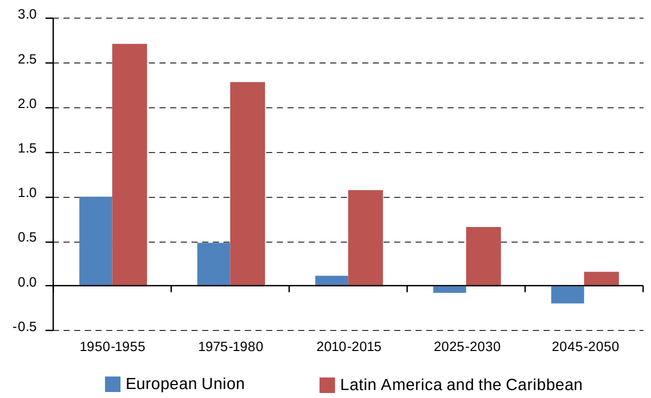
3. The population of Latin America and the Caribbean will continue to grow over the coming decades while that of the European Union stagnates

- Although the two regions' shares of the world population are comparable, the growth dynamic is divergent. Whereas the population of the European Union is ageing, so that its share will decline in the coming years, Latin America and the Caribbean has a younger population and higher birth rates.
- The population of the European Union will decrease in size over the next four decades. Although half its member States will have positive growth, this will not be enough to offset population declines in other countries.
- Latin America and the Caribbean will continue to grow, albeit more and more slowly. Population growth within the region is heterogeneous, ranging from rates of over 2% in Guatemala to rates of under 1% in the Southern Cone and even a slight decline in Cuba.
- Population ageing is resulting in a rapid increase in the old-age dependency ratio, which will reach 47% in the European Union by 2050, exceeding 50% in some countries. In Latin America, this indicator will have risen to 30% by 2050.

■ **Figure II.4** ■

European Union and Latin America and the Caribbean: average annual population growth rate, 1950-2050

(Per 100 inhabitants)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Population Prospects, 2010 Revision*, Population Division, New York.

■ **Table II.1** ■

Old-age dependency ratio, selected countries, 1950-2050

	1950	1975	2010	2025	2050
European Union	13.0	18.0	24.0	32.0	47.0
Germany	14.5	23.3	30.8	40.8	56.5
Spain	10.9	16.6	24.9	32.1	61.9
France	17.3	21.5	25.9	35.8	43.4
Italy	12.4	19.2	31.0	38.8	61.7
Netherlands	12.2	16.9	22.9	35.4	46.0
United Kingdom	16.2	22.4	25.1	31.4	39.9
Latin America and the Caribbean	6.0	8.0	11.0	15.0	30.0
Argentina	6.4	12.2	16.4	19.8	30.8
Brazil	5.4	7.2	10.2	16.5	36.8
Chile	7.3	9.2	13.4	21.6	38.1
Colombia	6.3	6.8	8.5	14.5	27.6
Mexico	6.4	7.4	9.9	14.9	34.9
Uruguay	12.9	15.5	22.0	25.1	35.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Population Prospects, 2010 Revision*, Population Division, New York.
Note: Old-age dependency ratio = (Population aged 65 and over / Population aged 15 to 64) * 100.

■ **Table II.2** ■

Total annual average population growth rate (per 100 inhabitants), selected countries, 2010-2015

European Union	0.11	Latin America and the Caribbean	1.07
Germany	-0.20	Argentina	0.85
Spain	0.62	Bolivia (Plurinational State of)	1.45
France	0.51	Brazil	0.78
Greece	0.23	Chile	0.84
Italy	0.23	Colombia	1.33
Netherlands	0.28	Mexico	1.03
Portugal	0.05	Peru	1.14
United Kingdom	0.60	Uruguay	0.34
Sweden	0.56	Venezuela (Bolivarian Rep. of)	1.48

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Population Prospects, 2010 Revision*, Population Division, New York.

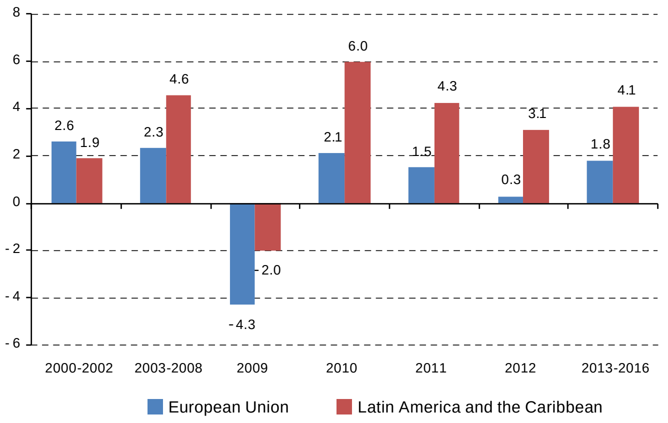
4. The economy of Latin America and the Caribbean is growing faster than that of the European Union and is expected to continue doing so in the near future

- Since 2003, GDP growth has been consistently higher in Latin America and the Caribbean than in the European Union. The effect of the 2008-2009 world financial crisis was much more pronounced in Europe (contraction of 4.9%) than in Latin America (-2%) and the recovery much slower and more uncertain. Annual growth is expected to average 4.1% in Latin America and the Caribbean and 1.8% in the European Union for the coming years.
- It is estimated that the major eurozone economies will grow at rates below 2% over the next four years, while all the larger economies in Latin America should have growth in the region of 4%, with some countries such as Peru exceeding 5%.
- Recovery in the European Union will remain fragile. In the short term, the severe fiscal adjustments now being implemented will translate into lower aggregate demand.

■ Figure II.5 ■

European Union and Latin America and the Caribbean: GDP growth, 2000-2015

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Statistical Office of the European Communities (EUROSTAT) and World Bank.

■ Table II.3 ■

European Union and Latin America and the Caribbean: GDP growth, selected countries, 2000-2015

(Percentages)

	2000-2002	2003-2008	2009	2010	2011	2012	2013-2016
European Union	2.6	2.3	-4.3	2.1	1.5	0.3	1.8
Germany	1.7	1.5	-5.1	4.2	3.0	0.8	1.3
Belgium	1.9	2.1	-2.8	2.4	1.8	0.2	1.4
Spain	3.8	3.1	-3.7	0.3	0.4	1.4	1.2
France	2.2	1.6	-3.1	1.7	1.7	0.2	1.7
Italy	2.0	0.9	-5.5	1.8	0.4	2.3	0.6
Netherlands	2.0	2.3	-3.7	1.6	1.0	0.3	1.5
Poland	2.3	5.2	1.6	3.9	4.3	2.4	3.6
United Kingdom	3.4	2.3	-4.0	1.8	0.9	0.3	2.5
Latin America and the Caribbean	1.9	4.6	-2.0	6.0	4.3	3.1	4.1
Argentina	-5.4	8.5	0.9	9.2	8.9	2.2	4.2
Brazil	2.8	4.2	-0.3	7.5	2.7	1.2	4.2
Chile	3.4	4.7	-1.0	6.1	6.0	5.5	4.6
Colombia	2.4	5.2	1.7	4.0	5.9	4.5	4.4
Ecuador	4.1	5.3	0.4	3.6	7.8	4.8	3.8
Guatemala	3.3	4.0	0.5	2.9	3.9	3.3	3.4
Mexico	2.4	3.1	-6.3	5.6	3.9	3.8	3.6
Peru	2.7	7.0	0.9	8.8	6.9	6.2	5.9
Uruguay	-5.3	6.4	2.4	8.9	5.7	3.8	4.0
Venezuela (Bolivarian Republic of)	-0.6	7.5	-3.2	-1.5	4.2	5.3	3.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Statistical Office of the European Communities (EUROSTAT) and World Bank.

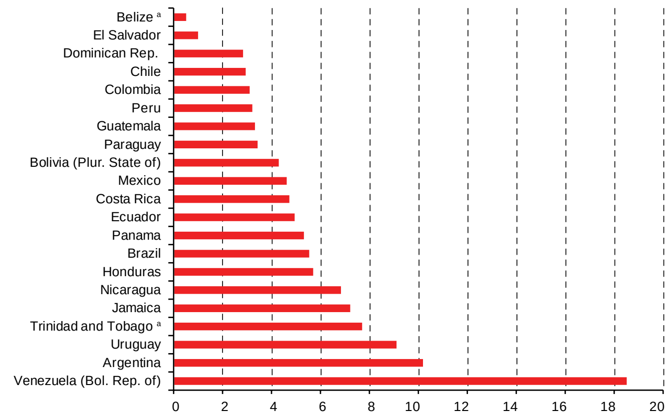
5. However, Latin America and the Caribbean has greater problems with inflation than the European Union

- Inflation was higher in Latin America and the Caribbean than in the European Union in 2012. All countries in the latter region except Romania and Hungary had inflation rates below 5%, whereas over half the countries of Latin America and the Caribbean had inflation rates of between 3.2% and 10%, with Argentina and the Bolivarian Republic of Venezuela registering double-digit rates.
- In Latin America and the Caribbean, reduced risk and the expectation of growth have resulted in a large influx of external resources which, in combination with high prices for exported goods in some cases, has led to a trend towards currency appreciation, especially in those countries that are most financially integrated into the global market (Brazil, Chile, Colombia, Mexico and Peru). There has also been a build-up of reserves in this group of countries, something that is consistent with more active currency market intervention policies designed to produce exchange rates which, while flexible, are not subject to extreme volatility and that stabilize incentives for the production of exportable and tradable goods.
- Most of the hydrocarbon-exporting countries (the Bolivarian Republic of Venezuela, Ecuador, the Plurinational State of Bolivia and Trinidad and Tobago) have experienced higher inflation than the other countries of the region, with rates approaching or exceeding two digits in some cases. With nominal exchange rates stable, this has led to a combination of real currency appreciation and a build-up of reserves associated with these exports.

■ **Figure II.6** ■

Latin America and the Caribbean: 12-month inflation to October 2012, selected countries

(Percentages)



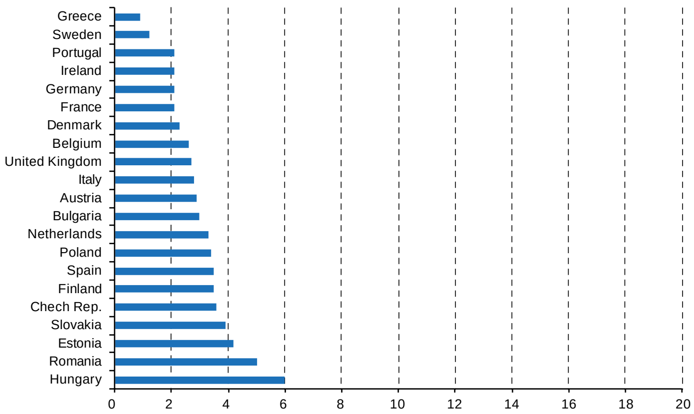
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

[a] 12-month variation to August 2012.

■ **Figure II.7** ■

European Union: 12-month inflation to October 2012, selected countries

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

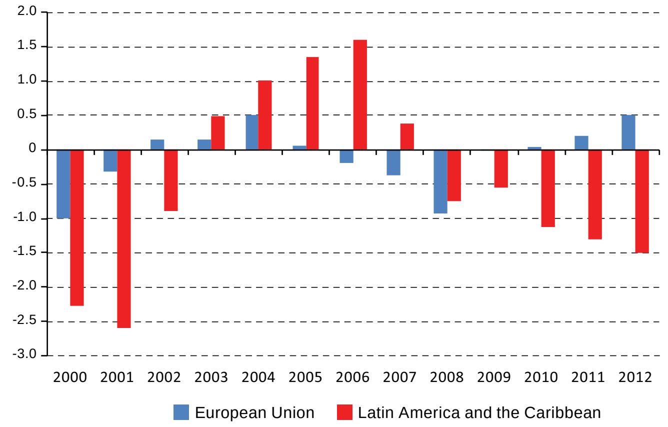
6. Increasing exposure to the international economy has made it harder for Latin America and the Caribbean to deal with current account volatility

- Latin America and the Caribbean steadily improved its current account balance between 2000 and 2006, after long periods of deficit. As a percentage of GDP, this balance shifted from -2.6% to just over 1.6% between 2001 and 2006. This performance was then sharply reversed, mainly owing to the decline in the trade surplus as a result of strong import growth. Latin America's current account balance turned negative again in 2008 and the deficit widened steadily up to 2012. This has been a result partly of international raw material prices dropping back from their mid-2008 peaks, partly of continuing strong growth in goods imports, reflecting the positive evolution of domestic demand.
- For its part, the European Union improved its current account balance with the rest of the world between 2000 and 2004, but a deficit then arose and continued to widen until 2008. In that year, reflecting the deterioration of domestic demand resulting from the crisis that took hold in several of the region's countries, the deficit began to shrink quickly, and in 2010 it turned into a small surplus which expanded steadily until 2012.
- Notwithstanding all this, both regions are very heterogeneous at the country level. In 2011, four of the 33 countries in Latin America and the Caribbean recorded current account surpluses. Again, a large number of countries, most of them in the English-speaking Caribbean and Central America, had deficits of over 10%. In the case of the European Union, nine of the 27 member States had current account surpluses.

Figure II.8

European Union and Latin America and the Caribbean: current account balances, 2000-2012

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

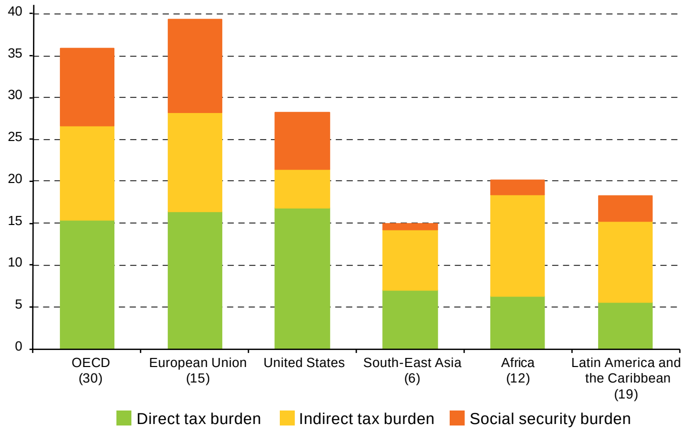
7. The Latin American and Caribbean region's fiscal burden is less than half that of the European Union

- The fiscal burden in Latin America and the Caribbean is about 18% of GDP. When compared to other regions of the world, this figure only exceeds that of South-East Asia, which has a fiscal burden of about 15% of GDP. The European Union (15) has the highest fiscal burdens, averaging just under 40% of GDP, which is somewhat above the average for the Organisation for Economic Co-operation and Development (OECD) countries (36.2%). The fiscal burden in the United States is about 28% of GDP.
- One difference in the composition of the fiscal burden in Latin America and the Caribbean as compared to the European Union (15) and the OECD is the greater share represented by the indirect tax burden as against the direct tax burden. This is a characteristic shared with the other developing regions, especially Africa.
- As a regional simple average, total fiscal revenues are about 20% of GDP in the countries of Latin America and the Caribbean and about 23% in the European Union. There is a high degree of dispersion between countries, however, although the great majority in Latin America and the Caribbean are around the average. The dispersion of this indicator is also high in the EU countries; five countries have fiscal revenues in excess of 30% of GDP, while a large number of countries have fiscal revenues of between 20% and 30% of GDP.

■ **Figure II.9** ■

Latin America and the Caribbean, European Union and other regions: structure of the fiscal burden, 2011

(Percentages of GDP)

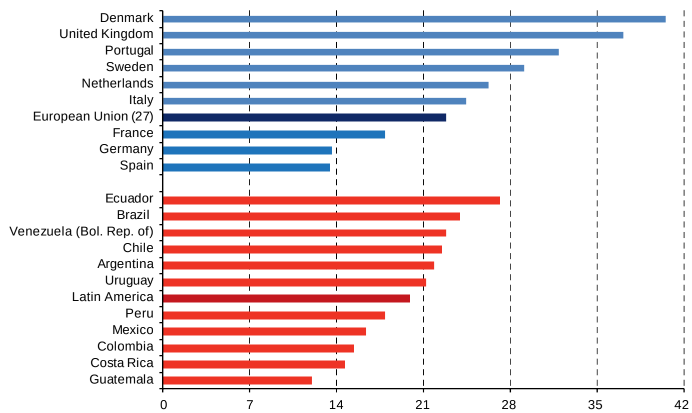


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

■ **Figure II.10** ■

Latin America and the Caribbean, European Union and other regions: fiscal revenue, selected countries, 2011

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Statistical Office of the European Communities (EUROSTAT).

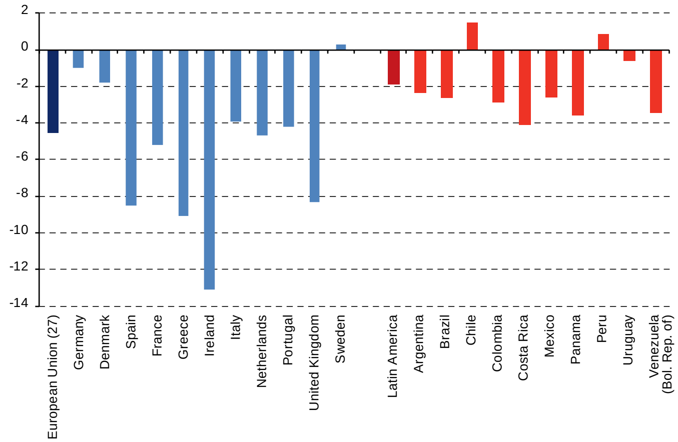
8. The countries of the European Union average higher deficits and cumulative debt levels than those of Latin America

- Although most countries of Latin America and the Caribbean had a fiscal deficit in 2011, this averaged less than half the European Union deficit. Of the European Union's leading economies, only Germany, at 1%, had a smaller deficit than Brazil, Mexico and Argentina. Conversely, some countries on the European periphery had deficits of over 8%, with Ireland, Greece and Spain being cases in point.
- A similar trend can be seen with public debt. In 2011, public debt was about 80% of GDP in the countries of the European Union, as against 50% in those of Latin America and the Caribbean. Two different situations exist in the region, however. On the one hand, there are the countries of Latin America, where public debt averages about 30% of GDP. On the other, the Caribbean countries have higher debt levels, close to the European Union average (80%). Some Caribbean economies have debt levels approaching or even exceeding 100% of GDP.

Figure II.11

European Union and Latin America: overall central government fiscal result, selected countries, 2011

(Percentages of GDP)

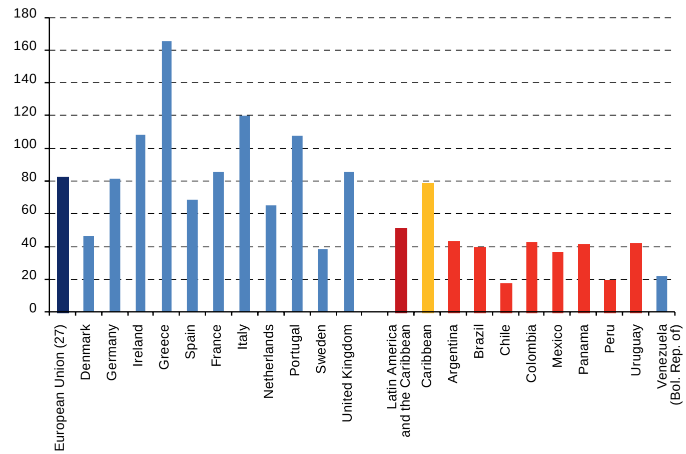


Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Statistical Office of the European Communities (EUROSTAT).

Figure II.12

European Union and Latin America: gross debt, selected countries, 2011

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Statistical Office of the European Communities (EUROSTAT).

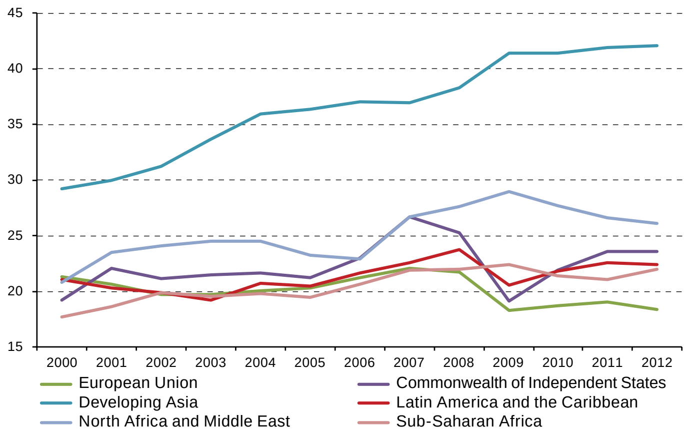
9. Latin America and the Caribbean has a higher investment rate than the European Union but a much lower one than developing Asia

- The international crisis which began in 2008 and culminated in 2009 negatively affected investment levels in the European Union and in Latin America and the Caribbean. Although the two regions presented similar investment rates up until 2007, gross fixed capital formation as a share of GDP began to decline in the European Union that year, falling below 20%. Although this indicator recovered slightly in 2010 and 2011, it dropped again in 2012 and is still well below the levels seen between 2006 and 2008.
- In Latin America and the Caribbean, by contrast, investment grew steadily between 2003 and 2008. Despite the negative impact of the international financial crisis, gross fixed capital formation as a share of GDP recovered in 2010 and 2012 from the decline it had experienced in 2009.

Figure II.13

Gross fixed capital formation, by region, 2000-2012

(Percentages of GDP)

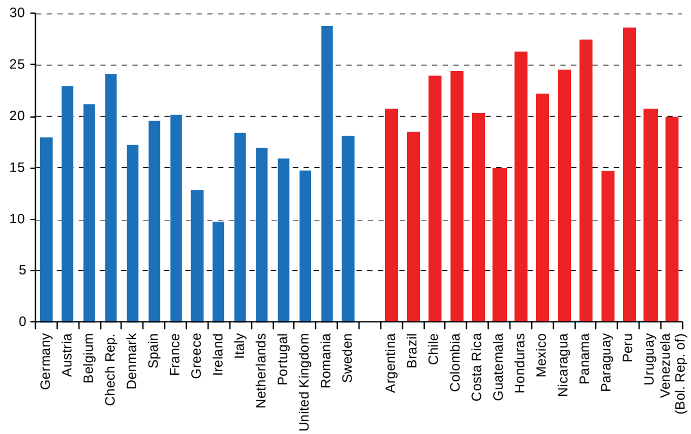


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

Figure II.14

European Union and Latin America: gross fixed capital formation, selected countries, 2012

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

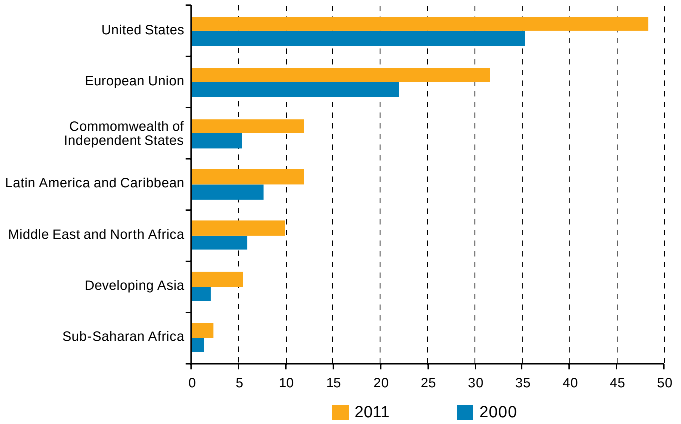
10. Despite the progress made, the per capita income gap is not closing

- In 2011, per capita income in the European Union, measured at purchasing power parity, was around US$ 31,600, well above the Latin America and Caribbean figure of US$ 11,863. In 2000, the figures were US$ 21,903 and US$ 7,562, respectively. Thus, despite the rise in Latin America, the income gap between the two regions has widened.
- If the comparison is with other developing regions, Latin America and the Caribbean ranks joint first alongside the Commonwealth of Independent States with a per capita GDP level that is some 20% higher than that of the Middle East and North Africa, about twice that of developing Asia and roughly five times that of sub-Saharan Africa.
- At the country level, the per capita GDP of Trinidad and Tobago, which ranks third for this indicator in the region, is similar to the lowest level among the countries of the European Union.

Figure II.15

Per capita GDP, by world region, 2000-2011

(Thousands of dollars at purchasing power parity)

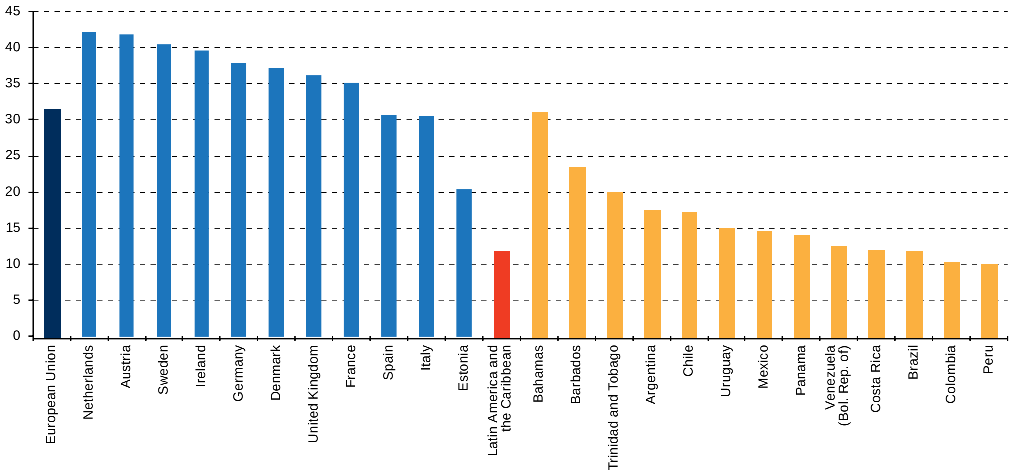


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

Figure II.16

European Union and Latin America: per capita GDP, selected countries, 2011

(Thousands of dollars at purchasing power parity)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

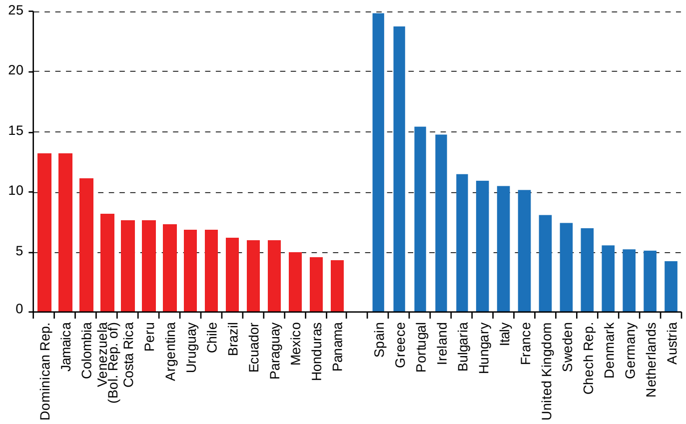
11. The labour market is performing better in Latin America and the Caribbean than in the European Union

- A comparison of developments in unemployment rates reveals differences in the behaviour of this indicator in the two regions. In the countries of Latin America and the Caribbean, unemployment rates were below 10% in 2012, with few exceptions. In the European Union countries, these rates were generally higher, exceeding 20% in some cases.
- In the European Union, countries with higher unemployment rates are those that have been affected by fiscal imbalances, the sovereign debt crisis and strict adjustment programmes, most particularly Spain, Ireland, Greece, Portugal and Italy.

Figure II.17

European Union and Latin America: unemployment rates, 2012

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF).

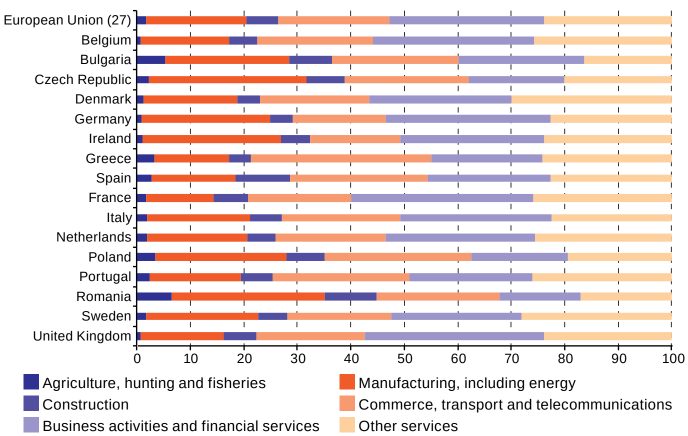
B. The production structure and infrastructure

12. The primary sector represents a larger share of the Latin American and Caribbean economies, while services are more important in the European Union

- There are differences in the structure of value added in the two regions. Generally speaking, the share of the agricultural sector is larger in Latin America and the Caribbean than in the European Union, as is the mining sector in some of the countries.
- The service sector is a larger share of the economy in the countries of the European Union. Services account for 60% or more of value added everywhere but Romania, and for close to 70% in several of the countries.
- The picture is more heterogeneous in Latin America and the Caribbean. In some economies, most value added is generated in goods-producing sectors, particularly in certain economies specializing in mining production and its derivatives. In others, services represent a larger share, and this is particularly true of the Caribbean, where there is greater specialization in tourism, financial services, remote business services and assembly work in free-trade zones.

■ **Figure II.18** ■

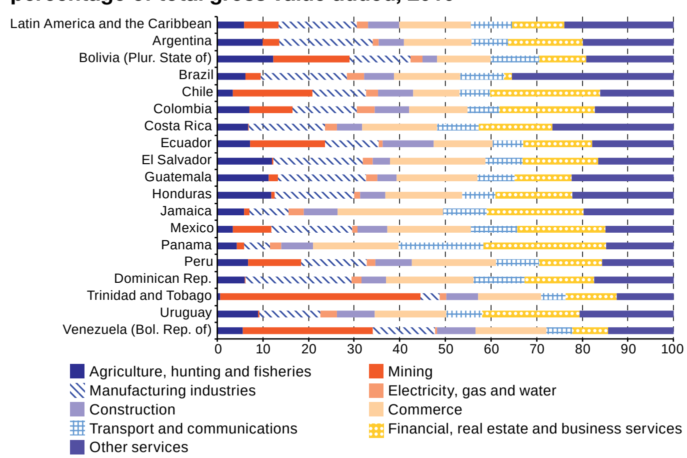
European Union: gross value added by branch of activity as percentage of total gross value added, 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Statistical Office of the European Communities (EUROSTAT).

■ **Figure II.19** ■

Latin America: gross value added by branch of activity as percentage of total gross value added, 2010



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

13. Latin America and the Caribbean plays a fundamental role in world mineral production

- A number of Latin American countries figure prominently in world mineral output.
  - In 1982, Chile became the world's largest copper producer, relegating the United States, which for decades had held this position, to second place.
  - Brazil was the world's largest iron producer until 2006 and is still one of the top three, after China and Australia.
  - Mexico is the leading producer of silver and the fifth-largest producer of molybdenum and lead ore.
  - Peru is one of the world's leading producers of silver, copper, gold and lead.
  - Colombia is the seventh-largest producer of refined nickel.
  - Jamaica is the seventh-largest producer of bauxite.
  - Similarly, other countries such as Bolivia (tin ore and silver), Colombia (refined nickel), Cuba (nickel ore), Jamaica (bauxite) and Peru (silver, copper, gold and lead) occupy leading positions in global output.
- Between 1990 and 2010, Latin America and the Caribbean almost doubled its share of the world's gold, molybdenum ore and copper ore output. Indeed, the region is so important for global output that mineral prices on international exchanges are affected whenever there is a temporary shutdown at any major Latin American mining company.

Table II.4

Latin American and Caribbean mining output as a share of the world total, 1990-2010

(Percentages)

Mineral	Percentage of world total					Three largest producers in the region in 2010
	1990	1995	2000	2005	2010	
Bauxite	22.9	26.7	26.0	27.5	19.0	Brazil, Jamaica and Suriname
Primary aluminium	9.2	10.4	8.9	7.5	5.7	Brazil, Argentina and Venezuela (Bolivarian Republic of)
Copper ore	24.9	32.2	43.0	46.5	45.3	Chile, Peru and Mexico
Refined copper	15.7	23.2	25.1	23.7	21.9	Chile, Peru and Mexico
Gold	10.3	12.5	14.4	18.1	19.2	Peru, Brazil and Mexico
Silver	34.2	38.3	26.4	26.3	30.8	Peru, Mexico and Bolivia (Plurinational State of)
Tin ore	28.3	27.8	26.0	21.2	19.5	Bolivia (Plurinational State of), Peru and Brazil
Refined tin	23.1	15.8	14.9	18.0	16.6	Peru, Bolivia (Plurinational State of) and Brazil
Iron	22.6	24.9	26.1	26.0	23.1	Brazil, Venezuela (Bolivarian Republic of) and Mexico
Molybdenum ore	15.8	18.2	35.2	37.3	31.8	Chile, Peru and Mexico
Nickel ore	11.5	11.7	14.1	15.1	12.9	Cuba, Brazil and Colombia
Refined nickel	9.7	10.1	10.7	13.4	11.6	Colombia, Cuba and Brazil
Lead ore	13.3	15.5	14.7	14.6	14.5	Peru, Mexico and Bolivia (Plurinational State of)
Refined lead	7.8	7.6	8.4	7.2	7.4	Mexico, Brazil and Argentina
Zinc ore	16.8	20.6	19.0	21.0	21.7	Mexico, Bolivia (Plurinational State of) and Brazil
Refined zinc	7.5	8.5	7.3	7.9	7.0	Mexico, Brazil and Peru

Source: Economic Commission for Latin America and the Caribbean (ECLAC), J. Acquatella and J. Larde, "Panorama regional del sector minero en América Latina y el Caribe", Santiago, Chile, 2012, forthcoming, on the basis of World Bureau of Metal Statistics, database, Gold Fields Mineral Services and United Nations Conference on Trade and Development (UNCTAD).
Note: The gold, silver and iron data are for 2009.

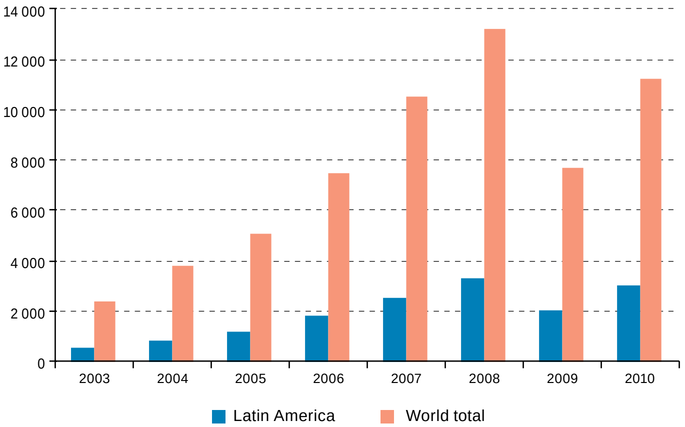
14. This role could be strengthened further, as investment in mineral exploration in Latin America is still rising…

- In the recent period, investment in mineral exploration has risen strongly, with a brief interruption due to the international financial crisis.
- Since 1994, Latin America and the Caribbean has been the leading destination for global expenditure on mineral exploration. Between 2003 and 2010, annual exploration budgets in the region rose more than fivefold. The region receives over half the worldwide gold exploration budget, with copper next in importance. The main destinations for mineral exploration have been Brazil, Chile, Mexico and Peru, and to a lesser extent Argentina.
- This trend has been contributed to by the market opening and liberalization process in Latin America and by higher exploration costs, depletion of reserves, the abolition of fiscal incentives and higher environmental standards in the traditional mining countries (Australia, Canada and the United States).

■ **Figure II.20** ■

Latin American and world totals: mining exploration budgets, 2003-2010

(Millions of dollars)

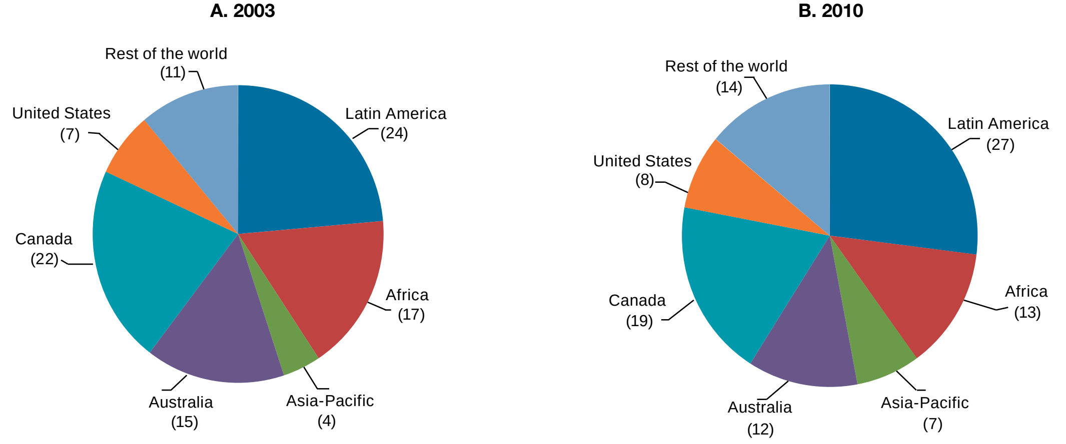


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from CESCO and Metals Economics Group, *World Exploration Trends*.

■ **Figure II.21** ■

Distribution of worldwide mining exploration budgets, 2003-2010

(Percentages of world total)



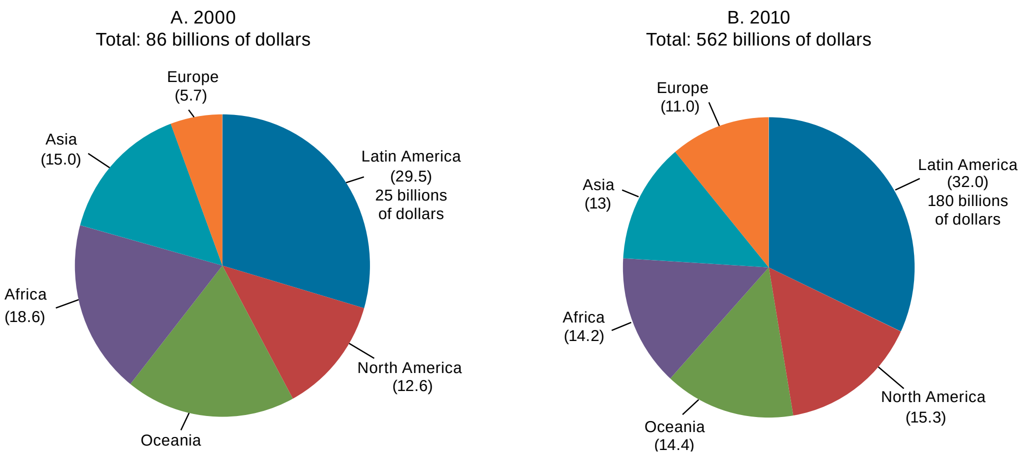
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from CESCO and Metals Economics Group, *World Exploration Trends*.

15. …which should yield higher reserves and strong growth in mining investment

- Intensified exploration has resulted in Latin America increasing its known reserves of many minerals and becoming the leading destination for mining investment.
- Latin America possesses a large share of the global reserves of many minerals: lithium (65%), silver (49%), copper (44%), tin (33%), bauxite (26%), nickel (23%) and iron (22%). Furthermore, for example, known gold reserves increased from 200 tons in 2000, primarily in Peru, to over 9,200 tons in 2010, distributed between Brazil, Chile, Mexico and Peru.
- Latin America has been receiving about a third of all global mining investment. The value of projects announced rose from US$ 25 billion in 2000 to US$ 180 billion in 2010. The level of investment planned (if not necessarily implemented) is an indicator of the region's attractiveness, in terms both of the incentives provided by the countries and the returns expected on these investments.
- Brazil, Chile, Peru and Mexico were among the top 10 destinations for mining investment in 2010. This stands in contrast to the situation in 2000, when only Chile and Peru were in this group. The metals attracting the largest volumes of investment are iron (27%), copper (27%), gold (16%), nickel ore (14%) and refined nickel (3%).

■ **Figure II.22** ■

Portfolio of mining investment projects by region, 2000 and 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from a survey conducted by *Engineering and Mining Journal.*

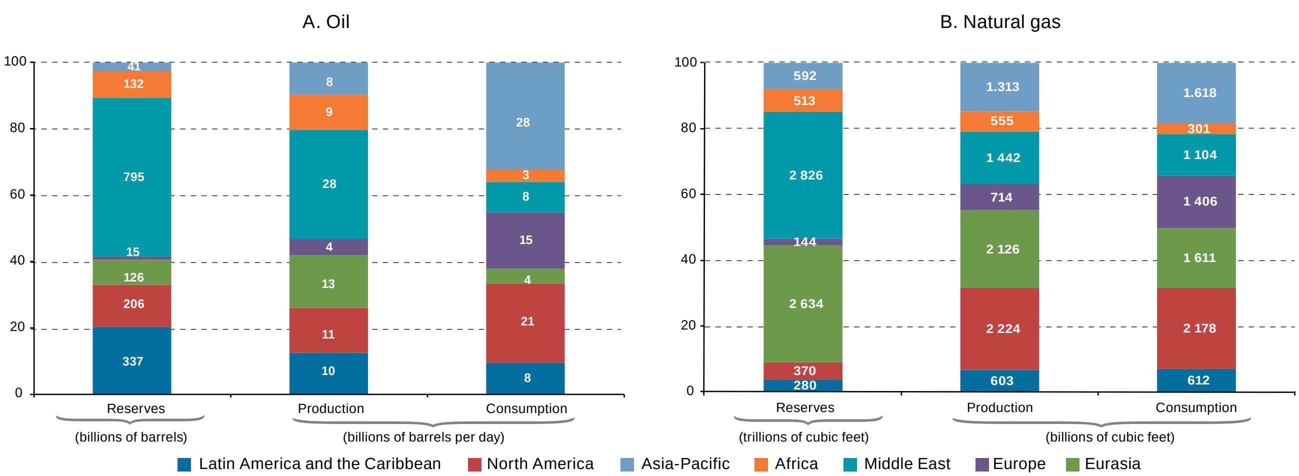
16. Latin America and the Caribbean is an oil rather than a gas region

- In 2011, Latin America and the Caribbean possessed 20% and 4% of known global reserves of oil and natural gas, respectively. The European Union does not possess significant reserves (about 1% and 2%, respectively). Latin American oil reserves are highly concentrated geographically, with the Bolivarian Republic of Venezuela accounting for 88% of the regional total.
- By contrast, Latin America and the Caribbean accounts for less than 10% and 7% of the world's output and consumption of oil and natural gas, respectively. This means that while the region is an oil exporter, it imports some of its natural gas. The European Union is an importer of both.
- The rising energy consumption of Latin America and the Caribbean has been stimulated by economic and demographic growth and by low prices in the domestic markets of countries that include Argentina, the Bolivarian Republic of Venezuela and the Plurinational State of Bolivia. In the European Union, by contrast, consumption has been dropping as a result of the economic recession, lower population growth and the application of energy efficiency and renewables policies (Germany and the United Kingdom).

■ **Figure II.23** ■

World hydrocarbon reserves, output and consumption, 2011

(Percentages of the total and volumes)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from British Petroleum (2012), *BP Statistical Review of World Energy*, June.

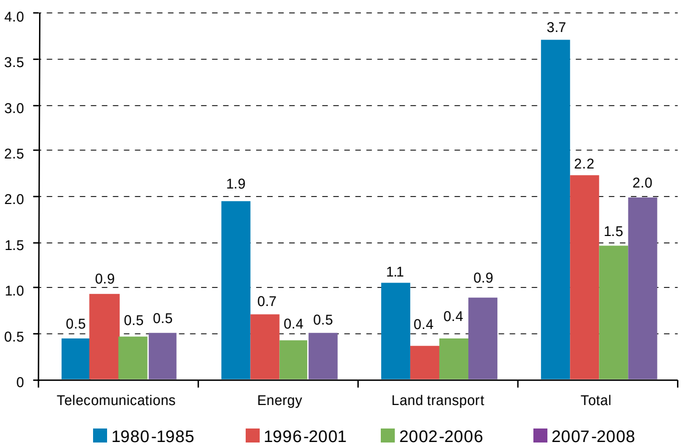
17. GDP growth in Latin America has not been matched by infrastructure investment

- One of the main challenges facing the countries of Latin America and the Caribbean is to raise investment in basic infrastructure and increase the efficiency of infrastructure service provision. While such investment amounted to 3.7% of GDP in the first half of the 1980s, it fell over the following decades until it was just 1.5% between 2002 and 2006. In some key areas, such as energy, this trend has been even more pronounced. There has been some recovery in more recent years.
- The incorporation of private-sector capital into economic infrastructure development has been an important aspect of the reforms implemented since the 1980s. However, the flow of private-sector capital, most of it of foreign origin, has not been sustained over time and has not been enough to offset the drop in public investment.

Figure II.24

Latin America: infrastructure investment, 1980-2008

(Percentages)

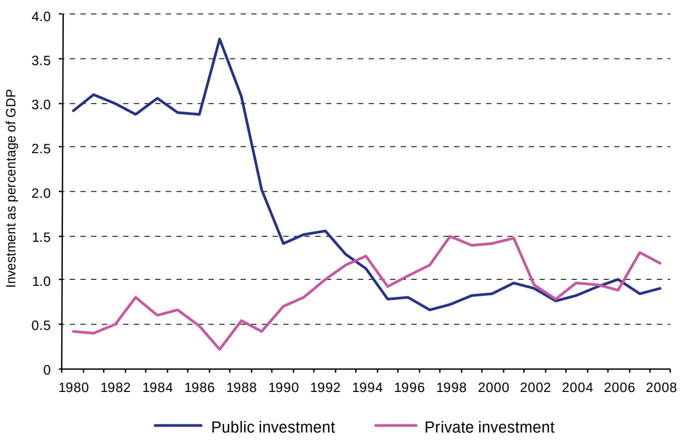


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of D.E. Perrotti and R. Sánchez, "La brecha de infraestructura en América Latina y el Caribe", *Recursos naturales e infraestructura* series, No. 153 (LC/L.3342), Santiago, Chile, ECLAC, 2011.
Note: Argentina, Brazil, Colombia, Chile, Mexico, Peru and the Plurinational State of Bolivia.

Figure II.25

Latin America: infrastructure investment, by origin, 1980-2008

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of D.E. Perrotti and R. Sánchez, "La brecha de infraestructura en América Latina y el Caribe", *Recursos naturales e infraestructura* series, No. 153 (LC/L.3342), Santiago, Chile, ECLAC, 2011.
Note: Argentina, Brazil, Colombia, Chile, Mexico, Peru and the Plurinational State of Bolivia.

18. Progress with drinking water and sanitation services in Latin America has been substantial but has not kept pace with the region's development

- The coverage of drinking water and sanitation services expanded substantially in Latin America and the Caribbean during the 1990s (by 94% and 80%, respectively). Since 2000, however, growth in access to these services has slowed.
- At the same time, waste water treatment works have expanded significantly, from 14% in the 1990s to some 28% in the 2000s.
- On the other hand, there are still large differences in levels of service coverage, continuity and quality, both between and within countries, between urban and rural areas and, most especially, between income groups. In rural areas, drinking water coverage is 17% and sanitation coverage is 24%.
- Service shortcomings mainly affect low-income groups. Some 70% of people without access to drinking water and 84% of those lacking sanitation services are in the two lowest income quintiles. Most of them are concentrated in the belts of poverty found on the outskirts of many of the region's cities. At the same time, many of the region's countries have raised prices, but few have created systems of subsidies for low-income groups. As a result, the basic monthly bill averages 5% of income for the poorest quintiles in a number of big cities, and is as much as 10% in some cases.

Table II.5

Latin America: access to drinking water and sanitation services
(Percentages)

	Improved water sources [a]	Improved sanitation facilities [b]
1990	85	68
1995	88	72
2000	91	75
2005	93	78
2010	94	80

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Joint Monitoring Programme (JMP) for Water Supply and Sanitation of the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF) (2012) (http://www.wssinfo.org/).

[a] Improved drinking water: (i) piped household connection located inside the user's dwelling, plot, garden or yard; and (ii) other improved sources (public taps or standpipes, tubewells or boreholes, protected dug wells, protected springs or rainwater collection).

[b] Improved sanitation: (i) flush or pour-flush discharging (automatically or manually) into a piped sewer system, a sceptic tank or a pit latrine; (ii) ventilated improved pit latrine; (iii) pit latrine with slab; and (iv) composting toilet.

Table II.6

Access to improved water sources and sanitation facilities, by region, 2010
(Percentages)

	Improved water sources	Improved sanitation facilities
Latin America	94.5	79.4
Developing Asia	90.0	53.1
Africa	74.2	54.6
Commonwealth of Independent States	94.9	83.0
Developed countries	99.5	99.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Joint Monitoring Programme (JMP) for Water Supply and Sanitation of the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF).

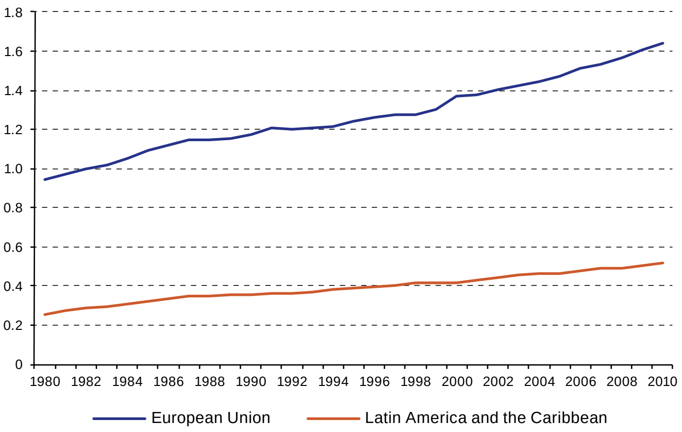
19. There has been a similar trend with electricity generation

- The installed capacity of the electricity systems of Latin America and the Caribbean has trebled in the past 30 years, bringing generation capacity up to 0.52 megawatts (MW) per 1,000 inhabitants.
- The European Union has doubled the installed capacity of its electricity systems over the same period, to 1.64 MW per 1,000 inhabitants. This increase has been achieved through substitution of energy inputs driven by rising oil prices and the need to develop more environmentally friendly generating technologies based on renewable resources.
- Thus, the generating capacity of the electrical systems of Latin America and the Caribbean is still very far below the capacity of the member countries of the European Union. Indeed, the installed capacity of the latter, measured in megawatts per 1,000 inhabitants, is roughly triple that of the Latin American and Caribbean countries.
- The gap has continued to widen despite the lower energy demand that might have been expected to result from the shift of major manufacturing activities to developing economies. As part of the fragmentation of production accompanying globalization, some European Union manufacturing has gone to countries in central and eastern Europe, South-East Asia (mainly China) and, to a lesser extent, Latin America.

■ **Figure II.26** ■

The European Union and Latin America and the Caribbean: installed capacity of electricity systems, 1980-2010

(MW per 1,000 inhabitants)



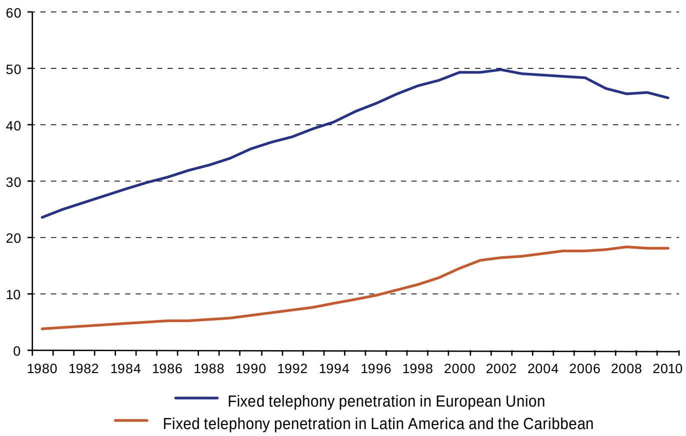
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

20. There has been substantial progress with telecommunications in Latin America, particularly mobile telephony

- The telecommunications sector has grown quickly in most of the region's countries over the past two decades. This has made it possible to improve coverage and connectivity. Nonetheless, these developments have been extremely heterogeneous, both at the country level and in different segments of the industry.
- The greatest progress has been made with mobile telephony. Between 2000 and 2011, the total number of mobile telephony subscribers rose from 63 million to 635 million, representing average annual growth 7.2 times as high as that in the number of fixed lines. The mass take-up of mobile telephony meant that fixed telephone lines were outnumbered by mobile telephones in 2002, and the density of the latter exceeded 100% in 2011.
- Indeed, it is in the mobile segment, and the coverage of voice services in particular, that the infrastructure gap between Latin America and the European Union is being closed most quickly and substantially.

■ **Figure II.27** ■

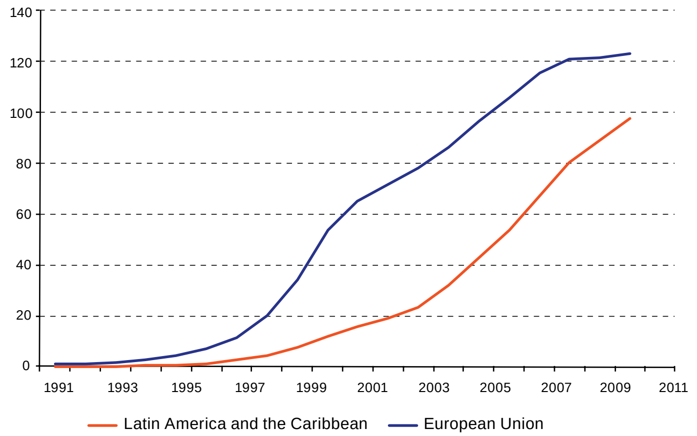
The European Union and Latin America and the Caribbean: fixed telephony subscribers per 100 inhabitants, 1980-2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Telecommunication Union (ITU).

■ **Figure II.28** ■

The European Union and Latin America and the Caribbean: mobile telephony subscribers per 100 inhabitants, 1990-2011



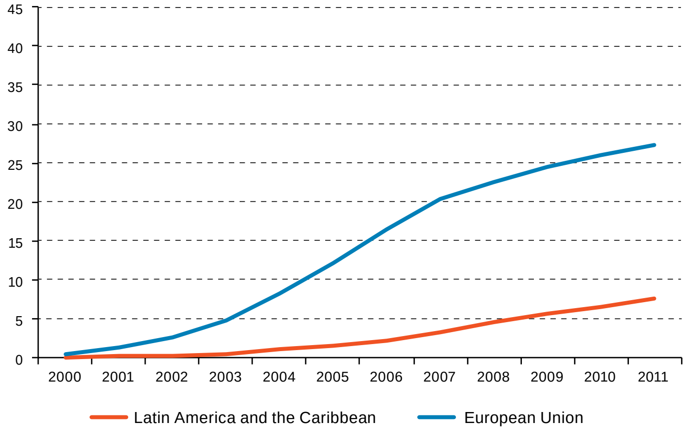
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Telecommunication Union (ITU).

21. For Internet infrastructure and access, conversely, and broadband services in particular, there is a growing gap with the European Union

- The speed of technological change in this industry causes equipment and technologies to become obsolescent in a very short time. In a situation where fixed services are migrating rapidly from the telephone to the Internet and increasing store is being set by mobility, broadband is the segment with the greatest growth potential, and it also presents the largest divides.
- In this context, networks are quickly showing signs of becoming overloaded by new applications requiring greater bandwidth, essentially video. This situation has led operators to migrate to new-generation networks. Thus, the industry has had to cope with a difficult situation in which investment in the infrastructure needed to meet the technical requirements of the new services has had to be matched by measures to stimulate demand for these services in order to prevent loss of revenues and make the new business models sustainable.
- Fixed broadband connections are dominated by ADSL technology, and the great majority of mobile communications users are on second generation (2G) prepayment plans, despite widespread 3G coverage. Consequently, the Latin American market for convergent data services is still limited, being confined to higher-income segments.
- Nonetheless, falling prices for computers and smartphones, and the mass take-up of mobile technologies, could help to reverse this trend. Indeed, the increase in mobile broadband users in Latin America seems to be evidence that this is happening.

■ **Figure II.29** ■

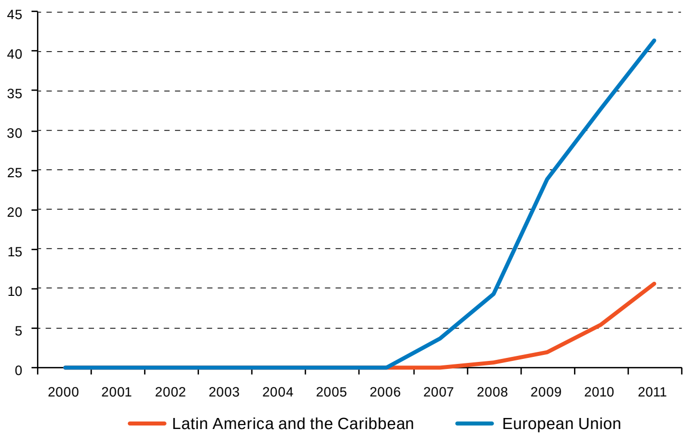
The European Union and Latin America and the Caribbean: fixed broadband subscribers per 100 inhabitants, 2000-2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Telecommunication Union (ITU).

■ **Figure II.30** ■

The European Union and Latin America and the Caribbean: mobile broadband subscribers per 100 inhabitants, 2000-2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Telecommunication Union (ITU).

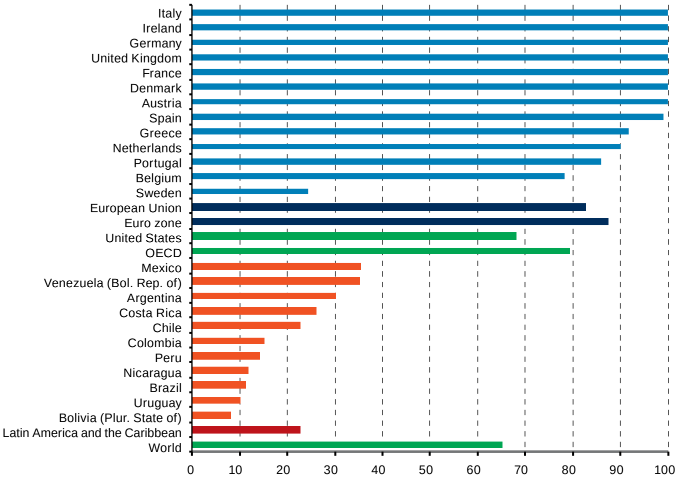
22. Transport infrastructure: inadequate and unsatisfactory

- An assessment of the current situation of transport infrastructure services reveals the need to upgrade and expand highway and railway networks.
- Where the road network is concerned, there is clearly a general dearth of surfaced highways in comparison with the situation prevailing in developed economies, particularly in the European Union.
- Railway services are characterized by the growth of economies of scale. Because of the high fixed costs of this form of transport, a large number of traffic units are required to obtain positive economic benefits. In addition, there are serious topographical difficulties that raise infrastructure costs in a number of areas of Latin America. Nonetheless, the cost difference between railway and road transportation is very significant. In consequence of this, the two forms of transport are usually seen as competitors, which is a mistake given their potential to complement each other. Using lorries is the cheapest way of moving goods over short distances, while trains are most cost-effective over long distances.
- Taken together, improved transport infrastructure, an intermodal approach and the implementation of sound logistics would improve the rate of return on investment projects, resulting in higher supply and thus lower prices and a boost to trade.

■ **Figure II.31** ■

Latin America and the European Union: surfaced roads as a proportion of the whole network, 2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Bank, World Development Indicators.

C. The social dimension

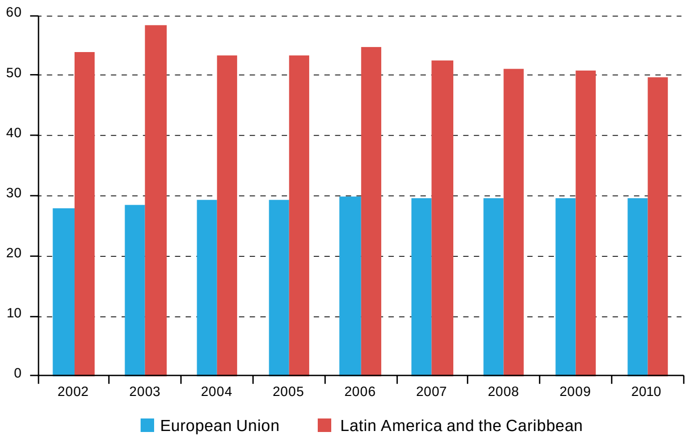
23. The recent decline in inequality in Latin America and the Caribbean is promising, but the region's countries are still very unequal

- In 2002 and 2003, following two decades of marked downward rigidity, there was a turning point in respect of inequality. Since that time, income inequality has shown a declining trend in most of the countries.
- Nonetheless, and methodological difficulties notwithstanding, it can be said that this decline in recent years has not changed the status of Latin America and the Caribbean as the world's most unequal region. In 2001-2010, the Gini index value for the region averaged 1.8 times that for the European Union, although the gap has narrowed.
- It is difficult to gauge the importance of the different causes that have led to this new regional trend. They include factors ranging from political motivations deriving from citizen demands for greater equality to economic factors, such as transfers and the labour market dynamic. There is general agreement that the bulk of the decline in inequality has come from the dynamic of the labour market. However, there is still no certainty as to whether this has been due to the increase in the relative supply of skilled workers or the rise in relative demand for unskilled workers associated with the growth of non-tradables.
- There are substantial differences within the two regions. In the economies of Latin America and the Caribbean, the Gini index ranges from a low of 39.4 in Venezuela to a high of 57.8 in Colombia. All the European Union countries have Gini index values lower than any in Latin America and the Caribbean, ranging from 23.8 in Slovenia to 36.9 in Lithuania.

Figure II.32

The European Union and Latin America and the Caribbean: Gini index, 2002-2010

(Gini index values)

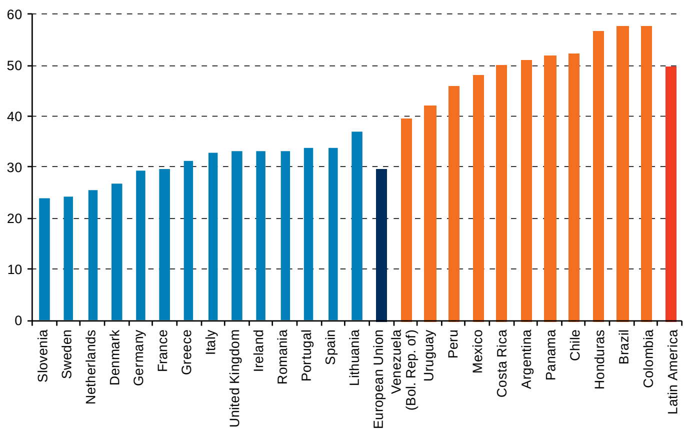


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLACSTAT and EUROSTAT information.

Figure II.33

The European Union and Latin America and the Caribbean: Gini index, 2010

(Gini index values)



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

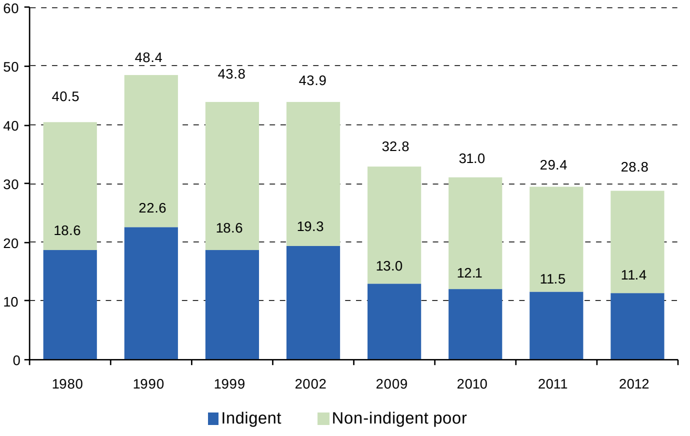
24. Poverty and indigence have also been declining substantially in Latin America and the Caribbean

- Poverty and indigence in Latin America have traditionally been measured by the "cost of basic needs" method, which compares the per capita income of each household with the value of the poverty line (the minimum amount needed to meet essential needs) or the indigence line (the value of a basic basket of foodstuffs). The evolution of these indicators relative to the situation in the late 1990s has been highly favourable. Cumulative poverty reduction since 1999 has been 15.0 percentage points, while indigence has fallen by 7.9 points.
- In 2012, 28.8% of the region's population, or 167 million people, were poor. Of these, 66 million lived in households with income below the indigence line.
- The information available for 2011 reveals poverty changes of differing signs and magnitudes in relation to the year before. Seven countries (Paraguay, Ecuador, Peru, Colombia, Argentina, Brazil and Uruguay) recorded substantial declines in both poverty and indigence, while both indicators increased significantly only in the Bolivarian Republic of Venezuela.
- Although the decline in poverty has mainly been due to growth in average household income, the reduction of inequality has also played an increasingly important role in this development.

■ **Figure II.34** ■

Latin America and the Caribbean: poverty and indigence, 1980-2012

(Percentages)

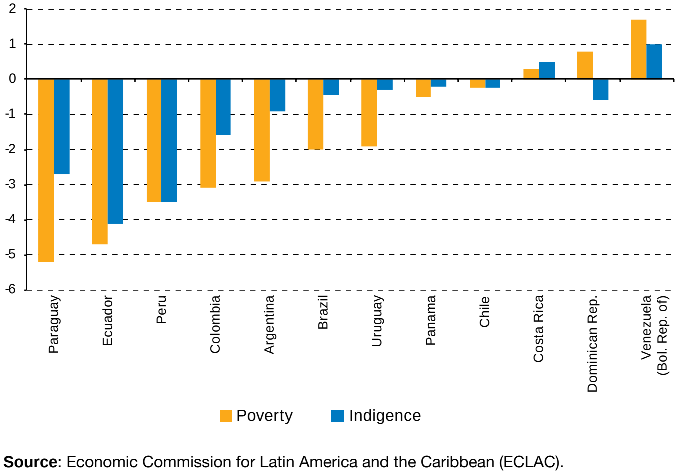


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

■ **Figure II.35** ■

Latin America and the Caribbean: annual changes in poverty and indigence rates, 2010-2011

(Percentage points)



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

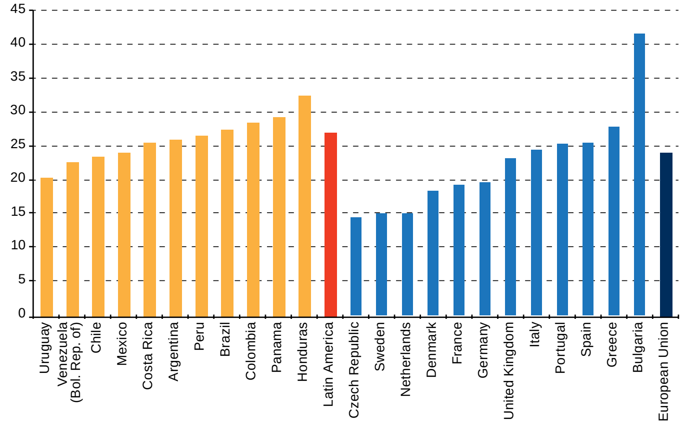
25. Latin America fares worse than the European Union on relative poverty

- In the European Union, poverty is measured by a relative criterion, taking a threshold defined as 60% of the median income in the economy. If a similar calculation is carried out for the countries of Latin America and the Caribbean, relative poverty levels are found to be higher (26.8% in the region versus 23.6% in the European Union), although the differences are not great. The variation in this indicator is greater between European countries, where it ranges from 14.4% in the Czech Republic to 41.6% in Bulgaria. In the economies of Latin America, the range is from 20.1% in Uruguay to 32.3% in Honduras.
- On average, relative child poverty (under-16s) is also higher in the Latin American countries (34.3% against 25.9% in the European Union). In Latin America, the lowest incidence of relative child poverty is in Chile (28.7%) and the highest in Brazil (42.3%). In the European Union, the lowest incidence is in Sweden (13.7%) and the highest in Romania (48.8%).
- Although the incidence of relative poverty is highest among children in both the European Union and Latin America, generation gaps are greater in the Latin American and Caribbean economies. The ratio between the incidence of relative poverty among under-16s and the rest of the population is considerably greater on average in the countries of Latin America (1.5) than in those of the European Union (1.1).

■ **Figure II.36** ■

The European Union and Latin America: incidence of relative poverty, 2010

(Percentages of the population)

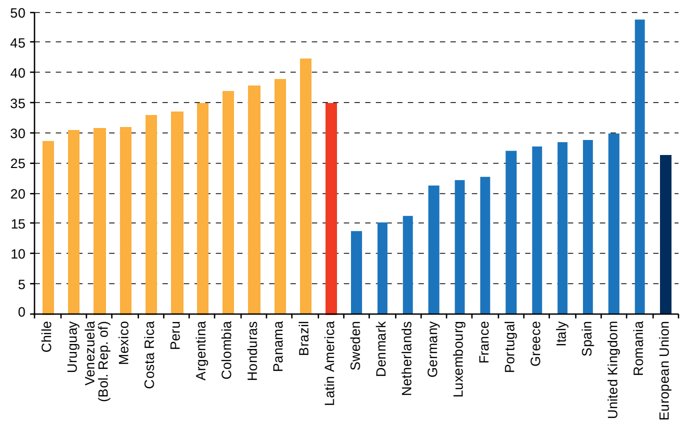


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of surveys from the countries concerned and EUROSTAT data.

■ **Figure II.37** ■

The European Union and Latin America: incidence of relative child poverty, 2010

(Percentages of the child population)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of surveys from the countries concerned and EUROSTAT data.

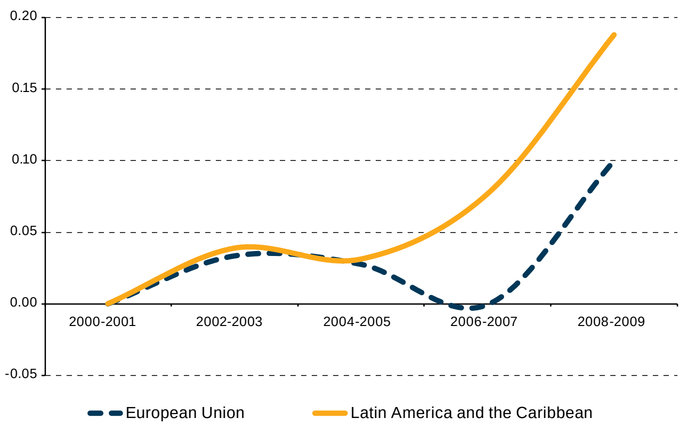
26. Despite rising social protection spending, the gap between Latin America and the European Union remains

- In the last decade, social protection spending has increased in both the European Union countries and those of Latin America and the Caribbean.
- Social spending in the countries of Latin America was 19% higher on average in 2008-2009 than in 2000-2001, while the average increase in the European Union countries was somewhat smaller at 11%. The Latin American countries displayed a fairly stable expenditure trend between 2002 and 2005 and a very substantial increase in the four years that followed. Spending likewise fell off slightly in the European countries in 2006-2007, only to recover strongly in 2008-2009. This trend can be expected to reverse, however, as a result of severe adjustment policies.
- This upward trend in the two regions notwithstanding, social protection spending as a percentage of GDP is still much lower in Latin America than in the European Union. While social protection spending in the former represented just 5.1% of GDP in 2008-2009, in the European Union countries the average was almost five times as great at 22.9% of GDP. This gap has held fairly steady over the last decade.

Figure II.38

The European Union and Latin America: spending on social protection (social security and social assistance) as a share of GDP, 2000-2009

(Percentage change on 2000-2001)

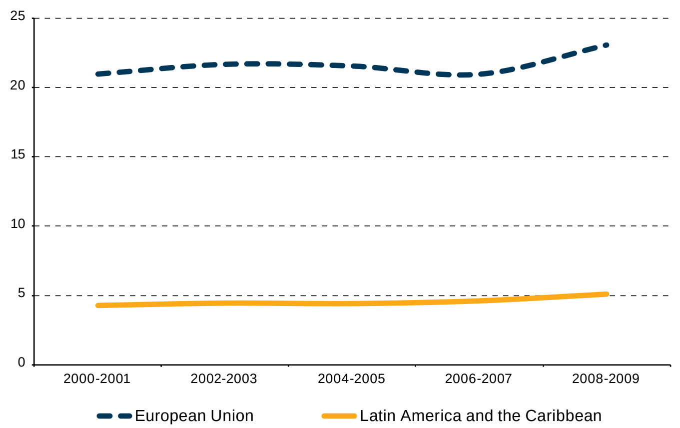


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLACSTAT and EUROSTAT information.

Figure II.39

The European Union and Latin America: spending on social protection (social security and social assistance) as a share of GDP, 2000-2009

(Percentages)



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

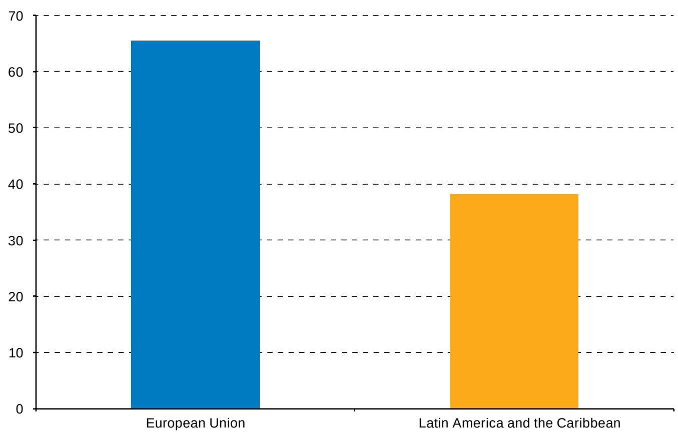
27. There are also large differences in coverage between the two regions' social security systems, for both the active population and retirees

- The large differences in social protection spending between the two regions are also reflected in wide gaps in the coverage levels and reach of social protection systems. Whereas in the European Union the percentage of the active population enrolled in social protection systems guaranteeing a pension is 65.5%, the proportion in Latin America and the Caribbean is only 38.2%.
- The gap looks wider still when the comparison concerns the percentage of the population who are of retirement age and are actually receiving a pension. In the European Union, an average of just over nine out of every 10 people of retirement age receive a pension (92.1%), whereas in Latin America and the Caribbean just four of every 10 do (39.2%).
- These averages conceal fairly heterogeneous situations within both regions, but particularly in Latin America. Whereas social security coverage is in excess of 60% of retirement-age older adults in countries such as Uruguay, Brazil, Barbados, Chile and Argentina, coverage in Nicaragua is less than 5%.
- The fact that the proportion of older adults with pension coverage in the European Union is so much higher than the proportion of the active population enrolled in the social security system, whereas in Latin America the two indicators are almost identical, is evidence for the major efforts made by the former to consolidate a non-contributory pillar in order to reduce deprivation in old age. This effort has yet to be made in most of the countries of Latin America and the Caribbean.

Figure II.40

The European Union and Latin America: active population enrolled in social security and entitled to a pension, 2010

(Percentages)

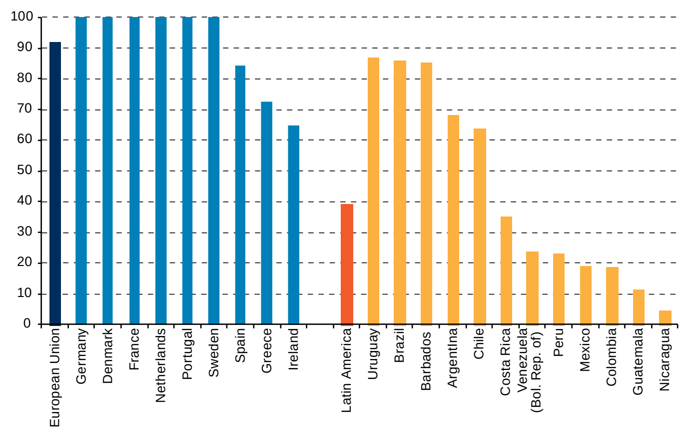


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO) (2010), *World Social Security Report 2010/11: Providing coverage in times of crisis and beyond*, Geneva.

Figure II.41

The European Union and Latin America (selected countries): population over retirement age receiving a pension, 2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO) (2010), *World Social Security Report 2010/11: Providing coverage in times of crisis and beyond*, Geneva.

28. The countries of both Latin America and the European Union have made very significant progress with education, but the former still lag the latter

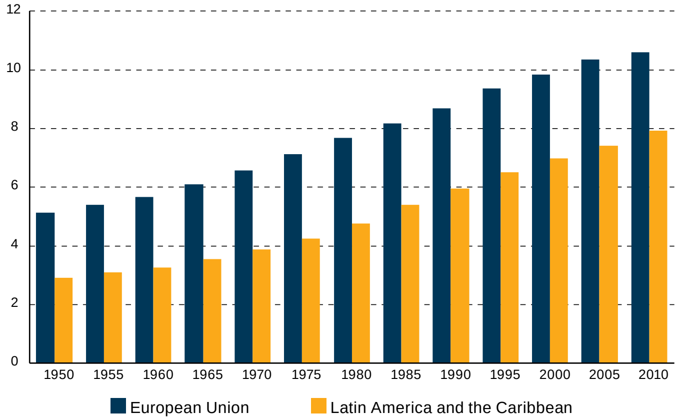
- Although the countries of Latin America and the Caribbean have achieved substantial improvements in education in recent decades, they still lag well behind their peers in the European Union, where very substantial progress has also been made.

- The average number of years of education attained by the population aged 25 and over has been rising in the countries of Latin America and the Caribbean since 1950: from 2.9 years in 1950 to 7.9 in 2010. This indicator also rose strongly in the countries of the European Union over the same period, from 5.2 to 10.6 years. Consequently, the education gap between the two regions is now almost the same as 60 years ago.

Figure II.42

The European Union and Latin America: average years of education of population aged 25 and over, 1950-2010

(Years of education)

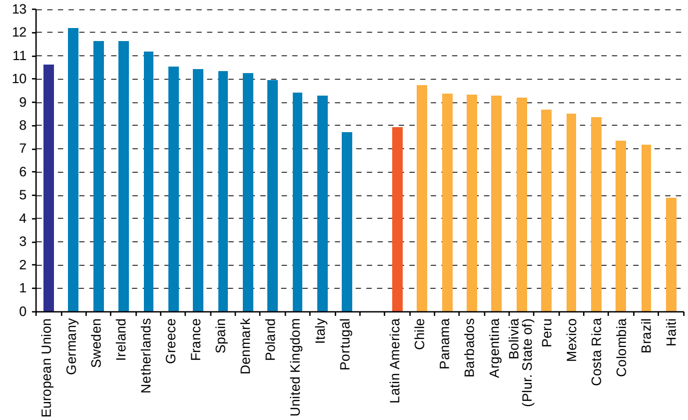


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNESCO Institute for Statistics (UIS), *Statistical Yearbook*, various years.

Figure II.43

The European Union and Latin America: average years of education of population aged 25 and over, selected countries, 2010

(Years of education)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNESCO Institute for Statistics (UIS), *Statistical Yearbook*, various years.

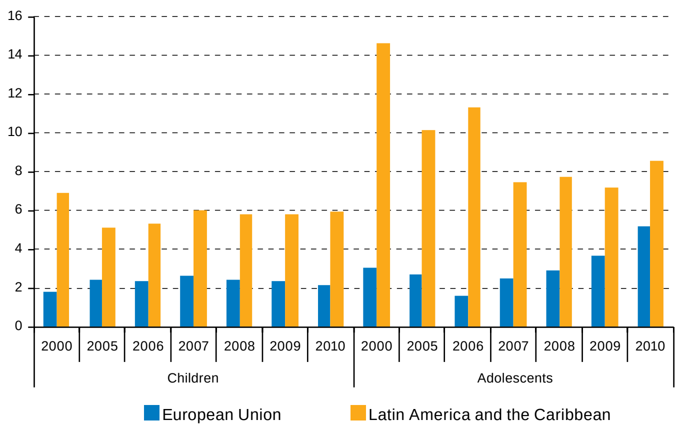
29. There has been convergence in the last decade in the percentage of children and adolescents outside the education system in the European Union and Latin America, but large gaps between the two regions remain

- The proportion of school-age children outside the formal education system in the countries of Latin America and the Caribbean is almost three times as great on average as the proportion in the European Union (6.0% versus 2.2%). This gap has remained fairly stable over recent years.
- Between 2000 and 2010, the proportion of adolescents outside the education system declined sharply in Latin America, from 14.6% to 8.6%. By contrast, the situation was stable on average in the European Union countries between 2000 and 2007, then from 2008 there was a slight increase, with the figure reaching 5.2% in 2010. Despite these divergent developments, average values are considerably higher in the countries of Latin America and the Caribbean than in those of the European Union.
- Where educational outcomes are concerned, students in European Union countries perform better in all areas. On average, for example, European students perform 20% better on Programme for International Student Assessment (PISA) standardized tests. The difference is largest in mathematics (24% gap) and smallest in language (17% gap).
- The differences held steady between 2003 and 2009. The gap was wider in 2006, owing to a poorer performance by students in the countries of Latin America and the Caribbean.

■ Figure II.44 ■

The European Union and Latin America: school-age children and adolescents outside the education system, 2000-2010

(Percentages)

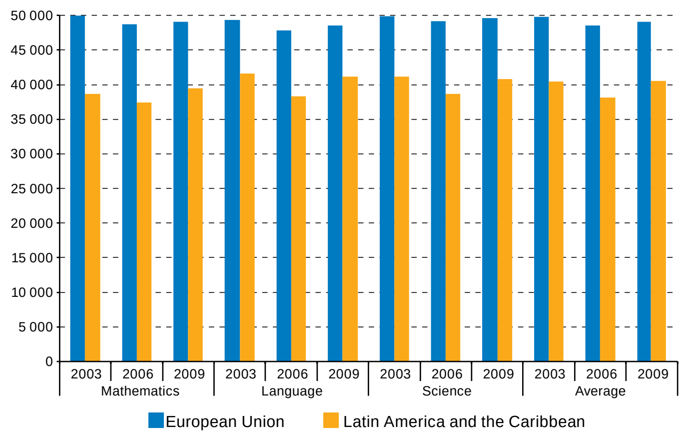


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNESCO Institute for Statistics (UIS), *Statistical Yearbook*.

■ Figure II.45 ■

The European Union and Latin America: PISA education test results, 2003, 2006 and 2009

(Standardized test scores)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organisation for Economic Co-operation and Development (OECD), Programme for International Student Assessment

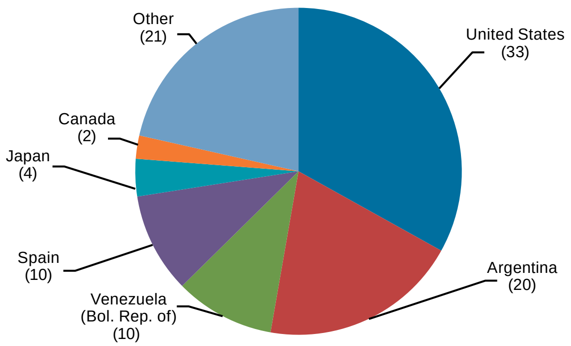
30. Latin America has received a great many emigrants from Europe and has recently been a source of migration to Europe, especially Spain

- Latin America and the Caribbean has traditionally received large migration flows from the countries that now constitute the European Union. In the countries of South America, 23% of the foreign-born population is still from Europe, a much higher percentage than that of any other region of the world.
- Latin America and the Caribbean has become a source of emigration in recent decades. The United States is the country that takes the largest number of emigrants from the region, with these coming not only from Mexico and Central America but also from the countries of South America. Spain is the only country in the European Union to rank among the top 10 destinations for emigrants from these countries, receiving 10%.

Figure II.46

Countries with most emigrants from South America, according to latest census information available

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Latin American and Caribbean Demographic Centre – Population Division (CELADE).

Table II.7

Foreign-born residents in South American countries, and proportions by region of birth, latest information

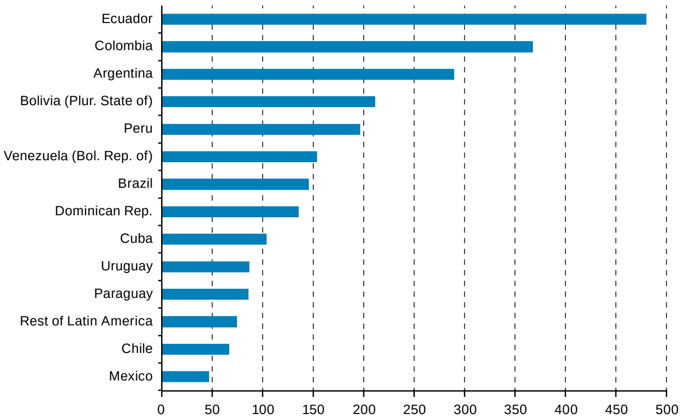
(Number of foreign-born residents and percentages)

Country of residence	Year	Region of birth						
		Foreign-born (number)	Latin America and the Caribbean	Europe	Asia	North America	Africa	Oceania
Argentina	2010	1 805 957	78.6	16.6	1.7	0.6	0.2	0.1
Brazil	2000	683 830	21.1	56.3	17.8	2.2	2.3	0.1
Paraguay	2002	169 011	90.1	3.3	4.4	1.6	0.1	0
Uruguay	1996	92 378	50.1	44.7	1.9	...	...	...
Venezuela (Bolivarian Republic of)	2001	1 015 538	74.3	19.4	3.4	1.1	0.2	0
Bolivia (Plurinational State of)	2001	87 338	82.8	...	...	...	...	...
Chile	2002	187 008	70.9	16.7	4.5	5.1	0.7	0.8
Colombia	2005	109 971	63.6	13.5	4.6	14.5	0.4	0.4
Ecuador	2002	181 848	71.9	13.6	3.3	8.8	0.3	0.1
Peru	2007	64 303	58.2	19.2	11.6	10.1	0.4	0.3
Total		**4 397 182**	**67.4**	**23**	**5.1**	**2**	**0.5**	**0.1**

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

Figure II.47

Spain: Latin American population by birthplace, 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the National Institute of Statistics (INE), Spain.

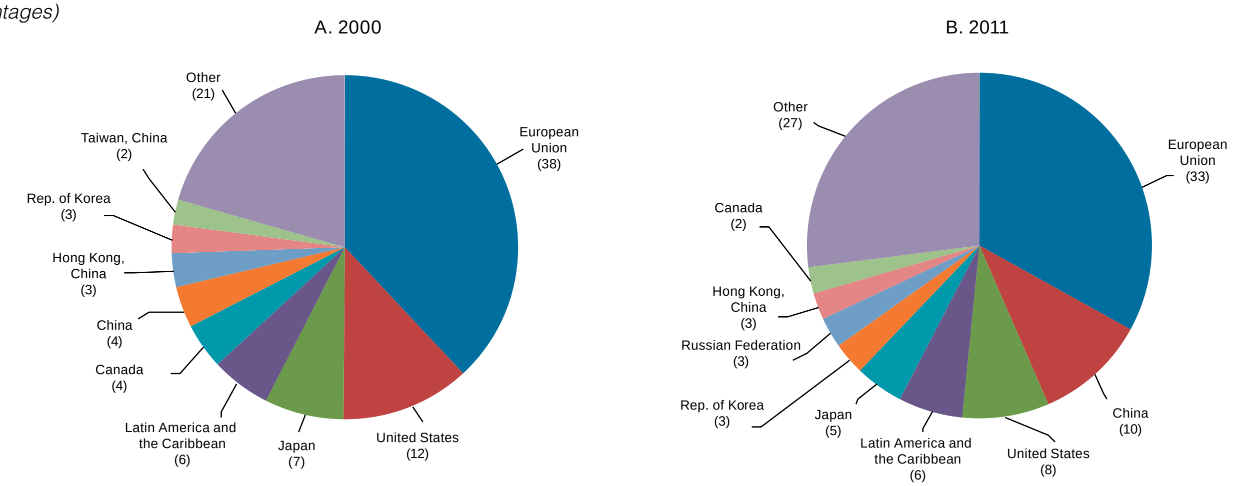
III. The international trade of the European Union and Latin America and the Caribbean and the relationship between the two blocs

1. In 2011, the European Union accounted for 33% of world trade in goods and 43% of world trade in services

■ **Figure III.1** ■

World's largest exporters of goods, 2000-2011

(Percentages)

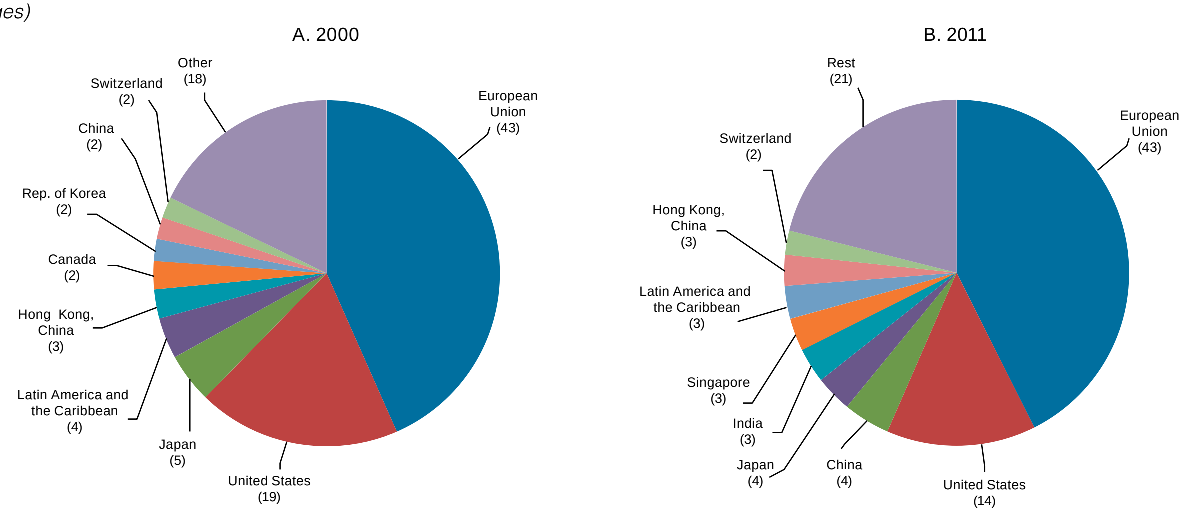


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

■ **Figure III.2** ■

World's largest exporters of services, 2000-2011

(Percentages)



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

2. The European Union share of Latin America's external trade, and especially its exports, has diminished in the last three decades

- Since the 1980s, the role of the European Union as a destination market for Latin American exports and as a source of its imports has continuously declined. In the 1980s and 1990s, market share was essentially lost to the United States. In the first decade of the twenty-first century, however, both the European Union and the United States lost market share to China. In 2011, the European Union was still Latin America and the Caribbean's second-largest trading partner, with a 13% share of the region's exports and imports.

■ **Table III.1** ■

Latin America and the Caribbean: trade share of the European Union and average annual trade growth

(Percentages)

	Exports				Imports			
	1990	2000	2011	GR [a] 2000-2011	1990	2000	2011	GR [a] 2000-2011
Latin America and the Caribbean	24.8	11.5	13.7	11.4	20.2	13.7	14.0	9.4
Southern Cone [b]	33.7	24.4	19.1	11.5	23.8	23.5	18.2	10.3
Andean countries [c]	19.2	9.8	11.6	14.4	23.9	16.6	11.3	10.6
Central America [d]	25.4	15.8	12.6	6.8	12.0	8.3	10.4	10.7
CARIFORUM	24.4	16.5	13.8	4.0	16.5	12.1	14.2	3.1
Mexico	12.8	3.5	5.5	11.4	17.1	8.4	10.8	8.7

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

[a] Annualized growth rate.

[b] Includes Chile.

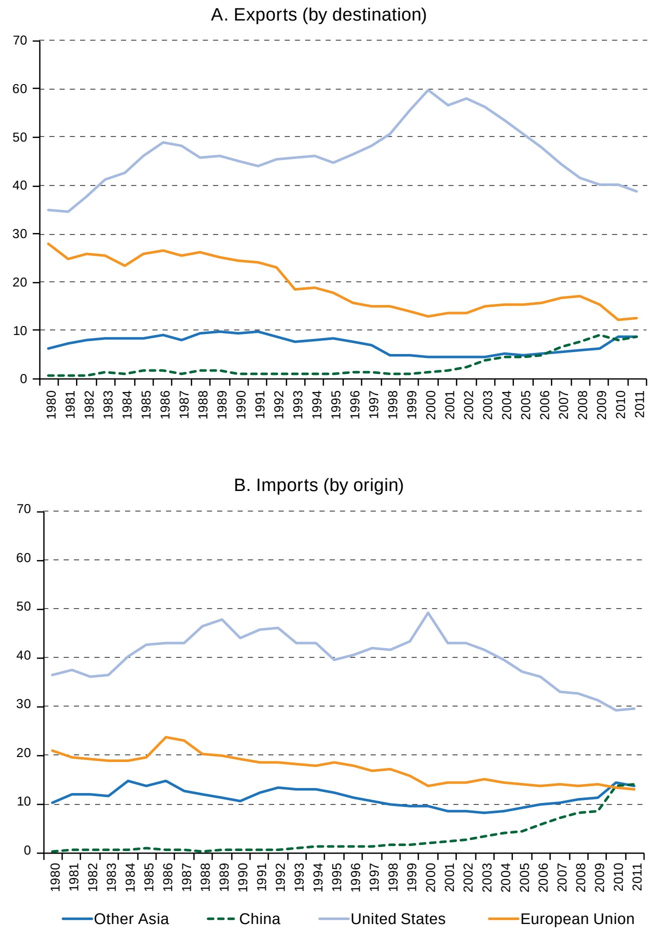
[c] Includes Bolivarian Republic of Venezuela.

[d] Includes Panama.

■ **Figure III.3** ■

Latin America and the Caribbean (16 countries): trade shares of leading partners, 1980 to 2011

(Percentages)



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

Note: Other Asia includes Indonesia, Japan, Malaysia, Philippines, Republic of Korea, Singapore and Thailand.

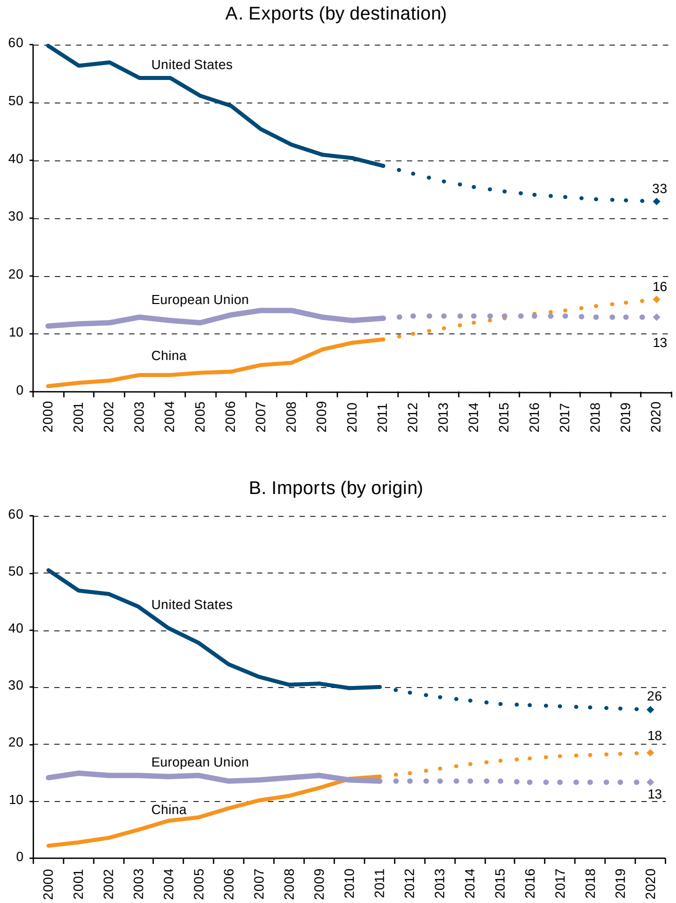
3. The European Union could be displaced by China as Latin America and the Caribbean's second-largest trading partner in the middle of the present decade

- China could have substantially enhanced its standing as a destination for the region's exports by 2020. If the current rate of growth in demand for Latin American products in the United States, the European Union and the rest of the world continues, and demand from China grows at only half the rate of the present decade, the country will outstrip the European Union in 2016 to become the region's second-largest export market.
- In the case of Latin American imports, China caught up with the European Union in 2010 to become the joint second-largest market of origin, and is expected to surpass it in 2012.
- The extent to which these projections are borne out will be influenced by a number of factors. They include the economic performance of the United States, the European Union and China over the rest of the present decade and, to a lesser degree, the effects of the implementation of new association agreements between the European Union and Central America, the Caribbean, the Andean Community and, potentially, MERCOSUR.

■ **Figure III.4** ■

Latin America and the Caribbean (16 countries): trading partners' shares of total transactions, 2000-2020 [a]

(Percentages)



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

[a] The 16 countries are: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. Estimates and projections based on GDP growth rates from 2000 to 2009 in Asia and the Pacific, China, the European Union, Latin America and the Caribbean, the United States and the rest of the world. Economies' rates of trade growth are expected to converge on their long-run growth rates.

4. About two thirds of the European Union countries' international trade is with other European Union members. Latin America and the Caribbean accounted for just 2% to 3% during the past decade

- In the first decade of the 2000s, Latin America and the Caribbean recovered a little of the share it had lost in Europe's external trade over the previous two decades. Between 2000 and 2011, Latin America's share of EU exports grew from 2.2% to 2.3% and its share of EU imports from 2.0% to 2.7%. The Latin American share of extra-European exports and imports was 5%.
- More generally, the share of intra-European trade increased over the period, for both exports and imports.
- Asia's share trended differently by country. Japan's share increased between 1980 and 1990, but this trend was subsequently reversed. Conversely, China and the rest of Asia can show a steady increase in their share of European Union trade.

Table III.2

European Union: partners' trade shares, 1980 to 2011

(Percentages)

		1980	1990	2000	2010	2011
Exports	Latin America and the Caribbean	2.7	1.5	2.2	2.3	2.3
	Asia	3.0	5.0	5.3	7.2	7.5
	China	0.4	0.5	1.0	2.9	3.2
	Japan	0.9	2.0	1.7	1.1	1.1
	United States	5.1	6.7	9.0	6.2	6.2
	European Union	60.1	66.0	65.6	65.3	64.0
	Rest of world	29.1	20.7	17.9	18.9	20.0
Imports	Latin America and the Caribbean	3.2	2.3	2.0	2.4	2.7
	Asia	4.7	7.7	11.0	12.8	13.8
	China	0.4	0.9	2.9	7.1	7.6
	Japan	2.5	4.3	3.7	1.6	1.9
	United States	7.7	6.9	8.0	4.3	4.8
	European Union	53.4	63.7	60.7	62.2	57.9
	Rest of world	31.0	19.3	18.3	18.3	20.8
Total trade	Latin America and the Caribbean	3.0	1.9	2.1	2.3	2.5
	Asia	3.9	6.4	8.2	10.0	10.7
	China	0.4	0.7	1.9	5.0	5.4
	Japan	1.7	3.2	2.7	1.4	1.5
	United States	6.4	6.8	8.5	5.3	5.5
	European Union	56.6	64.9	63.2	63.8	60.9
	Rest of world	30.1	20.0	18.1	18.6	20.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), official data from the countries and Statistical Office of the European Communities (EUROSTAT) for 2011.

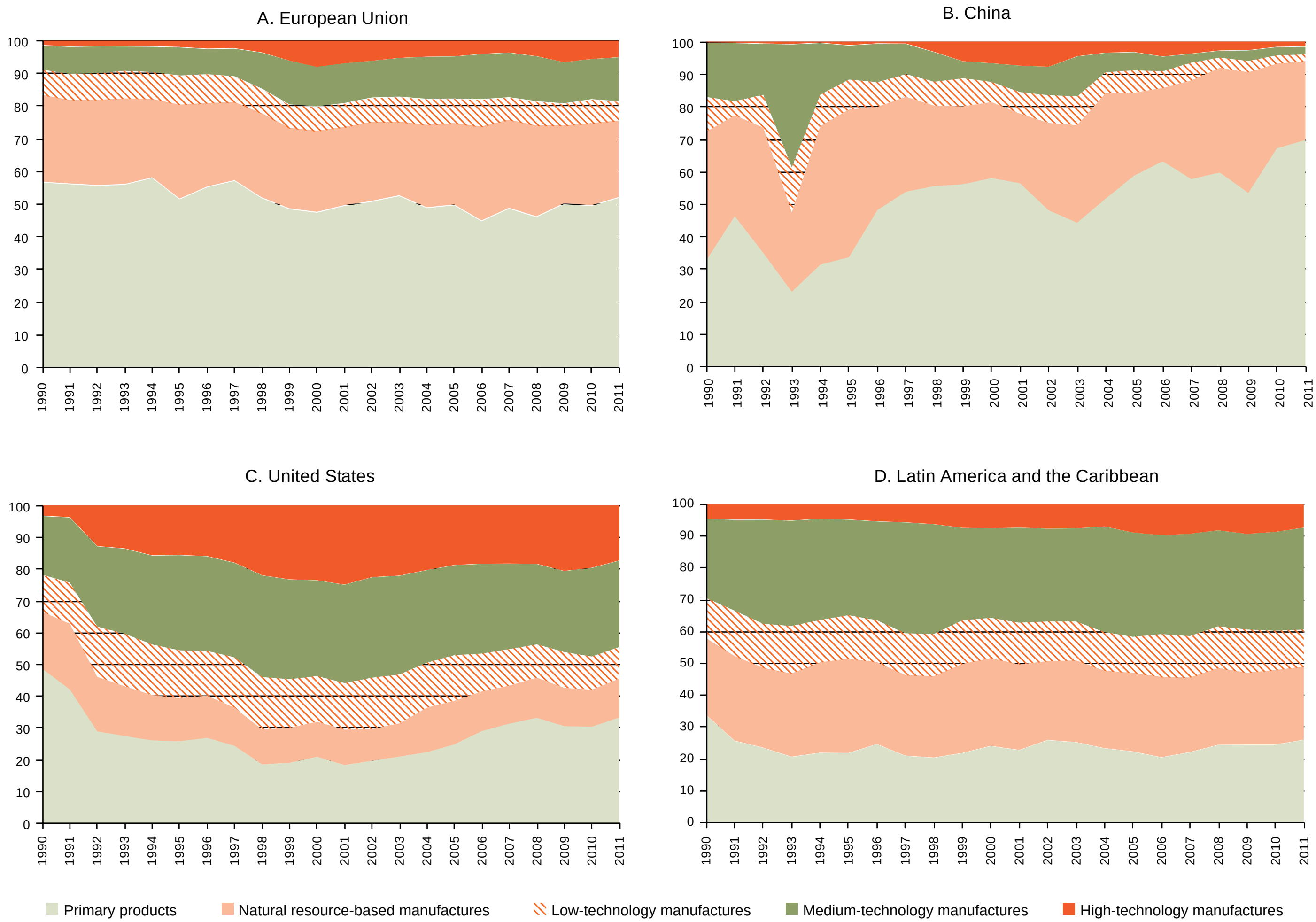
Note: The figures for the 1980s and 1990s do not include Bulgaria, Estonia, Latvia, Lithuania, Romania or Slovenia.

5. The region's exports to the European Union are more intensive in (processed) natural resources than exports to the United States or within the region itself

■ **Figure III.5** ■

Latin America and the Caribbean: composition of exports to selected trading partners by technology content, 1990 to 2011

(Percentages)



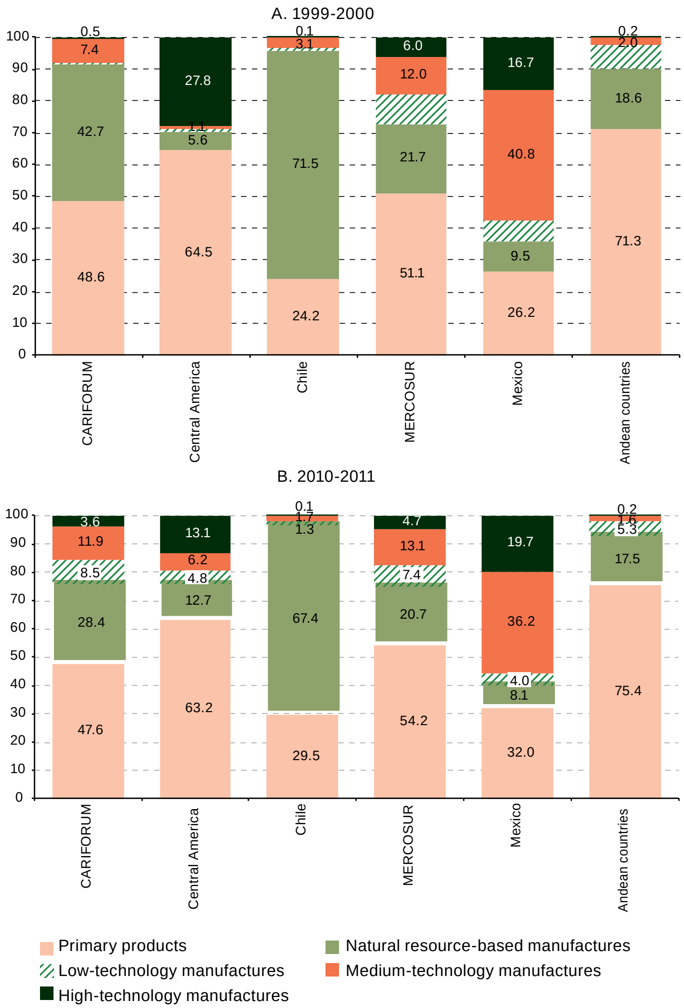
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

6. Mexico's exports to the European Union are more technology-intensive than the rest of the region's

- Other than in the case of Mexico, the exports of the Latin American countries and subregions to the European Union are dominated by natural resources or manufactures based on these. These two categories are the largest in exports from Chile (unwrought and refined copper) and the Andean countries (refined and unrefined energy products); they also account for more than 70% of sales to the European Union from MERCOSUR and the countries of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM). Only in Mexico, and to a lesser degree Central America, do medium- and high-technology products make up a large share of sales to the European Union (around 55% and 20%, respectively), this being largely due to maquila schemes and export free trade zones. This export technology pattern has not undergone substantial changes over the last 10 years.

■ **Figure III.6** ■

Countries/subregions: technology intensity of exports to the European Union, 1999-2000 and 2008-2009



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
Note: The Andean countries include the Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru and the Plurinational State of Bolivia. Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

7. Except for Mexico, Latin America's exports to the European Union consist very largely of commodities such as bananas, coffee, coal, beef, copper, gas, iron and steel, petroleum and soybeans

- Only Mexico and Costa Rica have more than one manufacture among their top five product exports to the European Union.

Table III.3

Latin America and the Caribbean: top five product exports to the European Union, by country, 2010

(Percentages of the total)

Country	First product	Second product	Third product	Fourth product	Fifth product	Top five
Argentina	Soybeans, 36.2%	Other chemicals, 8.7%	Fruit and nuts, 6.2%	Copper ore, 5.7%	Meat of bovine animals, 4.8%	61.6%
Bolivia (Plurinational State of)	Base metal ores, 43.1%	Tin, 13.3%	Fruit and nuts, 12.8%	Alcohols and derivatives, 5.0%	Wood, simply worked, 3.3%	77.9%
Brazil	Iron ore, 16.7%	Animal feed, 8.1%	Oil-seeds and oleaginous fruits, 6.5%	Coffee and coffee substitutes, 6.5%	Paper pulp and waste, 5.95	43.8%
Chile	Copper, 38.0%	Copper ore, 12.2%	Fruit and nuts, 10.8%	Alcoholic beverages, 6.6%	Chemical wood pulp, 5.9%	73.7%
Colombia	Coal, not agglomerated, 46.0%	Fruit and nuts, 21.4%	Coffee and coffee substitutes, 7.5%	Ferro-alloys, 4.4%	Crude petroleum, 3.6%	82.9%
Costa Rica	Parts for data-processing machines, 51.0%	Fruit and nuts, 31.2%	Electronic microassemblies, 3.9%	Medical instruments, 2.4%	Fruit juices, 2.3%	90.9%
Dominican Republic	Fruit and nuts, 34.5%	Alcoholic beverages, 11.6%	Cocoa, 9.9%	Other medical equipment, 8.43	Other plastic articles, 6.8%	71.5%
Ecuador	Fruit and nuts, 42.6%	Crustaceans and molluscs, 16.0%	Other fisheries, 14.2%	Cocoa, 5.5%	Other plant products, 4.9%	83.3%
El Salvador	Coffee and coffee substitutes, 45.6%	Other fisheries, 21.0%	Other electrical machinery and apparatus, 13.0%	Sugars, molasses and honey, 5.38%	Other plant products, 2.7%	87.7%
Guatemala	Coffee and coffee substitutes, 38.9%	Other fisheries, 8.3%	Other crude plant products, 8.0%	Spices, 5.67%	Unprocessed tobacco, 5.3%	66.1%
Honduras	Coffee and coffee substitutes, 65.3%	Fruit and nuts, 7.3%	Other wearing apparel, 7.1%	Crustaceans and molluscs, 4.8%	Base metal ores, 2.2%	86.8%
Mexico	Crude petroleum, 17.2%	Telecommunications equipment, 14.2%	Passenger vehicles, 13.0%	Other medical equipment, 5.28	Data processing machinery, 3.62	53.5%
Nicaragua	Coffee, unroasted, 47.0%	Frozen crustaceans, 22.0%	Unroasted peanuts, 6.0%	Monohydric alcohols, 5.0%	Other vegetables, 2.0%	84.0%
Panama	Ships and boats, 56.0%	Fruit and nuts, 27.2%	Fish, 4.1%	Petroleum derivatives, 2.5%	Crustaceans and molluscs, 1.7%	92.0%
Paraguay	Soybeans, 78.1%	Animal feed, 5.2%	Maize, 2.9%	Fuel wood and wood charcoal, 2.7%	Meat of bovine animals, 2.67	91.7%
Peru	Copper ore, 28.0%	Copper, 9.5%	Coffee and coffee substitutes, 8.9%	Base metal ores, 7.8%	Fruit and nuts, 6.1%	60.3%
Uruguay	Meat of bovine animals, 20.0%	Paper pulp and waste, 19.3%	Soybeans, 12.7%	Wood chips, 7.8%	Fruit and nuts, 7.1%	67.3%
Venezuela (Bolivarian Republic of)	Crude petroleum, 47.5%	Petroleum derivatives, 23.3%	Ferro-alloys, 6.6%	Iron ore, 6.0%	Aluminium, 3.1%	86.6%
The Caribbean	Natural gas, 33.5%	Ships and boats, 19.7%	Alcohols and derivatives, 5.1%	Aluminium ore, 4.9%	Petroleum derivatives, 4.4%	67.7%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
Note: The Caribbean includes: Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Granada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago. Special transactions and unclassified products are excluded. Product terminology has been adapted to fit the space available.

8. The region plays only a small part in European value chains, as its low levels of intra-industry trade illustrate

- Few Latin American countries have a high level of intra-industry trade with the European Union, the exceptions being Mexico, Brazil and, to a lesser extent, Panama and the Dominican Republic.

■ **Table III.4** ■

Intra-industry trade between Latin America and the European Union, 2011

	Germany	Austria	Belgium	Denmark	Spain	Finland	France	Greece	Ireland	Italy	Luxembourg	Netherlands	Portugal	United Kingdom	Sweden	PECOS 12
Argentina	0.08	0.04	0.12	0.01	0.09	0.01	0.10	0.00	0.03	0.07	0.00	0.03	0.04	0.10	0.06	0.05
Bolivia (Plurinational State of)	0.01	0.00	0.00	0.01	0.02	0.00	0.01	0.00	0.00	0.01	0.00	0.03	0.00	0.00	0.00	0.05
Brazil	0.24	0.06	0.17	0.16	0.22	0.03	0.20	0.03	0.04	0.16	0.06	0.13	0.10	0.15	0.13	0.19
Chile	0.04	0.01	0.02	0.03	0.06	0.01	0.03	0.00	0.03	0.03	0.00	0.02	0.04	0.05	0.02	0.08
Colombia	0.02	0.01	0.03	0.00	0.11	0.00	0.04	0.01	0.00	0.04		0.03	0.01	0.02	0.03	0.02
Costa Rica	0.08	0.01	0.02	0.01	0.06	0.00	0.09	0.01	0.19	0.04	0.00	0.08	0.00	0.04	0.02	0.03
Dominican Republic	0.05	0.02	0.08	0.00	0.09	0.00	0.10	0.01	0.02	0.06	0.00	0.03	0.07	0.03	0.03	0.09
Ecuador	0.02	0.01	0.01	0.00	0.03	0.00	0.02	0.00	0.00	0.02	0.00	0.03	0.01	0.01	0.02	0.01
El Salvador	0.02	0.00	0.01	0.01	0.04	0.00	0.02	0.00	0.00	0.01	0.00	0.03	0.00	0.01	0.00	0.02
Guatemala	0.03	0.00	0.01	0.00	0.04	0.00	0.04	0.00	0.00	0.03	0.00	0.20	0.00	0.08	0.00	0.01
Honduras [a]	0.03	0.01	0.02	0.00	0.03	0.01	0.01	0.00	0.01	0.03	0.13	0.11	0.00	0.01	0.00	0.02
Mexico	0.23	0.08	0.19	0.19	0.09	0.22	0.19	0.02	0.13	0.11	0.02	0.09	0.07	0.24	0.09	0.38
Nicaragua	0.03	0.00	0.00	0.05	0.01	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.00	0.00	0.00	0.00
Panama	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
Paraguay	0.01	0.01	0.00	0.00	0.02	0.00	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.01
Peru	0.02	0.01	0.02	0.01	0.05	0.01	0.05	0.01	0.01	0.03	0.00	0.03	0.03	0.05	0.01	0.01
Uruguay [a]	0.02	0.02	0.03	0.03	0.07	0.01	0.04	0.02	0.02	0.08	0.00	0.03	0.01	0.04	0.01	0.01
Venezuela (Bolivarian Republic of)	0.01	0.00	0.02	0.00	0.03	0.00	0.04	0.00	0.01	0.01	0.00	0.01	0.01	0.01	0.00	0.00
Latin America and the Caribbean	**0.25**	**0.08**	**0.21**	**0.24**	**0.20**	**0.07**	**0.21**	**0.11**	**0.17**	**0.15**	**0.13**	**0.18**	**0.18**	**0.23**	**0.14**	**0.22**

Source: Economic Commission for Latin America and the Caribbean (ECLAC). on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
Note: Intra-industry trade is considered to exist between two countries if they export products from the same sector to each other's markets. It is measured by the Grubel-Lloyd index, whereby a value above 0.33 denotes a high level of intra-industry trade and a value between 0.10 and 0.33 denotes potential intra-industry trade (cells shaded yellow in the table).

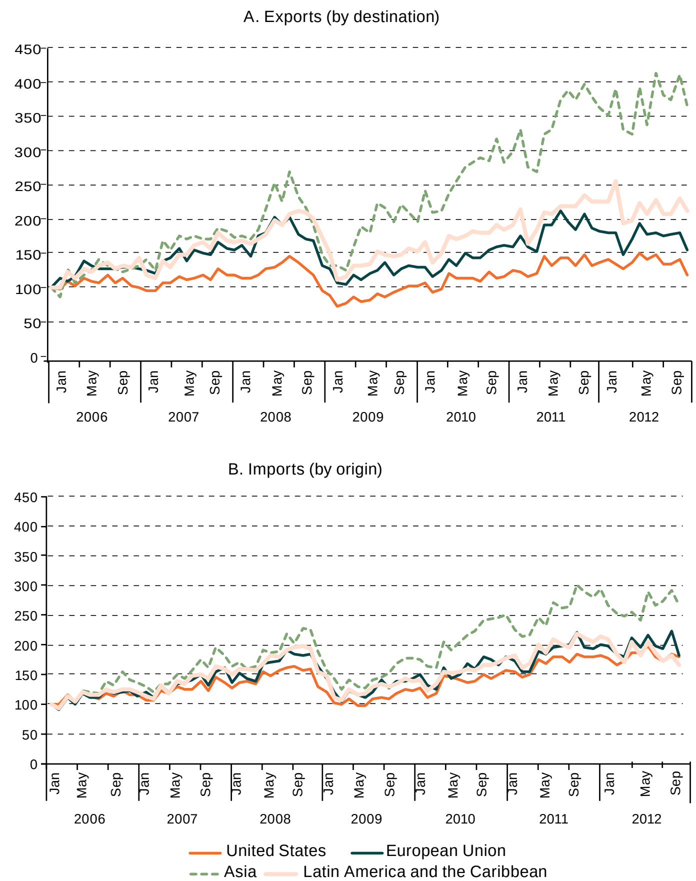
9. The region's trade with the European Union has recovered more slowly than trade with other regions since the crisis

- Trade between the Latin American and Caribbean region and its leading partners within and beyond the region grew strongly in the period after the crisis, recovering from the sharp contraction of 2009. Comparing export and import growth by value in the first nine months of 2012 with the same period in 2011 reveals that Latin American exports and imports began to lose momentum, although to a lesser extent than those of the European Union.
- In recent years, continuing demand from China and the rest of Asia has stimulated exports of a number of the region's commodities, international prices for which have remained high. Exports to the United States and intraregional trade have grown at moderate rates. Conversely, exports to the European Union are still not back to pre-crisis levels, and the adverse situation now affecting that region points to a further slowdown in trade with the bloc, something that would affect South America and the Caribbean countries most.

■ **Figure III.7** ■

Latin America and the Caribbean: trade by origin and destination January 2006-September 2012

(Index: January 2006=100)



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

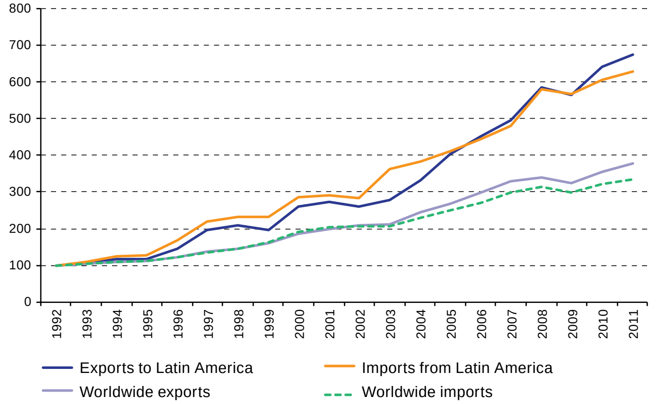
10. Trade in services between the European Union and Latin America has grown more quickly than trade between the European Union and the world as a whole, and presents opportunity for both regions

- Since the 1990s, trade in services between the European Union and Latin America has increased almost sevenfold, while the total services exports and imports of the European Union only quadrupled.
- Because of this dynamism in bilateral relations, Latin America became more prominent as a destination market for European exports, while Latin American exporters also expanded their share of the European market. Nonetheless, there are substantial differences across the 11 services categories: European exporters achieved the largest increases in communications services and royalties and licensing.
- The European market accounts for a quarter of Brazilian services exports and less than 20% of Chilean services exports.

■ Figure III.8 ■

European Union: trade in services with Latin America and the world, 1992-2011

(Index: 1992=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).

Note: The data from 1992 to 2003 are for the 15-country grouping, while those from 2004 also include the 12 new members of the European Union.

■ Table III.5 ■

Latin American and Caribbean share of European Union trade in services, 2004 and 2011

(Percentages)

	Credits		Debits	
	2004	2011	2004	2011
Total services	2.8	3.8	3.7	4.0
Transport	3.6	4.9	3.7	4.3
Travel	1.4	2.5	4.5	3.7
Other services	3.1	3.9	3.2	4.1
Communication	1.4	3.1	2.1	3.7
Construction	5.2	8.2	4.0	3.1
Insurance	4.0	6.8	4.9	9.0
Financial	5.2	5.4	2.2	3.0
Information technology	1.1	2.6	0.7	0.8
Royalties and licensing	2.6	4.2	9.4	13.5
Other business services	3.1	3.2	2.2	2.2
Personal. cultural and recreational	1.7	2.2	1.2	1.3
Government	1.7	3.9	3.4	2.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).

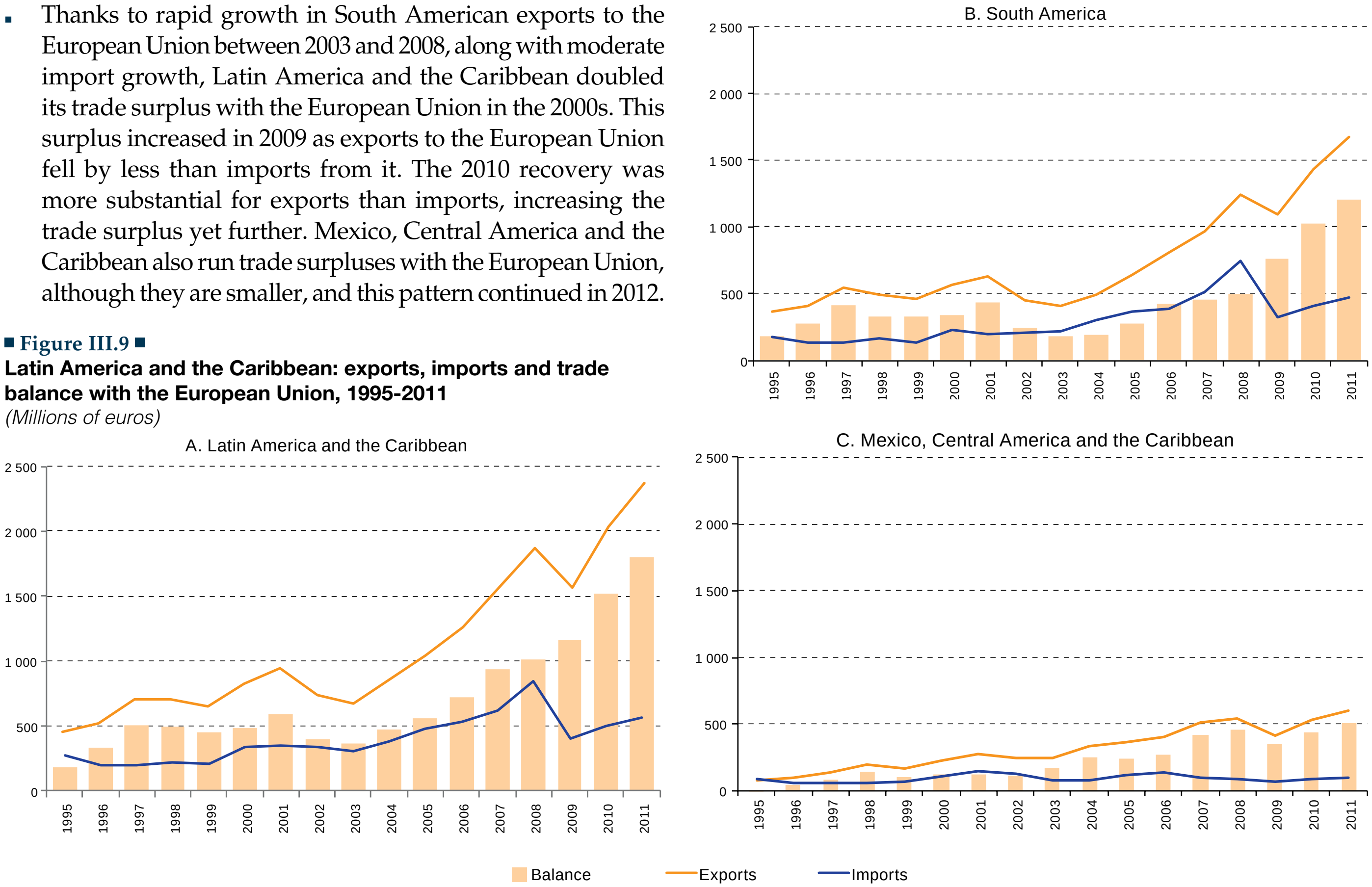
11. The region has a positive trade balance with the European Union, South America having the largest surplus

- Thanks to rapid growth in South American exports to the European Union between 2003 and 2008, along with moderate import growth, Latin America and the Caribbean doubled its trade surplus with the European Union in the 2000s. This surplus increased in 2009 as exports to the European Union fell by less than imports from it. The 2010 recovery was more substantial for exports than imports, increasing the trade surplus yet further. Mexico, Central America and the Caribbean also run trade surpluses with the European Union, although they are smaller, and this pattern continued in 2012.

Figure III.9

Latin America and the Caribbean: exports, imports and trade balance with the European Union, 1995-2011

(Millions of euros)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).

12. Both the European Union and the United States have signed numerous trade agreements with Latin America and the Caribbean. The European Union has given a new impetus to its trade negotiations with Latin America

- In particular, in June 2010 the European Union and MERCOSUR resumed negotiations on an association agreement that had been suspended in 2004. The European Union and Ecuador are also in discussions to resume bilateral negotiations. Should these negotiations bear fruit, the European Union could have preferential trade links with some 30 countries in the region by about 2012 or 2013. The United States, conversely, has not started any new trade negotiations with countries in the region since the signing of its free trade agreements with Colombia (in 2006) and Panama (in 2007). The United States Congress approved both agreements between late 2011 and early 2012.

Table III.6

European Union and the United States: trade agreements with groups and countries in Latin America and the Caribbean

	European Union			United States		
	In force	Signed/ initialled	Under negotiation	In force	Signed/ initialled	Under negotiation
Groups						
CARIFORUM [a]	X					
Central American Common Market [b]		X		X		
MERCOSUR			X			
Countries						
Chile	X			X		
Colombia		X [c]		X		
Mexico	X			X		
Panama [d]		X			X	
Peru		X [c]		X		
Total countries	**17**	**8**	**4** [e]	**9**	**2**	**0**

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

[a] Includes 14 Caribbean Community (CARICOM) member countries and the Dominican Republic.

[b] In March 2011, the Central American Common Market (CACM) and the European Union initiated an Association Agreement that includes a free trade agreement and this was ratified by the European Parliament in early December 2012. Panama is also a party to the Association Agreement. Additionally, the CACM countries have a free trade agreement in force with the United States which also includes the Dominican Republic.

[c] The European Union ratified trade agreements with Colombia and Peru, in early December 2012.

[d] A party to the Association Agreement between the European Union and CACM.

[e] There should be five countries once the Bolivarian Republic of Venezuela officially becomes a full member of MERCOSUR.

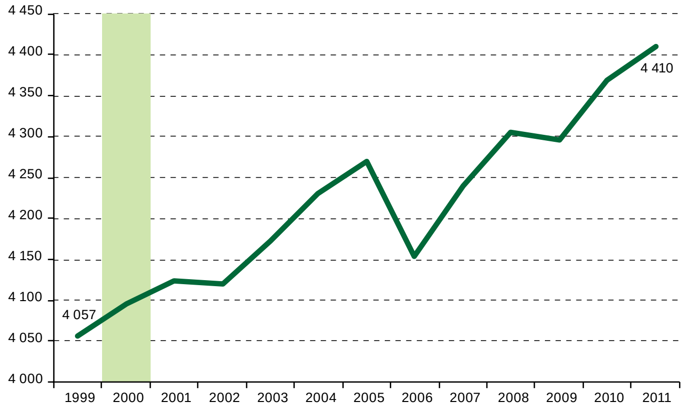
13. Mexico and Chile increased the number of products exported to the European Union after their association agreements came into force in 2000 and 2003

- Between 1999 and 2011, the number of products exported by Mexico to the European Union increased from 4,057 to just over 4,410, a rise of 7% on the number exported before the Association Agreement was signed. In terms of value, new products grew by just over 32% on average, while products already being exported before the signing of the Agreement grew by an average of 1.1%.
- Between 2002 and 2011, the number of products exported to the European Union increased from 2,009 to just over 2,300, which is 15% more than the number prior to the signing of the Association Agreement between Chile and the European Union. In value terms, these new products grew by an average of just over 50% between 2003 and 2011, in contrast to a growth rate of 8.3% for products already exported before the agreement was signed.

■ Figure III.10 ■

European Union: product imports from Mexico

(Number of products at the 8-digit level of the European Harmonized System)

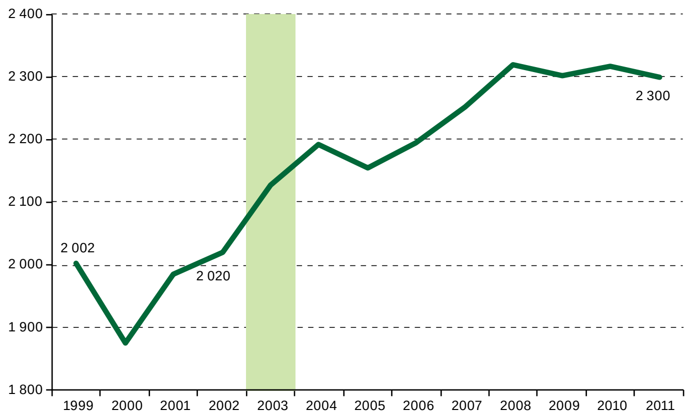


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).
Note: The European tariff universe consists of 15,600 items.

■ Figure III.11 ■

European Union: product imports from Chile

(Number of products at the 8-digit level of the European Harmonized System)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).
Note: The European tariff universe consists of 15,600 items.

14. The major new products exported by Chile include wine, fresh apples and salmon

- The evolving structure of Chilean exports to the European Union before and after the signing of the Association Agreement shows that only a few products benefited from it and increased their share of total exports. Among the traditional products that were already exported before the agreement and increased their share are those in the copper cluster, with unwrought copper categories moving up from eighteenth to third place. Chemical wood pulp and fresh grapes also increased their shares and moved up into the top 30 products.
- In the group of new products that hardly featured before the Agreement was signed, the most striking growth was in fresh apples, wines and Pacific salmon fillets. All these products count among those benefited by the agreement.
- The rise of these new products reflects greater diversification of exports to the European Union market. Nonetheless, Chile's exports are still concentrated among a small number of commodities. Diversifying exports under the auspices of the Agreement is thus a continuing challenge for Chilean firms.

Table III.7

Chile: main products exported to the European Union after the signing of the association agreement

(By rank order and as percentages of the total)

European Union HS	Product description	Before (1999-2002)	After (2009-2010)	1999-2002	2009-2010
74031100	Refined copper cathodes	1	1	34.3	30.5
26030000	Copper ores and concentrates	2	2	7.6	12.5
74020000	Unwrought copper	18	3	0.9	6.5
47032900	Chemical wood pulp (eucalyptus)	9	4	2.1	3.5
8061010	Fresh grapes	6	5	2.7	3.2
26131000	Roasted molybdenum ores and concentrates	12	6	1.4	2.5
74031900	Other refined copper	7	7	2.5	2.2
08081080	Fresh apples	n.e.	8	0	2
47032100	Chemical wood pulp (conifers)	3	9	5.4	1.9
22042185	White wine in containers <= 2ltr. (13% to 15% vol.)	n.e.	10	0	1.4
22042197	Tokay wine in containers <= 2ltr. (18% to 22% vol.)	n.e.	11	0	1.4
22042198	Other wines in containers <= 2ltr. (18% to 22% vol.)	n.e.	12	0	1.1
8105000	Kiwi	16	13	1.1	1
3042913	Frozen fillets of Pacific salmon	n.e.	14	0	1
28342100	Nitrate of potassium	27	15	0.6	1
28012000	Iodine	22	16	0.7	0.9
31042050	Potassium chloride	157	17	0	0.9
23012000	Fishmeal	19	18	0.9	0.8
44123900	Plywood	n.e.	19	0	0.8
26139000	Molybdenum ores and concentrates	31	20	0.5	0.8
8044000	Fresh avocados	188	21	0	0.8
22042184	White wine in containers	8	22	2.3	0.7
72027000	Ferro-molybdenum	58	23	0.2	0.7
8082050	Fresh pears	21	24	0.8	0.6
71081200	Non-monetary gold	4	25	4.4	0.6
16059019	Prepared mussels	140	26	0.5	0.5
10051015	Maize seed	51	27	0.2	0.5
28257000	Molybdenum oxides	96	28	0.1	0.5
26070000	Lead ores and concentrates	234	29	0	0.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).

Note: Coloured lines denote products that are new or were not formerly in the top 100, and n.e. indicates that a product was not previously exported to the European Union or its share was negligible.

15. The main products exported by Mexico include vehicles and electronics

- The evolving structure of Mexican exports to the European Union before and after the Association Agreement was signed reveals how access conditions have improved for a great many Mexican manufactures.
- Among the products already exported that moved up the ranking are passenger vehicles, which took second place after petroleum.
- The top 30 products include some goods that were not previously exported or were exported only in very small quantities but moved into leading positions in the ranking. These include voice reception equipment, mobile telephones and their parts, medical equipment and electronic instruments. Much of this list consists of products with a high technology content, many of them produced under assembly schemes.
- Commodities moving up the ranking include durum wheat and molybdenum.

■ Table III.8 ■

Mexico: main products exported to the European Union since the signing of the free trade agreement

(By rank order and as percentages of the total)

European Union HS	Product description	Before (1999-2002)	After (2009-2010)	1999-2002	2009-2010
27090090	Crude petroleum	1	1	16.3	17.9
87033219	Passenger vehicles 1500 to 2500 cm³	3	2	4.7	7.9
85176200	Voice reception equipment	n.e.	3	0.0	6.6
85171200	Mobile telephones	n.e.	4	0.0	3.1
87032210	Passenger vehicles 1000 to 1500 cm³	n.e.	5	0.0	2.9
90189085	Veterinary appliances	209	6	0.1	2.8
85177090	Parts of telephone sets and cellular networks	n.e.	7	0.0	2.6
87032319	Passenger vehicles 1500 to 3000 cm³	2	8	6.2	2.5
90183900	Needles, catheters and dental equipment	349	9	0.0	1.9
90183190	Syringes	64	10	0.2	1.1
22030001	Beer	18	11	0.7	0.7
30049000	Other medicaments	n.e.	12	0.0	0.7
90219090	Articles and appliances for the disabled	937	13	0.0	0.7
84717050	Hard disk storage drives	n.e.	14	0.0	0.7
84717080	Magnetic tape storage units	n.e.	15	0.0	0.7
79011100	Unwrought zinc	n.e.	16	0.0	0.6
9011100	Coffee	10	17	1.2	0.6
90318038	Electronic instruments	n.e.	18	0.0	0.6
84099900	Parts for diesel or semi-diesel engines	53	19	0.3	0.6
84718000	Units for digital data-processing machines	n.e.	20	0.0	0.5
84715000	Processing units for digital data-processing machines	n.e.	21	0.0	0.5
29152400	Acetic anhydride	94	22	0.1	0.5
10011000	Durum wheat	254	23	0.0	0.5
29153100	Ethyl acetate	940	24	0.0	0.5
39041000	Polyvinyl chloride	63	25	0.2	0.5
90262020	Gas monitoring instruments	n.e.	26	0.0	0.5
71081200	Platinum-plated gold for non-monetary purposes	49	27	0.3	0.4
26131000	Roasted molybdenum ores and concentrates	564	28	0.0	0.4
29173600	Terephthalic acid and its salts	12	29	1.1	0.4
88033000	Aircraft parts	n.e.	30	0.0	0.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Statistical Office of the European Communities (EUROSTAT).

Note: Coloured lines denote products that are new or were not formerly in the top 100, and n.e. indicates that a product was not previously exported to the European Union or its share was negligible.

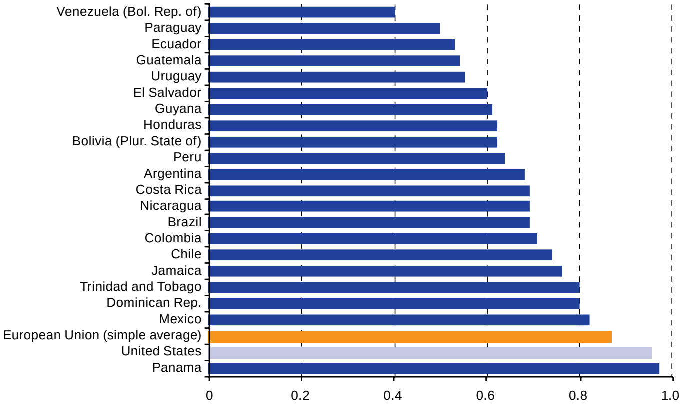
16. Latin America and the Caribbean lags well behind the European Union on aspects of trade facilitation

- Trade facilitation is to be understood not simply as a reduction in the number of bureaucratic formalities associated with external trade, or in the time needed to complete them, but as an integrated approach to improving transaction efficiency, including the availability of transport and of ICT infrastructure. As such, it plays an essential role in a country's international competitiveness. An integrated logistics system can make it easier to attract foreign direct investment (FDI) and can contribute to the modernization and gradual globalization of the more advanced SMEs.
- The two areas where the Latin America region presents weaknesses are customs and infrastructure. It should adopt measures to improve customs procedures and port infrastructure and facilities. Improving the efficiency of border and transport formalities costs little compared to investing in physical infrastructure but can yield promising results. Cooperation between the European Union and Latin America and the Caribbean could play an important role in both areas.

Figure III.12

Border and transport efficiency [a]

(Principal factor; 1=best)



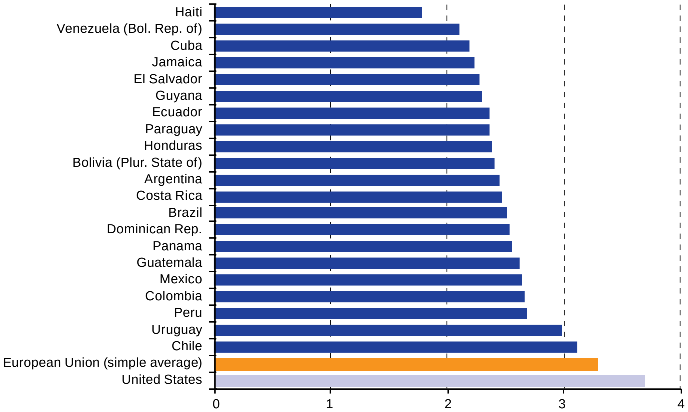
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Alberto Portugal-Pérez and John S. Wilson, "Export performance and trade facilitation reform. Hard and soft infrastructure", *Policy Research Working Paper*, No. 5261, Washington, D.C., World Bank.

[a] The border and transport efficiency rating seeks to quantify the efficiency level of customs and domestic transport, as reflected in the time, cost and number of documents required for export and import procedures.

Figure III.13

Index of customs performance

(Scores from 0 to 5)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Connecting to Compete 2010. Trade Logistics in the Global Economy*, Washington, D.C., World Bank.

17. It is vital to improve institutions in order to harmonize procedures, with a particular view to interoperability and standardization

- There are proposals for action on trade facilitation that could positively impact regional integration and lower international transport costs.
- Work on legal agreements to recognize modern business instruments (electronic invoicing, electronic certificates of origin, one-stop windows, etc.) should be accelerated.
- The European Union could cooperate with the countries of Latin America and the Caribbean on efforts to enhance national and regional capabilities in these areas, with a view to promoting yet further its trade and investment ties with the region.

Table III.9

Trade and transport facilitation opportunities

Area	Suggestions for the short term
Electronic business	- Seek common bases (such as standards) so that regional actors can interconnect - Do away with red tape at customs - Form partnerships between businesses to enhance international competitiveness - Strengthen logistics and transport systems - Recognize electronic signatures
One-stop window	- Designate a central coordinating body at national level and a regional centre for system interoperability and recognition purposes - Pursue coordination and consistency between national systems to facilitate interoperability - Use universally accepted paperless business systems
Customs procedures	- Adopt compatible administrative systems to enable interconnection and cut procedure times and costs - Disseminate these systems in the private sector, particularly among SMEs - Pursue regional coordination to speed up procedures - Use pre-shipment inspections and other mechanisms to cut waiting times at loading and unloading points - Enhance the use of information and communication technologies (ICTs) for security purposes, in accordance with international standards
Efficiency of the transport chain	- Speed up regional integration projects, especially those involving infrastructure and interconnections that will benefit landlocked countries - Coordinate with the private sector to identify bottlenecks promptly and propose joint projects - Promote intermodal and complementary means of transport
Adoption of international standards	- Spread the use of model electronic documents available at the United Nations Centre for Trade Facilitation and Electronic Business (CEFACT) - Spread and adopt international regulations governing maritime transport and dangerous cargo handling and other international documents for international transport facilitation - Implement systems of electronic government, especially international standards and classification, so that paperless trade can take place
Phytosanitary standards	- Ensure consistency with international standards and cooperation and training in the interests of compliance with sanitary and safety standards - Implement sampling and prevention techniques designed for the prevention or early detection of risks in the distribution chain, thereby forestalling large-scale sanitary emergencies
Relationship between the public and private sectors	- Set up centres to train SMEs in ICT use - Strengthen export financing mechanisms that use elements of electronic government and trade to cope with any reduction in the supply of private financing

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

IV. Cross-border investment between the European Union and Latin America and the Caribbean

A. Transnational enterprises: the most active agents in the internationalization of production

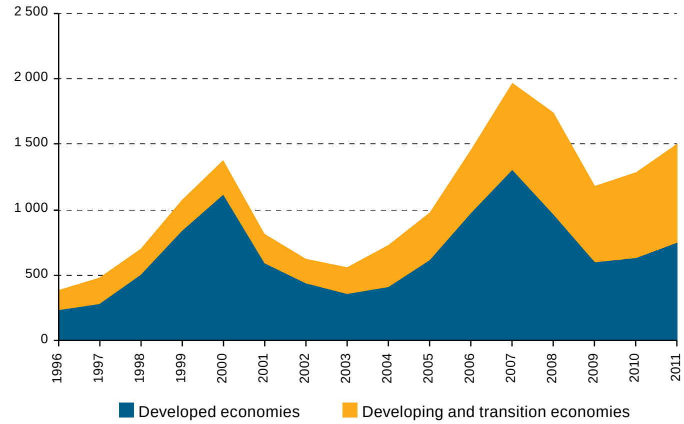
1. Worldwide foreign direct investment (FDI) flows were US$ 1.5 trillion in 2011, with half going to developing and transitioning economies

- After falling in 2008 and 2009, worldwide FDI flows increased in 2010 and 2011, although they are still well below the record level of 2007.
- This decline has mainly occurred in the developed economies, whose share of the worldwide total has fallen from 66% before the crisis to less than half now.
- The transition economies of eastern Europe also received less FDI in 2011 than in 2007, as did Africa and the Middle East. In Asia and Latin America, however, the decline in 2009 was smaller and the recovery quicker, so that these regions recorded the largest inflows in their history in 2011.
- The European Union received US$ 421 billion in 2011, some 30% of the world total, after seeing inflows drop by more than half between 2007 and 2010.
- The growth registered in the past few years continued in 2012, but more slowly, with global FDI flows estimated at US$ 1.6 trillion for the year.

Figure IV.1

World: inward foreign direct investment, by groups of economies, 1996-2010

(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), "UNCTADStat" [online] http://unctadstat.unctad.org/.

Table IV.1

World: inward foreign direct investment, by region, 2007-2011

	Inward investment *(billions of dollars)*					Share *(percentages)*				
	2007	2008	2009	2010	2011[a]	2007	2008	2009	2010	2011[a]
World	1 976	1 791	1 198	1 309	1 524	100.0	100.0	100.0	100.0	100.0
Developed economies	1 310	1 019	606	619	748	66.3	56.9	50.6	47.3	49.1
European Union	854	542	357	318	421	43.2	30.3	29.8	24.3	27.6
South-eastern Europe and Commonwealth of Independent States [b]	91	121	72	74	92	4.6	6.8	6.0	5.6	6.0
Developing economies	574	650	519	617	684	29.1	36.3	43.3	47.1	44.9
Latin America and the Caribbean	117	138	82	122	154	5.9	7.7	6.8	9.3	10.1
Caribbean financial centres [c]	52	69	59	39	62	2.7	3.9	4.9	3.0	4.1
Africa	51	58	53	43	43	2.6	3.2	4.4	3.3	2.8
Middle East	78	92	66	58	49	4.0	5.1	5.5	4.4	3.2
Asia	271	288	249	326	374	13.7	16.1	20.8	24.9	24.6

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

[a] Includes the Russian Federation.

[b] Includes Bermuda, the Cayman Islands and the United States Virgin Islands.

2. Latin America received US$ 157.151 billion in 2011, of which 42% went to Brazil and this pattern continued in 2012

- Latin America and the Caribbean received US$ 157.151 billion of FDI in 2011, which was 28% more than in 2010 and a fresh record.
- Over half this increase went to Brazil, which received US$ 66.66 billion. FDI inflows increased in almost all the region's larger economies, Mexico being the exception.
- Compared to 2010, FDI inflows were up by 37% in South America, and 37% in Central America, but down by 10% in the Caribbean. The Caribbean economies are still receiving less FDI than before the crisis.
- In 2012, first-semester data suggest that FDI inflows were up in the region, buoyed by economic stability and growth in most of the countries and by high prices for raw materials.

Table IV.2

Latin America and the Caribbean: foreign direct investment inflows, 2000-2011

(Millions of dollars)

	2000-2005[a]	2006	2007	2008	2009	2010	2011	First semester	
								2011	2012
South America	38 004	43 538	71 877	92 845	56 256	90 694	123 978	69 816	78 436
Argentina	4 296	5 537	6 473	9 726	4 017	7 055	8 671	3 802	5 388
Bolivia (Plurinational State of)	350	278	362	508	426	672	859	377	577
Brazil	19 197	18 822	34 585	45 058	25 949	48 506	66 660	44 080	43 175
Chile	5 047	7 426	12 572	15 518	12 887	15 373	17 299	6 813	12 275
Colombia	3 683	6 656	9 049	10 596	7 137	6 746	13 388	6 593	7 798
Ecuador	839	271	194	1 006	321	161	640	352	275
Paraguay	48	95	202	209	95	228	303	-189	202
Peru	1 604	3 467	5 491	6 924	6 431	8 455	8 233	4 157	5 440
Uruguay	393	1 493	1 329	2 106	1 529	2 289	2 614	1 471	1 415
Venezuela (Bolivarian Republic of)	2 546	-508	1 620	1 195	-2 536	1 209	5 311	2 359	1 891
Mexico	23 298	20 181	31 785	27 239	16 316	20 868	20 357	11 815	9 622
Central America	2 575	5 815	7 278	7 515	4 529	6 044	8 299	4 327	4 230
Costa Rica	626	1 469	1 896	2 078	1 347	1 466	2 157	1 066	1 018
El Salvador	325	241	1 551	903	366	117	386	290	116
Guatemala	333	592	745	754	600	806	985	524	771
Honduras	418	669	928	1 006	523	797	1 014	486	468
Nicaragua	219	287	382	626	434	508	968	545	436
Panama	653	2 557	1 777	2 147	1 259	2 350	2 790	1 416	1 421
The Caribbean	3 612	5 694	6 274	10 050	5 681	5 040	4 517	980	2 398
Anguilla	60	143	120	101	37	26	12	n.d	n.d
Antigua and Barbuda	127	361	341	176	85	101	64	n.d	n.d
Bahamas	383	843	887	1 032	753	960	667	n.d	n.d
Barbados	118	298	394	470	303	344	n.d	n.d	n.d
Belize	56	109	143	180	112	101	98	n.d	n.d
Dominica	26	29	48	57	42	25	25	n.d	n.d
Dominican Republic	932	1 085	1 667	2 870	2 165	1 896	2 371	980	2 398
Grenada	65	96	172	148	104	63	43	n.d	n.d
Guyana	50	102	110	179	222	198	247	n.d	n.d
Haiti	12	161	75	30	38	150	181	n.d	n.d
Jamaica	595	797	752	1 361	480	170	n.d	n.d	n.d
Montserrat	2	4	7	13	3	3	3	n.d	n.d
Saint Kitts and Nevis	84	115	141	184	136	122	142	n.d	n.d
Saint Vincent and the Grenadines	43	110	132	159	98	103	135	n.d	n.d
Saint Lucia	76	238	277	166	152	115	81	n.d	n.d
Suriname	143	323	179	124	242	113	154	n.d	n.d
Trinidad and Tobago[c]	842	883	830	2 801	709	549	293	n.d	n.d
Total	67 488	75 228	117 214	137 648	82 782	122 645	157 151	86 938	94 686

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

[a] Simple average.

[b] Official figures to the third quarter.

[c] Official figures to the second quarter.

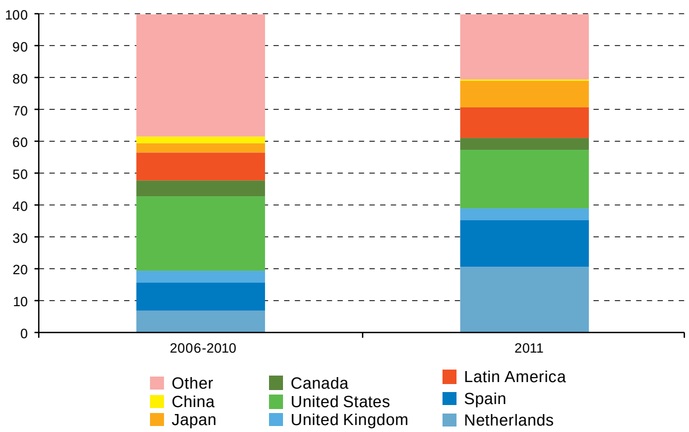
3. FDI in Latin America and the Caribbean follows two patterns of production specialization

- In South America, FDI goes mainly into activities associated with natural resources. In Mexico, Central America and the Caribbean, investment has tended to focus on export operations, involving both manufactured goods and services.
- Investment in South America has been boosted by the commodity price cycle itself. In Mexico, Central America and the Caribbean, geographical proximity and preferential access to the North American market, along with competitive pricing for some factors of production, have favoured the creation of export platforms. But the recent global financial crisis has taken a toll on these operations.
- The European Union has been the primary source of inward FDI for South America, as the United States has for Mexico, Central America and the Caribbean.

■ **Figure IV.2** ■

Latin America and the Caribbean: inward foreign direct investment by geographical source, 2006-2010 and 2011

(Percentages)

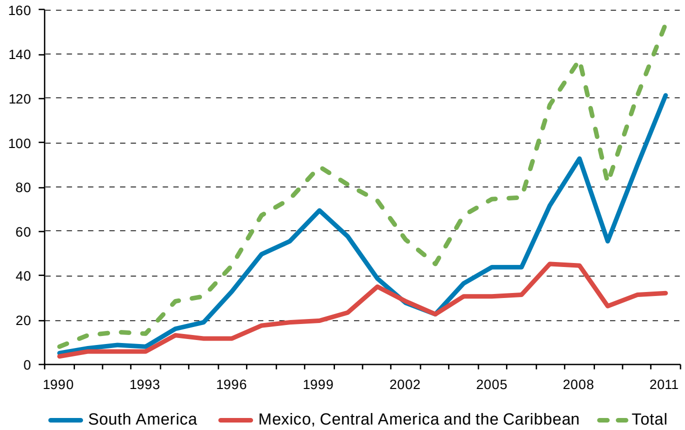


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

■ **Figure IV.3** ■

Latin America and the Caribbean: inward foreign direct investment by subregion, 1990-2011

(Billions of dollars)

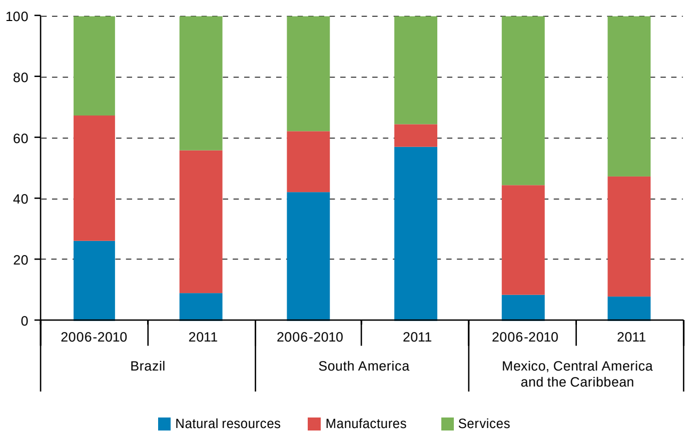


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

■ **Figure IV.4** ■

Latin America and the Caribbean: inward foreign direct investment by destination sector, 2006-2010 and 2011

(Percentages)



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

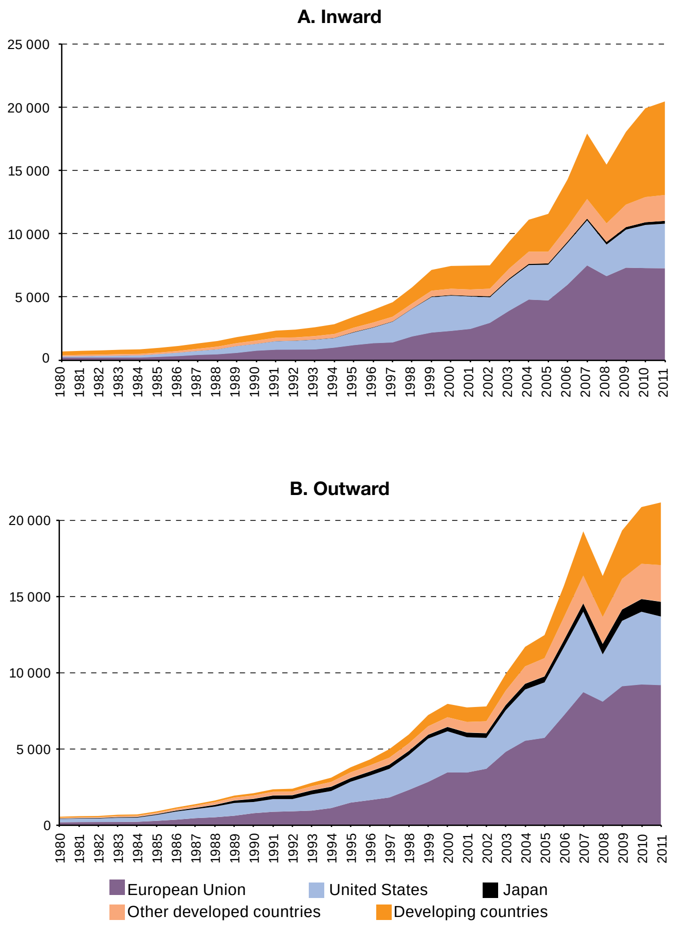
4. The European Union is a prime source and destination for worldwide FDI

- Global FDI flows have traditionally been concentrated in the developed economies, which are the largest providers and recipients of FDI. The larger economies of the European Union have accordingly been active in this area.
- About half the worldwide FDI stock has its origins in European Union countries. As destinations, the countries of the bloc account for about 40% of the worldwide FDI stock.
- In terms of flows, developing countries have increased their share as both recipients and originators of FDI. Furthermore, in the last few years these countries, and particularly the BRIC group (Brazil, Russia, India and China), have positioned themselves as the main recipients of FDI, with over 50% of the worldwide total.
- Regarding outward FDI, just over 10% of this originated in developing countries in 2000, a figure that rose to 15% in 2005 and 30% in 2011.

■ **Figure IV.5** ■

World (regions and selected countries): stock of foreign direct investment, 1980-2011

(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), "UNCTADStat" [online] http://unctadstat.unctad.org/.

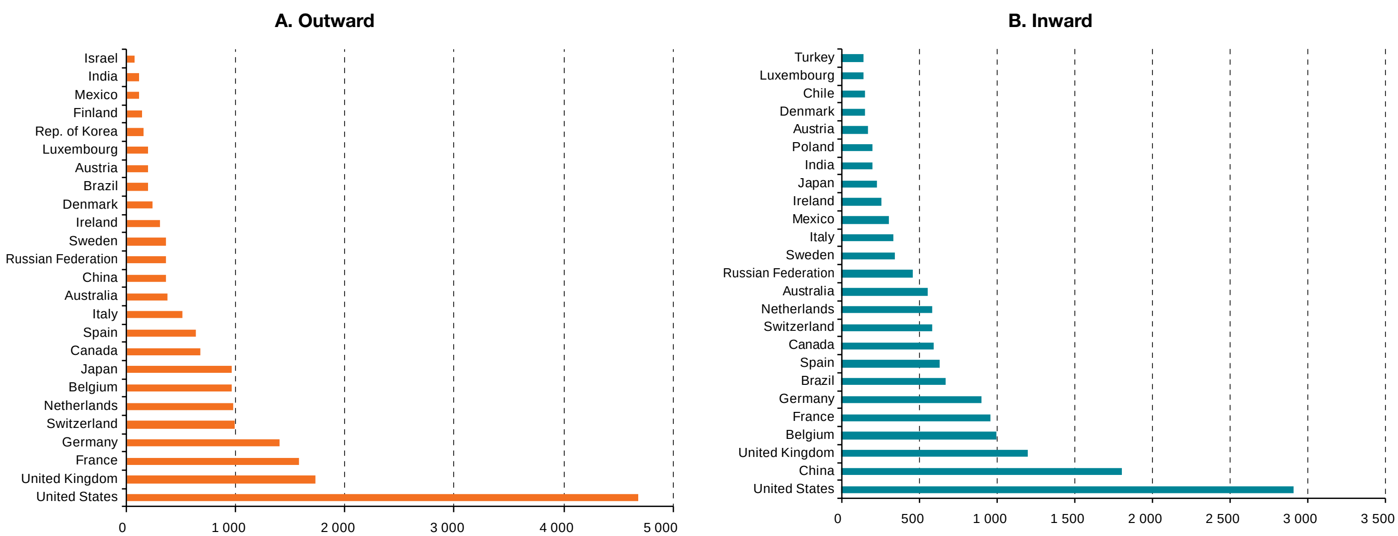
5. The leading economies in the bloc are among the world's largest originators and recipients of FDI

- A number of economies in the European Union are among the largest originators and recipients of FDI in the world. The United Kingdom, France, Germany, Belgium, Spain, the Netherlands and Italy are prominent in both categories.
- The main originators of these capital flows are transnational enterprises. Not only large European transnationals, but small and medium-sized ones too, are among the world's most internationalized, outscoring their peers in the United States and Japan on a number of indicators of international activity. Even taking extraregional investments alone, European transnationals are highly internationalized, and many are world leaders in different industries.
- Because of this, the investment stance and international positioning of European firms largely determine the behaviour of global FDI flows.

Figure IV.6

World (selected countries): foreign direct investment stock, 2011

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organisation for Economic Co-operation and Development (OECD) [online] www.oecd.org/investment/statistics.

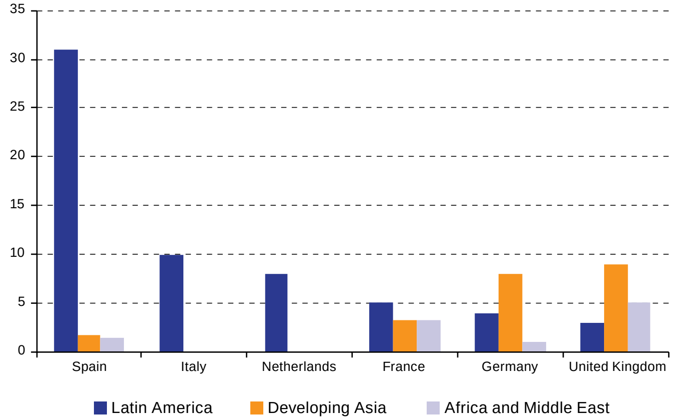
6. Some European countries have a long-standing presence in Latin America

- Each European Union country has a different investment profile. The transnational enterprises of countries such as France, Germany, Italy and the United Kingdom have a long tradition in the region. During the early stages of export development, European firms played a prominent role in primary sectors and infrastructure areas, such as railways and public services. The most important investor countries in this period were the United Kingdom, Germany and France, and to a lesser extent Italy and the Netherlands. Then, during the import-substitution industrialization stage, European investments were put in place to obviate high trade barriers, with firms focusing on manufacturing sectors such as the motor vehicle, food and chemical industries, especially in the largest economies: Brazil, Mexico and Argentina. Until the reforms of the 1980s, in fact, these countries were home to about 75% of the European FDI stock in the region.
- Despite this, the scale of these countries' investments in the region has traditionally been small. In fact, Germany, the United Kingdom, France and Italy have less than 10% of their stock of direct investment overseas in Latin America. Although their activities have been important in different manufacturing sectors, the region never became the main focus of their internationalization.
- For example, Germany, a very important investor country, has focused its outward investment on developed countries, where more than 85% of its FDI stock is located. Among developing economies, it has concentrated on Asia. German manufacturing transnationals, many of them in the motor vehicle, electronics, machinery and chemical sectors, have been the main agents, along with financial services firms.

■ **Figure IV.7** ■

Developing regions' shares of foreign direct investment by selected European countries, 2009

(Percentages)



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

- The United Kingdom has also focused its internationalization efforts on developed countries, and where it has invested in developing countries these have mainly been in Asia. The FDI stock of the United Kingdom in Latin America is barely 3% of its worldwide total. British firms operating in financial services and the extractive sector have been very active internationally.
- France has struck a balance between different developing regions in its investment position. The international activities of its firms have taken place in service sectors such as energy, telecommunications and financial services and in manufacturing areas such as the motor vehicle, food and chemical industries.

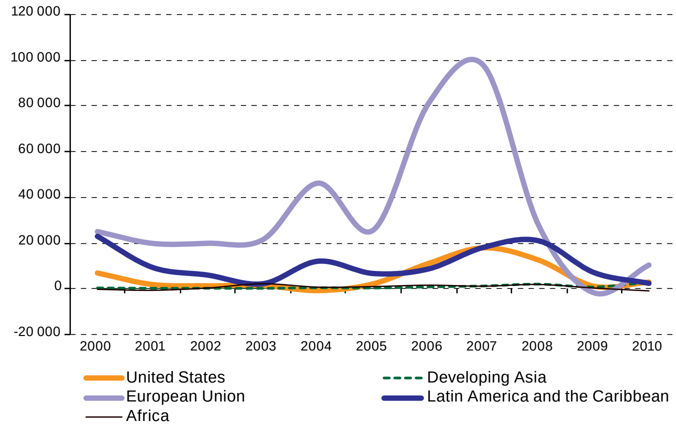
7. Spain is the country in the bloc whose investments are most focused on Latin America and the Caribbean

- Spain, like Portugal, was quite late to internationalize, and it focused strongly on Latin America and the Caribbean when it did. It now has over 30% of its FDI stock in the region, as against just 2% in Asia. Latin America provided many Spanish firms with their first experience of internationalization.
- This process began in the 1990s, a time when Spain and Latin America and the Caribbean were following complementary FDI strategies. The region was implementing thorough-going structural reforms to speed up its integration into the world economy, while doing away with restrictions on foreign ownership in sectors such as hydrocarbons and mining and in services, as well as implementing far-reaching privatization processes. For its part, Europe was moving ahead with reforms to create an economic and political union, which created pressure to increase the size of local firms. It was in this context, further aided by the strong cultural and linguistic affinity, that Spain, along with Portugal, made a forceful entry into the world of Latin American business.
- In the 1990s, Latin America was the destination for over 50% of Spain's outward FDI, becoming the country's main investment destination. That share fell to 14% in the last decade. This can be explained by the end of privatization, in which Spanish firms were very active, and the growing interest of Spanish firms in entering new markets in developed countries, both within the European Union and beyond. In that period, over 60% of Spanish investment was in Europe.
- The internationalization of Spanish business has centred on services such as energy, telecommunications and banking. The experience of the country's firms in Latin America enabled them to build up capabilities that have proved vital to them in the process of expanding into other regions and becoming global firms.

■ **Figure IV.8** ■

Spain: outward foreign direct investment, 2000-2010

(Millions of dollars)

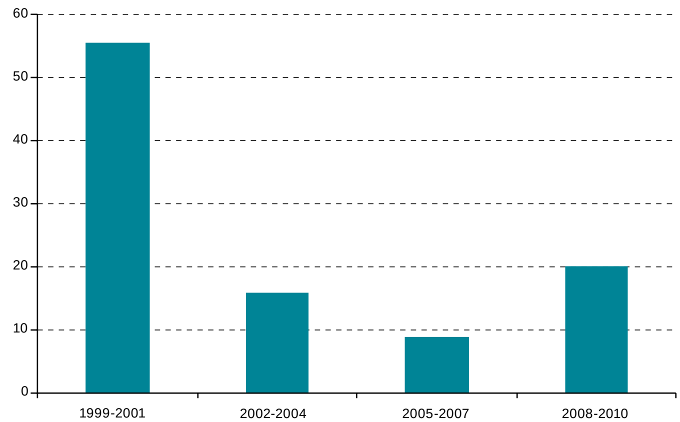


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organisation for Economic Co-operation and Development (OECD) [online] www.oecd.org/investment/statistics.

■ **Figure IV.9** ■

Spain: share of Latin America and the Caribbean in outward foreign direct investment

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Observatorio de la Empresa Multinacional Española (OEME), "Retos de futuro de la multinacional española", third annual report, June 2012.

8. In the last decade, the bulk of European FDI has gone to European countries and Latin America has lost ground to other developing regions as a destination

- In the last decade, European Union outward FDI has largely gone to the countries of the bloc itself and other advanced economies. Having been a leading destination for investment outside the bloc in the 1990s, Latin America and the Caribbean has lost ground in recent years. This can be explained by the particular circumstances of the 1990s, when major privatizations in the region stimulated investment by Spanish firms.
- The European Union currently has an FDI stock of about US$ 500 billion in Latin America and the Caribbean, representing 9% of all its investments abroad.
- Other developing regions have become more important for European investors in recent years, including developing Asia and, particularly, China.

Table IV.3

European Union: distribution of foreign direct investment flows and stocks by destination region, 2000-2010

(Percentages)

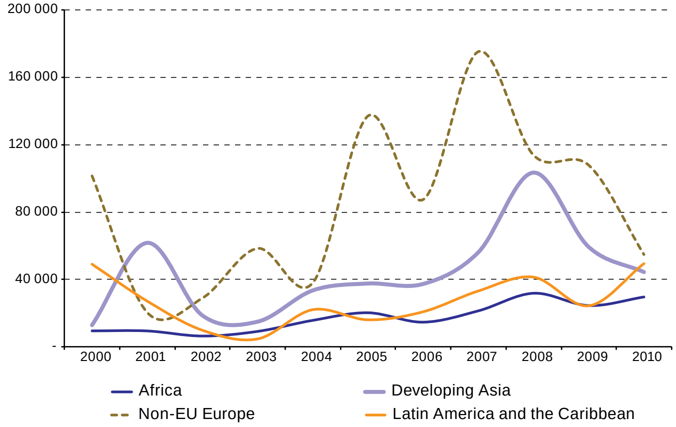
Region	FDI flows	
	2000-2005	2006-2010
European Union	61.9	57.2
United States	11.5	13.3
Non-EU Europe	10.1	10.5
Africa	1.9	2.3
Developing Asia	4.8	5.4
Latin America and the Caribbean	3.3	2.8
Other	6.4	8.4
Total	100.0	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the countries and the Statistical Office of the European Communities (Eurostat).

Figure IV.10

European Union: foreign direct investment destinations, 2000-2010

(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the countries and the Statistical Office of the European Communities (Eurostat).

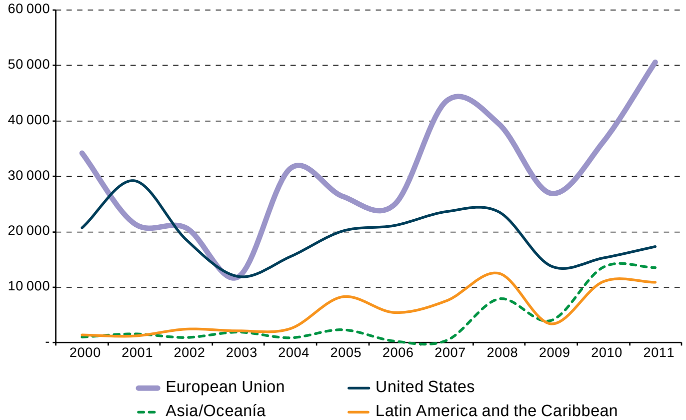
9. Notwithstanding, the European Union is the main source of FDI for Latin America

- In aggregate terms, the European Union consolidated its position as the main source of FDI for the region in the last decade. The bloc accounted for 43% of FDI between 2000 and 2005 and 41% between 2006 and 2011.
- FDI flows into the region began to rise strongly in 2003, growing from some US$ 12 billion to over US$ 25 billion a year. The upward trend in European FDI flows in the second half of the decade positioned the bloc as the main source of the FDI received by Latin America and the Caribbean.

Figure IV.11

Latin America and the Caribbean: foreign direct investment flows by origin, 2000-2011

(Millions of dollars)

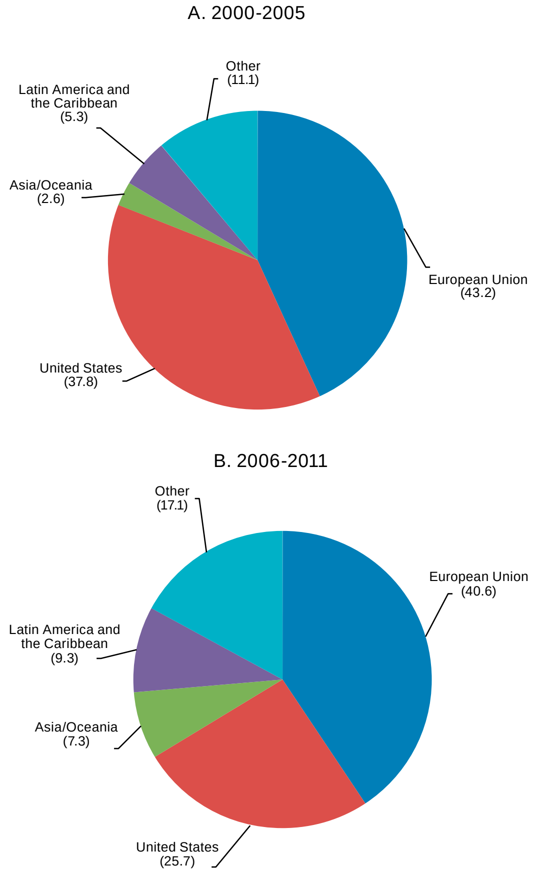


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the central banks of 10 countries in the region: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Paraguay and Uruguay.

Figure IV.12

Latin America: foreign direct investment by origin, 2000-2005 and 2006-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates by central banks in Latin America and the Caribbean.

10. There are large differences between recipient countries: the European Union is consolidating its presence in South America

- The scale of FDI originating in the European Union varies across the region. Generally speaking, its share has been above the regional average in the countries of South America, such as Argentina and Brazil, with the United States being more dominant in Mexico and Central America. Although the United States has been the largest investor in many countries, in some years Spain has been the main source of FDI for countries such as Chile and Argentina.
- The growing weight of new actors as a source of FDI in the region and the active internationalization strategies being pursued by firms from developing countries such as China are a harbinger of possible changes in the position of European Union FDI in the region.

Table IV.4

Latin America and the Caribbean (selected countries): foreign direct investment by origin, 2000-2005 and 2006-2011

(Percentages)

	2000-2005						2006-2011					
Country	United States and Canada	European Union	Latin America and the Caribbean	Asia/ Oceania	Other	Total	United States and Canada	European Union	Latin America and the Caribbean	Asia/ Oceania	Other	Total
Latin America	37.8	43.2	5.3	2.6	11.1	100	25.7	40.6	9.3	7.3	17.1	100
Argentina	13.5	47.6	21.5	0.0	17.4	100	13.8	41.4	27.8	2.1	14.9	100
Brazil	22.2	53.9	3.9	4.7	15.4	100	13.2	49.4	5.1	13.9	18.3	100
Chile	31.9	51.9	5.0	2.1	9.1	100	21.6	29.8	11.0	3.3	34.4	100
Colombia	25.5	41.8	12.9	0.6	19.2	100	33.0	14.1	42.5	0.6	9.8	100
Costa Rica	64.3	13.6	17.3	0.0	4.8	100	60.9	13.9	11.4	0.5	13.4	100
Ecuador	24.0	10.5	34.8	1.4	29.3	100	4.2	28.8	60.4	14.4	-7.7	100
Mexico	58.9	33.7	1.2	2.0	4.2	100	50.8	40.9	1.6	1.5	5.3	100
Paraguay	53.7	56.7	-22.6	16.7	-4.5	100	88.8	9.2	15.2	-15.1	2.0	100
Dominican Republic	47.1	34.7	4.0	-3.1	17.2	100	47.4	26.9	20.2	2.5	3.0	100
Uruguay	6.0	28.5	17.3	0.0	48.2	100	4.6	15.8	34.3	0.6	44.6	100

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates by central banks in Latin America and the Caribbean.
Note: The data for the second period cover 2006-2011.

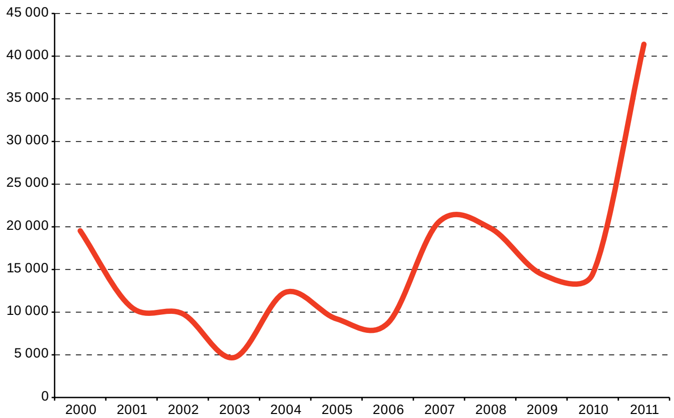
11. The strongest draw: Brazil

- The upsurge in European FDI in the second half of the 2000s did not affect the different subregions of Latin America and the Caribbean alike. The positive evolution of European investment is basically accounted for by flows into South America, with Brazil receiving 53% of the total between 2006 and 2010. The most important factors have been the upward trend of commodity prices, economic dynamism and market size.
- European investment in Brazil has materialized in a variety of sectors, the most important being manufacturing areas such as the motor vehicle and electronics industries and services such as banking, telecommunications and energy.

■ Figure IV. 13 ■

European Union: foreign direct investment flows into Brazil, 2000-2011

(Millions of dollars)

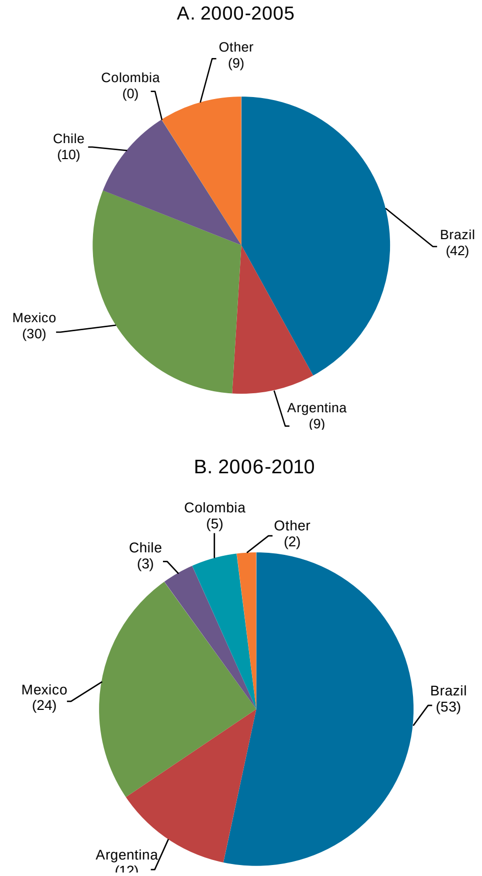


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

■ Figure IV.14 ■

European Union: foreign direct investment flows into Latin America and the Caribbean, 2000-2005 and 2006-2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Statistical Office of the European Communities (Eurostat).

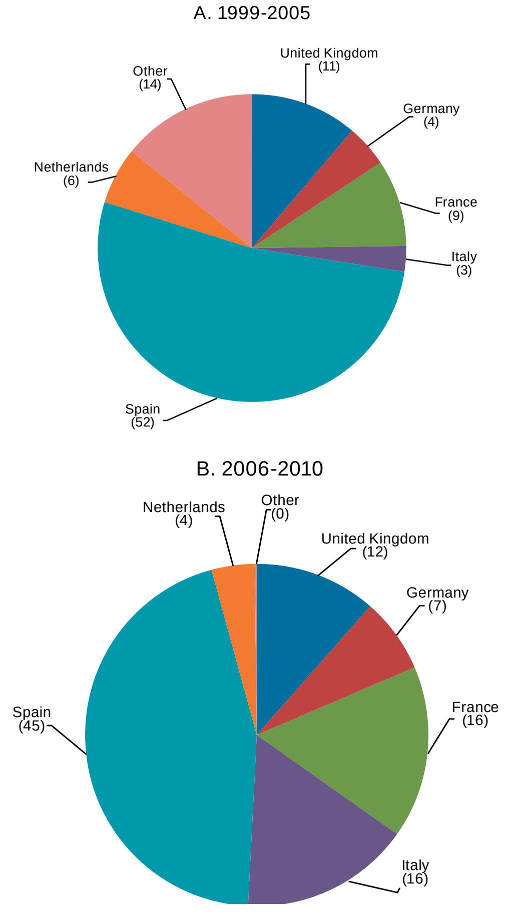
12. Spain: the leading European investor in the region

- In the last decade, Spain consolidated its position as the main European investor in Latin America and the Caribbean, with cumulative investments exceeding US$ 110 billion. Most of these investments went into energy, telecommunications, infrastructure and banking services and the oil and gas extraction industries. Some 86% of Spanish FDI in the region went to services in this period, while the manufacturing sector (essentially in Brazil) and the primary sector received 12% and 2%, respectively. The preferred destinations were Brazil, Mexico, Chile and Argentina, which between them account for over 85% of Spanish assets in the region.
- This process has been led by a small number of firms, notably Telefónica, Endesa, Repsol, Iberdrola and two banks, Santander and BBVA. Although the Spanish investment boom in the region came to an end between 2001 and 2003, there have been subsequent ventures involving new sectors and firms, most of them relatively small, chiefly in construction, tourism and financial and insurance activities, but also in manufacturing. The predominant destination was Brazil, and there were more ventures involving the construction of new plants, which contributed to the expansion of production capacity and employment.
- In the last year, despite the international crisis and the travails of the Spanish economy, FDI from Spain has represented about 14% of the total received by Latin America and the Caribbean. This shows how important the region has become for major transnational firms of Spanish origin.

■ **Figure IV.15** ■

Latin America and the Caribbean: foreign direct investment from the European Union, by country of origin, 1999-2005 and 2006-2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Statistical Office of the European Communities (Eurostat).

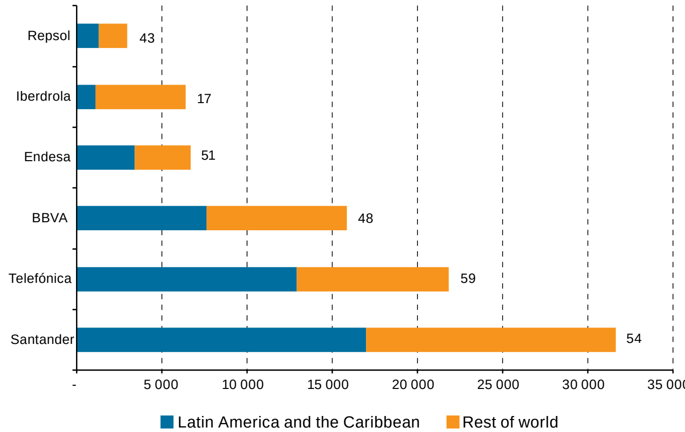
13. Spanish firms in Latin America: from problem area to lifeline in the crisis

- The early 2000s were difficult for Spanish firms in Latin America. In 2001, the crisis in Argentina severely affected firms operating in the regulated environment of the service sector. Many companies were obliged to consolidate substantial investments that had already been made, which they did by restructuring their main subsidiaries in the region. Problems also arose during that decade because of regulatory changes which affected patterns of competition in some sectors, especially in the Bolivarian Republic of Venezuela and the Plurinational State of Bolivia, disrupting the operations of a number of Spanish firms.
- In recent years, however, the situation has altered substantially. In contrast to the economic and financial problems in the developed countries, and Spain in particular, Latin America has performed well, with growth and stability in its leading economies. Under these circumstances, Spanish firms have been able to exploit markets with strong potential and benefit from activities with large profit margins. Furthermore, Latin America has been a major source of financial resources for Spanish firms, enabling the parent companies to improve their balance sheets and cope with the financial crisis of the last few years. For some firms, expanding in the region has also been a useful way of acquiring knowledge and experience and turning themselves into global transnational enterprises.
- The operations of Spanish firms in service sectors are in a phase of stability and consolidation, and most of them have long-term strategies in the region. Their priorities are to consolidate in order to benefit from economies of scale, generate synergies from their regional operations and gain market share with high profit margins in order to enhance their global position.

Figure IV.16

Spanish transnational enterprises: operating revenues before interest and tax, 2010

(Millions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of company annual reports.

14. While German investment has been confined to a few countries and sectors, French investment has risen strongly in the past few years

- Germany is one of the traditional European investors in Latin America. During the 1990s, however, its firms did not react very dynamically to the new opportunities created by the opening of the region to outside capital. German investment represented between 4% and 7% of European Union flows to the region in the last decade, although they were very volatile. Nonetheless, German investment did increase in the second half of the decade.
- What characterizes German investment in the region is its concentration, in both sectors and countries. German investments have been focused on Brazil, Mexico and Argentina, and on sectors where the country has strong competitive advantages and its firms are world leaders, such as the motor vehicle, chemical and machinery and equipment industries. It is important to stress that while the quantity of German FDI has not been very significant, and the region does not feature strongly in the global strategies of German firms, their activities in the field of research, development and innovation have been important.
- French investment also goes back a long way and is associated with the manufacturing sector in the region's major economies. Unlike their German counterparts, French firms participated actively in privatization processes, becoming involved in a variety of service sectors. Some French firms later opted to withdraw. French investment rose strongly in the second half of the 2000s, exceeding US$ 5 billion a year from 2008. France thus increased its share of European FDI from 9% in 1999-2005 to 16% in 2006-2010. In recent years, French transnationals have made acquisitions in the telecommunications and energy sectors, and have also made new manufacturing investments in the motor vehicle and chemical industries, among others, essentially in Brazil, where 75% of French assets in Latin America are to be found.

Table IV.5

European Union (selected countries): foreign direct investment flows to Latin America and the Caribbean, 2000-2010

(Millions of dollars)

Country/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
United Kingdom	521	2 006	2 525	3 033	6 246	720	4 072	3 226	3 141	1 089	3 810
Germany	2 512	-49	-396	-283	2 903	1 873	2 624	2 383	13	646	2 344
France	3 557	5 831	1 223	-1 267	421	2 138	2 632	2 168	5 257	5 353	5 251
Italy	1 132	962	418	213	238	3 946	9 174	3 998	2 843	1 477	967
Spain	21 001	9 123	4 884	2 519	11 376	6 870	9 169	18 273	19 945	5 779	2 887
Netherlands	822	2 207	492	1 930	86	1 816	971	1 965	-1 630	1 830	744
Total	38 577	25 143	7 399	5 052	23 690	17 582	17 932	33 484	34 592	17 955	18 147

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Statistical Office of the European Communities (Eurostat).

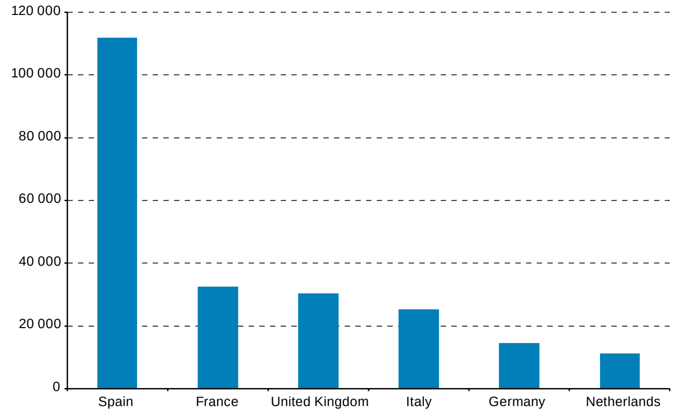
15. Italian investment has been diversifying and transnationals from the Netherlands have been involved in large mergers and acquisitions

- Italy also has a long-standing presence in the region, especially in traditional manufacturing areas such as food and in the motor vehicle industry. Its investments grew strongly in the last decade, rising from a total of US$ 4 billion in the first half to more than US$ 22 billion in the second. Traditional manufacturing investment was supplemented by investment in some service sectors, and a number of firms made substantial acquisitions in telecommunications and infrastructure. In the most recent period, the upsurge in Italian investment led to its share of total European flows rising from 3% in 1999-2005 to 16% in 2006-2010.
- The United Kingdom invested over US$ 30 billion in the last decade. However, its investment exposure to the region is small (about 3% of its total global stock of FDI) and its share of European FDI flows to the region has held steady at around 12%. Its focus has been on mining (with a strong rise in recent years), manufacturing such as food and drinks, and financial services.
- The Netherlands is a special case since, as a result of different legal provisions, it has become the headquarters for a substantial number of European transnationals, channelling large amounts of investment to outside markets. Its recent investments in the region have been concentrated in Brazil and Mexico, with large acquisitions in manufacturing sectors such as beverages and the iron and steel industry.

■ **Figure IV.17** ■

European Union: cumulative foreign direct investment in Latin America, 2000-2010

(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Statistical Office of the European Communities (Eurostat).

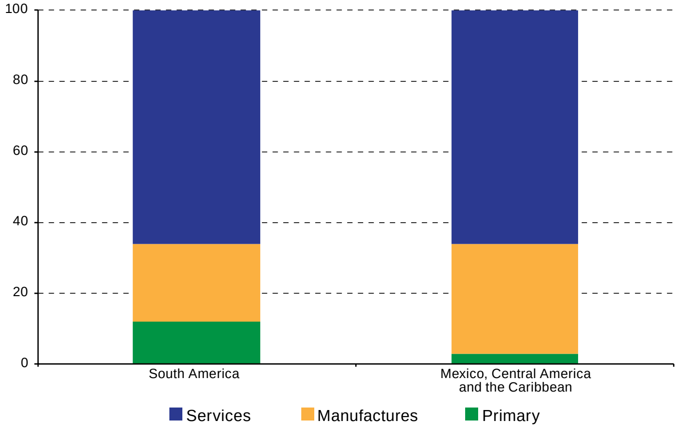
16. The most important sectors: services predominate

- Latin American firms acquired by European transnationals have mainly been in the service sector. Where manufacturing and the primary sector are concerned, it is important to distinguish the situation of South America from that of Mexico, Central America and the Caribbean. Whereas in the former natural resources and manufactures accounted for shares of 12% and 22%, respectively, between 2000 and 2011, in Mexico, Central America and the Caribbean the figures were 3% and 31%, respectively.
- In manufacturing, the iron and steel and motor vehicle industries have been the most important sectors where investment in greenfield production capacity is concerned. It is in these sectors that European firms have had their greatest impact in creating production capacity, employment and production linkages. Investment in metal products and the iron and steel industry has essentially taken place in Southern Cone countries, while investments in the motor vehicle industry have been concentrated in Argentina, Brazil and Mexico. Other sectors that have been recipients of European investment are petrochemicals, paper and cellulose, and chemicals.

Figure IV.18

Latin America and the Caribbean: sectoral distribution of mergers and acquisitions undertaken by European transnationals, 2000-2011

(Percentages)

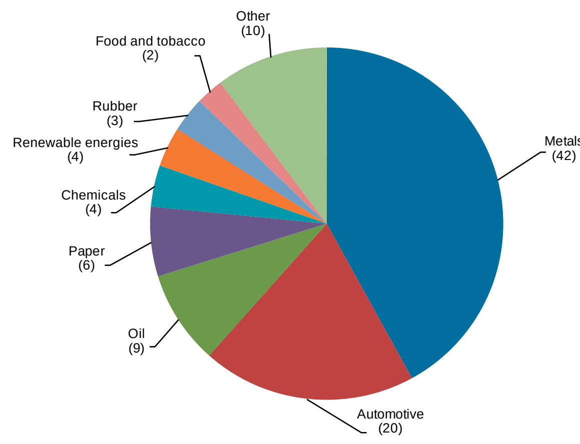


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Thomson Reuters.

Figure IV.19

Latin America and the Caribbean: sectoral distribution of investment in new manufacturing production capacity, 2003-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDI Markets", *Financial Times*.

17. European firms have been leading players in major Latin American mergers and acquisitions

■ **Table IV.6** ■

Latin America and the Caribbean: largest cross-border acquisitions by European Union firms, 2005-2012

(Millions of dollars)

Rank	Year	Firm/asset acquired	Country	Sector	Acquirer	Country	Value
1	2012	Grupo Modelo	Mexico	Beverages	Anheuser-Busch	Belgium	20 100
2	2010	FEMSA-Operación cervecera	México	Beverages/Liquors	Heineken	Netherlands	7 325
3	2005	Bavaria	Colombia	Food/Beverages	SABMiller	United Kingdom	4 716
4	2011	Telemar (25%)	Brazil	Telecommunications	Portugal Telecom	Portugal	3 786
5	2009	GVT	Brazil	Telecommunications	Vivendi SA	France	3 372
6	2008	IronX Mineração SA	Brazil	Mining	Anglo American PLC	United Kingdom	3 492
7	2007	Colombia Telecomunicaciones	Colombia	Telecommunications	Telefónica SA	Spain	2 627
8	2007	Sistema-Minas Rio	Brazil	Mining	Anglo American PLC	United Kingdom	2 451
9	2009	Metsa-Botnia-Uruguay	Uruguay	Pulp and cellulose	UPM-Kymmene	Finland	2 404
10	2008	Grupo Financiero Inbursa SA	Mexico	Banking	LaCaixa	Spain	2 222
11	2006	Grupo Banistmo SA	Panama	Banking	HSBC Holding	United Kingdom	1 780
12	2008	Electricity and gas assets	Mexico	Energy	Gas Natural SDG	Spain	1 448
13	2006	Siderúrgica Lázaro Cárdenas	Mexico	Iron and steel	Arcelor	Luxembourg	1 440
14	2005	Ambev	Brazil	Beverages/Liquors	Interbrew SA	Belgium	1 273
15	2009	Santelisa Vale Bioenergia	Brazil	Sugar cane	Louis Dreyfus	France	1 270

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

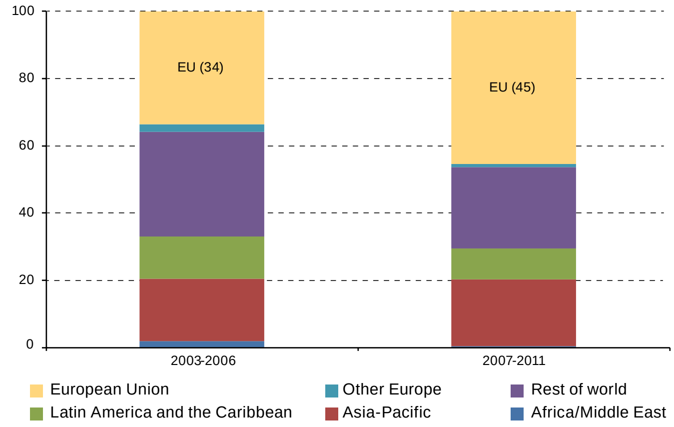
18. But European firms have also been the most active in creating new production capacity

- In Latin America and the Caribbean, one of the distinctive characteristics of European manufacturing investment as compared to that of other regions or countries is its strong orientation towards greenfield projects.
- Between 2003 and 2006, 34% of all new manufacturing investment projects led by transnational enterprises were associated with companies from the European Union. This ratio then increased to 45% between 2007 and 2011.
- Between 2003 and 2011, the main beneficiaries of projects in the manufacturing sector were the countries with the most highly developed industrial structures: Brazil and Mexico.
- Besides the financial resources associated with these new projects, which have increased production capacity, Brazil and Mexico have benefited from numerous new jobs. In point of fact, 38% and 24% of the new jobs associated with these projects were in Brazil and Mexico, respectively.

Figure IV.20

Latin America and the Caribbean: distribution of foreign direct investment projects in manufacturing, by origin, 2003-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of investments announced in "fDi Markets", *Financial Times*.

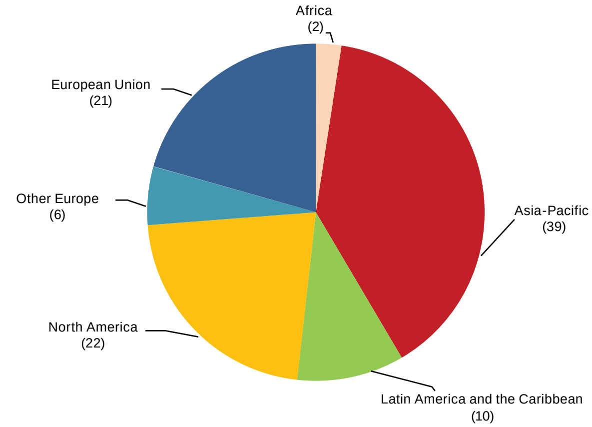
19. Latin America and the Caribbean is not a priority destination for investment in research and development (R&D) activities

- European transnationals are leaders in a number of sectors and possess major advantages in terms of technology, innovation and new knowledge creation.
- In internationalizing their R&D activities, European firms have shown a strong preference for locating in the countries of Asia-Pacific. Between 2003 and 2011, 39% of cross-border R&D investment of European origin went to Asia-Pacific countries. The largest recipients were China, India and Singapore.
- Latin America and the Caribbean, on the other hand, captured just 10% of this investment, and is only a marginal destination for European transnationals' activities of this type.

Figure IV.21

European Union: foreign direct investment projects for R&D activities, by destination, 2003-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of investments announced in "fDi Markets", *Financial Times*.

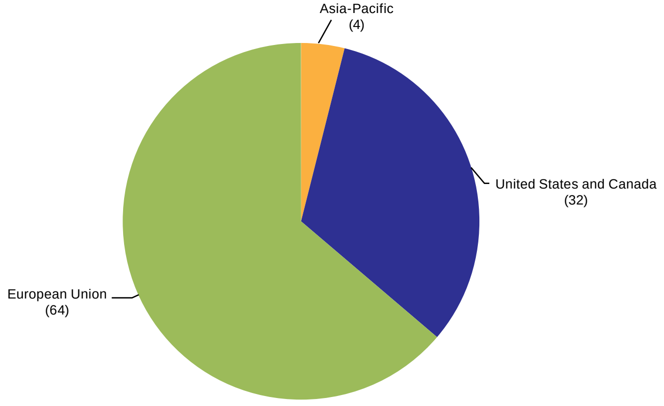
20. Nonetheless, European transnationals play an important role in innovation and R&D in the region, especially in Brazil

- From the Latin American perspective, the innovation and R&D activities of European transnationals have been very important, accounting for some 64% of the total for activities of this type. This work is significant because it acts as a technology and knowledge transfer mechanism, increases local technical capabilities, generates productivity spillovers and creates highly skilled jobs.
- These R&D activities are heavily concentrated in Brazil. Indeed, Brazil is the only country in the region that is among the priority locations for European firms' R&D activities. Of the leading destinations for European cross-border R&D investments, Brazil is surpassed only by the United States, China and India.
- In Brazil, generally speaking, the R&D activities of European transnationals have consisted in the adaptation and development of products and technology for the local market and, in some cases, the regional market. In the last decade, Brazil has become a more and more important part of the global R&D strategies of transnationals. It has been the destination for new R&D projects by subsidiaries of European firms, which have been increasing the technology content of their work and carrying out activities that are more integrated with the global innovation patterns of their parent companies, especially in the motor vehicle and electronics industries.

Figure IV.22

Latin America and the Caribbean: foreign direct investment projects for R&D activities, by origin, 2003-2011

(Percentages)

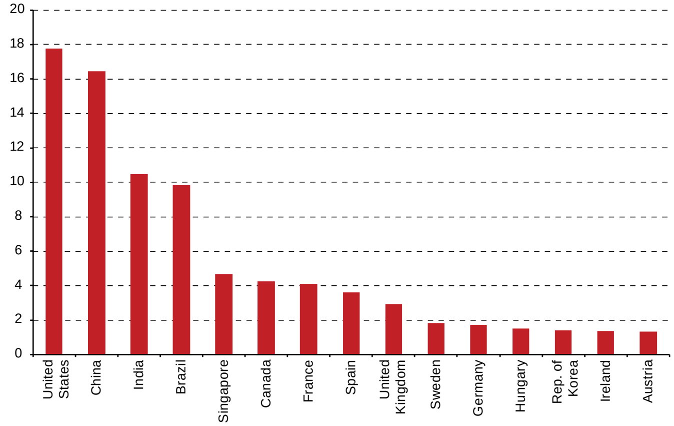


Source: Economic Commission for Latin America and the Caribbean, on the basis of investments announced in "fDi Markets", *Financial Times*.

Figure IV.23

European Union: foreign direct investment in R&D activities, by destination country, 2003-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of investments announced in "fDi Markets", *Financial Times*.

21. Corporate overview: the largest European Union transnationals in the region

Table IV.7

Latin America and the Caribbean: largest transnational European Union firms by sales, 2010

(Millions of dollars)

	Firm	Country	Sector	Main operations in the region	Sales
1	Telefónica de España	Spain	Telecommunications	Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala Panama, Peru, Venezuela (Bolivarian Republic of)	34 530
2	Carrefour	France	Retail	Argentina, Brazil, Colombia	18 517
3	Volkswagen	Germany	Motor vehicle/Auto parts	Argentina, Brazil, Mexico	17 858
4	Repsol	Spain	Oil/Gas	Argentina, Bolivia (Plurinational State of), Brazil, Central America, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Trinidad and Tobago, Uruguay, Venezuela (Bolivarian Republic of)	16 865
5	Enel	Italy	Energy	Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru	13 241
6	Fiat	Italy	Motor vehicle /Auto parts	Argentina, Brazil, Mexico	12 405
7	ArcelorMittal	Luxembourg	Iron and steel	Argentina, Brazil, Costa Rica, Mexico, Trinidad and Tobago, Uruguay, Venezuela (Bolivarian Republic of)	11 065
8	Portugal Telecom	Portugal	Telecommunications	Brazil	10 866
9	Telecom Italia	Italy	Telecommunications	Argentina, Brazil	9 278
10	Unilever	Netherlands/ United Kingdom	Agroindustry	Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Central America, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela (Bolivarian Republic of)	7 837
11	Anglo American PLC	United Kingdom	Mining	Brazil, Chile, Colombia, Mexico, Peru, Venezuela (Bolivarian Republic of)	4 131
12	British American Tobacco	United Kingdom	Tobacco	Argentina, Brazil, Chile, Colombia, Dominican Republic, El Salvador, Mexico, Venezuela (Bolivarian Republic of)	5 407
13	Renault	France	Motor vehicle /Auto parts	Argentina, Brazil, Chile, Colombia, Mexico	5 016
14	Royal Dutch-Shell Group	Netherlands/ United Kingdom	Oil/Gas	Argentina, Barbados, Brazil, Chile, Colombia, Dominican Republic, Mexico, Peru, Trinidad and Tobago, Venezuela (Bolivarian Republic of)	4 486
15	Volvo	Sweden	Motor vehicle /Auto parts	Brazil, Mexico, Venezuela (Bolivarian Republic of)	4 299
16	Iberdrola	Spain	Energy	Bolivia (Plurinational State of), Brazil, Honduras, Venezuela (Bolivarian Republic of)	4 293
17	Bayer	Germany	Chemicals	Argentina, Brazil, Bolivia (Plurinational State of), Chile, Colombia, Costa Rica, Ecuador, Central America, Mexico, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela (Bolivarian Republic of)	3 337
18	BASF	Germany	Chemicals/Pharmaceuticals	Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Central America, Jamaica, Mexico, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela (Bolivarian Republic of)	3 317
19	Siemens	Germany	Electronics	Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela (Bolivarian Republic of)	3 111
20	Bosch	Germany	Motor vehicle /Auto parts	Argentina, Brazil, Mexico, Peru	2 542
21	Peugeot-Citroën	France	Motor vehicle /Auto parts	Argentina, Brazil, Mexico	2 320
22	BHP Billiton	Australia/United Kingdom	Mining	Brazil, Chile, Colombia, Peru, Suriname, Trinidad and Tobago	2 013
23	Nokia	Finland	Electronics	Brazil, Mexico	1 986
24	Philips	Netherlands	Electronics	Brazil, Mexico	1 447
25	Danone	France	Food	Argentina, Brazil, Chile, Colombia, Guatemala, Mexico, Uruguay	1 154

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América economía* magazine and company annual reports.

22. Summary of the impacts of European Union FDI on Latin America and the Caribbean

■ **Table IV.8** ■

Latin America and the Caribbean: European transnational firms

Sector	Positive effects					Challenges and difficulties	Countries
	Exports	Linkages	Greenfield FDI	Innovation and R&D	Systemic competitiveness		
Natural resources							
Oil and gas	High		High			Environmental pollution, waste management	Brazil, Ecuador, Venezuela (Bolivarian Republic of), Argentina, Colombia
Mining	High		High			Low-processing enclave activities. Environmental pollution. Problems with local communities	Brazil, Chile, Colombia, Peru
Manufactures							
Food		High	Moderate				Argentina, Brazil, Chile, Mexico, Colombia
Motor vehicle (1)		High	High	High		Trade balance in deficit	Brazil, Argentina
Electronics (1)			Moderate	Moderate		No strong science and technology base being created	Brazil, Argentina
Iron and steel	Moderate		Moderate			Few non-labour-intensive activities or linkages being created. Environmental pollution	Brazil, Mexico
Chemicals		Moderate	Moderate	Moderate		Environmental pollution	Brazil, Mexico
Motor vehicle (2)	High	High	Moderate	Moderate		Domestic market has not complemented exports. Dependence on imported components	Mexico
Electronics (2)	High		Moderate			Low value added, preponderance of static advantages, dependence on imported components	Mexico
Services							
Banking		Moderate	Moderate		Moderate	Crowding-out effect on domestic banks and development banks	Mexico, Argentina, Chile, Colombia
Electricity			Moderate		High	Inadequate regulatory frameworks, environmental problems	Chile, Argentina, Peru
Unconventional renewable energies			High		High	Inadequate regulatory frameworks	Brazil, Mexico, Panama, Uruguay
Telecommunications			High	Moderate	High	Problems of scale for transfer of technological advances and tariff reductions	Latin America and the Caribbean
Tourism		Moderate	High			Large environmental impact	Mexico, Brazil, Central America and the Caribbean
Retail		High	High			Problems with suppliers, complaints about working conditions	Mexico, Brazil, Argentina, Colombia

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

B. Large Latin American firms: moving ahead with internationalization

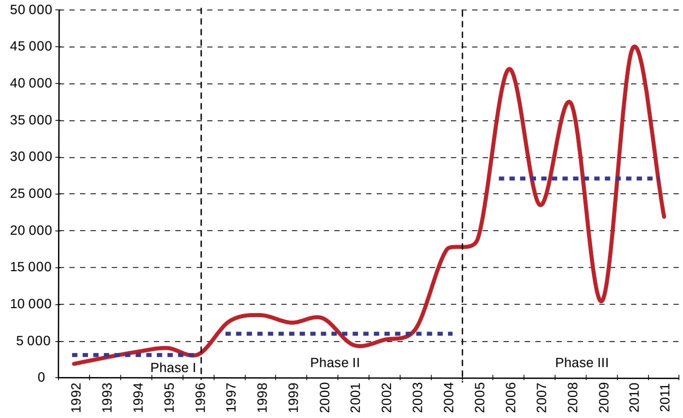
23. Large firms in Latin America and the Caribbean join the global trend: trans-Latins are going out into the world

- Over the last decade, the growing weight of emerging economies has substantially altered the global picture. The larger emerging economies, and especially the BRICs (Brazil, Russia, India and China), are playing a growing role in both inward and outward FDI flows.
- Consistently with this, transnational firms from the region, the so-called trans-Latins, have shown growing dynamism in recent years when it comes to investing abroad. The most internationalized firms are from Brazil, Chile and Mexico and, more recently, Colombia. Many of the largest Latin American firms are now implementing active internationalization strategies.
- A number of factors have been important to the international expansion of the trans-Latins: (a) natural growth after securing positions of leadership in domestic markets; (b) the need to diversify risk; (c) the opportunity to turn local trademarks into regional brands; (d) the opportunities offered by privatization processes in neighbouring countries; (e) the potential for partnership with other firms that have more experience in outside markets; (f) preferential market access as a result of subregional integration and free trade agreements.

Figure IV.24

Latin America and the Caribbean: outward foreign direct investment, 1990-2011

(Millions of dollars)



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

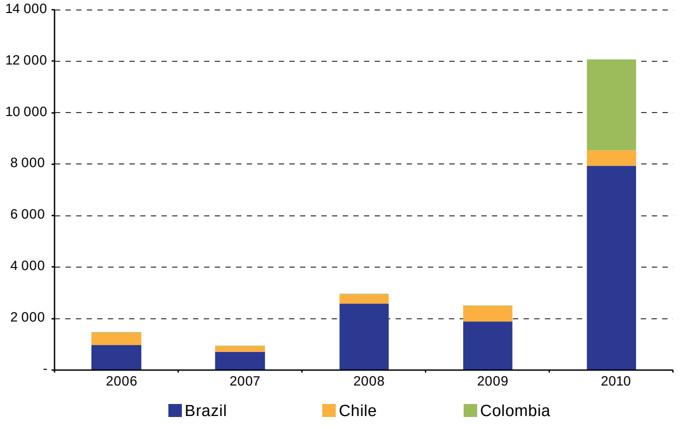
24. Trans-Latins have mainly invested in other countries within the region, although they are also venturing into Europe

- The geographical coverage of investments by trans-Latins has been largely confined to neighbouring countries or the region. Nonetheless, investments by trans-Latins in the European Union have grown significantly in the last few years.
- Investment from Brazil, Chile and Colombia ranged between US$ 2 billion and US$ 2.5 billion dollars between 2006 and 2009, but then rose to a record high of US$ 12 billion in 2010. In just five years the region has invested over US$ 20 billion in the European Union, 13% of all investment by its countries abroad.
- Of the Latin American countries, Brazil has the largest investments in Europe.

Figure IV. 25

Latin America and the Caribbean (selected countries): foreign direct investment flows to the European Union, 2006-2010

(Millions of dollars)



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

[a] The data are for outward investment from Brazil, Chile and Colombia. In the case of Brazil, the figures only cover equity investments.

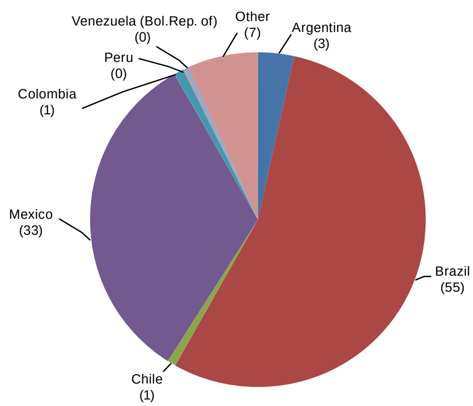
25. Among Latin American firms, those based in Brazil are the most Europe-oriented

- Of the region's countries, it is Brazil that has the largest proportion of its investments in Europe, with some 15%. The main destination countries for Brazilian investments are the Netherlands, Portugal and France.
- Mexican firms are also major investors in Europe. In fact, over 30% of investment projects announced by trans-Latins in the European Union are led by Mexican firms.
- Among Chilean and Colombian firms, investments in Europe represent less than 10% of the total. Chilean investments have been concentrated in Spain, while Colombia has made substantial investments in the United Kingdom.

Figure IV. 26

Latin America and the Caribbean: foreign direct investment projects in the European Union, by country of origin, 2003-2011

(Percentages)

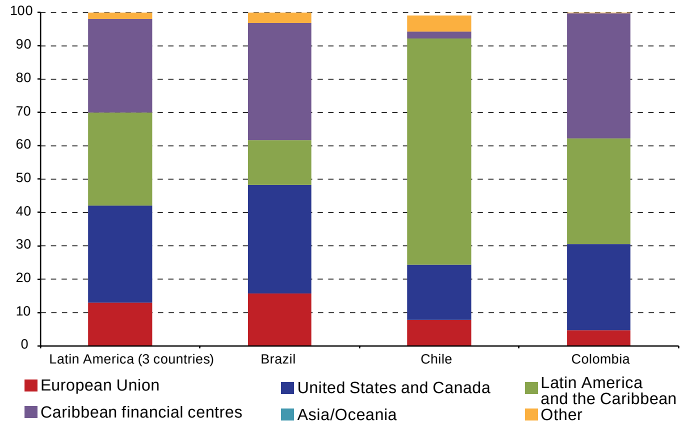


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in "fDi Markets", *Financial Times*.

Figure IV.27

Latin America and the Caribbean: outward foreign direct investment, by destination region, 2006-2010 [a]

(Percentages)



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

[a] In the case of Brazil, the figures only cover equity investments.

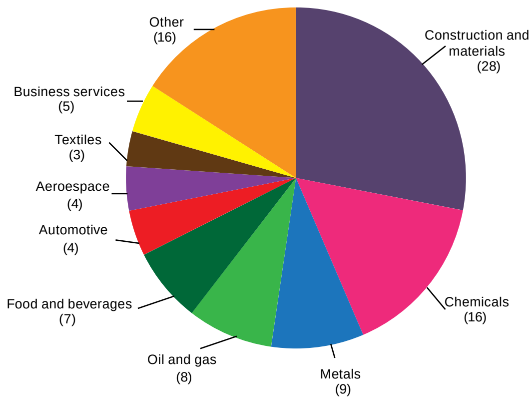
26. Latin American investments in the European Union are still concentrated, both geographically and sectorally

- The presence of trans-Latins in the European Union is associated with a small number of firms in activities reflecting the characteristics of the region's production structure and in sectors where the leading firms have been able to create global competitive advantages.

- On the basis of investment projects announced, Latin American firms have concentrated on construction, chemicals, iron and steel, oil and gas, food and the motor vehicle sector. The main destinations for investments of this type are Portugal and Spain.

Figure IV.28

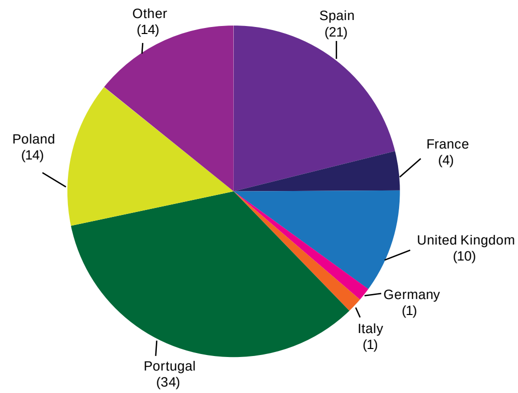
Latin America and the Caribbean: foreign direct investment projects in the European Union, by destination sector, 2003-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in "fDi Markets", *Financial Times*.

Figure IV.29

Latin America and the Caribbean: foreign direct investment projects in the European Union, by destination country, 2003-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in "fDi Markets", *Financial Times*.

27. Main acquisitions by trans-Latins in the European Union

- The largest acquisitions by trans-Latins in the European Union reflect the importance of sectors such as mining, food, cement, and iron and steel. Acquisitions in services subsectors have been concentrated in banking and telecommunications, mainly in Portugal and by Brazilian firms. Acquisitions in the iron and steel and cement sectors have mainly taken place in the Iberian Peninsula. Trans-Latins thus appear to be using Spain as a gateway to the European market.

Table IV.9

Main acquisitions by trans-latins in the European Union, 2006-2011

(Millions of dollars)

Year	Acquirer	Country of acquirer	Firm or asset acquired	Country	Sector	Value
2010	Vale SA	Brazil	BSG Resources Guinea	United Kingdom	Mining	2 500
2010	Votorantim	Brazil	CIMPOR Cimentos de Portugal	Portugal	Cement	1 183
2010	Telemar (oi)	Brazil	Portugal Telecom	Portugal	Telecommunications	961
2008	Magnesita	Brazil	LWB Refractories GmbH	Germany	Mining	943
2007	Grupo Aldesa	Costa Rica	Becosa Energías Renovables	Spain	Renewable energies	537
2009	Banco Itaú	Brazil	Banco Itaú Europa	Portugal	Banking	498
2008	Marfrig	Brazil	Moy Park	Ireland	Food	460
2010	JBS SA	Brazil	Inalca SpA	Italy	Food	424
2008	Gerdau	Brazil	Corporación Sidenor	Spain	Iron and steel	286
2009	Suzano Petroquímica	Brazil	Basell Polyolefins BV	Netherlands	Petrochemicals	240
2010	Camargo Corrêa	Brazil	CIMPOR Cimentos de Portugal	Portugal	Cement	180
2009	Banco Bradesco	Brazil	Banco Espíritu Santo	Portugal	Banking	131
2010	Navieras Ultragas	Chile	Eitzen Bulk Shipping	Denmark	Maritime transport	92
2010	Petrominerales	Colombia	Pan Andean Resources PLC	Ireland	Oil	25
2011	Pemex [a]	Mexico	Repsol	Spain	Oil	…
2006	Cemex	Mexico	Hormigones Ciudad Real	Spain	Cement	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Thomson Reuters.
[a] Pemex acquired 4.6% of Repsol shares, taking its stake in the company to 9.6%.

28. The main trans-Latins with activities in Europe

■ **Table IV.10** ■

Main trans-Latins in the European Union, 2010

(Millions of dollars)

Rank	Firm	Country	Total sales in 2010	Staff abroad (%)	Sector	Countries	Main form of access to the European Union
1	Petrobras	Brazil	128 000	19.9	Oil/Gas	Portugal, United Kingdom, Netherlands	Investment in new plant
2	PDVSA	Venezuela (Bolivarian Republic of)	95 530	5.6	Oil/Gas	Sweden and United Kingdom,	Acquisitions
3	Vale	Brazil	49 949	27.1	Mining	France, United Kingdom, Norway	Investment in new plant
4	Grupo JBS (Friboi)	Brazil	28 418	64.0	Food	Italy	Acquisitions
5	Votorantim	Brazil	21 100	…	Conglomerate	Portugal, Switzerland, United Kingdom, Belgium, Hungary	Acquisitions and investment in new plant
6	Gerdau	Brazil	18 841	48.0	Iron and steel/ Metallurgy	Spain	Acquisitions
7	Cemex	Mexico	14 435	65.8	Cement	Austria, Spain, Czech Republic, Germany, France, United Kingdom	Acquisitions and investment in new plant
8	Grupo Alfa (Nemak)	Mexico	11 045	51.5	Auto parts/ Petrochemicals	Hungary, Germany, Austria, Sweden	Acquisitions
9	Andrade Gutiérrez	Brazil	10 895	9.7	Engineering/ Construction	Portugal	Acquisitions
10	Grupo Camargo Corrêa	Brazil	9 698	22.5	Engineering/ Construction	Portugal	Acquisitions
11	Grupo Bimbo	Mexico	9 487	52.7	Food	Portugal, Spain	Acquisitions
12	Cía. Siderúrgica Nac.	Brazil	8 301	7.3	Iron and steel/ Metallurgy	Portugal	Acquisitions
13	Marfrig Alimentos	Brazil	7 788	41.7	Food	United Kingdom, Ireland	Acquisitions
14	Tenaris	Argentina	7 711	71.7	Iron and steel/ Metallurgy	United Kingdom, Romania, Italy	Acquisitions and investment in new plant
15	Odebrecht	Brazil	5 500	48.6	Engineering/ Construction	Portugal	Acquisitions and investment in new plant
16	Sabó	Brazil	5 900	.	Motor vehicle/ Auto parts	Germany, Austria, Hungary	Investment in new plant
17	Embraer	Brazil	.	.	Aeronautics	Portugal, France	Acquisitions and investment in new plant

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América economía*, No. 60, April, 2011, company annual reports and A. Fleury, M. Leme Fleury and G. Glufke Reis (2010), “El camino se hace al andar: la trayectoria de las multinacionales brasileras”, *Universia Business Review,* No. 25, 2010.

29. The economic crisis in Europe: an opportunity for trans-Latins?

- Although the current situation in the European Union is severely affecting trans-Latins with a strategy based on serving domestic markets, it could also open up new opportunities, especially as regards acquisitions. Given the falling valuations and need for capital of some firms, certain trans-Latins that are financially liquid could be in a position to continue internationalizing their operations in Europe.
- The investment projects announced in 2011 confirm the trend followed by Latin American investments in the European Union. Projects are currently being implemented in the areas of iron and steel, metals, cement and oil, mainly by large trans-Latins from Brazil and Mexico.

Table IV.11

Trans-Latins' investment projects in the European Union, 2011

(Millions of dollars)

Rank	Firm	Origin	Destination	Sector	Description	Investment
1	Petrobras	Brazil	Portugal	Oil	Petrobras is forming a joint venture with Galp Energy to set up a biodiesel plant in Portugal with a production capacity of 250,000 tons a year. It is expected to come on stream in 2015.	530
2	Gerdau	Brazil	Spain	Iron and steel	Gerdau's Sidenor subsidiary is investing to expand a number of production plants in Spain.	71
3	Embraer	Brazil	Portugal		Embraer will build a new plant to produce structures and components from composite materials. An initial investment of US$ 60 million is planned, rising to US$ 150 million within three years with the construction of a second plant for the production of metal structures.	60
4	Alfa	Mexico	Slovakia	Metals	Nemak, a subsidiary of Alfa, is seeking to double production capacity. For this it plans to increase its payroll from 600 to 900 workers. The firm produces aluminium cylinders and other aluminium products for the motor vehicle sector.	48
5	Camargo Correa	Brazil	Spain, Portugal, Italy, France	Textile retailing	The firm is opening a number of its own retail outlets to sell wearing apparel (Havaianas brand).	16
6	Banco do Brasil	Brazil	Austria	Banking	Banco do Brasil is expanding its operations in Vienna, which will be the headquarters for its European operations.	14
7	Cemex	Mexico	France	Cement	Cemex recently opened a new 5,600 square metre manufacturing plant in Grimaud. This is an extension to an existing plant and has an hourly production capacity of 80 cubic metres of cement, some 30% more than the old plant.	3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of investments announced in "fDi Markets", *Financial Times*.

C. Smaller agents: potential actors for investment and cooperation opportunities

30. Micro, small and medium-sized enterprises (MSMEs) are important economic agents in both regions

- Micro, small and medium-sized enterprises (MSMEs) are important actors in the development of both regions, as a large proportion of the population and the economy depend on their activities and performance.
- In Latin America, however, MSMEs are a very heterogeneous group ranging from the self-employed and subsistence firms to a small percentage of dynamic medium-sized exporters.
- The role of MSMEs in these economies varies greatly depending on the variable being analysed. Generally speaking, they are very important for job creation and, to a lesser extent, for production.
- While the European Union has a common definition for classifying firms by size, the criteria in Latin America differ by country. In the European Union, 99.8% of establishments are MSMEs; they account for over two thirds of employment and generate 58.4% of gross value added. In Latin America, MSMEs make up about 99% of all firms and account for some 60% of employment and 40% of output, although with large differences between countries.

Table IV.12

The European Union and Latin America (selected countries): share of total establishments and employment, by company size, 2010
(Percentages)

		Micro	Small	Medium	Large
Share of establishments by size	European Union	92.1	6.6	1.1	0.2
	Argentina	81.6	16.1	1.9	0.4
	Brazil	85.4	12.1	1.4	1.0
	Chile	90.4	7.8	1.2	0.6
	Colombia	93.2	5.5	1.0	0.3
	El Salvador	95.4	3.8	0.6	0.2
	Ecuador	96.8	2.5	0.5	0.2
	Mexico	95.5	3.6	0.8	0.2
	Peru	98.1	1.5	0.34	0.02
	Uruguay	83.8	13.4	3.1	0.6
Share of employment by size	European Union	29.8	20.4	16.8	33.1
	Argentina	12.7	19.1	19.9	48.5
	Brazil	18.8	21.6	12.2	47.4
	Chile	25.0	24.0	14.0	37.0
	Colombia	50.6	17.5	12.8	19.1
	Ecuador	44.0	17.0	14.0	25.0
	El Salvador	66.6	8.6	6.2	18.6
	Mexico	45.6	23.8	9.1	21.5
	Peru	77.7	10.5	6.4	5.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of C. Ferraro and G. Stumpo (comps.), “Políticas de apoyo a las pymes en América Latina. Entre avances innovadores y desafíos institucionales”, *Libros de la CEPAL*, No. 107 (LC/G.2421-P), Santiago, Chile, July 2010. United Nations publication, Sales No. S.09.II.G.143; C. Ferraro (comp.), “Apoyando a las pymes: Políticas de fomento en América Latina y el Caribe” (LC/R.2180), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/Spanish Agency for International Development Cooperation (AECID), 2011; J. del Castillo, “Internacionalización y políticas de apoyo a las pymes en la Unión Europea”, paper presented at the first public-private dialogue “Unión Europea-América Latina inversión extranjera directa y pymes”, Santiago, Chile, 5-6 December 2011.

31. Heterogeneity among agents: the productivity divides between firms in Latin America and the European Union

- Productivity differences between micro, small and medium-sized enterprises and large firms are much greater in Latin America than in the European Union. Whereas microenterprises in Chile are just 3% as productive as large firms, microenterprises in France have a productivity level equivalent to 71% of that of large firms.
- These data reveal the degree of heterogeneity that exists between agents of different sizes in Latin America; it can also be assumed from this that there will be large pay differences between firms depending on their size.
- The large differences in productivity by size of economic agents are part of the structural heterogeneity that characterizes Latin America. This heterogeneity is an important characteristic to consider when analysing the scope for Latin American SMEs to internationalize, as it could be indicative of different competitive opportunities in relation to their European counterparts.

Table IV.13

Latin America and the European Union (selected countries): relative productivity of firms by size, 2010

(Percentages)

	Micro	Small	Medium-sized	Large
Argentina	24	36	47	100
Brazil	10	27	40	100
Chile	3	26	46	100
Mexico	16	35	60	100
Peru	6	16	50	100
Germany	67	70	83	100
Spain	46	63	77	100
France	71	75	80	100
Italy	42	64	82	100
European Union	58	74	85	100

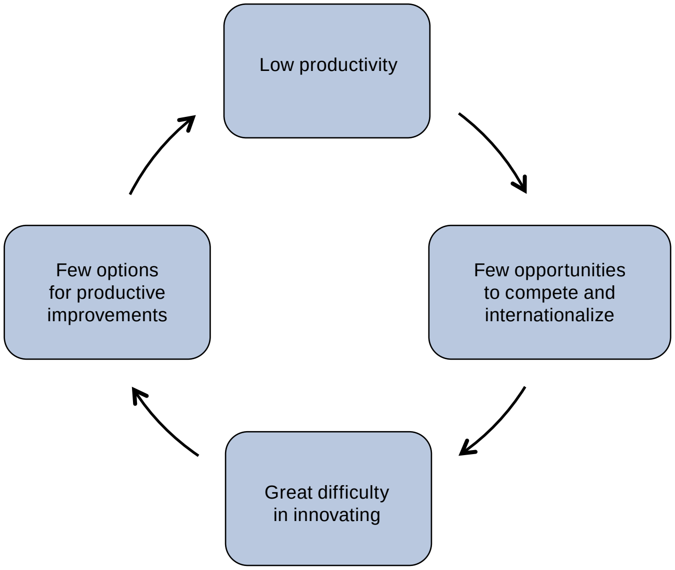
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

32. The internationalization of SMEs: a possible way of breaking the vicious circle

- The internationalization of SMEs not only contributes to job creation but creates the opportunity to achieve higher levels of technological innovation in order to meet the requirements of external markets and substantially improve productivity.
- Entering external markets with very low productivity is not, on the face of it, an easy task. Consequently, meeting the challenges of SME internationalization in Latin America must mean breaking the vicious circle with policies designed to level the playing field, with the aim of boosting the productivity of firms by increasing their potential to innovate and improve their production and marketing techniques.
- Thus, the great challenge is to carry through policies and actions, both public and private, that can break the vicious circle which begins with low productivity and prevents SMEs from internationalizing.

Diagram VI.1

The vicious circle preventing smes from internationalizing



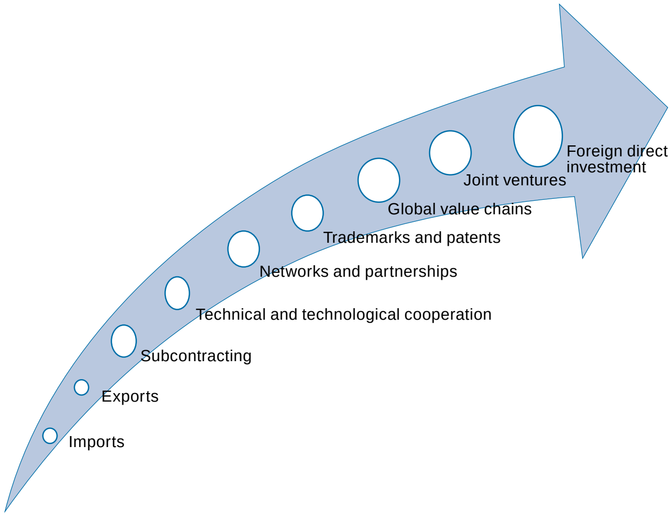
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

33. The different ways in which firms can internationalize

- The internationalization of SMEs goes well beyond exports and imports. Activities such as technical cooperation, participation in subcontracting systems, the creation of networks of firms to attain global quality standards, the generation of strategic partnerships for market positioning purposes, participation in global value chains, agreements on the use of trademarks and patents and the creation of joint ventures and use of foreign direct investment are aspects of growing importance.
- This trend is becoming more and more important and will very probably dominate corporate strategies in the long run. A substantial number of SMEs are internationalizing to gain access to technology and know-how. The extraordinary advance of information and communication technologies, falling costs and the development of high-speed network infrastructure are all facilitating the creation of communication and collaboration platforms that will progressively develop the capabilities needed for more complex partnership processes. Access to new markets is not the sole and exclusive reason for firms, irrespective of size, to implement internationalization plans.

■ **Diagram IV.2** ■

SME internationalization scale



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

34. Internationalization in the European Union

- Internationalization is a process whereby firms develop the capacity to do business in different environments, beyond the markets that constitute their natural geographical setting. It is not a simple or trouble-free process, but it does open the way to the development of new capabilities and new kinds of learning.
- Surveys conducted in the European Union show the experience to be enriching and positive, as it is possible to establish a direct relationship between internationalization and improved profitability, something that goes along with higher growth, improved competitiveness and good prospects for firms' long-term viability. In particular, some of the most salient reasons for SMEs to pursue internationalization are:

– **Internationalized SMEs create more jobs**: internationally active SMEs report employment growth of 7%, as against just 1% for SMEs that do not have any type of international activity.

- **Internationalized SMEs are more innovative**: 26% of SMEs with international activities have introduced new products or services into their home country for their sector of activity. For other SMEs, the ratio is just 8%.

- **SMEs often commence their international activities by importing**. Among SMEs that import and export, over half began by importing (39%) and not by exporting (18%).

- **In terms of internationalization, European SMEs are more active than their counterparts in the United States and Japan**: their performance is better even if exports beyond the EU alone are considered.

35. SMEs in Latin America: exporting and internationalization

- On the whole, SMEs account for only a small share of Latin American exports, which shows how strongly they are oriented towards their domestic markets and how dependent they are on the dynamic of domestic demand. In the European Union, the proportion of SMEs exporting is considerably higher.
- The structure of exports from the countries of Latin America, characterized by a great predominance of capital- and natural resource-intensive sectors with few SMEs, means that the direct contribution of these enterprises to the export total is quite small. The evidence shows that the larger a firm is, the more likely it is to participate in exporting.

Table IV.14

Latin America and the Caribbean and the European Union (selected countries): SME share of exports by value, selected countries, 2010

(Percentages)

Country / Type of firm	Micro	Small	Medium	Large
Argentina[a]	0.3	1.6	6.5	91.6
Brazil[b]	0.1	0.9	9.5	82.9
Chile	-	0.4	1.5	97.9
Germany	8.0	12.0	18.0	62.0
Spain	11.1	13.3	22.6	47.1
France	17.0	10.0	15.0	58.0
Italy	9.0	19.0	28.0	44.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information and data from the Statistical Office of the European Communities (Eurostat).

[a] Refers to the industrial sector.

[b] The small firms category includes “special” firms with less than 100 employees and exports of over US$ 2.5 million.

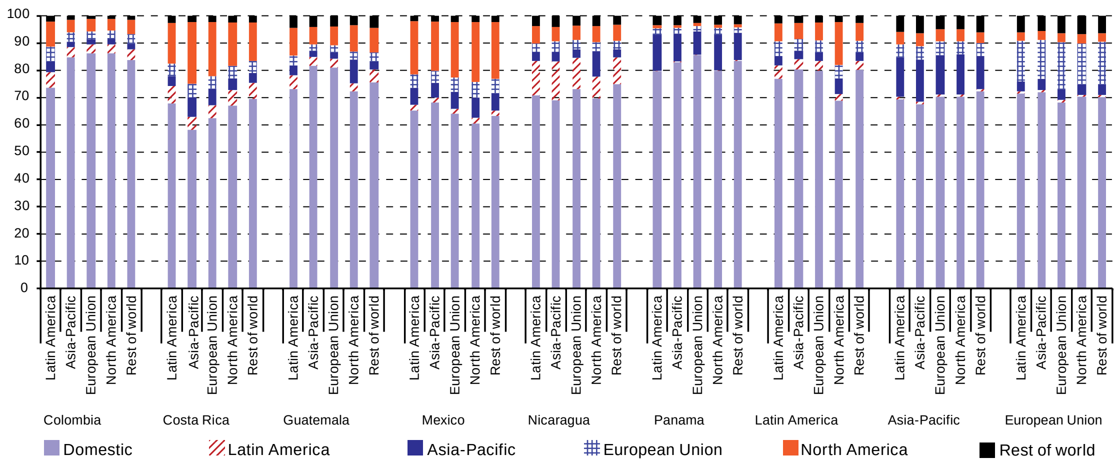
36. Latin America: geographical heterogeneity in global value chain (GVC) participation

- In Latin America, levels of integration into global value chains vary considerably. The countries of Central America and Mexico are more integrated into global production networks than the countries of South America because of their relationship with and proximity to the markets of North America. There is a high degree of geographical heterogeneity between these two areas that largely determines the opportunities for SMEs to participate in GVCs, these being dependent upon integration levels and trade links, which need to be enhanced by productive linkage instruments fostering SME participation.
- European Union countries participate more in GVCs, as a large component of value added is imported from the EU countries themselves, which have used regional integration mechanisms to develop the capacity for productive integration into these chains.
- Generally speaking, the participation of Latin American firms in global value chains is strongest in manufacturing, especially in the motor vehicle industry, and in services. Large firms, under both local and foreign ownership, play the leading role in these processes. However, the heterogeneous world of MSMEs includes segments of firms (medium-sized ones in particular) that could play a successful role, especially if they received the support of specific cooperation initiatives, both public and private. In this way, measures to enhance and extend the participation of the region's firms in GVCs could generate opportunities for improving the competitiveness and international activities of smaller firms as well.

Figure IV.30

Heterogeneity in the geographical structure of value chains,and distribution of domestic and imported value added by destination

(Percentages)



Source*:* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Paolo Giordano, "Posicionamiento de Mesoamérica en las cadenas globales de valor", presentation given at the seminar Internacionalización de pymes: Buenas prácticas de programas de apoyo, La Antigua Guatemala, 12 July 2012.

V. Investment by sector and business

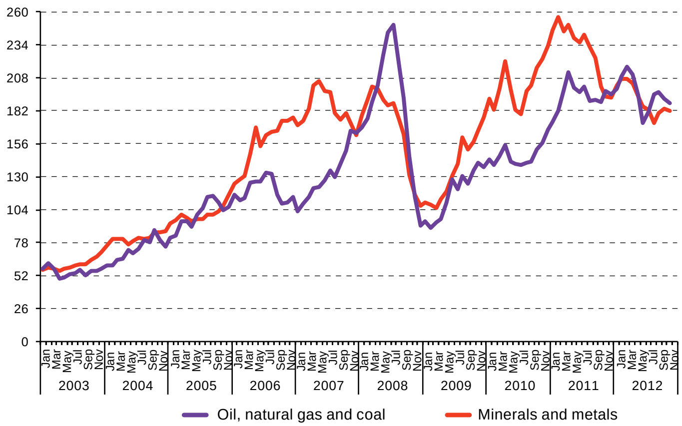
1. Extractive industries: expanding, consolidating and diversifying operations at the global level

- The extractive industries have undergone some major changes in recent years. Companies are expanding (75 of the world's 500 largest companies are in the extractive sector), consolidating and diversifying their operations worldwide. Managing global and diversified companies presents new strategic challenges, particularly with regard to overseeing company finances, assessing exposure to risk and leveraging complementarities to generate economies of scale.
- Prices are still rising in the hydrocarbons sector, despite the financial crisis. This, in addition to medium-term consumption projections, is an added incentive to set up new projects and increase spending on exploration. Nevertheless, the operating costs and technical difficulties involved have multiplied with often very expensive technology playing a key role in exploration and extraction. In this context, companies require large amounts of capital to finance their operations. In the past decade, some State-owned companies have consolidated their role as significant players in the sector, strengthening their presence beyond their home markets.
- The mining sector has achieved unprecedented returns on the back of the price rises seen in recent years. In 2011, for example, the world's 40 largest mining companies saw a 26% increase in sales and a 21% expansion in profits —achieving a record figure of US$ 133 billion, with a margin of approximately 25% over sales— while the distribution of profits to shareholders went up by 150%.

■ **Figure V.1** ■

Index of raw materials prices, 2003-2012

(Index: 2005=100, moving three-month average)

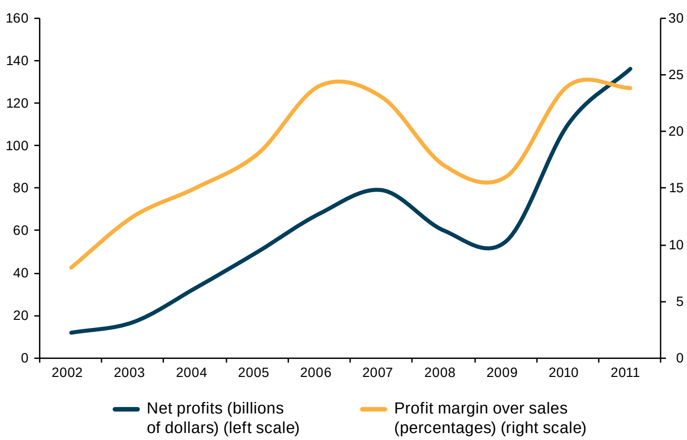


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF).

■ **Figure V.2** ■

Profits of the world's 40 largest mining companies, 2002-2011

(Billions of dollars and percentages)



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

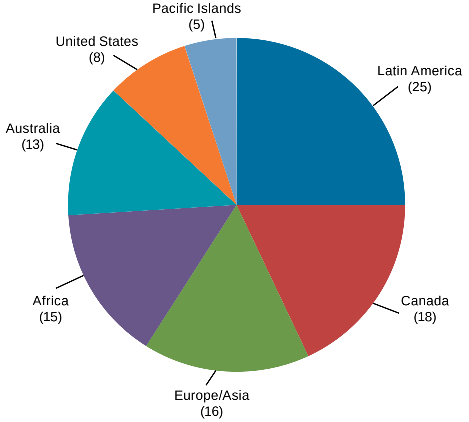
2. Against this backdrop, European companies play a very significant role and the region has positioned itself as an attractive destination for investment

- In the past decade, European companies have invested heavily in the extractive industries in Latin America and the Caribbean, both in the hydrocarbons sector and mining, spurred by favourable prices for raw materials and sustained demand in emerging economies.
- Companies from Spain, France and the United Kingdom have been the most active in the hydrocarbons sector, while British companies have been the most active in mining. Some are among the largest European companies operating in Latin America: Anglo American, Royal Dutch Shell, Repsol and BP.
- The Southern Cone has been the primary destination for these companies, but Mexico, Central America and the Caribbean have also received investments. True to the traditional pattern, South America has continued to receive large FDI flows in natural resources, especially in mining.
- Transnational oil companies engaged in major acquisitions in the late 1990s and early 2000s. In the past few years, mining companies too have adopted more aggressive strategies involving both large acquisitions and ambitious expansion plans.

Figure V.3

World's 40 largest mining companies: mining exploration budget by region, 2011

(Percentages)



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

Table V.1

Latin America: largest European transnationals in the extractive sector by sales

(Billions of dollars)

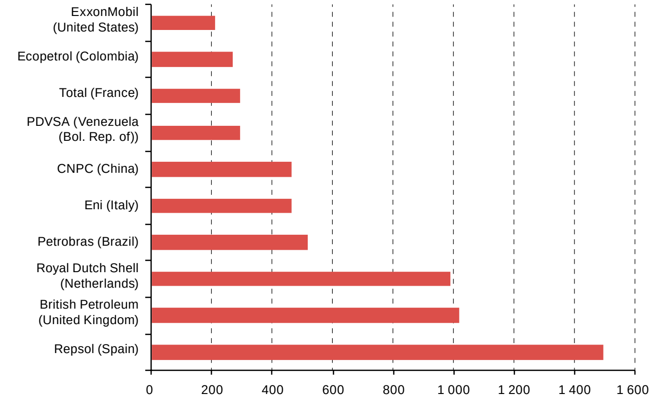
Company	Country	Sector	Main operations in the region	Sales in 2010
Repsol S.A.	Spain	Oil and gas	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Plurinational State of Bolivia and Uruguay	16 865
Anglo American plc	United Kingdom	Mining	Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico and Peru	4 131
Royal Dutch Shell plc	Netherlands/ United Kingdom	Oil and gas	Argentina, Barbados, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Dominican Republic, Mexico, Peru and Trinidad and Tobago	4 486
BHP Billiton	Australia/ United Kingdom	Mining	Brazil, Chile, Colombia, Peru and Trinidad and Tobago	2 013

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *América economía* and the respective companies' annual reports.

3. European hydrocarbon companies: blazing new trails

- In the hydrocarbons sector, European companies have adapted to national conditions, assimilating the regulatory and policy changes —and even nationalizations— resulting from the increasing strategic significance of the sector. European companies have thus managed to carve out a position in a sector dominated by State-owned enterprises, such as Petrobras, Petróleos de Venezuela S.A. (PDVSA), Petróleos Mexicanos (PEMEX) and Ecopetrol S.A. They have been flexible in their strategies and, in many cases, have engaged in complex, lengthy negotiations with governments. Price fluctuations have forced these European firms to alter their budgets and choose where to invest on the basis of the specific operating costs associated with each oil-producing area.
- Against this backdrop, European companies have scaled up their investments, either alone or in partnership with other companies, thus contributing to the boom in the natural-resource-based sectors. Investments in Colombia and Brazil have expanded at a particularly rapid rate. By contrast, nationalizations and regulatory changes have somewhat dampened investments in Argentina, the Bolivarian Republic of Venezuela, Ecuador and the Plurinational State of Bolivia.
- Repsol of Spain is one of the largest European firms in the sector and its internationalization strategy has focused largely on Latin America and the Caribbean. What is more, almost 40% of Repsol's profits came from operations in the region. Although its investments in recent years have been smaller than in the 1990s, the company has continued to expand its operations in several countries. Repsol is currently conducting new explorations, particularly in Brazil, that are expected to boost its oil reserves.
- Other companies with significant operations in the region are the British firms BP and Shell, Italy's Eni, France's Total and the Spanish firms Gas Natural Fenosa and Compañía Española de Petróleos S.A (CEPSA). New projects and acquisitions have been announced recently. For example, CEPSA acquired 70% of the Caracara block in Colombia from Houston American Energy; BP began extracting natural gas in Trinidad and Tobago, as did Shell in Peru through an international consortium. PDVSA is negotiating with European companies (such as Eni of Italy and Total of France) to operate in the Orinoco Oil Belt.

■ **Figure V.4** ■
Cross-border extractive projects in oil and gas, 2007-2011
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times.*

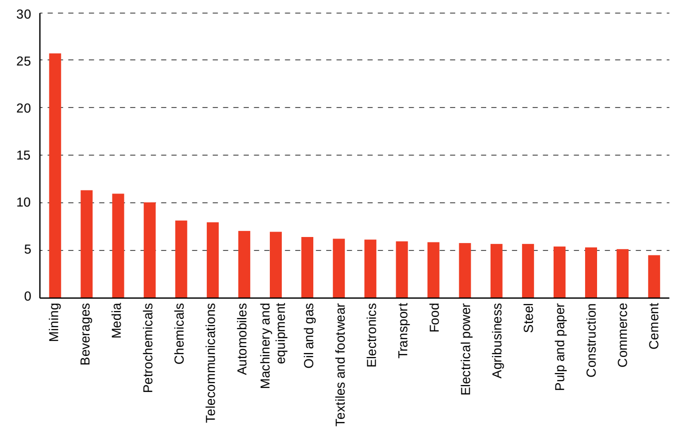
4. Mining: benefiting from high prices and surging demand

- The mining sector has been booming over the past few years, and European companies are active players. Demand from the emerging economies and rising prices have spurred companies to step up their exploration efforts and launch new extraction projects, especially in metal mining. At the same time, they have sought to secure access to funding and greater economies of scale. In this sector, regulatory frameworks have been relatively stable and have ensured favourable rules of play for greenfield investments.
- Among the major European firms operating in Latin America is Anglo American, one of the world's largest mining companies. Its main operations are in copper, ferronickel and coal mining in the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico and Peru. Its largest operations are in Brazil and Chile, accounting for 20% of the company's jobs. Anglo American reported sales in South America of US$ 7.5 billion in 2010 —25% of its worldwide sales.
- Anglo American has recently scaled up its operations in the region through major acquisitions and investments to expand its production capacity, especially in Brazil and Chile. Its investments over the past decade in Latin America and the Caribbean top US$ 10 billion. Its largest acquisitions included IronX Mineração and Sistema-Minas Rio, both in Brazil, for more than US$ 4 billion. In Chile, Anglo American embarked on a massive expansion project at its Los Bronces Division in 2007, involving an investment of US$ 2.3 billion. As a result, the Los Bronces Division will become the world's fifth largest copper mine by output. In August 2012, Anglo American came to an agreement with the State-owned Chilean company Corporación Nacional del Cobre (CODELCO), ending a complex, drawn-out dispute.

Figure V.5

Latin America: return on assets of the top 500 companies in the region by industry, 2010

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of statistical information from *América economía*, December 2011.

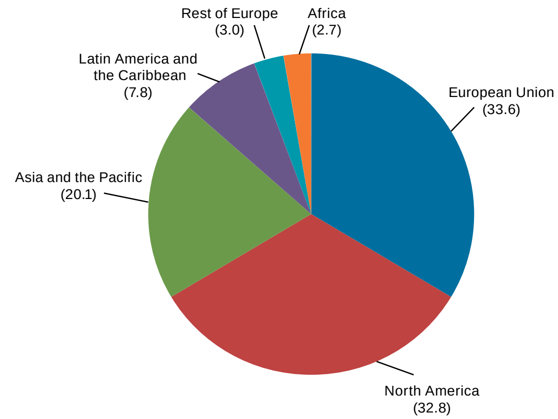
5. European investment in the region has had many positive effects, but also presents significant policy challenges

- European investments in extractive industries have had a significant impact in the region, leading to an expansion in exports (especially in South America), job creation in non-urban areas, gross capital formation and infrastructure development, with this last benefit contributing to the social inclusion of isolated communities. On the downside, certain difficult issues have surfaced, including the lack of production integration with local economies, problems with local communities and pollution.
- European companies with a primary-sector focus are responsible for (a) more than 33% of investment in new production capacity; and (b) generating new jobs, especially in the Southern Cone: between 2007 and 2011, European firms created some 12,000 jobs in Chile and 5,000 in Peru.
- The region faces significant public policy challenges in the extractive sectors. Institutions must be strengthened to promote activities which are less harmful to the environment and local communities. Latin American States must decide how to manage their income from natural resources. This presents significant challenges for the region's governments in terms of strategic objectives and economic policy.

Figure V.6

Latin America and the Caribbean: greenfield FDI projects in the primary sector by origin, 2007-2011

(Percentages)

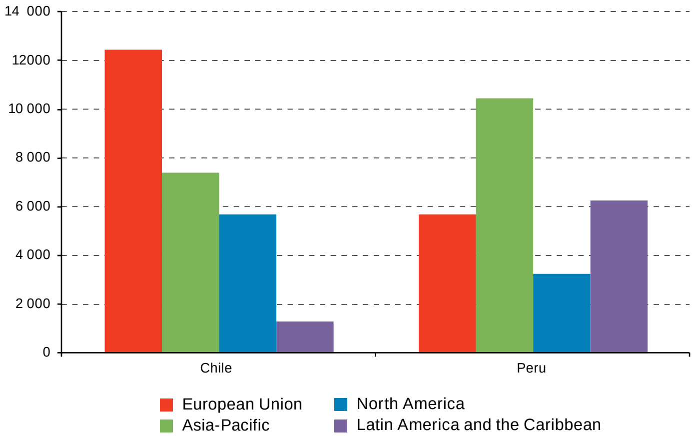


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

Figure V.7

Chile and Peru: new jobs created through greenfield FDI projects by origin, 2007-2011

(Number of jobs)



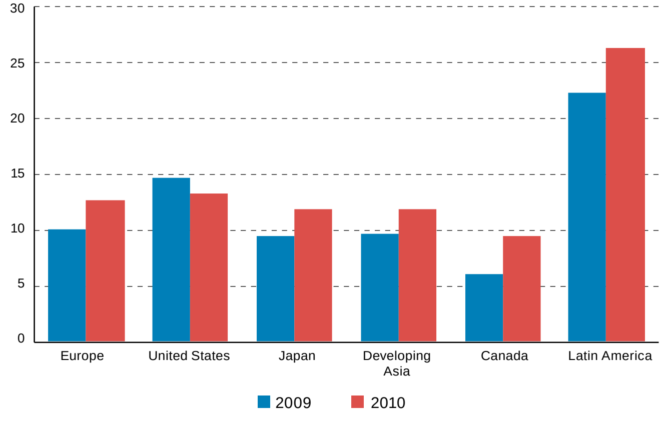
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", Financial Times.

6. The forestry and paper industry: major European firms are concentrated in Scandinavia, while the Southern Cone countries lead the industry in Latin America

- The world's largest firms in the forestry and paper industry are concentrated in countries with natural resources endowments. Of the 10 largest firms globally, 6 are in the European Union, mainly in Scandinavia.
- In Latin America, the forestry industry operates mainly in Brazil, Chile, Argentina and Uruguay. Brazil leads the region in the production and export of forestry products, and here transnational companies operate alongside large local groups, including Fibria, which produces 5 million tons of pulp per year, manages 1.2 billion hectares of plantations and maintains a strategic alliance with Stora Enso of Finland at its Veracel plant. Two large Chilean firms, Compañía Manufacturera de Papeles y cartones (CMPC) and Arauco, also have investments in Argentina, Brazil and Uruguay.

■ Figure V.8 ■

Profit margins of the world's 100 largest forestry companies, by region of origin



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

■ Table V.2 ■

World's largest forestry firms by sales, 2011

(Billions of dollars)

Name		Country of origin	Sales
1	International Paper	United States	25.1
2	Kimberly Clark	United States	19.7
3	Svenska Cellulosa Aktiebolaget (SCA)	Sweden	15.2
4	Stora Enso	Finland	13.7
5	Oji Paper	Japan	13.1
6	Nippon Paper	Japan	12.5
7	UPM Kymmene	Finland	11.8
8	Smurfit Kappa	Ireland	8.9
9	Mondi	United Kingdom	8.3
10	Metsäliitto	Finland	7.1

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

■ Table V.3 ■

Latin American forestry companies among the world's 100 largest, sales 2010

(Billions of dollars)

Name		Country of origin	Sales
1	CMPC	Chile	4.2
28	Arauco	Chile	3.8
30	Fibria Celulose	Brazil	3.6
37	Suzano	Brazil	2.6
48	Klabin	Brazil	2.1
60	Duratex	Brazil	1.6
82	Masisa	Chile	1.0

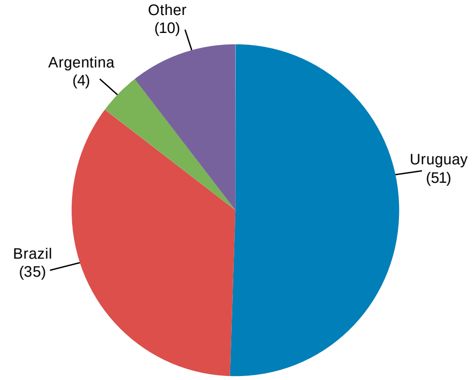
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from PricewaterhouseCoopers (PwC).

7. FDI by European forestry firms has contributed to the export boom in the Southern Cone

- Uruguay has received the single largest share of foreign investment projects in the sector. The most recent, by Stora Enso of Finland in partnership with Arauco of Chile, is expected to come on stream in 2013. With a total investment in US$ 2 billion, it will be the largest FDI project ever in Uruguay. The Fray Bentos pulp plant, which is owned by UPM Kymmene of Finland and started operations in 2007, accounts for a third of Uruguay's forestry exports. The second largest exporter (with 10% of the total) is a subsidiary of Arauco, the third (7%) belongs to the Argentine group Tapebicuá and the fourth (6%) is owned by ENCE of Spain.
- In Chile, the forestry industry does not receive FDI: on the contrary, it is dominated by local firms which have invested heavily in other countries in the region in the past few years. The two largest, Arauco and CMPC, have about a third of their assets outside Chile, mainly in Argentina, Uruguay and Brazil.
- European Union firms account for 60% of the amounts invested in greenfield projects in the forestry and pulp industry in Latin America. These investments have contributed to the sector's expansion in the Southern Cone. Exports have doubled in the past decade and rebounded quickly from the downturn caused by the financial crisis in 2009. This performance reflects an increase in the amount of production exported as well as higher prices which, as for most raw materials, has been positive from the producers' point of view.
- Like in other industries, such as iron and steel, in Latin America European firms have pursued natural resources as well as expanding markets, especially in connection with the housing boom. This contrasts with the situation in Europe, where the sector is carrying excess capacity. With business prospects looking brighter in South America and large European firms holding available cash, these investment flows appear likely to continue rising in the near future.

■ **Figure V.9** ■

Sums announced in FDI projects in the forestry sector, by host country, 2003-2012

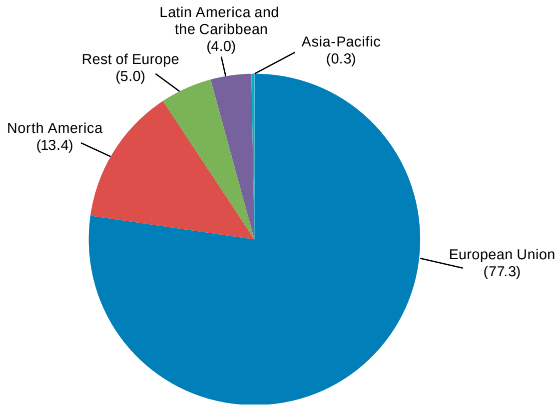


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

■ **Figure V.10** ■

Latin America and the Caribbean: distribution of FDI in greenfield investment projects in the forestry sector, by amount and origin, 2007-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

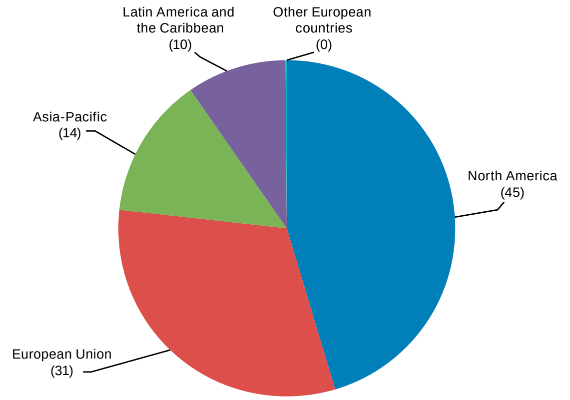
8. Foods and beverages: a dynamic market in which European, North America and trans-Latin firms vie for presence

- Competition is extremely tough in the food and —especially— the beverages sector in the developed countries, which has hastened the industry's global consolidation. This trend, combined with the economic crisis and low growth potential in the European market, has led firms to focus their internalization strategies on emerging economies, including Latin America and the Caribbean.
- In this scenario, European food companies with a long history and a diversified range of products in the region have seized the opportunity to expand their regional presence. This is the case of Unilever and British American Tobacco of the United Kingdom. In the dairy segment, Danone of France and Parmalat of Italy have followed similar strategies.
- At the same time, large Latin American firms have also found conditions ripe for international expansion. Trans-Latin food firms have developed globally competitive comparative advantages and have made major strides in internationalizing their operations. The most active include the Brazilian firms JBS-Fribo, Brasil Foods (BRF) —resulting from the merger of Sadia and Perdigão— and Marfrig; and Bimbo and Gruma of Mexico. These firms took their first steps in international expansion within Latin America before venturing into other regions.
- The historical presence of European firms in this sector, combined with the strong engagement of North American firms and the growing strength of trans-Latins, has made for a fast-changing scenario. Firms are thus honing their strategies in both acquisitions and new capacity building, in order to dominate specific niches and exploit new business opportunities.

Figure V.11

Latin America and the Caribbean: FDI in new capacity in the foods and beverages sector, by origin, 2007-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

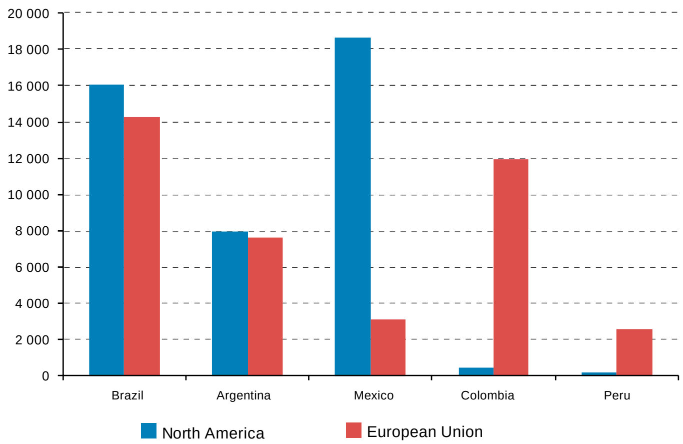
9. European firms have found expanding, high-potential markets in Latin America

- European firms have recently been strengthening their presence in Latin America. This process has been boosted by the region's sound economic performance and the rising purchasing power of the emerging middle classes. The countries of the region have also benefited from the employment and production linkages which these initiatives have created, especially in the food sector.
- In the beverages sector, European firms have achieved a solid position through acquisitions in the main Latin American markets. In the beer segment, Heineken, Anheuser-Busch Inbev and SAB Miller have assumed control of some of the largest firms in Mexico, Colombia and Brazil. In Mexico, Anheuser-Busch Inbev of Belgium acquired the Modelo group —the country's largest beer-maker with a market share of 57% and brands such as Corona, Pacifico, Victoria, León, Barrilito and Estrella— in an operation valued at over US$ 20 billion. The Netherlands firm Heineken bought the beer-making business of the FEMSA group. In Brazil, Anheuser-Busch Inbev acquired Ambev, and in Colombia SAB Miller of the United Kingdom bought Bavaria.

Figure V.12

Latin America: employment associated with FDI in new production capacity in the food sector, 2007-2011

(Number of jobs)

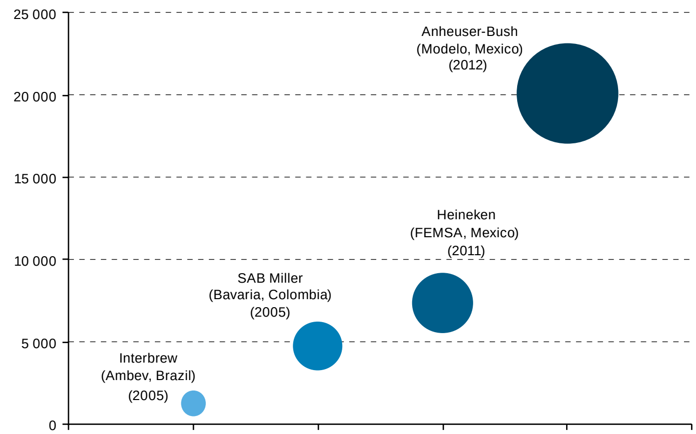


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

Figure V.13

Latin America: acquisitions by European firms in the beverages industry, 2005-2012

(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Thomson-Reuters.

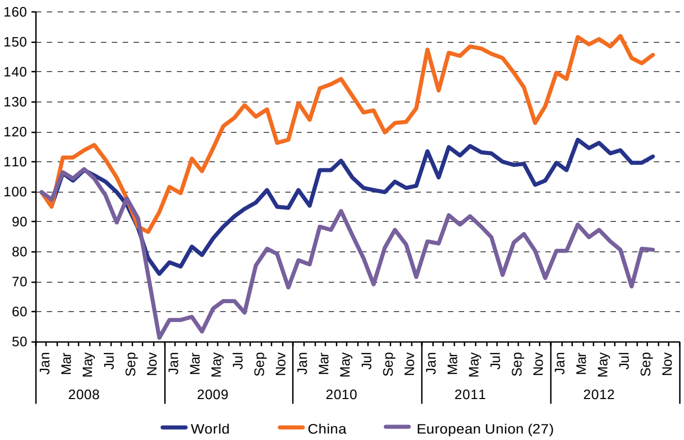
10. The European Union is losing ground to China and other emerging markets in the iron and steel industry

- In the last two decades, the global iron and steel industry has shifted from the developed countries to the emerging economies. Whereas steel consumption has stagnated in the more advanced economies, it has grown steadily in the developing countries, especially in China, where it rose by 13% per year between 1997 and 2007. China accounted for 46% of global production in 2011.
- The steel produced by the industry is used 44% for construction, 17% for manufacturing transport means, and 15% for the machinery and tools industry. Being highly sensitive to the business cycle, the production of the iron and steel industry contracted heavily in the crisis of 2008-2009. Steel production then recovered rapidly in China and other emerging economies, but remains below pre-crisis levels in Europe and other developed economies.
- The centre of gravity in the list of the world's largest iron and steel firms has also shifted from Europe and the United States to China and other emerging economies. Whereas in 1990 the world's largest iron and steel companies were mainly from the United States, Europe and Japan, in 2011 nine of the 20 largest were from China. Although ArcelorMittal, which is based in Luxembourg and has its head offices in London and 47% of its production in Europe, is still the largest iron and steel firm in the world, only one other European Union firm, ThyssenKrupp of Germany, figures on the list of the 20 largest. The United States and Japan also have two companies each on the list.

Figure V.14

World, China and the European Union: gross monthly steel production, 2008-2012

(Index: January 2008=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from World Steel Association (WSA).

Table V.4

World: largest iron and steel firms by tons of steel produced, 2011

(Millions of tons)

Ranking	Firm	Country of origin	Steel production 2011
1	ArcelorMittal	Luxembourg	97.2
2	Hebei Steel	China	44.4
3	Baosteel	China	43.3
4	POSCO	Republic of Korea	39.1
5	Wuhan	China	37.7
6	Nippon Steel	Japan	33.4
7	Shagang	China	31.9
8	Shougang	China	30.0
9	JFE Steel	Japan	29.9
10	Ansteel	China	29.8
11	Shandong	China	24.0
12	Tata Steel	India	23.8
13	US Steel	United States	22.0
14	Gerdau	Brazil	20.5
15	Nucor	United States	19.9
16	ThyssenKrupp	Germany	17.9
17	Evraz	Russian Federation	16.8
18	Maanshan	China	16.7
19	Benxi	China	16.5
20	Hyundai	Republic of Korea	16.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from World Steel Association (WSA).

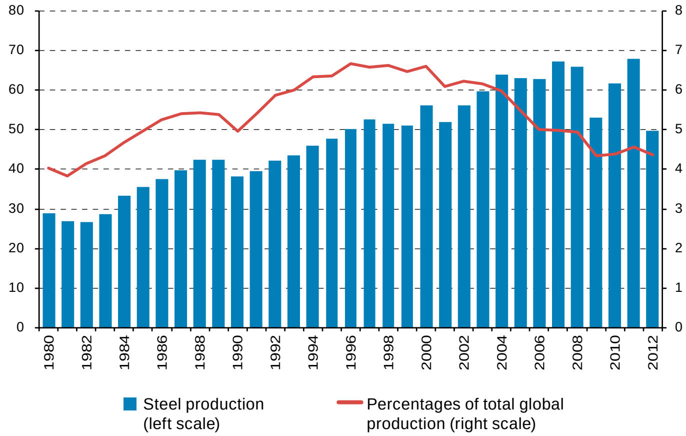
11. Latin America, led by Brazil, has overcome the effects of the crisis and is expanding its production capacity

- Latin America's steel production has recovered from the crisis of 2009 and has even regained the share in the global total which it had lost to China's powerful progress. Brazil stands out within the region, accounting for over half of steel production, followed at some distance by Mexico.
- Brazil has seen a large increase in investments in the sector in the past few years, by national foreign firms alike, attracted by domestic market growth and the availability of iron ore. Brazil is the world's largest exporter of iron ore, with volumes similar to those of Australia. As well, among the large developing economies, Brazil and Mexico are perhaps the most open to FDI in the iron and steel industries.
- The iron and steel industry is not heavily internationalized. Most of the large firms in the sector maintain the bulk of their production, especially steel, in their home country. The rolling and processing stages are often located in other countries, closer to the final consumer. In addition, almost all iron and steel firms own iron mines, often in third countries. In Latin America, the industry is dominated by Latin American firms, although transnationals represent around a third of total steel production.

■ **Figure V.15** ■

Latin America: gross steel production, 1980-2012

(Millions of tons and percentages of global production)

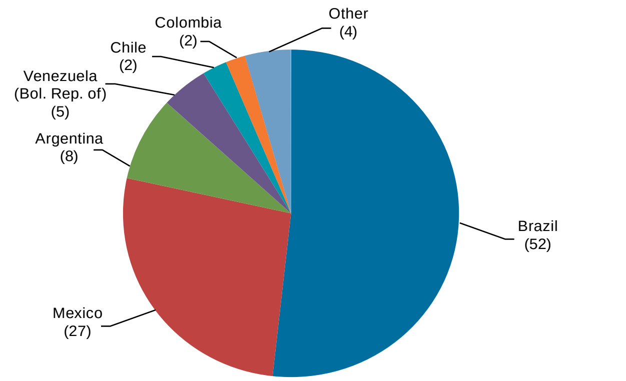


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from World Steel Association (WSA).

Note: The information for 2012 refers to January-October.

■ **Figure V.16** ■

Latin America: gross steel production by country, 2011

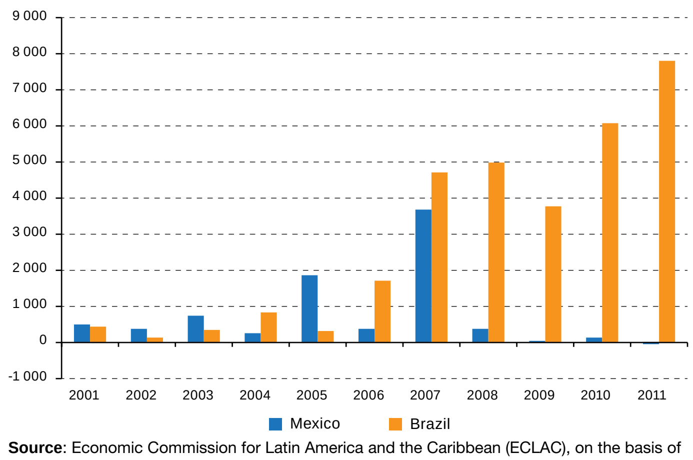


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from World Steel Association (WSA).

■ **Figure V.17** ■

Brazil and Mexico: FDI flows in the iron and steel industry, 2001-2011

(Billions of dollars)



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

12. European firms have increased their investments in Brazil

- The three largest European iron and steel firms all produce steel in Latin America. The world's largest producer, ArcelorMittal, has a large variety of plants in the region, including three integrated plants in Brazil and one each in Argentina, Mexico and Trinidad and Tobago. ArcelorMittal has 13% of its production in Latin America (not including its plants in Mexico), in which region its highest profits are earned. ThyssenKrupp of Germany has set up a 5-million-ton integrated plant in Brazil, which exports steel for rolling. The French-German firm Vallourec, which specializes in higher value added products, made 55% of its worldwide investments in the region between 2009 and 2011. In 2011, Brazil represented 36% of the firm's assets and 21% of its sales, with iron mines and two integrated steel plants.
- The presence of European firms in Latin America has come about as a result of the combination of several factors: (a) a regulatory framework which favours FDI in this industry; (b) the availability of iron ore (in Brazil); and (c) good prospects for demand growth driven by construction, the automobile industry and hydrocarbons extraction, which are all heavy steel-consuming sectors.
- Despite these European investments, most of the industry in Latin America is owned by homegrown firms, including the Brazilian enterprises Companhia Siderúrgica Nacional (CSN), Gerdau, Usiminas and Votorantim; Techint of Argentina and Industrias CH (ICH) of Mexico. These firms operate mainly in their home countries and other economies in the region, although several have investments in Europe as well. In particular, Techint has a subsidiary specializing in steel tubes, Tenaris, which has 17% of its production in Europe, with plants in Italy, Romania and the United Kingdom. CSN of Brazil has a subsidiary in Portugal and in January 2012 bought Stahlwerk Thüringen SWT of Germany for 482 million euros. In 2008, Gerdau, also of Brazil, bought Sidenor of Spain for US$ 286 million.

Table V.5

Latin America: production and sales of largest iron and steel firms, 2011

		Global gross steel production, 2011	Global sales, 2011
		(millions of tons)	*(billions of dollars)*
Latin American firms	Gerdau	20.5	21.2
	Grupo Techint	9.5	24.2
	Usiminas	6.7	9.7
	CSN	4.9	9.9
	ICH/Simec	4.2	2.6
	Votorantim Siderurgia	1.6	1.7
European firms	ArcelorMittal	97.2	94.0
	ThyssenKrupp	17.9	68.3
	Vallourec	2.3	7.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from World Steel Association (WSA) and the respective companies.

Table V.6

Latin America: European iron and steel firms operating in the region

	Brazil	Mexico	Others
ArcelorMittal (Luxembourg)	Mining, integrated plant, rolling, processing	Mining, integrated plant, rolling, processing	Argentina and Trinidad and Tobago: integrated plant; Costa Rica: rolling; Venezuela (Bolivarian Republic of): processing
ThyssenKrupp (Germany)	Integrated plant	Rolling and processing	
Vallourec (France-Germany)	Mining; integrated plant	Processing	

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

13. Transnational firms from the European Union lead the high-technology sectors

- A number of European firms have achieved world-leading positions in electronics and electrical machinery and related activities. Although many of their international operations are centred in other developed countries and in Asian emerging economies, they also have a presence in Latin America. These firms' production activities are closely associated with technology change and the new paradigm of information and communications technologies (ICTs).
- In these sectors, European firms participate in a broad range of activities, from production of turbines and electrical and telecoms machinery, through mass consumer goods such as mobile telephones, televisions and personal computers, to delivery of technology solutions and support services.
- Among the main European firms active in Latin America are Phillips, Nokia, Siemens, Ericsson and the joint venture Nokia Siemens Networks. Their production and service activities, as well as product design and research and development, are concentrated in Brazil and Mexico. These firms also offer both products and services and a wide range of solutions for large firms in the region.

Table V.7

Latin America: sales of European firms in electrical and electronic machinery operating in the region, 2010

(Billions of dollars)

	Firm	Country	Main operations in the region	Sales
1	Siemens	Germany	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay	3 111
2	Nokia	Finland	Brazil, Mexico	1 986
3	Philips	Netherlands	Brazil, Mexico	1 447
4	Ericsson	Sweden	Brazil	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América economía* and the annual reports of the respective companies.

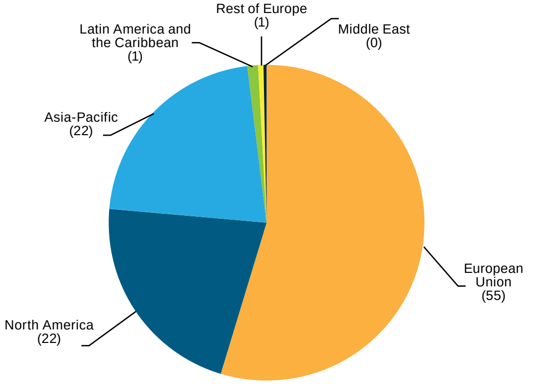
14. These firms have a small presence, but major impacts

- The activities of these firms are important, because they are associated with high-tech sectors with productivity spillovers, and with skilled employment creation. In addition, although they generally produce few linkages, the production linkages they do form with local firms tend to be of high quality and create positive impacts in terms of technology transfer and new capacity-building.
- In Latin America, European investments in this sort of industry have had positive effects on new production capacity building, production linkages and employment. In fact, European firms are responsible for 55% of investments in new production capacity in the electronics and electrical machinery sectors. In terms of employment, in Brazil, for example, European firms created over 12,000 new jobs between 2007 and 2012. In the past few years, the firms with the largest investment projects have been Siemens, Nokia Siemens and Nokia.

■ **Figure V.18** ■

Latin America: FDI in new production capacity in electronics and electrical machinery by origin, 2007-2011

(Percentages)

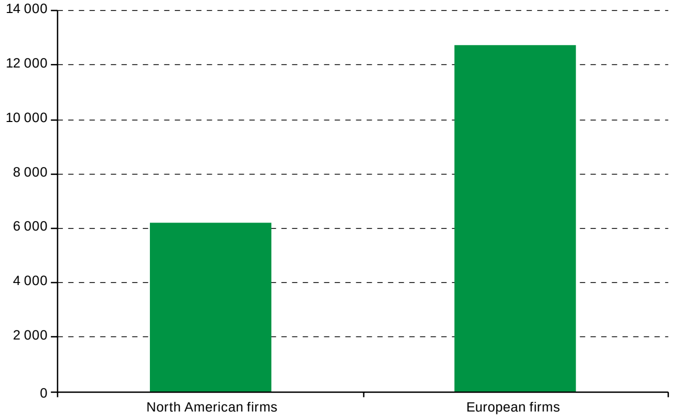


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

■ **Figure V.19** ■

Brazil: employment associated with FDI in creation of new production capacity, by origin of firms, 2007-2011

(Number of jobs)

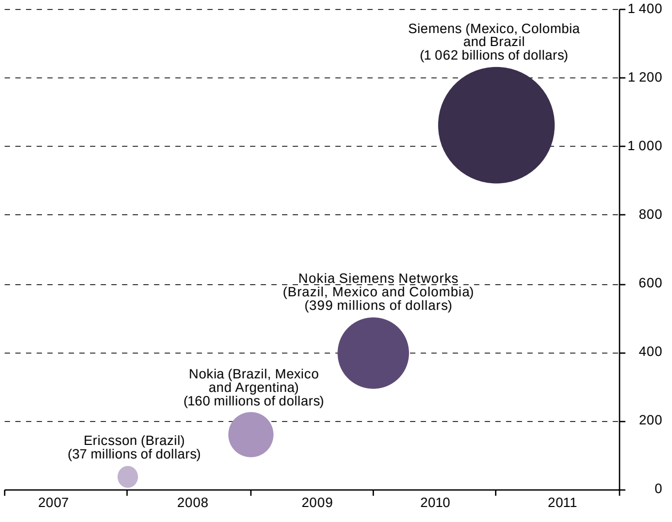


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

■ **Figure V.20** ■

Latin America: FDI in new production capacity in electronics and electrical machinery by firm, 2007-2011

(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

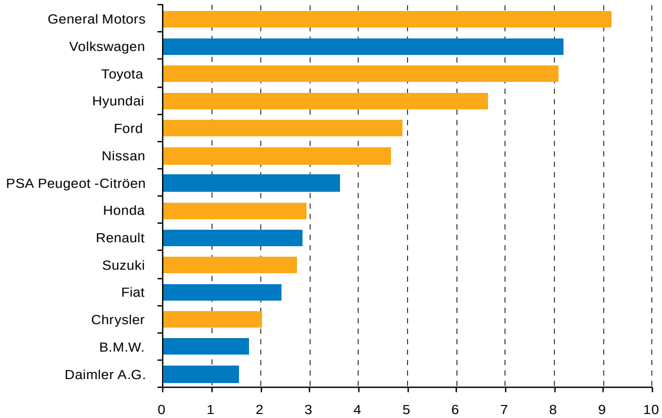
15. European Union firms are key actors in the global motor vehicle industry, particularly in Latin America and the Caribbean

- The global motor vehicle industry has undergone significant restructuring in the past few years. In the process, competition has risen sharply, production has shifted to lower-cost locations in emerging markets, and a small number of major producers have been consolidated as vehicle manufacturers and parts suppliers.
- European firms have been active agents in this process. A number have deployed strategies in recent years to position themselves competitively in the industry, especially Volkswagen, Peugeot-Citroën, Renault and Fiat.
- Latin America has gained ground in the past few years in the process of offshoring production to emerging markets. European firms have in fact been key agents in the Latin American automobile industry, with the main production locations being Brazil and, to a lesser extent, Argentina and Mexico.
- In the MERCOSUR countries, European firms are dominant players and account for around 60% of national production both in Argentina and Brazil. In Mexico, by contrast, the share of European firms —Volkswagen and Fiat— is just 21%. Although the share of European firms has risen, given the strong link with the North American market, the industry in Mexico is still led by United States companies (General Motors, Ford and Chrysler).

■ Figure V.21 ■

World: largest motor vehicle firms, 2011

(Millions of vehicles produced)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from International Organization of Motor Vehicle Manufacturers (OICA).
Note: The bars shaded in blue correspond to firms whose parent company is located in a European Union country.

■ Table V.8 ■

Latin America and the Caribbean: largest European motor vehicle firms, 2011

(Units)

Firm	Brazil	Argentina	Mexico
Volkswagen	911 106 [a]	125 438	510 041
Fiat	762 181	113 418	5 803
PSA Peugeot-Citroën	146 299	143 898	…
Renault	220 625	111 433	…
Mercedes-Benz	85 940		…
Share of European firms (*percentages*)	63	61	21

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Motor Vehicle Manufacturers Association of Argentina (ADEFA), National Association of Motor Vehicle Manufacturers of Brazil (ANFAVEA), and Mexican Automotive Industry Association (AMIA).
[a] Includes production by the heavy goods vehicle firm MAN, bought by Volkswagen in 2011.

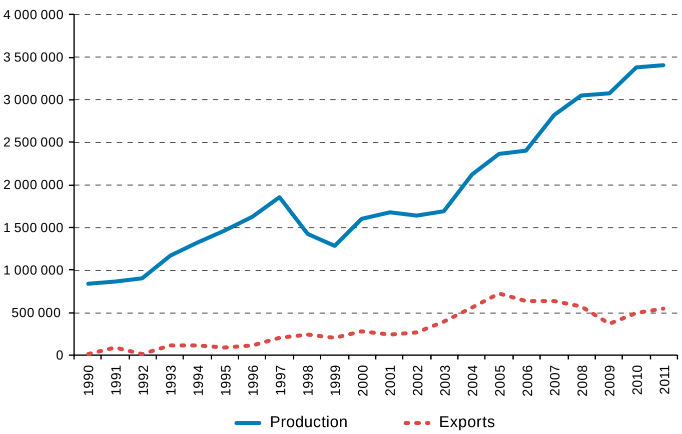
16. European investments in the region's automobile industry are associated with two patterns of production and trade specialization

- In Latin America, European motor vehicle firms have adopted two very different business strategies, which are reflected in different patterns of production specialization in different locations.
- In Brazil, European firms have focused on compact vehicles to supply the national and subregional market (MERCOSUR). Brazil's and Argentina's motor vehicle industries are strongly complementary; major efforts have been made to adapt and develop original models; and significant technological innovations have been achieved, including the flex-fuel engine. Between 2005 and 2011, growth of the Brazilian automobile market averaged 12% per year, reflecting the growth of the domestic economy. The largest European firms with operations in Brazil include Volkswagen, Fiat, Peugeot-Citroën and Renault.
- In Mexico, European firms produce mainly for export, especially to the United States, benefiting from the North American Free Trade Agreement (NAFTA). The two main European firms with operations in Mexico, Volkswagen and Fiat, export 86% and 95, respectively, of their production to third markets.
- Volkswagen is a particularly interesting case. Volkswagen established a global export platform in Mexico, with models not produced anywhere else. This is also the case of the Fiat 500 produced in partnership with Chrysler and the Beetle produced by Volkswagen.
- European firms are making major investments in the region today. Renault is to invest US$ 285 million in expanding its operations in Brazil between 2012 and 2016. Volkswagen announced investment schemes for around US$ 400 million to produce its new Beetle model in Mexico, and around US$ 4.5 billion in Brazil in various production plants. PSA Peugeot-Citroën announced investments worth US$ 960 million in Brazil in 2012-2015.

Figure V.22

Brazil: production and exports of motor vehicles, 1990-2011

(Units)

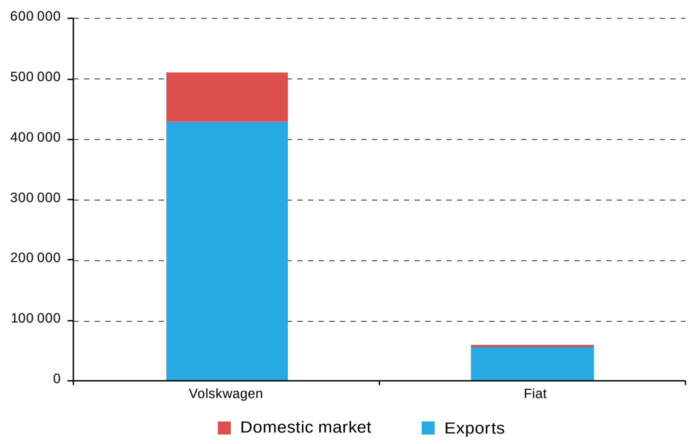


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from National Association of Motor Vehicle Manufacturers of Brazil (ANFAVEA).

Figure V.23

Mexico: production and exports by European motor vehicle firms, 2011

(Units)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Mexican Automotive Industry Association (AMIA).

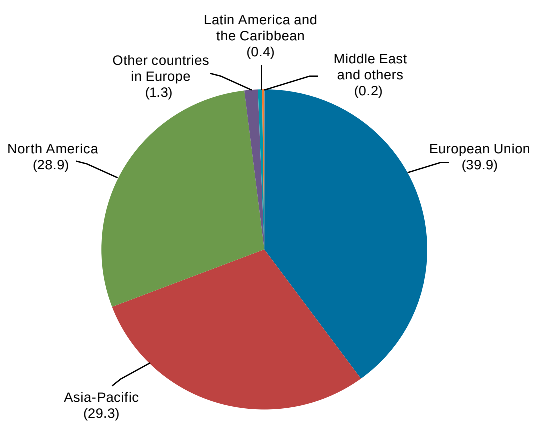
17. The operations of the motor vehicle sectors are a good example of quality investment

- The operations of European motor vehicle firms have some important characteristics in terms of their contribution to development. First, in the recent period, motor vehicle firms have invested a great deal in broadening and modernizing their production platforms in Latin America. Thus they have substantially increased their production and, especially in the case of Mexico, their exports. Second, European firms have promoted the creation of production linkages, with specific programmes to support their suppliers. Third, increased production and production linkages have had a positive impact on employment. In the past few years, 40% of investments —and related job creation— in projects to increase production capacity in Latin America's motor vehicle industry have been associated with European transnationals.
- Thanks to investment received in motor vehicle R&D, Brazil has been able to build up capacities and skills in developing suspension systems and engines for compact flex-fuel vehicles. This has strengthened Brazil's efforts to develop local engineering through hiring staff, opening laboratories, and formalizing product development and worker training.
- European firms have adopted different strategies in this area. Renault and PSA Peugeot-Citroën of France have followed a centralized innovation strategy driven by the technology capacities of the parent company. On the other hand, Volkswagen and Fiat have tended to partner with headquarters in global product innovation.

■ **Figure V.24** ■

Latin America and the Caribbean: foreign direct investment in the motor vehicle sector, by origin, 2007-2011

(Percentages)

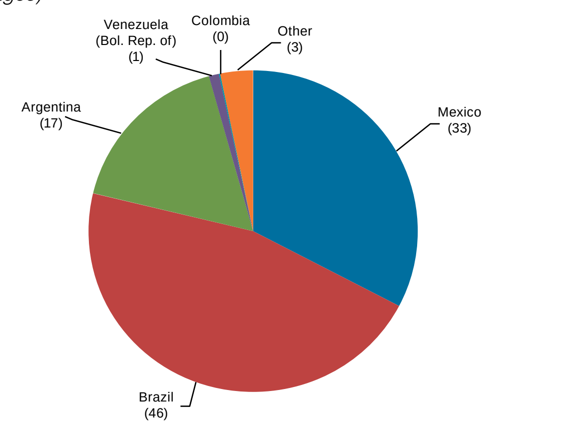


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from National Association of Motor Vehicle Manufacturers of Brazil (ANFAVEA).

■ **Figure V.25** ■

Latin America: jobs associated with schemes by European motor vehicle firms to create, upgrade and expand production capacity, 2007-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

18. Engineering and construction: Latin America represents an opportunity for European firms

- Although construction is typically dominated by local firms, major infrastructure projects and large industrial plants are often tendered to international firms. These contracts generate employment and economic activities in the countries where they are undertaken; however, they are not usually computed as FDI but as exports of goods and services.
- In 2010, five of the ten largest companies in this industry were Chinese, owing to the intensive construction activity associated with the building of civil works and industrial infrastructure in that country. Conversely, the ranking of firms with most operations outside their home county includes none from China, but many from the European Union. In 2010, 52% of the contracts awarded to foreign firms in the engineering and construction sector worldwide went to European firms.
- In 2010, international contracts were concluded in Latin America and the Caribbean for a total of US$ 34.046 billion, representing 9% of the global total. Although this is a smaller figure than for other regions of the world, including Africa and the Middle East, it nonetheless represents a business opportunity for European firms.
- Notwithstanding the strength of European firms in this field, the largest international construction company in the region is Odebrecht of Brazil, basically owing to its domestic market operations. Other large firms in the sector are Camargo Correa and Andrade Gutiérrez, also of Brazil, and Techint of Argentina.

■ **Table V.9** ■

Largest engineering and construction firms, by revenue outside their country of origin, 2010

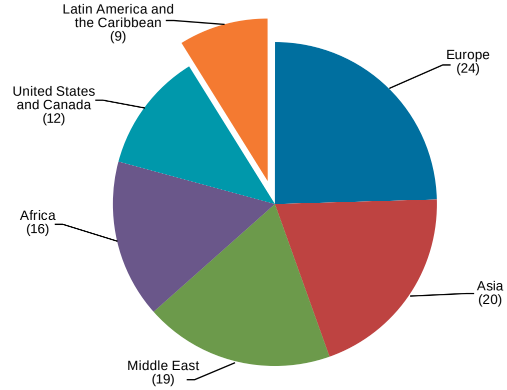
(Billions of dollars)

Firm		Country	International sales
1	Hochtief	Germany	27 425
2	Vinci	France	16 558
3	Bechtel	United States	12 500
4	Bouygues	France	12 432
5	Skanska	Sweden	11 632
6	Saipem	Italy	11 605
7	Fluor	United States	11 566
8	Strabag	Austria	10 870
9	Technip	France	7 940
10	Fomento de Construcciones y Contratas (FCC)	Spain	7 458

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from The McGraw-Hill Companies, Inc., *Engineering News Record* (ENR).

■ **Figure V.26** ■

International engineering and construction contracts awarded to the world's 250 largest firms, by region, 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from The McGraw-Hill Companies, Inc., *Engineering News Record* (ENR).

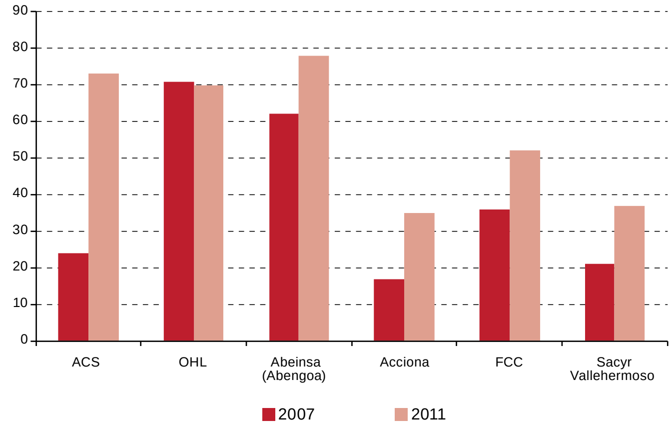
19. Firms from Spain and Italy invest in Latin America, as Chinese competitors also enter the market

- In 2010, firms from Italy and Spain were the main parties in international engineering and construction contracts in the Latin American and Caribbean region, with 19% and 28%, respectively, of the deals concluded. They are followed at some distance by firms from the United States and China.
- Of the 10 firms which secured the largest international contracts in Latin America and the Caribbean in 2010, four were Spanish: ACS, OHL, Abengoa and Isolux Corsan. Other Spanish firms with operations in the region are Acciona, Ferrovial, FCC and Sacyr Vallehermoso. This last company is the main contractor for the work on broadening the Panama Canal.
- Spanish construction companies have become more active abroad in the past few years as opportunities at home have shrunk amid the economic crisis. Heavy infrastructure investment in Spain in the years prior to the crisis enabled these countries to grow in their home markets first and venture abroad later. Most of their international activities have been undertaken in other European Union countries and, in general, Latin America accounts for less than 10% of their sales.
- Recently the dominance of European firms in the region has been threatened by the entry of Chinese firms. Sinohydro is building a large hydroelectric power plant in Ecuador and a thermoelectric power plant in the Bolivarian Republic of Venezuela, under contracts exceeding US$ 3 billion. In the Bahamas, China State Construction Engineering Corporation (CSCEC) is the main contractor in the largest hotel complex in the Caribbean, with a total cost of US$ 3.5 billion. This work is being financed by Chinese State banks that required the contracts to be tendered to Chinese firms as a condition of financing. Not all the contracts won by Chinese firms have followed this model, however: Citic is building the largest integrated steel plant in Brazil for ThyssenKrupp, in the framework of an investment project worth over US$ 5 billion.

Figure V.27

Overseas invoicing of largest Spanish engineering and construction firms, 2007-2011

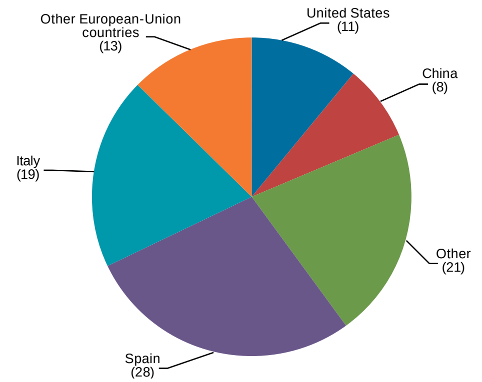
(Percentages)



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

Figure V.28

Latin America and the Caribbean: distribution of international engineering and construction contracts, by origin of firm



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from The McGraw-Hill Companies, Inc., *Engineering News Record* (ENR).

20. Electrical energy: European firms are among the world's largest, but are facing stagnant domestic markets

- In 2011, European firms had a strong presence among the world's 10 largest electricity companies, thanks to processes of international concentration and expansion of the sector resulting from the creation of the European Union single market. With regulatory changes that increased competition within the bloc, European electricity firms were forced to become larger through mergers and acquisitions. Mergers occurred first within each country, which increased concentration in national markets. The next stage was international expansion, when these firms exploited the advantages acquired in the first stage, especially their size and greater financial capacities. Many of these firms are controlled by their respective national State: Électricité de France (EDF), GDF (Gaz de France) Suez and ENEL (Ente Nazionale per l'Energía eLettrica) of Italy.
- European electrical energy firms are facing a mature domestic market, contrasting with expanding electricity consumption in emerging economies. In the advanced countries, expansion of electricity demand is slowed by the sluggish economic growth and by energy conservation and efficiency measures. Although these improvements are reaching emerging economies, too, their effect does not offset the faster pace of economic growth and the increasing access of large swathes of the population to electricity-intensive goods and services. Today, per capita electricity consumption in the advanced economies is 7,500Kwh per year, far higher than in the developing economies (1,450Kwh, expected to rise to 2,750Kwh by 2035).
- The share of the advanced economies in electricity consumption fell from 65% in 1990 to 52% in 2009, and is expected to fall to just 38% in 2035.
- 60% of the investments needed in the sector up to 2035 will take place in developing economies.
- The countries of the European Union certainly have many of the largest electricity companies in the world, but their home markets have very limited growth prospects. European electricity firms are therefore seeking to tap the expected growth of electricity demand in the emerging economies. And although Latin America has smaller growth prospects than other developing regions, such as Asia, Africa and the Middle East, the countries of the region are more open to FDI in this sector. For this reason, European firms are showing great interest in investing in the region's electricity sector.

Table V.10

World's largest electricity companies by sales, 2011

	Firm	Country	Sales	Presence in Latin America
1	State Grid	China	226	Yes
2	E.On	Germany	125	Yes
3	GDF Suez	France	112	Yes
4	Enel	Italy	97	Yes
5	EDF	France	86	Yes
6	RWE	Germany	67	No
7	Tokyo Electric Power	Japan	63	No
8	China Southern Power Grid	China	54	No
9	Scottish and Southern Energy	United Kingdom	44	No
10	Iberdrola	Spain	40	Yes

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *Fortune Global Top 500*.
Note: Figures correspond to the respective group's total sales, not their electricity business. In the case of GDF Suez, the electricity business represents only 50% of the group's sales.

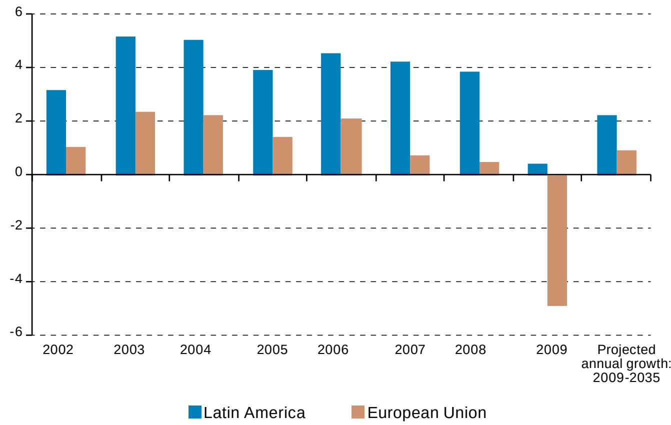
21. Latin America's electricity market represented a third of that of the European Union in 2009

- Whereas the European Union's electricity demand has grown at 1.25% per year since 1990 and is expected to grow at 0.9% annually until 2035, in Latin America and the Caribbean annual growth for the past two decades was 3.8% and is expected to continue at 2.2%.
- Electricity consumption is rising more slowly in Latin America than in Asia, but rose much faster than in the European Union every year of the past decade. In particular, the 2009 crisis had a much smaller impact in the region, since demand fell 5% in the European Union but rose slightly in Latin America.

Figure V.29

European Union and Latin America: demand growth 2002-2009 and projection to 2035

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from International Energy Agency (IEA).

Table V.11

Main world regions: electricity demand, 1990, 2009 and 2035

(TWh and percentages)

	1990	2009	2035	Annual growth 1990-2009	Annual growth 2009-2035
				(percentages)	*(percentages)*
World	10 084	17 217	31 722	2.9	2.4
OECD	6 593	9 193	12 005	1.8	1.0
European Union	2 227	2 793	3 530	1.2	0.9
Non-OECD	3 492	8 024	19 717	4.5	3.5
Developing Asia	1 049	4 796	13 876	8.3	4.2
Latin America	404	816	1 430	3.8	2.2

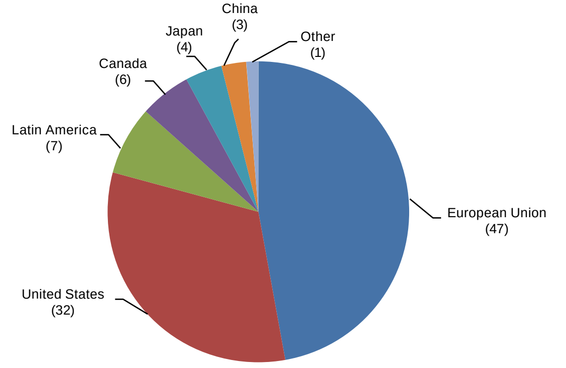
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from International Energy Agency (IEA).

22. European electricity firms entered the Latin American market during the privatizations of the 1990s and dominate many of the region's electricity markets today

- The reforms of electricity sector in Latin America in the 1990s, including privatizations of State firms, offered a unique opportunity to acquire assets in the sector. European firms tapped these opportunities to greatest effect.
- Four of the five largest electricity transnationals operating in the region are European, including three from Spain —Endesa, currently integrated into the Italian group ENEL, Iberdrola and Gas Natural Fenosa. Other major actors that entered with the privatizations and still have operations in the region are GDF Suez of France and AES of the United States. These firms are still the main private electricity companies in the sector in Latin America and the Caribbean, with a presence in many countries and various segments of the industry.
- After 2001, the end of the privatizations, the energy crisis, macroeconomic instability and regulatory uncertainty combined to produce a drop in FDI in the electricity sector in several countries. Electricity transnationals sustained losses in their subsidiaries in the region and were obliged to restructure their assets. Although they scaled down their investments, however, they did not divest their assets in Latin America, with the notable exception of EDF of France. Since 2006, interest in investing in the region has resurged, thanks to steady market growth and slight changes to regulatory frameworks which favour private investment in the electricity sector.

■ **Figure V.30** ■

Latin America: distribution of mergers and acquisitions in the electricity sector by country of origin, 1990-2011



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

■ **Table V.12** ■

Latin America: presence of five largest European electricity sector transnationals

	ENEL (Italy)	GDF-Suez (France)	Iberdrola (Spain)	Gas Natural Fenosa (Spain)	EDP (Portugal)
Argentina	✓				
Brazil	✓	✓	✓		✓
Chile	✓	✓			
Peru	✓	✓			
Colombia	✓			✓	
Mexico	✓		✓	✓	
Dominican Republic				✓	
Panama	✓	✓		✓	
Guatemala	✓				
El Salvador	✓				

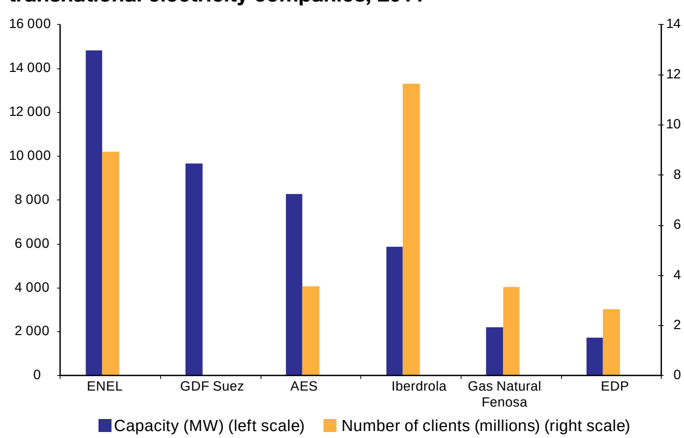
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the respective firms.

23. Assets in Latin America are increasingly important to European electricity firms, which are facing new competitors from Asia and the region itself

- In this favourable situation, almost all the major electricity transnationals have expressed an interest in expanding their presence in the region, mainly through organic growth in markets where they already have a presence. The nine largest transnational firms in the region have an installed capacity of less than 50 Gw, which represents 16% of the region's total. There is, therefore, room for growth, notwithstanding that much of the market (generation, transmission and distribution) is State-owned.
- In the context of slack growth, or even decline, in electricity demand in Europe, it is unsurprising that a high percentage of these firms' revenues come from their Latin American operations. Gas Natural Fenosa of Spain stands out in this regard, since 39% of its total revenues (including from gas distribution) are generated in Latin America. Even for the largest firms and those which are most diversified in other regions of the world, such as ENEL of Italy and Iberdrola of Spain, the proportion is over 10%.
- In the past few years, the European and United States transnationals which have been present since the 1990s have been joined by new agents, many from within the region itself. Among the trans-Latin electricity firms are Interconexión Eléctrica S.A (ISA) and Empresas Públicas de Medellín (EPM) of Colombia and Eletrobras of Brazil. These are all State-owned enterprises with long history in their home countries, which have begun their international expansion within the region.
- Since 2006, electricity companies from Japan, the Republic of Korea and China have entered the region's markets. Although their market share is still small and limited almost exclusively to Mexico and Brazil, their growth potential is huge. Generally speaking, their strategy has been to acquire assets put up for sale by European and United States firms. In 2010 Mitsui of Japan bought generation plants in Mexico and Gas Natural Fenosa of Spain and China State Grid bought several transmission lines in Brazil which had been operated previously by European and United States firms. In 2011, Three Gorges Corp, also of China, bought 21% of Energías de Portugal (EDP), which was still owned by the Portuguese State, and thus became the owner of major assets in Brazil.

Figure V.31

Europe: installed capacity (MW) and millions of clients of largest transnational electricity companies, 2011

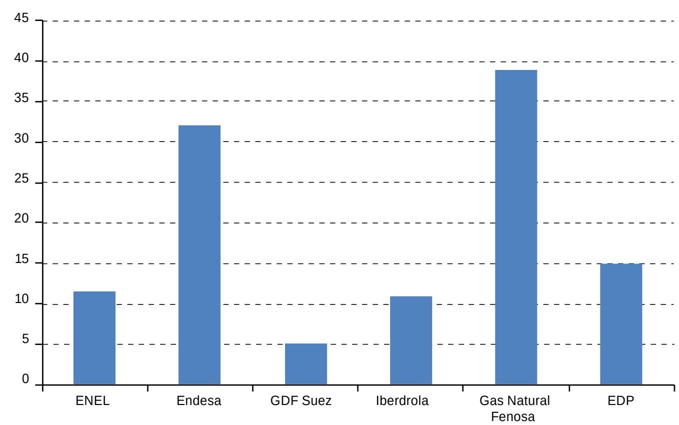


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the respective firms.

Figure V.32

Latin America: European group revenues earned in Latin America, 2010

(Percentages)



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

Note: The Spanish firm ENDESA is integrated with the Italian group ENEL.

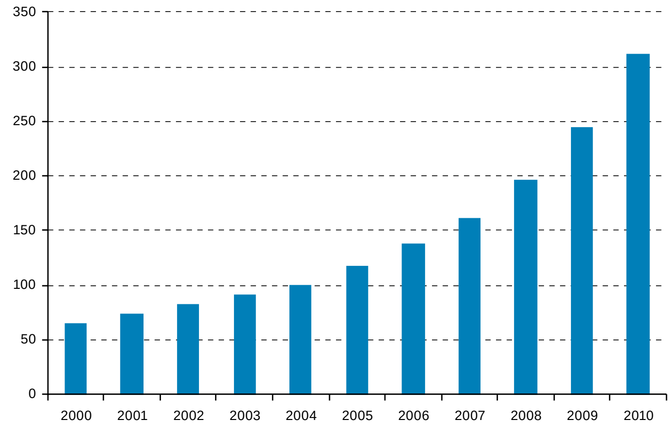
24. The European Union is the world leader in non-conventional renewable energies

- Non-conventional renewable energies (NCREs) represent 3% of global installed capacity, but they have grown faster than the rest of the industry in the past 20 years. In 2011 worldwide investments in renewable energies rose 17%, especially in wind power and solar photovoltaic energy.
- A number of European Union economies are world leaders in developing these energies. Six of the 10 countries with the greatest installed capacity in wind power are in this bloc. Within the European Union, Denmark has the greatest coverage (almost 26%), followed by Spain and Portugal (16%), Ireland (12%) and Germany (8%). In photovoltaic energy, where installed capacity is much smaller, Germany is the global leader, followed by Spain.
- The development of wind and photovoltaic power was driven by support policies in many European Union countries, often guaranteeing long-term feed-in tariffs well in excess of those paid to traditional generators. These measures were very costly for governments and, in a context of public spending cuts, many have been reduced significantly.
- As well as the experience built up in developing NCREs, the European Union has made strides in imposing policies aimed at reducing greenhouse gas emissions and has implemented more efficient technological solutions for electricity use, such as smart grids. The bloc has thus positioned itself at the vanguard of global efforts to mitigate climate change.

Figure V.33

World: installed capacity in new renewable energies, 2000-2010

(Gigawatts (GW))

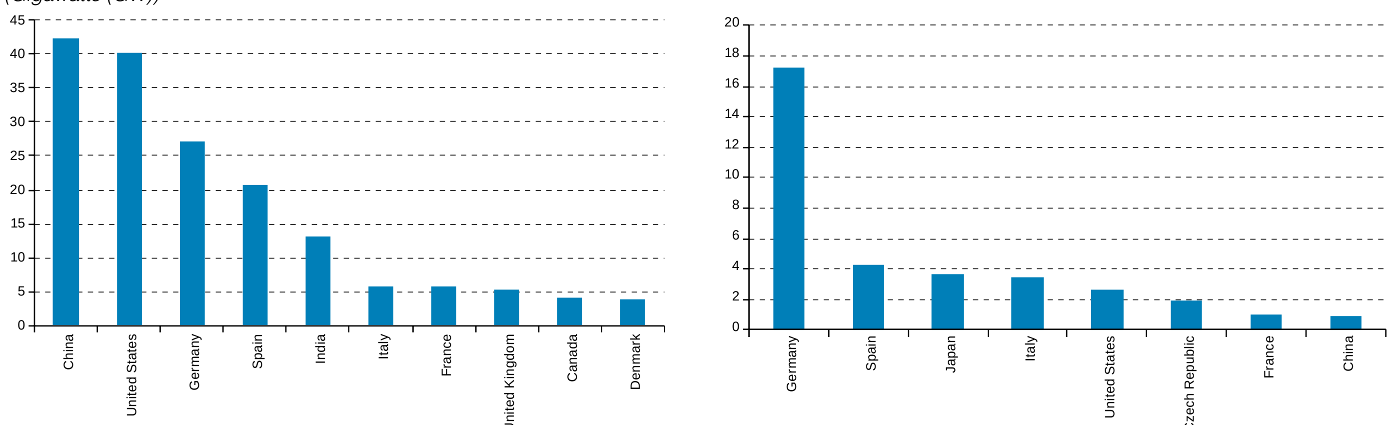


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from National Renewable Energy Laboratory (NREL) 2011.

Figure V.34

World: countries with greatest installed capacity in wind power and photovoltaic energy, 2010

(Gigawatts (GW))



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Renewable Energy Policy Network for the 21st Century (REN21).

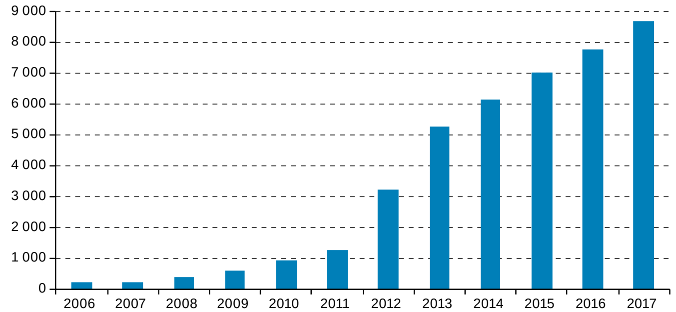
25. Latin America has come later to non-conventional renewable energies, but is developing them fast

- Latin America already produces over 50% it its electric power from renewable sources —hydroelectric energy— and could increase this proportion by developing wind and solar power. Many of the region's countries have set targets for electricity generation from renewables which will force them to increase their investments in the coming years. Uruguay has set a target of 90% of electric power from renewables by 2015, including 15% from wind power and 13% from biomass.
- In late 2011, Brazil had installed capacity of 1,500 MW in wind power, and another 6,700 MW in development; Mexico had 569 MW in operation and another 2,609 MW under construction; and Chile had 202 MW operating at that time. Costa Rica, Honduras, Nicaragua and Uruguay are also heavily developing wind power installed capacity.
- Photovoltaic solar energy began to be developed in Latin America in the second half of 2011, when the first farms were connected to the network in Brazil and Argentina. This segment has benefited from the drop in prices of solar panels (by 38% in 2010 and another 14% in 2011).
- The rapid development of NCREs in a number of Latin American countries is due, first, to technological progress in the industry, which has reduced unit costs of renewable energy and benefited countries which began investing in this segment later. Second, a windy climate and the implementation of regulatory measures have supported the expansion of wind energy in certain countries.

Figure V.36

Brazil: installed (and projected) wind power capacity, 2006-2017

(Megawatts (MW))

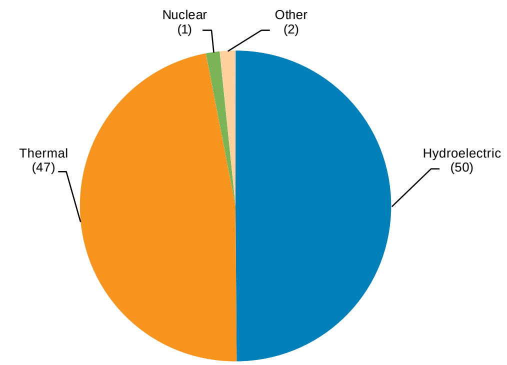


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Empresa de Pesquisa Energética (EPE).

Figure V.35

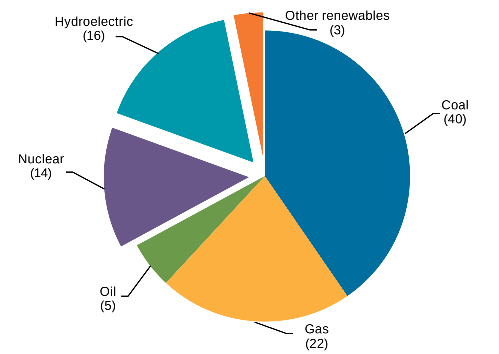
A. Latin America: structure of electricity generation

(Percentages)



B. World: structure of installed power generation capacity

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Latin American Energy Organization (OLADE).

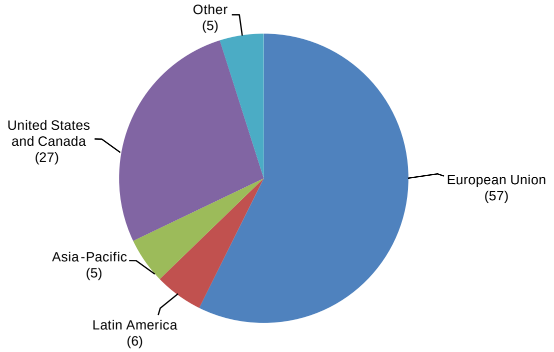
26. European firms are key to the rapid development of new renewable energies in Latin America

- The development of wind energy in Latin America has benefited from experience in the European Union. First, through foreign direct investment by European firms with a track record in the sector. In the electricity sector, which is dominated by private enterprise, most of the projects in the region have been initiated by European firms. European renewable energy firms are interested in investing in Latin America because they are investing less in new capacity in Europe, which has also brought down the price of components globally. In addition, the countries of the region have drawn lessons from the European Union's experience with support policies, and have avoided the direct subsidies which proved unsustainable in Europe.

- Technological progress has facilitated the development of installed capacity in new energy sources. A high proportion of the cost of wind and solar energies is in the manufacture of components —as much as 60%-70% of the cost of setting up a farm. So, much of the industry's value added corresponds to parts manufacturers. Whereas China manufactures 59% of the world's solar panels, European firms have a large presence in the market for wind power components. In Latin America (excluding Brazil), two Spanish firms (Gamesa and Acciona) and one Danish company (Vestas) together secured 75% of the contracts awarded in 2011.

■ **Figure V.37** ■

Latin America: sums announced for FDI projects in renewable energies, by origin of investor, 2003-2012



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from "fDi Markets", *Financial Times*.

■ **Table V.13** ■

World: turbine market share of largest manufacturers of wind power components, 2010

Manufacturer	Country of origin	Percentage share
Vestas	Denmark	14.3
Sinovel	China	10.7
GE	United States	9.3
Goldwind	China	9.2
Enercon	Germany	7.0
Suzlon	India	6.7
Dongfang	China	6.5
Gamesa	Spain	6.4
Siemens	Germany	5.7
United Power	China	4.1
Other		20.2

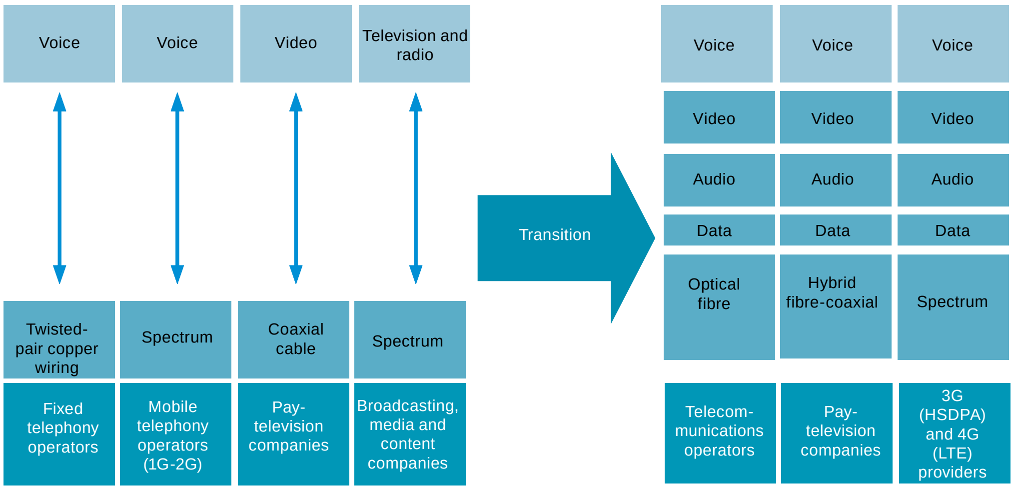
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from National Renewable Energy Laboratory (NREL), 2010.

27. Telecommunications: an industry facing radical change

- Technological advances have produced sweeping changes: the blurring of the boundaries between the traditional segments of fixed telephony, mobile telephony, broadband access, Internet, pay television and radio broadcasting; migration from fixed to mobile platforms and a gradual shift in the focus of the voice industry to a multipurpose platform, broadband.
- In this scenario, people's consumption habits are changing, firms are reviewing their business models and governments must deal with the urgent need to adapt the sector's regulatory standards to converged technologies and rethink the role of broadband access in society and in national development strategies.
- From a business perspective, the rapid exhaustion of traditional voice-related revenue sources forced communications operators to seek new business segments in data traffic.
- The industry is facing a complex scenario in which companies have to invest in the infrastructure they need to meet the technological requirements of new services, while stimulating demand for those services to offset falling income and ensure the sustainability of new business models.

Diagram V.1

Migration from traditional switched networks to next generation networks based on internet protocol



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information froml WIK-Consult.

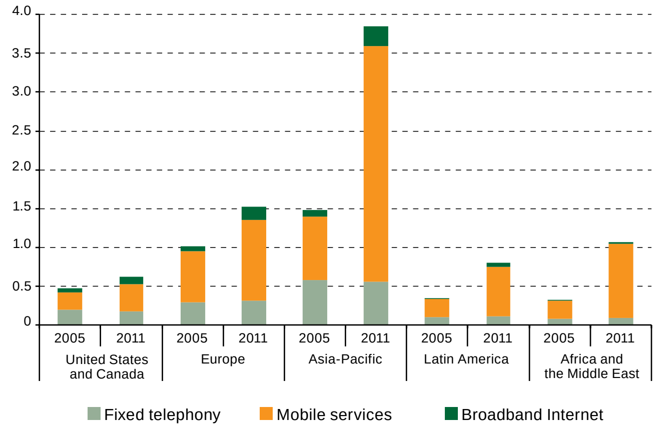
28. Time for convergence and mobility: broadband is the key

- In the past few years, mobile services have been the main driver of the global market for telecoms services. As of 2007, this segment represented over half of the industry's revenues, and has more than doubled the revenues from fixed telephony since 2009. Global mobile telephony penetration went from 34% in 2005 to 86% in 2011, representing some 6 billion subscribers worldwide. This rapid growth has been driven in particular by developing countries, where penetration increased from 12% to 79% in the same period.
- As a natural consequence of the massive influx of low-income clients in emerging markets, the revenues from mobile telephony, like those from fixed telephony before them, are beginning to stall. Conversely, Internet and data services continue to gain ground globally, particularly in advanced countries, especially the Republic of Korea, Japan, the United States and the large European Union economies.
- With fixed services migrating rapidly from telephone to Internet and increasing value placed on mobility, broadband is the segment with the most growth potential—and the one where the largest gaps exist. In developing countries today, fixed broadband penetration is around 5% and mobile broadband penetration around 8%. Conversely, in the advanced economies, around 25% of the population has a fixed Internet connection and over 50% a mobile connection. Most of the industry's revenues are generated in advanced economies, whereas client base growth is taking place in emerging economies. In such a configuration, the asymmetries in the global market can only keep increasing.

Figure V.38

World: telecoms market subscribers by region and segment, 2005-2011

(Billions of persons)

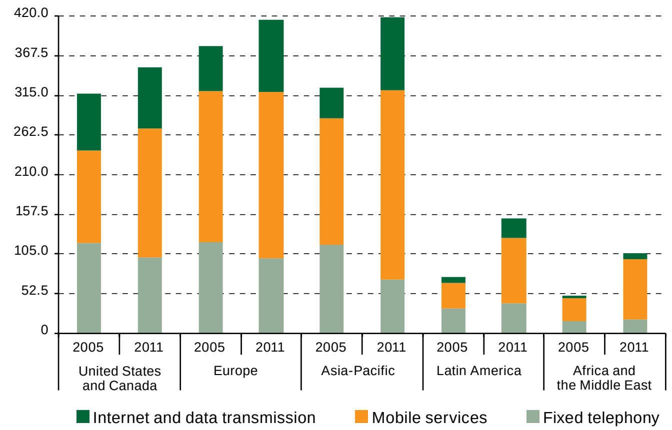


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from TeleGeography and the International Telecommunication Union (ITU).

Figure V.39

World: telecoms market revenues by region and segment, 2005-2011

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from European audiovisual and telecommunications institute (IDATE).

29. Growth of data traffic and network saturation: the industry's bottleneck

- The fastest-growing segment in the industry is broadband Internet access, in which data traffic has surged, especially video. This has given users access to content and applications which were unthinkable until recently.
- IP traffic has increased eight-fold in the last five years and is estimated to quadruple again in the next five years. The main factors behind this astounding surge in traffic include:
  - Updating of network infrastructure.
  - Mounting competition and introduction of attractive commercial offers.
  - Rapid technological progress and the drop in prices of access devices (personal computers, smart phones and tablets).
  - Changes in habits —particularly among young people— including the huge boom in social networks (Facebook and Twitter).
  - Increased connectivity and viewing (security and traffic cameras and other continuous video streams).
  - Migration of data consumption between platforms. As well as the rapid shift in data traffic from fixed to mobile platforms, open television, and even pay television, is being replaced with Internet-based video on demand, and consumption is migrating from personal computers to other mobile devices (smart phones, tablets and so forth).

Table V.14

Growing demand for broadband requires new networks

Consumer needs		Broadband requirements for each category (megabits per second, mbps)			
Applications with growing future demand	Size in GB	1 mbps	10 mbps	30 mbps	100 mbps
Web pages with graphics	0.001	4 sec x	< 1 sec	< 1 sec	< 1 sec
Music tracks (songs in mp3)	0.01	40 sec x	4 sec	1 sec	< 1 sec
Album of music	0.10	13 min x	1 min	27 sec	8 sec
250 digital photographs	2.0	4.5 hrs x	27 min	9 min	2.5 min
Film in DVD format	4.5	10 hrs x	1 hrs x	20 min	6 min
1 hour of personal video in high definition (HD)	12	27 hrs x	2,5 hrs x	53 min x	16 min
High definition film (Blu-ray HD)	24	2.5 days x	4,5 hrs x	1,5 hrs x	27 min
Full, permanent back-up	150	14 days x	1.5 days x	11 hrs x	3.5 hrs
Networks offering sufficient broadband	Mobile	3G UMTS	3,5G	4G LTE	4G+ Advanced LTE
	Fixed	xDSL		Fibre optic	
		xDSL	VDSL	FTTC FTTB	FTTH

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Booz & Company.

x Unacceptable by current standards.

Abbreviations: 3G, third generation; UMTS, Universal Mobile Telecommunications System; 4G, fourth generation; LTE, Long Term Evolution; xDSL, digital subscriber line technologies; ADSL, asymmetric digital subscriber line; VDSL, very-high-speed digital subscriber line; FTTC, fibre-to-the-curb; FTTB, fibre-to-the-building; FTTH, fibre-to-the-home.

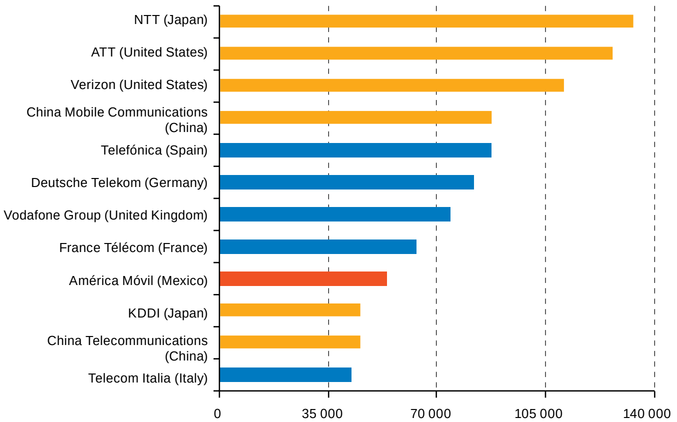
30. Heavy consolidation in the industry and only a few internationalized enterprises

- In the past decade, communications firms have undergone a thoroughgoing reorganization, including closures, layoffs and heavy consolidations through large mergers and acquisitions.
- As technology convergence progressed, the boundaries between the different industry segments disappeared and voice services gradually lost ground, the main global operators began to change their business model: from firms providing single services over specialized networks (voice, television and content) to broadband operators for multiple services over a single IP platform.
- Operators embarked upon aggressive strategies to achieve economies of scale and round out their service offerings. During the first decade of the 2000s, major mergers and acquisitions took place in the domestic markets of developed countries, especially in the United States.
- In Europe, telecommunications companies set about strengthening their position regionally, reflecting their historical propensity to engage in international ventures. Among these firms were Telefónica of Spain and the British mobile phone firm Vodafone, which deployed ambitious and diversified strategies combining emerging and advanced markets; and Deutsche Telekom of Germany and France Telecom, which focused on competitive markets in developed countries.
- In this scenario, a small number of European firms have achieved a large global presence. Latin America has been a priority destination for some of them, especially for Telefónica and Telecom Italia, which have rapidly scaled to the top of the industry. América Móvil-Telmex of Mexico has also performed unexpectedly well.

■ **Figure V.40** ■

World: largest telecoms operators, by sales, 2011

(Millions of dollars)

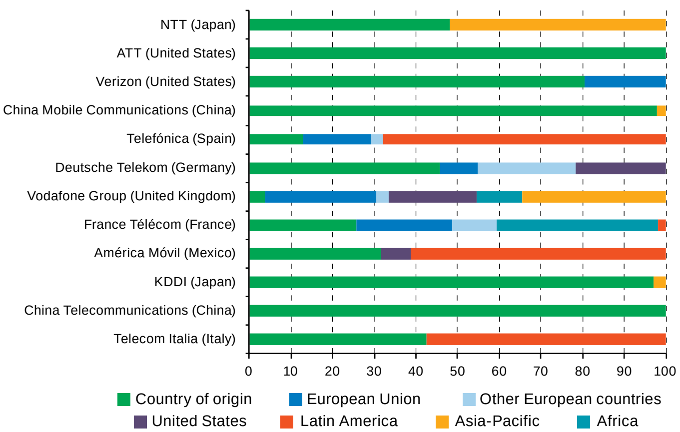


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *Fortune Global 500*, 23 July 2012.

■ **Figure V.41** ■

World: largest telecoms operators, sales by market, 2011

(Percentages)



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

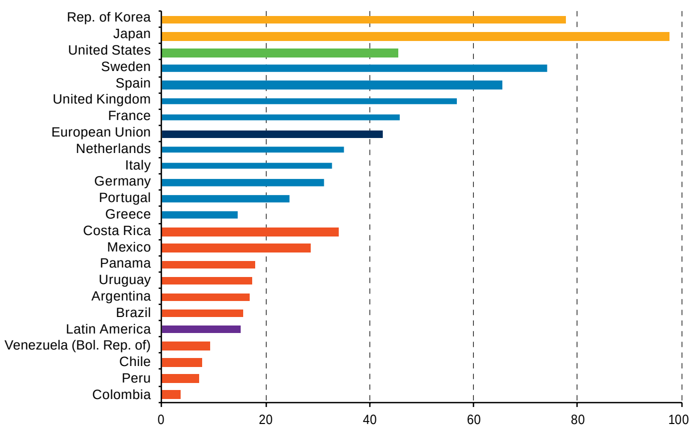
31. Latin America is still some way from the new mobile technology frontier, but closing fast ….

- In Latin America and the Caribbean, the existing infrastructure, demographic characteristics of the population and technological progress enabled the industry's large operators to roll out wireless solutions. The penetration of mobile telephony thus rose from 16% in 2001 to 107% in 2011. The gap with the industrialized countries, and the gaps between the various economies in the region, thus began to close rapidly.
- Despite having rolled out third generation (3G) networks and offering coverage for much of the continent, and despite having taken the first steps in 4G infrastructure, the use of smart phones and mobile broadband is still low compared with other regions, especially the advanced economies. This means that the gaps are widest in the most modern and sophisticated segments.
- Although the voice segment is still the main generator of revenues for mobile operators in Latin America, new devices, infrastructure and innovative applications have driven data services, which now represent close to 30% of total revenues for these operators in the region. This trend is only likely to increase, given the increasing use of smart phones and tablets.
- But, despite the promising progress of mobile broadband in Latin America, this technology is still far from being a perfect substitute for fixed infrastructure, particularly for applications that need large band width and in which screen size is a severe limitation. What is more, the fixed infrastructure forms the basic support for the packaged commercial offers (Triple Play) which have been so successful recently. Despite the operators' efforts to implement mobile solutions, given their cost and speed of deployment, virtually no investments have been made in next generation networks.

Figure V.42

Selected countries: third generation (3G) subscribers, June 2012

(Percentages of total mobile telephony subscribers)

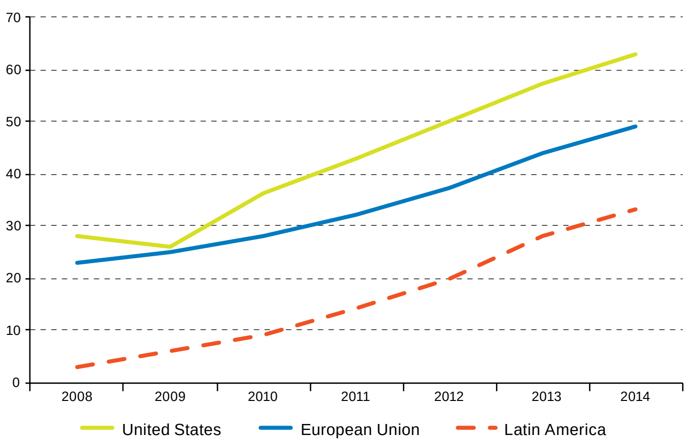


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from TeleGeography.

Figure V.43

Latin America, United States and European Union: smart phones, 2008-2014

(Percentages of total devices sold)



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

32. The Latin American market is dominated by two firms: Telefónica and América Móvil

- During most of the first decade of the century, Latin America was the scene of fierce competition for the most valuable assets of the telecommunications industry, including firms of different segments and size, and spectrum licences. As a result, a number of major global operators were ousted, including the United States firms BellSouth, Verizon and AT&T, and European firms such as France Télécom and, to some extent, Telecom Italia and Portugal Telecom. A small group of companies seized the opportunity to consolidate their position in the regional market, the most notable being Telefónica of Spain and América Móvil-TELMEX of Mexico.
- Some companies withstood the competition and maintained certain market niches. Notable entities in mobile telephony are Telecom Italia (TIM); the Brazilian operator Oi; Entel of Chile; Nextel of the United States; Millicom of Sweden and Digicel of Ireland, which have a strong foothold in the Central American and Caribbean markets.
- In pay television, the main cable operators are VTR in Chile, Megacable in Mexico and the radio broadcasting and media companies Clarín and Televisa, which are strongly entrenched in Argentina and Mexico, respectively. These companies have become major competitors for the regional leaders, taking some of their market share thanks to the Triple Play commercial package deals introduced at a very early stage.
- The region is at a crucial point in the development of the industry and the next steps will depend on how the industry reconciles the dichotomy between the price it charges for its services (in particular for making high-speed broadband available to a mass clientele) and the earnings it needs to ensure sufficient returns on new investments.

■ **Table V.15** ■

Latin America: main telecoms operators by country and segment, June 2012

(Thousands of subscribers)

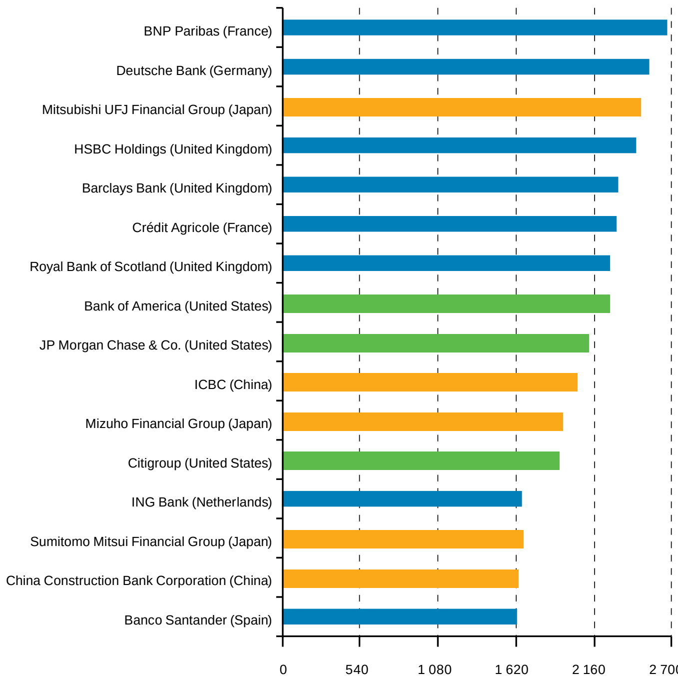
	Telefónica				América Móvil-TELMEX				TIM
	Mobile telephony	Fixed telephony	Broadband	Pay television	Mobile telephony	Fixed telephony	Broadband	Pay television	Mobile telephony
Argentina	16 742	4 583	1 659		20 180	315	335		18 723
Brazil	75 720	10 767	3 732	651	62 966	8718	4 264	7 278	68 860
Chile	9 640	1 780	905	408	5 734	227	208		
Colombia	9 440	1 451	644	258	29 375	650	1 015		
Ecuador	4 710				11 293	61	85		
Mexico	19 158				68 120	14 589	8 079		
Paraguay					425				2 242
Peru	14 684	2 909	1 216	857	12 018	221			
Uruguay	1 808				750				
Venezuela (Bolivarian Republic of)	9 826			147					
Central America	8 543	562	2		19 631				
Total	**170 271**	**22 052**	**8 158**	**2 321**	**230 492**	**24 781**	**13 986**	**7 278**	**89 825**

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

33. The banking sector: an industry at the heart of the crisis

- In recent decades, financial systems —one of the pillars of economic development— underwent sweeping changes, triggered by deregulation and technological advances, all of which generated new credit and savings opportunities for individuals, households and enterprises. The proliferation of financial innovations in the advanced economies helped to expand business options, some of them of a speculative nature and based on heavy leveraging; thus they were able to diversify and pass on risks. The industry boomed, mergers and acquisitions gathered momentum and integration ties were strengthened at the local, regional and global levels.
- The weak regulatory and supervisory systems and the analytical capacities of the private risk-rating agencies were soon overwhelmed by the size and complexity of financial institutions and operations. Thus, when conditions changed, a financial crisis of huge proportions was unleashed, leaving national, regional and multilateral authorities struggling to mitigate its impact and stem the contagion. However, the financial crisis set off by the subprime mortgage debacle and the failure of Lehman Brothers, and exacerbated by the European sovereign debt fiasco, still shows no signs of easing, leaving many of the industry's stakeholders in a precarious position.
- As a result of the rapid process of mergers and acquisitions, national, regional and global markets are dominated by a handful of entities. Between 2000 and 2011, the 20 leading banks increased their share of total assets in the industry from around 30% to 40%. Nevertheless, following the sweeping global financial crisis unleashed in 2008, a number of longstanding entities in the advanced economies were ousted by newcomers in the developing countries, particularly China.
- Of the world's 16 biggest banks, half are European, 5 are from Asia, mainly Japan and China, and the other 3 are based in the United States.

■ **Figure V.44** ■
World: 16 largest banks by assets, 2011
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *The Banker.*
Note: The bars shaded in blue correspond to institutions whose headquarters are located in a European Union country.

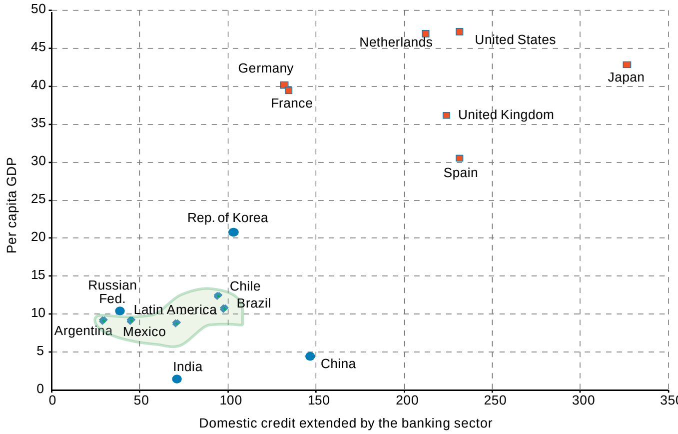
34. The situation is quite different in Latin America

- Latin America was no bystander to these changes. The 1980s saw an ambitious reform process, with opening up of the capital account coupled with liberalization of local capital markets and the banking sector. The most significant measures included easing of interest rate controls, privatizing State-owned and development banks, doing away with restrictions on the entry of foreign banks and allowing banking entities to branch out into multiple activities. The expectation was that a competitive environment would boost both domestic and external savings and would contribute to efficient resource allocation. Macroeconomic instability and external vulnerability uncovered the fragility of Latin American financial systems, however. In response to severe and recurrent banking crises, new prudential legal and institutional reforms were introduced, which helped to stimulate financial activity.
- Contrasting with the situation during earlier traumatic episodes, although the Latin American and Caribbean region was hard hit by the international financial crisis, local economies, with some exceptions, bounced back rapidly and banking systems remained stable and sound. In fact, banks today are more closely regulated, better capitalized and more efficient, which should serve as a basis for more orderly and sustained development in the future.
- Notwithstanding significant advances, Latin American financial systems still lag behind, especially in comparison with the advanced economies. With few exceptions, the penetration of the banking sector is lower than in other countries with similar per capita income levels, and emphasis is placed on short-term credit provision, a trend that has been intensified with the widespread incorporation of modern consumer-credit administration practices.

Figure V.45

Selected countries: income level and depth of the banking sector, 2010

(Thousands of dollars and percentages of GDP)



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

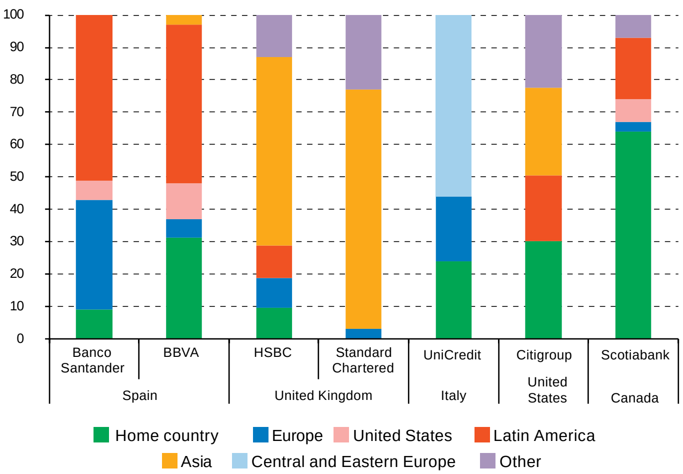
35. Seeking "El Dorado" in emerging markets

- International banking has been taking on a more important role. As markets matured and became more competitive, some of the major banks in the advanced economies started to seek new opportunities abroad.
- In the mid-1990s, foreign banks started to pour into the emerging markets, with Latin America becoming a prized destination, thanks to its economic reforms, the privatization of public assets and the weakness of the local banking sector. Currently, foreign banks account for 20% of market share in developing Asia, 35% in Latin America and 90% in Eastern Europe.
- This process was limited to a handful of financial institutions from Europe and North America, some with a long history of global operations (Citigroup and HSBC) and others that had gained a firm foothold in certain regions in a matter of a few years (Santander and BBVA). The Spanish banks held the lead in Latin America, while the Italian and Austrian Banks held sway in Europe and Central Asia.
- In Latin America, the share of foreign banks in the industry's total assets jumped from 11% to 31% between 1995 and 2000, moving up to 35% in 2010.

■ Figure V.46 ■

International operations (selected entities): geographical distribution of profits, 2011

(Percentages)

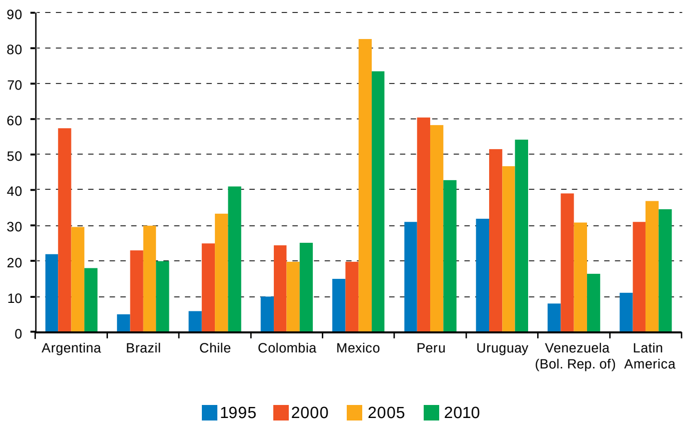


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from banking entities.

■ Figure V.47 ■

Latin America (selected countries): foreign banks' share of total assets in the banking industry, 1995-2010

(Percentages)



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

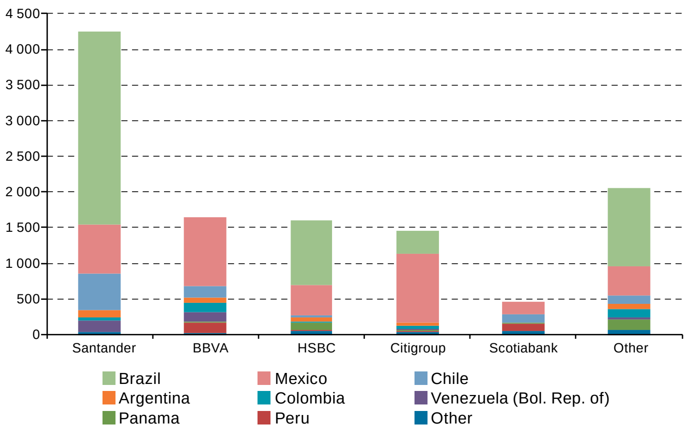
36. Latin America has become the most important segment for Spanish banks

- The growing presence of foreign banks has become one of the hallmarks of the banking industry in Latin America in the past two decades. Local governments expected that the entry of these international entities would recapitalize local banks, trigger modernization and increase competition in the industry and stave off any new financial crises.
- Generally speaking, the entry of foreign banks in Latin America and the Caribbean gave a strong fillip to regional financial markets. Foreign banks raised domestic competition, forcing down margins and costs in the sector, and helped to modernize the Latin American banking system by improving domestic processes and risk-rating systems and expanding the range of services. They also encouraged financial inclusion, reaching out to new and growing segments of society, although these are still served mainly by national banks. Nevertheless, foreign banks maintain a strong bias towards the higher income segments, which, by and large, are less risky.
- Latin America and the Caribbean has become a core part of the global business of the small group of international institutions operating in the region: this is the case in particular for the Spanish banks BBVA and Santander. Furthermore, investment in Latin America enabled them to rapidly scale the ranks of the leading global banks.

Figure V.48

Latin America: assets of major foreign banks, by country and entity, 2011

(Hundreds of millions of dollars)

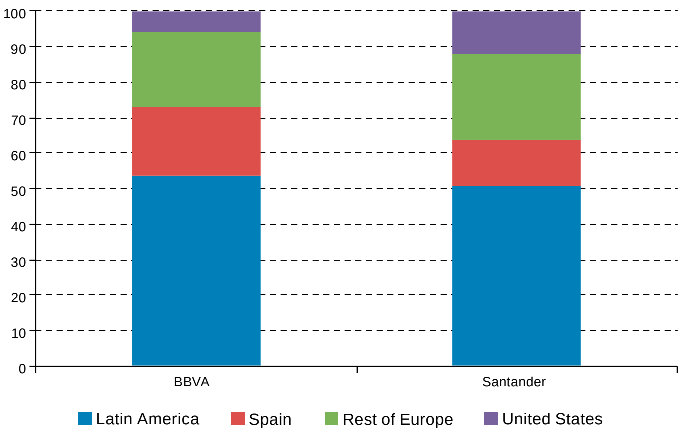


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from *América economía*, "La banca latinoamericana en 2011", Santiago, Chile, October, 2011.

Figure V.49

BBVA and Santander: contribution of operations in Latin America to group profits, 2011

(Percentages)



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

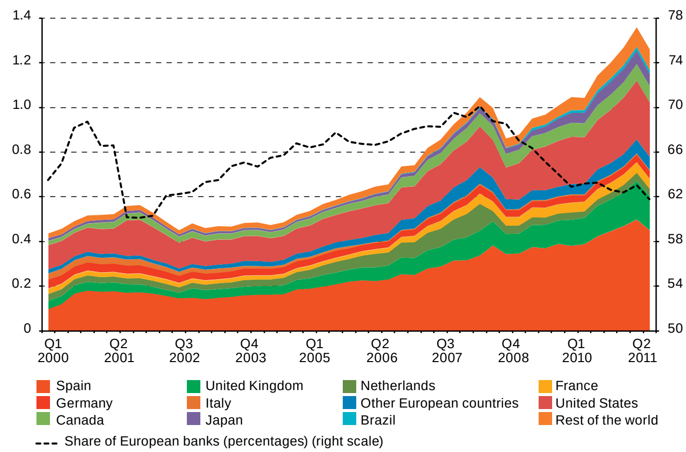
37. Mixed impact of foreign banks in Latin America

- Since the markets in the Latin America and the Caribbean are relatively mature, the efficiency and productivity indicators of national and foreign banks have started to converge. Moreover, regional and global shocks at the turn of the century and the international financial crises after 2007 prompted foreign banks to scale back their operations and exercise greater caution. National banks have responded swiftly, significantly improving their efficiency and productivity levels and recovering much of the market share lost in the previous decade.
- Recently, owing to the global financial crisis, the European banks' large share of the Latin American banking system has become a cause for concern. In fact, the strong pressures associated with sovereign financing could lead to major losses and, given recapitalization constraints, banks may be forced to deleverage in order to restore their capital ratios.
- Nevertheless, although these entities have not been immune to the credit crunch and the tighter interbank liquidity, they have proven stable and resilient and are thus less likely to act as a channel for transmission of external shocks. This is because Latin American subsidiaries operate with significant autonomy in relation to their parent companies, so that a significant proportion of loans are extended in local currency and financed with domestic deposits
- Foreign banks set up operations in Latin America for two main reasons. First, they were in search of new business opportunities as revenues were squeezed in their mature and highly competitive home markets. Second, the reforms and the institutional and macroeconomic stability in the Latin America and the Caribbean enabled them to enter markets that had limited banking services but high growth potential.
- The governments of the Latin American and Caribbean countries should continue to strengthen their banking systems, regulating to make them more solid and developing a public banking system that will enable them to provide financing to the segments of society that are lagging behind. In fact, one of the greatest failings of private, including foreign, banks has been their tendency to target middle- and high-income segments and to neglect key sectors such as SMEs.

■ Figure V.50 ■

Latin America and the Caribbean: loans by foreign banks, by home country of the bank, 2000-2011

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Bank for International Settlements (BIS).

VI. Ideas for discussion

Development is the process by which progress is made on three fronts: of structural change, convergence and equality. The first entails boosting the weight in the production structure of knowledge-intensive sectors that have high income elasticity of demand; the second, reducing the technological, productivity and income gaps vis-à-vis economies at the international technology frontier; and the third, moving towards equality with a rights-based focus. The countries of Latin America and the Caribbean have made progress at different times on one or other of these fronts, but their achievements have been inadequate.

1. Investment, the bridge between the present and the future

- **Investment is the key variable linking the short term and the long term**. Investment forges the production and technology linkages that foster growth. The fact that investment responds weakly to expansions but contracts sharply in recessions explains why structural change is so slow and the spillover effects on the rest of the economy so weak.
- **In Latin America and the Caribbean, the predominant pattern of production investment exacerbates the yawning gaps in productivity among agents** —at one extreme, the micro, small and medium-sized enterprises and at the other extreme the big companies— that feed labour market segmentation, in terms of job quality, labour productivity and wage incomes. By contrast, positive coordination of macroeconomic management with the converging expansion of the structure leads the economy to develop its potential in such a way that, over the long run, the benefits for society are more egalitarian.
- **The investment rate in Latin America and the Caribbean has historically fallen short of that in the more dynamic regions**, and particularly in the developing countries of Asia. Public investment has not been vigorous enough to have significant crowding-in effects, especially in areas such as infrastructure where there are substantial shortcomings. **In fact, during crises many governments have found it easier to cut back public expenditure on investment than to make cuts in other areas**. Such behaviour has impaired the effectiveness of public investment as a catalyst for private investment, with the consequent effects on growth, productivity and employment. **During upswings, investment has tended to flow into non-tradable sectors or traditional tradable sectors that are natural-resource-intensive** but often less technology-intensive.
- **The strength and the structure of investment are determined by expected profitability levels, which depend on the competitive advantages of each country or region and on the existence of a favourable and predictable economic and political climate** that reduces the uncertainty prevailing in the world economy. The conjunction of these elements forms the basis for high-quality investment flows that will boost social inclusion and make growth sustainable.
- Economic and political factors are the ultimate determinants of investment, but **corporate social responsibility plays a role that goes beyond market forces**. Job creation, greater social inclusion and environmental sustainability are the results of economic forces and of political will and commitment.
- A development strategy in which the State, through an appropriate regulatory framework, **encourages business development that will respond to social needs can stimulate innovation and entrepreneurship**, and can have positive effects on the investment behaviour of smaller-sized firms.

2. The technology revolution: an opportunity to close gaps

- **The dominant technological and productive paradigm is undergoing changes of such magnitude that they have been called a new technology revolution**. Innovations in digital technology are converging to transform various aspects of daily life. These advances have revolutionized the manufacture, management, marketing and distribution of products and have fostered new business models based on the Internet. This trend will change not only how but also where products are made, reshaping the structure and dynamics of global production.

- **The technology revolution is paving the way for stronger growth and new opportunities for leapfrogging**. In order to take advantage of these opportunities, technical advances must be adopted and institutional, productive and social restructuring must be pursued. In such processes, past trends have a strong bearing on the possibilities for action (path dependence). Technological innovation and dissemination require cumulative knowledge, appropriate infrastructure, skilled workers and an enabling institutional and regulatory context. The ability to make use of these advances depends a good deal on progress achieved under the previous technology paradigm, although the development of some recently industrialized countries demonstrates that it is possible to "catch up" —to narrow the technology gap— by taking a systemic policy approach that encompasses structural change, technology absorption, environmental efficiency and skills development.
- **The global production map is currently being redrawn** and one possible result of the technology revolution could be that certain activities and sectors (including some that are now labour-intensive) will move back to the more advanced countries, with the attendant impact on employment in regions such as Latin America and the Caribbean. Against this backdrop, policies that might have been considered forward-looking and even cutting-edge just a decade ago are now inadequate to the task of narrowing the technology gap.
- Given the gaps between the countries of Latin America and the Caribbean and the more developed countries, both in production (investment, productivity and innovation) and in the social sphere (poverty, exclusion and unequal distribution of income), **if the region fails to make structural changes in line with this new revolution it will increasingly compromise its potential for convergence.** Selecting and targeting the sectors and activities to be promoted, so the region can take its place in a swiftly changing world, are at the heart of industrial policies for structural change.
- **In this context, investment in telecommunications infrastructure, especially in broadband Internet networks, is particularly important** because it provides a platform for supplying a wide range of services that cut across sectors and directly impact economic growth and social inclusion. These services include education (distance services and access to information, development of new teaching-learning models); health (remote diagnostic services); governance (greater transparency, citizen participation, access to government information); and environmental protection.
- **The region lags significantly in terms of broadband infrastructure development**, as shown by widening gaps in terms of access, connection speed and quality. Overcoming this problem requires stepping up both public and private investment to expand infrastructure.
- **The new course of development seeks to make use of clean technologies**, which are the product of a combination of advances in the recycling and treatment of water and gases; electricity generation from renewable energy sources (wind, solar, hydraulic, kinetic) and hydrogen fuel cells; fuels derived from biotechnology (biodiesel, bioethanol); smart control networks in urban systems (buildings, traffic) and power grids (smart grids); and an increase in the energy efficiency of a great many machines and devices, including automobiles.
- Progress toward a **"green economy" based on energy efficiency and renewable resources** can be driven by combining the opportunities opened by the technology revolution with policies for promoting sustainable development strategies.

3. Foreign direct investment: heavy inflows are reinforcing the productive pattern

- **Flows of foreign direct investment (FDI) to Latin America and the Caribbean have grown considerably in recent decades**. After the market reforms era, FDI came to be seen as an engine of growth that automatically generated positive effects on host economies. This view stressed the role of FDI as a complement to domestic savings and a source of new capital contributions, technology transfers and productivity spillovers. Volume was regarded as more important than quality, and countries consequently sought to maximize FDI from transnational enterprises, the main players in this field.

- **Transnational enterprises have consolidated their position as a cornerstone of the production structure in Latin America and the Caribbean**, for various reasons: (i) transnational enterprises are present in virtually all countries and in all production and service activities; (ii) FDI is conducted through two principal mechanisms: through the purchase of existing assets and through investments to create, expand or modernize production capacity; (iii) the positioning of transnationals is essential for understanding the international integration patterns pursued by countries of the region, especially for their exports; (iv) transnational enterprises are particularly important in the more modern sectors and in activities within the region that have the greatest technology content.
- **These characteristics are key factors for determining the contribution of FDI to development**. The evidence suggests that the potential benefits of FDI are not automatic, and there is a gap between expectations and outcomes.
- **FDI geared to the exploitation of natural resources, in which South America is especially rich, has experienced a boom** in recent years because of high commodity prices. The main benefits of undertakings of this kind are export growth, job creation in non-urban areas, and increased tax revenues. The main problems arising from FDI-financed activities have to do with the fact that they often operate in enclaves. In general, these operations involve little processing of natural resources and they have negative impacts on environmental sustainability. Moreover, because of the high degree of ownership concentration, productivity gains are confined to a few firms, with little diffusion to other sectors of the economy.
- **FDI geared toward taking advantage of the size and buoyancy of local or subregional markets** is concentrated in the services sectors and in the production of goods such as automobiles, chemicals and food and beverages. In recent years, transnational firms have boosted their investments in undertakings of this kind, taking advantage of the region's strong economic performance and a growing middle class with greater purchasing power. In some cases they are also important in terms of technology transfer, dissemination and adaptation, to the point where some subsidiaries, particularly in Brazil, have become important players in their parent companies' global innovation strategy.
- By contrast, in **Mexico, Central America and the Caribbean the emphasis has been on product assembly operations** for export mainly to the United States. These activities have increased exports but have done little to transfer technology, train human resources, or establish and strengthen productive linkages with local firms.
- In general, **FDI flows to Latin America and the Caribbean are geared toward activities of low technology content**. Between 2003 and 2011, 70% of new FDI in the region's manufacturing sector went to low- or medium-low technology content activities (food and beverages, textiles, footwear, paper, mining and metals, among others). By contrast, 80% of such investment in China is channelled into medium-high or high-technology industries (motor vehicles, pharmaceuticals, machinery, medical instruments and chemicals, among others).
- **When it comes to FDI-related R&D activities, the region occupies a marginal position** (4% of the world total). The great difference between the FDI received in the region and that flowing to the more dynamic developing countries raises doubts as to the contribution of FDI in terms of capacity-building and technology spillovers.
- **FDI has flowed into service activities in nearly all parts of the region**. Trends in the telecommunications, energy, banking, commerce and other sectors are now being set by major transnationals. Their operations have helped boost the systemic competitiveness of the host economies. The main difficulties are associated with regulatory issues and the lack of incentives to promote greater competition and thus pass on more benefits in terms of access and cost to broad segments of the population.
- In short, **the effects of transnational firms' operations in the region are very diverse**. But it is clear that many of the impacts have to do, on the one hand, with each country's production, technology and human capital capacities and, on the other hand, with regulatory frameworks, particularly in the services sector. Consequently, a set of policies combining

incentives for FDI with structural change measures would serve not only to encourage the entry of higher-quality transnational firms into the sectors that offer the greatest possibilities for spillover and capacity-building, but would also facilitate the integration of those firms into local economies and boost different dimensions of development.

4. European investment: a partner for sustainable development

- **FDI from the European Union could help to galvanize the production transformation needed in Latin America and the Caribbean**. The greatest contribution of European investment has been to create new production capacity, especially among knowledge-, technology- and innovation-intensive activities. In recent years around 45% of projects for creating, expending or modernizing production capacity in the manufacturing sector have been associated with firms from the European Union. This makes such investment particularly attractive, as these undertakings have a sharp impact on the host economies in terms of employment, production chains, technology transfer and local entrepreneurship. Similarly, European firms are responsible for more than 60% of new R&D projects, initiatives that contribute decisively to technology transfer, human capital formation, higher wages, and a more innovative production structure. Moreover, European Union firms have a position of leadership in infrastructure and basic services, which are crucial to efforts to shift the economic structure towards more knowledge-intensive activities.
- **European firms could help foster the production and dissemination of new technologies and also to mitigate the adverse environmental externalities of economic growth**. They could build on their leadership in this area to expand the use of information and communications technologies and of environmentally-friendly energy and to diversify the energy mix with renewable, non-conventional sources for moving towards a greener economy.
- **Their strong position in many markets of the region makes European firms key players in modernizing telecommunications infrastructure**. These firms have facilitated access to telecommunications for broad segments of society. Yet more determined action is needed to overcome the dichotomy between the price of services, in particular high-speed broadband, which must be low enough to permit a mass market, and the level of revenues, which must ensure the profitability of operators' investments in new infrastructure.
- **Energy firms from the European Union are among the largest in the world, with unrivalled financial, technological and operating capacities**. In general, their home markets are floundering, so that for the moment their opportunities for growth lie in the developing economies. In this setting, the Latin American and Caribbean region offers growing markets and stable, FDI-friendly regulatory frameworks.
- **Investment from European firms could boost production capacity, stimulate competition, introduce new technologies and foster new businesses**, especially in the area of power generation from renewable and non-conventional energy sources. Some countries of the European Union are world leaders in this area, thanks to explicit support policies that have assisted in the creation of new undertakings with notable results in terms of innovation and production.
- **The economies of Latin America are benefiting from these investments**, which have allowed them to develop renewable, non-conventional energy faster than if they had to rely on local firms alone. Moreover, the fact that the region was late in entering this industry gives it some advantages. Thanks to rapid technological and technical development, the region has lower power generating costs. As well, governments in the region have been able to learn from and avoid mistakes that were made in the design of European policies.

5. SMEs: a route towards social inclusion

- **Opportunity should not be confined to big companies**. In this respect, greater international integration of small and medium-sized enterprises would not only help to generate employment and boost incomes but would also allow them to achieve higher levels of productivity and technological innovation.

- **This could be a route for some SMEs to overcome shortcomings and limitations**. Such an outcome will depend on public policies and actions with private agents on two fronts, in order to break the vicious cycle that conditions and limits the performance of SMEs. On the one hand, a broad spectrum of instruments is needed to narrow the production gap with large businesses. On the other hand, specific policies are required to strengthen and consolidate smaller firms and encourage SMEs to become more internationalized, as part of an industrial strategy that adopts criteria for selecting certain sectors and policy instruments and is backed by the political will to promote actions of this kind in countries of the region.
- **SME participation in global value chains is one way of enhancing their participation in the segmentation of production now under way in the world economy**. Through such participation, SMEs can expand their horizon of activity, diversify risks and investments, and reduce their dependency on domestic markets. They can also benefit from technological spillovers through the transfer and assimilation of technology, the training of technical and managerial staff, and access to world-class quality standards, certification and support services.
- **The benefits of joining global value chains depend not only on the characteristics of those chains and of the transnational firms leading them, but also on the creation and development of absorption capacities in the recipient economies**. In this respect, prime importance attaches to human capital, the scientific and technological base, physical infrastructure, public and private institutions, financing mechanisms, the national innovation system, and the absorption capacity and diversification of the production and business structure, among other factors.
- Fostering SME innovation, supported by technology transfer and greater international integration, **strengthens local capacities** and creates conditions conducive to investment for economic growth, social inclusion, and environmental sustainability.

6. The need for integrated public policies

- **A country must constantly expand its production capacities** if it is to sustain development, reduce poverty, diminish social inequality and improve the collective well-being.
- To move forward on these fronts, **the different dimensions of economic policy must be articulated so as to generate synergies between short-term and long-term dynamics**.
- An integral development strategy must foster investment, diversification of the production structure and, most importantly, **the convergence of productivity levels of different agents and of the economy as a whole**. This scenario can be **highly favourable for European firms**, whose markets could expand in a growing region.
- In this context, the **European Union's cooperation programmes can be effective instruments for catalysing these investments**, especially in areas such as the green economy, information technologies and SMEs in the region's less developed countries.
- **A strategic focus on corporate social responsibility is becoming increasingly important for competitiveness**. In fact, a commitment to internal and external stakeholders allows firms to anticipate and take better advantage of rapidly changing social expectations and operating conditions, thereby creating growth opportunities and enabling firms to win the enduring trust of workers, consumers and citizens as the basis for sustainable business models. Greater trust, in turn, helps to create an environment in which firms can innovate and grow.
- Lastly, **firms have a responsibility regardless of where they operate**. They must hold themselves accountable for the tangible or intangible impacts of their activities on society and the environment, over both the short and long terms, and take mitigation and compensation measures as needed. Accordingly, European firms operating in Latin America and the Caribbean have an important responsibility to contribute to the economic development of their host countries, beyond the results of their daily activities in terms of jobs created, goods and services produced, and taxes paid.

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