INVESTMENT NEWS

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Grim outlook for Latin America as international investment collapses

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Following a rebound which took international mergers and acquisitions (IM&A) into Latin America to record levels in 2010 ($91 billion) and 2011 ($87 billion), IM&A is set to fall by 30%, or $36 billion, in 2012 (figure 1).

This sharp reversal is consistent with the broader global trend which has seen companies drastically cut back their IM&A activity (see Investment News 17).

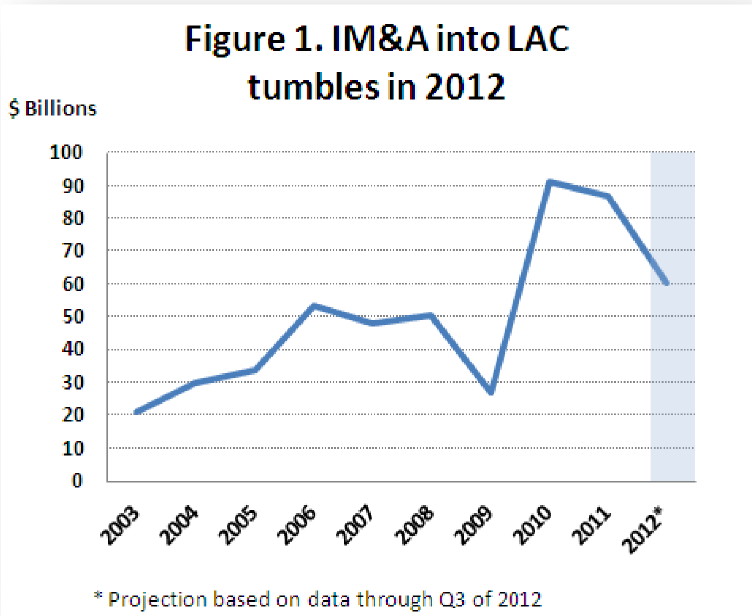

Figure 1. IM&A into LAC tumbles in 2012

Despite this grim outlook, current projections suggest an even more severe contraction of IM&A globally (-36%). Indeed, the region will still receive around $60 billion this year, 20% above pre-crisis levels. In contrast, global IM&A is still 50% below pre-crisis levels.

Global IM&A is still 50% below pre-crisis levels

Performance within the region has been mixed. Among the top ten recipients of IM&A, half experienced declines and half experienced increases (table 1). In the Dominican Republic, Costa Rica, and Ecuador, large individual deals significantly boosted overall inflows. The case of the Dominican Republic in particular illustrates how individual deals can radically affect investment inflows. In all of 2011, the Dominican Republic received $16 million in IM&A. In May 2012, Anheuser-Busch

Table 1. Top 10 destinations for IM&A in LAC
($ millions)

		2012*	% change from 2011	% share of LAC IM&A
1	Brazil	37,722	-23	62.3
2	Chile	5,404	-67	8.9
3	Colombia	4,646	37	7.7
4	Mexico	3,958	21	6.5
5	Argentina	3,661	-44	6.0
6	Dominican Republic	3,155	19,375	5.2
7	Peru	636	-43	1.1
8	Ecuador	351	176	0.6
9	Panama	254	-53	0.4
10	Costa Rica	237	609	0.4
	Rest of LAC	499	-92	0.8
	Totals	**60,521**		**100**

* Projection based on data through Q3 of 2012

Table 2. Top 10 sources for IM&A in LAC
($ millions)

		2012*	% change from 2011	% share of LAC IM&A
1	United States	8,599	-27	21.5
2	China	6,424	-29	16.1
3	Canada	4,261	9	10.7
4	Belgium	3,250	...	8.1
5	United Arab Emirates	2,667	4,067	6.7
6	Italy	2,626	51	6.6
7	United Kingdom	2,099	-33	5.2
8	Switzerland	1,686	-53	4.2
9	Russian Federation	1,667	1,654	4.2
10	Spain	1,527	-75	3.8
	Rest of world	5,195	-87	13.0
	Totals	**40,000**		**100**

* Projection based on data through Q3 of 2012

acquired Companhia de Bebidas das Americas for $2.1 billion. This deal alone increased the country's annual IM&A investment by a factor of 150. Brazil continues to receive the lion's share of IM&A despite a projected decline of 23%, with just over 60% of the Latin American total.

Over 60% of IM&A originates outside of Latin America

Historically, the United States and Spain have been Latin America's main sources of IM&A, accounting for 20% and 13% respectively over the past decade.

30% of IM&A into Latin America is now by state-owned enterprises

In more recent years investments from Asian countries have become more important. In 2012, China will rank as the region's second largest source of IM&A, accounting for 16% (table 2). It ranked third in 2011 (behind Japan and the United States) and second in 2010.

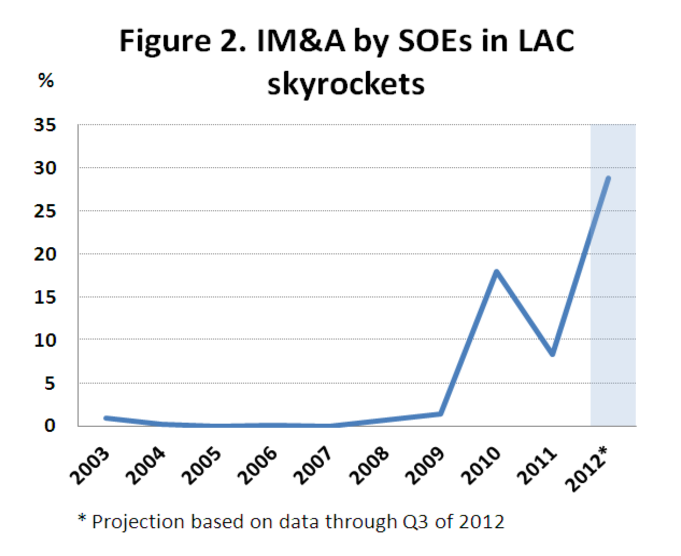

Figure 2. IM&A by SOEs in LAC skyrockets

While overall IM&A has been declining, IM&A by state-owned enterprises (SOEs) has become a major source of international investment (figure 2). SOEs now account for 30% of the total, compared to insignificant amounts before 2010. In 2012, just over half of this investment came from China, a quarter from the United Arab Emirates, and around 10% each from Canada and Singapore. The share of SOEs in IM&A in Latin America is 3 times higher than the share of SOEs in global IM&A.

Oil, gas, and mining have been magnets for IM&A

In 2012, services accounted for 45% of total IM&A in Latin America, the extractive industries for 37%, and manufacturing for 18% (figure 3). In terms of individual sectors, the 'Oil and Gas' and 'Mining' segments have dominated the industry rankings over the past 5 years, attracting $88 billion in IM&A. This represents around 20% of total global IM&A in these sectors. The share of the extractive industries in IM&A in Latin America is 50% higher than the share of this sector globally (figure 4).

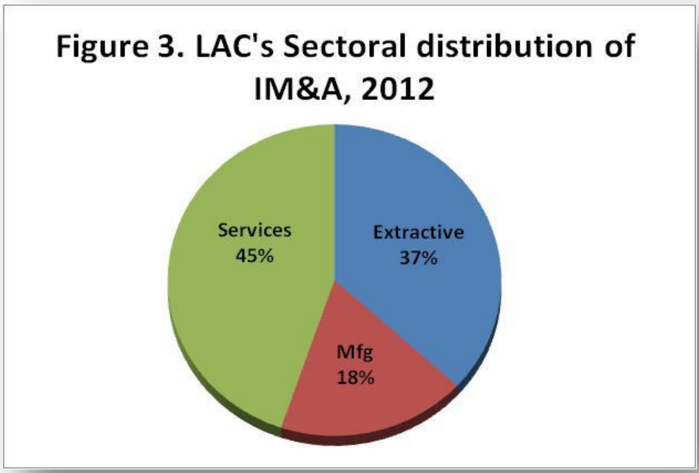

Figure 3. LAC's Sectoral distribution of IM&A, 2012

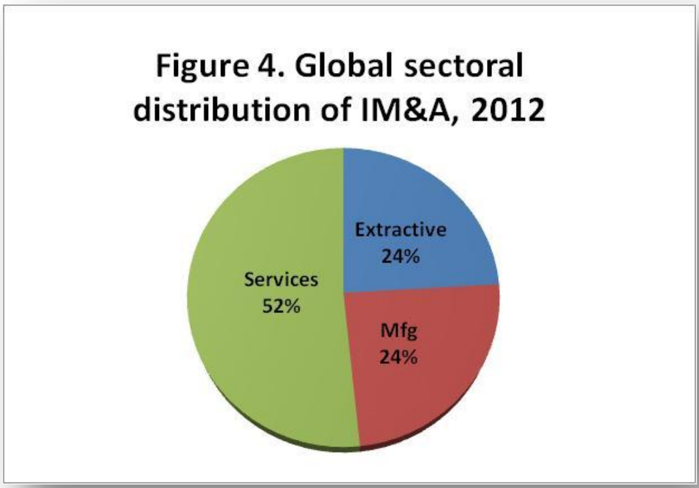

Figure 4. Global sectoral distribution of IM&A, 2012

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The heavy concentration of IM&A in the extractive industries in Latin America reflects the region's wealth in natural resources. From a global international investment perspective, the IM&A data indicate that the region is attracting more investment in upsteam segments of global value chains (GVCs), with international investment in services and manufacturing both below the global average. While this situation is not necessarily problematic, it does raise questions as to whether and how Latin American governments might broaden the region's involvement in GVCs. ■

High-level Seminar on Tapping into international Value Chains: opportunities and challenges for Latin America

31 October 2012 – 1 November 2012
San José, Costa Rica

The conference will be opened by H.E. Laura Chinchilla, President of Costa Rica, Anabel González, Costa Rican Minister of Foreign Trade, Luis Alberto Moreno, President of the Inter-American Development Bank, and Richard Boucher, OECD Deputy Secretary-General.

This conference will identify practical policy options for Latin American governments in the formulation of their investment strategies with a specific focus on global value chains.

Six interactive panels will focus on:

- The fragmentation of international production: a new global landscape for trade and investment
- Global value-chains: regional experiences and approaches
- Government strategies for enhancing global value-chain competitiveness
- International value-chains, insertion strategies and linkages with the local economy
- Trade policy in the context of global value-chains
- Integrating to the world with talent: the role of human capital in strengthening and enhancing participation in global value-chains

Find out more at http://www.oecd.org/daf/investment/lac