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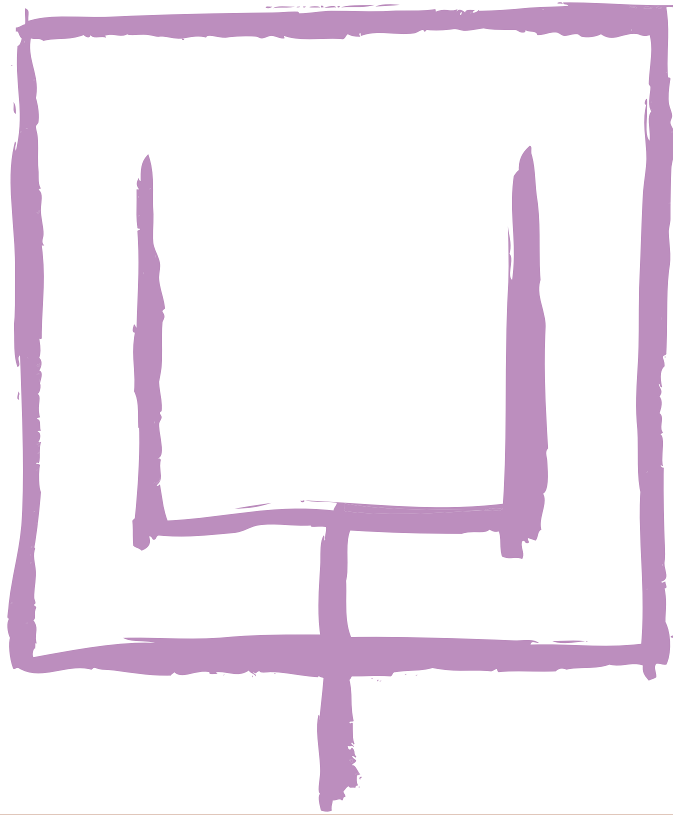

Foreign Direct Investment in Latin America and the Caribbean

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Foreign Investment in Latin America and the Caribbean, 2008 is the latest edition of a series issued annually by the Unit on Investment and Corporate Strategies of the ECLAC Division of Production, Productivity and Management. It was prepared by Álvaro Calderón, Michael Mortimore, Wilson Peres, Carlos Razo and Márcia Tavares, with assistance from Isabelle Bosshard, Jacopo Gamba, Sebastián Vergara and Marius Keller. Contributions were received from consultants Carmen Martínez and Ana Ramón.

ECLAC wishes to express its appreciation for the contribution received for the preparation of chapter II from the Production Development Corporation of Chile (CORFO) and the participants in the seminar organized by ECLAC and CORFO on offshore corporate services in Latin America and the Caribbean, held in Santiago on 18 November 2008. Thanks are also due to the executives of the firms consulted in connection with chapters II and III for their invaluable inputs.

The information used in this report has been drawn from a number of international organizations, including the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), the World Tourism Organization (UNWTO) and the Organisation for Economic Co-operation and Development (OECD), as well as from a host of national institutions, in particular central banks and investment promotion agencies in Latin America and the Caribbean, and the specialized press.

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Notes

The following symbols are used in tables in this edition of the *Foreign Investment*:
Three dots (…) indicate that data are not available or are not separately reported.
A dash (–) indicates that the amount is nil or negligible.
A point (.) is used to indicate decimals.
Use of a hyphen (-) between years (e.g., 2001-2005) indicates reference to the complete period considered, including the beginning and end years.
The word “tons” means metric tons and the word “dollars” means United States dollars, unless otherwise specified.
References to annual rates of growth or variation signify compound annual rates, unless otherwise specified.
Individual figures and percentages in tables do not necessarily add up to the corresponding totals because of rounding.

United Nations Publication
ISBN: 978-92-1-121702-5
LC/G.2406-P • Sales No. E.09.II.G.24
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Contents

Page

Summary and conclusions ... 7

Chapter I
Foreign direct investment and transnational corporations in Latin America and the Caribbean ... 17
A. Introduction ... 17
B. An overview of investment flows worldwide ... 18
1. The crisis is reducing foreign direct investment in the developed countries and causing an uneven slowdown in flows to developing and transition economies ... 20
2. The developed countries continue to be the main source of FDI, but developing and transition economies are increasing their share ... 22
3. FDI as a stabilizing influence on capital flows in times of crisis ... 23
C. FDI inflows and transnational corporations in Latin America and the Caribbean ... 25
1. Trends and characteristics of FDI flows to Latin America and the Caribbean in 2008 ... 25
2. Effects of the crisis on corporate strategy ... 30
3. Conclusions ... 40
D. Outward foreign direct investment and the Trans-Latins ... 41
1. Outward foreign direct investment (OFDI) flows ... 41
2. Trans-Latin investments abroad in 2008 ... 42
3. Conclusions and outlook for 2009 ... 46
E. Concluding remarks ... 48
Annex ... 49

Chapter II
Foreign direct investment in offshore business services in Latin America and the Caribbean ... 61
A. Introduction ... 61
B. Trends in the global offshore business services market ... 64
1. Competing on cost: nearshoring and the value of proximity ... 66
2. Competing by way of global networks ... 67

C. Latin America and the Caribbean in the corporate strategies of the main offshore players 68
1. Overview of offshore services in Latin America and the Caribbean........ 68
2. Latin America and the Caribbean in the corporate strategies of major players 75
D. Policy: reasons to promote offshoring and policies in place 87
E. Conclusions........ 93
Annex........ 94

Chapter III
Integrated hotel and real estate complexes: investments and business strategies........ 99
A. Introduction........ 99
B. Overview of the tourism industry 100
1. A complex economic activity with interesting potential for development........ 100
2. Business trends: towards the fragmentation of the value chain........ 104
3. Internationalization of the tourism industry 106
C. Latin America and the Caribbean: phased development........ 113
1. Mexico: a new destination for high-income baby boomers 115
2. The Caribbean: moving towards niche tourism........ 121
3. Central America and Panama: leapfrogging the traditional stages of tourism development........ 127
4. Brazil: looking to improve access for tourists from the main markets of origin........ 131
D. Conclusions........ 134

Bibliography 135

ECLAC publications 145

Tables, figures, boxes and maps

Table I.1 Gross domestic product growth and growth prospects in the world and by type of country, 2007-2010........ 19
Table I.2 Flow, growth and distribution of net FDI inflows in the world, by groups of recipient countries, 2007-2008........ 20
Table I.3 Latin America and the Caribbean: foreign direct investment income by receiving countries and territories, 1994-2008........ 26
Table I.4 Mexico: automobile exports, by destination, 2007-2008........ 36
Table I.5 International projects of Vale do Rio Doce for 2009........ 44
Table I.6 The largest non-financial companies and groups of Latin America and the Caribbean, in terms of sales, with investments outside their countries of origin 47
Table I.A-1 Latin America and the Caribbean: net inflows of foreign direct investment, by country or territory, 1998-2008........ 49
Table I.A-2 Latin America and the Caribbean: net inflows of foreign direct investment, by destination sector, 1999-2008 50
Table I.A-3 Latin America and the Caribbean: net inflows of foreign direct investment, by country of origin, 1999-2008 52
Table I.A-4 Latin America and the Caribbean: net flows of outward foreign direct investment, by country, official figures, 1998-2008........ 55
Table I.A-5 Latin America and the Caribbean: top 60 non-financial transnational corporations, by consolidated sales, 2007........ 55
Table I.A-6 Cross-border acquisitions for amounts in excess of US$ 10 billion, announced or concluded in 2008........ 57
Table I.A-7 Latin America and the Caribbean: cross-border acquisitions of assets and firms for amounts in excess of US$ 500 million, announced or concluded in 2008........ 58
Table I.A-8 Main cross-border acquisitions by Trans-Latins outside their countries of origin, announced or concluded in 2008........ 60
Table II.1 A.T. Kearney global services location index, 2004-2007 68
Table II.2 Range of services of selected transnational and regional corporations........ 76

Table II.3 Footprint of the major contact centre companies (offshore sites or global delivery centres) in Latin America and the Caribbean, 2007 76
Table II.4 Teleperformance: offshore locations 77
Table II.5 Footprint of major integrated BPO/IT companies (offshore sites or global delivery centres) in Latin America and the Caribbean 80
Table II.6 ACS: operations in Latin America and the Caribbean, 2008 80
Table II.7 IBM Global Services 82
Table II.8 Selected countries: estimated number of jobs in offshore business services, 2008 87
Table II.A-1 Latin America and the Caribbean (selected countries): policy initiatives for offshore business services 94
Table III.1 Evolution of the tourism industry 105
Table III.2 World's largest hotel chains, by number of rooms, 2007 109
Table III.3 Chains of city or business hotels and vacation hotels: differences in international expansion processes 112
Table III.4 Main sun, sea and sand hotel chains with a presence in Latin America and the Caribbean, by segment, 2007 114
Table III.5 Mexico: main hotel and real estate developments in operation, 2008 117
Table III.6 Mexico: main hotel and real estate developments under way, 2008 121
Table III.7 Brazil: main hotel and real estate developments under way, 2009 133

Figure I.1 Latin America and the Caribbean: inward foreign direct investment and outward foreign direct investment, 1993-2007 18
Figure I.2 Global flows of foreign direct investment, by group of economies, 1991-2008 19
Figure I.3 Developing regions: inflows of foreign direct investment as a proportion of GDP, 1991-2008 21
Figure I.4 Mergers and acquisitions worldwide, 2008 21
Figure I.5 Developed and developing countries and economies in transition: share in outward foreign direct investment, 1991-2008 22
Figure I.6 Financial flows into developing countries, 1990-2008 24
Figure I.7 Latin America and the Caribbean: net foreign direct investment by subregion, 1992-2008 25
Figure I.8 Latin America and the Caribbean: distribution of foreign direct investment by sector, 1999-2008 27
Figure I.9 Latin America and the Caribbean: sales of the 500 largest non-financial companies, 1990-2007 28
Figure I.10 Latin America and the Caribbean: sectoral distribution of the sales of the largest non-financial companies, 2007 28
Figure I.11 Latin America and the Caribbean: origins of foreign direct investment, 1999-2008 28
Figure I.12 Latin America and the Caribbean (selected countries): ratio between net foreign direct investment income and GDP, 2008 29
Figure I.13 Hydrocarbons price index and minerals and metals price index, 2004-2008 31
Figure I.14 Price index of selected minerals and metals, 2004-2008 31
Figure I.15 United States: market shares of selected countries in imports of manufactured products, 1989-2007 34
Figure I.16 Argentina and Brazil: production and export of automobiles, 1996-2008 38
Figure I.17 Latin America and the Caribbean: net flows of outward foreign direct investment, 1992-2008 41
Figure I.18 Latin America and the Caribbean: net flows of outward foreign direct investment, main investor countries, 2003-2008 42
Figure I.19 Latin America and the Caribbean (selected countries): ratio of net outward foreign direct investment to GDP, 2008 42
Figure II.1 Estimate of the global offshore services market, 2005-2010 64
Figure II.2 Actual versus potential global demand for offshoring 64
Figure II.3 IBM service exports from Brazil, 2005-2007 83
Figure III.1 International tourist arrivals by region, 1950-2008 102
Figure III.2 Main tourism destinations, by international arrivals, 1995-2007 103

Figure III.3 International presence of some of the world's largest hotel chains, 2007 ... 109
Figure III.4 Ownership mechanisms of some of the major international hotel chains, 2007 ... 111
Figure III.5 Latin America and the Caribbean: international tourist arrivals, 1990-2007 ... 113
Figure III.6 Mexico: hotel offer of the main tourist resorts, 1990-2008 ... 115
Figure III.7 Mexico: proportion of foreign tourists in total hotel occupancy in the main tourist resorts, 1990-2008 ... 116
Figure III.8 Mexico: private investment in tourism, by segment, 2001-2008 ... 119
Figure III.9 Mexico: private investment in tourism, by state, 2001-2008 ... 119
Figure III.10 Mexico: private investment in tourism, by origin, 2001-2008 ... 119
Figure III.11 Mexico: private investment in tourism, by origin and state, 2007-2008 ... 121
Figure III.12 The Caribbean: international tourist arrivals, main destination countries and territories, 1990-2007 ... 122
Figure III.13 The Caribbean: per capita income from international tourism, 2007 ... 122
Figure III.14 The Caribbean: international tourist arrivals, by country of origin, 2007 ... 122
Figure III.15 The Caribbean: hotel offer, by country, 1980-2007 ... 122
Figure III.16 Dominican Republic: foreign direct investment, by destination branch of activity, 1993-2008 ... 125
Figure III.17 Dominican Republic: foreign direct investment, by country of origin, 1993-2008 ... 125
Figure III.18 Central America: international tourist arrivals, 1990-2007 ... 128
Figure III.19 Central America: income from international tourism, 1990-2007 ... 128
Figure III.20 Central America: international tourist arrivals, by country of origin, 2007 ... 128
Figure III.21 Costa Rica: foreign direct investment, by branch of economic activity, 1997-2007 ... 129
Figure III.22 Air traffic through the main airports in North-East Brazil, international passengers, 2003-2008 ... 132

Box I.1 The end of another wave of mergers and acquisitions ... 22
Box I.2 An x-ray of change: composition of international capital flows towards developing countries, 2001-2008 ... 24
Box I.3 Investment patterns in the countries of the Eastern Caribbean Currency Union (ECCU) ... 29
Box II.1 What do we mean by offshore business services? ... 62
Box II.2 Captive versus outsourced offshoring ... 63
Box II.3 Costa Rica: upgrading from contact centres to knowledge process operations ... 71
Box II.4 Offshoring in Mexico: regional hubs ... 72
Box II.5 The IT/BPO industry in the Córdoba cluster ... 73
Box II.6 Chile: a cluster approach to higher-value-added global services ... 74
Box II.7 Outsourcing vendors in IT and IT-enabled services: the main players ... 75
Box II.8 Characteristics of employment in the offshore services industry in Latin America and the Caribbean ... 88
Box II.9 The human resources bottleneck ... 90
Box III.1 Club Med: the origin of a business model ... 110
Box III.2 Spanish hotel chains: pioneers in "sun, sea and sand" packages in Latin America and the Caribbean ... 110
Box III.3 Mayakoba: a new generation of integrated hotel and real estate developments in Mexico ... 118
Box III.4 Riviera Nayarit: a new high-end tourism destination driven by foreign investment ... 120
Box III.5 The "all-inclusive" concept: a jamaican speciality ... 124
Box III.6 Cap Cana tourism project: paradise in peril ... 126

Diagram III.1 Tourism value chain ... 101

Map III.1 Mexico: master-planned resorts ... 116

Summary and conclusions

In 2008, inward foreign direct investment (FDI) in Latin America and the Caribbean rose to a new record high despite slowing with respect to the previous year, and the region's outward foreign direct investment (OFDI) reached its second highest level ever.[1] Considering the economic and financial turmoil of the times, these results are surprisingly positive, but caution needs to be exercised in their interpretation. Many of the investments carried out in 2008 reflected the inertia effects of pre-crisis market trends, and capital flows in 2009 are in fact expected to fall, as discussed in chapter I of this document. Focusing on the impact of the global economic and financial crisis on FDI flows is unavoidable in the present circumstances, but the analysis of the short-term situation should not relegate the issue of long-term development. Chapter II examines investment in offshore business services in the region, a sector that holds promising prospects in the medium and long runs, not only in quantitative, but also in qualitative terms. Chapter III analyses investment in large coastal hotel and real estate complexes in tropical countries, a segment whose growth had been fuelled by the United States real estate boom and which has consequently been hit hard by the current crisis. Despite the difficulties they are facing now, these types of investment projects are an interesting example of a new model for tourism development that could be adopted by several countries in the region.

[1] FDI figures indicate inflows of foreign direct investment, minus disinvestments (repatriation of capital) by foreign investors. OFDI figures indicate outflows of direct investment by residents, minus disinvestments abroad by those investors. The FDI figures do not include the flows received by the main financial centres of the Caribbean. The OFDI figures do not include the flows originating in these financial centres. These figures differ from those contained in the editions of Economic Survey of Latin America and the Caribbean and the Preliminary Overview of the Economies of Latin America and the Caribbean published in August and December 2008, respectively, as the latter show the net balance of foreign investment, that is, direct investment in the reporting economy (FDI) minus outward foreign direct investment (OFDI).

A. An overview of FDI in Latin America and the Caribbean

1. FDI inflows and the activities of transnational corporations in the region

Despite the global financial and economic crisis, FDI flows to Latin America and the Caribbean reached a record high in 2008: excluding the financial centres, the region received US$ 128.301 billion, surpassing by 13% the record level observed in 2007. This is an extraordinary performance considering that FDI flows worldwide shrank by 15% in the same period.

The onslaught of the economic and financial crisis in 2008 affected FDI around the globe in three ways: it dampened the prospects of economic growth, the main engine of FDI; it limited access to domestic financial resources (corporate profits are down) and external financial resources (credit is tighter and more expensive); and it increased uncertainty and, consequently, worsened the risk outlook. As a result, FDI in developed countries, the epicentre of the crisis, fell 25% with respect to 2007.

By contrast, FDI flows to developing countries and economies in transition remained relatively stable and even rose slightly to reach new record levels. This increase can be largely attributed to commodity prices which remained high for most of 2008 and to the growth posted by some of these economies despite the international crisis. Also, there is the delayed impact of investment decisions taken in boom times that resulted in investments actually being made in periods of economic turmoil.

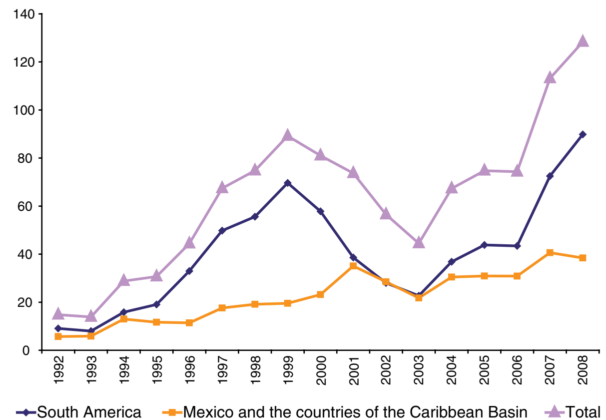
The growth rate of FDI to Latin America and the Caribbean was above the world average and above the average for developing countries in general. The record high posted in 2008, however, conceals marked differences at the subregional level (see figure 1). While FDI to South America climbed 24% to US$ 89.862 billion, FDI to Mexico and the Caribbean Basin (Central America and the Caribbean countries and territories) fell 5% to US$ 38.438 billion.

The different trends in FDI are largely explained by the differentiated effect that the international crisis has had on efficiency-seeking FDI and on market-seeking FDI, as well as by the extent to which the financial crisis has spread to each of the region's countries.

Figure I

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT BY SUBREGION, 1992-2008 [a]

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 May 2009.

[a] Excludes investment received by the main financial centres. These FDI figures differ from those published by ECLAC in the *Economic Survey of Latin America and the Caribbean* and the *Preliminary Overview of the Economies of Latin America and the Caribbean,* published in August and December 2008, respectively, because those studies show the net balance of foreign investment, in other words, direct investment in the reporting economy (FDI) minus outward foreign direct investment (OFDI). FDI figures indicate inflows of foreign direct investment, minus distinvestments (repatriation of capital) by foreign investors.

The rise in FDI flows to South America was fuelled mainly by commodity prices, which remained high for most of 2008 and attracted investment in the natural resources sector (mainly hydrocarbons and metal mining). Robust economic growth in this subregion (5.5% compared with 2.5% worldwide) also boosted market-seeking FDI. Brazil, Chile and Colombia were the main FDI recipients in South America and accounted for 80% of the subregion's FDI inflows. Brazil in particular received copious volumes of FDI and became the largest recipient in the whole of Latin America and the Caribbean. Flows into the country were 30% higher than in 2007, when they had already reached record levels, thanks to investments in the natural resources

sector, especially in mining and natural-resource-based manufacturing, such as steel.

The close ties of Mexico and the Caribbean Basin countries with the United States economy explain the drop in FDI flows to that subregion. The recession in the United States slowed activity among the export platforms located in the subregion, which had been set up mainly to serve the United States market, and this stemmed the flow of export-oriented FDI. At the same time, the downturn in local economic growth had a negative impact on domestic-market-seeking FDI. Mexico was the worst hit in this regard, and its FDI intake fell 20% with respect to 2007. Meanwhile, investment flows to Central America rose 7%. In contrast, FDI flows to the Caribbean climbed 42% thanks to the rise in FDI in the Dominican Republic and Trinidad and Tobago, which offset the decline in the other countries in the area. Mexico, the Dominican Republic, Trinidad and Tobago, Panama and Costa Rica were the main recipients in the subregion and accounted for 83% of inward FDI.

Ratios of FDI to GDP, which indicate the weight of FDI in national economies, were higher in the countries of the Caribbean and of the Eastern Caribbean Currency Union in particular in the last few years. Much of the FDI received by these countries was in the tourism sector, which is analysed in chapter III.

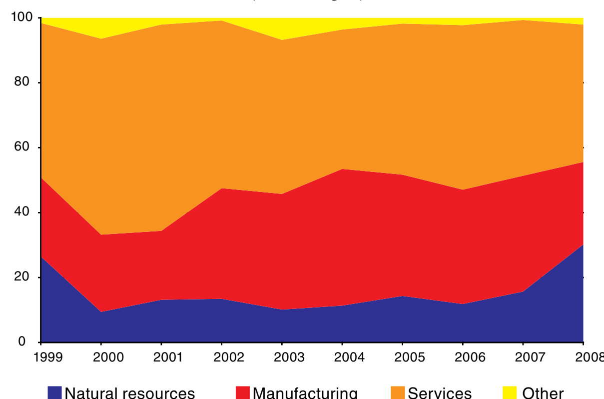
The distribution of FDI by sector and by country of origin has not varied notably (see figure 2). The main destination for FDI in the region as a whole is the services sector, basically telecommunications, financial services and public utilities. In South America, FDI in natural resources, as a proportion of total FDI, continues to be greater than in manufacturing, while the opposite tends to be the case in Mexico and the Caribbean Basin countries. By country of origin, the United States continues to be the region's principal source of FDI, followed by Spain and then Canada.

The effect of the international crisis on the different types of FDI (which are classified into natural-resource-seeking, market-seeking and efficiency-seeking FDI according to the investment strategy pursued by transnational corporations) has varied. Flows of natural-resource-seeking FDI remained strong thanks to high commodity prices and the fact that mining, metallurgy and hydrocarbon projects take years to come to fruition and investments in them tend to focus on the long term rather than on immediate circumstances. As the international crisis deepened and spread, however, companies in the sector were forced to take measures to mitigate the effects of the turmoil. These have largely consisted of production stoppages, reductions in the workforce, strategic partnerships to obtain financing and the revision of investment plans, among other steps. After a period of major expansion, these firms are now revising and cautiously adjusting their investment plans and strategies.

Figure 2

LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF FOREIGN DIRECT INVESTMENT BY SECTOR, 1999-2008

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

Note: The data for the Plurinational State of Bolivia represent net flows as it is not known in which sectors the divestments carried out by the Central Bank occurred.

Efficiency-seeking FDI has been the hardest hit by the crisis. The slowdown of the United States economy, the main destination of exports from Mexico and the Caribbean Basin, has plunged some of the largest manufacturing industries in the subregion, namely the automobile, electronics and textiles and apparel industries, into dire straits. All of them laid off workers, temporarily stopped production or closed plants in 2008, which has deterred FDI. The automobile industry is in the most critical situation and is undergoing the most radical restructuring process at the global level. It remains to be seen how this will affect the region, however. The international crisis may encourage companies to shift production to developing countries that can offer relatively lower costs, which could stimulate FDI, but this does not seem likely to happen in the short term. Restructuring and reorganizing production takes time and is considerably difficult when credit is tight.

Market-seeking FDI remained buoyant thanks to its main driver, regional economic growth. Latin America and the Caribbean posted its sixth consecutive year of economic growth in 2008 which, together with lower unemployment and better poverty indicators, increased the population's disposable income and boosted domestic demand. Market-seeking FDI became more buoyant in South America, driven by GDP growth of 5.5% in 2008. Even the automakers continued to invest in the subregion: the developed countries' markets may be highly saturated, but opportunities and unmet demand still exist in emerging economies, including Brazil. Also, the huge battle between the two regional leaders in the telecommunications market (Telefónica and Telmex-América Móvil) is still raging, spurring not only technological development, but also FDI in the industry regionwide. There was heavy investment in

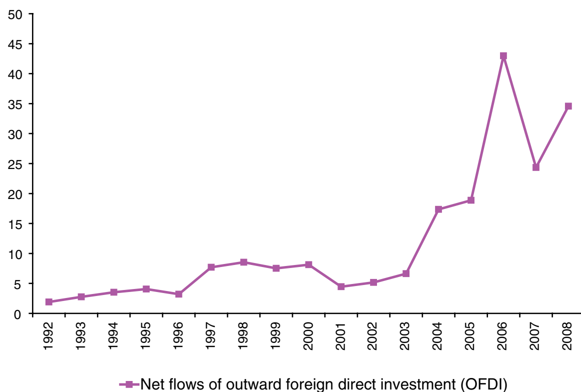
the banking and financial services sector in 2008, but some of the largest financial entities in the region will probably change hands or undergo restructuring given the difficult situation that Citigroup is facing and the emergence of the Brazilian banking giant Itaú-Unibanco. The struggle for dominance of food distribution channels in the region is also ongoing. Major investments were carried out in the retail sector, including Wal-Mart's investment in the Chilean market as part of its strategy to increase its presence in South America. The international financial crisis has, meanwhile, affected the region's countries in different ways, gradually shutting down the engines of growth, and the increasing constraints on consumer credit could put off market-seeking FDI. The region's governments have taken various steps to prop up aggregate demand. How these policies will affect FDI flows is still uncertain, however.

As the fall-out of the international crisis spreads across Latin America and the Caribbean, the economic conditions that generated the FDI boom of the last five years have begun to change. Faced with meagre growth prospects, financing constraints and greater uncertainty, it is reasonable to expect that FDI flows to the region will decline in 2009. The boom has nevertheless underscored the importance of continuing to build and strengthen the production capacity of the region's national economies so as to maximize the benefits of not only inward, but also outward, FDI. Pursuing such a strategy could place countries in a better position to withstand periods of economic turmoil such as the one affecting the region at present.

2. Outward foreign direct investment and the internationalization of the trans-Latins

The upward trend in outward foreign direct investment (OFDI) by the countries of Latin America and the Caribbean continued in 2008, with OFDI reaching US$ 34.561 billion, 42% above the level recorded in 2007 (see figure 3). Brazil, the region's leading foreign investor, spearheaded the increase, with investments of US$ 20.457 billion (61% of total OFDI), followed by Chile and the Bolivarian Republic of Venezuela with US$ 6.891 and US$ 2.757, respectively.

Figure 3
LATIN AMERICA AND THE CARIBBEAN: NET OUTWARD FOREIGN DIRECT INVESTMENT, 1992-2008 [a]
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 May 2009.
[a] Figures for outward foreign direct investment do not include flows from financial centres. OFDI figures indicate outflows of direct investment by residents, minus sales of assets abroad by those investors.

A combination of factors was behind the region's notable OFDI performance, including:

- The largest investments in 2008 were generally the result of corporate decisions taken before September 2008, the point at which the crisis worsened. The sectors in which trans-Latins are most active, in particular the natural-resource-based production sectors, performed favourably for the first two thirds of the year. In addition, some companies —in the petrochemical and the meat-producing sectors— continued with the internationalization processes they had embarked on in 2006 and 2007.
- A substantial portion of the investments were made in markets that have been less affected by the crisis or were impacted only later, particularly in the region and in other developing countries, or in sectors with a low income elasticity, such as bread-making. In fact, some companies' investments have been driven by the need to diversify and increase their presence in markets that have better growth prospects.
- Some investments, especially in the hydrocarbon and mining sectors, where projects have a long maturation period, have been made in anticipation of a recovery in the global economy.

Despite the good results, starting in the fourth quarter of 2008, many trans-Latins were forced to curb their operations and revise their investment plans. Some enterprises were severely hampered by past international acquisitions —such as the Mexican firm Cemex's purchase

of Rinker of Australia and the acquisition by Argentine firm Tenaris, which is part of Techint, of Maverick of the United States— that, in addition to sharply increasing their debt levels, made them more sensitive to fluctuations in the United States market.

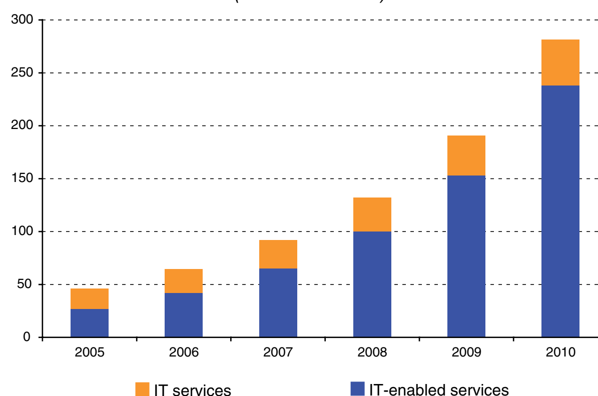
The behaviour of OFDI flows from the countries of Latin America and the Caribbean in 2009 will depend largely on the evolution of the international economic and financial crisis and the extent to which it affects global demand for natural resources and the economic performance of the markets of Latin America and the other economies in which the trans-Latins operate. Given the current situation, the international expansion of Latin American and Caribbean enterprises is expected to be less dynamic in 2009, although the crisis could create new opportunities for solid firms that have access to financing.

B. Foreign direct investment in offshore business services in Latin America and the Caribbean

An increasingly broad range of services fall into the category of offshore business services (offshoring),[2] including contact centres, business processes, information technology (IT) services, and knowledge-intensive, analytical services. What they have in common is that their use of information and communication technologies (ICT) makes it possible to overcome barriers imposed by the distance between the demand and supply of labour. Companies can therefore provide lower-cost services to their customers or provide a higher-quality service by drawing from a global pool of skilled workers. By taking part in the offshore business services market, developing countries have benefited from the creation of jobs that are usually better remunerated than alternatives for similarly skilled persons, as well as from the skills-upgrading generated by on-the-job experiences and training and from exposure to global standards in management practice, ICT tools, and technology, among other factors. Hence FDI in remote business services have great potential to boost the development of recipient countries.

The offshore business services industry is very dynamic. Despite difficulties and discrepancies in quantification, estimates generally coincide in predicting high growth rates for the coming years (see figure 4). A slowdown may occur in the short run due to the current international economic and financial crisis but, as has occurred elsewhere, the pressure to reduce costs because of the crisis may actually lead more firms to offshore. There is great potential for growth, given that offshore services still represent only a fraction of the global business services market.

Figure 4
GLOBAL OFFSHORE SERVICES MARKET [a]
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Boston Consulting Group (BCG), "Estudios de competitividad en *clusters* de la economía chilena. Informe final" [online] http://www.economia.cl/1540/articles-187159_recurso_1.pdf, 2007.

[a] Estimates.

Globally, two forces have driven the development of remote business services. First, competition increased among outsourcing players in the traditional functions, such as contact centres, business process outsourcing (BPO) and IT services. This drove profit margins down and increased the pressure to offshore to low-cost destinations. Second, the upgrading of ICT and the body of accumulated experience have prompted firms to offshore a broader array of services,

[2] Offshoring refers to the provision of services from a location outside the country where the customer is located. By using information and communication technologies (ICT), firms can overcome barriers imposed by the distance between the demand and supply of labour in some activities. The scope of services offshored is broad and in constant expansion through innovative uses of information and communication technologies (ICT). A related concept is outsourcing, in which one firm lends services to another, regardless of location. Some, but not all, offshore business services are outsourced, since some can be provided in-house (which is known as captive offshoring).

including higher-skilled and higher-value-added services that involve fewer standardized procedures and greater analysis and industry-specific knowledge. Firms providing those services gain a comparative advantage from having a global presence, operating in different time zones (allowing for 24/7 services) and being able to draw upon a multilingual staff. Global networks also help to offset the risks involved in concentrating key operations in a single location.

Although India dominates the offshore business services industry, investors in the sector have been turning their attention to Latin America and the Caribbean in the last few years. United States clients looking to offshore traditional functions tend to prefer to work with service providers who are physically closer, a shorter journey time away and in the same time zone, among other benefits of what has been named “nearshoring”. Firms running worldwide integrated operations in higher-value-added services have been using the Latin American and Caribbean region to complement other destinations.

The Latin American and Caribbean region still plays a relatively small role in the global offshore business services industry. In 2007, it accounted for 3% of payments by United States companies to companies abroad (affiliated and unaffiliated) for computer and information services, compared to India’s 27%. In total business and professional services (which include management consultancy, public relations, R&D, testing, advertising, construction, architecture, engineering, legal and equipment support services), the region’s share is about 7%. Nonetheless, world rankings based on investor perception indicate that interest in Latin America and the Caribbean is growing.

As a region, Latin America and the Caribbean presents a range of advantages for offshoring, among which are: geographical and cultural proximity to the United States; time zone advantages; destinations with relatively low political, economic and natural risks, providing a good hedging alternative; talent and technology hubs with lower attrition rates (making it safer for operations involving knowledge transfer), multilingual capacities and established markets (highly influenced by the presence of transnational corporations and the growing internationalization of local companies).

The English-speaking Caribbean has hosted United States-oriented call centres and data-entry centres since the 1980s. The industry has boomed since 2005, however, fuelled by the preference for nearby destinations and by the upgrading of the local telecommunications infrastructure. Although the Caribbean can compete with Asia on a cost basis in some services, its main advantages lie in operations that require frequent interaction and those in which scale is non-critical. Low staff attrition has also made the English-speaking Caribbean attractive for offshoring in segments that require a relatively high investment in human resources training, such as medical informatics. For the economies of the English-speaking Caribbean, this industry is particularly important because it complements the fairly volatile and cyclical tourism industry.

Central American countries and the Dominican Republic have also benefited from nearshoring. Although only a fraction of the population in these countries speaks English fluently, the number is significant in absolute terms, allowing for the establishment of larger centres than in most of the English-speaking Caribbean. The bilingual contingent has grown in recent years through educational efforts and through the return of people who had previously worked or studied in the United States or grown up there. Moreover, the growth of the Hispanic community in the United States and of the markets of Latin America and Spain has created demand for Spanish-speaking operators, to the benefit of these countries that stand at the intersection of North and South. Governments have actively supported FDI generally and most have taken measures to promote the offshore service industry. In fact, as the apparel industry started suffering from competition from China and other Asian countries, especially from 2001 onward, the Central American countries and the Dominican Republic took steps to diversify their economies and have targeted the offshore business services industry in particular. From the perspective of United States clients, the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR) has also made these countries more attractive for offshore operations.

The larger markets, Mexico and Brazil, host service centres in virtually every major segment of offshore business services. Although they are relatively recent offshore destinations and export a relatively small share of those services, they represent a large share of the region’s total services exports. Part of the attractiveness of both countries for offshore operations stems from their large local markets and solid industrial sector. The strong presence of transnational corporations in multiple industries resulted in the establishment of in-house service centres for engineering and R&D, regional headquarters and shared service centres. It also led to the presence of outsourcing vendors that cater to both global and local clients. In addition, the existence of sizeable IT hardware manufacturing industries in both countries helped create a pool of engineers and other professionals employable in the IT services industry.

Other South American countries have focused on specific niches of offshoring, based on their comparative advantages. Argentina has competed well both in segments where cost is the critical factor, such as call centres, and in higher-skilled industries, such as IT. Chile has taken a cluster approach to the development of a global services industry, which today includes operations in shared service

centres, software development and knowledge process outsourcing (KPO). Uruguay has been stronger in the software product industry but has expanded in services, especially since Tata Consultancy Services (TCS) of India established its global delivery centre in 2005. Colombia has a large business services industry which, like that of its larger neighbours, caters largely to the local market.

Given that the offshore business service industry is seen as crucial for attracting FDI, countries have taken specific steps to foster it, alongside horizontal business climate policies, country image promotion and other initiatives directed at attracting FDI generally. The most common specific measures fall into two categories: tax-related instruments and free zones, and skills development. In fact, one of the major bottlenecks for the expansion of the offshoring industry in Latin America and the Caribbean lies in the availability of skilled human resources. Other initiatives include the establishment of technology parks and grants for pre-investment assessments and for setting-up costs.

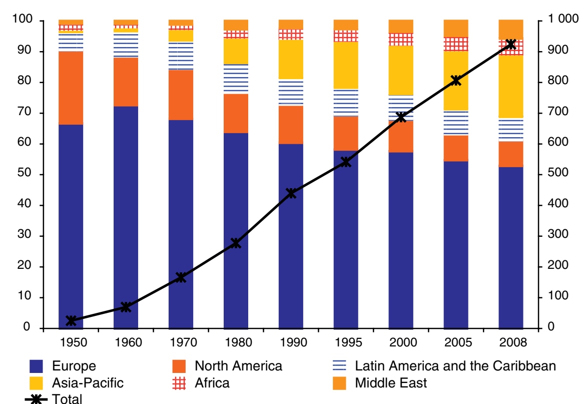
As well as the public policy measures already being taken to help the industry realize its potential, other steps will be needed to overcome the region's main limitations, including the size of the pool of workers with adequate technical and language skills. Local and foreign companies and industry specialists and governments that are already engaged in promoting this industry in their respective countries have stressed the need for five main groups of policy actions: expand and improve the skills base; specialize in niches in which the country has comparative advantages; act collectively to market and promote the region and facilitate the integration of regional operations; develop local companies; and target higher-value-added and higher-skilled segments.

C. Integrated hotel and real estate complexes: investments and business strategies

Tourism grew strongly in the second half of the twentieth century and has become one of the most internationalized industries in the global economy. Many different economic activities involving a wide range of agents, from transnational corporations to very small firms, interact in this industry, offering diverse services in different parts of the world. Although Europe and North America continue to account for the bulk of tourist arrivals, other destinations have gained prominence, many of them in emerging economies, which has spread the potential benefits of tourism to practically every corner of the globe. The Latin American and Caribbean region is the destination for just over 8% of international journeys, and this share has remained relatively stable for the last few decades (see figure 5).

Changes have been coming ever faster in the industry recently, in response to shifts in economic, cultural, political, technological and demographic patterns, and it is becoming increasingly segmented. Accordingly, tourism companies have begun to outsource many of their activities, which has brought related firms —real estate and construction businesses, financial entities and so forth— into the sector. As in other service industries, the leading firms have been able to hold on to their competitive edge by entering into different types of contractual arrangements —management, leasing and franchising— without having to make conventional capital investments in order to embark on new initiatives. As a result, many global brands in the tourism industry have established an international presence without pouring large amounts of FDI into securing control of physical assets, such as real estate. As tourists become better informed and more selective and demanding, many developing countries have made it a priority to capture FDI and attract global brands in order to gain a foothold in international tourism circuits.

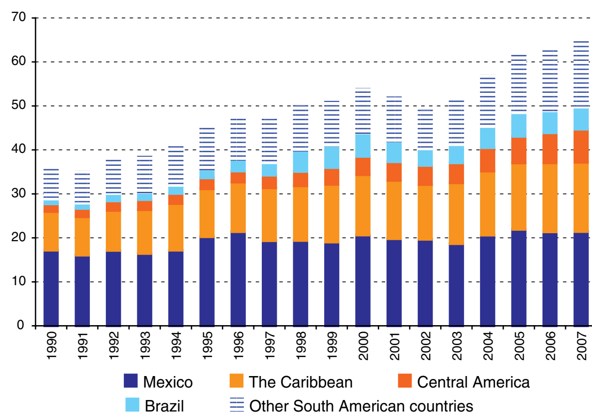
Figure 5
INTERNATIONAL TOURIST ARRIVALS, 1950-2008
(Percentages and millions of people)



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

With the rise of mass tourism, growing numbers of international travellers were drawn to coastal locations: those commonly known as “sun and sand” destinations. Mounting competition and over-exploitation of the natural environment, however, forced the major tour operators to seek out new destinations to meet the expectations of an increasingly demanding clientele. Thanks to their proximity to the United States, Mexico and the countries of the Caribbean Basin developed into increasingly attractive hubs for this type of vacation tourism and now account for almost 70% of all international arrivals in the Latin American and Caribbean region (see figure 6).

Figure 6
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL TOURIST ARRIVALS, 1990-2007
(Millions of people)



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

A heavily price-driven type of tourism based on the all-inclusive model spread rapidly in the region. But volatile demand and the problems caused by issues of waste disposal, beach pollution and the provision and delivery of drinking water began to erode the competitive advantages that sustained the industry. In these circumstances, the major tourism companies embarked on massive upgrades of their facilities in an effort to capture higher-income travellers. The region also began to see new ventures on a much larger scale involving local and international real estate developers. Spurred by the real estate boom in the industrialized countries and taking advantage of the lower prices prevailing in the Latin American economies, developers began to offer a high-quality product aimed at the flourishing vacation-homes market, both for occasional travellers and for those seeking a more permanent residence, such as retirees from Canada and the United States. The combination of high-end hotels and real estate developments has enabled investors to increase their cash flow through home sales and to prorate the costs of building and maintaining shared leisure facilities, such as golf courses, among the owners of the residential units. These mega-projects have been highly successful in Mexico and are beginning to spread to other countries, such as Costa Rica, the Dominican Republic, Panama and, more recently, the North-East of Brazil.

Construction companies, real estate developers and financial entities, many of them locally-owned, are the main drivers of these mega-projects, while the hotel chains contribute their business know-how and customer management experience, all vouched for by the prestige of their brand name. This model seems to have stronger linkages with the local economy than the all-inclusive scheme, which tended strongly towards enclave-type operation.

Lastly, investors’ expectations may be severely dented by the repercussions of the global financial crisis and of fears over influenza A (H1N1). In fact, not only have visitor numbers dropped, but the sales of several of these real estate developments have plummeted in the last few months, which has complicated the financial management of the mega-projects.

D. Conclusions and implications

In a highly volatile climate, levels of FDI flows into the Latin American and Caribbean region reached a fresh high in 2008, drawn mainly by the sound performance of the region’s domestic economies and of the industries linked to natural-resource extraction and processing, especially in the first three quarters of the year. As conditions have become increasingly challenging, many countries of the region have taken steps to diversify their FDI priority areas, in order to maintain and augment their presence in the international economy. In particular, strenuous efforts are being made to develop offshore business services and the new integrated hotel and real estate complexes. Offshoring may not attract huge volumes of FDI, but it does create a number of benefits in terms of jobs,

training, technology transfer and assimilation and local business development. Large-scale tourism projects have helped to create economic activities in little-developed areas and seem to be reshaping business models in over-exploited locations. They also provide an important source of employment for unskilled workers and have created interesting synergies between local and foreign businesses and investors.

The increase in FDI flows into the region in recent years has been advantageous. Yet the potential benefits of this increase and of the greater presence of TNCs have not always been fully realized. Resource-seeking FDI has contributed to higher exports and has generated employment and fiscal revenue. TNCs in the natural-resource sector often continue to operate as enclaves in isolation from the domestic economy, however, with very limited local processing operations and risks in terms of pollution and environmental degradation.

Efficiency-seeking FDI in export sectors has helped to transform the industry in a number of economies, mainly in Mexico and some Caribbean Basin countries, by making their manufactures more internationally competitive. It also helps to transfer knowledge and technology and so contributes to enhancing human resources. But efficiency-seeking FDI is not without its attendant difficulties. This type of investment can risk being trapped in low-value-added activities, which generate few production linkages and are based on static comparative advantages (low cost) rather than on dynamic advantages (innovation) in the host economy. Scaling up the value chain of efficiency-seeking FDI remains a challenge for the region.

Domestic-market-seeking FDI has fostered new economic activities in host economies, increasing local content, developing production linkages and local business and improving the standard of services. In the absence of sound institutions or in the presence of regulatory gaps, however, this type of FDI can lead to the crowding out of local companies or the production of goods and services that are uncompetitive on international markets.

The strong FDI flows into the region in the last five years show that the volume of such investment does not in itself guarantee the realization of all the potential benefits of the presence of TNCs.

OFDI flows from the countries of the region have also continued to increase. As the trans-Latins have globalized, they have become more competitive, but this does not automatically feed through into industry-wide competitiveness or efficiency gains. The potential benefits of knowledge- or technology-transfer may be diluted by constraints on absorptive capacity.

All this indicates the need to formulate and implement policies that can increase the absorptive capacity of the region's economies. So the key question is not only how much FDI is received, but what is achieved with it. As part of the response to the current economic crisis, the production capacities of domestic economies must be built up and strengthened in order to maximize the benefits not only of FDI, but also of these economies' investment abroad. Taking full advantage of FDI flows and the presence of the TNCs making those investments may be one of the keys to increasing the share of technology- and knowledge-intensive sectors in the production structure. The realization of that potential depends heavily on the action of a production development policy that is strongly centred on innovation and local capacity-building.

Chapter I

Foreign direct investment and transnational corporations in Latin America and the Caribbean

A. Introduction

Foreign direct investment (FDI) levels in Latin America and the Caribbean reached US$ 128.301 billion in 2008, 13% above the record volume posted in 2007. This was a notable result considering that the international financial and economic crisis triggered a 15% contraction of FDI flows worldwide. FDI in the region did not escape the crisis unscathed, however: growth in FDI in 2008 was below the 52% rate witnessed the year before.

The resilience of FDI flows to the region is noteworthy, but the record high conceals marked differences at the subregional level. FDI to South America soared to US$ 89.862 billion in 2008, 24% higher than in the previous year. Brazil, with a 30% increase in FDI inflows, became the main FDI recipient in Latin America and the Caribbean and accounted for most of the increase recorded by the region as a whole. Meanwhile, FDI to Mexico and the countries of the Caribbean Basin fell 5% in comparison with 2007, to US$ 38.438 billion. Mexico remained the main recipient in this subregion, but its FDI inflows dropped 20% in relation to 2007.

The increase in FDI to South America was fuelled by two factors: commodity prices, which remained high through most of the year and attracted natural-resource-seeking investment, and the solid economic growth of the subregion, which encouraged market-seeking investment. Argentina, Brazil, Chile and Colombia recorded the largest increases in FDI. In contrast, the recession in the United States had a direct negative impact on the economies of Mexico and the Caribbean Basin, because it removed the incentive for efficiency-seeking investors to set up export platforms in the subregion. The close ties between these economies and the United States market led to a slowdown in economic growth in the subregion, which also resulted in market-seeking FDI being less buoyant.

On the other hand, the region's outward investment flows continued to climb despite the financial crisis and

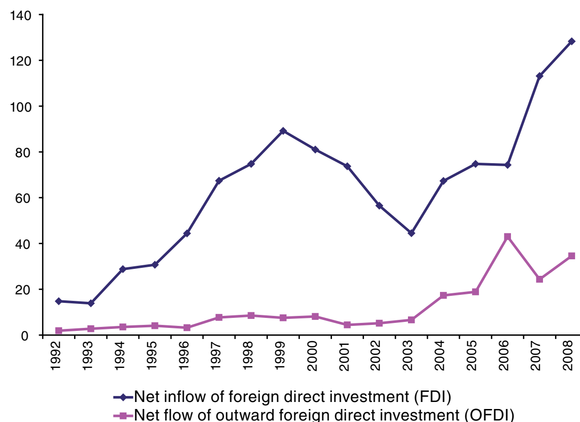
reached US$ 34.561 billion, which represented a 42% increase with respect to 2007. This was largely on account of the major investment plans of trans-Latin corporations which, in many cases, were executed in 2008, and to the fact that these companies' investments in the natural-resources sector are less sensitive to the current situation because they correspond to long-term projects. The largest investor in Latin America and the Caribbean was Brazil, which accounted for almost 60% of the region's total outward investments in 2008.

Given the magnitude and spread of the international financial and economic crisis, this chapter examines the main effects of that crisis on current and future FDI flows to Latin America and the Caribbean. The chapter is divided into three sections: section B provides a broad overview of the situation of FDI worldwide to give a global context to the examination of FDI in Latin America and the Caribbean; section C examines how the countries of the region have fared as FDI recipients; and section D looks at how they have performed as foreign investors themselves. The analysis is based on balance-sheet data and information on the activities and strategies of the main transnational and regional corporations in Latin America and the Caribbean, the so-called trans-Latins.

Figure I.1

LATIN AMERICA AND THE CARIBBEAN: INWARD FOREIGN DIRECT INVESTMENT AND OUTWARD FOREIGN DIRECT INVESTMENT, 1993-2007 [a]

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates made on the basis of official figures as at 15 May 2009.

[a] The FDI figures indicate inflows of foreign direct investment, minus disinvestments by foreign investors. The OFDI figures indicate outflows of direct investment by residents, minus disinvestments abroad by those investors. The FDI figures do not include flows received by the main financial centres of the Caribbean. The OFDI figures do not include flows originating in these financial centres. These figures are different from those contained in the editions of *Economic Survey of Latin America and the Caribbean* and the *Preliminary Overview of the Economies of Latin America and the Caribbean* published in August and December 2008, respectively, as the latter show the net balance of foreign investment, that is, direct investment in the reporting economy less outward foreign direct investment.

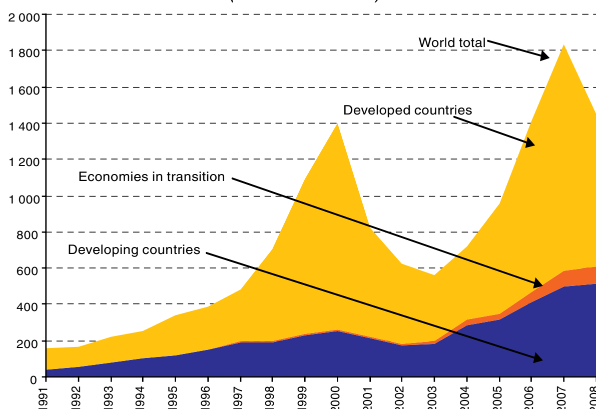
B. An overview of investment flows worldwide

The global boom in FDI, which started in 2003 and peaked in 2007, was brought to a halt by the international financial and economic crisis (see figure I.2). In 2008, global FDI flows totalled US$ 1.7 trillion, a figure that, despite being 15% lower than in 2007, was still above the average for the previous five years.

What started out as a crisis in the United States real estate market in mid-2007 soon turned into an upheaval that shook the financial systems of most of the developed countries and exposed major cracks in the global financial market.

Increasing financial deregulation and a flurry of new instruments (such as mortgage-backed securities and collateralized debt obligations) encouraged a massive accumulation of financial assets supported by mounting levels of debt in the developed countries. For consumers, this meant that financing could be obtained to buy consumer goods, but the drop in share and housing prices slashed the value of their assets, which curtailed their purchasing power and drastically altered expectations. Companies reacted with measures to curb supply, which contributed to the slowdown in economic growth. Meanwhile, rising levels of debt (particularly off-balance-sheet debt) in certain financial institutions pushed leverage ratios to extraordinary highs in some cases. The deleveraging of these institutions widened the cracks that had appeared earlier in the financial system and tumbled several established financial institutions in the third quarter of 2008, which lead to the rapid evaporation of global liquidity.

Figure I.2
GLOBAL FLOWS OF FOREIGN DIRECT INVESTMENT, BY GROUP OF ECONOMIES, 1991-2008
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2008. Transnational Corporations and the Infrastructure Challenge,* Geneva, 2008. United Nations publication, Sales No. E.08.II.D.23; estimates for 2008 based on projections obtained from United Nations Conference on Trade and Development (UNCTAD), *Assessing the Impact of the Current Financial and Economic Crisis in FDI Inflows*, April 2009.

Table I.1
GROSS DOMESTIC PRODUCT GROWTH AND GROWTH PROSPECTS IN THE WORLD AND BY TYPE OF COUNTRY, 2007-2010
(Percentages)

	2007	2008	2009	2010
International Monetary Fund (IMF)				
World	5.2	3.2	-1.3	1.9
Advanced economies	2.7	0.9	-3.8	0.0
Emerging and developing economies	8.3	6.1	1.6	4.0
World Bank				
World	3.7	2.5	-1.7	2.3
High-income countries	2.6	1.3	-2.9	1.6
Developing countries	7.9	6.3	2.1	4.4
United Nations				
World	3.8	2.5	1.0	…
Developed economies	2.5	1.2	-0.5	…
Developing economies	7.2	5.9	4.6	…
Economies in transition	8.3	6.9	4.8	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook Update*, Washington, D.C., 28 January 2009; United Nations, *World Economic Situation and Prospects*, New York, January 2009 and World Bank, "Global Economic Prospects 2009. Forecast Update March 30, 2009" [online] http://siteresources.worldbank.org/INTGEP2009/Resources/5530448-1238466339289/GEP-update-March30.pdf. and for 2007 and 2008, World Bank, *Global Economic Prospects 2009: Commodities at the Crossroads*, Washington, D.C., December, 2008.
Note: The United Nations projection for 2009 reflects the base scenario. A more optimistic and a more pessimistic scenario are also taken into consideration.

The crisis which had started in the developed countries gradually spread to the developing ones, both through the real economy (the slowdown in exports, the fall in commodity prices, the decline in remittances) and the financial market (less access to financing and at higher costs). And the crisis became a global one.[1]

This gradual deterioration of the economic situation completely altered the outlook for FDI in 2008. The negative impact of the international crisis on FDI flows made itself felt in three ways:

(1) Through the worsening of the prospects for economic growth, which is the single most determinant factor of FDI (Sauvant, 2008a). The present situation with its bleak growth prospects (see table I.1) has lowered the incentives to step up production capacity, which has triggered a sharp contraction in FDI flows.

(2) Through the more limited access to resources to finance investments. The international crisis has limited access to financing in two ways: the contraction and increased cost of commercial credit is forcing companies to rely on their own resources to finance investments (Sauvant, 2008a); and the economic crisis is eroding corporate profits. This combination of factors has placed constraints on companies' capacity to finance new investments or mergers and acquisitions with their own funds (UNCTAD, 2009).

(3) By raising perceptions of risk and uncertainty. Companies have taken various measures (restructuring, divestment, plant closures, pay roll reductions) to prepare themselves for the possible turmoil ahead. One of these is to revise their investment plans. Many companies have postponed or suspended some of their investment projects.[2]

On the other hand, in this context, certain factors could stimulate FDI:

(i) the impact of the measures taken by countries to tackle the crisis;

(ii) asset prices might encourage mergers and aquisitions, and

(iii) the reestructuring of sectors and companies might require heavy new or additional pro-environment investment (for example, in the automobile and renewable energies sectors).

1 For a more detailed discussion of how the crisis was passed on to the developing and transition economies, see United Nations, 2009, and for Latin America and the Caribbean in particular, see ECLAC (2008c).

2 For example, in the face of plummeting commodity prices and the turmoil in world markets, BHP Billiton (Australia) withdrew its bid for Rio Tinto (United Kingdom), and the mega-deal between the two companies is now on hold (Expansión, 2008). Another example in the mining sector was the withdrawal of the bid made by Xstrata (Switzerland, United Kingdom) for Lonmin (United Kingdom) on the grounds that it was having difficulty obtaining credit to finance the transaction (*Financial Post*, 2008). The world economic situation and its prospects led Samsung (Republic of Korea) to withdraw its US$ 5.9 billion takeover bid for SanDisk (United States), and Huawei (China) had to suspend the sale of its mobile devices unit after several possible buyers pulled out (*New York Times*, 2008). Other examples and their impact on Latin America are described in the next section.

1. The crisis is reducing foreign direct investment in the developed countries and causing an uneven slowdown in flows to developing and transition economies

Having been the epicentre of the financial crisis, the developed countries have been the worst hit by it: the slowdown in their economies meant that FDI inflows there fell 25% in 2008 with respect to the previous year. In comparison, FDI flows towards developing countries and transition economies increased 7% and 24%, respectively and reached a new record high. This was achieved thanks to high commodity prices, the solid economic performance of some of developing economies and the inertia of certain large investment projects which were already under way and were not suspended.

Although developed countries are still the largest recipients of global FDI, their share fell from 69% in 2007 to 60% of world FDI flows in 2008, offset by the rise in the share of the developing and transition economies from 31% to 40% over the same period. The share of Latin America and the Caribbean in global FDI increased from 7% in 2007 to 8% in 2008 (see table I.2). The recipients of the most FDI among the developed countries in 2008 were the United States, France and the United Kingdom, while the main recipients among developing countries were the BRICs (Brazil, the Russian Federation, India and China) and Hong Kong Special Administrative Region of China.

Inward FDI in developing and transition economies increased, but the international crisis curbed their growth also, albeit to different degrees in different regions. The extent of the slowdown depends on the economic vulnerability of each country or region and on how far the effects of the crisis have spread.

In every region except Africa, FDI growth rates were lower than in 2007. FDI in the developing economies of Asia and Oceania grew only 2% with respect to the previous year, and although flows to the Asia-Pacific region rose slightly (6.4%), FDI to Western Asia fell by 18.6% as a result of the slowdown in global demand for oil.[3] FDI flows to Africa remained steady owing to the high commodity prices recorded during most of the year. Flows to Latin America and the Caribbean are analysed in greater detail in the next section.

Table I.2
FLOW, GROWTH AND DISTRIBUTION OF NET FDI INFLOWS IN THE WORLD, BY GROUPS OF RECIPIENT COUNTRIES, 2007-2008

	Foreign direct investment flows (millions of dollars)		Interannual change (percentages)		Share (percentages of total)	
	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]
World	1 940 900	1 658 500	38	-15	100	100
Developed countries	1 341 800	1 001 800	43	-25	69	60
Developing countries	512 200	549 100	24	7	26	33
Latin America and the Caribbean [b]	127 300	139 300	37	9	7	8
Africa	53 500	72 000	17	35	3	4
Asia and Oceania	331 400	337 800	21	2	17	20
South-Eastern Europe and the Commonwealth of Independent States	86 900	107 600	52	24	4	6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2008. Transnational Corporations and the Infrastructure Challenge*, Geneva, 2008. United Nations publication, Sales No. E.08.II.D.23; estimates for 2008 are based on the projections obtained from United Nations Conference on Trade and Development (UNCTAD), *Assessing the Impact of the Current Financial and Economic Crisis in FDI Inflows*, April 2009.

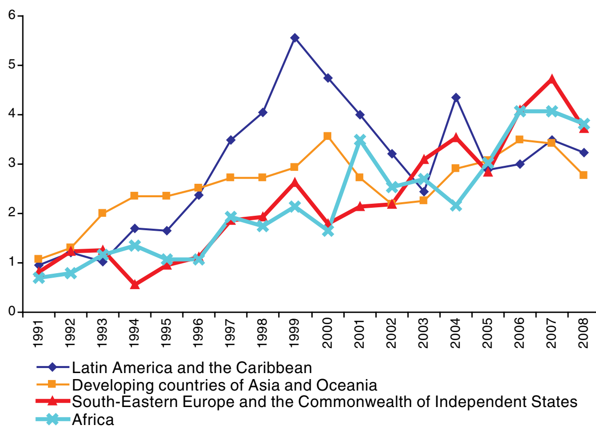
[a] Preliminary figures.

[b] Includes financial centres.

[3] Western Asia includes: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates and Yemen.

In terms of FDI as a proportion of GDP, the regions with the highest indicators were South-Eastern Europe, the Commonwealth of Independent States and Africa.[4] By the same measure, FDI in developing countries fell in relation to the previous year (see figure I.3).

Figure I.3
DEVELOPING REGIONS: INFLOWS OF FOREIGN DIRECT INVESTMENT AS A PROPORTION OF GDP, 1991-2008
(Percentages)

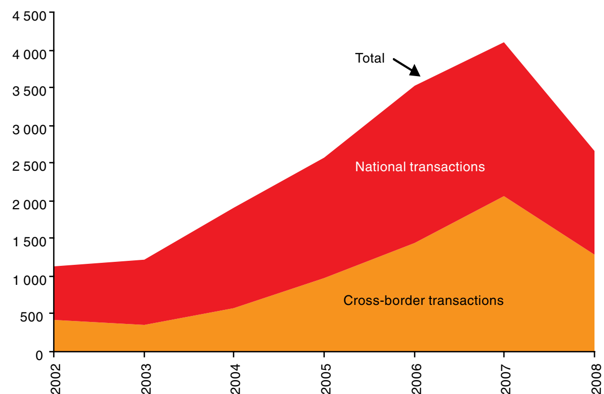


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2008. Transnational Corporations and the Infrastructure Challenge,* Geneva, 2008. United Nations publication, Sales No. E.08.II.D.23; International Monetary Fund (IMF), *World Economic Outlook*, Washington, D.C., October 2008; estimates for 2008 are based on projections obtained from the United Nations Conference on Trade and Development (UNCTAD), *Assessing the Impact of the Current Financial and Economic Crisis in FDI Inflows*, April 2009.

Cross-border mergers and acquisitions also provide an indication of how the current situation is affecting FDI flows. These transactions tend to follow the same pattern as total FDI flows and are one of the most common means that transnational corporations use to penetrate foreign markets.

The volume of mergers and acquisitions announced in 2008 was well below the volume recorded in 2007, mainly due to the growing limitations on financing (see figure I.4). Announced cross-border transactions fell 27% in number and 40% in value with respect to the previous year. National mergers and acquisitions (between companies in the same country), meanwhile, fell 24% in number and 36% in volume.[5] This decline may signal the end of what could be considered the sixth wave of mergers and acquisitions (see box I.1).

Figure I.4
MERGERS AND ACQUISITIONS WORLDWIDE, 2008 [a]
(Billions of dollars)



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

[a] The data on mergers and acquisitions refer to concluded or pending operations announced each year. Bloomberg does not report on the value of all the transactions; the aggregated data therefore only correspond to transactions whose values are made public.

It should be noted that the financial crisis triggered a major drop in share prices and consequently in the value of companies' assets. This makes the same merger or acquisition worth less in monetary terms than before the crisis, which means that FDI in cross-border transactions also declines in value terms during the crisis.

Despite the world economic situation, several large transactions announced prior to the crisis did still go ahead in 2008. A list of the cross-border transactions involving amounts above US$10 billion that were announced or concluded in 2008 is provided in table I.A-1 of the annex.

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[4] The objective of this indicator (FDI/GDP) is to normalize FDI figures according to the size of the economy. It has several flaws, however: given that the GDP figures used are based on current prices, some factors, such as inflation or exchange rate fluctuations, can have a strong effect on the FDI/GDP ratio, which makes it difficult to compare one period or one region with another.

[5] Information based on Bloomberg. The value of all the transactions was not given; the aggregated data therefore corresponds only to transactions for which this information was available.

Box I.1

THE END OF ANOTHER WAVE OF MERGERS AND ACQUISITIONS

Economists and historians generally identify five waves of mergers and acquisitions.

The first wave (1887-1904) led to the creation of the principal steel, telephone, oil and other giants of the manufacturing and transportation industries in the United States. The main motivation of companies during this wave was to monopolize markets.

The second wave (1916-1929), which ended with the 1929 stock market crash and the Great Depression, saw further consolidation in the industries involved in the first wave, as well as mergers leading to greater market concentrations and between companies seeking greater diversification or vertical integration. The major United States automobile manufacturers emerged during this period.

The third wave (the 1960s) involved diversification and the creation of conglomerates. Companies such as IT&T, LTV and Litton were created during this period. Those companies that diversified, however, never reaped the benefits of this process.

The fourth wave (the 1980s) was mainly characterized by hostile takeovers, junk bond financing and the increase in the volume and size of leveraged buyouts. This wave ended with the leveraged buyout of RJR Nabisco, the collapse of the junk bond market and serious capital and credit portfolio problems in commercial banks. Towards the end of the 1980s, European companies sought to prepare for the European Common Market through cross-border horizontal mergers.

The fifth wave (1993-2000) is known as the era of the mega-deal. During this period companies of unprecedented global size and scale were created. The widespread belief that size was key to competing in global markets motivated mergers between such companies as Chrysler and Daimler-Benz, Exxon and Mobil, Boeing and McDonnell Douglas, as well as AOL and Time Warner. At the beginning of the new millennium, however, the bursting of the dot-com bubble, the fall of Nasdaq, the tightening of banking standards on issuing credit and the fact that merger announcements were not well received by the stock markets put an end to the fifth wave of mergers and acquisitions.

The sixth wave (2003-2007) saw record numbers of cross-border mergers and acquisitions. This wave was spurred by sustained global economic growth, pressure on transnational firms to improve their competitiveness through the acquisition of foreign companies, globalization, the availability of low-cost financing, the rise in commodity prices, increased hedge fund activity and notable growth of private equity funds.

In economic literature on the subject, particularly neoclassical works, waves of mergers and acquisitions are held to be the result of changes in the economic, technological or regulatory environment within an industry (Mitchell and Mulherin 1996) which induces the large-scale reassignment of assets. These shocks alone, however, are not sufficient to produce a merger wave. Capital must be available and there must be fewer restrictions on financing for changes to become a wave (Harford, 2004).

The current financial crisis, uncertainty and lack of liquidity have been negative factors which slowed the process of mergers and acquisitions both domestically and internationally in 2008. This could signal the end of the wave that began only five years ago.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Martine Lipton, *Merger Waves in the 19th, 20th and 21st Centuries. The Davies Lecture*, Osgoode Hall Law School, York University, 14 September 2006, and F.M. Scherer and D. Ross, *Industrial Market Structure and Economic Performance*, Boston, Houghton Mifflin Co., 1990.

2. The developed countries continue to be the main source of FDI, but developing and transition economies are increasing their share

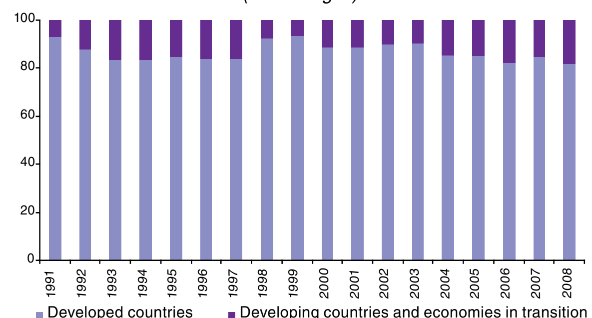
The developed countries, spearheaded by the United States, continue to be the main sources of FDI. Their investments have accounted for between 80% and 90% of total outward FDI in the last two decades (see figure I.5).

The volume of outward FDI originating from developing and transition economies has continued to climb, however. In the 1990s, this upward trend remained constant, driven by buoyant outward FDI flows from Asia. After being brought to an abrupt halt by the Asian crisis in 1998, FDI from developing and transition economies picked up again in 2003 and grew steadily to reach a historic high in 2008, once more thanks to FDI from Asia, in particular from China and Hong Kong Special Administrative Region of China, which have accounted for over half the FDI flowing out of Asia over the last five years.

Figure I.5

DEVELOPED AND DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SHARE IN OUTWARD FOREIGN DIRECT INVESTMENT, 1991-2008

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2008. Transnational Corporations and the Infrastructure Challenge,* Geneva, 2008. United Nations publication, Sales No. E.08.II.D.23; estimates for 2008 based on projections of the Economic Commission for Latin America and the Caribbean (ECLAC).

Although cross-border mergers and acquisitions have declined, an analysis of the 100 largest operations in 2008 shows that there was an increase in mergers undertaken by companies from developing countries and transition economies in industrialized countries. This could reflect the increasing international presence that transnational corporations from emerging economies are building, as well as the important role of FDI in mobilizing capital from the regions where capital abounds to the ones where capital has become relatively scarce during the economic crisis (OECD, 2008a).[6] The more solid financial position of some companies from emerging economies has enabled them to inject capital into others that are facing greater financing constraints. Recent examples are the transactions carried out by Aluminium Corporation of China (Chinalco) and the Chinese mining firm China Minmetals. In one operation involving joint ventures in aluminium, copper and iron ore and the purchase of convertible bonds, Chinalco invested US$ 19.5 billion in the mining company Rio Tinto, whose debts are estimated at around US$ 40 billion. China Minmetals tendered a bid of US$ 17 billion for the Australian firm OZ minerals, which also has debt problems (*The Economist*, 2009b and 2009c).

Sovereign wealth funds are another significant source of financing originating from developing countries and they have a large potential to generate FDI.[7] These funds have an estimated value of US$ 5 trillion in assets. Only 0.2% of this amount (US$ 10 billion), however, is allocated to what could be considered FDI (UNCTAD, 2008a).[8] Some recent changes in the developed countries' national policies have made the investment climate less friendly, especially towards certain mergers and acquisitions and sovereign wealth funds (Sauvant, 2008a y 2008b).[9] The possibility of transnational corporations from emerging economies and sovereign wealth funds playing a larger role as investors in developed countries will depend not only on their skills and strategies, but also on the openness of the receiving countries.

3. FDI as a stabilizing influence on capital flows in times of crisis

FDI is still the most important source of financing for developing and transition economies and has proven to be the most resilient in the current context.

Although in absolute terms FDI has increased over time, in relative terms, it has lost ground to other capital flows, such as portfolio investment flows and commercial bank funding (see figure I.6). The increase and diversification of capital inflows in developing countries has been unquestionably positive. The world economic crisis, however, caused a sharp contraction in portfolio investment and private lending, which suddenly cut off capital flows to developing countries (see box I.2). FDI might therefore have a stabilizing influence on those flows.

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6 This is also a result of how the crisis played out. First it affected the transnational corporations of the developed world and then the companies of the developing and transition economies whose financial situation had been boosted by high commodity prices, at least those that export commodities.

7 Sovereign wealth funds are investment funds that are financed by the accumulation of international reserves that are managed separately from official reserves handled by the country's monetary authorities. They are directly or indirectly managed by Governments, which has aroused concern in several recipient countries, leading some to establish ceilings and much more demanding review procedures for investments. Sovereign wealth funds are found in Chile, Hong Kong Special Administrative Region of China, Kuwait, the Russian Federation, Singapore, the United Arab Emirates and Venezuela (Bolivarian Republic of).

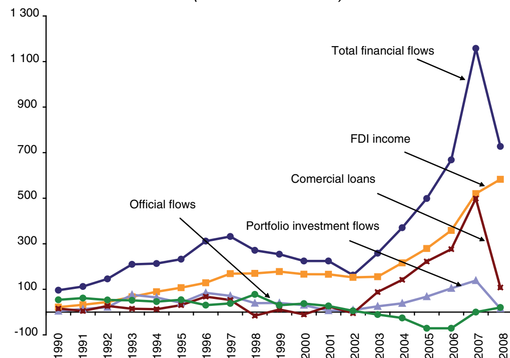
8 FDI implies a long-term relationship that reflects a lasting interest in a company located in a different economy than that of the foreign investor.

9 Several examples of this phenomenon have been cited in the press. In 2004, Lenovo acquired the computer division of IBM in an operation that aroused national security concerns in the United States based on fears that the deal would enable the company to transfer advanced technology to the Government of China. When the United States Department of State wanted to purchase Lenovo computers, it could only acquire those that would be used in what are considered non-classified situations. In 2006, DP World (United Arab Emirates) tried to buy six ports in the United States that were owned by P&O, and although the deal was initially approved by the Foreign Investment Committee, it was blocked for national security reasons during a second review by the United States Congress. For more details on these cases, see Goldstein (2008).

Figure I.6

FINANCIAL FLOWS INTO DEVELOPING COUNTRIES, 1990-2008 [a b]

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Conference on Trade and Development (UNCTAD) for 1990-2000 and from the World Bank, *Global Development Finance*, Washington, D.C., 2009, for 2001-2008.

[a] Defined as net liabilities with terms of over one year.

[b] The World Bank's country classification scheme is used rather than the UNCTAD one because it includes the countries of Central and Eastern Europe among developing countries.

In short, global FDI shrank by 15% with respect to 2007. The worst hit were the developed countries, which saw their inward FDI flows fall by 25%. Flows towards developing and transition economies, on the other hand, increased 7% and 24%, respectively. FDI in Latin America and the Caribbean (including the financial centres) withstood the first onslaught of the economic crisis and actually rose 9%. Despite this positive performance, FDI flows are expected to subside in 2009 in the developing and transition economies unless the world economy starts to show signs of recovery.

The following sections analyse the performance of Latin America and the Caribbean both as a recipient and as a source of foreign investment.

Box I.2

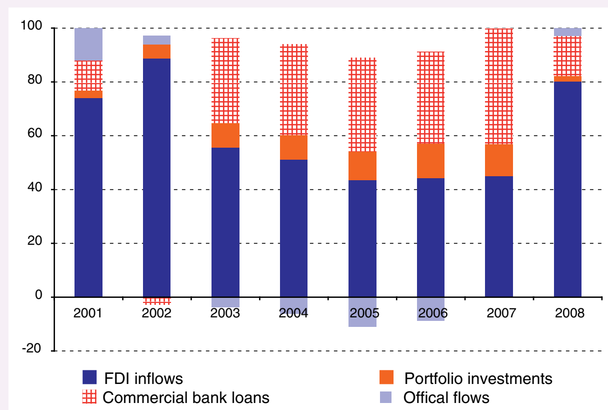
AN X-RAY OF CHANGE: COMPOSITION OF INTERNATIONAL CAPITAL FLOWS TOWARDS DEVELOPING COUNTRIES, 2001-2008

Capital flows towards developing countries have increased significantly in recent years (from US$ 224 billion in 2001 to US$ 1.16 trillion in 2007 to then fall to US$ 727 billion in 2008 as a result of the global financial crisis). Although foreign direct investment (FDI) has been one of the most important sources of financing for developing countries, the composition of international capital flows has changed significantly in recent years.

The proportion of FDI in total private capital inflows declined over the decade to less than 50%, while flows from portfolio investment and private lenders increased their prominence as sources of financing. With the unfolding of the world economic crisis, however, these latter flows, which are highly sensitive to changes in the global situation, contracted sharply. FDI flows, by contrast, remained extremely steady and even increased in absolute terms.

COMPOSITION OF CAPITAL FLOWS, 2001-2008

(Percentages)



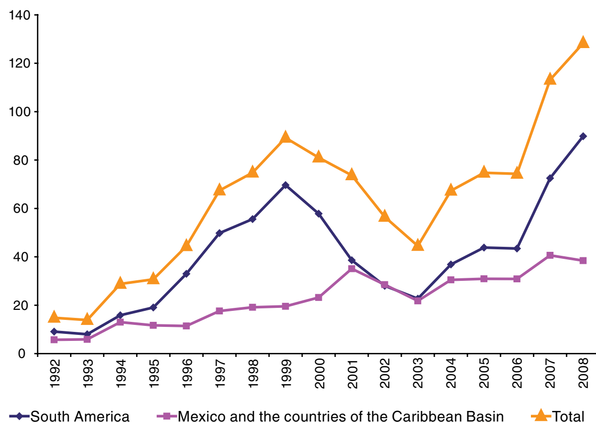
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *Global Development Finance*, Washington, D.C., 2009.

C. FDI inflows and transnational corporations in Latin America and the Caribbean

1. Trends and characteristics of FDI flows to Latin America and the Caribbean in 2008

Despite the international crisis, FDI flows to Latin America and the Caribbean continued to climb in 2008. Excluding the main financial centres,[10] US$ 128.301 billion in FDI poured into the region, 13% more than the record high posted in 2007. In aggregate terms, despite the volatile global situation, FDI kept growing. This increase was not evenly distributed across the region, however. While the FDI received by South America rose 24% to US$ 89.862 billion, the FDI received in Mexico and the Caribbean Basin[11] fell 5% to US$ 38.438 billion, basically as a result of the enormous drop in FDI flows to Mexico (see figure I.7).

Figure I.7
LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT BY SUBREGION, 1992-2008 [a]
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

[a] Excludes investment received by the main financial centres. These FDI figures differ from those published by ECLAC in the *Economic Survey of Latin America and the Caribbean* and the *Preliminary Overview of the Economies of Latin America and the Caribbean,* published in August and December 2008, respectively, because those studies show the net balance of foreign investment, in other words, direct investment in the reporting economy (FDI) minus outward foreign direct investment (OFDI). The FDI figures indicate inflows of foreign direct investment, minus divestments (sales of assets) by foreign investors.

The different trends in FDI in these two subregions reflect the different effects that the international crisis has had on efficiency-seeking and natural-resource-seeking investments and how much the crisis has impacted each of the region's countries.[12] The strong ties that Mexico and the countries of the Caribbean Basin have with the United States economy explain the sharp fall in FDI to that subregion. The economic recession in the United States produced a slowdown in the activity of the export platforms that were mainly set up in the countries of this subregion to supply the United States market, and this had a negative impact on efficiency-seeking FDI. At the same time, the slowdown in the economies of the subregion itself deterred market-seeking investment. Meanwhile, the rise in FDI to South America was driven mostly by commodity prices, basically metal and hydrocarbon prices, which remained high for most of the year and attracted natural-resource-seeking investment.[13] Robust economic growth in the subregion (5.5% compared with 2.5% worldwide) also boosted market-seeking FDI (United Nations, 2009).

Analysis of inflows of individual countries show that Argentina, Brazil, Chile, Colombia and Mexico receive 80% of the region's FDI.

Brazil accounts for the bulk of the rise in FDI in the region: FDI inflows in that country reached a new high of US$ 45.058 billion in 2008, 30% above the record posted in 2007. Of that, about 50% was in the natural-resources sector and natural-resource-based manufacturing,[14] mainly mining.[15] These sectors also account for 80% of the increase in FDI in the country. Economic growth

[10] The financial centres included Bermuda, British Virgin Islands, Cayman Islands and United States Virgin Islands.

[11] The Caribbean Basin includes the countries of Central America and the countries and territories of the Caribbean.

[12] For a detailed explanation of how the financial and economic crisis was transmitted to the region's countries, see ECLAC (2008c).

[13] For a broader discussion of the factors behind the rise in commodity prices, see ECLAC (2008e).

[14] This includes primary activities, metallurgy, the production of petroleum derivatives, non-metallic mineral production and the paper and pulp sector.

[15] For further details on what triggered this boom in Brazil, see part (a) of section 2.

(5.1%) and favourable demand indicators (employment rate, consumer confidence and retail sales) up to the third quarter of the year (Mesquita, 2008), fuelled the rise in market-seeking FDI, especially in the automobile, electronic, public services (telecommunications, electrical energy, water distribution and treatment, among others) and retail trade sectors. Nevertheless, growth in this type of FDI was not as buoyant as in natural-resource-seeking FDI. Other factors underpinning the continued rise in FDI in Brazil up to the end of 2008 despite the crisis are the large size of the domestic market, a lower dependence on exports than in other emerging economies and the lower exposure of the Brazilian banking system to the financial crisis (SOBEET, 2009).

Table I.3

LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT INCOME BY RECEIVING COUNTRIES AND TERRITORIES, 1994-2008

(Millions of dollars and percentages)

Country or territory	1994-1998 [a]	1999-2003 [a]	2004-2008 [a]	2007	2008	Absolute difference 2007-2008	Relative difference 2007-2008
South America	34 657	43 365	57 297	72 520	89 862	17 342	23.9%
Brazil	14 139	22 109	26 328	34 585	45 058	10 473	30%
Chile	4 051	4 936	10 552	14 457	16 787	2 330	16%
Colombia	2 784	2 068	7 907	9 049	10 564	1 515	17%
Argentina	6 529	8 075	5 874	6 462	7 979	1 517	23%
Peru [b]	2 620	1 477	3 413	5 343	4 079	-1 264	-24%
Uruguay	148	283	1 188	1 223	2 044	821	67%
Venezuela (Bolivarian Republic of)	3 034	2 819	1 169	646	1 716	1 070	166%
Ecuador	624	871	554	193	974	781	404%
Bolivia (Plurinational State of)	535	663	190	366	512	146	40%
Paraguay	193	64	124	196	150	-46	-24%
Mexico	11 034	20 374	22 616	27 278	21 950	-5 329	-19.5%
Central America	1 774	2 134	5 296	7 045	7 554	509	7.2%
Panama	708	565	1 756	1 907	2 402	495	26%
Costa Rica	417	545	1 372	1 896	2 016	120	6%
Honduras	79	320	705	816	888	73	9%
Guatemala	195	216	422	536	838	302	56%
El Salvador	240	256	684	1 509	784	-724	-48%
Nicaragua	135	232	357	382	626	244	64%
Caribbean	1 615	3 067	5 997	6 314	8 935	2 621	42%
Dominican Republic	368	980	1 605	1 579	2 885	1 306	83%
Trinidad and Tobago	580	751	1 231 [c]	830	2 500 [c]	1 670	201%
Bahamas	119	218	745	854	886	4	0%
Jamaica	207	562	769 [c]	867	810 [c]	-56	-6%
Suriname	-6	22	334 [c]	316	346 [c]	30	9%
Antigua and Barbuda	24	98	269	358	302	-56	-16%
Belize	33	31	138	148	189	42	28%
Saint Lucia	43	75	167	248	186	-62	-25%
Guyana	67	48	108	152	178	26	17%
Grenada	28	58	114	186	147	-39	-21%
Barbados	14	26	104 [c]	233	133 [c]	-100	-43%
Saint Vincent and the Grenadines	60	41	87	119	97	-21	-18%
Saint Kitts and Nevis	25	81	106	164	94	-70	-43%
Anguilla	22	38	113	120	90	-30	-25%
Dominica	24	22	42	61	60	-1	-1%
Haiti	5	13	59	75	30	-45	-60%
Montserrat	3	3	3	6	2	-4	-68%
Total	49 080	68 939	91 207	113 157	128 301	15 144	13.4%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.
[a] Annual averages.
[b] Figures based on the balance of inward and outward foreign direct investment published by the Central Bank of Peru.
[c] Estimates of the Economic Commission for Latin America and the Caribbean (ECLAC).

Mexico, the second largest recipient of FDI in the region, was hit hard by the crisis and saw its FDI inflows fall 20% from 2007 to US$ 21.950 billion in 2008. Much of this drop can be attributed to the decline in FDI in the services sector, where FDI fell by 16%, and the manufacturing sector, where FDI fell by close to 50%, especially in activities geared towards producing exports for the United States market.

FDI flows to Central America remained stable, increasing 7% to US$ 7.554 billion. Costa Rica and Panama were the main recipients. El Salvador was the worst-hit. FDI in the country plummeted 48% with respect to the previous year to US$ 784 million. This drop should be analysed in context, however; acquisitions in the banking sector in 2007 generated an unusually high level of FDI, and the volume received in 2008

represented the second largest amount ever observed in the country.

In the Caribbean, FDI rose 42% to US$ 8.935 billion. FDI shrank in most countries in the subregion, but this decline was offset by the increases recorded in the Dominican Republic and Trinidad and Tobago. In the Dominican Republic, FDI soared 83% to reach US$ 2.885 billion. This was largely on account of FDI in the trade and industry, telecommunications and mining sectors. The mining sector in fact received the largest investment ever made in the country: US$ 3 billion dollars in the Barrick Gold project. This offset waning investment in tourism and real estate development, which have been the main sources of FDI in the past few years (see chapter III). In Trinidad and Tobago, FDI is estimated to have increased by 200% to about US$ 2.5 billion thanks to Royal Bank of Canada's buy-out of RBTT Financial Holdings Limited in what has been one of the largest transactions in the region (see box I.A-7 in the annex).

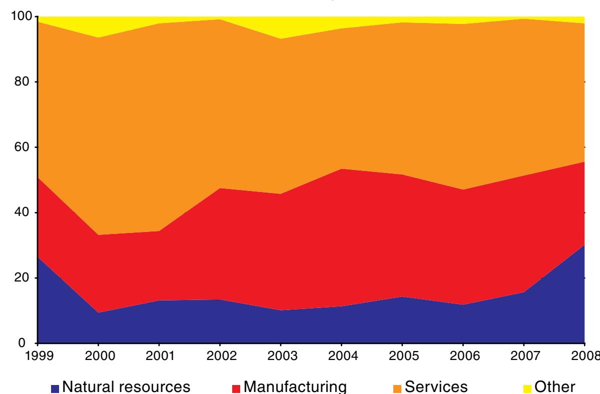
In South America, the increase in FDI flows to Argentina, Chile and Colombia was strongly driven by the rise in natural-resource-seeking FDI, especially in the mining industry in Chile and Colombia. In Chile, most of the growth in FDI can be attributed to mining investments, most notably, the purchase by the Japanese group Marubeni of a 30% stake in the La Esperanza mine owned by Antofagasta Minerals, for US$ 1.3 billion. Investments in the natural-resources sector, especially in petroleum and mining activities, accounted for 54% of FDI in Colombia. In Argentina, major investments were announced in the mining and hydrocarbons sector, with the Spanish firm Repsol YPF leading the way, while General Electric concluded its purchase of Hidryl from the Argentine firm Tenaris, which is part of the Techint group, for US$ 1.15 billion.[16] Foreign corporations also showed interest in the country's telecommunications sector, with Telefónica (Spain), Telecom (Italy) and Claro (owned by the Mexican company América Móvil) announcing large investments. The countries that recorded the largest relative increase in FDI were the Bolivarian Republic of Venezuela and Ecuador. In the case of Ecuador, approximately 80% of the rise was generated by investments in the transportation, warehousing and communications sectors, mainly those made by América Móvil and Telefónica, which offset the decline in FDI in the natural-resources and public services sectors (electricity, water and gas). Although FDI expanded in the Bolivarian Republic of Venezuela (mainly in services), major divestments also took place in one of this economy's most important sectors, the hydrocarbon industry, in the face of a rising risk of nationalization, the sword of Damocles that hangs over transnational corporations operating in the country.[17] FDI flows to Peru, on the other hand, fell 24% to US$ 4.079 billion, largely owing to the loans that subsidiaries made to their parent countries during the fourth quarter of the year (BCRP, 2009).[18]

One aspect of the study of investment flows in the region that could be improved is the production of statistics on the sectoral distribution of FDI. At present some countries do not report FDI by sector, which limits the analysis of the effect of FDI on the productive sectors of the economy.

Figure I.8

LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF FOREIGN DIRECT INVESTMENT BY SECTOR, 1999-2008 [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

[a] The data for the Plurinational State of Bolivia represent net flows as it is not known in which sectors the divestments carried out by the Central Bank occurred.

According to the data available, the economic crisis did not substantially alter the sectoral distribution pattern of FDI in 2008. FDI in services still accounts for the largest proportion of FDI in the region, although over the last year, investments in natural resources have climbed just as investment in manufacturing has fallen (see figure I.8). For more information on the sectoral distribution of FDI by country, see the tables in annex I.A-2. Most FDI in South America, especially in Brazil, Bolivia (Plurinational State of) and Colombia, continued to be in the natural-resources sectors, while FDI in manufacturing continued to predominate in Mexico and

[16] See the Investment and Enterprise Observatory Programme, National Investment Promotion Agency of Argentina (ProsperAr) [online] at http://www.prosperar.gov.ar/home.php?page=programas_10.

[17] For more information on these sectors in the countries mentioned, see part (a) of section 3.

[18] The FDI figures reported by Peru are net figures, in other words, direct investment in the declaring economy less direct investment abroad, which means that the decline is also the result of the increase in Peruvian companies' investment abroad.

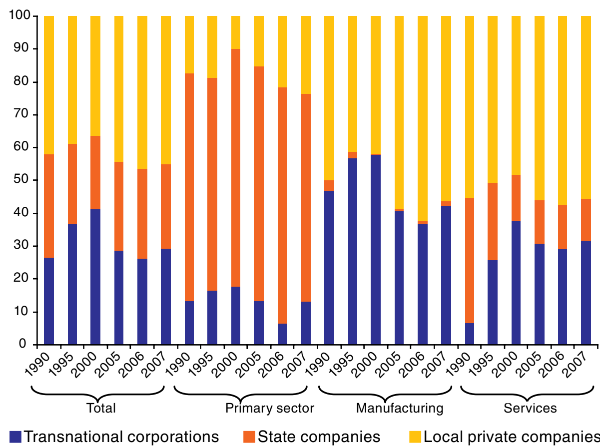
the Caribbean Basin countries. Heavy worldwide demand for natural resources meant that large investments were made in the primary sector of the economies that are more manufacturing-oriented. The Canadian company Baja Mining Corp. and a consortium of Asian firms, for example, invested in El Boleo, one of the largest mining projects in Mexico, and another Canadian company, Barrick Gold, spearheaded the largest investment ever in the history of the Dominican Republic.

Another way to examine the dynamics of foreign capital flows by sector is to analyse the composition of the sales of the 500 largest non-financial companies operating in the region. Immediately prior to the crisis, transnational corporations accounted for 29% of sales, slightly above the 26% share recorded in 2006 (see figure I.9). The market share of transnational corporations varies from sector to sector: they account for 13% of sales in the primary sector, 31% in services and 42% in manufacturing. This represents an increase in all sectors since 2006: from 6% to 13% in the primary sector, 29% to 31% in services and 37% to 42% in manufacturing.

Figure I.9

LATIN AMERICA AND THE CARIBBEAN: SALES OF THE 500 LARGEST NON-FINANCIAL COMPANIES, 1990-2007

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Special Studies and Projects Department of the *América economía* magazine, Santiago, Chile, 2008.

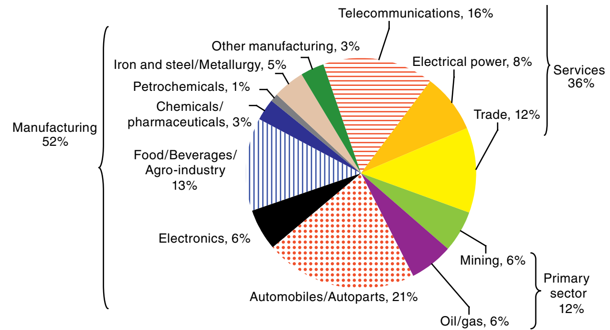
Figure I.10 shows the sectoral distribution of the largest transnational corporations in the region just before the financial crisis broke out.

Total sales by the largest transnational corporations in the region are distributed as follows: 52% in the manufacturing sector, 36% in services and only 12% in the primary sector (see figure I.10). The low proportion of sales in the primary sector is the result of the predominance of State companies in the hydrocarbon industry. The large proportion of sales in manufacturing and services accounted for by transnationals, however, shows that these are the sectors that are most likely to receive FDI in the region. For more information on the 60 largest non-financial transnational corporations in Latin America and the Caribbean, see table I.A-5 of the annex.

Figure I.10

LATIN AMERICA AND THE CARIBBEAN: SECTORAL DISTRIBUTION OF THE SALES OF THE LARGEST NON-FINANCIAL COMPANIES, 2007

(Percentages)



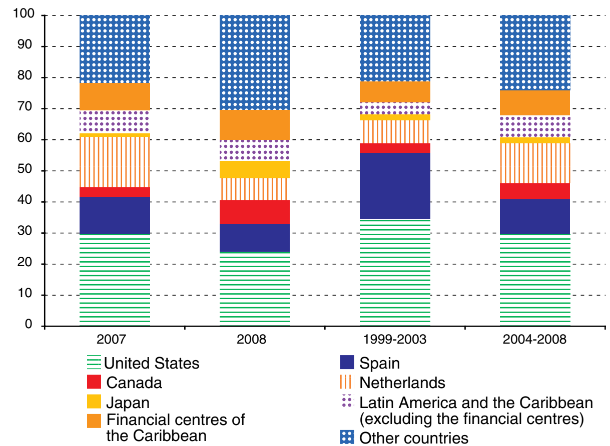
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Special Studies and Projects Department of the *América economía* magazine, Santiago, Chile, 2008.

By country of origin, the United States continues to be the region's largest source of FDI, followed by Spain, Canada, the Netherlands and Japan (see figure I.11). The increase in FDI from Canada and Japan, driven by natural-resource-seeking investment, is especially noteworthy. For more details on the geografic origin of FDI by country, see table I.A-3 in the annex.

Figure I.11

LATIN AMERICA AND THE CARIBBEAN: ORIGINS OF FOREIGN DIRECT INVESTMENT, 1999-2008

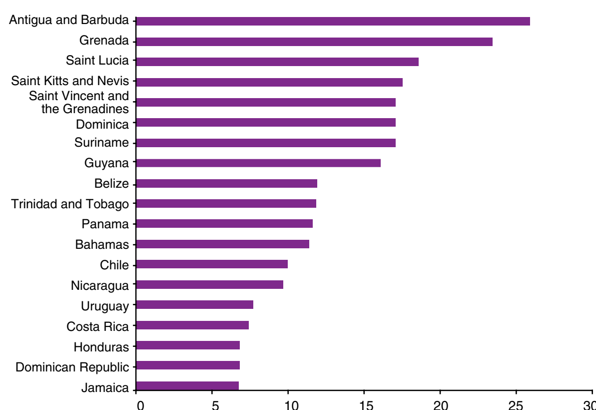
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

The countries of the Caribbean, and of the Eastern Caribbean Currency Union in particular, have the highest FDI/GDP ratios, which reflects how important FDI is as a source of financing in these countries. The average FDI/GDP ratio in the subregion in 2008 was 3.4%, slightly below the 3.6% ratio recorded in 2007 (see figure I.12).

Figure I.12
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): RATIO BETWEEN NET FOREIGN DIRECT INVESTMENT INCOME AND GDP, 2008 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.
[a] The ratio shown in the figure is obtained on the basis of each year's FDI and the three-year moving average of GDP for each country.

Finally, as mentioned in the previous section, cross-border mergers and acquisitions constitute a indicator of FDI trends complementary to the information obtained from central bank data. Cross-border transactions in the region increased almost hand in hand with FDI. Despite slowing down at the global level, the pace of mergers and acquisitions did not slacken in the region. In fact, the operations concluded up to November 2008 amounted to US$ 119 billion, more than the US$ 110 million recorded in the same period the previous year (Latin Finance, 2008).

The largest operations undertaken in 2008 in the financial and mining sectors include: the acquisition of Iron X from the Brazilian company MMX by the United Kingdom firm Anglo American for US$ 1.923 billion; the purchase of a 40% stake in Namisa, a subsidiary of the Brazilian firm Compañía Siderúrgica Nacional (CSN), by a consortium of firms from Japan and the Republic of Korea for US$ 3.008 billion; the acquisition of a 20% holding in Grupo Financiero Inbursa, by the Spanish company La Caixa Corp., for US$ 2.469 billion; and the purchase of the largest financial group in Trinidad and Tobago, RBBT Financial Holdings Limited, by Royal Bank of Canada for US$ 2.187 billion. For a list of the largest transactions carried out in Latin America and the Caribbean in 2008 see table I.A-7 of the annex.

Box I.3
INVESTMENT PATTERNS IN THE COUNTRIES OF THE EASTERN CARIBBEAN CURRENCY UNION (ECCU)

The Eastern Caribbean Currency Union (ECCU) is made up of eight economies: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Although the foreign direct investment (FDI) received by these countries is relatively low when compared with FDI to Mexico and the Caribbean Basin, it represents a larger proportion of GDP.

FDI to the ECCU has increased significantly since 2004. It peaked in 2007 and then fell in 2008 to US$ 978 million.

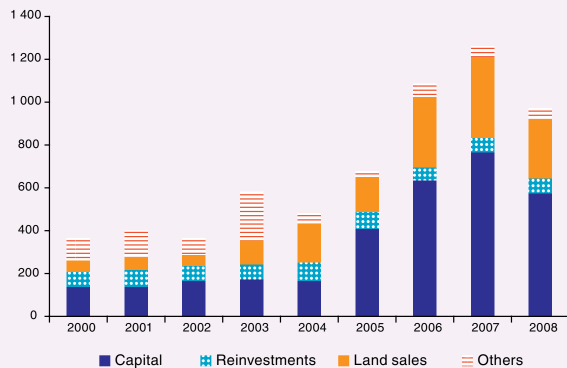
For 2000-2008 statistics are available on country of origin for only 42% of all investments received. This information suggests that the United States is the largest investor (23%), followed by the United Kingdom (13%) and the Caribbean countries (5%).

In terms of sectoral composition, tourism is the main focus of FDI. In the last three years, the sector has received more than 50% of all FDI entering ECCU.

In short, FDI in the region increased on account of the rise in flows to South America and to Argentina, Brazil, Chile and Colombia in particular. This offset the fall in FDI to Mexico and the Caribbean Basin countries. The contrasting situations are explained by the patterns of FDI inflows in each subregion and the fact that the international crisis has affected the different types of FDI in different ways. The next section examines the impact of the economic crisis on the different types of investment and on the strategies of some of the largest investors in the region.

Box I.3 (concluded)

FLOWS OF FOREIGN DIRECT INVESTMENT TO THE EASTERN CARIBBEAN CURRENCY UNION, 2000-2008
(Millions of dollars)



SECTORAL COMPOSITION OF FDI IN THE EASTERN CARIBBEAN CURRENCY UNION, 2000-2008
(Percentages)

Note: The investment categories shown are those used by the Eastern Caribbean Central Bank. The land sales category may include FDI in the tourism or real estate sectors.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data provided by the Eastern Caribbean Central Bank.

2. Effects of the crisis on corporate strategy

FDI flows are the result of the actions and strategies adopted by investors. Therefore, in order to understand the dynamics of FDI in the present situation, it is essential to understand how the international crisis has affected the engines that drive each type of investment. Foreign direct investment analyses usually classify investment into four categories according to the motives or strategies of the investor: (1) natural-resource-seeking investment, which taps natural resources in third countries; (2) market-seeking investment, which produces and sells products and services in local or regional markets; (3) efficiency-seeking investment, which produces goods at low cost for export to other markets; and (4) strategic-asset-seeking investment, which pursues access to certain assets, such as knowledge, cutting-edge technology or skilled human resources (ECLAC, 2004, on the basis of Dunning, 1993). Only the first three types of FDI will be examined in this section as strategic-asset-seeking FDI flows are minimal in the region.

Market-seeking FDI is highly important throughout the region and especially so in the countries with large domestic markets. Natural-resource-seeking FDI still continues to account for the largest proportion of FDI in South America, while efficiency-seeking FDI has more weight in FDI flows to Mexico and the Caribbean Basin countries. Each of these types of FDI has been affected in different ways by the crisis.

(a) Foreign direct investment in natural resources

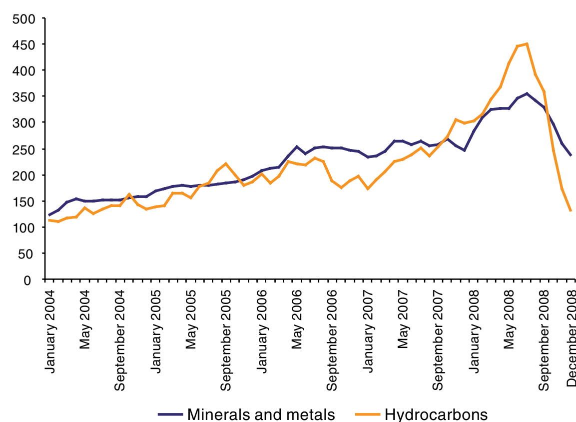
Natural-resource-seeking FDI remained buoyant in the region despite the drop in commodity prices in the second half of 2008 (see figure I.13). Mining projects take time to bear fruit and investments in the sector therefore tend to focus on the long term. This makes natural-resource-seeking investment less sensitive to changes in circumstances than efficiency- or market-seeking FDI.

The effects of the international crisis and the fall in commodity prices are beginning to resonate in the sector, however, and some companies have already cut back production, laid off workers and postponed investment projects. After a period of robust expansion, the firms operating in the natural resources sector are now cautiously revising their plans and adjusting their investment strategies (ECLAC, 2008a).

Figure I.13

HIDROCARBONS PRICE INDEX AND MINERALS AND METALS PRICE INDEX, 2004-2008

(Base price index 2000-100)



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

Note: The price index for both sectors is calculated on the basis of the region's main exports in these sectors. In the case of energy, the basket includes crude oil, petroleum derivatives, coal and natural gas, and in the case of minerals and metals, it includes steel, copper, iron, aluminium, silver, zinc, tin, nickel, lead and gold.

(i) Mining

Investment in mining in the region was still forthcoming in 2008, but mainly in South America. As a result of the consolidation witnessed in the industry over the last few years, the large mining companies continued to pursue expansion strategies in 2008. The goal has been to attain economies of scale and scope and to ensure availability of, and access to, the minerals that constitute the basis of their net worth (ECLAC, 2008a). Barrick Gold (of Canada) and Gold Fields (of South Africa), for example, invested in their gold mines in the Dominican Republic and Peru, and Rusoro Mining acquired assets owned by Hecla Mining Co. in the Bolivarian Republic of Venezuela to take advantage of regional synergies.

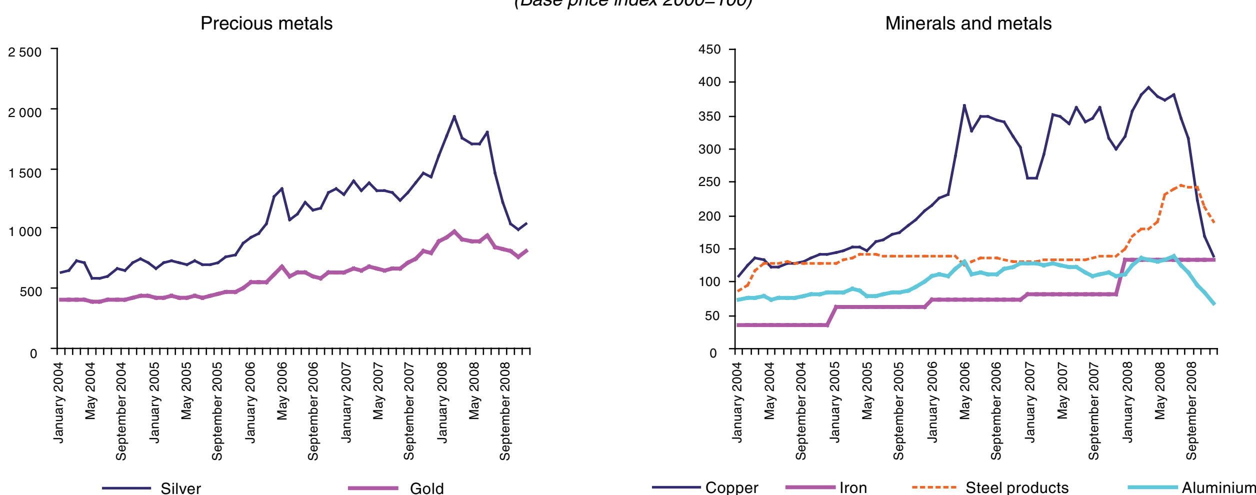
The relatively low volatility and high price of iron ore in comparison with other products (see figure I.14) spurred FDI especially in Brazil, which has large iron deposits. In the first half of 2008, Rio Tinto (United Kingdom/ Australia)announced plans to expand for its La Corumba mine, and the United Kingdom firm Anglo-American purchased the Brazilian firm Iron X (of the MMX group) to broaden its iron ore operations in the country.

The price of iron ore was kept high by huge demand in the manufacturing industry during the economic boom that lasted through 2007 and into the beginning of 2008. Iron and steel companies pursued vertical integration with the mining sector to ensure themselves a steady supply of the inputs they need. The Argentine firm Technint, for example, announced plans to invest in the development of its iron and tin deposits in Mexico. Arcelor Mittal (India/ Luxembourg) bought the assets of London Mining, an iron ore producer, in Brazil in 2008. A consortium of companies from Japan and the Republic of Korea acquired a 40% stake in the mining arm of Compañía Siderúrgica Nacional (CSN) of Brazil (see table I.A-7 for details).[19] Together with its balance-of-payments figures, these actions show that Brazil has become the epicentre of the global trends under way in the region's industrial sector.

Figure I.14

PRICE INDEX OF SELECTED MINERALS AND METALS, 2004-2008

(Base price index 2000=100)



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

[19] This is one of the large transactions underpinning the high level of FDI recorded in Brazil in the last quarter of 2008.

Since demand for basic products has fallen, however, and the financial crisis has hampered access to credit, transnational corporations have scaled back their investment plans, even in iron ore. At the beginning of 2009, Anglo-American announced a 50% cut in its expansion plans, which will almost undoubtedly affect its projects in Brazil and Chile. Rio Tinto announced the postponement of its US$ 2 billion expansion plan for the La Corumba mine, which has brought associated logistics projects, such as the iron-ore port in Uruguay, to a halt. Rio Tinto's huge debts pose another obstacle to its expansion plans (Reuters, 2009c, Times On Line, 2008a y 2008b).[20]

Meanwhile, the drop in copper prices has triggered vast changes in strategy in transnational corporations operating in this segment, at least in the short term, mainly in Chile, Mexico and Peru. The impact in Chile has been huge: US$ 12 billion in projects have been postponed or suspended (*La Tercera*, 2009a). One of the most significant cases was the postponement by Australian firm BHP Billiton of its US$ 6.7 billion expansion project at La Escondida, the largest private copper mine in Chile (*Business Latin America*, 2009). Two other major projects will also be delayed: Inca Pacific of Canada has halted its copper mining operations at El Magistral in Peru, and Baja Mining has put its announced US$ 911 million investment in copper, cobalt, magnesium and zinc mining on hold in Mexico. Similar reactions have been observed in other segments, for example, one of the world's leading gold mining companies, Newmont (United States) has stated that its Minas Congas project in Peru is now under review (*América economía*, 2008a and 2008b; Reuters, 2008a).

Investment in the mining sector maintained its momentum in 2008, but lower demand and prices caused leading mining enterprises to revise their investment plans towards the end of 2008 and in early 2009. Even then, given the time it takes for mining projects to come to fruition, companies are proceeding with caution so as to still be able to react quickly to a rise in demand once the crisis is over. Investment in the sector will therefore continue, but at a slower pace, and access to financing will become a vital factor and play a major role in corporate decisions in 2009. Against a backdrop of falling prices, restricted financing, an economic slowdown and growing uncertainty, companies have halted or postponed new projects and expansions and found themselves forced to adjust their operations by cutting back operations or laying off workers.

[20] Rio Tinto obtained a loan of US$ 40 billion to buy Alcan in 2007 and will have to pay US$ 8.9 billion in the first nine months of 2009 to cover the first part of the loan (Times Online, 2008a).

(ii) Hydrocarbons

In 2008, the wealth of resources in the region continued to attract FDI in the hydrocarbon sector although not to the same extent as in the mining sector. This is largely due to the strong presence of local State-owned oil companies, especially in the countries with the largest reserves, which sometimes limits the participation of transnational corporations.[21] Investment in the sector was buoyant worldwide in 2008, with exploration and production companies investing an estimated US$ 96.2 billion in the sector, 47% more than in 2007. As in the mining sector, however, the financial crisis and the drastic plunge in oil prices (see figure I.13) forced firms to revise their budgets and drilling plans at the end of 2008 and beginning of 2009 (Global Markets Direct, 2008).

As Colombia is one of the most open countries in Latin America and the Caribbean as far as foreign investment in the energy sector is concerned, it is also the one to receive the highest proportion of FDI in the hydrocarbons sector: over US$ 3 billion in 2008, which represented 35% of total FDI in the country. The largest transaction was the acquisition of the Colombian firm Kappa Energy Holdings by the Canadian enterprise Pacific Rubiales. The Spanish fuel distributor Compañía Española de Petróleos, SA (CEPSA) bought the 70% block of the Caracara field from Houston American Energy. Although this transaction was between two foreign companies, it reflects the strategy adopted by CEPSA to move ahead with secondary production and ensure access to its basic input (*América economía*, 2008n). The Swiss company Glencore meanwhile announced a gradual increase in its investments at its Cartagena refinery from US$ 600 million to US$ 3 billion (Proexport, 2008c).

Some of the trends observed in 2007 lasted into 2008, such as the sale of assets to channel investment into other exploration projects and the arrival of companies from emerging economies outside the region. The United States firm Anardarko, for example, sold its holdings in the El Peregrino field in Brazil to the Norwegian company StatoilHydro so as to redirect its resources towards its projects in the Gulf of Mexico and Ghana (Offshore, 2008) and the Indian firm Oil and Natural Gas Corporation (ONGC) bought a 40% stake in the San Cristóbal field of Petróleos de Venezuela S.A. (PDVSA) in the Bolivarian Republic of Venezuela.[22] The region's large State oil companies,

[21] In Latin America and the Caribbean, the weight of State companies in the hydrocarbons sector is noticeable: 80% of the sales of the largest companies in the region correspond to State enterprises. In Brazil, despite investment-conducive regulations, the predominance of Petrobras has been seen as an obstacle to the entry of transnational corporations in the hydrocarbons sector (ECLAC, 2008a).

[22] The amount of the Anadarko-StatoilHydro operation was US$ 1.8 billion, while the transaction between ONGC and PDVSA came to US$ 480 million.

Petrobras and PDVSA, meanwhile continued their regional expansion, as analysed in part 2 of section D.

Transnational corporations remained interested in the region despite the fact that they play a smaller role than the State companies. Corporations such as British Petroleum (BP), Chevron, Shell and StatoilHydro participated in the bidding process for the Carabobo block in the Bolivarian Republic of Venezuela, and British Gas (BG), Exxon, Hesp, Petrogal, Repsol and Royal Dutch Shell tendered bids for the findings in the Santos basin in Brazil (*América economía*, 2008c and 2008d).

The interest of the large transnationals may wane, however, in the face of plunging oil prices and the risk of subsequent changes in fiscal terms and conditions. The nationalization processes and threats that transnationals have faced in the Bolivarian Republic of Venezuela, Ecuador and the Plurinational State of Bolivia have triggered major disputes. Conoco Phillips and ExxonMobil have initiated arbitration proceedings against the Government of the Bolivarian Republic of Venezuela regarding the nationalization of their Venezuelan assets, for example.[23] As far as the withdrawal of FDI from the sector is concerned, the most notable case has been the purchase of 15% of YPF from the Spanish corporation Repsol by the Petersen group of Argentina for US$ 2.235 billion.

On the regulatory front, one of the most notable changes was the reform of the energy sector in Mexico which aims to revitalize the State monopoly Petróleos de México (Pemex). Foreign investors are still not allowed to participate in the exploitation of the deepwater reserves in the Gulf of Mexico or in the construction and administration of refineries, but they can now bid for exploration and drilling contracts as subcontractors in specific parts of Mexico (*Time*, 2008).

FDI continued to pour into the hydrocarbons sector in 2008, although the flows were far smaller than in mining. The strong presence of State companies and legislative restrictions limit the participation of transnational corporations in the sector. Even in Mexico, where reforms were introduced, the participation of foreign enterprises is restricted to a few activities. As shown in part 2 of section D, the most active companies in the hydrocarbons sector are still Petrobras and PDVSA.

(iii) Renewable energies

High oil prices and growing environmental concerns have generated considerable interest in the renewable solar, wind, geothermic and biomass energies. The region has agro-climatic features that make it attractive to investment in this sector, and although FDI flows have been relatively scarce so far, they are still arriving. The British firm Leaf Clean Energy, for example, bought the Mexican company Energía Escalona, while the United States corporation Energy Quest purchased the Chilean firm Etanol del Pacífico Sur. The Spanish company GreenFuel has announced plans to build a biodiesel plant in Argentina. Eight countries together invested approximately US$ 480 million in the Peruvian ethanol industry.

Brazil has sparked the most interest thanks to its agro-climatic conditions and its leading position in the renewable energy sector, especially in the production of liquid biofuels. The firm Destilaria Guaricanga was bought out by Infinity Bio-Energy (United Kingdom), Ventania by Martifer Renewables (Portugal), Koblitz by AREVA (France), Santa Elisa Valley by Amyris Biotechnology (United States), and Glep Energias Renovaives by Conduit Capital Partners (United States). AES Corporation (United States) acquired a power plant in the country. The biofuels market is expected to grow faster in Brazil than elsewhere in the region thanks to Government policies. The development of the biofuels market and the maximization of the opportunities it offers in and outside Brazil is one of the key strategies of the energy giant Petrobras (PETROBRAS, 2008). Cosan, the largest sugar and ethanol producer in the country, acquired ExxonMobil's service and distribution centres in Brazil for US$ 989 million with a view to ensuring a distribution channel for its ethanol production (*Herald Tribune*, 2008).

The region's potential in the wind energy segment has resulted in several major investments: most notably the US$ 1 billion investment in the Talinay wind farm in Chile announced by the Spanish company Enhol and the joint venture between the Irish firm Mainstream Renewable Power and the Chilean enterprise Andes Energy, which plans to invest US$ 1.3 billion in the construction of wind farms in the country (*Business Latin America*, 2008g and *El Mercurio*, 2008). The Spanish firm Endesa also invested in 2007 in the construction of the El Canela wind farm in Chile, which is still expanding. At the beginning of 2009, Mexico inaugurated the first phase of the largest wind farm project in Latin America, which is a joint venture being carried out by the Mexican firm Cemex and the Spanish firm Iberdrola, which invested about US$ 500 million in the project (OEM, 2009).

However, investment prospects in this sector may be severely affected by the sharp drop in the oil price.[24] One

[23] Other major nationalization processes this year in the Bolivarian Republic of Venezuela were the nationalization of Banco de Venezuela, the affiliate of the Spanish Santander banking group, and the expropriation of the assets of the Mexican firm Cemex (*América economía*, 2008f).

[24] The Economist Intelligence Unit projects the average oil price in 2009 to be US$ 35 per barrel, well below the levels recorded in 2008 (*Business Latin America*, 2009). The prices of oil and other products, such as grains, edible oils and sugar, play a huge role in decision-making in biodiesel and bioethanol production. However, rises (or falls) in the oil price can trigger rises (or falls) in the price of inputs and hence alter the costs of biofuel production (Razo and others, 2007).

of the main limitations on the development of renewable energies in the last few decades has been their cost-effectiveness. The main challenge for this technology is to compete with conventional energy sources. The internalization of the environmental costs of conventional energy sources may make renewable energies more competitive, but improving cost-effectiveness remains a priority (OECD/IEA, 2007). With the technology as it stands today, the low price of oil is eroding the competitiveness of renewable energies, as well as their investment prospects. Investment in the sector in 2009 will therefore depend largely on Government support and incentives.

In short, despite the financial crisis, natural-resource-seeking FDI in the region did not lose momentum, but targeted fewer countries. It has been driven mainly by investments in the mining sector, followed by the hydrocarbons sector. Although some companies have been paring down their investment projects, natural-resource-seeking FDI has largely withstood the crisis thanks to commodity prices that remained high for most of the year and the fact that mining investments take several years to bear fruit. Companies in the sector therefore look beyond the current situation in their investment planning and decision-making.

(b) Efficiency-seeking foreign direct investment

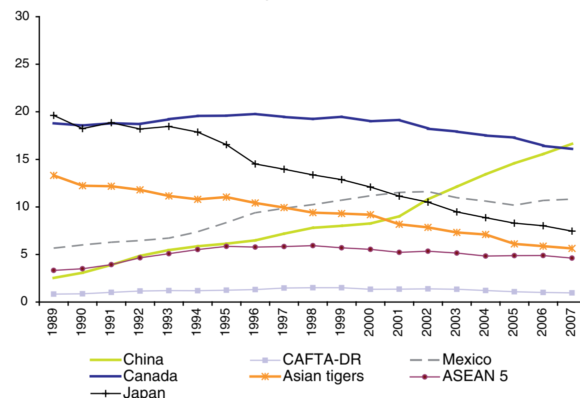
The global crisis could have mixed effects on efficiency-seeking FDI. On the one hand, this type of FDI could shrink in reaction to falling demand in the developed countries and this, together with a possible surplus installed capacity in the region's export platforms, could further deter new ventures in this area. On the other hand, the current situation could be viewed as an opportunity and encourage companies to relocate production activities to developing countries that offer relatively lower costs. Although both scenarios are feasible, efficiency-seeking FDI has in fact contracted because the reorganization and restructuring of production requires time and is difficult to carry out during a credit crunch.

In Latin America and the Caribbean, Mexico and the countries of the Caribbean Basin have been the main destinations of efficiency-seeking investment. Foreign companies generally set up assembly plants in the various countries of this subregion to manufacture exports, mainly for the United States market. In this way, Mexico has become the third largest exporter of manufactured goods to the United States, after China and Canada (see figure I.15).[25] These ties have made the subregion extremely sensitive to fluctuations in the United States economy, and the present crisis has had a devastating effect on investment flows: FDI to Mexico and the Caribbean Basin countries shrank by 5% in 2008, while in Mexico, the largest recipient in the subregion, FDI in manufacturing, including the maquila industry, plummeted by 49%.

Figure I.15

UNITED STATES: MARKET SHARES OF SELECTED COUNTRIES IN IMPORTS OF MANUFACTURED PRODUCTS, 1989-2007

(Percentages of total imports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the United States Department of Commerce.

In Mexico, the automobile and electronics sectors continue to be the mainstays of a manufacturing industry that is dominated by foreign companies. In 2007, exports from these two sectors reached US$ 41.9 billion and US$ 72 billion, respectively.[26] Although there have been some changes in manufacturing industry in Central America, such as the increasing weight of the electronics sector, the textiles and apparel industry continues to be the most important (Padilla and others, 2008). Offshore business services have been gaining ground in Mexico and the Caribbean Basin countries. FDI in offshore services offers new opportunities not only in terms of job creation, but also in terms of transferring know-how and incorporating higher-value-added activities into the economy.

This subsection begins with a brief overview of investment in the Mexican automobile industry. This industry was hit particularly hard by the problems afflicting the large United States automakers, which have worsened in the current financial crisis, and the United States authorities have been putting together a rescue plan that will have repercussions in the Mexican industrial sector. The second part of the subsection presents a general analysis of the effects of the financial crisis on efficiency-seeking investment in Central America.

[25] The contributing factors are proximity and access to the United States market, the cost and quality of human resources and infrastructure, and tax and other types of incentives, such as free zones, temporary duty-free admission and export maquila arrangements.

[26] See [online] www.promexico.gob.mx, 12 January 2009.

(i) Investment prospects in the Mexican automobile industry

General Motors, Chrysler and Ford have been bedevilled by high operating costs and onerous labour contracts for years. At the same time, heavy competition from Japanese automakers (Toyota, Nissan and Honda) has been eating into their market share (ECLAC, 2004). In 2008, the situation worsened, and the contraction of the domestic economy as a result of the real estate and financial crisis, together with the rise in some of the sector's basic inputs, such as steel and copper, on top of high oil prices, had strong repercussions on demand for larger car models, such as sports utility vehicles, which are the United States automakers' main products. The situation triggered an 18% fall in global automobile sales in 2008, affecting nearly all companies, especially the United States ones: General Motors and Ford posted their lowest sales in 50 years (*VOA News*, 2009).[27] The strong contraction of the United States market was replicated, albeit not as intensely, in other large developed markets in Europe and Asia (PricewaterhouseCoopers Automotive Institute, 2009).

Given the gravity of the situation, the Government of the United States began to work out a rescue package for the automobile industry that made support conditional upon the companies' privileging operations in the United States over operations elsewhere.[28] In the first stage, Chrysler and General Motors were awarded priority in this Government bail-out, which seems, however, to have been insufficient. At the beginning of 2009, both companies asked for more financial support from the Government at the same time as they announced mass lay-offs, plant closures and the suspension of production of certain models.[29] In May 2009, GM and Chrysler filed for bankruptcy protection under Chapter II of the United States Bankruptcy Code after failing to renegotiate their heavy debts. Despite suspending debt payments, both companies have continued to operate. Chapter II allows a company to reorganize its business operations so that it can eventually come out of bankruptcy and meet its financial obligations. Some of these measures have also been taken at the international operations of United States companies.

In the face of plummeting demand (three out four vehicles produced in Mexico are exported to the United States), General Motors, Ford and Chrysler have dismissed workers en masse, put technical stoppages into effect and halted certain non-strategic assembly lines at their Mexican plants. Between them, in 2008, the three companies laid off 2,500 workers. In the industry as a whole, some 10,000 people are estimated to have been affected by these lay-offs (*Expansión*, 2009). In the midst of this turmoil, non-United States companies have been facing similar problems because their main export market is also the United States. In addition to reducing its workforce, the German automaker Volkswagen held at least three technical and emergency stoppages in the first quarter of 2009, and in January, the company confirmed that 800 temporary workers would not be rehired at its Puebla plant (CNN Expansión, 2009a). The Japanese firm Nissan, meanwhile, announced that it would close its main Mexican assembly plant in Aguascalientes for 26 days during the first quarter of 2009 and that if the recession in the United States continued, it might lay off 6,000 workers (CNN Expansión, 2009b). For Volkswagen and Nissan, these measures could represent a 20% slash in production in Mexico in 2009 (*El Universal*, 2009). The sales of the autoparts sectors are also expected to shrink by 10% in 2009 on top of the 5% decline witnessed in 2008 (*América economía*, 2008g).

Despite this, Mexican automobile production increased by 4% and sales by 3% in 2008. This growth was mainly thanks to rising exports to Canada, Asia, Europe and the rest of Latin America, markets which have still not

[27] In 2008, Chrysler sales fell by 30%, General Motors sales by 23% and Ford sales by 20%. Although not as dramatically, the Japanese automakers' sales also dropped: Toyota's by 16% and Honda's by 8%.

[28] In November 2008, in the face of a credit crunch in the financial system, General Motors, Ford and Chrysler requested US$ 34 billion in aid from the United States Congress. In December that year, given the dire situation that the companies were in, the Government of the United States approved a US$ 17.4 billion aid package for the automobile industry. The funds were taken from the US$ 700 billion of the stimulus package that had been approved in October, originally to bail out companies in the banking sector. The funds were to be used first to prop up General Motors and Chrysler, which were teetering on the brink of bankruptcy, because Ford was in better financial shape. In April 2009, the Government pumped more resources into the industry to avoid bankruptcies and to promote the restructuring of the companies in the worse straits. United States authorities welcomed the strategic partnership between Fiat and General Motors.

[29] In February 2009, Chrysler requested a new loan of US$ 5 billion from the Government of the United States and announced the dismissal of 3,000 workers and the suspension of production of three of its models. General Motors meanwhile announced that it would be asking for a further US$ 16.6 billion in addition to the US$ 13.4 billion the company had already received. The General Motors restructuring plan includes the dismissal of 47,000 workers around the world, the closure of 14 plants in the United States and the reduction in the automobile brand names that it produces from eight to four (leaving it with Chevrolet, Buick, Cadillac and GMC). According to the company's estimates, with this plan, General Motors will be turning a profit again in two years' time and will be able to pay off its debt to the Government by 2017 at the latest (BBC, 2009).

been fully hit by the global crisis (see table I.4). The situation could turn around, however. Installed capacity worldwide is expected to operate at only 68% in 2009, and Mexico's production is projected to shrink by close to 12% (PricewaterhouseCoopers Automotive Institute, 2009; *América economía*, 2008g). Given this outlook, FDI to the Mexican automobile sector plummeted from US$ 1,876 million in 2007 to US$ 885 million in 2008.

Table I.4
MEXICO: AUTOMOBILE EXPORTS, BY DESTINATION, 2007-2008
(Units and percentages)

	Exports			Difference (Percentages)	Share (Percentages)	
	2007	2008	Difference	2008-2007	2007	2008
United States	1 203 947	1 175 513	-28 434	-2.4	74.6	70.8
Canada	88 710	112 606	23 896	26.9	5.5	6.8
Latin America	101 301	121 162	19 861	19.6	6.3	7.3
Asia	12 098	35 976	23 878	197.4	0.7	2.2
Europe	194 744	213 754	19 010	9.8	12.1	12.9
Other	12 513	2 383	-10 130	-81.0	0.8	0.1
Total	1 613 313	1 661 394	48 081	3.0	100.0	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of statistics obtained by the Mexican Automotive Industry Association.

Despite the bleak prospects, some interesting announcements have been made that could give the industry a boost, specifically by shifting production to smaller and more fuel-efficient vehicles. General Motors has led the way with an investment of almost US$ 1 billion in a new plant that will produce compact cars in San Luis Potosí (CNN Expansión, 2008c). Meanwhile, Ford, the least affected of the three United States giants, announced a US$ 3 billion investment in the production of its Fiesta model for the North American market (CNN Expansión, 2008d).[30] Geely Holding Group, the largest Chinese automaker, for its part, announced its interest in investing US$ 500 million in building a new plant in Mexico. The original goal was to export vehicles to the United States, South America and, above all, Central America, where the company already has a large market presence (*El Economista*, 2008). However, owing to the financial crisis, in March 2009, Geely decided to downsize the project in Mexico and to strengthen its global position, and expressed an interest in the luxury carmakers Volvo (a subsidiary of Ford) and Saab (a subsidiary of General Motors), which are struggling at the moment (*El Periódico de México*, 2009).

The restructuring under way in the industry means that some companies will probably be relocating their plants. This is the case of the German firm Daimler AG, the world's largest truck manufacturer, which transferred part of its production from Canada and the United States to a new complex in Saltillo (Mexico), with an investment of US$ 274 million (*América economía*, 2009b). This move was made with a view to improving the efficiency of its production and its logistics so as to be well positioned when the market recovers.

If the crisis continues or worsens, the most vulnerable transnational automakers might have to shut down production lines and plants, in both their home countries and those where they have set up international operations. Mexico will be especially vulnerable in this case, as it will not receive any of the financial support being given to the parent companies and its main export market is already going through a major economic crisis that has caused vehicle sales to plummet. Given the surplus in global production capacity, it is highly unlikely that large new investments will be announced in the automobile industry any time soon.

(ii) New projects with growth potential

Despite the slowdown in the electronics industry in Mexico (INEGI, 2008), world leaders in this sector still have operations in the country and Mexico continues to be a major exporter of electronic goods to the North American market. The Japanese firm Sharp invested in the television segment in 2008: first it built an assembly plant for new-generation televisions and then it set up local manufacturing facilities for the liquid crystal display (LCD) screens that are a key component in television receivers. Until then Mexico had competed in the assembly of television and computer screens but not in the production of value-added components such as LCD screens.[31] Sharp aims to sell

[30] Ford announced that its plant in Cuautitlán in Mexico would switch from producing pickups to producing the compact Fiesta model for the North American market. Ford will also be setting up a diesel engine production line at its plant in Chihuahua and building a transmission factory in Guanajuato, in a joint venture with the German firm Getrag.

[31] The liquid crystal sheets will be cut, and modules such as the light and polarization systems and other elements currently brought in from Japan will be put together at the new plant. This will reduce the production time for television sets from nine to four weeks.

screens to other assembly plants in the region (Bancomext, 2008). Following closely on its heels is Samsung of the Republic of Korea, which announced the construction of a new LCD screen plant in Mexico (*El Semanario,* 2008). The goal of these undertakings is to enhance the competitiveness of the Mexican television industry, shorten delivery times and increase Mexico's technological capacity vis-à-vis China, its main competitor in this segment.

In other high-tech projects, the German company Q-Cells announced the investment of US$ 3.5 billion over the medium and long term in the installation of a plant that will produce thin-film crystalline solar cells for export to the United States market. Q-Cells is not the only company in Mexico producing equipment for the renewable energy sector. The Japanese firm Kyocera (solar cells) and the joint venture between the Japanese company Mitsubishi and the United States company TPI Composites, known as Vientek (blades for wind turbines) are also operating in the country. These investments seem to be paving the way for the establishment of a manufacturing and export cluster to serve the potential and growing renewable energies market in the United States.

(iii) Impact of the financial crisis on efficiency-seeking investments in Central America and the Dominican Republic[32]

In the last few years, manufactured goods have been the largest component of exports from Central America and the Dominican Republic. Between 2000 and 2006, manufacturing exports represented over 60% of total exports and the United States was the main export destination (Padilla and others, 2008). The subregion is thus highly vulnerable to any fluctuations in the United States economy, as the current financial crisis has shown.

In 2008, FDI in the subregion's manufacturing industry did not grind to a halt, but it did slow down. Two companies that did invest in Costa Rica, which has been a major FDI destination for investments in the electronics, medical and autoparts sectors, were the United States company St. Jude Medical, which produces cardiovascular products (US$ 40 million), the German automaker Continental AG (US$ 30 million) and the United States firm Firestone Industrial Products (US$3 million). FDI in El Salvador and the Dominican Republic continued to be heavily concentrated in the textile and apparel industries. The German company Bodet & Horst and the United States firm Darlington Manufacturing Company, for example, invested in El Salvador in 2008, and 22% of the companies starting operations in the free zones of the Dominican Republic belong to the textile industry.

There are some signs, however, that the crisis has begun to dampen efficiency-seeking FDI in the subregion. Goods exports in Costa Rica in 2008 expanded only half as much as expected at the beginning of the year. In the sectors using advanced manufacturing technology, including the automobile and electronics sectors, the number of visits from potential investors fell in the second half of 2008, and fewer companies invested during the course of the year than in 2007. FDI flows also dropped in El Salvador and several clothing and apparel factories closed, such as the ones owned by Cupid Foundations (United States) and Lido (Republic of Korea).

On the other hand, the offshore business services sector has continued to grow steadily. Leading companies in this sector, such as the United States firms Sykes, Western Union and P&G, made fresh investments in Costa Rica. Three of the five largest FDI projects in El Salvador in 2008 were also in offshore business services (Americatel, Sykes and Citigroup). In the Dominican Republic, 28% of the companies setting up operations in the free zones provide export and telemarketing services (see chapter II).

Efficiency-seeking FDI is likely to decline as the economic crisis deepens, especially in the advanced manufacturing sectors where projects require large amounts of investment capital.

In short, the international crisis might spur companies to relocate production to more cost-effective countries, which could increase efficiency-seeking FDI in the region. During the first months of the financial crisis, however, FDI has mainly contracted because exports have been falling in response to the bleak growth projections for the developed countries, especially the United States. This is reflected in both the strategies that companies have adopted and the official statistics of Mexico and the countries of the Caribbean Basin. One challenge that has yet to be met in Latin America and the Caribbean is how to ensure that efficiency-seeking FDI flows help countries upgrade to the more knowledge- and technology-intensive activities that have higher value added, as these are still scarce in the region (ECLAC, 2008b).

(c) Market-seeking foreign direct investment

Economic growth is the main engine of market-seeking FDI, which means that any economic slowdown deters this type of investment. In 2008, the region's sixth consecutive year of economic growth, the growth rate of Latin America and the Caribbean was 4.2%. This, together with falling unemployment and better quality jobs, reduced poverty in the region and increased the population's disposable income (ECLAC, 2008c). These conditions also attracted foreign investors interested in the region's potential as a market. The

[32] This section is based on information provided by the Costa Rican Coalition for Development Initiatives (CINDE), the National Investment Promotion Agency of El Salvador (PROESA) and the Export and Investment Centre of the Dominican Republic (CEI-RD).

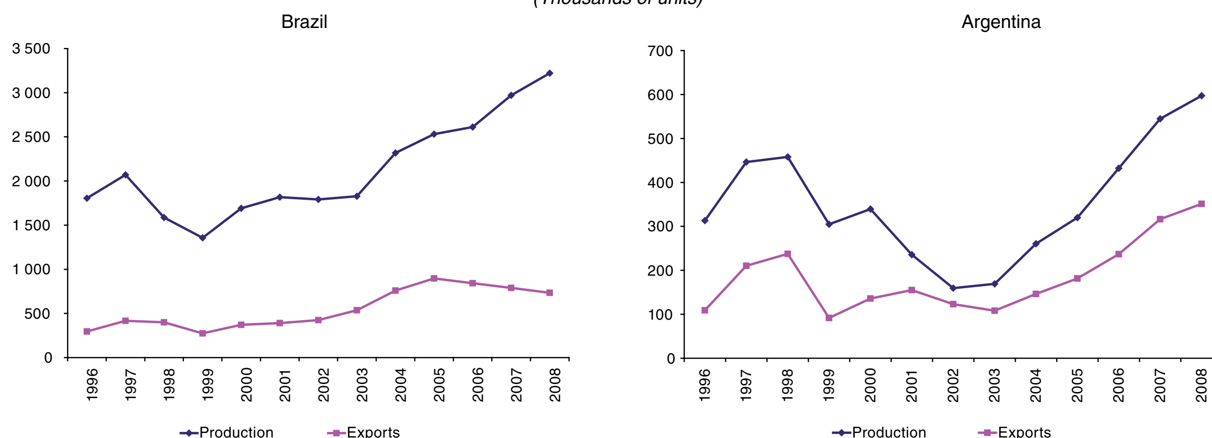
situation began to change, however, as the effects of the global economic crisis spread throughout the region and started to shut down the engines of growth. The impact has been uneven, however, and has affected different sectors at different times.[33] Hence the varied growth rates recorded across the region: 5.5% in South America, 4.1% in Central America, 2.3% in the Caribbean and 1.3% in Mexico. According to ECLAC estimates made in April 2009, the region is projected to post negative growth in 2009 (-0.3%).

Despite the bleak economic outlook, it should be borne in mind that the region's growth has outpaced average world growth for the last few years and that, though negative, the growth projections for the region are better than those for the developed economies for 2009. This could encourage FDI in the region. This section presents a brief analysis of the strategies pursued by some transnational corporations in selected sectors to penetrate markets in the region and examines how they have reacted to the international crisis.

(i) The automobile industry in South America

FDI flowing into the automobile industry in MERCOSUR seeks to satisfy demand in national and regional markets, unlike the FDI in the same sector in Mexico, the purpose of which is to create export platforms. The main automobile manufacturing centres in South America, Argentina and Brazil have seen production levels rise in the last few years thanks to robust domestic demand (see figure I.16).

Figure I.16
ARGENTINA AND BRAZIL: PRODUCTION AND EXPORT OF AUTOMOBILES, 1996-2008
(Thousands of units)



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

Despite the financial crisis, several companies pressed ahead with their expansion plans in 2008. General Motors (United States) announced investments of between US$ 500 million and US$ 1 billion in the production of a new model, and Ford (United States) modernized its Sao Paulo plant to produce the latest version of the Ka model. Honda (Japan), meanwhile, boosted the capacity of its plant in Sumaré, near Campinas, by 20%. Fiat (Italy) went ahead with its US$ 375 million project to upgrade its industrial base in Minas Gerais by 2010 and plans to invest approximately US$ 300 million to expand the capacity of its engine and transmission plants, as well as its vehicle assembly operations at its factory in Argentina (*Business Latin America*, 2008d).

Growing demand in the emerging markets, especially the BRICs, has sustained the pace of activity in the automobile industry, and the large automakers have not shown any signs of wishing to delay their announced investments. The crisis has begun to make itself felt in the South American market, however. Brazil, which produces 75% of light vehicles in South America, saw its sales fall in the last quarter of 2008 and is expecting them to diminish to 2.5 million units in 2009, 20% fewer than in the previous year (PricewaterhouseCoopers Automotive Institute, 2009). This drop in sales in Brazil will have a direct impact on the industry in Argentina, which exports approximately 70% of its production to Brazil.[34] The autoparts industry and its

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[33] The crisis has been transmitted to the region via two channels: the real channel (slowdown in exports, drop in commodity prices, reduction in remittances, less income from tourism, less FDI) and the financial channel (increased cost of external credit and more limited availability of international financing) (ECLAC, 2008c).

[34] See the Motor Vehicle Manufacturers Association (ADEFA) of Argentina [online] www.adefa.com.ar.

investments will also be directly hit by the waning demand. A survey conducted by the Union of the Automotive Vehicle Component Industry (Sindipeças) of Brazil on investment and prospects revealed that 48% of companies plan to keep their investments at the same level in 2009, 46% expect to reduce them, and only 6% plan to increase them. Although no significant changes in investment plans were announced by automakers, the effects of shrinking demand have already begun to appear. In Brazil, 12,000 workers at the factories of General Motors, Fiat, Scania and Volkswagen were forced to take vacations (La Nación, 2008), while falling demand resulted in a production stoppage at Iveco, the Argentine plant of the Fiat group. The Governments of Argentina and Brazil have set up financing programmes to sustain demand and to avoid mass lay-offs in the industry (AFP, 2008; PricewaterhouseCoopers Automotive Institute, 2009).

Although the South American automobile industry is facing difficult times, it seems to be holding its investment position in readiness for a possible recovery in 2010. The developed markets may be saturated, but opportunities and unsatisfied demand still abound in the emerging markets, including Brazil, which could turn out to be a lifesaver for some of the large automakers in the near future.

(ii) The emergence of a new protagonist in the region: the banking sector

For obvious reasons, the banking sector has been one of the most shaken by the international financial crisis and is currently undergoing a major restructuring process that will continue until a new equilibrium is reached. Three banks dominate the regional market: Banco Bilbao Vizcaya Argentaria (BBVA), Santander and Citigroup. Of these, Citigroup has been the worst hit by the crisis, and authorities are considering splitting its operations into two business units: one for commercial banking and one for investment banking. In 2009, the Government of the United States announced its intention to increase its stake in Citigroup. If a partial sale of assets goes ahead, Hong Kong and Shanghai Banking Corporation (HSBC) has expressed particular interest in Citigroup's assets in Argentina, Brazil and Mexico (*Telegraph*, 2008; Reuters, 2009b).

The Spanish banks Santander and BBVA, which performed well in 2007, began to feel the effects of the crisis. BBVA turned in good results up to the third quarter of 2008, but saw its profits wane as the economies of Mexico and the United States, its largest markets outside Spain, started to experience a slowdown. Despite capital increases, BBVA does not have much room for lending because demand for credit has fallen in both Mexico and the United States. Santander, which was affected by the Madoff scandal, has stated that it will continue to invest in markets with large potential, such as Brazil and the United Kingdom.[35] However, Santander also announced that it will be laying off 400 workers in Brazil to save US$ 1 billion by 2012 (*La Segunda*, 2009).

While the largest banks in the region are manoeuvring to come out of the crisis in as strong a position as possible, the Brazilian financial entity Itaú has emerged as a new sector leader with its acquisition of Unibanco and the creation of the largest private bank in Brazil. The purchase was in part a reaction to the competition posed by Santander after its acquisition of Brazilian bank Banco Real. Itaú Unibanco now has a solid position in the national market and possibilities of competing and expanding in the regional one (Bloomberg, 2008). Itaú already had operations in Argentina and Chile and is targeting Colombia, Mexico and Peru next.

This buy-out will probably increase the pressure on smaller banks in the region to negotiate their acquisition by larger ones as the global financial crisis is pushing up the costs of financing and the economic slowdown is harming their loan portfolios. Potential future targets include Banco Votorantim, Banco Safra, Interbank and Grupo Financiero Banorte (*International Business Times*, 2008a). It is highly likely that the banking market will undergo a series of mergers and acquisitions in the future.

(iii) The telecommunications sector withstands the crisis and its two leaders continue to battle it out in the region

The telecommunications market has shown tremendous resilience during the economic and financial crisis, and the number of service subscribers continues to grow steadily. Two companies are vying for the leading position in the telecommunications sector: América Móvil/Telmex and Telefónica (ECLAC, 2008a). The financial results of both companies reflect significant growth in sales and corporate profits, which has placed them in a strong position to withstand the economic crisis.[36] The income levels of these companies allow them to advance their investment plans without having to rely on the complicated credit market.

América Móvil's investments exceeded US$ 4 billion in 2008, and its level of investment is expected to be the same in 2009. Telefónica has also continued to expand and has bought the remaining shares in its subsidiary in Chile for US$ 1.5 billion. The company has projected that the sector in Latin America and the Caribbean will grow by 8% per year up to 2010 and is therefore continuing its investment plans. It has recently shown interest in the Cuban market (*International Business*

35 As a member of the consortium of European banks that bought ABN AMRO, Santander ended up controlling the Brazilian bank Banco Real and becoming the second largest private bank in the country in terms of assets (ECLAC, 2008a).

36 On the basis of the financial statements of both companies as at the end of the third quarter of 2008.

Times, 2008b; *Business Latin America*, 2008f; *América economía*, 2008l).

One of the most notable strategic moves was the purchase of Brasil Telecom by Oi for US$ 2.306 billion. With this transaction, Oi has become América Móvil's and Telefónica's new rival in the sector, and not just in Brazil: over the next few years, as it consolidates its position, this Brazilian company is expected to venture out and conquer other markets in Latin America (*América economía*, 2009a). This new participant will increase the competition in the telecommunications market, which could push the large operators in the sector to invest so as not to lose their leading positions in the regional market.

(iv) Retailing: the giant Wal-Mart makes its moves in the region

The expansion and consolidation of supermarkets continued in 2008. The most significant announcement was the acquisition of the Chilean firm D&S by the global leader in the industry, the United States firm Wal-Mart, which already has operations in Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Mexico and Nicaragua. With this purchase, Wal-Mart has obtained another valuable foothold in the South American market for furthering its international expansion strategy (Wal-Mart, 2009). The Chilean market had up to now been one of the bastions of national supermarket chains and one which the large international companies had not been able to penetrate with great success (Calderón, 2006). This move is probably being used to pave the way for Wal-Mart's eventual expansion into Colombia and Peru. Wal-Mart's low-price policy will increase pressure on its Chilean competitors, which will have to come up with strategies to compete against the retail giant. Wal-Mart also continued its expansion in Brazil, where it opened nine new stores in 2008 and is expected to invest US$ 984 million in 2009 to establish a strong position in one of the fastest-growing markets in the region (*América economía*, 2008m).

The Chilean firm Cencosud completed its acquisition of Supermercados Wong in Peru to expand and consolidate its presence in the region. The company already has operations in Argentina, Brazil and Colombia, in addition to Chile. In 2009, the group is planning to reduce its short-term debt and scale back its investments (Cencosud, 2008), and is therefore not expected to pursue any major expansions. In fact, given the sluggish growth projections for this year, Cencosud decided to suspend the building of its mega-project, Costanera Center, in Santiago, which would have required further investments of US$ 600 million (*La Tercera*, 2009b). 2009 will not be an easy year for the company which, in addition to having had to halt one of its landmark projects, will now have to compete with Wal-Mart, the largest retailer in the world.

The economic slowdown is definitely having an affect on the retail trade, but it is still not clear to what extent. What is clear is that Wal-Mart will continue its aggressive strategy to penetrate the Latin American market.

In short, the slowdown of the economies of Latin America, together with increasingly limited access to consumer credit, could stem the inflow of market-seeking FDI. In response to this situation, the Governments of the region have implemented a range of policies to prop up aggregate demand, which could counteract the effect of falling demand.[37] These policies will probably be insufficient, however, to keep market-seeking FDI at the levels recorded in previous years.

3. Conclusions

Despite the international crisis and the drop in foreign direct investment worldwide, FDI in Latin America and the Caribbean reached a new historic high in 2008 of over US$ 128 billion, 13% higher than in 2007.

This overall performance conceals huge disparities at the subregional level. FDI to South America increased notably thanks to the rise in natural-resource- and market-seeking investment, which was stimulated by commodity prices that remained high for most of 2008 and by the subregion's economic growth. Brazil was the main recipient of FDI in the region and accounted for most of the increase in FDI. Investment flows to Mexico and the Caribbean Basin, on the other hand, declined as a result of the crisis in the main export market of these economies, the United States. The recession in the United States stemmed the flow of efficiency-seeking FDI at the same time as the global economic and financial crisis slowed economic growth in the region itself, which had a negative impact on market-seeking FDI. Mexico was the worst hit and suffered a 20% reduction in FDI with respect to 2007.

[37] For an overview of the measures that the region's governments have adopted in response to the crisis, see ECLAC (2009).

The economic conditions that sustained the FDI boom in Latin America and the Caribbean throughout 2008 have begun to change. As the crisis worsens in the region, the engines that drive FDI have begun to stall one by one. The prospects of less growth and access to financial resources, together with mounting uncertainty and perceptions of increased risk, will reduce FDI flows to the region in 2009. In fact, given the trends and preliminary data for the main receiving countries, all evidence points to FDI in the region falling by between 35% and 45% in 2009. This situation serves as a reminder of two things: FDI has considerable potential to generate structural change; and investment is not an end in itself, but a means to achieving economic growth. What matters is not so much the quantity of the FDI received as the quality of that FDI and its potential to generate spillovers and linkages that enhance the production and technological capacity of the receiving economy.

D. Outward foreign direct investment and the trans-Latins

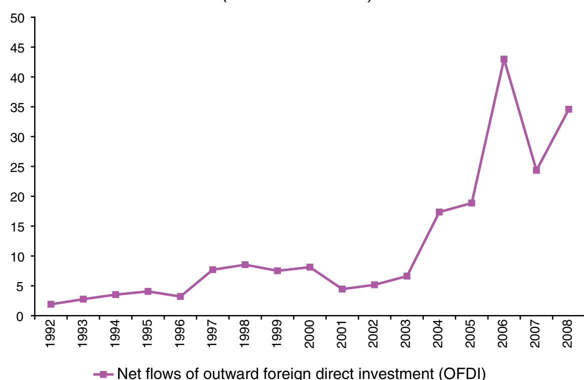
1. Outward foreign direct investment (OFDI) flows

In 2008, flows of OFDI from the countries of Latin America and the Caribbean continued to increase, rising to US$ 34.561 billion, up 42% from the previous year (see figure I.17).

Figure I.17

LATIN AMERICA AND THE CARIBBEAN: NET FLOWS OF OUTWARD FOREIGN DIRECT INVESTMENT, 1992-2008 [a]

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

[a] Figures for outward foreign direct investment do not include flows from financial centres. The outward foreign direct investmen figures indicate outflows of direct investment by residents, minus disinvestments abroad by those investors.

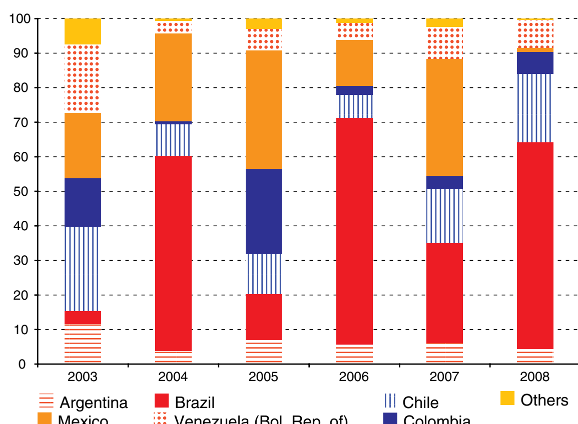
This historically positive result probably reflects, at least in part, the completion of transactions that that already been negotiated and projects that had already been started before the economic and financial crisis really gained momentum.

Brazil is the region's leading foreign investor, accounting for US$ 20.457 billion of OFDI (61% of the total), followed by Chile and the Bolivarian Republic of Venezuela, with US$ 6.891 billion and US$ 2.757 billion, respectively (see figure I.18). For Brazil, this represents a 190% increase over the previous year and is the second largest outflow in its history, after 2006. Most of these investments were in natural resources, iron and steelworks, and food, under a relatively favourable price scenario and local economic conditions through the third quarter of the year. Although it is not possible to reach a conclusion on the basis of the aggregate data, information published by companies suggests that more is being invested in organic growth and in raising the productivity of international operations and less in acquisitions.

In Chile, OFDI flows, as recorded in the balance of payments, increased 76% from the previous year. Much of this investment was related to transactions in the retail sector —including those of Cencosud and Falabella— in Brazil and Peru that were announced in late 2007 and carried out in 2008.[38]

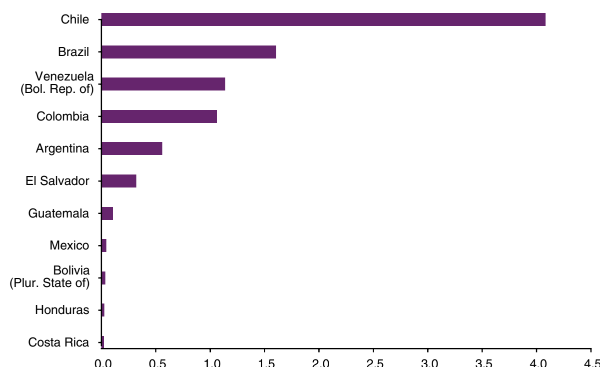
[38] Estimates according to the concept of "direct investment of Chilean enterprises detected abroad" (on the basis of investment announcements collected by the Santiago Chamber of Commerce and which more closely reflect the current economic situation) show a 37% reduction with respect to the preceding year, but a historically high result (CCS, 2009).

Figure I.18
LATIN AMERICA AND THE CARIBBEAN: NET FLOWS OF OUTWARD FOREIGN DIRECT INVESTMENT, MAIN INVESTOR COUNTRIES, 2003-2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

Figure I.19
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): RATIO OF NET OUTWARD FOREIGN DIRECT INVESTMENT TO GDP, 2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as at 15 May 2009.

In the Bolivarian Republic of Venezuela, whose OFDI in 2008 outstripped its incoming FDI, 96% of investment is attributable to the State oil company PDVSA. In 2008, Mexico, which in recent years had been one of the two leading investor countries, saw its outward foreign investments contract. Having been affected more quickly by the crisis, some Mexican transnationals were forced to revise their internationalization strategies and even shed international assets. Others, such as Mexichem and Bimbo, however, have moved forward with their expansion plans (see section 2).

When OFDI is measured in relation to GDP, the largest outward investor in 2008 (among the countries for which information is available) was Chile, followed by Brazil, Colombia and the Bolivarian Republic of Venezuela.

Few countries publish official figures on the destination of OFDI. In 2008, the main geographic destination of Brazilian outward investments was the United States (28%), whereas the financial centres of the Caribbean received 25% of Brazilian OFDI. Some 12% of Brazilian outward investment went to Latin America, with the largest recipients being Argentina (4%), Chile (3%) and Uruguay (3%).[39] By contrast, Chilean outward investment in South America amounted to 72% of its OFDI. Whereas Argentina was previously the main destination of Chilean investments, in 2008 the largest volumes went to Brazil and Peru —two markets in which the fastest-growing Chilean trans-Latins are consolidating their positions. Most of Colombia's OFDI went to the United States (57%); the remainder was distributed among Brazil (19%), Panama (13%) and Mexico (8%).

2. Trans-Latin investments abroad in 2008

Although figures for investment abroad reflect the activity of a large number of enterprises —877 corporations in Brazil are estimated to invest abroad (BBC Brasil, 2009)— the volumes recorded are mainly attributable to a relatively small number of companies and transactions.[40] In 2008, the following sectors were the main recipients of investments made by trans-Latins outside of their countries of origin:

[39] The figures comprise solely transactions for more than US$ 1 million and exclude investments in goods and real estate.

[40] The main trans-Latins (Latin American enterprises that make significant investments abroad) may be grouped into four large categories: (1) enterprises in the natural resources sector or natural-resource-based manufacturing sector (hydrocarbons, mining, cement, petrochemicals); (2) enterprises related to the mass consumption of goods and services (food, beverages, telecommunications, retail commerce, banking); (3) producers of intermediate goods (autoparts and bodies, industrial equipment); and (4) engineering and construction companies (see table I.A-6 of the annex).

(a) Hydrocarbons

High crude prices through September were a determining factor in the strong results of oil producers. Petrobras and PDVSA, the Latin American companies in the sector that have invested the most outside of their countries of origin, maintained and even expanded their internationalization programmes in 2008.

Petrobras' international investments in 2008 totalled US$ 6.133 billion, 7% more than in 2007, and accounted for 12% of the company's total investments. Approximately 86% of international investment was used for exploration and production in Argentina and the Plurinational State of Bolivia. In the secondary-processing sector, the company acquired ExxonMobil's operations in Chile, the only South American country where it did not yet have operations. This transaction was part of a trend that has seen some transnational enterprises withdraw from the Latin American fuel-distribution market, with a concomitant expansion of regional companies (ECLAC, 2008a). Outside of Latin America, Petrobas increased its stake in Pasadena Refining System Inc., in Texas, United States, and signed an agreement to purchase ExxonMobil's 87.5% stake in Nansei Sekiyu Kabushiki Kaisha, which owns a 100,000 barrel-per-day capacity refinery in Japan, in addition to logistical infrastructure that will allow Petrobras to commercialize its biofuels in Japan and other Asian markets.

Despite the crisis, in early 2009, Petrobras expanded its 2009-2013 investment plan, which calls for a total investment of US$ 174.400 billion. One tenth of this amount will be used for investments outside of Brazil, mostly in exploration and production activities in Latin America, West Africa and the Gulf of Mexico. In response to the crisis, the company is granting priority to projects that can generate results more quickly and has sought out strategic partners (which would later receive profits from the crude production). Due to the long maturation period of exploration and production projects, many of the investments are being made now in anticipation of the eventual recovery of the world economy.

PDVSA also continued to benefit from high oil prices through September 2008 as its profits for the first three quarters of 2008 soared (Dow Jones, 2009). The company continued to invest in Argentina, Cuba, Ecuador, Gambia, Mali, Plurinational State of Bolivia and Viet Nam. It has restructured its international refining capacity by selling its Paulsboro Savanna refineries in the United States, investing in the Camilo Cienfuegos refinery in Cuba (in which it owns slightly more than half of the production assets) and announcing the construction of a refinery in Ecuador. PDVSA, which in the United States controls Citgo, one of the 10 largest fuel distributors in that country, is evaluating new business opportunities in Africa, Asia, the Caribbean, Europe and South America. Meanwhile, investments by Petroandina, a joint venture between Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and PDVSA, spearheaded investment in the hydrocarbons sector in the Plurinational State of Bolivia. Petroandina announced investments of US$ 900 million for oil extraction activities and close to US$ 250 million for experimental drilling and studies. For its part, YPFB signed a US$ 1 billion agreement with the Dutch-owned Petroholland for exploration and the construction of a gas pipeline.

Colombia's State-owned Ecopetrol was behind one of the largest international investments by Latin American gas and oil companies in 2008. The company acquired a stake in an exploration project in the Gulf of Mexico operated by the Norwegian firm Statoil-Hydro. This operation comes in the wake of others undertaken by Ecopetrol in Brazil, Peru and the United States.

(b) Mining and iron and steel

Latin American mining companies' investments abroad are also motivated by the long-term outlook for minerals and metals markets, especially in emerging economies. Some investments in this sector are related to the trend analysed in the section on natural-resource-seeking FDI.

Latin America's largest mining enterprise, Companhia Vale do Rio Doce, has moved forward with an ambitious investment plan in Brazil and abroad, in anticipation of an economic recovery around the globe. In 2008, it made some acquisitions outside of Brazil, in line with a strategy intended to enhance its position in coal and copper extraction. The company acquired a coal mine from Cementos Argos, of Colombia, and entered into a joint venture with TEAL Exploration and Mining, which has reserves in the Democratic Republic of the Congo, Namibia and Zambia. Most of CVRD's investments outside of Brazil in 2008 were not in acquisitions but in project development. In times of uncertainty, focusing growth strategy on the development of mining assets that the company already controls allows the company to delay or accelerate projects according to the outlook for growth in demand. In 2009, 30% of the US$ 14.2 billion investment budget will be used for projects outside of Brazil. Some US$ 1.1 billion will be used for investments in Canada, US$ 831 million in Mozambique and US$ 515 million in Oman (see table I.5). CVRD, like its competitors, has felt the effects of the crisis and has had to curb operations in response to the expected contraction in the world iron-ore market. It has scaled back its operations in Brazil and Canada and laid off 1,300 employees worldwide. The company also suspended a steel-foundry project with China's Baosteel (Reuters, 2009a and 2008e).

Table I.5
INTERNATIONAL PROJECTS OF VALE DO RIO DOCE FOR 2009
(Millions of dollars)

Project and location	Amount to be executed in 2009	Total amount
Pellet plant, Oman	458	1 356
Tres Valles (formerly, “Papomono”) project, production of cathode copper, Coquimbo, Chile	56	102
Hydroelectric plant in Karebbe, Indonesia, to supply power for the operations of PT Inco	119	410
Expansion of the Carborough Downs coalmine, Queensland, Australia	138	330
Coal production project, Moatize, Mozambique	444	1 398

Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of Companhia Vale do Rio Doce, “Vale realiza investimento recorde em 2008: US$ 10,2 bilhões”, *Nota de prensa*, 21 January 2009.

The largest publicly announced acquisition by a trans-Latin in the mining sector in 2008 (outside of the company’s country of origin) was the purchase of Mineração Taboca’s tin division in Brazil by the Peruvian firm Minsur. Minsur accounts for 12% of tin production worldwide, and until now all of its operations have been located in Peru. This first international acquisition by the company increases its output capacity by approximately 20% and includes, among the main mining assets, a mine in the Amazon region and a foundry in São Paulo.

Other particularly noteworthy acquisitions in the mining sector include the acquisition by the Brazilian group Votorantim of US Zinc (United States) and Minera Atacocha (Peru). In 2008, Votorantim started producing indium in Peru (used, *inter alia*, to manufacture liquid crystal displays), made new investments in iron and steelworks, acquired a majority stake in Argentine long steel producer AcerBrag and began to invest in a new steel plant in Colombia, in partnership with Acerías de Colombia (Acesco).

The steel market had a relatively positive performance in the first half of the year, as a large volume of investments was made. Nevertheless, worldwide demand began to decline in the second half of the year, cutting into the profits of the region’s main steelmakers, which were forced to revise their operations and investment plans and lay off large numbers of employees in late 2008 and early 2009.

The Brazilian company Gerdau is moving forward with its expansion to cut costs and exert more influence over its scrap-metal and energy suppliers (Bloomberg, 2007). In 2008, the company completed the acquisition of the United States-based Macsteel and established a strategic alliance with Corporación Centroamericana del Acero (with assets in Guatemala and Honduras) by acquiring a 30% stake in the company. It also acquired 50.9% of Cleary Holdings, which has coke production units and reserves in Colombia. The transaction is in line with the global trend in the steel industry towards vertical integration to ensure the availability of key raw materials amid heavy global demand for natural resources. The company also increased its stake in the Spanish firm Sidenor, allowing it to consolidate its position in the world steel market. In addition to these acquisitions, Gerdau announced important investments to expand the capacity of its subsidiaries in Argentina and Peru in line with its growth strategy in the Americas. However, towards the end of the year, the company announced the postponement of its investment in Argentina and cutbacks in some operations both in and outside of Brazil (*América economía*, 2008h; *Valor online*, 2009).

For its part, the Argentine group Techint announced US$ 6.6 billion in investments in Mexico over five years in plant construction and expansion projects, as well as in developing tin- and iron-ore reserves (CNN Expansión, 2008a). Ternium, the iron- and steel-making division of Techint, had —like its competitors— three strong quarters until customer demand plummeted, mainly in three sectors that were hit hard by the crisis: automobiles, construction and household appliances. Its international operations were marked by the completion of the integration of the IMSA group which had begun in 2007. Ternium’s purchase of IMSA and the simultaneous increase of its participation in the Mexican and United States high-value-added market left the company vulnerable to the performance of these two economies. Upon finalizing the purchase, Ternium sold IMSA assets in the United States considered non-essential —the companies Steelscape Inc. (except for one of its plants), ASC Profiles, Varco Pruden Buildings and Metl-Span— to BlueScope Steel.

Another important event in Ternium’s international operations was the nationalization of Sidor in the Bolivarian Republic of Venezuela. Techint had headed the consortium that purchased 60% of Sidor in 1998. Under the nationalization process, Ternium’s shareholding in the company comes under the control of the State-owned Venezuelan company Corporación Venezolana de Guayana.

Tenaris, the Techint group’s steel-pipe maker, was also negatively affected by its acquisition of the United States company Maverick in 2007 because the number of

new gas exploration and production projects (one of the key markets for Tenaris' products) waned in the following two years. Nevertheless, during most of 2008, demand for Tenaris' products increased, among other reasons, thanks to the rise in imports by China.

One of the main OFDI transactions carried out by a Brazilian company in 2008, which substantially altered the country's OFDI balance, involved Companhia Siderúrgica Nacional (CSN). As noted above, CSN sold a stake in Namisa —the company that controlled its mining assets— to a group of Japanese firms. Although these resources —more than US$ 3 billion— were immediately transferred to a CSN subsidiary in Panama, their final destination cannot be inferred on the basis of the information currently available to the public (BBC Brasil, 2009).

(c) Cement and concrete

Cemex, which in 2007 carried out the second-largest-ever cross-border acquisition by a Latin American company (buying the Australian firm Rinker for US$ 14.6 billion), was hard hit by the crisis in 2008. In addition to the natural vulnerability that construction and cement industries have to economic cycles, the acquisition of Rinker meant that when the crisis broke out, Cemex had a high debt ratio and a heavy concentration of assets in the sluggish United States market.[41] Cemex's credit ratings were downgraded from investment grade and the company announced the cancellation of more than 50% of its capital investments for 2009 and its intention to sell some of its assets abroad to finance part of its debt. The cement maker also announced a 10% downsizing of its workforce worldwide (*América economía*, 2008i). In February 2009, it was expected that the economic stimulus package in the United States might help increase demand for Cemex's products, but results were deemed unlikely to be seen before 2010 (CNN Expansión, 2009c and 2009d). Furthermore, like Techint, Cemex suffered the nationalization of its operations in the Bolivarian Republic of Venezuela.

The cement division of the Votorantim group acquired Prairie, a concrete producer from the Great Lakes region of the United States, as well as a strategic stake in Cementos Bío Bío, a leading Chilean cement and concrete producer.

(d) Petrochemicals

The Mexican company Mexichem continued to expand its international presence in the petrochemicals sector. Continuing with the internationalization process begun in 2006 with the purchase of a company in the United States, Mexichem acquired Dripsa (Argentina), Bidim (Brazil), Geosistemas (Peru), Colpozos (Colombia) and a majority stake in Plastubos (Brazil) in 2008, in addition to making other acquisitions in Mexico. The company financed most of these transactions with its equity. Nevertheless, the acquisition of Prodesal in Peru did not go through, partly because of the negative outlook for the world economy and partly because of restrictions established by Colombian competition authorities (*El Tiempo*, 2008).

(e) Food and beverages

The largest transaction announced by a trans-Latin in 2008 was the acquisition by the Mexican company Bimbo of the bread-making and baked products division of Weston (Canada) in the United States, which placed Bimbo in a leadership position in the industrialized bread-making market in that country. As this US$ 2.5 billion transaction took place in January 2009, it is not reflected in OFDI data for Mexico for 2008. Bimbo also acquired a 75% interest in Brazilian bread-maker Nutrella Alimentos, making it the leading industrialized bread-maker in Brazil as well. These acquisitions are part of Bimbo's geographic diversification strategy.

As was the case in 2007, important acquisitions took place in the meat-producing industry in 2008. Sigma Alimentos, part of the ALFA group of Mexico, acquired Braedt, a leader in Peru's coldcuts market, as well as Butterball's Longmont brand, the largest turkey-products manufacturer in Latin America. Moving forward with its strategy of diversifying and expanding its activities in various markets and in order to gain direct access to international markets, Brazil's Marfrig bought Moy Park in Europe and acquired some beef jerky brands in the United States. At the beginning of the year, Marfrig bought the beef jerky producer Mirab in Argentina. When the United States imposed restrictions on meat imports from Brazil, the company transferred its processed meat beef jerky operations from Brazil to its Uruguayan subsidiary.

The Brazilian company JBS had embarked on an internationalization process in 2005, with the purchase of Swift Armour in Argentina. In 2008, it expanded its geographic presence by acquiring a 50% interest in Inalca, of Italy, and in Tasman, of Australia. In the United States, JBS announced the acquisition of National Beef and Smithfield Beef for US$ 970 million and US$ 565 million, respectively. Although the acquisition of Smithfield Beef was successfully concluded, the purchase of National Beef was challenged by the United States Department of Justice on the grounds that the transaction could lead to higher consumer prices and lower wholesale prices for

[41] Although Rinker was an Australian company, the concentration of many of its assets in the United States was one of Cemex's main reasons for making the purchase.

cattle producers. JBS withdrew its bid in February 2009. In addition to these new acquisitions, the company invested in the expansion of its plants and distribution centres in Angola, Australia, the Democratic Republic of Congo, Italy, the Russian Federation and the United States. JBS's presence in the leading beef-producing countries protects it from trade and health restrictions.

In the beverage market, the largest acquisition concluded in 2008 was in the Caribbean, where Angostura (Trinidad and Tobago), acquired a majority stake in Lascelles, a Jamaican liquor producer for US$ 920 million. The acquisition is expected to be the first step for closer integration between the two companies, which will allow them to expand internationally. Also in the beverages segment, Coca-Cola FEMSA, of Mexico, moved forward with its strategy, as a distributor of The Coca-Cola Company, of complementing its non-soft-drink line and acquired Brisa, a bottled-water company in Colombia. In addition, it concluded the acquisition of Refrigerantes Minas Gerais in Brazil, giving it control of approximately one-third of the bottling and distribution system of The Coca-Cola Company in that country.

(f) Retailing

Chilean companies have played a prominent role in the retail trade in the region, the main target of Chilean OFDI. In 2008, most Chilean investment in this sector was used to open new stores in Argentina, Brazil, Colombia, Mexico and Peru (CCS, 2009). Even with the economic and financial crisis, Falabella posted sharply higher sales in 2008, even in the fourth quarter of the year, thanks to its international expansion. The company inaugurated 30 new stores outside of Chile, in Argentina, Colombia and Peru. In the last quarter of 2008 alone, it opened 14 stores in Peru and took over five Casa Estrella stores in Colombia. Despite the economic downturn, Falabella plans to open 130 new stores, both in Chile and abroad, in the coming four years. Another Chilean company, Cencosud, having gained a foothold in Brazil and Peru in 2007 (it completed its purchase of Supermercados Wong in Peru the following year), opened its first points of sale in Colombia in 2008. Cencosud has also invested in Argentina, Brazil and Peru, which, taken together, accounted for 56% of its revenue in 2008, up from 37% in 2007. In the near future, Cencosud expects to consolidate its presence in the markets where it currently operates.

The other notable investment in retailing in 2008 was the purchase by the Mexican firm Grupo Casa SABA of the Brazilian network of pharmacies Drogasmil. This is the first international move by Grupo Casa SABA, which views Drogasmil as a starting point for future growth in Brazil.

(g) Autoparts and bodies

In an industry reeling from the crisis, Latin American autoparts manufacturers made modest investments in 2008. The economic situation might reinforce the trend towards geographic diversification already being followed by companies such as Nemak, of the ALFA group, which, in the wake of the sizeable acquisitions it has made in recent years, now posts half of its sales in Europe and South America and is seeking to expand in Asia (CNN Expansión, 2008b).

The Brazilian manufacturer of bus bodies Marcopolo has focused its international growth strategy on developing markets, often through partnerships with companies in the target destinations. It began to produce buses in India in a joint venture with Tata Motors in 2008. In Egypt, it entered into a joint venture with GB Auto SAE, one of the largest companies in that country, to produce buses for markets in Africa, Europe and the Middle East in addition to the markets that Marcopolo already serves through its factories in Argentina, Brazil, Colombia, India, Mexico, Portugal, the Russian Federation and South Africa. Through a joint venture with the Russian firm Ruspromauto, Marcopolo began to manufacture buses to be used for urban transportation in the Russian Federation.

3. Conclusions and outlook for 2009

In 2008, the volume of OFDI from the countries of Latin America and the Caribbean reached US$ 34.561 billion, which represented a 42% increase with respect to 2007. This was the result of a combination of factors:

- Some of the largest investments in 2008 were brought about by inertia, as the result of corporate decisions taken prior to the worsening of the crisis in September. Some of the sectors in which trans-Latins are most active, in particular natural-resource-based production sectors, performed favourably for the first two thirds of the year. In addition, some companies —in the petrochemical

and the meat-producing sectors— continued with the internationalization processes they had embarked on in 2006 and 2007;

- A substantial portion of the investments were made in markets that have been less affected by the crisis or were impacted only later, particularly in the region and in other developing countries, or in sectors with a low income elasticity, such as industrial bread-making. In fact, some companies' investments have been driven by the need to diversify and increase their presence in markets that have better growth prospects;
- Some investments, especially in the hydrocarbon and mining sectors, where projects have a long maturation period, have been made in anticipation of a recovery in the global economy.

Despite the good results posted in terms of investment in 2008, starting in the fourth quarter of the year many trans-Latins were forced to curb their operations and review their investment plans in response to declining global demand, uncertainty regarding the recovery in demand and the limited availability of credit. Some enterprises were severely hampered by past international acquisitions —such as Cemex's purchase of Rinker and Tenaris' acquisition of Maverick— that made them more sensitive to fluctuations in the United States market and the effects of the economic crisis in that country, in addition to sharply increasing their debt levels.[42]

The behaviour of OFDI flows from the countries of Latin America and the Caribbean in 2009 will depend on the evolution of the crisis, the extent to which it affects global demand for natural resources and the speed and intensity of the contagion of the economies of the region and other economies where the trans-Latins have made investments. Due to increasingly tight credit and the fall in regional and global demand, the international expansion of Latin American and Caribbean enterprises is expected to be less dynamic in 2009.[43] Nevertheless, the internationalization of these companies is already under way and oriented towards the long term, and the crisis could create opportunities for those that can obtain financing.

Table I.6

THE LARGEST NON-FINANCIAL COMPANIES AND GROUPS OF LATIN AMERICA AND THE CARIBBEAN, IN TERMS OF SALES, WITH INVESTMENTS OUTSIDE THEIR COUNTRIES OF ORIGIN

(Millions of dollars)

Company	Country	Sales 2007	Sales abroad (percentages)	Domestic sales (percentages)	Employees abroad (percentages)	Sectors
PDVSA[a]	Venezuela (Rep. Bol. de)	110 000	98	...	49	Oil/Gas
PETROBRAS	Brazil	87 476	21	12	62	Oil/Gas
TECHINT	Argentina	39 770	63	63	52	Diversified
Cia. Vale do Rio Doce	Brazil	33 115	84	46	50	Mining
Banco Itaú	Brazil	31 195	13	23	...	Banking
América Móvil[b]	Mexico	29 113	50	32	...	Telecommunications
CEMEX	Mexico	21 673	82	71	50	Cement
Mexichem	Mexico	21 170	50	31	...	Petrochemicals
Grupo Modelo	Mexico	17 291	37	...	41	Beverages
Gerdau	Brazil	17 283	54	39	32	Steel/Metallurgy
Femsa	Mexico	16 453	17	44	57	Beverages
Grupo Votorantim	Brazil	13 589	16	5	50	Diversified/Cement/Mining/Steel
Telmex[b]	Mexico	12 108	52	52	...	Telecommunications
Braskem	Brazil	9 981	20	6	...	Petrochemicals
Grupo Alfa	Mexico	9 750	53	70	39	Diversified
Cencosud	Chile	7 623	37	63	97	Retailing
Camargo Corrêa	Brazil	7 175	19	26	32	Diversified
CSN	Brazil	6 978	24	...	...	Steel
Grupo Bimbo	Mexico	6 756	31	60	90	Food
Falabella	Chile	5 560	29	27	59	Retailing
Andrade Gutierrez	Brazil	5 096	7	4	13	Construction
Odebrecht	Brazil	4 950	77	15	54	Diversified/Construction
EMBRAER	Brazil	4 896	96	45	24	Aerospace industry
Sadia	Brazil	4 874	46	1	52	Food
TAM	Brazil	4 248	10	...	13	Transportation/Logistics
Sudamericana de Vapores	Chile	4 131	90	58	7	Transportation/Logistics
Perdigão	Brazil	3 745	41	...	40	Food
Grupo Elektra	Mexico	3 647	55	12	35	Diversified/Retailing
Lan	Chile	3 525	85	63	15	Transportation/Logistics
Grupo Maseca	Mexico	3 347	66	15	20	Food

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Department of Studies and Special Projects of *América economía*, 2008.
[a] Estimated sales.
[b] The sales of América Móvil and Telmex are presented separately.

[42] In addition to the effects of the crisis, these two firms have seen their investments in the region affected by the nationalization of their operations in the Bolivarian Republic of Venezuela.

[43] The first signs of deceleration in this process began to show in the first quarter of 2009. For example, in Brazil, some US$ 400 million in divestments were recorded, in comparison with net divestments of nearly US$ 4.5 billion in the same period the year before (Central Bank of Brazil).

E. Concluding remarks

Foreign direct investment reached a record high in Latin America and the Caribbean in 2008, despite the eruption of the global economic and financial crisis. FDI flows into the region have in fact remained buoyant since 2003. This boom cycle may have come to an end in 2008, however, owing to the worsening of the international crisis.

The increase in FDI in Latin America and the Caribbean in the last few years, for whatever motive, has undoubtedly brought benefits. This increase has not, however, necessarily translated into countries taking better advantage of FDI, nor has the larger presence of transnational corporations in the region.

Natural-resource-seeking FDI has fuelled exports in that sector, raised the international competitiveness of natural-resource-based products, generated jobs in both urban and rural areas and increased fiscal income. Transnational corporations operating in this sector still view their operations as enclaves, however. They have no ties to the national economy, involve minimal local processing and furthermore may pose hazards in terms of pollution and environmental degradation. In the mining sector, for example, foreign companies are less likely to have work done locally and tend to seek suppliers of inputs, services, machinery and equipment abroad. This hampers the development of externalities and limits the possibilities of retaining the value added generated by mining activities (ECLAC, 2008b).

Efficiency-seeking FDI has helped transform the industrial sector in some countries. Costa Rica and Mexico, for example, have raised the international competitiveness of their manufacturing output, which is reflected in the increased volume and technological quality of their exports. This type of FDI also contributes to the transfer of knowledge and technology, which helps upgrade the skills of the workforce. It is associated with some difficulties, however, because efficiency-seeking FDI runs the risk of remaining trapped in low-value-added activities that generate few production linkages and tends to build only on static advantages (low costs) rather than on dynamic ones (innovation) in the recipient economy. The region's electronics industry, which is dominated by transnational corporations, is one example of this phenomenon. FDI has transformed the electronics sector by boosting exports and transferring knowledge and technology, but it still targets mainly assembly, in other words low-value-added activities. Moving up the value chain of efficiency-seeking FDI is still proving to be difficult in the region (ECLAC, 2008a, chapter II), but FDI in offshore business services (see chapter II) may be one way to achieve this upgrade.

Market-seeking FDI spawned new economic activities in the receiving economies, increased local content, promoted production linkages and connections with the local business community and improved services. There is also a risk, however, that, in the absence of solid institutions or owing to regulatory loopholes, this type of FDI will displace local companies or encourage production of goods and services that are not internationally competitive. One sector in which this has occurred is the telecommunications sector. Legal vacuums, passive attitudes among telecommunications and competition authorities, intense lobbying by the dominant operators and the absence of alternative service providers have, in some cases, resulted in the benefits of new technologies being slow to reach local consumers (ECLAC, 2008a, chapter III).

The large FDI flows that have poured into the region over the past five years show clearly that the arrival of FDI per se does not guarantee that all the possible benefits that the presence of transnational corporations implies will necessarily be reaped.

Outward FDI has also continued to grow in the region. However, it is important to analyse the contribution that the companies of the region have made to the development of their economies of origin. The globalization of the trans-Latins forces them to develop their own competitiveness. However, the link between that competitiveness at the corporate level and improvements in competitiveness or efficiency at the industry level is by no means clear in developing economies. In part, this is because it is difficult to quantify the effect. But it is also because the benefits generated by knowledge and technology transfers may be undermined in developing countries by their limited ability to absorb them (Globerman and Shapiro, 2008).

This points to the need to develop the absorption capacity of the region's economies.[44] The question, then, is not how much FDI a country receives, but what it does and achieves with that FDI.

A sound reaction to the current crisis must include policies to build and strengthen national economies' production capacity so as to maximize the benefits of not only FDI, but also the countries' own investments abroad. This could form part of a broader and more ingenious method for presenting a countercyclical response during economic slowdowns.

[44] Absorption capacity is determined by, among other factors, the level of education of the population, labour training and the presence of solid institutions as well as adequate physical, scientific and technological infrastructure. For a more detailed analysis of this topic, see Blomstrom and Kokko (2003) and Nunnenkamp (2004).

Annex

Table I.A-1
LATIN AMERICA AND THE CARIBBEAN: NET INFLOWS OF FOREIGN DIRECT INVESTMENT, BY COUNTRY OR TERRITORY, 1998-2008
(Millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Argentina	7 290.7	23 987.7	10 418.3	2 166.1	2 148.9	1 652.0	4 124.7	5 265.2	5 537.0	6 462.0	7 979.0
Bolivia (Plur. State of)	949.3	1 010.5	733.9	703.3	674.1	194.9	82.6	-290.8	277.8	366.3	512.0
Brazil	31 913.0	28 576.0	32 779.2	22 457.4	16 590.2	10 143.5	18 145.9	15 067.0	18 782.0	34 584.9	45 059.3
Chile	4 627.7	8 760.9	4 860.0	4 199.8	2 549.9	4 307.4	7 172.7	6 983.8	7 357.7	14 457.3	16 786.8
Colombia	2 828.8	1 507.9	2 436.5	2 541.9	2 133.7	1 720.5	3 015.6	10 252.0	6 656.0	9 048.7	10 563.8
Costa Rica	613.1	619.5	408.6	460.4	659.4	575.1	617.3	861.0	1 469.0	1 896.0	2 016.1
Ecuador	870.0	648.4	720.0	1 329.8	783.3	871.5	836.9	493.4	270.7	193.0	973.5
El Salvador	1 103.7	215.9	173.4	279.0	470.2	141.7	376.3	511.2	218.9	1 509.0	784.0
Guatemala	672.8	154.6	229.6	455.5	110.6	131.0	154.7	226.7	353.8	535.8	837.8
Honduras	99.0	237.3	381.7	304.2	275.2	402.8	546.7	599.8	674.2	815.9	888.4
Mexico	12 654.3	13 843.7	18 028.3	29 801.6	23 721.8	16 474.9	23 658.8	21 922.0	19 316.3	27 278.0	21 949.5
Nicaragua	218.2	337.3	266.5	150.2	203.9	201.3	250.0	241.1	286.8	381.7	593.8
Panama	1 203.1	864.4	623.9	467.1	98.6	770.8	1 012.3	962.1	2 497.9	1 907.2	2 401.7
Paraguay	341.9	94.5	104.1	84.2	10.0	27.4	37.7	53.5	182.9	196.4	150.0
Peru	1 644.0	1 940.0	809.7	1 144.3	2 155.8	1 335.0	1 599.0	2 578.7	3 466.5	5 342.6	4 079.0
Uruguay	164.1	235.3	273.5	296.8	193.7	416.4	332.4	847.4	1 493.5	1 222.7	2 043.9
Venezuela (Bol. Rep. of)	4 985.0	2 890.0	4 701.0	3 683.0	782.0	2 040.0	1 483.0	2 589.0	-590.0	646.0	1 716.0
Antigua and Barbuda	22.8	51.8	66.6	111.9	79.7	179.4	95.2	230.1	359.2	357.6	301.9
Anguilla	28.1	38.0	43.0	34.7	38.2	34.4	91.8	118.6	143.2	120.1	90.4
Dominica	6.5	18.0	20.3	20.6	20.7	31.9	27.5	32.2	28.9	60.7	59.9
Grenada	48.7	41.6	39.4	60.8	57.4	90.5	66.3	73.3	95.6	186.5	147.1
Montserrat	2.6	8.2	2.3	0.6	0.6	2.1	2.8	1.3	2.2	5.9	1.9
Saint Kitts and Nevis	31.9	57.7	99.0	90.3	81.1	77.9	53.1	104.3	114.6	163.8	94.0
Saint Lucia	83.4	83.2	58.2	63.0	57.1	111.8	81.0	82.0	237.7	247.9	185.5
Saint Vincent and the Grenadines	89.0	56.8	37.8	21.0	34.0	55.2	66.1	40.7	109.8	118.8	97.4
Bahamas	166.3	149.4	250.3	191.6	208.6	292.4	529.3	640.9	842.8	853.9	886.0
Barbados	15.8	17.4	19.4	18.6	17.4	58.3	-12.1	62.0	104.8	233.2	133.3 [a]
Belize	17.7	53.6	23.3	61.2	25.4	-10.9	111.5	126.9	116.6	148.0	189.0
Guyana	44.0	46.0	67.1	56.0	43.6	26.1	30.0	76.8	102.4	152.4	178.0
Haiti	10.8	30.0	13.3	4.4	5.7	13.8	5.9	26.0	160.0	74.5	29.8
Jamaica	369.1	523.7	468.3	613.9	481.1	720.7	601.6	682.5	882.2	866.5	810.4 [a]
Dominican Republic	699.8	1 337.8	952.9	1 079.1	916.8	613.0	909.0	1 122.7	1 528.0	1 578.9	2 884.0
Suriname	9.1	-61.5	-148.0	-26.8	145.5	200.7	286.2	398.5	322.7	315.7	345.6 [a]
Trinidad and Tobago	729.8	643.3	679.5	834.9	790.7	808.3	1 001.0	940.0	883.0	830.0	2 500.0 [a]

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures as at 15 May 2009.
[a] Estimates from the Economic Commission for Latin America and the Caribbean (ECLAC) for 2008.

Table I.A-2
LATIN AMERICA AND THE CARIBBEAN: NET INFLOWS OF FOREIGN DIRECT INVESTMENT, BY DESTINATION SECTOR, 1999-2008
(Millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Anguilla										
Tourism	…	35	19	16	7	21	60	72	78	56
Other	…	0	4	3	0	0	31	0	0	0
Antigua and Barbuda										
Tourism	…	7	20	10	4	15	75	259	245	212
Petroleum	…	0	0	0	0	0	0	0	0	0
Commercial	…	12	2	0	0	0	0	0	0	0
Finance	…	0	1	3	0	0	0	0	0	0
Construction	…	0	0	0	22	0	0	0	0	0
Banking and insurance	…	1	0	0	0	0	0	0	0	0
Medicine	…	0	1	1	0	0	0	0	0	0
Other	…	29	66	53	113	29	100	29	27	5
Argentina										
Natural resources	17 845	2 736	898	1 133	-278	2 265	…	…	…	…
Manufacturing	1 950	1 487	49	988	1 145	1 221	…	…	…	…
Services	3 153	4 750	1 260	-461	539	123	…	…	…	…
Other	1 038	1 445	-42	489	246	665	…	…	…	…
Belize										
Natural resources	…	…	…	…	…	…	…	12	9	36
Manufacturing	…	…	…	…	…	…	…	0	0	0
Services	…	…	…	…	…	…	…	91	87	82
Tourism								46	26	9
Other	…	…	…	…	…	…	…	14	37	44
Bolivia (Plur. State of)										
Natural resources	472	441	566	721	356	168	288	390	370	734
Manufacturing	152	93	87	91	62	90	58	52	143	102
Services	386	299	224	187	149	126	58	140	328	346
Brazil										
Natural resources	423	649	1 494	638	1 487	1 073	2 194	1 542	4 751	12 995
Manufacturing	7 002	5 070	7 001	7 555	4 506	10 708	6 527	8 462	13 481	14 013
Services	20 147	24 157	12 547	10 585	6 909	8 485	12 915	12 702	16 073	17 449
Chile										
Natural resources	1 374	354	1 153	2 006	403	350	595	1 140	434	2 076
Manufacturing	833	253	809	218	234	430	199	91	69	189
Services	7 023	2 432	3 058	1 157	649	3 856	1 003	1 938	867	2 058
Colombia										
Natural resources	-16	122	1 057	910	913	1 745	3 288	3 786	4 474	5 754
Manufacturing	505	556	261	308	289	188	5 513	803	1 867	1 374
Services	1 019	1 758	1 224	915	518	1 083	1 451	2 067	2 709	3 437
Costa Rica										
Natural resources	50	-11	1	-9	-36	51	37	66	-10	426
Manufacturing	366	308	237	486	395	456	375	432	722	553
Services	200	126	223	182	211	284	450	967	1 181	1 001
Other	3	-14	0	0	6	4	-1	4	4	36
Dominica										
Tourism	…	4	6	5	4	3	4	0	7	7
Manufacturing	…	0	0	1	2	0	0	0	0	0
Agro-industry	…	2	1	2	1	0	0	0	0	0
Construction	…	0	0	0	0	0	0	0	2	2
Petroleum	…	0	0	0	0	0	0	0	0	0
Other	…	0	2	1	12	7	12	24	43	42
Ecuador										
Natural resources	605	682	1 139	503	198	458	222	-69	-100	270
Manufacturing	8	10	59	67	79	115	75	90	97	170
Services	36	29	132	214	594	264	196	250	198	533
El Salvador										
Natural resources	-16	-11	30	9	-2	22	0	29	10	5
Manufacturing	18	32	65	47	48	41	317	17	21	28
Services	210	133	159	143	12	313	191	182	1 315	480
Other (maquila)	3	19	26	10	71	31	4	0	101	26
Grenada										
Tourism	…	15	16	27	39	28	37	48	117	86
Manufacturing	…	2	5	0	0	0	1	0	4	3
Education	…	0	0	0	6	0	0	0	0	0
Other	…	2	11	7	19	8	9	19	31	23
Honduras [a]										
Natural resources	113	56	40	30	59	58	53	44	11	4
Manufacturing	47	218	133	94	177	282	270	227	384	181
Services	78	82	123	122	144	166	263	359	515	608

Table I.A-2 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Mexico										
Natural resources	329	262	76	354	151	216	233	414	1 883	4 373
Manufacturing	9 157	9 996	5 899	8 789	7 735	13 175	11 007	9 923	12 125	6 384
Services	4 358	7 770	23 827	14 579	8 589	10 268	10 683	8 980	13 270	11 193
Nicaragua										
Natural resources	25	12	15	10	4	1	0	15	11	38
Manufacturing	32	68	46	60	45	33	87	63	121	96
Services	243	175	89	134	151	206	155	109	250	460
Panama										
Natural resources	0	0	0	0	0	0	0	…	…	…
Manufacturing	34	0	316	-76	3	41	-62	…	…	…
Services	632	396	217	98	566	1 092	1 693	…	…	…
Other	5	228	-66	76	166	-32	-696	…	…	…
Paraguay										
Natural resources	…	…	…	…	…	…	-1	-34	1	…
Manufacturing	…	…	…	…	…	…	-17	64	11	…
Services	…	…	…	…	…	…	54	84	169	…
Peru										
Natural resources	336	37	65	53	1	244	283	735	96	604
Manufacturing	133	70	162	713	25	-82	-78	433	11	89
Services	935	2 563	558	245	29	-280	-272	345	214	1 453
Dominican Republic										
Natural resources	0	0	7	23	78	60	31	100	76	300
Industry and commerce	183	154	167	223	103	321	199	259	188	704
Services	1 067	673	796	600	326	448	718	1 039	1 245	1 815
Other (includes free zone)	88	126	110	71	107	81	175	131	70	67
Saint Kitts and Nevis										
Tourism	…	52	63	68	40	8	1	0	33	39
Manufacturing	…	1	0	0	0	0	0	0	0	0
Commerce	…	0	0	0	0	0	0	0	0	0
Banking	…	0	0	0	0	0	0	0	0	0
Construction	…	0	0	0	0	0	0	0	0	0
Other	…	30	7	1	12	10	40	24	10	9
Saint Lucia										
Tourism	…	27	0	14	23	28	27	174	156	97
Manufacturing	…	0	0	0	0	0	0	0	0	0
Petroleum	…	0	0	0	0	0	0	0	0	0
Agriculture	…	0	0	0	0	0	0	0	0	0
Other	…	11	41	26	62	20	28	1	2	16
Saint Vincent and the Grenadines										
Tourism	…	46	3	9	20	85	31	130	160	90
Manufacturing	…	0	0	0	0	0	0	0	0	0
Agriculture	…	0	0	0	0	11	7	0	0	0
Other	…	0	0	20	61	4	3	10	6	10
Trinidad and Tobago										
Natural resources	449	614	787	695	710	867	813	736	711	….
Manufacturing	7	-38	-13	13	12	17	15	16	21	….
Services	18	2	30	43	30	49	47	62	56	….
Other	169	102	31	40	56	65	65	69	43	….
Uruguay										
Natural resources	…	…	-15	48	198	142	264	….	….	….
Manufacturing	…	…	12	54	40	23	26	….	….	….
Services	…	…	281	145	149	145	248	….	….	….
Other	…	…	18	-53	29	22	310	….	….	….
Venezuela (Bol. Rep. of)										
Petroleum	….	1 206	2 016	532	-25	-529	1 021	-1 958	-180	-230
Finance	….	590	403	526	197	646	492	369	673	345
Other	…	2 905	1 264	-276	1 868	1 366	1 076	999	153	1 601

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 May 2008. These data are based on official figures of Argentina (National Directorate of International Accounts (DNCI) of the National Statistics and Census Institute (INDEC), net income); Bolivia (Plur. State of) (Central Bank, gross income); Brazil (Central Bank, gross income); Chile (Foreign Investment Committee, investments made); Colombia (Bank of the Republic, net income); Dominican Republic (Central Bank, net income); Ecuador (Central Bank, net income); El Salvador (Central Reserve Bank, net income); Honduras (Central Bank, net income); Mexico (Department of the Economy, net income); Nicaragua (Central Bank, net income); Panama (General Comptroller of the Republic, net income); Paraguay (Central Bank, net income); Peru (Proinversión, net income); Uruguay (Central Bank, net income); Venezuela (Bol. Rep. of) (Central Bank, net income); and Trinidad and Tobago (Central Bank, net income). Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines (Eastern Caribbean Central Bank, net income). Data do not necessarily coincide with balance of payments.

[a] Includes maquila from 2004 onward.

Table I.A-3
LATIN AMERICA AND THE CARIBBEAN: NET INFLOWS OF FOREIGN DIRECT INVESTMENT, BY COUNTRY OF ORIGIN, 1999-2008
(*Millions of dollars*)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Anguilla										
United States	…	24	0	8	7	21	62	68	68	46
Other	…	12	0	11	0	0	30	4	10	10
Antigua and Barbuda										
United Kingdom	…	11	0	4	1	3	0	0	0	0
United States	…	6	18	9	19	0	19	0	0	0
Italy	…	0	0	0	0	3	27	0	0	0
Caribbean	…	4	2	0	0	12	10	0	0	0
Other	…	28	69	55	119	25	118	288	272	217
Argentina										
Netherlands	424	378	1 302	-436	-170	983	...	...	...	...
United States	1 307	947	533	342	-251	618	...	...	...	...
France	1 536	656	521	-624	-185	389	...	...	...	...
Germany	272	69	-100	381	112	336	...	...	...	...
Chile	201	96	-245	22	24	171	...	...	...	...
Other	20 244	8 273	155	2 464	2 121	1 777	...	...	...	...
Bolivia (Plur. State of)										
United States	339	368	351	289	189	131	...	...	...	...
Netherlands	106	47	58	12	5	53	...	...	...	...
Spain	10	46	59	268	63	40	...	...	...	...
United Kingdom	21	25	56	50	63	27	...	...	...	...
Colombia	2	0	3	3	4	26	...	...	...	...
Other	532	344	349	377	242	86	...	...	...	...
Brazil										
United States	8 088	5 399	4 465	2 615	2 383	3 978	4 644	4 434	6 039	7 047
Luxembourg	290	1 027	285	1 013	239	747	139	745	2 855	5 937
Netherlands	2 042	2 228	1 892	3 372	1 445	7 705	3 208	3 495	8 116	4 639
Japan	5 702	9 593	827	504	1 368	243	779	648	465	4 099
Spain	2 115	2 035	2 767	587	710	1 055	1 220	1 514	2 164	3 851
Other	…	…	10 807	10 687	6 757	6 538	11 531	11 396	14 066	18 884
Chile										
Canada	518	744	142	913	188	368	84	1 833	334	2 012
United States	1 389	788	1 808	551	373	123	-15	337	266	523
Spain	4 620	643	386	248	160	3 742	207	75	107	455
Japan	251	55	145	58	31	18	47	51	33	368
Mexico	72	2	14	3	16	150	605	47	55	163
Other	2 380	807	2 525	1 608	518	235	870	825	578	802
Colombia										
United States	545	120	223	784	274	874	1 410	1 524	1 389	1 745
Panama	180	259	129	40	135	10	208	240	477	760
Spain	154	479	161	107	155	136	599	492	289	564
Mexico	6	23	12	21	19	16	1 063	31	340	412
United Kingdom	18	1	14	-11	35	16	3 747	17	35	200
Other	1 427	2 384	1 134	739	581	914	1 112	870	1 364	1 650
Costa Rica										
United States	...	280	257	328	354	557	532	695	940	1 263
Mexico	...	29	33	31	38	29	37	31	64	110
Spain	...	22	26	0	7	7	14	10	54	74
Germany	...	10	3	1	58	16	7	25	59	66
El Salvador	...	15	16	23	25	14	21	33	41	62
Other	...	53	125	275	92	171	250	674	738	441
Dominica										
United States	…	3	0	0	0	0	0	0	0	0
Canada	…	1	0	0	0	0	0	0	0	0
Taiwan Province of China	…	0	0	0	0	0	0	0	2	2
Other	…	1	9	8	19	10	16	24	51	50
Ecuador										
Mexico	…	…	…	0	6	0	7	43	-40	303
Spain	…	…	…	1	3	1	3	7	85	127
Panama	…	…	…	39	85	94	76	67	78	71
China	…	…	…	16	20	-8	-20	12	85	49
Canada	…	…	…	0	19	274	29	-252	49	43
Other	…	…	…	697	699	675	382	103	-56	367

Table I.A-3 (continued)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
El Salvador										
Panama	…	…	6	15	-1	2	42	68	841	321
United States	…	…	196	57	63	-5	332	13	499	129
Italy	…	…	0	27	0	0	0	47	0	32
Nicaragua	…	…	4	8	-13	0	1	7	8	10
Brazil	…	…	0	0	0	0	0	4	9	9
Other	…	…	73	101	80	409	137	87	90	39
Grenada										
United Kingdom	…	0	0	0	0	3	4	0	0	0
United States	…	0	11	24	45	2	0	0	0	0
Germany	…	0	0	0	0	10	0	0	0	0
Caribbean	…	4	5	0	13	8	13	0	0	0
Other	…	15	16	10	6	13	30	67	152	112
Honduras [a]										
United States	112	100	98	171	195	192	303	339	460	339
Ireland	...	0	0	0	0	0	0	0	0	214
United Kingdom	3	16	11	1	-3	61	48	49	103	71
Guatemala	4	11	6	10	3	9	25	17	15	40
Canada	52	18	19	22	22	79	17	107	139	37
Other	...	237	171	72	186	206	206	162	212	93
Mexico										
United States	7 485	12 920	21 411	13 013	9 190	8 619	11 638	12 431	11 577	8 938
Canada	1 042	2 113	2 887	4 960	2 885	7 854	1 190	1 592	5 200	4 322
Spain	693	670	1 031	233	303	551	450	539	659	2 361
United Kingdom	-188	283	126	1 254	1 074	274	1 310	1 261	565	1 387
Netherlands	1 087	2 721	2 653	1 557	715	3 341	2 437	2 742	4 363	1 158
Other	3 725	-678	1 694	2 706	2 309	3 020	4 897	750	4 913	3 785
Nicaragua										
Mexico	...	0	9	8	4	72	36	53	128	127
Canada	...	4	3	0	0	0	43	14	32	110
United States	...	37	31	31	76	-16	51	53	84	90
Venezuela (Rep. Bol. de)	...	0	0	0	0	0	0	0	47	76
Guatemala	...	4	17	38	0	3	9	22	0	75
Other	...	222	91	127	122	191	103	145	91	116
Panama										
Argentina	4	2	-5	0	0	5	19	…	…	…
Colombia	-19	-49	30	361	26	12	-283	…	…	…
Costa Rica	-8	3	11	13	-1	-6	13	…	…	…
Ecuador	-36	-12	-2	-15	0	4	3	…	…	…
Mexico	138	173	-70	-19	29	-9	-28	…	…	…
Other	1 217	535	684	90	28	739	1 185	…	…	…
Paraguay										
United States	…	…	…	…	…	…	25	86	84	…
Netherlands	…	…	…	…	…	…	15	18	-32	…
United Kingdom	…	…	…	…	…	…	-8	-5	9	…
Japan	…	…	…	…	…	…	4	-6	-14	…
Uruguay	…	…	…	…	…	…	1	8	2	…
Other	…	…	…	…	…	…	-2	14	131	…
Peru										
Chile	…	…	106	15	1	-125	-82	62	32	591
Italy	…	…	202	124	-216	103	-504	65	-22	414
South Africa	…	…	49	603	3	0	268	467	0	405
Norway	…	…	117	0	0	25	5	15	0	276
France	…	…	3	29	18	0	0	0	-30	148
Other	…	…	308	240	249	-120	247	904	341	311
Dominican Republic										
United Kingdom	76	17	2	0	-25	21	95	66	77	598
Canada	95	133	10	18	-23	274	111	141	151	384
United States	181	202	433	382	462	177	457	715	291	192
Spain	457	190	193	35	-13	127	215	253	586	59
Netherlands	62	36	245	119	25	5	41	33	26	57
Other	468	375	195	362	188	306	204	320	448	1 064
Saint Kitts and Nevis										
United Kingdom	…	0	0	0	0	0	0	0	0	21
United States	…	40	4	19	5	10	15	0	0	0
Canada	…	41	57	46	34	0	0	0	0	19
Caribbean	…	0	1	2	9	4	2	0	0	0
Other	…	2	7	2	3	4	26	24	43	9

Table I.A-3 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Saint Lucia										
United Kingdom	…	1	3	17	29	7	6	51	24	0
United States	…	27	0	9	7	1	0	0	0	0
Italy	…	0	0	0	0	0	0	4	0	0
Saudi Arabia	…	0	0	0	0	0	0	0	0	0
France	…	0	0	0	0	0	0	0	0	0
Caribbean	…	0	0	11	4	0	0	15	22	0
Other	…	10	38	3	44	41	49	105	112	113
Saint Vincent and the Grenadines										
United Kingdom	….	0	0	21	38	0	38	135	140	98
United States	….	9	0	8	20	4	0	0	0	0
Italy	….	37	2	0	20	85	0	0	0	0
Caribbean	….	0	0	0	3	0	0	0	0	0
Other	….	0	1	1	0	11	2	5	3	2
Trinidad and Tobago										
United States	275	316	372	353	376	698	694	627	574	…
United Kingdom	232	255	307	291	297	170	165	150	159	…
Germany	8	14	37	35	36	43	41	38	43	…
India	57	11	21	20	20	24	16	27	21	…
Canada	9	2	7	7	12	3	1	3	3	…
Other	63	82	91	85	68	61	22	39	29	…
Uruguay										
Argentina	…	…	14	-28	270	182	397	…	…	…
Brazil	…	…	-6	40	0	38	203	…	…	…
Panama	…	…	103	37	31	28	106	…	…	…
Paraguay	…	…	77	14	-3	2	35	…	…	…
Bahamas	…	…	20	29	8	0	29	…	…	…
Other	…	…	90	101	110	82	78	…	…	…
Venezuela (Bol. Rep. of)										
Spain	…	478	214	89	83	84	40	274	295	237
Netherlands	…	-10	78	117	56	304	53	-74	203	84
Panama	…	42	44	20	23	29	38	29	53	29
Colombia	…	-38	3	5	-8	1	2	9	22	3
Other	….	4 227	3 338	561	1 893	1 087	2 474	-832	76	1 363

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 May 2008. These data are based on official figures of Argentina (National Directorate of International Accounts (DNCI) of the National Statistics and Census Institute (INDEC), net income); Bolivia (Plur. State of) (Central Bank, gross income); Brazil (Central Bank, gross income); Chile (Foreign Investment Committee, investments made); Colombia (Bank of the Republic, net income); Dominican Republic (Central Bank, net income); Ecuador (Central Bank, net income); El Salvador (Central Reserve Bank, net income); Honduras (Central Bank, net income); Mexico (Department of the Economy, net income); Nicaragua (Central Bank, net income); Panama (General Comptroller of the Republic, net income); Paraguay (Central Bank, net income); Peru (Proinversión, net income); Uruguay (Central Bank, net income); Venezuela (Bol. Rep. of) (Central Bank, net income); and Trinidad and Tobago (Central Bank, net income). Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines Eastern (Caribbean Central Bank; net income). Data do not necessarily coincide with balance of payments.

[a] Includes maquila from 2004 onward.

Table I.A-4

LATIN AMERICA AND THE CARIBBEAN: NET FLOWS OF OUTWARD FOREIGN DIRECT INVESTMENT, BY COUNTRY, OFFICIAL FIGURES, 1998-2008

(*Millions of dollars*)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Argentina	2 325	1 730	901	161	-627	774	676	1 311	2 438	1 465	1 503
Bolivia (Plur. State of)	3	3	3	0	0	0	0	0	3	4	5
Brazil	2 721	1 690	2 282	-2 258	2 482	249	9 807	2 517	28 202	7 067	20 457
Chile	1 483	2 558	3 987	1 610	343	1 606	1 563	2 183	2 876	3 830	6 891
Colombia	796	116	325	16	857	938	142	4 662	1 098	912	2 158
Costa Rica	5	5	8	10	34	27	61	-43	98	263	6
El Salvador	1	54	-5	-10	-26	19	-53	113	-26	100	65
Guatemala											35
Honduras	0	0	0	0	0	20	-6	1	1	1	3
Mexico				4 404	891	1 253	4 432	6 474	5 758	8 256	686
Uruguay	9	-3	-1	6	14	15	18	36	-1	84	-5
Venezuela (Bol. Rep. of)	1 043	872	521	204	1 026	1 318	619	1 167	2 076	2 237	2 757
Belize	5	0	0	0	0	0	0	1	1	1	n.d.
Jamaica	82	95	74	89	74	116	52	101	85	115	n.d.
Trinidad and Tobago	0	264	25	150	106	225	29	341	370	0	n.d.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures as at 15 May 2009.

Table I.A-5

LATIN AMERICA AND THE CARIBBEAN: TOP 60 NON-FINANCIAL TRANSNATIONAL CORPORATIONS, BY CONSOLIDATED SALES, 2007

(*Millions of dollars*)

Ranking	Corporation	Country	Sector	Consolidated Sales	Main subsidiaries
1	Telefónica de España	Spain	Telecommunications	29 915	Brazil, Argentina, Chile, Mexico, Peru, Colombia, Ecuador, Central America
2	Wal-Mart	United States	Commerce	29 067 [a]	Mexico, Brazil, Argentina, Guatemala, Costa Rica, Honduras, Nicaragua, El Salvador
3	Volkswagen	Germany	Automotive	22 724	Mexico, Brazil, Argentina
4	América Móvil/Telmex [b]	Mexico	Telecommunications	21 840 [c]	Brazil, Argentina, Paraguay, Uruguay, Chile, Colombia, Ecuador, Peru, Guatemala, El Salvador, Honduras, Nicaragua, Dominican Republic
5	General Motors	United States	Automotive	21 262	Mexico, Brazil, Colombia, Argentina
6	DaimlerChrysler	United States	Automotive	17 308	Mexico, Brazil, Argentina
7	Repsol-YPF	Spain	Petroleum/Gas	16 817	Argentina, Brazil, Peru, Bolivia (Plurinational State of)
8	Ford	United States	Automotive	14 909	Brazil, Mexico, Argentina
9	Anglo-American Plc	United Kingdom	Mining	13 021	Chile, Brazil, Peru, Colombia, Venezuela (Bol. Rep. of)
10	Royal Dutch Shell Group	Netherlands/United Kingdom	Petroleum/Gas	12 040 [d]	Brazil, Argentina, Venezuela (Bol. Rep. of)
11	Cargill	United States	Agro-industry	11 868 [d]	Brazil, Argentina
12	Bunge	United States	Agro-industry	11 419 [d]	Brazil, Argentina, Mexico
13	Arcelor Mittal	Luxembourg/Netherlands	Iron and steel/Metallurgy	11 397 [a]	Brazil, Mexico
14	Nestlé	Switzerland	Food	10 719	Mexico, Brazil, Argentina, Chile
15	Nissan	Japan	Automotive	10 124 [e]	Mexico, Brazil
16	Endesa	Spain	Energy	9 366	Argentina, Brazil, Chile, Colombia, Peru
17	AES Corp.	United States	Electricity	8 682	Argentina, Chile, Brazil, Colombia, Dominican Republic, El Salvador, Panama
18	Carrefour	France	Commerce	8 405 [f]	Brazil, Argentina, Colombia
19	Exxon Mobil	United States	Petroleum/Gas	8 188 [f]	Brazil, Colombia, Venezuela (Bol. Rep. of), Argentina
20	BHP Billiton	Australia/United Kingdom	Mining	8 182	Chile, Brazil, Peru, Colombia
21	Fiat	Italy	Automotive	8 173 [g]	Brazil, Argentina
22	Chevron	United States	Petroleum/Gas	8 039 [f]	Brazil, Colombia, Trinidad and Tobago, Argentina
23	Toyota	Japan	Automotive	7 757 [h]	Mexico, Argentina, Brazil, Colombia, Venezuela (Bol. Rep. of)
24	Hewlett Packard	United States	Computing	7 641	Brazil, Mexico, Argentina
25	Unilever	Netherlands/United Kingdom	Agro-industry	6 870 [a]	Argentina , Brazil, Mexico
26	Techint[a]	Argentina	Iron and steel/Metallurgy	6 576 [j]	Mexico, Brazil, Colombia, Guatemala, Ecuador, Venezuela (Bol. Rep. of)

Table I.A-5 (concluded)

Ranking	Corporation	Country	Sector	Consolidated Sales	Main subsidiaries
27	Delphi	United States	Automotive	6 295	Mexico, Brazil
28	Iberdrola	Spain	Electricity	5 240	Brazil, Guatemala, Mexico, Chile, Bolivia (Plurinational State of)
29	Italy Telecom	Italy	Telecommunications	5 223	Brazil, Argentina, Paraguay, Cuba, Bolivia (Plurinational State of)
30	General Electric	United States	Electronics	4 700	Mexico, Brazil
31	Peugeot-Citröen	France	Automotive	4 632	Brazil, Argentina
32	Dow Chemical	United States	Petrochemicals	4 589	Brazil, Argentina, Mexico, Chile, Colombia
33	Caterpillar	United States	Machinery/Equipment	4 500	Brazil, Mexico
34	Honda	Japan	Automotive	4 261 [a]	Brazil, Mexico
35	PETROBRAS	Brazil	Petroleum/Gas	4 245 [j]	Argentina, Peru, Ecuador, Venezuela (Bol. Rep. of), Bolivia (Plurinational State of), Mexico
36	Siemens	Germany	Electronics	4 167	Brazil, Mexico
37	British American Tobacco	United Kingdom	Tobacco	3 942	Mexico, Brazil, Argentina, Venezuela (Bol. Rep. of), Jamaica, Peru, Trinidad and Tobago
38	Portugal Telecom	Portugal	Telecommunications	3 609	Brazil
39	PepsiCo	United States	Beverages/Alcoholic	3 498 [e]	Mexico, Argentina, Venezuela (Bol. Rep. of)
40	Renault	France	Automotive	3 429 [h]	Brazil, Argentina, Colombia, Mexico
41	IBM	United States	Computing	3 401 [g]	Brazil, Mexico, Argentina
42	BASF	Germany	Chemicals/Pharmaceuticals	3 364	Brazil, Mexico
43	Nokia	Finland	Electronics	3 343	Brazil, Mexico
44	Avon	United States	Hygiene/Cleaning	3 250 [a]	Brazil, Mexico, Colombia
45	The Coca-Cola Co.	United States	Beverages/Beers	3 244	Brazil, Mexico, Argentina
46	E.I. du Pont de Nemours	United States	Petrochemicals/Chemicals	3 132	Brazil, Mexico, Argentina
47	Danone	France	Food	2 983 [h]	Mexico, Brazil, Argentina
48	Philip Morris	United States	Tobacco	2 963	Mexico, Brazil
49	Sanmina SCI	United States	Electronics	2 933 [e]	Mexico, Brazil
50	LG Electronics	Republic of Korea	Electronics	2 838	Brazil, Brazil
51	Cencosud [b]	Chile	Commerce	2 812 [d]	Argentina, Brazil, Colombia, Peru
52	Procter and Gamble	United States	Hygiene/Cleaning	2 763 [a]	Brazil, Mexico, Argentina, Costa Rica, Venezuela (Bol. Rep. of)
53	Bayer	Germany	Petrochemicals/Chemicals	2 626 [a]	Brazil, Mexico, Argentina
54	Philips	Netherlands	Electronics	2 535 [a]	Mexico, Brazil
55	Kimberly Clark Co.	United States	Pulp/Paper	2 500 [a]	Mexico, Brazil, Colombia, Costa Rica, Bolivia (Plurinational State of), Peru, Honduras, Dominican Republic, El Salvador, Venezuela (Bol. Rep. of)
56	Samsung Corp.	Republic of Korea	Electronics	2 373 [g]	Brazil, Mexico
57	Bosch	Germany	Automotive	2 227 [g]	Brazil, Mexico, Argentina
58	Flextronics	Singapore	Electronics/Automotive	2 197	Mexico
59	Volvo	Sweden	Automotive	2 137	Brazil, Venezuela (Bol. Rep. of)
60	Intel	United States	Electronics	2 075	Costa Rica

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the companies' annual reports and the magazines *América economía*, 2008; *Expansión,* 2008; *Exame,* 2008 and *Semana,* 2008.

[a] This figure corresponds to its sales in Brazil and Mexico.
[b] Companies whose origins are in Latin America (trans-Latins).
[c] This figure corresponds to its sales in Latin America, but outside its country of origin.
[d] This figure corresponds to its sales in Argentina and Brazil.
[e] This figure corresponds to its sales in Mexico.
[f] This figure corresponds to its sales in Brazil and Colombia.
[g] This figure corresponds to its sales in Brazil.
[h] This figure corresponds to its sales in Argentina, Brazil and Mexico.
[i] This figure corresponds to the sales of its subsidiaries: Tenaris and Techint in Brazil and Ternium in Mexico.
[j] This figure corresponds to its sales in Argentina.

Table I.A-6

CROSS-BORDER ACQUISITIONS FOR AMOUNTS IN EXCESS OF US$ 10 BILLION, ANNOUNCED OR CONCLUDED IN 2008

(*Millions of dollars*)

Firm or asset acquired	Country of the firm acquired	Buyer	Country of Buyer	Stated Value	Sector
Operations announced before 2008 and concluded in 2008					
ABN Amro Holding NV	Netherlands	Fortis; Banco Santander; Royal Bank of Scotland	Belgium, Spain, United Kingdom	100 028	Banking
Altadis S.A.	Spain	Imperial Tobacco Group Plc	United Kingdom	20 476	Tobacco
Reuters Group Plc	United Kingdom	Thomson Corp	Canada	18 199	Media
Rodamco Europe NV	Netherlands	Unibail-Rodamco	France	17 759	Diversified
Koninklijke Numico NV	Netherlands	Groupe Danone	France	16 473	Food
Imperial Chemical Industries PLC	United Kingdom	Akzo Nobel	Netherlands	16 059	Chemicals
European Energy Assets	Spain, Italy	E.On	Germany	15 786	Electricity
Oci Cement Group	Egypt	Lafarge S.A.	France	14 998	Construction materials/ cement
Banca Antonveneta S.p.A.	Italy	Banca Monte dei Paschi di Siena S.p.A	Italy	13 214	Banking
Kelda Group Ltd	United Kingdom	Citigroup Inc; Gic Special Investment; HSBC Holdings; Prudential	United States, Singapore, United Kingdom	10 273	Water
Operations announced and concluded in 2008					
Anheuser-Busch Cos. Inc.	United States	Inbev NV	Belgium	60 829	Beverages-Beers
(Several, including ABN Amro Business Unit; Fortis Verzekeringen NV; Fortis Bank; Fortis Corporate Insurance)	Netherlands, Belgium	The Kingdom of the Netherlands (Government)	Netherlands	23 186	Financial services
Scottish & Newcastle Plc	United Kingdom	Heineken NV; Carlsberg A/S)	Netherlands, Denmark	18 748	Beverages-Beers
Residential Mortgage-Backed Securities	Switzerland	Blackrock Inc.	United States	15 000	Financial services
Rio Tinto Plc	United Kingdom	Alcoa Inc; Aluminium Corporation of China (Chinalco)	United States, China	14 135	Basic minerals
British American Tobacco Plc	United Kingdom	Shareholders (spin-off)		11 043	Tobacco
Operations announced in 2008					
Genentech Inc	United States	Roche Holding AG-Genusschein	Switzerland	41 265	Biotechnology
Alltel Corp	United States	Verizon Wireless (Includes Verizon Communications; Vodafone Group Plc)	United States, United Kingdom	28 100	Communications
British Energy Group Plc	United Kingdom	EDF	France	14 114	Electricity-Generation
Fortis Banque Luxembourg; Fortis SA/ NV	Belgium	BNP Paribas	France	11 538	Financial services
Trane Inc	United States	Ingersoll-Rand Co. Ltd.	Bermuda	11 202	Industrial construction

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Bloomberg and press reports.
Note: The data on mergers and acquisitions refer to concluded or pending operations announced in 2008. The operations reported here refer only to those for which the transaction value is known.

Table I.A-7

LATIN AMERICA AND THE CARIBBEAN: CROSS-BORDER ACQUISITIONS OF ASSETS AND FIRMS FOR AMOUNTS IN EXCESS OF US$ 500 MILLION, ANNOUNCED OR CONCLUDED IN 2008

(*Millions of dollars*)

Firm or assets acquired	Country of firm or assets acquired	Buyer	Country of buyer	Seller	Country of seller	Stated value	Sector
Operations announced before 2008 and concluded in 2008							
Rbtt Financial Holdings Ltd.	Trinidad and Tobago	Royal Bank of Canada	Canada			2 187	Banking
ArcelorMittal Inox Brasil S.A.	Brazil	Arcelormittal	Luxembourg, India			1 683	Steel
Gas and electricity assets	Mexico	Gas Natural SDG S.A.	Spain	EDF, Mitsubishi Electric Co.	France, Japan	1 448	Electricity
Cable business	Chile	Nexans S.A.	France	Madeco S.A.	Chile	853	Metals
Lascelles Demercado & Co Ltd	Jamaica	Angostura Holdings Ltd	Trinidad and Tobago			830	Storage, marketing and distribution of various products
Banco del Desarrollo	Chile	Bank of Nova Scotia	Canada	Sociedad de Inversiones; Crédit Agricole; Intesa São Paulo	Chile, France, Italy	810	Banking
Bolsa de Mercadorias & Futuros	Brazil	CME Group Inc.	United States			726	Financial services
Chilquinta Energía S.A.; Luz del Sur	Chile, Peru	Ashmore Energy International	United Kingdom	Public Service Enterprise GP	United States	685	Electricity
Afore Santander Mexicana; Afp y Cesenta Santander; Afinidad AFAP S.A.	Mexico, Colombia, Uruguay	ING Groep NV	Netherlands	Banco Santander S.A.	Spain	655	Financial services
Grupo de Supermercados Wong	Peru	Cencosud	Chile			623	Retail commerce
Service Vouchers Business	Brazil	Sodexo	France	Vr Services Group	Brazil	523	Food voucher services
Activos Venezolanos; Hecla Mining Co.	Venezuela (Bol. Rep. of)	Rusoro Mining Ltd	Canada	Gold Fields Ltd.	South Africa	507	Mining
Operations announced and concluded in 2008							
Iron X	Brazil	Anglo American Plc	United Kingdom	MMX Mineração e Metálicos SA	Brazil	3 493	Steel
Nacional Minerios S.A. (40%)	Brazil	Posco; Nippon Steel Corp; Itochu Corp: Jfe Holding Inc; Sumitomo Metal Industries; Kobe Steel Ltd; Nisshin Steel Co Ltd	Republic of Korea, Japan	Companhia Siderúrgica Nacional	Brazil	3 008	Steel
Grupo Financiero Inbursa	Mexico	Criteria CaixaCorp S.A.	Spain			2 469	Financial services
CTC Telefónica Chile	Chile	Telefónica SA	Spain			1 579	Telecommuni-cations
Seguros ING SA de CV	Mexico	AXA	France	ING Groep NV	Netherlands	1 500	Insurance
Minera Esperanza; Minera El Tesoro (30%)	Chile	Marubeni Corp	Japan	Antofagasta Plc	United Kingdom	1 401	Mining
Sociedad Austral de Electricidad S.A.	Chile	Morgan Stanley; Ontario Teachers' Pension Plan	United States, Canada	Public Service Enterprise GP	United States	1 270	Electricity-Distribution
Autopista Central; Rutas del Pacífico	Chile	Abertis Infraestructuras SA	Spain	ACS Actividades de Construcción y Servicios, S.A.	Spain	1 034	Highway administration services
Caracara Association Contract	Colombia	Not disclosed	United States	Houston American Energy Corp	United States	920	Petroleum
Vopak Terminal Bahamas Ltd.	Bahamas	First Reserve Corp.	United States	Petróleos de Venezuela SA	Venezuela (Bol. Rep. of)	900	Petroleum-Gas
2 Highways/Chile	Chile	Several buyers (FCC; Cajas de Ahorros)	Spain	Banco Nacional de Comercio Exterior	Mexico	553	

Table I.A-7 (continued)

Firm or assets acquired	Country of firm or assets acquired	Buyer	Country of buyer	Seller	Country of seller	Stated value	Sector
Amnet Telecommunications Holding Ltd.	Costa Rica	Millicom International Cellular S.A.	Luxembourg			510	Telecommunications
K2 petroleum block	United States	Ecopetrol S.A.	Colombia	Union Oil Co. of California	United States	510	Petroleum
Operations announced in 2008							
Distribución y Servicio D&S	Chile	Wal-Mart Stores	United States			3 627	Food
VW Truck & Bus	Brazil	MAN AG	Germany	Volkswagen AG	Germany	1 612	Automobiles
Iron X (remaining minority stake)	Brazil	Anglo American Plc	United Kingdom			1 923	Steel
Peregrino Field	Brazil	StatoilHydro ASA	Norway	Anadarko Petroleum Corp.	United States	1 800	Petroleum
West Polaris	Panama	Ship Finance International Limited	Bermuda	Seadrill Ltd.	Norway	850	Petroleum
London Mining South America	Brazil	Arcelormittal	Luxembourg	London Mining Plc	Norway	810	Mining
Braslo Produtos de Carne Ltda; Penasul Alimentos Ltda, Agrofrango Industria; Moy Park Ltd; Kitchen Range Foods Ltd.	Brazil (3); Ireland; United Kingdom	Marfrig Frigoríficos e Comércio de Alimentos S.A.	Brazil	Osi Group Llc	United States	680	Retail commerce
Autopista Central; Rutas del Pacífico	Chile	Abertis Infraestructura; Banco Santander	Spain	ACS Actividades de Construcción y Servicios, S.A	Spain	568	Highway administration services
Operations involving withdrawal of TNCs, with the sale of assets/firms to local companies							
YPF S.A.	Argentina	Grupo Petersen	Argentina	Repsol YPF	Spain	2 235	Petroleum-Gas
Banco Bradesco S.A.	Brazil	NCF Participações	Brazil	Banco Bilbao Vizcaya Argentaria	Spain	1 382	Banking
Esso Brasileira de Petróleo	Brazil	COSAN	Brazil	Exxon Mobil Corp.	United States	989	Petroleum-Gas
UNIBANCO AIG Seguros	Brazil	UNIBANCO-UNITS	Brazil	American International Group (AIG)	United States	820	Banking
Chevron Brazil Ltda; Sociedade Anónima de Oleo Galena Signal	Brazil	Ultrapar Participações S.A.	Brazil	Chevron Corp.	United States	730	Petrochemicals
Solpart Participações S.A.	Brazil	Several buyers	Brazil	Telecom Italia	Italy	515	Telecommunications

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Bloomberg and press reports.
Note: Includes initial acquisitions of 5% or more of the equity in a firm or consortium, initial acquisitions of less than 5% but for amounts in excess of US$ 200 million, acquisitions of additional equity for any amount and joint operations creating new firms.

Table I.A-8

MAIN CROSS-BORDER ACQUISITIONS BY TRANS-LATINS OUTSIDE THEIR COUNTRIES OF ORIGIN, ANNOUNCED OR CONLCUDED IN 2008

(*Millions of dollars*)

Firm or assets acquired	Country of firm or assets acquired	Buyer	Country of buyer	Seller	Country of seller	Stated value	Sector
Operations announced before 2008 and concluded in 2008							
Gerdau Macsteel Inc.	United States	Gerdau	Brazil			1 458	Metal Manufacturing
Lascelles Demercado & Co. Ltd.	Jamaica	Angostura Holdings Ltd	Trinidad and Tobago			830	Storage, marketing and distribution of various products
Grupo de Supermercados Wong	Peru	Cencosud	Chile			623	Retail commerce
US Zinc Corp.	United States	Votorantim Group	Brazil	TPG	United States	295	Zinc manufacturing
Corsa Controladora	Mexico	Gerdau	Brazil			101	Steel
Operations announced and concluded in 2008							
LWB Refractories GmbH & Co. KG	Germany	Magnesita Refratarios S.A.	Brazil	Rhone Capital Llc	France	952	Manufacturing
Smithfield Beef Group Inc	United States	JBS S.A.	Brazil	Smithfield Foods Inc	United States	565	Food
K2 Oil Block	United States	Ecopetrol S.A.	Colombia	Union Oil Co. of California	United States	510	Petroleum
Mineração Taboca S.A.	Brazil	Minsur S.A. Inversiones	Peru	Paranapanema S.A	Brazil	474	Mining
Refrigerantes Minas Gerais Ltda.	Brazil	Coca-Cola Femsa Sab-Ser L	Mexico	The Coca-Cola Co.	United States	364	Beverages
Sidenor S.A.	Spain	Gerdau	Brazil	Luxfin Participation	Luxembourg	287	Steel
Tasman Group Services	Australia	Jbs SA	Brazil			148	Food
Cia. Minera Atacocha	Peru	Votorantim Group	Brazil			145	Mining
Cryogas S.A.	Colombia	Indura SA	Chile	Linde AG	Germany	139	Industrial gases
Operations announced in 2008							
Fresh Bread & Baked Goods Business	United States	Grupo Bimbo	Mexico	George Weston Ltd.	Canada	2500	Food
Banco Popular Español S.A.	Spain	Blueprime	Mexico	Grupo Hispania	Spain	937	Banking
(Various acquisitions, including Braslo Produtos de Carne Ltda; Penasul Alimentos Ltda; Agrofrango Industria; Moy Park Ltd.; Kitchen Range Foods Ltd)	Brazil (3), Ireland, United Kingdom (respectively)	Marfrig	Brazil	Osi Group Llc	United States	680	Retail commerce
National Beef Packing Company, LLC	United States	JBS SA	Brazil	NBPCO Holdings LLC; US Premium Beef Ltd; Management Group)	United States	560	Food
Esso Chile Petrolera Ltda.	Chile	PETROBRAS	Brazil	Exxon Mobil Corp	United States	400	Gas stations
Mina de Carbón	Colombia	Vale do Rio Doce	Brazil	Cementos Argos	Colombia	300	Mining
Drogasmil Medicamentos e Perfumaria Ltda.	Brazil	Grupo Casa Saba S.A. de C.V.	Mexico			113	Pharmacies

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

Chapter II

Foreign direct investment in offshore business services in Latin America and the Caribbean

A. Introduction

Previous issues of this report have stressed that the main challenge of Latin American and Caribbean countries in their investment promotion efforts is to attract high-quality FDI (defined as that which induces local economic, technological and social development) rather than merely large quantities of investment. Although not among the industries generating the greatest dollar value of FDI, offshore business services have the potential to score well by the criteria that define high-quality FDI.

Offshoring refers to the provision of services from a location outside the country where the customer is located. Through the use of information and communication technologies (ICT), companies can overcome the barriers imposed by the geographical distance between the demand and supply of labour in certain activities. The scope of services offshored is broad and in constant expansion through innovative uses of ICT, as discussed further in this chapter.

A related concept is that of outsourcing, whereby a company provides services to another company, regardless of its location. Some, but not all, offshored services are outsourced. In fact, a number of companies have offshored in-house (or "captive") service centers (see boxes II.1 and II.2). By taking part in the offshore business services market, developing countries have benefited from the creation of jobs that are usually better remunerated than alternatives for similarly skilled persons, as well as from the skills-upgrading generated by on-the-job experiences and training, and from exposure to global standards in management practice, ICT tools, and technology, among other factors.

Box II.1

WHAT DO WE MEAN BY OFFSHORE BUSINESS SERVICES?

Offshore business services cover a broad range of activities, including contact centers, business processes, information technology (IT) services, and knowledge-intensive, analytical services (see table 1). Classifications often distinguish IT services from IT-enabled services, which include the remaining categories of services in table 1 (contact centres, business processes and knowledge-intensive, analytical services).

Offshore services can be provided either in-house (also known as captive offshoring) or by a separate company (outsourcing to companies referred to as vendors) (see table 2). This chapter addresses both as part of the same phenomenon, but when discussing corporate strategies, focuses on outsourcing vendors, for whom offshoring often lies at the core of their competitive strategies.

Table 1

MAIN CATEGORIES OF IT AND IT-ENABLED SERVICES OFFERED THROUGH OFFSHORE OPERATIONS

IT services	Software development, application testing, content development, IT infrastructure management and IT consulting.
Contact centres	In-bound/out-bound calls or interaction with customers through other media such as Internet chats, fax and e-mail. Main functions include telemarketing and customer support (also referred to as “voice BPO”).
Business processes	Data entry and transcription. Horizontal business processes or back-office services: purchases, logistics, marketing and sales (other than contact functions), human resources, and finances and accounting. Vertical business processes: services specific to certain industries, such as claims and payments processing for financial institutions, insurance management for health care, network maintenance in telecommunications services and passenger flow management for airlines.
Knowledge-intensive, analytical functions/ Knowledge process outsourcing or offshoring (KPO)	Intellectual property research, equity, financial and insurance research, data search, integration and management, analytics and data mining, research and information services in human resources, engineering and design, animation and simulation services, remote education and publishing, research and development (R&D) and vertical functions (services to medical, legal, biotech and pharmaceuticals industries).

Table 2

INTERNALIZED AND EXTERNALIZED PRODUCTION

		Internalized production	Externalized production (“outsourcing”)
Location of production	Home country	Production kept in-house in home country	Production outsourced to third-party service provider in home country
	Other countries	Production by affiliate in foreign country (intra-firm, in-house, or captive offshoring)	Production outsourced to third-party provider (vendor) abroad Vendor may be a local company or a foreign affiliate of another transnational corporation

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2004. The Shift Towards Services* (UNCTAD/WIR/2004), New York. United Nations publication, Sales No. E.04.II.D.33, 2004.

Other industry-specific terms used throughout this text are as follows:

- Nearshoring: offshoring to countries close to the client market to take advantage of a combination of low costs and geographic and time-zone proximity.
- Onshore services: provided in the client’s home country.
- Second-generation offshoring: refers to services that are intensive in knowledge and analysis.
- Integrated outsourcing companies: companies that base their business models on the integration of business processes and IT.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Boston Consulting Group (BCG), “Estudios de competitividad en *clusters* de la economía chilena. Informe final” [online] http://www.economia.cl/1540/articles-187159_recurso_1.pdf. 2007; Mario Castillo, “La industria global de servicios: oportunidades para Chile”, *Globalización económica: oportunidades y desafíos para Chile*, Jorge Leiva and Mario Castillo (eds.), Santiago, Chile, Chile 21/Production Development Corporation (CORFO), 2008; Evalueserve, “The next big opportunity —moving up the value chain— from BPO to KPO” [online] http://kpo.evalueserve.com/KPO/BPO-to-KPO-Shift.aspx, 2004 and United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2004. The Shift Towards Services* (UNCTAD/WIR/2004), New York. United Nations publication, Sales No.E.04.II.D.33, 2004.

Box II.2

CAPTIVE VERSUS OUTSOURCED OFFSHORING

The choice of whether to establish captive offshore centres or to outsource depends on numerous factors pertaining, among others, to the company itself, the industry, the functions considered and the availability of adequate vendors.[a] In fact, many companies use hybrid models of in-house and outsourced centres, operating in- and offshore. It is estimated that approximately 40% of all offshore business services are in-house operations (also referred to as the captive, or "make-vs.-buy" model), but this share varies among the different segments. In-house offshoring is relatively higher in IT-enabled services (50%) than in IT services (20%) (BCG, 2007).

In IT services, outsourcing overtook in-house offshoring in around 2005. In its first stage, up until the beginning of the 1990s, IT service offshoring involved primarily United States and European companies establishing captive centres in India. The Indian vendors developed throughout the 1990s and, starting in 2004-2005, expanded and surpassed captive IT centres. The KPO market may follow a similar pattern. When knowledge processes started being offshored at the end of the 1990s (pioneered by GE and McKinsey), they were undertaken in-house partly because of the absence of KPO vendors. These started emerging in 2000 when companies such as Evalueserve and Amba Research appeared on the scene. KPO is expected to overtake in-house offshoring approximately in 2010. Among the reasons for the growth in the share of outsourced services as opposed to in-house services is the increasing maturity and capacity of KPO vendors and the fact that captive centres are often only cost-worthy for very large companies, whereas the vendor model may be cost-effective for small and medium-sized enterprises (SMEs). Certain knowledge processes that are key to companies' businesses, however, are likely to remain in-house (Evalueserve, 2007).

In BPO, the trend is not as well defined, with some analysts pointing to continuing growth in captive centres and others arguing that more mature vendors and experienced clients will ensure high growth rates in outsourcing. The latter highlight recent acquisitions of captive centres by vendors. Among the most significant are: the purchase by TCS of Citigroup's captive BPO operation for US$ 505 million and the purchase by WNS (itself originating as a captive British Airways centre) of Aviva Global Services for US$ 230 million, both in 2008; the divestiture of 60% of the BPO arm of GE Capital International Services (now Genpact); the acquisition by HCL Technologies of Deutsche Bank's BPO arm; and the takeover by Infosys of Philips's BPO centres in Poland, India and Thailand (BPO Times, 2007; *The Times of India*, 2007; Infosys, 2007). Likewise, there is no unanimous trend in the call centre industry. Currently it is estimated that in India, a major destination for offshore contact centre operations, 130,000 of the 280,000 contact centre operators are in-house (Cybermedia, 2008). Although there will always be captive functions, as vendors mature and as companies become familiar with outsourcing and are pressured to focus on their core functions, there may be a trend towards greater outsourcing or hybrid solutions. One example is Teleperformance's "Buy-Out' programme, whereby a vendor manages a service centre staffed by the client at the client's facilities (*Interaction the Teleperformance Magazine*, 2006).

Although captive offshoring has been a solution across industries, the largest centres are concentrated in the finance and technology industries. In the KPO segment, captive centres are common in financial, automotive, pharmaceutical and publishing companies (Evalueserve, 2007).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Boston Consulting Group (BCG), "Estudios de competitividad en *clusters* de la economía chilena. Informe final" [online] http://www.economia.cl/1540/articles-187159_recurso_1.pdf. 2007; BPO Times, "Will captives still captivate" [online] http://www.bpotimes.com/efytimes/fullnewsbpo.asp?edid=18849, 10 May 2007; Evalueserve, "The future of knowledge process outsourcing. Make or buy in KPO", *EVS White Paper*, 18 April 2007; Infosys, "Infosys awarded multi-year global BPO contract by Royal Philips Electronics" [online] http://www.andhranews.net/India/2007/July/25-Infosys-Awarded-Multi-9313.asp, 25 July 2007; *Interaction the Teleperformance Magazine*, "Business transformation buy out. The solution dedicated to in-house contact centers", No. 16, September 2006 and *The Times of India*, "Captive BPO arms are passe" [online] http://timesofindia.indiatimes.com/articleshow/2529829.cms, 9 November 2007.

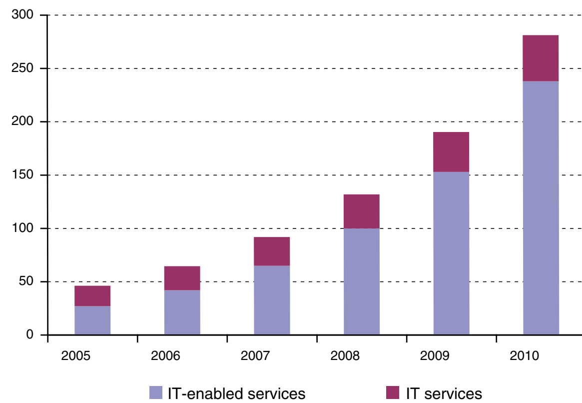
[a] Transaction cost theory and agency theory are common theoretical approaches to the decision on whether to outsource or maintain functions in-house (see Schniederjans, Schniederjans and Schniederjans, 2005).

Moreover, the offshore business services industry (henceforth also referred to as offshoring) is very dynamic. Despite difficulties and discrepancies in quantification,[1] estimates generally coincide in predicting high growth rates for the coming years (see Figure II.1 for a survey-based projection), although a slowdown may occur in the short run due to the current international economic and financial crisis.[2] Additionally, several indicators point to a large potential for growth given that offshore services remain a fraction of the global business services market (BCG, 2007; Chakrabarty, Gandhi and Kaka, 2006). Figure II.2 shows estimates of actual versus potential offshoring market for services in selected industries.

[1] The difficulty of quantifying the offshore services market has been extensively documented, and efforts to improve official data are on the agenda of several government and intergovernmental institutions (López, Ramos and Torre, 2008; Arora and others, 2006; GAO, 2004; Martínez, Padilla and Schatan, 2008). Trade statistics generally do not allow for the separation of offshore corporate services from other tradable services; and FDI statistics, when available, do not distinguish services catering to the global market from those directed at local markets. No other set of comparable official statistics adequately reflecting the situation of offshore corporate services exists for a significant number of countries. Companies have little incentive to disclose information on their offshore operations. One survey-based study estimates that in 2006, the market for offshore corporate services, defined similarly to the group of services considered in box II.1, was US$ 65 billion, of which approximately 35% referred to IT services and 65% to IT-enabled services. The market was expected to grow to over US$ 280 billion by 2010, with higher growth expected in IT-enabled services (BCG, 2007) (see figure II.1). Another study estimates offshoring in IT services and business processes at US$ 30 billion in 2006 (Chakrabarty, Gandhi and Kaka, 2006). A third estimate puts the market for offshored "IT-based services" at US$ 81 billion in 2005 and US$ 252 billion in 2008 (Gereffi and Fernández-Stark, 2008).

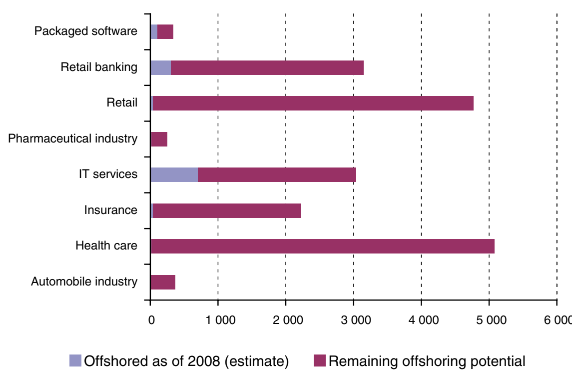
[2] There is still controversy over the impact of the global financial crisis on offshoring. Whereas it is likely that in the short run there will be a slowdown, particularly in segments serving the hardest-hit industries, there may also be an increase in the number of companies resorting to offshoring as a cost-saving measure, as has been the case in previous periods of economic slowdown. Also, the volume of certain types of transactions handled offshore and associated with crisis management solutions may rise.

Figure II.1
ESTIMATE OF THE GLOBAL OFFSHORE SERVICES MARKET, 2005-2010 [a]
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Boston Consulting Group (BCG), "Estudios de competitividad en *clusters* de la economía chilena. Informe final" [online] http://www.economia.cl/1540/articles-187159_recurso_1.pdf, 2007.
[a] Estimates

Figure II.2
ACTUAL VERSUS POTENTIAL GLOBAL DEMAND FOR OFFSHORING
(Thousands of employees)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of McKinsey Global Institute, "Interactive exhibit. Overview of global supply and demand of offshoring services" [online] http://www.mckinsey.com/mgi/rp/offshoring/, 2008.

Not all offshoring operations involve FDI. Captive offshoring does involve FDI by definition because it involves a company establishing operations in a country other than its home country. Outsourced offshoring may be done by a transnational corporation (TNC) outside its home country or by a local company. In fact, local companies play an important part as offshore service providers in many countries, most notably in India. Tata Consultancy Services (TCS), Infosys, and Wipro, which are today among the largest transnationals in the offshore business services market, started out providing offshore services from India the company's country of origin. TNCs have, however, been considered key players in the development of this industry. First, because TNCs account for a large share of offshoring operations, both as investors and as clients. Second, because, as in manufacturing, TNCs have been the motors behind the expansion of global value chains in services (OECD, 2008b). Third, because partnerships and supplier relationships with TNCs can act as bridges between local companies, professionals and world markets, especially in higher-value added segments (López, Ramos and Torre, 2008).

In the past few years, TNCs have shown increasing interest in Latin America and the Caribbean as an offshore destination, and several investments have been made. Nonetheless, challenges persist for the region to fully reap the benefits of offshoring. To help understand those challenges, this chapter examines how the region is situated within the corporate strategies of major players. Thus, section B examines key trends in this industry worldwide, section C identifies the main transnational players and describes the role attributed to Latin America and the Caribbean in the corporate strategies of selected companies, and section D discusses the challenges ahead.

B. Trends in the global offshore business services market

Offshoring began expanding significantly in the mid-1990s, motivated by enabling factors and push factors. Examples of enabling factors include developments in software and telecommunications solutions, investment in infrastructure in the years leading up to the dot.com crisis, and the standardization of management practices. These advances —which essentially made information storage, processing, and transmission technically and economically feasible— generated what has been called the "tradability revolution", were also influenced by changes in customs and practices, such as a smaller reliance on face-to-face contact for certain functions

(UNCTAD, 2004a).[3] As for the offshore destinations, improvement of business environments, a greater availability of qualified workers and welcoming policies helped make the growth in offshoring possible.

Examples of the push factors for offshoring were the insufficient number of skilled professionals in the United States to face the Y2K crisis and competition and economic recessions that put pressure on corporate costs (Friedman, 2006; López, Ramos and Torre, 2008). Offshoring was further encouraged by tighter restrictions on the mobility of workers (which had previously helped overcome labour shortages in IT), among other reasons, because of a cutback in H1B visas in the United States in 2003 (Lewin, Massini and Peeters, 2008).

Alongside these factors, it is likely that a significant share of growth in the offshoring industry can be attributed to the accumulation of experience, know-how and confidence in offshore solutions. Buyers, vendors, and companies opting for in-house offshore centres gradually expanded the volume and nature of activities performed offshore. The development of the outsourcing market in particular made it possible for smaller companies to benefit from offshoring —increasingly for innovation and product development— without incurring the information costs involved in doing so in-house (Lewin, 2008).

As the industry matured, two parallel trends took shape. First, competition increased among outsourcing players in the traditional functions (contact centres, business process outsourcing, IT services). This drove profit margins down and increased the pressure to offshore to low-cost destinations. New companies appeared and existing ones expanded into other segments. Contact centre companies started performing BPO functions, while BPO players started providing IT services, and vice-versa. In fact, the digitization of business processes somewhat blurred the distinction between IT services and BPO. Even companies that originally focused on IT hardware manufacturing, such as IBM and Hewlett Packard (HP), entered the BPO and IT services market (ECLAC, 2008a). As the Indian outsourcing vendors started playing a greater role as competitors, outsourcing companies from higher-cost countries that had not fully explored the potential of offshoring were forced to do so to maintain cost competitiveness (Aggarwal and others, 2006).[4] The same logic applied to companies in other industries: as competitors benefited from low-cost outsourced offshoring, companies were forced to resort to offshoring as well, either through captive centres or by outsourcing (see box II.2). Thus, the commoditization of the outsourcing market has led to greater demand for offshoring.

Second, there has been an upgrading of the offshore industry as companies have offshored higher-skilled and higher-value-added services that involve fewer standardized procedures and greater analysis and industry-specific knowledge. These second-generation offshoring services include innovation, R&D and other science and engineering functions. This trend also includes the offshoring of knowledge processes (KPO), in other words, services based on knowledge and the analysis of specific fields, such as financial markets, legal issues and intellectual property research.

There are several reasons for the growth in the offshoring of these higher-end services. On the demand side, clients have gained enough confidence to consider offshoring and outsourcing activities previously viewed as core functions. In fact, it is in the higher-value-added services that clients reap the greatest cost savings, while providers make the highest profits (ORN/Booz&Co., 2007). On the supply side, outsourcing vendors have upgraded their service mix to compensate for shrinking profit margins in the traditional segments. Through their accumulated experience with offshoring, they have been able to place these second-generation services in their offshore bases. At the same time, countries hosting offshore service centres have matured in terms of providing adequate human resources, infrastructure and business environments, thus enabling the offshoring of these functions.

In sum, offshoring has grown in traditional segments, and new services have been added to the list of commonly offshored services. As offshoring has matured and diversified, investors have acquired a better understanding of its benefits and costs and of the comparative advantages of different regions. Against this background, two types of opportunities arise for Latin America and the Caribbean.

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[3] The onset of the information age has also been referred to as a “third industrial revolution” (Blinder, 2006).

[4] In parallel, even companies that opted to avoid outsourcing —for all or certain functions— felt pressured to set up captive offshore centres to maintain competitiveness in regard to their competitors in their core businesses (Robinson and Kalakota, 2004).

1. Competing on cost: nearshoring and the value of proximity

In the traditional offshore functions, cost is still the major determinant factor. Few countries are able to compete, based on cost, and particularly labour costs, with India, which is still by far the main location for offshore operations and concentrated, in 2007, approximately 84% of the world IT services market and 46% of the IT-enabled services market (BCG, 2007). An estimate of the number of jobs created by FDI in "business services" (a category that encompasses many of the services included in the definition of offshore business services adopted here) shows that in 2006, India and the Philippines were the top destinations, accounting for 33% and 19% of total jobs, respectively (IBM Global Business Services, 2007).[5]

Some analysts have observed signs of saturation in these traditional markets, and in India in particular that may constitute opportunities for other destinations, including Latin America and the Caribbean (A.T. Kearney, 2007). The views on the extent and symptoms of this saturation are not unanimous. Whereas some mention wage inflation, others point to falling quality, high attrition (or turnover) rates (which makes activities that involve technology transfer especially difficult) and inflexibility in tending to clients' needs. It is unclear to what extent increasing wages or other symptoms of possible saturation in India and other traditional markets are effectively leading to relocation towards other countries. India in particular is still cost competitive and has unequalled advantages in terms of skills, know-how and the confidence of service providers and their customers. Moreover, public and private actions are being put into place in India to expand supply and thus overcome any effects of saturation. These efforts include innovative training systems with private-sector involvement and the expansion of the industries from the already consolidated hub cities (Bangalore, the National Capital Region —Delhi and the surrounding urban area—, Mumbai, Pune, Chennai, Hyderabad and Kolkata) to second- and third-tier cities (Ahmedabad, Nagpur and Japur, among others) (Gereffi and Fernández-Stark, 2008).

What does seem to be the case is that companies making the decision to offshore are looking beyond the direct financial costs of the operations and are starting to attribute higher opportunity costs to factors such as attrition and the inconveniences of dealing with the distance between service provider and customer (travel time and cost, difficulties of operating on opposite or very different time zones, misunderstandings due to cultural differences).[6] In that context, greater attention is being given to the benefits of proximity to major markets, in what has been named "nearshoring".[7] Nearshoring refers to offshoring to countries close to the client market to take advantage of a combination of low costs and geographic and cultural proximity. In the contact centre and BPO markets, as more companies compete, the importance of service quality is greater, and more value is placed on differentiating aspects of service. Beyond language proficiency, customers (or companies offshoring their own operations) require accents that are more palatable to the customer, as well as cultural sensitivity. In BPO, IT services and KPO, many services require more frequent interaction or are more sensitive to time zone proximity. Latin America and the Caribbean is an increasingly important nearshore destination for United States customers.

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5 These estimates do not necessarily reflect offshore operations because business services can also be provided to local customers. Nonetheless, in these two countries, the bulk of business services are notoriously offshore operations.

6 Softtek, a Mexican IT and BPO company (see section C.2), has marketed the advantages of Latin America and the Caribbean (and its home country in particular) in these aspects under the concept of "Total Cost of Engagement" (see below), stressing that the approach to the cost of offshoring should go beyond the arbitrage of the cost of labour and facilities.

7 The term nearshoring is used in this document to signify a subset of, rather than an alternative to, offshoring.

2. Competing by way of global networks

The second source of opportunities for Latin America and the Caribbean is the trend to explore complementarity between destinations in global networks of service centres, as opposed to the traditional concept of offshoring from high-cost country to low-cost country based on simple labour cost arbitrage. In both traditional and second-generation offshoring, companies are creating global integrated service networks with knowledge centres situated in several parts of the world. Networks of complementary service centres are being developed as companies try to benefit from diversity.[8] Companies have established bases in different time zones to provide 24-hour work cycles ("follow the sun" models). They have also diversified their locations to minimize their vulnerability to country or region-specific natural and political risks.[9] Through geographical diversity, companies have been able to tap into specialized talent pools and into multilingual skills and have benefited from creativity gains associated with working with groups from different backgrounds with different problem-solving approaches (Manning, Massini and Lewin 2008; OECD 2008c; Evalueserve, 2004; Couto and others, 2006).

Moreover, by resorting to newer offshoring destinations, companies have avoided the problem of high attrition rates in more saturated markets. In addition to the costs involved in training a constant flow of workers, high attrition rates limit the possibility of offshoring functions that require the transfer of certain types of technology or knowledge.

In sum, as the offshoring industry has become larger, more sophisticated and more diverse, location decisions have become more complex, and factors not associated with labour and installation costs have increased their weight in companies' decisions on where to locate. This has created opportunities for emerging offshore destinations, including Latin America and the Caribbean. These stem, paradoxically, on the one hand from attributes associated with proximity, similarity, and familiarity (valuing homogeneity), and on the other hand, from attributes associated with diversity that offer complementarity of talents, approaches, time zones and other assets between different locations within integrated global networks of service centres (valuing heterogeneity).

In terms of the framework traditionally used for analysing corporate strategies in this report series (see ECLAC, 2005 and subsequent issues), when the main factor determining the establishment of an offshore service centre is cost, entry strategies of offshoring TNCs are essentially efficiency-seeking. However, as the industry has matured, other (non-cost) factors, such as the availability of specific skills, have become increasingly important in offshoring decisions. Thus, especially for higher-value-added segments, entry strategies will often involve the pursuit of strategic assets or a hybrid approach that values a combination of strategic assets and relatively low costs.[10] Moreover, companies have seen potential in the promising emerging markets. Therefore, many companies have invested in large emerging markets under a combination of efficiency- and/or strategic-asset-seeking strategies and market-seeking strategies. By combining local market operations with export-oriented (offshore) ones, they have been able to dilute the fixed costs associated with these operations or, in some cases, test the business environment, human resources and other conditions of that location by working with local clients first. These trends are visible in the strategies pursued by TNCs in offshoring centres in Latin America and the Caribbean, which are discussed in the next section.

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8 Companies have adopted business models based on networks of service centres that are located in the client's home country (onshore), in nearshore locations and in further offshore locations. Companies have trademarked terms that designate these combinations. Examples are Bestshore (EDS), Rightshore (CapGemini), Anyshore (Bearing Point).

9 One example illustrates the importance of diversifying offshore operations: the energy blackout on the East Coast of North America in 2003 happened outside Asian business hours, and companies with offshore centres in Latin America were able to react and run emergency procedures more rapidly (*América economía*, 2008o).

10 Kledia and Mukherjee (2008) approach offshoring from a theoretical framework that builds on the eclectic paradigm.

C. Latin America and the Caribbean in the corporate strategies of the main offshore players

1. Overview of offshore services in Latin America and the Caribbean

Latin America and the Caribbean's role in the global offshore business services industry is relatively small. In 2007, the region accounted for 3% of payments by United States companies to companies abroad (affiliated and unaffiliated) for computer and information services, compared to India's 27%. In total business and professional services (which include management consultancy, public relations, R&D, testing, advertising, construction, architecture, engineering, legal and equipment support services), the region's share is about 7% (BEA, 2008).

Nonetheless, there are signs that interest in the region among investors is growing. A.T. Kearney's Global Services Location Index (see table II.1) shows the countries that are seen as most attractive for future investments. Although Asian countries still head the list, Latin American and Caribbean countries have risen in the ranking over time.

Table II.1
A. T. KEARNEY GLOBAL SERVICES LOCATION INDEX, 2004-2007

	2004	2005	2006/2007
1	India	India	India
2	China	China	China
3	Malaysia	Malaysia	Malaysia
4	Czech Republic	Philippines	Thailand
5	Singapore	Singapore	Brazil
6	Philippines	Thailand	Indonesia
7	Brazil	Czech Republic	Chile
8	Canada	Chile	Philippines
9	Chile	Canada	Bulgaria
10	Poland	Brazil	Mexico
Others in the top 50	Mexico, Argentina, Costa Rica (in top 25)	Mexico, Costa Rica, Argentina	Uruguay, Argentina, Jamaica, Costa Rica, Panama

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from A.T. Kearney [online] http://www.atkearney.com/.

Moreover, in the 2008 State of the Outsourcing Industry report (Black Book of Outsourcing, 2008), Brazil and Chile were ranked as second and third alternatives to India (after the United States) given than 87.2% and 84.2% of interviewed companies, respectively, indicated that they would "definitely consider" these countries for their offshoring projects. Based on current and past experience, South America was recommended by 77.4% of respondents and Mexico by 56.3%. The report states that "Latin America, above all regions, is expected to leverage its competitive advantages in high-growth areas of offshoring and possibly move ahead as the most attractive labor arbitrage alternative".

As a region, Latin America and the Caribbean presents a range of common advantages for offshoring, among which are: geographical and cultural proximity to the United States; time zone advantages; destinations with relatively low political, economic and natural risks,

providing a good hedging alternative; talent and technology hubs with lower attrition rates (making it safer for operations involving knowledge transfer), and established markets for many segments (highly influenced by the presence of transnational corporations and the growing internationalization of local companies). The region has several hubs where, for historical reasons, multiple language skills are available, making it "poised to serve a more diverse array of global markets [than India] with multilingual skills" (Shankardass, 2007). This situation has been shaped not only by the heritage of immigration from Europe and elsewhere, but also more recently by the emigration and subsequent return (sometimes years or decades later) of people and families for economic, political and educational reasons.

However, the countries in the region, and even areas within those countries, present a great degree of diversity in their comparative advantages in attracting FDI in offshore business services. Some countries compete as low-cost destinations with the Asian destinations, especially for the lower-end activities. Others compete based on the availability of skills combined with easier interaction with clients due to the nearshore factors mentioned above. The following paragraphs provide brief overviews of the industry in (i) the English-speaking Caribbean; (ii) Central America and the Dominican Republic; (iii) the large markets: Mexico and Brazil; and (iv) the main South American destinations, apart from Brazil. Further information on the industry in selected countries is available in the annex to this chapter.

(a) The English-speaking Caribbean [11]

The English-speaking Caribbean has hosted United States-oriented call centres and data-entry centres since the 1980s. However, for decades the industry remained relatively small. Especially since 2005, there has been a wave of new investments. High growth rates have been registered in a combination of data entry and transcription services, call and contact centres and certain BPO functions. For Caribbean economies, this industry is particularly important inasmuch as it complements the very cyclical tourism industry (see chapter III).

Two factors have contributed to recent growth in offshore business services in the Caribbean, apart from the general expansion of offshoring worldwide. First, the increasing importance of nearshoring, mentioned above. The English-speaking Caribbean States have promoted the advantages they offer in terms of geographical and cultural proximity to the United States, competitive costs and low attrition rates. Their main advantage vis-à-vis their Latin American neighbours, which also benefit from these nearshore factors, is that English is either a first language or the official and primary language of instruction.[12] Secondly, the liberalization of telecommunications markets in several Caribbean States from 2001 on has led to lower costs and better service, factors that are crucial in this industry. However, this process has evolved unevenly, and challenges remain in ensuring effective competition, especially in the fixed-line segment and in international connections. Most members of CARICOM are still connected to other regions by a single cable that is controlled by a single operator (Browne, 2007).

Although Jamaica has been overtaken by the Dominican Republic as the largest offshore business services player in the Caribbean (Zagada Institute, 2008), within the English-speaking Caribbean States, it tops the list, with an estimated 10,000 agents. Jamaica is the only English-speaking Caribbean State to host large service centres (of more than 1,000 agents) of the top TNCs in this industry, such as ACS, West and Alliance One (acquired by the Teleperformance Group in 2007). Barbados, meanwhile, has the highest number of offshoring jobs in the Caribbean in terms of population size. The presence of offshore banks has contributed to the country's emergence as a destination for offshore services. In the other island States, relatively small centres specializing in specific functions coexist with a small number of medium-sized centres employing between 100 and 300 people. In Guyana, where offshoring operations took off in 2002, 1,400 people are now employed in offshore business services, 830 of them in foreign companies (GoInvest, 2008). Trinidad and Tobago hosts a number of foreign and local call-centre and BPO companies, with several specializing in health-care management services.

[11] Based on company interviews and survey responses from Antigua & Barbuda Investment Authority, eTeck (Evolving TecKnologies and Enterprise Development Company Limited, Trinidad and Tobago), GoInvest (Guyana), National Development Corporation (Saint Lucia), National Investment Promotion Inc. (Saint Vincent and the Grenadines), and Jamaica Trade and Invest, in addition to cited documents.

[12] In the same way that the English-speaking Caribbean has a linguistic advantage catering to Anglo-Saxon markets, Suriname has started to provide offshore contact centre services to the Netherlands. Likewise, Haitian residents of the Dominican Republic have been employed in centres providing French-language services, although for now these are relatively small operations. A study was commissioned in 2008 by the Sogebank Foundation and Kata on the feasibility of a BPO centre in Haiti.

(b) Central America and the Dominican Republic[13]

Central American countries and the Dominican Republic have also benefited from the increasing importance of nearshoring. Although only a fraction of the population in these countries speaks English fluently, in absolute terms, the number of English-speaking agents with technical skills that can be employed in a number of different areas and functions is significant, allowing for the establishment of larger centres than in most of the English-speaking Caribbean. The bilingual contingent has grown in recent years through educational efforts and through the return of people who had previously worked or been raised in the United States. Moreover, the growth of the Hispanic community in the United States and of the markets of Latin America and Spain has created demand for Spanish-speaking operators, to the benefit of these countries.

Governments have actively supported FDI generally and most have taken measures to promote FDI in the offshore service industry in particular. In fact, as the apparel industry started suffering from competition from China and other Asian countries especially from 2001 onward, the Central American countries and the Dominican Republic have been making efforts to diversify their economies and have targeted the offshore business services industry in particular (ECLAC, 2008a; 2008b). The Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR) has also contributed to the attractiveness of these countries for offshore operations directed at clients in the United States (Business Week, 2006).

Costa Rica is the most mature market in Central America for offshore business services, having gradually scaled up to higher-value-added activities and ensured steady growth in the jobs in offshore services, which today number approximately 23,500 (see box II.3). Panama also has a large contingent of workers in this industry, which is more concentrated, however, in contact centres and simple BPO functions. The Dominican Republic has one of the fastest growing contact-centre and BPO industries. Jobs in this industry have soared from a little over 5,000 in 2005 to an estimated 22,000 today. In El Salvador and Guatemala, 6,800 and 6,500 people, respectively, are employed in offshore service centres. In terms of population size, the industry is more significant for El Salvador. In fact, along with Costa Rica, El Salvador is among the largest recipients of jobs created by FDI in business services in per capita terms (IBM Global Business Services, 2007). Both countries have active policies targeting primarily BPO, and, secondarily, shared services in the case of El Salvador and IT services in the case of Guatemala. Nicaragua and Honduras are newcomers to the offshoring industry and have been choice destinations for companies wanting to explore the advantages of low costs, even by Central American standards, and low attrition rates, as well as significant numbers of English-speakers.

(c) Mexico and Brazil[14]

The larger markets, Mexico and Brazil, host service centres in virtually every major segment of offshore business services. Although their role as offshore destinations is relatively recent and although the share of services that are exported is relatively small, in 2007 these two countries accounted for 67% of cross-border sales of computer and information services to United States companies from Latin America and the Caribbean (BEA, 2008). Part of the attractiveness of both countries for offshore operations stems from their large local markets and industries. The strong presence of transnational corporations in multiple industries led to the establishment of in-house service centres (including engineering and other R&D functions), regional headquarters and shared service centres. It also led to the presence of outsourcing vendors that cater both to global clients and local ones. Through these investments geared initially towards local markets, companies acquired infrastructure, knowledge and experience in the local business environments. As IT developments made offshoring technically and economically feasible, some took advantage of their bases in these countries and started catering simultaneously to the local market and to offshore customers (or their own corporate headquarters and global networks).

In parallel to this general trend involving multi-industry clients and outsourcing vendors, the existence of sizeable IT hardware manufacturing industries in both Mexico and Brazil had a particularly important effect. First, it helped create a pool of engineers and other professionals employable in the IT services industry. Second, both countries hosted the main original equipment manufacturers in electronics (such as IBM or HP), and when these companies shifted their core activities from manufacturing to services, they took advantage of their decades-long experience and infrastructure in both to set up service centres there (ECLAC, 2008a).

[13] Based on company interviews and survey responses from the Export and Investment Centre of the Dominican Republic (CEI-RD), the Costa Rican Coalition for Development Initiatives (CINDE), the Export Development and Investment Fund (FIDE) of Honduras, Invest in Guatemala and the Investment Promotion Agency of El Salvador (PROESA), in addition to cited documents.

[14] Based on company interviews and survey response of ApexBrasil, in addition to cited documents.

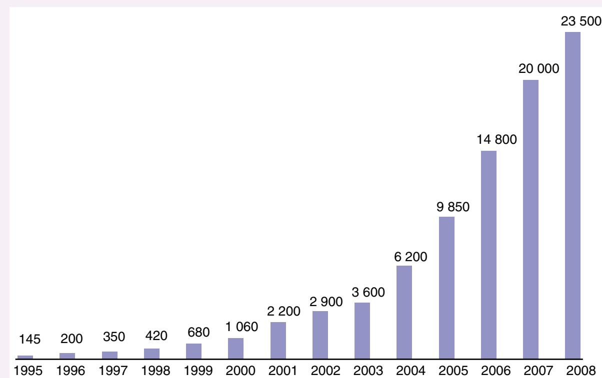
Box II.3

COSTA RICA: UPGRADING FROM CONTACT CENTRES TO KNOWLEDGE PROCESS OPERATIONS

Costa Rica has been hosting contact centres since the mid-1990s, and they still constitute a significant segment of the economy today. Of the 23,500 offshore business service jobs in Costa Rica, 58% are in contact centres. Labour costs in Costa Rica are now considered high relative to other countries in Central America, especially for the lower-skilled functions where cost is the crucial competitive factor. Nonetheless, in 2007, four new contact centres were established, creating 1,145 new jobs, and eight new contact centres were planned for 2008 and 2009. This suggests that other factors compensate for higher labour costs in Costa Rica, even in the contact centre market. Within this segment and in BPO functions, Costa Rica has invested in developing its capacities as a multilingual hub. Western Union's 1,000-employee centre in Costa Rica, for instance, provides contact centre, customer management and back-office services in Russian, Portuguese, Cantonese, German, French and Italian, apart from English (80% of services) and Spanish (8%).

However, Costa Rica's policy strategy aims at higher-value-added services. The establishment of the Intel plant in 1998 generated significant spillover benefits for the country, including a demonstration of the importance of targeting and of the value of the signalling effect of the establishment of a major transnational corporation. Much like what had happened to Intel and the development of the electronics cluster (the limitations of which are discussed in OMGI, 2006), the establishment of the Global Business Services Unit of Procter & Gamble (P&G) in 1999 paved the way for several other operations in global business service centres. Directly related to the P&G operations, HP and IBM set up operations providing different sets of services to the company. HP now has 6,500 employees in Costa Rica. Intel itself expanded into services in Costa Rica with its Latin America Engineering Services (LAES) group and a financial services group in 2004, followed by procurement and technical assistance. Intel has also provided venture funding for software companies located in Costa Rica (OMGI, 2006).

COSTA RICA: NUMBER OF JOBS IN OFFSHORE SERVICES (CUMULATIVE), 1995-2009 [a]



Source: Vanessa Gibson, "Invirtiendo en Costa Rica", document presented at the Seminar on offshore business services in Latin America and the Caribbean, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 18 November 2008.

[a] Figures for 2009 are projections.

After 2000, Costa Rica started receiving greater volumes of investment in shared-service and back-office centres. In addition to P&G and Intel, Chiquita GTC, Baxter Americas, Dole, Oracle, DHL, Hellman Logistic, Citigroup, Astra Zeneca and Lion Resources (Publicis) established shared service centres. Amba Research, Access Personnel, Equifax, Experian, Seton Centra, Hewlett Packard (BPO), IBM, Western Union and LL Bean, among others, set up back-office operations.

On the back of its consolidated contact centre and BPO industry, Costa Rica started targeting offshore operations for higher-value-added services in 2004. Software development companies (such as Avionyx, Cypress Creek, Ridge Run and Round Box Media), engineering design firms (such as Emerson, Rehkemper & Sons and Align Technologies) and interactive advertising agencies (such as Schematic, avVenta and Critical Mass) started to invest in the country in the pursuit of higher-skilled professionals rather than large volumes of lower-skilled ones. At the same time, companies that were already in the country, such as P&G, started carrying out more complex operations.

Costa Rica's gradual upgrading within the offshore services industry has been made possible by a combination of educational efforts to generate a skilled workforce in different technical areas, cluster effects arising from the presence of other offshore service companies and the electronics industry, and active targeting.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the response by Costa Rican Coalition for Development Initiatives (CINDE) to the survey on offshore business services in Latin America and the Caribbean; Vanessa Gibson, "Invirtiendo en Costa Rica", document presented at the Seminar on offshore business services in Latin America and the Caribbean, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 18 November 2008 and Multilateral Investment Guarantee Agency (MIGA), *The Impact of Intel in Costa Rica: Nine Years after the Decision to Invest*, Washington, D.C., 2006.

Brazil benefits from being a member of the BRIC group (Brazil, Russian Federation, India and China) inasmuch as many companies, like IBM, have favoured these large, high-growth markets in their expansion strategies. Most of the offshore operations undertaken from Brazil are combined with operations for the local market, with exports typically accounting for only a fraction of revenues from the Brazilian operations. The country has been less successful at attracting new operations by companies looking specifically for low-cost offshore sites, chiefly because of relatively high costs (aggravated over certain periods by currency appreciation) and small numbers of skilled professionals who are fluent in English. That the main motivation for investment in many of the existing service centres is not offshoring should not obscure the fact that the exports that are carried out are significant in the region. IBM alone exported approximately US$ 300 million in services from Brazil in 2007.

Brazil is one of the largest recipients of FDI jobs in R&D (IBM Global Business Services, 2008). One of the factors that have contributed to R&D in IT industries is the Informatics Act, which provides tax incentives to original equipment manufacturers and contract manufacturers provided that, among other conditions, they invest in R&D centres in Brazil. Some of these R&D facilities have become global centres of excellence in specific products or areas and now export solutions to headquarters. This instrument has been relevant for companies that stand at the interface between hardware and services, such as IBM, HP and Motorola. Incentives for R&D have been strengthened through more recent initiatives, as set out in table II.A-1 in the annex to this chapter (see ECLAC, 2008a).

Mexico has greater nearshore advantages (for the United States market) than its South American neighbours and capacity for larger operations than the countries of Central America and the Caribbean. These are key assets, especially in the more traditional functions. Mexico has the second largest call centre industry in the region and dominates the market for customer service to the Hispanic community in the United States (A.T. Kearney, 2007). The border areas, particularly, host BPO companies like ACS and Genpact (both in Ciudad Juarez) (see box II.4). Also, under NAFTA, trade in services with the United States is easier than for other countries as certain security and data transfer issues are easier to manage, and visas do not constitute a barrier for the flow of IT professionals (Karamouzis and others, 2007). Mexico too has a substantial number of global R&D facilities within companies that also hold manufacturing facilities in the country. Thus the two largest countries in the region are especially well positioned to attract offshoring investments due to a combination of a history in manufacturing, large markets and, especially in the case of Mexico, proximity to the United States.

Box II.4

OFFSHORING IN MEXICO: REGIONAL HUBS

Owing to the patterns of development of the export-oriented manufacturing industry in Mexico, regional specialized hubs have started to emerge within the offshore services industry. The Mexican offshore business services industry is largely concentrated in Mexico City, Monterrey and Guadalajara. All three cities have large urban populations and a sufficient density of companies to make them an attractive destination for IT-based service companies. These cities also have good educational infrastructures, and recognized institutions have partnered up with companies to develop their programmes. In Monterrey and Guadalajara, however, the relationship between the offshore business service industry and the cities' manufacturing past is clearer. In both cases, the export-oriented maquila industry —especially in electronics and autoparts— led to the incorporation of the use of IT in local industry and generated R&D capacity. The development models used in manufacturing were different, however, and this has shaped the development of the service industry in each city.

Guadalajara (Jalisco State) provides a larger volume of services through a smaller number of larger firms, including transnational corporations such as HP and IBM. Reflecting its role as an electronics cluster based on the maquila model, the region has specialized in niche services such as semiconductor design, embedded software and multimedia products. The large maquila plants of IBM have been converted to IT service centres, and several former maquiladora employees have set up small IT firms.

Monterrey (Nuevo León State), meanwhile, has benefited from a dynamic business environment that has nurtured a larger number of local firms. The existence of strong local manufacturing firms contributed to the creation of IT services firms such as Softtek and Neoris. The former was set up by former employees of the Alfa group, whereas Neoris originated as a spinoff of the IT operations of Cemex. Both companies have grown to compete internationally (see below). The presence of the Monterrey Institute of Advanced Technological Studies (ITESM) has also played a key role in supplying qualified engineers and fostering entrepreneurship.

Smaller agglomerations of services, mostly call centres and BPO, have developed on a smaller scale in Aguascalientes, Ciudad Juaréz (Chihuahua State), Querétaro and Baja California. The latter has also developed a computer programming industry (Mullan and others, 2008).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A.T. Kearney, "Destination Latin America: a near-shore alternative" [online] http://www.atkearney.com/shared_res/pdf/Near-Shore_Latin_America_S.pdf, 2007; Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2007* (LC/G.2360-P), Santiago, Chile, 2008. United Nations publication, Sales No. E.08.II.G.11; Francis Karamouzis and others, *SWOT Analysis: Mexico is Emerging as a Global Services Destination*, Gartner Research, 10 July 2007; Jessica Elizabeth Mullan and others, "México en la economía mundial de los servicios de tecnologías de la información", *Comercio exterior*, vol. 58, No. 10, October 2008.

(d) Main destinations in Spanish-speaking South America: Argentina, Chile, Colombia and Uruguay [15]

Almost every country in South America has received investments in some form of offshore services. As the industry expands, destinations that are relatively new to this industry are becoming increasingly attractive. For now, four countries, apart from Brazil, concentrate the bulk of these operations: Argentina, Chile, Colombia and Uruguay.

Argentina started attracting investments in offshore business services in the 1990s and has competed well both in segments where cost is the critical factor, such as call centres, and in higher-skilled industries, such as IT. With the devaluation of the peso in 2002 the country became particularly attractive in terms of cost, which added to the advantages of a highly educated workforce (the country has the region's highest rate of annual enrolment for tertiary education) of significant size. In call centres, Argentina has started taking up a larger share of the Hispanic customer services market in the United States. It is estimated that 60,000 people are employed in contact centres in Argentina and that 40% of service revenues are for offshore services. An increasing range of BPO services (finance and accounting, translations, collections and others) are also being undertaken in the country (A.T. Kearney, 2007). However, the country has been targeting higher-value-added services. Several investments in software development were made following the institution of tax breaks for software operations in 2004. Although Buenos Aires concentrates the bulk of offshore business service activities, the most dynamic cluster is in the province of Córdoba (see box II.5).

Box II.5

THE IT/BPO INDUSTRY IN THE CÓRDOBA CLUSTER

The IT/BPO industry in Córdoba, Argentina, has, thanks to the presence of a large university community, adequate infrastructure and a considerable density of local IT firms, grown from a handful of software development and electronics firms and two or three local call centres in 1999 to a thriving cluster of about 100 software development firms, 200 electronics components suppliers and 10 TNCs. The establishment of Motorola in Córdoba in 2000 marked a major landmark in the history of offshore services in Argentina. Following in Motorola's footsteps, Intel established a research centre, and EDS set up a global service delivery centre in the city (*Clarín*, 2005; *Business Week*, 2006). From representing a few hundred jobs in 1999, the industry now employs approximately 30,000 people in the IT cluster there, including 20,000 in contact centre functions and approximately 9,000 in IT (1,500 of which are in TNCs).

The challenges now facing Córdoba, Argentina, are illustrative of the challenges many countries in the region face in maximizing the potential local benefits of offshoring by TNCs. Córdoba's automotive industry is known to have developed around a small number of TNCs that made it possible for hundreds of local providers to emerge. In the IT industry, however, although policy has been successful at attracting major TNCs, the challenge remains to integrate local providers (there are approximately 100 software development companies in the area) into the supplier networks of the TNCs. This is in part due to the software production model prevailing among TNCs. In the past the incentive scheme adopted in Córdoba, which included grants for each person hired, was adequate for attaining the initial goal of bringing world class companies to the area. Now, making the leap towards integrating local companies into the world market, either through the networks of TNCs or independently, may require more and direct support to be given to local companies. Financing, as well as training, not only in technological capacity but also in management and marketing skills, should be key components of policy directed at small and medium-sized providers and individuals. Such support would also help the province become less dependent on incentives and subsidies for its attractiveness as a location for FDI in offshore business services. The expansion of the skills base, highlighted above, is also essential to the development of the local IT sector and other offshore service players as it can help avoid the crowding out of local companies that compete for labour with the TNCs. TNCs have an important role to play as a channel between local firms and world markets. (San Pedro, 2008).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of interviews to the companies; Manuel San Pedro, founder of Cluster Córdoba Technology, presentation at the Seminar on offshore business services in Latin America and the Caribbean, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 18 November 2008; *Clarín*, "La Argentina busca un lugar en las grandes ligas del software", 30 October 2005; *Business Week*, "Can Latin America challenge India?", 30 January 2006.

[15] Based on company interviews and survey responses from the Chilean Production Development Corporation (CORFO) and the Export Promotion Agency of Colombia (PROEXPORT), in addition to cited documents.

Chile and Uruguay have also both targeted higher-value-added services where the scale of operations is less relevant than for contact centres and simple BPO functions. Chile has taken a cluster approach to the development of a global services industry, which today includes operations in shared service centres, software development and KPO (see box II.6). Uruguay has been stronger in the software product industry but has expanded in services, especially since 2005, when TCS established its global delivery centre that today employs over 800 people (see below). IBM is also in the process of establishing a BPO centre for a Spanish client in the banking sector that will initially employ 200 people. The exports component of Uruguay's offshoring industry is higher than that of its neighbours, although largely concentrated within Latin America (CUTI, 2007, González, 2008).

Box II.6

CHILE: A CLUSTER APPROACH TO HIGHER-VALUE-ADDED GLOBAL SERVICES

At the end of the 1990s, Chile was shortlisted, along with Costa Rica and others, for a major investment by Intel. As mentioned above, Costa Rica won the bid, but the experience was positive for Chile in two ways. First, it gave the country a sense of its potential as a destination for investment in high-tech industries; and secondly, it highlighted the need for an active and strategically-oriented investment promotion policy for these industries. Since then, Chile has gone through a process to assess its advantages, shortcomings and opportunities and has identified key, high-potential, segments, on which to focus its promotion efforts.

The relatively small size of Chile's population limits its attractiveness for services requiring high-volume, low-cost, operations. The country does host a number of call centres with export operations. It is estimated that approximately 20-25% of call centre operators in companies such as Teleperformance, Konecta, Atento and Transcom cater to the export market, particularly Spain, while companies such as Air France and Delta have their regional contact centres in Chile. Nonetheless, in its policy efforts, rather than high-volume operations, Chile has targeted segments where higher value added can be reaped through lower-volume operations.

In 2000, the country began implementing measures to develop the global services industry. In efforts to diversify Chile's economy away from natural resources and towards high-growth industries intensive in technology, human capital and innovation, the country selected global services as one among a group of five target clusters. Exploring first-comer advantages within the region, policies were developed through a collaborative institutional framework involving public and private entities and academia. This framework included the National Innovation Council and the Council of Ministers on Innovation, and a strategic council that includes government entities, local entrepreneurial associations, executives of major TNCs established in the country and representatives of universities and technical training institutes. The Chilean Production Development Corporation, CORFO, put specific FDI attraction policies into place inspired by the experiences of Ireland, Singapore and Costa Rica. These policies targeted activities such as software development, IT and KPO services, as well as niche services geared at specific industries, such as finance and innovation activities in natural resource industries (mining and biotechnology, for example). Financial incentives were established, investments were made in human resources development and infrastructure (including the building of facilities), and immigration procedures were streamlined. A set of incentives is now in place for FDI in high-tech industries in particular. These include grants for pre-investment studies and setting-up costs, investment support services, training, investment in fixed assets and real-estate leases. CORFO provides office space at subsidized rates for a set period at its facilities in Curauma, close to Valparaíso.

In 2007, Chile exported over US$ 400 million in services (well in excess of the target established in 2000), through 50 service centres. Most of these exports refer to engineering services rather than to contact centre or BPO functions. Global business services were the first non-natural-resource-based industry to generate a similar volume of exports. There are currently 12,000 people employed in the global services industry, of which two thirds are specialized technical staff and one third are professionals holding university degrees. The country has managed to attract leading firms that have had a strong signalling effect on the industry (see table II.A-1). Policy efforts have also been directed at the development of the local industry within the global services cluster.

Some of the main challenges that remain are to generate sufficient numbers of English-proficient, skilled professionals to meet the demands of companies interested in investing in Chile without compromising the operations of those already established or local firms. The first signs of saturation have appeared, as newly established companies have had to draw heavily from other companies in the global services cluster to staff their service centres. Measures in course include specific programmes to improve English skills among IT professionals and at the secondary-school level, the revision of university engineering curricula to adapt them to the needs of an industry characterized by a high rate of technological change, and the strengthening of professional institutes.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of interviews to the companies; documents presented at the Seminar on offshore business services in Latin America and the Caribbean, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 18 November 2008 and Boston Consulting Group (BCG), "Estudios de competitividad en *clusters* de la economía chilena. Informe final" [online] http://www.economia.cl/1540/articles-187159_recurso_1.pdf, 2007.

Colombia hosts business service companies in different segments, from contact centres to BPO to software development. It has promoted its advantages as a nearshore destination that can offer a large contingent of professionals in IT industries, flexible labour legislation and low costs. There are an estimated 55,000 employees in the IT and IT-enabled services industries in Colombia, but a large share of these caters to the local market and to other regional markets (Proexport, 2008a, 2008b).

2. Latin America and the Caribbean in the corporate strategies of major players

The growing interest in Latin America and the Caribbean is visible in the strategies of some of the major TNCs that offshore operations. Although some companies run in-house offshore centres, this section focuses on the experiences in the region of some of the major outsourcing players, for whom offshoring is a core element of competitive strategies (see box II.7).

Box II.7

OUTSOURCING VENDORS IN IT AND IT-ENABLED SERVICES: THE MAIN PLAYERS

The IT and IT-enabled services market is highly diversified, and companies provide different combinations of services that overlap in certain segments and industries but not in others. Contracts with customers often involve a package of bundled services (and sometimes hardware). It is therefore difficult to rank and segment the main players.

The players in the contact centre services market can be more easily set apart from the others, although many companies also provide certain BPO services. The market is highly fragmented, with the top four players accounting for less than 12% of the outsourced contact centre market. In 2007, the largest players were West (United States), Teleperformance (France), Convergys (United States), Sitel (Canada) and Atento (part of Grupo Telefónica of Spain).

There has been a significant merging of BPO and IT services as companies initially specializing in one have expanded into the other, and companies originating in the manufacturing industry, such as IBM and HP, have shifted into services. Software development is an important component of the activities of several of these firms. They must, however, be considered separately from packaged software companies such as Microsoft, Adobe and SAP, because, unlike in the case of the latter, their services are customer-specific. Also, they typically have larger offshore operations and more employees per dollar of revenue than packaged software firms (Tigre and Silveira Marques, 2007).[a] Table below the main players, ranked by revenues. The majority of these companies, which will henceforth be referred to as "integrated outsourcing companies", are either from the United States or, increasingly, from India.

Finally, KPO services are provided either by companies that specialize in KPO or as part of the package of services offered by integrated outsourcing companies. Although there is a trend towards greater outsourcing of knowledge processing functions, there are certain services which will tend to remain under captive operations. Major KPO specialists include Evalueserve, Amba Research, Irenva, Copal Partners and Inductis.

MAJOR BPO AND IT OUTSOURCING VENDORS [a]

Company	Revenues (millions of dollars)	Employees
IBM Global Services (United States)	54 100	190 000
Accenture (United States)	23 387	186 000
HP Services (including EDS) (United States)	22 397	210 000 (140 000 from EDS)
CapGemini (France)	12 809	88 000
ACS (United States)	6 160	60 000
Tata Consulting (India)	5 722	116 000
Wipro (India)	4 933	96 426
Infosys (India)	4 176	103 078

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Hoovers [online] http://www.hoovers.com; Computer Business Review [online] http://www.cbronline.com and company websites.

[a] Figures refer to the most recent information available as of February 2008.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Atento, *Annual Report, 2007*, 2008; Evalueserve, "The future of knowledge process outsourcing. Make or buy in KPO", *EVS White Paper*, 18 April 2007; Hoovers [online] http://www.hoovers.com; Computer Business Review [online] http://www.cbronline.com and company websites.

[a] It should be mentioned, however, that the packaged software firms have resorted significantly to offshoring for the development of applications for their software and by setting up in-house back-office or shared service centres. Offshoring in software has taken place in two other groups of software firms: software operations in non-software firms (Agilent Technologies, Citicorp); and software-intensive high-tech startups (Hellosoft, Netscaler and Ketera) (Aggarwal and others, 2006).

In regard to the offshore operations of major outsourcing companies in Latin America and the Caribbean, section a focuses on the contact centre companies Teleperformance and Digitex. Section b looks at companies —referred to as "integrated outsourcing companies"— that provide combinations of BPO and IT services. Whereas some also span the lower-skill contact centre functions (ACS), others have included KPO in their portfolios (TCS, IBM). Sections c and d discuss the regional experiences of two individual companies: Evalueserve, which specializes in KPO, and Softtek, a Mexican BPO/IT player. Table II.2 illustrates the service mix of these companies.

Table II.2

RANGE OF SERVICES OF SELECTED TRANSNATIONAL AND REGIONAL CORPORATIONS [a]

Contact centres	BPO	IT/software	KPO
			Evalueserve
		IBM, TCS	
	Sofftek		
	ACS, EDS, an HP Company		
Digitex			
Teleperformance			

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

[a] Shaded area indicates the services offered.

(a) Contact centres: exploring nearshore advantages and a growing Spanish-language market worldwide

As mentioned, contact centres and simple BPO functions are the main offshoring segments in the English-speaking Caribbean States and most of Central America and the Dominican Republic. They also represent a significant share of offshoring of business functions in the other countries in the region (see table II.A-1). All the main cross-industry contact centre companies have operations in Latin America and the Caribbean, and most are present in multiple destinations (see table II.3). Companies have approached the region in two different ways.

Table II.3

FOOTPRINT OF THE MAJOR CONTACT CENTRE COMPANIES (OFFSHORE SITES OR GLOBAL DELIVERY CENTRES) IN LATIN AMERICA AND THE CARIBBEAN, 2007

	Call centre	Location of operations in the region
1	West (United States)	Guatemala, Jamaica
2	Teleperformance (France)	Argentina, Brazil, Chile, Dominican Republic, El Salvador, Jamaica, Mexico
3	Convergys (United States)	Argentina, Brazil, Colombia
4	SITEL (Canada)	Brazil, Chile, Colombia, Mexico, Panama
5	Atento (Spain) [a]	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, El Salvador, Guatemala, Mexico, Panama, Peru, Uruguay
6	TeleTech (United States)	Argentina, Brazil, Costa Rica, Mexico
7	ICT Group (United States)	Argentina, Costa Rica, Mexico
8	Sykes (United States)	Brazil, El Salvador
9	24/7 Customer (India)	Guatemala
10	Stream (United States)	Costa Rica, Dominican Republic, El Salvador

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from “The 2007 Black Book of Outsourcing” [online] http://theblackbookofoutsourcing.com/vendors-research-market-2007.htm; Atento, *Annual Report, 2007*, 2008; company websites and interviews.

[a] Locations presented here for Atento are not necessarily offshore operations.

In the smaller countries, particularly in the English-speaking Caribbean and in Central America, investments have been mainly export-oriented. The principal advantages of these countries are low costs (when the cost savings associated with geographical and time-zone proximity are considered), and the availability of people who are fluent in English and Spanish, the languages spoken most commonly in the major market, the United States. Central America and the Caribbean offer comparable costs to India and the Philippines at the more basic level of contact centres and data entry. Another asset is that operators from these countries usually have neutral accents, an asset that is increasingly valued by customers. On a smaller scale, multilingual services have also started to be provided from the region.

In the larger countries of South America and in Mexico, companies have entered with a combination of export-oriented and market-seeking strategies, diluting the fixed costs of an offshore operation by catering to large volumes of local customers. In many cases, the offshore component of operations is small, but still amounts to a significant number of employees and substantial revenues when considered in absolute terms. For example, approximately 20% of Mexican contact services are exported, which, assuming even revenues per employee, represents the output of 72,000 workers, roughly equivalent to the number of people employed in this industry in all of the Caribbean and Central America put together (IMT, 2008).

For the purpose of this analysis, the strategies of two companies are considered: Teleperformance and Digitex. Teleperformance is one of the largest contact centre companies in the world and one with the most extensive footprint in Latin America and the Caribbean. Unlike some of its competitors, which have chosen to expand into BPO and IT services, Teleperformance has focused on contact centres as its core business and made only small incursions into other segments. Digitex, on the other hand, is not among the largest companies in the industry, but is an interesting example of a company that specializes in Spanish-speaking services, a market in regard to which Latin America is uniquely positioned.

Teleperformance

Established in 1978, Teleperformance is based in France and has 83,000 employees in 46 countries. It provides services in 66 languages and dialects through a combination of onshore and offshore facilities. Offshore centres are situated in 15 countries, seven of which are in Latin America and the Caribbean. These include dedicated offshore facilities (such as those in the Dominican Republic, El Salvador, Jamaica and some of its centres in Mexico) and others that combine offshore functions and local operations (in Argentina, Brazil, Chile and the remaining Mexican operations) (see table II.4).

Table II.4
TELEPERFORMANCE: OFFSHORE LOCATIONS

Nearshore/Offshore Location	Markets Served	Dedicated offshore facility/shared facilities	Languages supported
Argentina	United States Hispanic market, Latin America, Spain	Shared	English, Spanish
Brazil	United States	Shared	English, Portuguese
Canada	United States	Shared	English, French
Chile	Spain, Argentina	Shared	Spanish
Dominican Republic	United States Hispanic market	Dedicated	English, Spanish
El Salvador	United States Hispanic market, Mexico	Dedicated	English, Spanish
India	United States	Dedicated	English
Jamaica	United States	Dedicated	English
Mexico	United States and United States Hispanic market	Dedicated and shared	English, Spanish
Philippines	United States	Shared	English
Portugal	Austria, Belgium, France, Germany, Greece, Hungary, Netherlands, Spain, Switzerland	Shared	German, Spanish, French, Greek, English
South Africa	United Kingdom	Dedicated	English
Tunisia	France	Dedicated	French

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Teleperformance [online] http://www.teleperformance.com.

Teleperformance's internationalization strategy began with the penetration of Europe in the 1980s, followed by the United States in the early 1990s. Its incursions into developing countries, including in Latin America and the Caribbean, began in the second half of the 1990s. The company's offshore operations in the region consist of two main systems, one that revolves around its base in Mexico, and the other that revolves around its base in Argentina.

The Mexican operation began in 1996, catering to the local market. It soon started providing a combination of local market services and bilingual services to the United States. In 2002, it acquired Merkafon, a customer relations management, telemarketing and teleservices provider serving Mexican and Hispanic American clients, with workstations in Monterrey and Mexico City in Mexico, and Plano, Texas in the United States. These service centres, which employed over 1,600 people at the time of the acquisition, fit into Teleperformance's strategy of combining onshore and offshore services to its United States clients. In addition to the Spanish and bilingual services it already provided, in 2006 Teleperformance started providing English-only services from its centres in Chihuahua. Its Mexican operations were further expanded in 2007 through the acquisition of Hispanic Teleservices Corporation, which has over 1,800 employees and facilities in Monterrey and Guadalajara.

The El Salvador centre, established in 2004, is a lower-cost complement to the Mexican Spanish-language operations for the United States market and also provides services to Mexican banks and financial institutions.

Teleperformance's employees in Mexico and El Salvador who cater to the United States market together number approximately 10,000. Along with the

operations based out of the United States, this means that Teleperformance has over 26,000 employees catering to the English-speaking and bilingual markets in the United States.

The company's first centre in Argentina was set up in 1998 and now has 3,500 employees and offers services in five different languages. Approximately 60% of the services provided in Argentina are for export to the United States, Latin America and Europe. Teleperformance also owns Software del Plata, which provides technical support, help desk, IT outsourcing and consulting services to the local and Latin American markets. The Chilean operation was established in 2006 as an expansion of the Argentinean programme.

Teleperformance's operations in the Caribbean also cater to offshore customers but with more focused objectives. They function independently of the two Latin American systems (Mexico-El Salvador; Argentina-Chile). The Dominican Republic centre, established in 2002, supports the company's United States subsidiary Americall Group in outbound telemarketing services for the Hispanic market in the United States. The Jamaican operation was acquired through Teleperformance's purchase of United States company AllianceOne, in 2007, and specializes in accounts receivable management (debt collection).

The Brazilian operations were set up at the same time as the Argentinean ones, in 1998, and successively expanded, but with a greater focus on the local market. Teleperformance is the third largest contact centre company in the country, with 20,000 employees working in 13 service centres. The Brazilian centres export their services, essentially to the United States, but unlike the Mexican and Argentinean hubs, they do not cater to the Hispanic market.

Therefore, contrasting with its centres in the Philippines and India, which provide English-only services to the United States, Teleperformance's Latin American and Caribbean offshore operations provide a combination of English and Spanish services to the United States and to Spain. Also unlike in the two Asian countries, the regional market plays an important part in Teleperformance's strategy in Latin American and the Caribbean. The company's growing interest in the region is evident in the substantial investments made after 2002, and especially after 2007.

Digitex

Digitex is not among the largest players in the industry, but it is one of the leaders in Spanish-language services and as such has a significant share of its operations in Latin America. The company employs 8,500 people worldwide, with just over 4,000 employees in Latin America and the rest in Spain. The company provides contact centre services, BPO, and IT services (software factory)[16] and specializes in catering to companies in the telecommunications, banking, finance and utilities sectors.

Digitex was founded in 1988, in Spain, and initially focused on the Spanish market. In 1999, it established a Chilean subsidiary, its first international operation, with the specific mission of providing support for the Y2K procedures. A year later, the company set up a subsidiary in Argentina to target the local market there. Both of these have since been discontinued.

The company's second wave of internationalization was undertaken after an experience with the remote provision of services through second-tier cities within Spain. From its hub in Madrid, starting in 2001, Digitex began a "national offshoring strategy", opening a centre in León, followed by La Carolina in 2003, Aranda de Duero in 2004, and later other destinations. The concept behind this national expansion strategy was to operate out of multiple platforms situated in provinces with higher-than-average unemployment rates and few professional opportunities for local residents. While for these areas the presence of Digitex service centres was welcome and generated significant social and economic benefits, for the company it has meant relatively lower costs, an eager workforce and low attrition rates.

Based on the success of this national expansion and on specific requests from clients to explore Latin America's potential as an offshore destination, a second international expansion phase started in 2005. Rather than the specific missions that had characterized the initial international moves in the late 1990s, this time the concept was to explore, in parallel, the Latin American market (including transnational and particularly Spanish clients situated in the region) and the Hispanic market in the United States. Digitex entered a joint venture with Altra Inversiones, a Colombian venture capital firm, supported, among others, by the Santo Domingo Group, with the purpose of expanding within Latin America. While Digitex contributed its know-how in establishing and developing customer service platforms and its relationship with the Spanish multinationals, Altra contributed its knowledge of, and experience in, the regional business environment. The initial growth strategy was based on the acquisition of local companies and alliances with leading companies providing local services. Company headquarters were set up in Mexico, and a joint venture was established with a United States company to penetrate the Hispanic market in that country.

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[16] The term "software factory" refers to the assembly of software components and the development of software applications according to client specifications.

Currently the company's operations in Latin America are grouped into three main areas: Central America, the Andean Community and Mexico. The Mexico office functions essentially as a commercial office. The Central American offshore operations are anchored in Guatemala. The base there has 650 positions covered by 1,000 employees and caters to the United States and Spanish market in addition to performing regional inbound and outbound contact centre services (including technical support, help desks, customer service, order response, financial services, information services, collections, payment reminders, up-selling and cross-selling) and BPO functions. In terms of the service mix, the strategy followed by the company has been to first provide the simpler functions initially and, if successful, gradually evolve towards a second generation of services that would include, for instance, software factory services. Although the focus is still on Spanish-language services, the English-language market is increasingly being catered to.

The base in El Salvador has 250 positions, which provides customer services and BPO essentially to local clients and provides redundancy or back-up capacity in cases where operations are unexpectedly interrupted or capacity is insufficient to meet demand for the Guatemala base. In Nicaragua and Panama, the company provides services to major locally-established clients.

In the Andean countries, Digitex has been operating in Colombia since 2005 and in Peru since 2006. Following the Spanish offshoring strategy pursued earlier in the decade, in the Andean region, the strategy has been to move towards medium-sized cities to find motivated human resources at low costs and with low attrition rates. The requirements for these second-tier destinations are the presence of universities, a significant number of qualified human resources and adequate telecommunications and transportation logistics. Although the centre of operations in Colombia is in Bogota, the largest operation is in Manizales, where the company has 1,200 positions to provide both local services and offshore services to Spain. The centre the company recently inaugurated in Ibagué, a city of approximately 500,000 inhabitants, has 1,000 positions. In Peru, which is a relatively unexplored territory as far as offshore business services are concerned, the first operations were set up in Lima in 2006, but from the outset, there have been plans to expand into smaller urban centres such as Trujillo and Tacna (Peru.com, 2008).

Thus, two characteristics of Digitex's presence in Latin America are noteworthy: it has combined operations geared towards local markets with offshoring operations; and it has used its experience in expanding to peripheral areas in Spain to explore the advantages of medium-sized cities, such as Manizales in Colombia, and of countries that are relatively new to the offshore business services industry among their neighbours, such as Guatemala and Peru. As in the case of ACS, Digitex's decision to expand into offshore services in Latin America and the Caribbean was influenced by requests from clients.

The experience of these two companies reflects characteristics that apply to contact centre companies in the region in general. These companies have used the region as a nearshore base for Spanish- and English-speaking customers, catering mostly to the United States market (including its promising Hispanic component), but also to Latin American markets and to Europe. Asia remains difficult to compete with in segments that rely more heavily on labour costs. However, as companies start offering more targeted services that require more frequent interaction with clients situated in the United States or direct contact with customers, Latin America and the Caribbean has unique advantages. Latin America is a natural choice for Spanish companies whose main market is Spanish-speaking. In their strategies for the region, operations are almost exclusively export oriented in the smaller countries of the Caribbean and Central America, but in the larger countries, they provide a combination of local-market and export services. Finally, the fact that clients have specifically requested that outsourcing vendors locate their service centres in the region is an element to be taken into account when drafting regional or country promotion strategies (see section D).

(b) Integrated outsourcing firms: exploring skills and markets in BPO and IT

For their global delivery operation centres, integrated outsourcing firms require large numbers of skilled professionals. This is part of the reason why in Latin America and the Caribbean, the offshore centres of the integrated outsourcing companies, unlike the contact centre companies, are located mostly in the larger markets (see table II.5).

Many of the United States companies have decades' long histories in the region, especially in the largest markets, owing to their links with the manufacturing industry. IBM manufactured IT hardware in Argentina, Mexico and Brazil before it shifted its core activities from hardware to services. The same goes for HP, which acquired Electronic Data Systems (EDS) in 2008. EDS, in turn, was owned between 1985 and 1996 by General Motors, which also has plants in these three countries and was subsequently an outsourcing provider to the company.

Table II.5

FOOTPRINT OF MAJOR INTEGRATED BPO/IT COMPANIES (OFFSHORE SITES OR GLOBAL DELIVERY CENTRES) IN LATIN AMERICA AND THE CARIBBEAN

Company	Countries
IBM Global Services (United States)	Argentina, Brazil, Mexico
Accenture (United States)	Brazil
HP Services (including EDS) (United States)	Argentina, Brazil, Chile, Mexico
CapGemini (France)	Argentina, Brazil, Chile, Guatemala, Mexico
ACS (United States)	Brazil, Dominican Republic, Guatemala, Jamaica, Mexico
Tata Consulting (India)	Argentina, Brazil, Chile, Ecuador, Mexico, Uruguay
Wipro (India)	Brazil, Mexico
Infosys (India)	Mexico

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Hoovers [online] http://www.hoovers.com; Computer Business Review [online] http://www.cbronline.com and company websites.

The entry of Indian companies is more recent. TCS is the company with the longest history in the region, having made its first investments in the 1990s. However, the major export-oriented investments of TCS were only undertaken in 2005. Other Indian companies followed: Wipro invested in Brazil and Mexico, Infosys in Mexico, and Satyam in Brazil, between 2006 and 2007.

The following paragraphs describe the strategies of ACS, EDS - an HP company, IBM and TCS in using Latin America as an offshore destination.

ACS

Affiliated Computer Services (ACS) is a United States company with US$ 6.2 billion in annual revenues and almost 70,000 employees. The business strategy of ACS focuses on serving vertical markets where it has subject matter expertise in a wide range of services, including data entry and transcription, contact centre, BPO and IT services. It stands out among the other companies in this section in that it has made greater use of Latin America and the Caribbean as a low-cost, nearshore base for its United States customers in lower-value-added BPO services, including data entry and transcription and contact centre services. Hence its larger footprint in Central America and the Caribbean than the other companies listed in table II.5. However, the company's service mix has recently started to diversify and move towards higher-value-added services. The company's regional strategies are shifting away from pure efficiency-seeking ventures towards a hybrid efficiency-, market- and strategic-asset-seeking approach, especially in South America.

Today, ACS has approximately 26,000 employees outside the United States, of which 2,500 are in the Caribbean, 12,000 in Latin America, 5,000 in India and 2,500 in the Philippines (see table II.6). The region thus plays an important role in the company's structure. In fact, its first operations outside the United States were in Mexico —initially Monterrey, then Hermosillo— followed by Guatemala, all in the mid-1990s. The purpose of these initial investments was to explore the nearshore advantages of Mexico and Central America, a novel concept at the time. At first, the services provided included transaction processing or data entry services. Over the years, however, changes in the make-up of the company's global offshore workforce affected the company's Latin American operations. These took place in two successive movements.

Table II.6

ACS: OPERATIONS IN LATIN AMERICA AND THE CARIBBEAN, 2008 [a]

City	Date established	Types of services	Client industries	Employees
Monterrey, Mexico	1995, second facility in 2008	Call centre, transaction processing, IT, finance and accounting	International delivery companies, health insurance, electronic manufacturing clients	800
Hermosillo, Mexico	1996	Transaction processing, IT support	Financial services, international delivery, health care	360
Guatemala City	1998	Transaction processing, IT, finance and accounting	Financial services, health care, insurance	650
Montego Bay, Jamaica	2001	Transaction processing, human resources, call centre support, finance and accounting	Communications, education, financial services, healthcare, insurance, manufacturing	1 500
Ciudad Juarez, Mexico	2001	Transaction processing, call centre, finance and accounting, mail-room		3 500 in five facilities
Mexico City	2004	Transaction processing, call centre, IT	Health care and technology	100
São Paulo, Brazil	2004	Human resources, finance and accounting	Communications, manufacturing (mostly United States and other international clients operating in Brazil)	300
Santo Domingo, Dominican Republic	1987	BPO services: billing, payroll processing, human resources, call centre	Health care and financial services	480

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from ACS [online] http://www.acs-inc.com.

[a] Prior to the acquisition of Grupo Multivoice in December 2008.

First, as competition increased, ACS started searching for lower-cost markets, particularly for its lower-skill functions. The company therefore invested in Asia, especially India and the Philippines, and even scaled back its operations in Latin America up until the mid-2000s. In the second movement, ACS adopted a different approach towards the region. In addition to lower costs, the company saw potential in the region's nearshore advantages, especially for higher-value-added services (within the contact centre category and in BPO and software development). This motivated new investments in Guatemala and Mexico and later in the Caribbean. ACS entered Jamaica in 2001 and, in 2008, announced plans to establish a new facility in Montego Bay (Josephs, 2008). This second movement, which was strongly influenced by the express interest of clients, did not mean transferring jobs back from Asia, but exploring new opportunities in nearshore capabilities.

In South America, the Brazilian operations were inaugurated in 2004 and geared at transnational corporations operating in Brazil. These operations are relatively small compared to the other regional centres. However, ACS made another significant move in South America late in 2008, when it acquired Grupo Multivoice, based in Córdoba, Argentina. The company owned a network of service centres in Chile, Colombia, and Peru and employed 6,000 people, roughly 10% of the workforce at ACS prior to the acquisition. The purpose of the acquisition was twofold: to explore regional growth in South America and to expand capacity to cater to offshore clients. Multivoice's assets will enable ACS to strengthen its services to Europe and its bilingual (English and Spanish) services to the United States (ACS, 2008).

Since 2004, ACS has therefore renewed its interest in the region and begun to tap nearshore advantages in Mexico, Central America and the Caribbean, and, in South America, to explore a combination of regional market growth and the availability of skills to cater to the European and United States markets.

EDS, an HP Company

Like other original equipment manufacturers in the IT hardware manufacturing industry, HP has increased the services component of its business in the last few years. Its acquisition of Electronic Data Systems (EDS) in 2008 for US$ 13.9 billion reflects that strategy and is expected to more than double the services revenue of HP. Since the buy-out, EDS has been rebranded as "EDS, an HP Company".

HP itself is an important offshore player, not only in providing services to global clients but in offshoring its own back-office operations. In Latin America, its operations in Costa Rica are among the largest. Initially established to service Procter & Gamble (see Martínez, Padilla and Schatan, 2008), HP Costa Rica now provides services to other global customers and has its own in-house back-office and global customer service operations in the country, where it employs 6,500 people. HP also has offshore operations in Mexico, Panama and Brazil (on the Mexican operation, see Mullan and others, 2008).

Whereas the service operations of HP have historically been anchored to technology and the client relationships the company had developed initially through its hardware business, EDS has always been a services company. EDS was one of the first firms to provide outsourced business and IT services and was founded in 1962 by Ross Perot and acquired in 1985 by General Motors to carry out its information management functions. The company's first incursions into Latin America were in Mexico during that year, precisely to service the General Motors operation in that country. In 1989, EDS began providing services to external clients in Mexico.

In 1996, EDS became an independent company again, focusing on its role as a BPO and IT service outsourcing vendor. The company started exploring low-cost offshore options later than its more aggressive competitors. A major step was taken in 2004, when it acquired the Indian company MPhasis. In Latin America, the first attempts at offshoring were in IT applications, maintaining and developing software in Rio de Janeiro, Brazil, for customers in the United States. EDS had between 500 and 700 people engaged in offshore-only services at this operation until 2005.

In 2006, the company decided to strengthen its offshore component, and Latin America, alongside Eastern Europe and China, were considered as alternatives to India. Among other reasons, this was influenced by customers, who started requesting more familiar accents or wished to diversify the location of their service providers to cover political or natural contingencies. Moreover, the Indian market started presenting attrition problems that in turn generated high costs, particularly in training. That year, a decision was made to make a major offshore-oriented investment in Latin America.

Up until then, EDS locations in Latin America had been strongly determined by the location of the plants of its former owner, General Motors. This had led to excessive fragmentation of service centres for a company that was now an outsourcing company catering to multiple clients and set within an industry that was exploring IT to take maximum advantage of scale economies. The concept of global service delivery centres was instituted, which meant identifying sites where it would be possible to concentrate between 1,500 and 5,000 professionals in countries that provided competitive offshore cost conditions. Like other companies, EDS favoured sites outside capital cities that nonetheless offered abundant human resources through proximity to academic centres and the availability of

campus-type areas. Three types of services were to be provided: IT infrastructure, applications development/ software maintenance and BPO (including call centre, procurement and back-office functions).

Several alternatives were considered in Brazil, where EDS already had important operations, but currency appreciation made costs too high. So the company decided to integrate the existing Brazilian operations in a campus outside the city of São Paulo. This operation was set up to provide mainly local services but also has approximately 200 employees dedicated to offshore operations, as well as others filling in offshore demand when necessary. The offshore services provided by EDS in Brazil involve specific applications for which qualified professionals are scarce in Argentina, the location that was eventually selected for the global delivery service centre.

The Argentine city of Córdoba was chosen because it offered a combination of cost advantages and qualified personnel, met the company's requirements in terms of adequate infrastructure and was a second-tier city. In fact, Argentina had become particularly attractive as a destination for offshore business services since the devaluation of the peso in 2002, which added to the advantages of a highly-educated and numerous workforce (the country has the region's highest rate of annual enrolment in tertiary education) and government incentives. In Córdoba, the company found adequate office space in an industrial park, close to the airport, with world class technology and connectivity, as well as strong support from the provincial government. The Córdoba government was actively promoting investment in this industry with tax rebates and a direct subsidy per employee. The office was operational by January 2007 and had 750 employees by 2008. Offshore operations were also undertaken from the company's offices in Buenos Aires.

Thus, when EDS decided to strengthen the offshore component of its operations, Latin America was considered because it offered nearshore advantages (including ease of communication with clients in the United States) and lower saturation (and lower attrition rates) than India, could complement the company's India-centred offshore operations and would help diversify the location of its operations.

At the time of the acquisition by HP, EDS had 2,300 employees in Argentina, 2,000 in Mexico, and over 8,000 in Brazil and smaller centres in Chile and Colombia. Offices dedicated to relationships with single clients were present in other countries.

IBM

IBM first entered the services market in the 1990s when it started facing strong competition in the hardware industry. Two key steps in that direction were the acquisition of PricewaterhouseCoopers' global business consulting and technology services unit, PwC Consulting, in 2002, and the divestment of the PC manufacturing division to Lenovo in 2004 (EIU, 2006). Within the services industry, IBM has focused on high-growth, high-value segments. Its Global Services business is divided into two main divisions: Global Technology Services and Global Business Services (see table II.7). These interact with software, systems and financing branches of the company. Like HP, and unlike Accenture and EDS (prior to its acquisition by HP), IBM provides both services and systems (the hardware infrastructure related to those services).

IBM is the largest company in its category worldwide and in Latin America and the Caribbean (see chapter I). It has had manufacturing facilities in Brazil and Mexico for over 80 years. As the company shifted into services, it established service centres in countries in which it had previously manufactured and in those with relatively strong export-oriented IT industries.

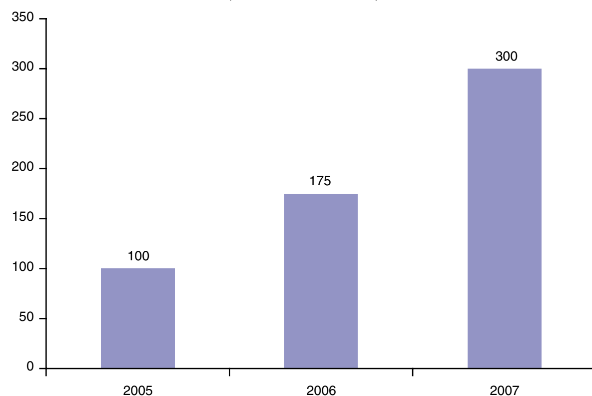
Table II.7
IBM GLOBAL SERVICES

	Nature of services	Categories of services	Competitive advantage
Global Technology Services	IT infrastructure and business processes	*Strategic outsourcing services.* Comprehensive IT services integrated with business knowledge, working with clients to reduce costs and improve productivity through the outsourcing of processes and operations	Company's global scale, standardization, automation
		Business transformation outsourcing. A range of offerings from standardized processing platforms and BPO through transformational offerings that delivers improved business results to clients through the strategic change and/or operation of the client's business processes, applications and infrastructure	
		Integrated technology services. Services offerings that help clients access, manage and support their technology infrastructures through a combination of skilled resources, software and the knowledge IBM has of business processes	
		Maintenance. Support services from product maintenance through solution support to maintain and improve the availability of clients' IT infrastructure	
Global Business Services	Professional services and application outsourcing	*Consulting and systems integration.* Consulting services for client-relationship management, financial management, human-capital management, business strategy and change and supply-chain management	Possibility of leveraging industry and business process expertise
		Application management services	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from IBM, *Annual Report, 2007*, 2008.

In Brazil and Mexico, IBM took advantage of its infrastructure, its professionals and a base of local clients to ensure minimum efficient scale in its operations. In Brazil, between 2004 and 2006, the company spent US$ 70 million in the development of the Hortolândia hub, in the State of São Paulo, where it had manufactured IT hardware since the 1970s. The centre now hosts over 7,000 employees, 80% of which are dedicated to export services to over 60 global customers in seven different languages. In fact, although the lack of English-language skills is often mentioned as a major limitation for the expansion of offshore business services in Brazil, in this relatively high-per-capita-income area, thanks to the large concentration of universities and research institutions, English skills are common among university graduates, and a significant number of professionals have had educational experiences in other countries and are proficient in third languages. Service exports by IBM in Brazil have grown continuously since the beginning of operations (see figure II.3) (*Valor econômico*, 2008). In 2008, new investments were made in service and data centres.

Figure II.3
IBM SERVICE EXPORTS FROM BRAZIL, 2005-2007
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data provided by IBM.

In Mexico, IBM started converting manufacturing facilities to services centres in the late 1990s. In 2005, the IBM centre in Guadalajara became one of the first in Mexico to obtain CMMI certification,[17] and by 2006, IBM had 1,200 program developers working there. Today, IBM Global Services accounts for 50% of IBM revenues in Mexico, and its computer programs account for another 25% (Mullan and others, 2008). In 2008, IBM established a new centre of excellence in Guadalajara, Mexico, to provide innovation services for the retail market.

In Argentina, Costa Rica, and Uruguay, IBM operations are more export-oriented. In Argentina, the company's global delivery centres started expanding significantly in 2004: the number of employees performing offshore functions rose from 70 in 2004 to approximately 2,600 by the third quarter of 2008. In October 2008, the company announced the creation of three new global delivery centres, entailing investments of US$ 60 million over 10 years, to provide more than 20 countries with server, database, network and storage monitoring and support services. IBM has an in-house operation in Costa Rica, as well as a centre dedicated to P&G, and is in the process of establishing an offshore BPO operation in Uruguay to cater to a specific client. Other operations in the region are more oriented towards local clients.

In short, the operations of IBM in Latin America have followed two main patterns. One draws on the link between large local markets and industries and competitiveness as a global delivery centre. In Mexico and Brazil, IBM had strong portfolios of local clients and local subsidiaries of transnational clients, which gave it a safe base to build on for its expansion into global offshore services. The combination of offshore and local market operations allows service centres to operate at a minimum efficient scale, which compensates for higher costs than in the main Asian locations. Moreover, through its own IT manufacturing business, IBM had accumulated knowledge on local business environments and owned infrastructure that it converted to service provision (ECLAC, 2008a). Finally, the existence of an IT manufacturing industry countrywide, in the case of Argentina, Brazil and Mexico, helped create a pool of engineers and other professionals employable in the IT services industry. The other pattern refers to the company's smaller investments that have actively targeted technology-intensive services sectors in the region, including those in Costa Rica and Uruguay.

TCS

Founded in 1968 within the Tata Group in India, TCS started out developing software for other companies. Initially, it sold the hours of engineers and maintenance and support personnel. In time, this model evolved into providing solutions, which enabled the company to provide outsourcing services for an increasing range of IT and technology functions that were no longer core activities for its clients. The company went public in 2004.

TCS first ventured into Latin America when its clients started expanding in the region. It was the first of the Indian offshore business service companies to establish operations in Latin America, entering Brazil in the 1990s. Later it established operations in Chile, Argentina and Uruguay in 2002 and 2003 and made another major

[17] Based on a process improvement model, Capability Maturity Model Integration (CMMI) certification is granted by the Software Engineering Institute (SEI), operated by Carnegie Mellon University, based on two main criteria: product or system quality and the maturity of the organization in software development.

acquisition in Chile in 2005. Its global service centre in Uruguay was established in 2005 in Zonamerica, a free trade zone technology park. This was the first centre in South America to obtain CMMI Level 5 certification (the highest standard under the CMMI model). Today the company has offices in 12 countries in Latin America, global delivery centres in Brazil, Mexico, Uruguay and Argentina, and BPO centres in Chile and Ecuador. Of a total of 111,000 employees worldwide, approximately 5,000 are in Latin America.

TCS conceived a three-pronged strategy for its operations in Latin America: catering to local markets (including global clients of TCS in the region); applying the same low-cost offshore concept used in India to provide services to other regions, while exploring the region's nearshore advantages; and taking advantage of aspects that complemented the Indian operations, including opposite time zones (allowing for 24/7 services). The region had an important role to play in the the company's global delivery network model, which consists of a worldwide network of linked service centres using common standard processes and drawing from complementary capabilities worldwide. Under this model, India is the major offshore destination; operations in China and Brazil are mostly for local clients, but there are prospects for gradually developing their offshore capacity; and Mexico, Uruguay and Chile function as nearshore sites for the United States market (as Hungary and Morocco do for the European market). All this is complemented by onshore locations in Australia, Europe, Japan and the United States.

In fact, there is a marked distinction between the operations in Uruguay and to a certain extent Mexico, and those in the rest of the region. In Uruguay, exports account for 90% of revenues. Today the Uruguay centre has over 800 people providing nearshore IT services in Spanish, Portuguese, English, French, Italian, German and other European languages. The presence of TCS has had a significant impact on the local employment rate in this industry. Mexico is becoming another strong export base for TCS because of its proximity to the United States and the large number of skilled professionals it has who are proficient in English. A global delivery centre was set up in 2007 with 500 employees and there are plans for expansion.

With the exception of these two countries, however, the export-oriented operations in the region have not grown as fast as initially predicted, and roughly 80% of services provided in the regional centres are for local markets. High costs compared to its home-country operations and difficulties in hiring sufficient numbers of skilled professionals have been among the main hurdles TCS has encountered in its efforts to expand the services it exports from the region.

In sum, the higher the skill-intensity of the services being offshored, the greater the role that professionals with engineering or other specialized skills play as key assets in investment decisions. As companies like ACS move towards higher-value-added functions, they start investing in countries that do not necessarily offer the lowest labour costs, but concentrate significant volumes of skilled professionals and, in some cases, have large markets that can help dilute the costs of the offshore component of operations. In fact, the operations of companies that have traditionally operated in higher-value-added segments (for example, EDS - an HP company, IBM and TCS) have therefore been concentrated in the larger countries in the region and in those with higher tertiary education enrolment rates. The integrated outsourcing companies are strongly concentrated in Mexico and Brazil, where they combine market- and efficiency-seeking strategies, although they have also invested in Argentina, Chile, Costa Rica and Uruguay. These countries, in which the export component of operations tends to be larger, offer a combination of active promotion policies, a significant pool of IT and engineering professionals and strong local IT industries.

(c) KPO: Evalueserve in Chile

Several companies offer KPO functions from the region, although in most cases these are in-house R&D functions performed by large corporations in the automobile, electronics, mining and other industries, or a component of the package of services provided by integrated outsourcing companies.

Evalueserve is one of few dedicated KPO companies with service centres in the region. Founded in 2000 in India, it provides market and business research, investment research, intellectual property and legal process services, marketing and sales support, knowledge management solutions and industry-specific expertise. It has a sales network spread out over several countries, but service operations are concentrated in India, with three additional research locations: China (since 2005), Chile (since 2006) and Romania (since 2008).

Although Evalueserve's business model is based on the offshoring concept and the provision of high-quality services at competitive costs, what has led it to invest in offshore sites outside of India is not cost but the need to complement its Indian operations with other, strategic assets, such as time zone complementarity and different types of skills.

The decision to invest in Chile was first and foremost a decision to invest in Latin America. Having a service centre in the region was important for three main reasons. First, many Evalueserve clients, especially investment

banks in the United States, needed same-time-zone services. Secondly, by combining operations in Latin America, India and China (having already planned the Eastern European location), the company could form a 24/5 delivery cycle without implementing night shifts. This is critical for projects where a product's "time to market" can determine success or failure. Thirdly, Evalueserve had taken a decision to strengthen its presence in, and knowledge of, emerging markets. Asia was covered by the Indian and Chinese locations, Romania would cover Eastern Europe, and a location in Latin America would be critical for conducting research on Latin American markets and catering to local clients.

Within Latin America, five locations were initially considered: Mexico City, San José in Costa Rica, São Paulo in Brazil, Buenos Aires in Argentina and Santiago in Chile. The parameters considered were the availability of people, cost and the overall business environment. Chile's main advantage was in the latter aspect. In terms of human resources, despite the existence of good universities, Chile was limited by the size of its skills base in comparison with other destinations in the region. Evalueserve saw, however, that it would be possible to complement local talent with foreign talent, as the country's immigration policy and procedures were perceived as straightforward and simple. This ability to draw from a global talent pool has been a major asset for the company's operations in Chile. Roughly a third of Evalueserve's 150 employees in Chile today are foreigners.

Costs in Chile, although lower than those of Mexico and Brazil, were higher than Argentina and Costa Rica. However, this was compensated by government incentives, including grants for training and the provision of office space, and by low administrative and opportunity costs due to swift regulatory procedures. Rather than Santiago, the company established itself in the facilities of the Chilean Production Development Corporation (CORFO) located close to the city of Valparaíso, which has the characteristics of other second-tier cities (a strong university community and lower costs and attrition rates) and where the company is rated as one of the best employment options for high-value professional services.

Evalueserve's Chilean centre, which accounts for 10% of the company's global sales and 6% of its employees, caters to clients based either in North America or Europe and to regional offices of TNCs. The centre provides mainly business and investment research services, and the service mix is gradually expanding to cover other types of services currently provided only out of India. These include technological research, intellectual property services and legal support services. The first major clients for the Chilean centre were North American investment banks that valued time zone proximity. Other clients include consulting firms and Fortune 500 companies from the United States and Europe. In addition to global clients, the company has started to look at the regional market, which currently represents only a small fraction of the Chilean subsidiary's portfolio.

Second-generation offshoring is still scarce in the region, although R&D operations within established companies and a small number of investments in KPO functions have been made. As the skills intensity of services increases, the availability of skilled professionals and other strategic assets, rather than cost alone, becomes increasingly relevant in investment decisions. In the experience of Evalueserve, the decision to invest in Latin America in these functions was not cost-based; the aim was to complement operations in India. The decision to invest in Chile, on the other hand, was based on competitive costs vis-à-vis its neighbours (considering government incentives and the opportunity costs foregone by a friendly business climate) as well as the *sine qua non* condition of availability of qualified human resources, which in this case included the possibility to easily complement them with professionals from third countries.

(d) Regional transnationals: Softtek

A generation of Latin American companies has developed in the BPO and IT markets, reaching several thousand employees and multiple transnational clients (table II.A-1 in the annex to this chapter lists some of the main local firms in the offshoring business). Several have undertaken internationalization processes of their own to exploit complementary assets within the region and in other regions.[18]

Softtek was the first Latin American company to make the Black Book of Outsourcing rankings. Others that subsequently appeared were CPM Braxis of Brazil, Neoris of Mexico, Globant in Argentina and DBA Engenharia de Sistemas (Brazil) (Black Book of Outsourcing, 2008). Like others, Softtek has evolved into a transnational corporation in its own right.

[18] The companies from the region that make the global rankings are concentrated in the largest countries. However, smaller companies from smaller countries have also taken advantage of the opportunities of offshoring both through bases in their home countries and through investments in other countries. There have, for example, been significant flows of intra-Caribbean investments in this industry. Jamaica-based E-services also operates out of Saint Lucia; Saint Kitts and Nevis-based Tropicall also operates out of Jamaica; Antiguan-owned International Market Access (IMA) set up an operation in Barbados in 2003, later sold to a United States company, and invested in Saint Kitts and Nevis (*The Sun*, 2006). Through these investments these companies have explored the common Caribbean nearshore advantages while at the same time diversifying locations to minimize risk and expanding beyond what would be possible within their home countries.

In the same way that the Indian companies in this industry were "born offshore", Softtek was born "nearshore", a term it coined in 1997. Created in 1983 by employees of Alfa Group, it is the largest Mexican IT company and has 6,000 employees. A large share of its sales comes from exports, which differentiates it from some of the larger Brazilian companies in this industry. Softtek's main operations are in Monterrey and Mexico City, but the company has expanded internationally and set up global delivery centres in Brazil, Spain and China. The company has been known for its strong investments in training and certification and for its association with technological research and educational institutions, particularly the Technological Institute of Monterrey.

Softtek had concentrated on the Mexican market until the North American Free Trade Agreement (NAFTA) came into force and the company started exploiting its nearshore advantages for United States clients. The company's trajectory as an international provider can be defined in two different stages.

From 1997 to 2004, it operated on the basis of a "Mexico-to-United States" model. During this period, the company evolved from promoting location- rather than firm-specific attributes of nearshoring (proximity, time zone advantages, cultural affinity and ease of doing business) to marketing the advantages of long-term relationships between client and vendor that, when carried out according to a model considering the "total cost of engagement" (total expenditures in light of the efficiency gains of nearshoring), yielded more efficient results than offshoring to Asia, mainly owing to labour arbitrage. It closed this period with the acquisition of the 1000-engineer Mexico-based IT operations of GE and became the main nearshore IT solution provider for GE.

The second stage —the global nearshore model— started in 2004 with the inauguration of centres in Brazil and Spain. Essentially, the strategy involved opening locations outside the "nearshore comfort zones" that would offer the company access to different skill sets and scale. Also under that framework, in 2007 the company acquired IT United, a China-based provider of software development and outsourcing services, where it currently has 400 employees. The network of eight global service delivery centres allows the company to provide "follow-the-sun" solutions for application-related services, IT infrastructure and BPO services, complementing its nearshore base while offering clients an alternative to India.

Softtek has strongly marketed its advantages as a nearshore base and has started exploring the complementarities between service centres located in different countries within the region and between regions. These advantages largely coincide with those of Mexico, and a parallel can be drawn between the company's strategy of combining nearshore with other offshore capabilities and a potential strategy for Mexico and other Latin American and Caribbean countries to find complementarities with other countries and leverage their domestic advantages in providing global services.

The companies described here are diverse in terms of the service mix they provide, their origin, their size and the extent of their experience in Latin America and the Caribbean. Some are relatively new to the region and are still starting to understand it and to track future pathways to explore its potential. Others have decades' long experiences in local markets. Each experience has been unique, but certain general characteristics of the role of Latin America and the Caribbean in the offshoring industry emerge from the cases considered.

There has unquestionably been growing interest in the region as an offshore base. As the global offshore service industry grows, opportunities are being generated all over the world based on cost, nearshore advantages or other strategic assets that complement global service networks. Companies in the more traditional contact-centre and BPO functions have looked at Central America and the Caribbean as attractive destinations based on the nearshore advantages resulting from their geographical and cultural proximity to the United States and on the availability of both Spanish- and English-language skills. Investment promotion policies have been important in attracting foreign investors to this industry. While some companies have favoured more consolidated markets in the region, others have valued less explored markets that offer lower costs and lower attrition rates, including countries that are only starting to enter this industry and regions within the larger countries. These same firms have invested in the larger countries in the region with a mix of market- and efficiency-seeking investments. Several countries in Latin America, including Mexico and Argentina, have benefited from the increasing importance of the Hispanic market in the United States, through the operations of companies such as Teleperformance and Digitex.

The large integrated outsourcing companies have also taken different approaches, investing in predominantly export-oriented activities in the smaller countries that have substantial specialized skills bases and active policies to promote the offshore services industry (Chile, Costa Rica and Uruguay) and in the large markets of Brazil and Mexico, where they take advantage of local markets and consolidated structures. Argentina seems to lie at the interface of these two models, sharing some of the characteristics of the larger markets and some of the features of the smaller but higher-tech markets at competitive costs.

To a certain degree for the integrated outsourcing companies, and to a larger extent for the higher-skilled functions, such as KPO, corporate strategies towards Latin

America and the Caribbean have aimed at complementing services provided from other offshore locations, namely India, through access to different skills bases, a combination of time zones that allow companies to provide 24/7 services and diversification of the location of service centres for specific clients.

The region has accumulated success stories in all segments of the offshore services industry, and the record of new investments and jobs created in the past few years is significant. However, there seems to be a gap between the interest of companies in using the region as an offshore base and the actual rate of growth of service exports. While there is no accurate way to measure foregone investments entirely, this gap is suggested by the trajectories of companies that established operations to cater to a combination of local and export markets but effectively export very little. Latin America and the Caribbean is not yet benefiting from the industry to its full potential. Section D addresses policy challenges that need to be overcome to expand investments in offshoring in the region.

D. Policy: reasons to promote offshoring and policies in place

Much of the literature on offshoring has originated in the concern for the loss of jobs in developed countries. The flip side of that concern —over which there is debate (McKinsey Global Institute, 2005)— is the fact that jobs have been created in developing countries. Through offshoring, information and communication technologies have begun to create a more efficient geographical distribution of jobs according to labour supply, without the social costs of immigration, and for tasks that go beyond the menial and provide higher rates of remuneration than other segments for similarly skilled personnel.

For Latin America and the Caribbean, the benefits are concrete. The number of jobs created by this industry is significant, especially for the smaller countries (see table II.8). Beyond the number of jobs, however, the characteristics of employment in this industry, as reported by companies and governments interviewed for this study, are particularly attractive from a social development perspective (see box II.8). Secondly, the development of linkages between local companies and TNCs in offshore business services may be a key element for positioning them in global markets. Smaller players in this industry face important barriers to entry into the global marketplace in the form of branding, recognition, and reputation. By working through the networks of established TNCs, as providers or partners, local firms can tap into global services markets where brand and reputation enjoyed by the largest firms would otherwise represent significant barriers to entry.

Table II.8

SELECTED COUNTRIES: ESTIMATED NUMBER OF JOBS IN OFFSHORE BUSINESS SERVICES, 2008

Country	Estimated jobs	Estimated jobs per 100 000 inhabitants
Barbados	4 000	1 370
Costa Rica	23 500	543
Saint Lucia	632	393
Jamaica	10 000	373
Saint Vincent and the Grenadines	365	307
Antigua and Barbuda	230	277
Dominican Republic	22 000	232
Guyana	1 400	189
Belize	450	163
El Salvador	6 800	102
Trinidad and Tobago	1 000	76
Chile	12 000	74
Argentina (call centre functions only)	24 000	62
Guatemala	6 500	51

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the answers of the countries to the survey on offshore business services; Zagada Institute, "Caribbean Contact Center & BPO Report 2008 – 2010. Published by Zagada Institute projects Caribbean outsourcing talent base surpassing 100,000 by 2010", *Press release*, 24 July 2008; Multilateral Investment Guarantee Agency (MIGA), *Snapshot Caribbean: Benchmarking FDI Competitiveness in Caribbean Companies*, Washington, D.C., Commonwealth Secretariat, June 2007; United Nations, "World population prospects: The 2006 revision" [online database] http://esa.un.org/unpp, 2006; "World urbanization prospects: The 2005 revision" [online database] http://esa.un.org/unpp, 2005 and estimated data on call centers in Argentina

Box II.8

CHARACTERISTICS OF EMPLOYMENT IN THE OFFSHORE SERVICES INDUSTRY IN LATIN AMERICA AND THE CARIBBEAN

In addition to the number of direct jobs generated by the offshore services industry, the characteristics of employment in this industry make it very attractive from a social development viewpoint.

- Jobs in this industry are relatively well remunerated, even in the least-value-added segments. In many countries, a call centre position is a career position, and call centre companies are considered good employers, as evidenced by low attrition rates. The same holds true, and more significantly, for higher-value-added segments.
- The offshoring industry, and particularly the contact centre segment, has provided jobs to segments of the population that often exhibit high unemployment rates: inexperienced young professionals, students, women (who often compose more than half the headcount in contact centre operations), mid- to late-career professionals.
- It has also created jobs in peripheral areas. The same reasons that make offshoring services to another country possible also make it possible to relocate outside of large urban centres, to areas where employment opportunities are fewer. In these areas, offshore business service jobs are highly valued, and from the point of view of companies, among other advantages, labour costs and attrition rates are low. These characteristics have motivated investments in second-tier cities worldwide as the main service centres start showing signs of saturation and as peripheral areas develop infrastructure and capabilities. Areas with strong concentrations of universities and other research and educational institutions have been particularly successful in this trend. In Latin America and the Caribbean, there are several examples of clusters that are being either consolidated or starting to be developed outside capital cities: Córdoba in Argentina, a group of smaller cities on the outskirts of São Paulo city in Brazil, Valparaíso in Chile, Manizales in Colombia, and Santiago de los Caballeros in the Dominican Republic.
- Offshoring jobs have reduced brain drain and aided the reabsorption of former émigrés, who have acted not only as employees but also as entrepreneurs, contributing skills, technology, entrepreneurship and capital and helping to put their home countries on the map for offshore business services.
- At all levels, companies have offered continuous training and developed skills, at least some of which are transferable to other companies and industries. The existence of skilled professionals in the local labour pool, who have been trained by the world's largest transnational corporations in state-of-the-art technology and business practices, has been an asset for local companies. Exposure to technology, business practices and corporate cultures adopted worldwide have also spilled over into local companies and the labour pool generally.
- By catering to foreign customers in types of services not available on the local market (certain financial products, for instance), groups of professionals have been able to create those markets locally to the benefit of local companies and consumers.
- This industry has created economic demand for education, stimulating governments to take measures to improve educational systems and practices at all levels: primary, secondary, technical and university. Public-private initiatives have been undertaken and have potential to produce positive changes and make sure local educational capacity is up to date with global standards.
- For each direct job in offshoring, multiple indirect jobs are created. It is estimated that in the Dominican Republic, four indirect jobs are created for every direct job in the offshore business services industry. Similar ratios have been mentioned for other destinations. Income received by employees has spurred local markets for consumer goods and services, and investments made by the companies themselves have created markets for other goods and services, such as hardware and software products, office furniture and construction.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the answers of the investment promotion agencies to the survey on offshore business services.

Thirdly, investment in offshoring may lead to greater, more diversified, and higher-value-added exports in an activity that involves little material throughput and therefore has relatively little environmental impact. Offshore services development has been one of the key priorities of countries trying to diversify away from the low-value-added manufacturing activities that are increasingly threatened by competition from China (ECLAC, 2008a, 2008b). Finally, having an export-oriented industry has helped make investments in telecommunications and other infrastructure financially feasible. This combination of characteristics makes the offshoring industry, if adequately harnessed, a possible magnet for high-quality FDI.

Most countries in the region have implemented strategies to foster the offshore services industry generally, and most consider FDI a critical aspect. Alongside horizontal business environment policies, country image promotion and other initiatives directed at attracting FDI, countries have implemented specific measures for the offshore business service industry. Table II.A-1 in the annex to this chapter provides an overview of policy initiatives implemented in the region. The most common fall under two categories:

- Tax-related instruments and free zone status: the forms and specific tax-related instruments used vary widely and include the waiver of duties

on equipment and components and the waiver of export taxes, income taxes and VAT. In most countries in the region, services can benefit from free zone regimes. In many cases single-entity free zone status has been granted, whereby companies accede to free zone benefits regardless of their location. These initiatives have helped improve countries' cost-competitiveness vis-à-vis other offshore destinations although the success of these policies must also be evaluated against the cost that countries incur by granting incentives; and

- Skills development: one of the major bottlenecks for the expansion of the offshoring industry in Latin America and the Caribbean is in the availability of human resources (see box II.9) Responding to this, countries have undertaken skills development efforts that include English-language training, improvement of primary and secondary school curricula and specific training and education for offshore service functions at all levels:[19]
  - English-language development: English skills are critical both for countries that wish to tap into the English-speaking customer services market, especially in contact centres, and for countries aiming at the higher-value-added services for which constant interaction is required with both clients and colleagues in other global delivery centres within each company. Besides strengthening English language programmes in public primary- and secondary-school systems and universities, countries have implemented supplementary English-language programmes and have provided scholarships for English lessons or on-the-job learning. Chile has implemented a specific programme for English development among IT professionals and has used a creative mix of instruments to expand the base of English speakers generally, from immersion programmes directed at secondary-school students to volunteer programmes for young English teachers. Chile and Nicaragua have also implemented programmes to make their English-speakers known, through testing and inclusion in a roster that is made available to companies interested in hiring. Chile, furthermore, has implemented an innovative programme for volunteers from abroad to help overcome the scarcity of English teachers. In Colombia, a partnership between the government and the British Council aims at ensuring that by 2019 all high school graduates attain at least intermediary level certification in English according to the Common European Framework of Reference for Languages.[20]
  - Education: several countries have, or are in the process of, revising primary school, secondary school, technical and university curricula in order to ensure that graduates at all levels are prepared for the job market. These reforms have included strengthened mathematics programmes and greater access to IT. Companies report that there is room for improvement in analytical and problem-solving skills.
  - Technical skills: initiatives vary as widely as the targeted sectors, from training programmes for specific technical careers (such as the Call Center Institute of the Americas in the Dominican Republic or training in medical terminology) and efforts to increase the numbers of qualified engineers and of certified IT professionals. The interaction between companies and universities has yielded interesting results on both parts, but, in some countries, companies report that university curricula are still excessively detached from the demands of the job market and particularly of this industry. In some countries, the government provides grants for companies to undertake on-the-job training.

[19] This applies to the Spanish- and Portuguese-speaking countries. In the English-speaking Caribbean, initiatives are being implemented to increase the number of bilingual (usually English- and Spanish-speaking) professionals.

[20] Some countries have begun to include other languages in their programmes in addition to English.

Box II.9
THE HUMAN RESOURCES BOTTLENECK

It is paradoxical that high unemployment rates coexist with companies that are eager to invest and employ but run up against limitations regarding the scale of the workforce. This is a natural limitation for smaller countries, but the bottleneck in Latin America and the Caribbean has not been in population size so much as in the size of the educated population, in small and large countries alike. The paradox is explained by shortcomings in access to education and the poor quality of educational systems in the region. Even among trained professionals, only a fraction is employable for the offshoring industry (see table below). India has similar shortcomings, but a wider base from which to draw.

Companies interviewed for this report consider that the main limitations of Latin America and the Caribbean in terms of human resources are the following:

- Outside the English-speaking Caribbean, English-language skills were identified by many companies as more of a bottleneck than technical skills. One major challenge is to break through from knowledge of the English language to functional proficiency, fluency and familiarity with commercial and technical English.
- Skills acquired in primary and secondary education, such as mathematical reasoning, critical analysis, reading and listening comprehension and written and verbal fluidity all affect the performance of professionals, whether they deal with customers or work in software development, but they are especially important if a country is to upgrade its services industry to the higher-value-added segments. Lags in these skills are corroborated by different studies (Dutta, Lopez-Claros and Mia 2006; OECD, 2006);
- The development of technical skills and science and engineering capacity are a moving target. Aspects specifically mentioned by companies interviewed for this report as areas of opportunity for improvement include strengthening of post-secondary technical training, greater involvement of the private sector in the design of technical university curricula, particularly in engineering degree courses, and the promotion of higher rates of certification in software processes. Engagement of public and private actors in these efforts, not only through financing but through hands-on involvement, is crucial (EIU, 2008).
- Another factor that can affect the scale of the available talent pool for prospective investors is the flexibility of labour mobility policies. Interviewed companies have expressed that more flexible immigration policies may enhance the attractiveness of the region as a competitive FDI destination in this industry. The comparison of the labour pools of even the largest markets in the region, Mexico and Brazil, to those of India and China suggests that the integration of labour markets within the region would contribute to the region's attractiveness as an offshore service destination (see figure below).

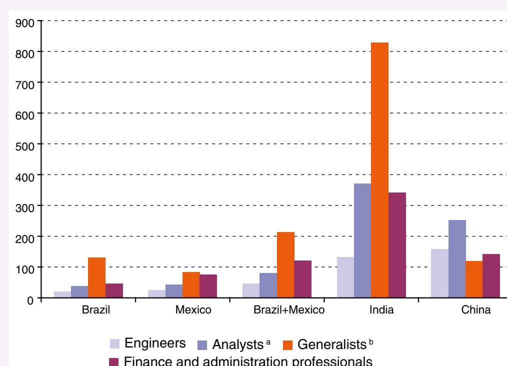
The limitation in the size of the labour pool is a problem not only in attracting new companies. With a growing industry and a stagnant workforce or one that grows at insufficient rates, as investor interest rises, companies are forced to draw on each other's employees, increasing attrition rates and costs and undermining the competitiveness of the industry. Moreover, a limited skills base prevents companies from upgrading their service mixes in each country and thus restricts the potential role of transnational corporations in country strategies for technological upgrading through services.

BRAZIL, MEXICO, INDIA AND CHINA: SHARE OF SUITABLE PROFESSIONALS FOR OFFSHORING FUNCTIONS IN THE TOTAL POOL OF PROFESSIONALS, SELECTED CATEGORIES
(Percentages)

	Engineers	Analysts [a]	Generalists [b]	Finance and accounting professionals
Brazil	13	10	8	13
Mexico	22	20	11	24
India	25	15	10	15
China	10	10	3	15

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of McKinsey Global Institute, "Interactive exhibit. Overview of global supply and demand of offshoring services" [online] http://www.mckinsey.com/mgi/rp/offshoring/, 2008.
[a] Analysts: positions that require strong analytical skills. These professionals hold university degrees in mathematics, physics or statistics and are employed in market research, software R&D and some back-office functions.
[b] Generalists: positions that do not require any specific training but require a university degree. Employees hold university degrees in other categories than those of the analysts as defined here. They are employed in sales and marketing, administrative functions and customer service positions.

BRAZIL, MEXICO, INDIA AND CHINA: POOL OF SUITABLE PROFESSIONALS FOR OFFSHORING FUNCTIONS IN SELECTED CATEGORIES
(Thousands)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of McKinsey Global Institute, "Interactive exhibit. Overview of global supply and demand of offshoring services" [online] http://www.mckinsey.com/mgi/rp/offshoring/, 2008.
[a] Analysts: positions that require strong analytical skills. These professionals hold university degrees in mathematics, physics or statistics and are employed in market research, software R&D and some back-office functions.
[b] Generalists: positions that do not require any specific training but require a university degree. Employees hold university degrees in other categories than those of the analysts as defined here. They are employed in sales and marketing, administrative functions and customer service positions.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the company interviews, the answers of the countries to the survey on offshore business services; McKinsey Global Institute, "Interactive exhibit. Overview of global supply and demand of offshoring services" [online] http://www.mckinsey.com/mgi/rp/offshoring/, 2008 and Economist Intelligence Unit (EIU), "In search of business sustainability: Latin American education and the role of the private sector" [online] www.eiu.com, 2008.

Other initiatives include the establishment of technology parks and grants for pre-investment assessments and for setting-up costs. In both cases, and in addition to the cross-industry FDI attraction and after-care policies, these initiatives aim at the development of industry clusters that at a critical threshold will be sustainable without government support. Regulatory reform of the telecommunications industry and IT infrastructure improvement programmes are advancing. These do not necessarily target the offshore services industry specifically, but will benefit this industry to a greater extent than those that do not have IT at their core. These measures all point to overcoming the major bottlenecks pointed out by companies (limited human resources and cost competitiveness). However, challenges remain to fully tap the region's potential as a host for new investments and to maximize the benefits of the industry for local development.

Despite the policies in place, if the industry is to fulfil its potential, stronger policy action will be required to overcome the region's main bottlenecks, including the availability of human resources with adequate technical and language skills. Five main groups of policy actions have been stressed as necessary by both local and foreign companies and by industry specialists and governments that are already engaged in promoting this industry in their respective countries. Within all these measures, there is room for intra-regional cooperation.

(i) Expand and improve the skills base. Further expansion of the skills base requires action on different fronts. Stronger primary and secondary education, including improved mathematical, logical and reading-comprehension skills, as well as early English-language education in non English-language speaking countries, together with increased interaction between the public and private sectors and academia in the design and deployment of technical and university curricula will help develop each country's workforce. Making labour mobility policies more flexible within the region could also increase the attractiveness of the region as a whole for service offshoring as it would enable countries to host higher-volume operations than the size of their respective workforces would otherwise allow. Finally, countries with significantly large diasporas may benefit from programmes that encourage return through jobs in the offshore business services industry or as entrepreneurs. The diaspora aspect, which, albeit with very different characteristics, was very important in India, is being considered by a number of Caribbean and Central American countries and by companies. As part of the efforts to round up human resources for these centres, IBM implemented a specific programme under the slogan "Volvé a casa" (come back home) directed at attracting Argentine IT professionals currently working abroad. Specific strategies to attract residents abroad to this industry have been taken by Guyana.

(ii) Make strategic choices. With Latin America and the Caribbean on the map of potential investment destinations, countries must find and develop their unique assets and explore ways in which they can be more successfully inserted into the regional and global markets and service delivery structures of transnational corporations. This will help them target their policy responses more effectively. Many countries are already doing so: Chile's focus on higher-end functions such as KPO has been mentioned (see box II.6). Antigua and Barbuda has concentrated on medical informatics, which does not require large scale operations but does require language proficiency to ensure accuracy and needs low attrition rates because of high training costs. Moreover, medical informatics is a segment that is likely to grow due to the ageing population in developed countries and offers the possibility of upgrading from simple transcription services to higher-value-added services. Uruguay, like Chile, is limited in its potential to host high-volume operations and has therefore focused its policy efforts on the higher-value-added IT industry and KPO. Large countries like Brazil and Mexico, while hosting companies in all segments of the industry, have identified the need for specific policies to promote the development of higher-value-added sectors, particularly in IT services and have relied on both TNCs and strong local companies to develop these industries (see table II.A-1). There may be a case for specialization by subnational entities (states and municipalities) within those countries.

(iii) Act collectively to promote the region. Countries in the region should consider exploring complementarities with each other, both through flexibility in the movement of labour and through common regional marketing strategies, at the same time as they develop and actively promote their unique advantages. Competition among countries in the offshore business service industry is rife, and Latin American and Caribbean countries face established giants such as India, as well as a multitude of emerging destinations in Eastern Europe, Asia and Africa. The decision by a company on where to set up a service centre can be motivated by its own desire to tap into the advantages of a particular destination or a request from a particular client. In both cases, the first location decision is usually whether to choose Latin America and the Caribbean or another region. There is therefore a case to be made for the active and coordinated promotion of the advantages the

region offers (geographical proximity to the United States, time zone advantages, more familiar accents and cultural identification), as well as of the ways in which it can complement India and other countries (for example, with opposite time zones that allow for follow-the-sun delivery models that global clients may be interested in and as an alternative destination for companies seeking to diversify their risks). Knowledge of the market and of the main investors allows for a more targeted approach.

Also, South-South investment flows are generally on the rise in FDI and this is particularly true in the offshore business services industry, where the Indian giants and even the smaller Indian niche players dominate the rankings and, like other offshore service companies, are searching for sites that complement their Indian bases.

(iv) Ensure positive spillovers and upgrading through the development of local companies. Despite its many potential benefits, the concrete spillovers of FDI in the offshore business services industry on local economies depend on the local entrepreneurial fabric. When TNCs find adequate local partners with which to integrate upstream, the beneficial impacts of FDI on local economies and development are magnified in the form of revenue, employment and the spillover of skills and technology. Inversely, when local providers are not up to date in terms of technological and other skills and capabilities, foreign providers will fill the gap, which will grant the country the benefits of additional FDI but not of the linkages that would ideally be formed with local business and that characterize high-quality FDI.

Second, despite its potential benefits for development, this industry's relatively low sunk costs also make it particularly footloose. The withdrawal of a company may signify sizeable social and economic damages. Minimizing the risk of withdrawal requires the creation of linkages between transnational corporations and local service providers, so that the company's roots in the country go beyond fragile cost arbitration (ECLAC, 2008b).

Third, for TNCs to fulfill the role of agents of productive upgrading, they need a solid base of providers at all levels. In addition to its intrinsic value —yielding greater revenues and stronger technological and skills spillovers— upgrading within the offshore business services industry contributes to minimizing the risk of withdrawal. The higher the complexity of the service functions being performed, the less likely it will be that the operation depends on costs alone, and hence the less vulnerable it will be to the appearance of alternative destinations. Policy initiatives may be necessary to provide incentives and ensure local capabilities for established companies to provide broader service mixes and to attract other companies in higher-value-added segments. Local companies benefit from the same upgrading of the human resources base and from country and regional marketing as TNCs do. Access to financing may be a critical factor in enabling the development of local firms.

(v) Promote the development of competitive and reliable telecommunications infrastructure. Although significant advances have been made in telecommunications infrastructure in Latin America and the Caribbean over the past decade, many countries in the region still suffer from infrastructure that is insufficient to meet the offshore business services industry's requirements of reliability, quality, and low cost. Countries stand to benefit from improvements in telecommunications infrastructure providing that, among other action, they ensure competition under an adequate regulatory framework.

If these challenges are adequately addressed, the offshore business services industry may present significant opportunities for the countries of the Latin American and Caribbean region to advance towards a number of policy goals, including employment and sectoral diversification. The current global economic and financial crisis provides an opportunity for the region to position itself competitively in an industry that stands to gain from the search, by companies, for greater efficiency in their business processes and analytical functions.

E. Conclusions

By overcoming geographical barriers, ICT have generated employment and business opportunities worldwide and in developing countries in particular. In the past few years, there has been greater recognition of the potential of Latin America and the Caribbean as an offshore destination, and new factors have arisen that have generated stronger motivation on the part of many companies to invest in the region. This has materialized in new investments from the largest to the smallest countries, not only in capital cities, but also in smaller towns previously not on the map for major transnational corporations. By linking workers in the region to the global labour market, investments in offshore services have generated new sources of income, jobs and exports that are a welcome addition in economies that are heavily based on natural resources or on low-value-added manufacturing.

A large share of investments —and of jobs created by those investments— has been in relatively low-skilled contact centre services in which countries compete essentially based on cost or a combination of cost and nearshore advantages. In these lower-value-added functions, offshoring has generated significant social benefits, as described in box II.8. In addition to this, however, the expansion of offshoring in higher-skilled, higher-value-added functions opens opportunities for the region to receive strategic-asset-seeking investments, of which there have historically been very few. When FDI is attracted not by low cost but by technological capacity and skilled human resources, it may be a significant source of technology transfer and thus provide a channel through which to tap into global technological developments. In other words, in a virtuous circle, with the development of human resources, there are greater incentives for transnational companies to transfer more knowledge-intensive export service functions to the region. Local professionals, in turn, develop greater capacity to absorb the knowledge that is transferred, and this strengthens the capacity of local economies to develop human capital, in itself one of the key aspects of development.

Transnational corporations have made sizeable investments in offshoring operations in the region, and many governments have implemented specific policies directed at this industry. However, substantial challenges remain, particularly in the development of human capital. Successful initiatives on that front will contribute to ensuring that offshoring fulfils its potential both qualitatively and in terms of scale.

Annex

Table II.A-1

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): POLICY INITIATIVES FOR OFFSHORE BUSINESS SERVICES

Country	Number of jobs in offshore business services	Main companies	Main segments	Main focus of FDI targeting strategy	Policy initiatives
Antigua and Barbuda	230 (100 in foreign companies)	--	Contact centre (accounts receivable, customer services)	Medical informatics	Tax incentives Elimination of taxes on computer imports Strengthening of IT and second-language education in the public school system Public and private investments in community access to computers
Argentina	70 000 in business services, 50 000 in IT services, 18 000 in shared services (categories overlap, and do not refer only to offshore services)	Shared service centres: IBM, Accenture, Deloitte Argentina, Datasul, ASSA Group,T Gestiona, Siemens Arg., Exxon, McDonald's, Chevron, KPMG, PWC and HP Argentina Call centres: Atento Argentina, Teletech, Teleperformance, APEX, Multivoice, ICT Group, Qualitec, Siemens Arg., Audiotel and Avaya Software development: IBM, EDS, Sabre Holdings, Motorola, Oracle Argentina, Microsoft Argentina, SAP, Sun Microsystems, Intel, Softtek, Google Argentina, Neoris, Unitech and Globant	Shared services, call centres, software development	Regional headquarters, KPO, other IT	Software development benefits from tax incentives. The Software Promotion Law (No. 25,922) created a specific tax regime for software development companies. 400 companies have applied to be included in the regime. State financing is available for research, training and exports. Contact centres benefit from policies at the provincial level. Technological parks, scholarships for IT students. A promotion strategy for global outsourcing and offshoring is being developed by ProsperAr, and a draft law for the promotion of service exports is being considered by the Ministry of Production
Brazil	No data available	Foreign companies in IT/software only: IBM, EDS, Accenture, Unisys, HP and Oracle In-house software development and IT infrastructure centres for transnational corporations: Merck, Unilever and Rhodia. Local companies: CPM, Politec, Microsiga, Stefanini, DBA, G&P, Itautec, Datasul and RM Sistemas (over 3,000 in total)	Contact centres, BPO, shared services, KPO, software/IT services	Software, IT	Production development policy instituted in 2008 provides for tax incentives for investment in IT and R&D Informatics Act and Innovation Act provide tax incentives for companies that undertake R&D activities and for specific stages of the IT manufacturing process and automation hardware in the country These instruments also provide incentives for cooperation between IT companies and scientific institutions in innovation activities Financing instruments are available for the IT industry through the BNDES (Brazilian National Development Bank) and other governmental institutions, as well as commercial banks A new Action Plan in Science, Technology and Innovation grants additional financial support for innovation activities within companies and incentives for the creation of technology-intensive companies A number of technological parks have been instituted, usually linked to universities. The main ones are in Recife, Porto Alegre, Rio de Janeiro, Campinas, Campina Grande, São Carlos, São José dos Campos, Florianópolis, Uberaba and Brasilia

Table II.A-1 (continued)

Country	Number of jobs in offshore business services	Main companies	Main segments	Main focus of FDI targeting strategy	Policy initiatives
Chile	12 000	Foreign companies: Citigroup, Altec (Santander), CapGemini, Oracle, Evalueserve, Experian, FSTP (Teleperformance), Air France and Delta contact centres Local companies: Adexus, Cientec, Coasin, Novared, Quintec, Sonda and Sixbell	Contact centres, shared service centres, software development, KPO	KPO, services for the financial market, engineering, innovation applied to natural resources, technological integration and R&D centres, clinical trial centres	International promotion of Chile as a destination for offshore business services Establishment of a Public-Private Strategic Counsel to develop the global services cluster Registry of English-speaking professionals Scholarships for English-language courses directed at IT professionals Grants for training provided by companies Strengthening of higher education and technical institutions Involvement of the private sector A set of incentives is in place for FDI in high-technology industries. These include grants for pre-investment studies and setting-up costs, investment support services, training, investment in fixed assets, and real-estate leases. CORFO, the Chilean Production Development Corporation, provides office space at a subsidized rates for a set period at its facilities in Curauma, close to Valparaíso
Colombia	54 400 in contact centres, 12 000 in software (the number dedicated to offshore services is not available)	Foreign companies: (in contact centres) Atento, Digitex and Sitel; (in BPO) TCS, EDS, an HP company, Amadeus, Softek and Stefanini; (in shared services) Citibank, SAP, HP and IBM Local companies: (in contact centres) Contact Center Americas, Outsourcing, Andicall, Interactivo, illenium, Multienlace, Transcom and Ventas y Servicios; (in BPO) IQ Outsourcing, Datacredito and MQA; (in software) PSL, Open Systems, Heinsohn, Ilimitada, RedColombia, Avansoft, Asesoftware, MVM, Trébol, Gestiontek, Softbolivar, Intergrupo, Servinte, FVC and Cidlis	Contact centres, shared services, BPO, software		13 industrial parks operating under free zone regimes Double taxation agreements Institution of habeas data legislation is in process of approval Collaboration between the Ministry of Education, the National Learning Service and the British Council to expand the number of English speakers Bogota has a specific English-language programme for call centre operators and BPO professionals Newly instituted legislation allows BPO companies established anywhere in the country to benefit from various tax incentives Single-entity free zones can be established for operations involving either a minimum number of jobs or of investments (an investment of US$ 2.5 million creating 500 or more jobs; or an investment of US$ 24 million creating 150 or more jobs) Benefits include a flat 15% income tax rate as well as import tariff and tax exemptions for merchandise (including equipment) imported into these entities Export services under GATS mode 1 are exempt from VAT under the condition that they cater exclusively to the external market and to companies with no activities in Colombia and that a formal agreement be submitted to the Ministry of Trade, Industry and Tourism

Table II.A-1 (continued)

Country	Number of jobs in offshore business services	Main companies	Main segments	Main focus of FDI targeting strategy	Policy initiatives
Costa Rica	23 500	Companies offering contact centre services: ACE, Aegis, Alienware (Dell), Amadeus, Amazon, BA Continuum, Fujitsu, Hewlett Packard (ITO), ICT Grlup, Language Line, Omnex, Pacific Interpreters, Qualfon, SP Data, Stream International, Sykes, Tech Data, Teletech, United Collection Bureau, UPS Supply Chain and Van Ru Companies offering back-office services: Access Personnel, Amba Research, APL, BPO International, Dakota Imaging, Equifax, Experian Marketing Services, Hewlett Packard (BPO), IBM, Lightstorm, LLBean, Pacific West, Project Resources Group, Seton Centra, Trax Technologies and Western Union Companies offering shared services: Astra Zeneca, Baxter Americas, British American Tobacco, Chiquita Brands, Citigroup, DHL, Dole, Hellman Logistic, Intel, Oracle, Procter & Gamble and Lyon Resources (Publicis) Companies offering software-related services: Avyonix, Fyserv, Global Insurance Technologies, JD Soft, Lux Red Consulting, Pangenesis, Ridge Run, Round Box Media, Simple Software Solutions, Slim Soft and Via Information Tools Companies offering advertising and marketing services: Digital Arbor, Schematic (WPP), The Hangar Interactive (Critical Mass) and Via Luna Group Companies offering engineering and design services: Agilis Engineering, Align Technologies, Emerson. Architecture and Construction: Design Scape, Gensler, Holland Roofing and Rehkemper and Sons	Contact centres, BPO, IT, shared service centres, back-office, software, design, engineering	KPO, post-production services, advertising, design, architecture, engineering, centres of excellence	Revision of technical and university curricula to adapt it to the requirements of the production sector, especially in the fields of IT, business and finance Creation of new university degrees and training programmes at technical levels to meet the demands of the market Implementation of the project “Costa Rica Multilingüe” to strengthen English and other languages in the public school system Free zone regimes providing exemption from taxes on equipment and other items, exports, local sales, profit repatriation and income (for the first 8 years, and a 50% exemption over the subsequent 4 years) New public works concession model to spur investment in infrastructure

Table II.A-1 (continued)

Country	Number of jobs in offshore business services	Main companies	Main segments	Main focus of FDI targeting strategy	Policy initiatives
Dominican Republic	22 000 (35% in foreign firms)	Foreign companies: Stream International, Language Line, Amov International Teleservices, ACS Business Process Solution, STI Prepaid, Penncro, Purple Tangerine Holdings and Federal Express Local companies: Data Vimenca, Callmax Dominicana, Caribbean Marketing Services, Americall Dominicana, Rococo Investments, Provitel, Vixicom, Globcom Corporation, Inovaware Teleservices, Synergies Strategic Services, Touch Dial Dominicana, Via One Dominicana, United Nearshore Operations, NewTech, Opinion Access Dominicana, Short-Line Teleservices, USCC Call Center Services, Opitel, Tel Trends Solutions and RC Teleservices	Contact centres, BPO	Contact centres, BPO	10-year plans in education. Strengthening of institutions involved in educational policy Strengthening of technical institutions such as the Technical-Professional Training Institute (INFOTEP) and the Technological Institute of the Americas (ITLA) Joint ventures between government entities and universities to strengthen training in skills applicable to high-growth industries such as IT Government sponsored training in English as a second language. Intensive English courses given over nine months Free zone regime, including single-entity free zone status Strengthened FDI promotion policy for the offshore business services industry
El Salvador	6 800 (90% in foreign firms)	Foreign companies: Dell, Sykes, Teleperformance, Crowley Liners and RIA Financial Local companies: GMC, Simerco, Intermark, Intercom and Teleservicios	Contact centres, shared services	BPO	Creation of roundtables among different government institutions to improve the quality and quantity of bilingual specialized professionals, through initiatives such as a specific call centre programme Under the New International Services Act that went into force in 2008 equipment and other necessary goods for the service activity are exempted from import taxes and companies established in "service parks" or single entities outside these parks (considered "service centres") are exempted from income tax, VAT and certain municipal taxes The International Services Act provides for the establishment of service parks
Guatemala	6 500	Transactel, Capgemini, Digitex, Call Universal, Atento, Asistencia Global, 24/7 Customer, Exxon Mobile, Shell, Latinode, ACS, Tracfone, RY6, General Electric, BPO, Red Ventures, ICS and Te Llamo	Contact centres, BPO, shared services	BPO	Educational programmes are being reformed with the involvement of the investment promotion agency, Invest in Guatemala Inter-institutional alliances to promote training in call centre and BPO skills, particularly through Intecap, a technical training institution funded through a 1% levy on salaries Educational reform efforts are considering the inclusion of English-language teaching since primary school. Also, a survey of call centre and BPO employees is being undertaken in order to identify and replicate educational practices that have been effective at training professionals in this industry
Guyana	1 400 (830 in foreign companies)	Foreign companies: Decipher International, Qualfon, Toucan Call Centre and Xxtreme Support Services Local companies: Nand Persaud International Communications, MDT and Clear Connect Call Centre	Contact centres, medical transcriptions	Contact centres	Waivers of import duties and VAT on machinery and equipment and tax holidays Liberalization of telecommunications industry and implementation of a second fibre optic cable are expected in 2009

Table II.A-1 (concluded)

Country	Number of jobs in offshore business services	Main companies	Main segments	Main focus of FDI targeting strategy	Policy initiatives
Honduras	NA	Mercury Communications (local company)	Contact centres	Contact centres	Increased budget for education A new telecommunications act is being analysed Active promotion by the investment promotion agency of Honduras as a location for the services industry
Jamaica	10 000	Foreign companies: ACS, West, Alliance One (acquired by the Teleperformance Group in 2007), National Asset Recovery Services and Vista Print Local companies: E-Services Group	Contact centres	BPO	Free zone incentives
Saint Lucia	632 (400 in foreign companies)	Foreign companies: E-Services and Ark Teleservices (to be inaugurated in 2009) Local companies: Helen IT Systems (n a joint venture with a Canadian investor)	Contact centres	Contact centres	Efforts to Improve access to tertiary education. The Skills for Inclusive Growth project of the Organisation of the Eastern Caribbean States (OECS) seeks to improve vocational and technical skills Income tax holiday, duty free concessions, no restrictions on repatriating profits and dividends Telecommunications liberalization starting in 2000 Saint Lucia has drafted and will soon enact legislation to support e-commerce, data security, electronic transactions, etc. There are a number of initiatives to provide improved access and to shorten the digital divide in Saint Lucia and to provide access for rural communities The government is in the process of improving the road network across the island
Saint Vincent and the Grenadines	365 (300 in foreign companies)	Foreign companies: Discovery Works Legal Local companies: Blue Skyes	Legal services, contact centres	Contact centres	Tax incentives through the Information and Communication Technology Services Investment Incentives Act, issued in 2007 Improvements have been made by providers in infrastructure for telecommunications, with a next generation network to be completed by 2010 Initiatives to increase industrial space New legislation on small businesses and on electronic transactions
Trinidad and Tobago	1 000 (MIGA, 2007)	Foreign companies: DSG and Medullan Local companies: Illuminat/Neal Massy, MDCL (Medical Data Caribbean Limited), Digital One and Sun Net	Call centres, health-care management services	BPO and IT services (with a specific emphasis on ICT related to the energy sector)	Introduction of ICT curricula into primary and secondary schools Universities are introducing, or already offer, courses and Master's programs that specifically relate to the ICT sector Programmes are in place for training and certification in medical terms An incentive system is being developed for the offshore business services industry by the Ministry of Public Administration Liberalization of the telecommunications market to strengthen competition. Development of the Tamana InTech Park

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the answers of the investment promotion agencies to the survey on offshore corporate services and documents presented at the seminar on offshore corporate services in Latin America and the Caribbean, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 18 November 2008.

Chapter III

Integrated hotel and real estate complexes: investments and business strategies

A. Introduction

Tourism has grown strongly in recent decades and has become an important activity for increasing numbers of developed and developing countries alike. Many different branches of the economy, involving firms of varying sizes and complexity, interact in the tourism industry, which gives it huge potential to contribute to national development. It is also a difficult industry to categorize, however, which makes it complicated to quantify its importance and impact.

Recently, changes have been coming ever faster in the industry, responding to shifts in economic, cultural, political, technological and demographic patterns, and the sector is becoming increasingly segmented. Accordingly, tourism companies have begun to outsource many of their activities, which has brought related firms —real estate and construction businesses, financial entities and so forth— into the sector. As in other service industries, the leading firms have been able to hold on to their competitive edge by entering into different types of contractual arrangements —management, leasing and franchising— without having to make conventional capital investments to embark on new initiatives. Global brands are gaining a growing presence, particularly in the hotels sector, thus concealing the real magnitude of foreign direct investment (FDI) and the importance of transnational corporations (TNCs) in tourism.

The tourist industry's extreme geographical dispersion makes it an increasingly globalized activity, which offers potential clients (tourists) growing numbers of options. As tourists become ever better informed, selective and demanding, many countries —especially developing nations— have made it a priority to capture FDI and attract global brands to gain a foothold in international tourism circuits.

Major changes have occurred in tourism products, especially those associated with coastal locations (the type commonly known as "sun, sea and sand" tourism), as a result of the fragmentation of the value chain, the entry of new agents, the heightened value placed on leisure, broader access to cross-border travel and the overdevelopment of

some traditional destinations, among other factors. There has been a proliferation of large, integrated resorts offering hotel infrastructure, real estate complexes and multiple entertainment facilities such as golf courses and marinas. In Latin America and the Caribbean, such resorts are found mostly on the coasts of Mexico, Central America (mainly Costa Rica and Panama), Brazil and many Caribbean islands, especially the Dominican Republic. In the latter months of 2008, the hitherto favourable conditions for tourism initiatives began to change rapidly as a result of the international financial crisis.

This chapter offers a general overview of the tourism industry and the main agents operating in it, focusing on activities in the hotel and real estate segment in tropical destinations. It then analyses the situation and the development of the industry in Latin America and the Caribbean and discusses the role of FDI and TNCs, bearing in mind the complexity of business relations involved in the establishment of self-contained hotel and real estate complexes. Lastly, a number of conclusions and policy recommendations are offered.

B. Overview of the tourism industry

1. A complex economic activity with interesting potential for development

Tourism is a complex industry.[1] It encompasses multiple activities ranging from accommodation, transport and entertainment to construction, agriculture and telecommunications, forming a complex value chain (see diagram III.1). This makes it difficult to make headway in characterizing the sector, which would help to better identify its economic significance in the framework of national statistics.[2]

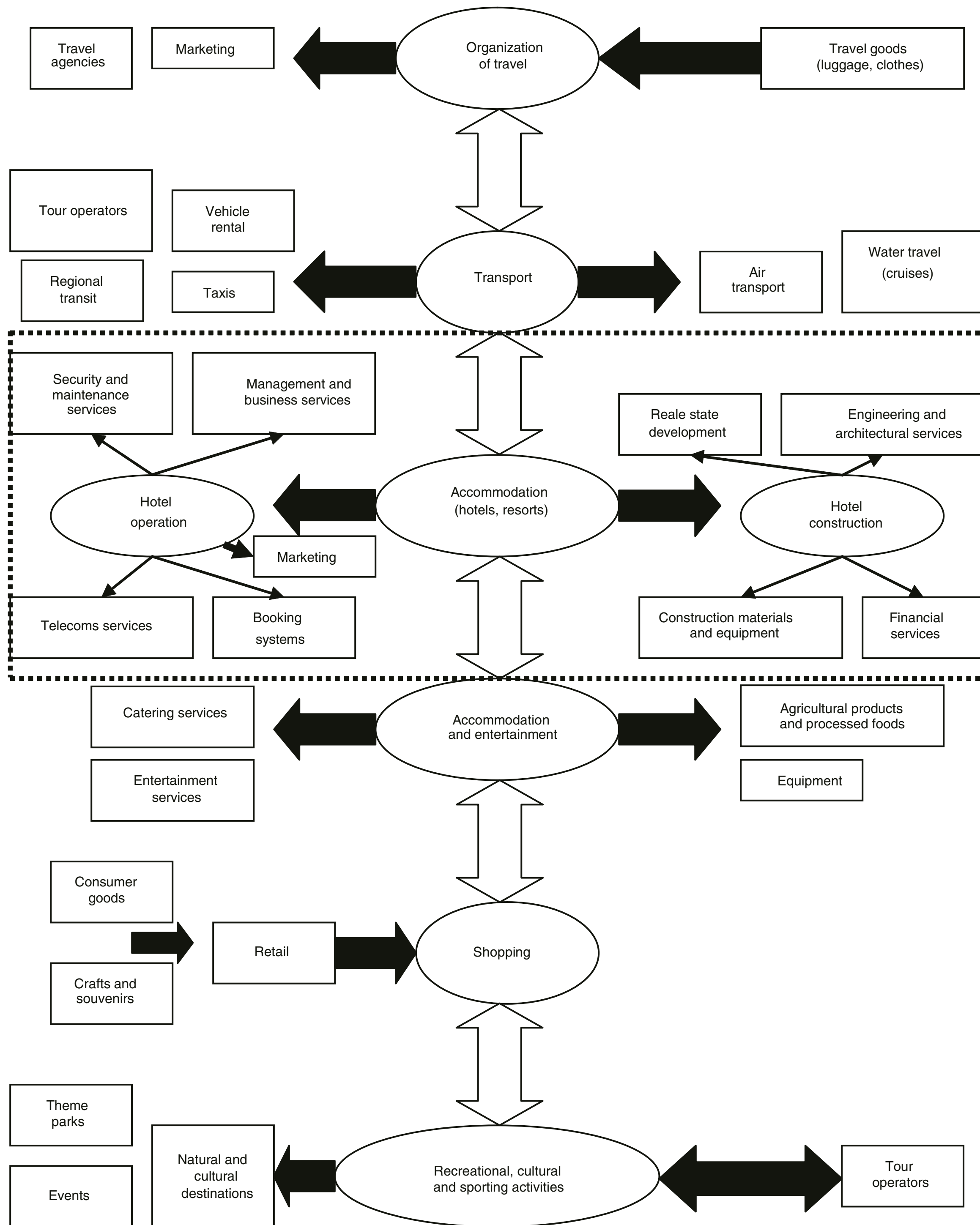
Tourism —especially for leisure, entertainment or vacation— depends, as few other economic activities do, on a specific setting, such as a natural environment or a location of great cultural interest. Yet the industry is not confined to a few places in the world —as the manufacture of automobiles is, for example— but encompasses many countries regardless of location and size. Its strong geographical dispersion, in fact, makes the value chain truly global. Tourism has thus benefited from globalization and has become one of the most internationalized sectors of the world economy.

However, a corollary of this internationalized demand is the decentralization of supply, which is necessarily associated with the specific location of providers of tourist services, which are still mainly local firms (OECD, 2008d, p. 12). The sector encompasses a broad range of economic agents from TNCs to very small firms, which can participate in the industry on different scales and at different levels, offering a wide array of tourism services around the world. Those features give tourism great potential to contribute to countries' economic development.

[1] According to the World Tourism Organization (UNWTO), tourism is understood to mean all those activities carried out by people who travel to and stay in places outside their usual environment for not more than one consecutive year for leisure, entertainment, vacation, visits to family or friends, business and other purposes. International tourism or travel refers to arrivals in a foreign destination by residents who stay at least one night and do not engage in earning activities in the place visited (UNWTO/SEGIB, 2008, p. 4).

[2] A number of international organizations have attemped to advance in this direction. In the early 1990s, the World Tourism Organization drew up a set of definitions that enabled international comparison of tourism activities, and this was standardized by the United Nations in 1994. The World Trade Organization (WTO) and the General Agreement on Trade in Services (GATS), both established that same year, helped to organize trade in tourism services. In 2001, UNWTO proposed a new Standard International Classification of Tourism Activities (SICTA), which was approved by the United Nations, and developed a standard methodology for measuring the economic value of tourism in national accounts by means of the Tourism Satellite Account (TSA). The World Tourism Organization definitions of tourism became United Nations standards after the countries agreed upon a more limited definition of tourism within GATS, excluding transport and other activities that depend heavily on tourism, such as automobile rentals (Bentley, 2005). Some 130 countries, more than for any other sector, have now made GATS commitments under the category "Tourism and Travel Related Services" (OECD, 2008d, p. 56).

Diagram III.1
TOURISM VALUE CHAIN [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of James Gollub, Amy Hosier and Grace Woo, *Using Cluster-Based Economic Strategy to Minimize Tourism Leakages* [online] http://www.ibcdtur.org.br/downloads/tourism_leakages.pdf, 2003.

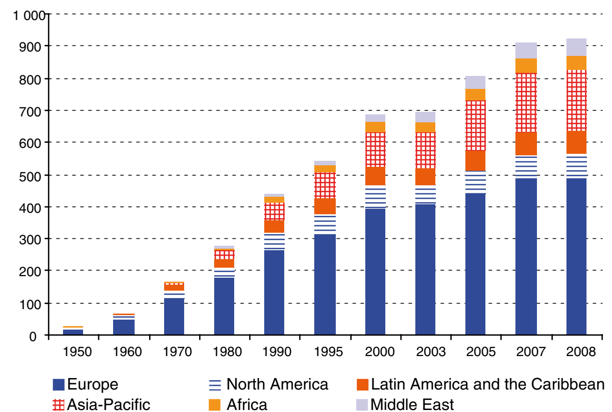
[a] The activities encased within the dotted lines are the sector's core activities.

The recent revolution in information and communications technologies (ICTs) has helped to make the tourism industry more productive and competitive and has made tourist services, such as plane and hotel room reservations, more accessible to potential travellers. Internet has radically changed the international tourism industry by shortening the distance between providers of tourist services and their clients.[3] All this has helped to provide responses to travellers' increasingly complex demands by offering options that go beyond packaged solutions. At the same time, financial innovations, such as credit cards and general access to automatic teller machines (ATMs), have facilitated travel and access to cash abroad, thereby reducing transaction costs and simplifying currency exchange (OECD, 2008d, p. 22).

Tourism has thus become one of the greatest socio-economic phenomena of the second half of the twentieth century and the start of the twenty-first (Vogeler, 2007, p. 18). The growing prosperity of the Western economies enabled their inhabitants to devote greater resources to entertainment and leisure and this, combined with the introduction of paid vacation time, gave rise to mass tourism (UNCTAD, 2007, p. 9). Accompanying this trend was powerful development of transport services, which helped to shorten distances and reduced the time and expense associated with travel. Recently, the tourism industry has been growing one and a half times faster than any other sector (Harrison, 2004). Today tourism is considered the world's largest industry and one of its fastest growing (OECD, 2008d, p. 57). In 2008, tourism represented almost 10% of world GDP and its long-term growth trend appeared to be stable (WTTC, 2008c, p. 6).[4] Indeed, despite the occurrence of political and economic conflicts, epidemics and natural disasters in different parts of the globe, the sector has shown a notable ability to expand and resilience to adverse conditions.

In this context, international travel has developed explosively, increasing from 25 million arrivals in 1950 to over 920 million in 2008 (see figure III.1) (UNWTO, 2009). The rise of new and alternative tourism destinations, particularly in emerging economies, has made it possible to expand the industry's potential benefits on practically a global scale (UNWTO, 2003, p. 129).[5] Although the main traditional destinations (France, Spain, the United States, Italy, the United Kingdom and Germany) have held their ground, some emerging economies have benefited from market transformations and come to occupy important positions, especially China, Malaysia and Thailand in Asia and Mexico in the Latin American and Caribbean region (see figure III.2). A number of these economies are also among the world's fastest growing, giving the emerging middle classes the wherewithal to push up demand for both local and international tourism services (Bardham and others, 2008, pp. 28-29). This is particularly interesting, given that the great majority of international tourists still come from a few industrialized countries in Europe, North America and Asia. Today, over 55% of international tourist arrivals originate in Europe, with France, Italy, the United Kingdom and Germany being the main origin markets (UNWTO, 2008e, p. 63).

Figure III.1
INTERNATIONAL TOURIST ARRIVALS BY REGION, 1950-2008
(Millions of people)



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

It has been estimated that only about 10% of total tourist movements are international (UNCTAD, 2007, p 14). Nevertheless, cross-border travel is on the increase and continental and intercontinental markets are growing fast, while domestic tourism markets in the developed nations are beginning to stagnate (OECD, 2008d, p. 12). In this context, most international travel is short-distance and takes place within the same region. In fact, interregional arrivals represent a little over 10% of inbound tourism in Europe

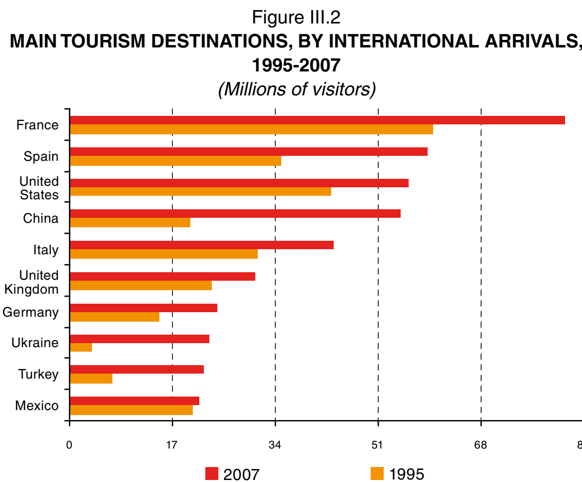
3 There are two main dimensions to this shift. First, all categories of firms, large and small, from anywhere in the value chain, can now communicate directly with their end customers. Second, whereas consumers used to be outside the value chain, they are now at the heart of it. Just as suppliers can reach consumers directly, so clients have direct access to the supply side. Unlike in other industries, the customer can chose different routes towards the final product. Hence, the consumer is the one who wields strong control over the value chain (OECD, 2008d, p. 34).

4 Growth in the tourism industry, and hence in international travel, has been interrupted only three times since the end of the Second World War. Once in 1982, as a result of the second oil crisis; once in 2001, as a consequence of the attacks of 11 September in the United States; and again two years later, owing to the combined effect of the war in Iraq and avian influenza in Asia. The industry may now face another downturn as a result of the global financial crisis.

5 In the early 1950s, just over a dozen countries received almost all of the 25 million international tourists. Today, over 70 countries, many of them developing nations, each welcome over 1 million international visitors per year.

and just over 20% on the American continent and in Asia (UNWTO, 2008e, p. 70).[6] The largest flow of interregional tourists is between Europe and the American continent.

Figure III.2
MAIN TOURISM DESTINATIONS, BY INTERNATIONAL ARRIVALS, 1995-2007
(Millions of visitors)



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

Recent trends show the importance of demographic changes occurring in many industrialized countries, particularly the increase in the retired population and the implications of the baby boomer generation approaching retirement.[7] These new patterns in markets of origin undoubtedly open up major opportunities for tourism- and leisure-related real estate development (Bardham and others, 2008, p. 46). In particular, high prices in the real estate market in the United States have acted as strong drivers of such development in Mexico and some Central American and Caribbean countries.

For many countries, tourism is important because it is labour intensive and thus a major source of employment for semi-skilled workers in rural areas.[8] Globally, tourism accounts for one of every 12 jobs (8.4% of world employment), which makes it the largest single employer in the world (WTTC, 2008, p. 6).

International tourism also has a strong impact on trade in services and inflows of foreign exchange. The expenditures of foreign visitors in tourism destinations, even on buying a soft drink or a haircut, are classified as exports and have multiplier effects that can influence the host country's level of development. Tourism is a major export category for many developed and developing countries alike. It is the main export of almost a third of developing countries and is among the main exports for over 80% (PPT, 2004, p. 2). The industry has also become a main source of foreign exchange for almost all the less developed countries, particularly for a number of small island economies (UNCTAD, 2007, p. 4). For example, services account for the bulk of exports in most Caribbean countries and territories and two thirds of those services are tourism-related (ECLAC, 2008d, p. 120). In 2007, inflows of foreign exchange from tourism stood at US$ 856 billion, close to a third of the total value of global services trade (UNWTO, 2008b). Tourism thus has great potential to act as a redistributive mechanism by transferring wealth between rich and poor countries.

The liberalization of trade in services and, more specifically, the agreements on free access and equal treatment for cross-border provision of tourism services signed in the framework of the General Agreement on Trade in Services (GATS) have been crucial in this regard (Ramón Rodríguez, 2002c, p. 32). The gradual opening of air transport services and the implementation of open skies policies and measures to stimulate competition have helped to lower prices and create the conditions for the start-up of charter companies and low-cost airlines, all of which has aided the international development of the tourism industry.

Lastly, because tourism is such a crosscutting industry, it has great potential —even more than other sectors of the economy— to create spillovers into further investment because of its multiple interactions with different economic activities (UNCTAD, 2007, p. 5; ECLAC, 2008d, p. 219). The shift of consumers to the places where tourist services are located —such as hotels— has further increased the potential for production linkages within the host country.[9] In the absence of such linkages, tourism risks becoming an enclave activity with no links to the rest of the domestic economy.

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6 Almost two thirds of visitors to the United States are from Canada, Mexico and the rest of the Latin American and Caribbean region. Meanwhile, over 70% of visitors to Japan come from other parts of Asia and the Pacific (Bardham and others, 2008, p. 24).

7 After the Second World War, between 1946 and 1964, a number of countries, such as Australia, Canada, the United Kingdom and United States experienced an unusual surge in the number of live-born children. This phenomenon came to be known as the "baby boom" and those born during that period as "baby boomers". In the United States, baby boomers represent almost 20% of the population and they will significantly swell the ranks of retirees in the coming decades. In Europe those aged 65 years and over will account for 25% of the population in 2015 and many of these people will be looking for places to live, with choices being driven in particular by the existence of warm climates, sun and sea, golf courses and retail centres.

8 This may be of particular interest to developing countries that have benefited from the commodities boom but have not been able to increase job creation significantly.

9 For example, in hotel services, backward linkages result from the demand for inputs from other industries, including a wide array of agricultural products, meat and dairy products, beverages and multiple manufactures, as well as a large number of services, such as construction, telecommunications, power and water and sewerage. When they are locally generated, these products and services can have a powerful impact on the host country's value added (Gollub, Hosier and Woo, 2003, p. 29). Forward linkages are created when services are provided to other sectors.

For all these reasons, most countries view tourism as a source of economic growth.[10] Given the high standards required by potential visitors, however, there are a number of obstacles to the development of the industry. Local attractions can be catalysts for the development of a tourism industry, but to realize their full economic potential they need investment in infrastructure (transport, telecommunications, electric power and sewerage systems), appropriate support services and human resource training. Only then can countries attract tourists, whose spending will help to increase local employment and income (OECD, 2008d, p. 20). It is therefore natural that many developing countries lacking capital, know-how, technology and access to international networks of tourism marketing see FDI as a means of compensating for those disadvantages. Indeed, tourism is one of the main activities into which developing countries now seek to attract FDI.

The resolution of infrastructure and access issues is not enough to cover all the challenges involved in the tourism industry, however. Some of the greatest challenges have to do with legal differences between countries and price factors (from the exchange rate to energy costs). Security issues, which are becoming increasingly important, especially after the events of 11 September 2001, can also add to the uncertainty faced by tourism and real estate activities (Bardham and others 2008, p. 49). It is crucial to ensure that the positive impact of the industry does not threaten the sustainability of the local economy, the environment, social traditions or cultural resources. Tourism can have negative impacts on the local communities it most directly affects, through the degradation of traditional values, cultural heritage and the environment, or the emergence of illicit activities and unforeseen migratory movements (UNCTAD, 2007, p. 9). In some cases, even the physical landscape has changed and the massive inflow of tourists has put a strain on the resources that formed the location's comparative advantage in the first place. Moreover, the current global financial crisis has shown how vulnerable tourism destinations are to international conditions.

2. Business trends: towards the fragmentation of the value chain

Not only has tourism grown strongly, it has also undergone constant diversification and differentiation.[11] From being an activity aimed at providing services to a small, affluent elite, the industry has grown to encompass mass, standardized markets, giving the main supply-side agents (such as tour operators, airlines, hotel chains) a huge role, finally evolving into a highly segmented industry in which demand —the tourist— has taken the lead (see table III.1).

The development of the industry today is based on the growing sophistication of related services and mounting global competition among the different destinations sought by international tourists. On the one hand, potential tourists have an increasing number of destinations and an ever broader range of products and services to chose from. On the other, destinations have had to offer more than the comparative advantages associated with location (geographical distance between the supply of tourist services and the demand for them), accessibility and price and provide more sophisticated and exclusive services in order to stand up to the fierce competition. This problem is particularly difficult for sun, sea and sand tourism, which is a very important segment for many of the Latin American and Caribbean economies.

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[10] For some small countries with few resources and capabilities, tourism has become the main development strategy. For larger countries it is an additional source of economic diversification and a way to develop regions that have seemingly little to offer other than natural beauty and a favourable climate (UNCTAD, 2007, p. 9).

[11] In the past few decades, international tourism has tended to be concentrated spatially (coastal areas), seasonally (summer) and by motivation (recreation and rest), and was associated mainly with sun and sea tourism.

Table III.1
EVOLUTION OF THE TOURISM INDUSTRY

1950s	1960s-1990s	1990s to the present
Elite tourism	Mass tourism	Segmented tourism
- Luxury hotels in large cities - Luxury restaurants - Excursions with private guides - Travel to cold beaches in northern Europe	- Low-price standardized tour packages - Tourist class hotels - Charter flights - Guided bus tours - Large beach hotel resorts - All-inclusive hotel offer	- Unusual experiences - Theme tours - Low-cost airlines - New destinations - Variety of tourism products - Lodging typical of destination - Hotel resorts with real estate developments

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

There has been an increasing tendency towards the formation of large corporate groupings on the supply side of the tourism industry (OECD, 2008d, p. 16). In most of the origin markets, the industry is dominated by large corporations, as a result of the consolidation and concentration of the leading firms in the different segments of the industry, particularly airlines, tour operators and hotel chains (UNWTO, 2002, p. 2). In destination countries, there has been a proliferation of SMEs devoted to looking after visitors during their stay, especially firms providing accommodation and catering services. Generally speaking, the size of these firms is no impediment to high standards and commercial excellence. Although they are very different in nature, these two groups are not disconnected from each other, but interact in the tourism industry's value chain (see diagram III.1).

Both types of business organization have their strengths and weaknesses. The TNCs have tapped the potential of local tourism destinations by means of standardized products and global strategies. This has enabled them to benefit from economies of scale, develop new markets, reduce costs and offer attractive services at highly competitive prices. SMEs have more flexibility to tailor and personalize their services to the needs of the individual visitor. They are also able to adapt to rapidly changing market requirements. With ever more exacting markets of origin, these abilities represent a major comparative advantage, since many customers do not want standardized products and prefer to adapt their vacation to their own needs and tastes. However, personalized tourism and quality-based competition can result in high prices.

Tourism has undergone major structural changes recently. A large number of firms that have historically been associated with the industry have outsourced many of their activities and firms in peripheral areas (such as construction and banking) are moving into tourism-related sectors. In fact, the ownership of tourist services is becoming increasingly fragmented, which is creating the flexibility for different agents to enter the industry.

This trend is especially clear in the hotel sector. In the last few years, the main chains have gradually abandoned their vertical integration strategies and begun to focus on core management services, often moving away from the real estate aspects of the operation (Bardham and others, 2008, p. 29). In general, the large hotel groups have their own brands and their growth strategy revolves around signing management, leasing and franchise agreements. In fact, very few of the world's largest chains own a majority share in the buildings where their hotels operate. On the contrary, the hotel groups supply the brand and management services, while the ownership of the property is a totally separate operation led by different firms.

In the last few decades, franchises have figured strongly in the growth strategies of services firms, and hotels have been no exception to this (Contractor and Kundu, 1998). In this regard, branding strategies are becoming increasingly important.[12] In fact, the pursuit of segmented branding strategies as a means to target different groups of consumers has become one of the main comparative advantages of the large global chains, particularly when the differentiation between destinations begins to blur (Ramón Rodríguez, 2002c, p. 40). The consolidation of the hotels market through mergers and acquisitions has also led to the concentration of the main industry brands in the hands of a small number of owners, who manage them without consumers being aware of the changes (UNWTO, 2002, p. 55). Hotel rooms operating under the brand names of the 10 leading international hotel chains represent almost 20% of global supply today (Bardham, Begley, Kroll and George, 2008, p. 33). In this context, certain intangible assets, such as knowledge of customer's needs, access to booking systems, brands and forms of business organization, have become the key competitive advantages underpinning the growth strategies of the largest hotel chains, particularly the United States ones (Johnson and Vanetti, 2005, p. 1,094).

[12] Branding is a marketing term which refers to the process of building up a brand name through strategic management of the full array of assets linked to the name or symbol (icon) that identifies it.

With hotel management moving out of the real estate business, other economic agents of various kinds have begun to gain importance. Among these are real estate investment trusts (REITs),[13] many of which have acquired hotel properties. This has occurred particularly in the United States, where hotel chains operate in the mass market through franchises and the actual property assets are owned by a fairly broad range of investors, including REITs. Following the success of these trusts in the United States, the mechanism began to be used in other developed countries as well — Australia, Canada, France, Germany, Japan, the Netherlands and the United Kingdom— and in a number of emerging economies, including Brazil, Hong Kong Special Administrative Region of China, Mexico and the Republic of Korea. There are few examples of cross-border hotel REITs, however. Those that exist include Host Hotels & Resorts, which has urban hotel concerns in Mexico City and Santiago, and Strategic Hotels & Resorts, which has the Four Seasons Resort Punta Mita in Nayarit (Mexico) and the Four Seasons in Mexico City. Amid the capital market effervescence and volatility of the 2000s, REITs have had a mixed reception. On the one hand, their stock market performance has been rather inconclusive yet, on the other, they have been considered very safe instruments during periods of instability (UNWTO, 2002, p. 27). Also during this period, as a result of a number of mergers and acquisitions, a small number of investment funds came to own multiple hotel properties within diversified portfolios of brands.

The blurring of borders in the tourism industry (particularly in the hotel segment) and the real estate business has helped to make viable larger projects that can build up the capacities of the agents involved. This occurs with hotel and real estate complexes that combine hotel infrastructure, real estate developments and a range of entertainment and leisure facilities, such as golf courses, marinas, horse-riding clubs and so on. Where such large complexes have developed, they have involved different types of local and foreign enterprises, ranging from hotel chains to real estate firms, construction companies, financial institutions and investment funds.

The profound changes that have occurred within the sector make it particularly difficult to analyse business patterns, because of the complex ownership structure underlying the major tourism projects and the interaction of the different firms that make up the value chain. What is even more challenging is to look at this behaviour at a global level and to identify the ways in which the various agents are putting their international expansion strategies into practice.

3. Internationalization of the tourism industry

(a) Mechanisms of international expansion: the decline of foreign direct investment

Tourism companies have invested abroad for decades, and much more so in the last few years. This has been driven by the search for economies of scale, productive and geographical diversification and lower costs, or by the need to defend or strengthen a domestic-economy position against new competitors (Ramón Rodríguez, 2002c, p. 31). In the second half of the 1990s, foreign investment by tour companies increased mainly through mergers and acquisitions (UNWTO, 2002, p. 2).

The business has not only become increasingly internationalized, but has done so in ways that are constantly changing. In addition to traditional forms of international expansion, such as FDI, tour companies have increasingly turned to other ways of engaging in cross-border activities, such as management, leasing or franchise contracts and other types of commercial arrangements.[14]

The mechanism a cross-border enterprise will adopt to establish a presence in a given country will depend on its own comparative advantages, as well as the

[13] Real estate investment trusts (REITs) first arose in the United States in the 1960s. They were designed to provide a structure similar to that of mutual funds for share investment, but in this case for investment in real estate. In general, REITs are corporations that trade on the stock market and are obliged to distribute up to 90% of their profits as dividends. They invest in different types of real estate or immovable and related assets, such as shopping malls, office buildings, hotels and mortgages. In the last five years, however, the supply of REITs in the United States has decreased. One possible reason for this is the tight restrictions on leverage (capped at 60%) and equity reinvestment, since the required payouts prevent REITs from applying the capital-intensive management strategies that are generally needed in the hotel industry to remain competitive (Bardham and others, 2008, p. 36).

[14] Franchises confer the right to use brand name and know-how, and to receive technical, commercial and financial assistance. A tour company whose strategic asset is a global booking system might broaden its international presence by creating a network of franchises, for example. Management contracts separate ownership of the tourism assets from their management, and this helps to fragment the value chain.

absorptive capacity of local markets and availability of local resources.[15] In general, transnational corporations combine these mechanisms in order to match their interests to the conditions in the recipient country (Endo, 2006, p. 602). In the last few years, tourism firms, especially hotel companies, have opted principally for mechanisms that do not involve trading equity. Underlying this strategy are a number of factors.

- Some of the critical competitive advantages of tourism companies, especially in the hotel industry, are based on intangible assets such as global brand recognition, access to and use of global booking systems and business know-how.
- Most of these intangible assets are separable from tangible assets —such as property— and can be protected through contracts or other legal means. This has made it possible to set up management, leasing and franchise agreements without the need to own a stake in real estate outside a company's home country.
- These mechanisms help to manage the relatively high equity-to-debt ratio typical in the hotel industry by separating management risk from investment risk. In the hotel sector, these modalities substantially reduce the onerous burden of capital investment in land, buildings and equipment. This dynamic has also been driven by the entry into the tourism industry of firms from other sectors —construction companies, financial entities and real estate firms— as financial partners attracted by its profitability (Ramón Rodríguez, 2002c, p. 34).
- Generally speaking, contracts in the tourism business can be sufficiently detailed to cover the key aspects of an operation. In the hotel industry, for example, contracts can specify particular elements associated with a brand, as well as the design, style and layout of a hotel, the size and equipment of rooms, and the details of additional facilities such as swimming pools or car parks, gymnasiums, golf courses and marinas. These contractual clauses can ensure that the value and reputation of a brand is protected whoever owns the property where the particular hotel operates (UNCTAD, 2007, p. 37).
- Lastly, the more liberal a country's national regulations, the more choice of modes of entry a company will have.[16]

FDI in the tourism industry has one very particular trait: control can be separated from ownership of real estate assets. The industry therefore has unique features in comparison with manufacturing, since firms can reap the benefits of internationalization without having to invest directly in physical assets like land, buildings and other facilities (Dunning and McQueen, 1993, p. 268). Once the location is chosen, the competitive advantage for tourism TNCs comes from factors that are distinct from real estate, such as intangible assets and logistics skills that reduce the transaction cost of entry into a new market; experience with known groups of customers and suppliers; and links with related activities, such as reservation systems and airlines (Bardham and others, 2008, p. 7). This occurs in the case of different hotels around the world that operate under the name of international chains: only a small fraction of the plant belongs to the TNC that owns the brand. In fact, a local investor, with or without experience in the hotel sector, can buy land and build a hotel complex for a foreign company to manage.

There is no clear mapping of the extent of FDI in tourism, even though it is one of the world's largest industries. Little is known about the full economic dynamics of tourism and there are large gaps in understanding of its patterns and effects (UNCTAD, 2007, p. 7). To make matters worse, there is a shortage of statistical information and even less is known about the tourism industry's impacts in the form of linkages and spillovers.[17]

The statistical problems fall into two main categories. The first is the wide range of activities that tourism covers (transportation, hotels and restaurants, tour operators, travel agents, financial services, among others), which makes it almost impossible to compile standardized FDI statistics in tourism at the international level (Endo, 2006, p. 600). In reality, international statistics on FDI in tourism do not generally exist and such statistics as are available are incomplete or not comparable. The second is that, since TNCs prefer non-equity mechanisms for international expansion, the official statistics do not record their international ventures as FDI, which leads to underestimation of foreign investment and tourism-related activities in recipient economies. TNCs can actually acquire a high degree of control or influence over local firms through non-equity mechanisms, and this aspect should be taken into account when analysing FDI in the industry.

Despite these difficulties, there are a number of stylized facts that may help to define the basic trends in tourism-related FDI and TNCs.

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[15] Factors that influence the choice of ownership structure or contractual relation include quality control, capacity to coordinate with headquarters, the recipient country's FDI policy and political and economic stability (Dunning and Kundu, 1995).

[16] In the past, many developing countries had a strong preference for control of assets, including hotels. They therefore preferred local ownership or the formation of joint ventures with foreign investors.

[17] There have been efforts to create a common analytical framework, such as the development of Tourism Satellite Accounts, for measuring the impact of tourism-related activities in different countries. However, these efforts are unlikely to solve the problems of generating and comparing FDI data in the industry.

- In many countries, tourism is the largest industry, yet one of the least globalized. Rather counterintuitively, FDI in tourism is quite small, especially compared with that in other economic activities. Although tourism-related FDI has increased significantly in the last few years, direct investment abroad in the industry accounts for less than 2% of total outward investment stock for most developed countries, where these resources largely originate.[18]
- FDI tends to be found in only a small number of activities in the tourism industry's large value chain, mainly in the hotel segment (Endo, 2006, p. 605). Little FDI is seen in other major activities, such as those relating to tour operators, booking systems and airline companies.[19]
- FDI in tourism has gone mainly to developed countries. In fact, almost 90% of hotel TNCs are located in developed countries, with only a very small proportion of their operations in emerging economies (UNCTAD, 2007, p. 14).
- Nevertheless, tourism-related FDI in developing countries is on the rise. Recently, the emerging economies have been capturing close to 90% of FDI in the industry (OECD, 2008c, p.13). The significance of FDI inflows in tourism remains marginal for many countries, as do tourism-related outflows from developed countries (Endo, 2006, p. 610).
- Among the developing countries, tourism investors are tending to prefer those in Asia and Latin America and the Caribbean.[20] In the next few years, Asia may gain in significance in this regard since it accounts for over 80% of resources devoted to expansion plans (UNCTAD, 2007, p. 27).
- As in the industrialized economies, most tourism FDI inflows into developing countries go to the hotel segment (UNCTAD, 2007, p. 22).

These findings are particularly interesting because they help to dispel the myth that FDI in tourism is a widespread phenomenon that is making the industry highly globalized. This perception has been spread by the broad presence of international hotel brand names in practically every country in the world. The reality, however, is that tourism-related TNCs are not as global as those in other industries (Endo, 2006, p. 601). There are no hotel chains among the 100 largest TNCs (UNCTAD, 2008, pp. 220-222). In fact, even when non-equity mechanisms —management and leasing contracts and franchises— are included, transnational firms have a fairly minor presence in tourism (UNCTAD, 2007, p. 14). Instead, in most cases, the tourism industry is dominated by local investors, including SMEs.

Nevertheless, FDI in tourism may be relatively low, but this does not means that tourism-related TNCs are unimportant. Almost 80% of the global mass tourism market is handled in some way by transnational firms (Schulte, 2003, p. 22). And the related FDI inflows may be crucial for many developing countries, regardless of the absolute volume of those resources.

In short, in tourism-related activities, since it appears to be relatively easy to protect competitive advantages through contracts, non-equity mechanisms are more prominent in TNC activities than conventional capital investments. The relatively small amounts of FDI in tourism do not mean, however, that those flows are not important. In fact, FDI could have a major impact on recipient economies, particularly in small countries. It must also be borne in mind that the information available probably understates quite significantly the true extent of TNC activities in the tourism industry. This FDI is especially important since TNCs could help the recipient countries to integrate into international tourism networks, increase the flow of foreign visitors and generate income from tourism-related activities.

(b) Hotel strategies: the heart of the value chain

The analysis of the tourism industry's internationalization will focus on the performance of the hotel chains. There are two main reasons for this: their importance in the industry's value chain and the fact that they represent the segment in which TNCs have the greatest presence.

In the last few decades the hotel industry has seen strong international expansion and rapid concentration, largely resulting from the dominance of the United States chains (see table III.2). Hotel companies in the United States were in fact the first to engage in major activities outside their home market, strongly underpinned by the development of commercial air travel connecting the world's major capital cities (UNCTC, 1982, p. 8). Later, technological progress in booking centres, liberalization of air transport, mounting capital market pressure —through REITs income— on the industry to increase profits, and a domestic market with great growth potential, helped to consolidate the global leadership of the United States chains. The success of the United States firms' strategy was based on broad recognition of the brand name, first locally then internationally, as they managed to attract customers and secure their loyalty (Ramón Rodríguez, 2007c, p. 39). In developing countries, especially in Latin America and the Caribbean, they took a similar route, focusing on the corporate segment in major cities then diversifying gradually into the vacation business.

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[18] Globally, the United Kingdom and the United States are the largest originators of tourism FDI. These activities represent a tiny fraction of both countries' total outward FDI stock, however: just 2.7% in the United Kingdom and 1.2% in the United States (UNCTAD, 2007, p. 19).

[19] Although these activities have a large impact, they rarely involve FDI or the physical presence of a TNC. In addition, in many countries, foreign firms are not allowed to own stakes in the air transport industry.

[20] The main international hotel chains with activities in developing countries have most of their operations in Latin America and the Caribbean, followed by Asia-Pacific and the transition economies in Europe and North Africa.

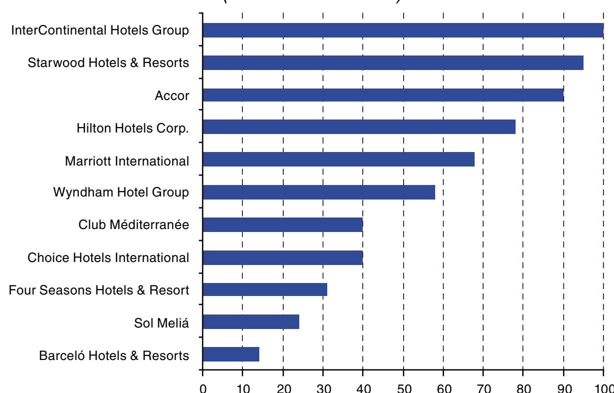
Table III.2
WORLD'S LARGEST HOTEL CHAINS, BY NUMBER OF ROOMS, 2007

	Firm	Country of origin	Number of rooms	Number of hotels	Percentage of hotels abroad
1	InterContinental Hotels Group (IHG)	United Kingdom	585 094	3 949	…
2	Wyndham Hotel Group	United States	550 576	6 544	14.0
3	Marriott International	United States	537 249	2 999	14.0
4	Hilton Hotels Corp.	United States	502 116	3 000	19.5
5	Accor	France	461 698	3 871	64.4
6	Choice Hotels International	United States	452 027	5 570	20.2
7	Best Western International	United States	308 636	4 035	56.3
8	Starwood Hotels & Resorts Worldwide	United States	274 535	897	48.2
9	Carlson Hotels Worldwide	United States	146 600	969	…
10	Global Hyatt Corp.	United States	135 001	721	…
11	Westmont Hospitality Group	United States	108 503	703	…
12	Golden Tulip Hospitality Group	Netherlands	86 585	944	…
13	TUI AG / TUI Hotels & Resorts	Germany	83 192	288	…
14	Extended Stay Hotels	United States	76 384	686	…
15	Sol Meliá S.A.	Spain	75 022	301	53.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Hotels Magazine, *Corporate 300 Ranking*, July 2008 [online] www.hotelsmag.com, and information provided by the companies.

Overall, the leading hotel chains have gained a major international presence (see figure III.3). Yet this presence is not as significant as might be supposed. In fact, these firms represent little more than a fifth of the global hotel offer. In other words, the industry remains quite fragmented and small independent hotels continue to account for a very considerable part of it (Endo, 2006, p. 603).

Figure III.3
INTERNATIONAL PRESENCE OF SOME OF THE WORLD'S LARGEST HOTEL CHAINS, 2007
(Number of countries)



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

At the same time as urban hotel services were developing, mass tourism was springing up thanks to the advent of charter flights and the establishment of regular medium- and long-haul air routes to sun, sea and sand destinations in the Mediterranean and, later, in the Caribbean, as well as the lower cost of air travel. At first, this new segment was of little interest to the international hotel chains and this gave emerging tour operators the opportunity, jointly with local investors who were relatively inexperienced in the hotel business, to compete successfully to provide accommodation services in holiday destinations. The industry developed quickly, using standardization and economies of scale to structure sun, sea and sand tourism services into low-cost packages and, ultimately, to develop the all-inclusive model (Lillo, Ramón and Sevilla, 2007, p. 49). This is the background to the emergence of the world's best known vacation chain, the French company Club Méditerranée, or Club Med (see box III.1).

Initially, high entry barriers meant that the holiday segment was much more fragmented than that of urban business hotels, with a great number of small and medium-sized hotel operators. But as new destinations emerged and markets opened up, especially in Asia and Latin America and the Caribbean, the picture began to change. The holiday segment underwent a rapid process of consolidation and concentration, spearheaded by hotel companies from countries that were already leaders in sun, sea and sand tourism, such as Spain. This concentration was then intensified by these companies' active international expansion strategies, particularly in Mexico and the Caribbean (see box III.2). Some of the leading companies in this process have been Sol Meliá, Barceló Hotels & Resorts, RIU Hotels, Iberostar and Occidental Hotels. Sol Meliá, which currently occupies fifteenth place in the ranking of the largest chains (see table III.2), has become the world's largest holiday hotel group (Álvarez, Cardoza and Díaz, 2005, p. 107).

Box III.1

CLUB MED: THE ORIGIN OF A BUSINESS MODEL

Club Méditerranée, or Club Med, pioneered the modern-day concept of large all-inclusive hotel resorts. In the 1950s, two French entrepreneurs introduced the vacation club concept on the island of Corsica, and they later replicated it in the Balearic Islands of Spain and in Greece. From the beginning, the company introduced major innovations, such as original bar-consumption payment methods.

In 1968, Club Med opened its first resort on the island of Guadeloupe, which allowed it to attract customers from the United States. In the 1970s, the company expanded to Asia (Malaysia), Australia, South Africa and South America and inaugurated a resort on the Brazilian island of Itaparica. Subsequently, its operations expanded continually. By the late 1990s, Club Med faced increasingly stiff competition from other hotel chains that had replicated and refined its original model. In response, and in an attempt to expand its presence in the vacation-package market, it acquired France's fourth largest tour operator, Jet Tours.

In 2004, France's largest hotel chain, Accor, acquired a 29% stake in Club Med, becoming its largest shareholder, in an effort to generate synergies between the two companies. However, this plan was unsuccessful and two years later Accor sold much of its interest in Club Med. Accor currently has a 6% stake, through which it is party to a shareholders' agreement with Caisse de Dépôts et de Gestion du Maroc and Air France-KLM, which have a 10% and a 2% stake, respectively (Club Med, 2008, p. 13). During this period, Club Med attempted to reposition itself in the highest market segment, with an all-inclusive arrangement in the high-end, guest-friendly and multicultural sector. To this end, it made important divestitures, particularly in Europe, in order to improve its financial position and Club Med sold Jet Tours to Thomas Cook for 70 million euros. In addition, the company embarked on a process to upgrade its existing resorts and, in late 2008, announced that it would invest some US$ 530 million to remodel its facilities throughout the world.

Club Med currently has 80 resorts in close to 40 countries in Europe, Asia, Latin America and the Caribbean, as well as the United States, all operated under the same brand (ClubMed, 2008, p. 21). The company's growth has been based primarily on direct investments, since it has financial control of most of its properties (34% of which it owns, while it leases 57%, with the remaining 9% operated under management contracts).

In Latin America and the Caribbean, Club Med has one resort in the Bahamas, three in Brazil, two in Mexico, one in the Dominican Republic and one in the Turks and Caicos Islands. In late 2008, after investing more than US$ 65 million, Club Med reopened its complex in Punta Cana, the Dominican Republic, which had been known as one of the world's leading family tourist resorts since it first opened in 1982.

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

Box III.2

SPANISH HOTEL CHAINS: PIONEERS IN "SUN, SEA AND SAND" PACKAGES IN LATIN AMERICA AND THE CARIBBEAN

At the first sign of saturation of the domestic tourism market, Spanish hotel chains began to invest outside their country so as to diversify their range of products. This initially involved a small group of companies that focused on the vacation segment and relied primarily on the foreign direct investment (FDI) model to gain access to new markets. Starting in the mid-1990s, the favourable economic situation and competitive position of these groundbreaking companies prompted other hotel chains to follow suit. The range of products continued to revolve mainly around vacation packages, preferably through management contracts. Especially important was the "all-inclusive" concept, promoted mainly by the leading international tour operators, which clearly preferred Latin American destinations. Since 2000, following the example of other Spanish companies with a strong presence in Latin America, the hotel companies ventured into investments in Europe and the United States, mainly through the acquisition of local chains of city hotels, allowing them to further diversify and reduce dependence on the vacation segment.

Spanish chains have expanded internationally mainly to increase their bargaining power with tour operators. Indeed, one of the hallmarks of mass sun, sea and sand tourism is the solid partnerships hotel chains have formed with tour operators. Hence, the strong consolidation of the package-tour retail market, along with the pressure this placed on providers of vacation-accommodation services to be competitive, forced Spanish companies to expand their international presence (Ramón Rodríguez, 2002c, p. 39).

When vacation hotel chains first set about expanding their international presence, they focused on a small number of destinations in order to increase their penetration and thereby build synergies between their familiarity with the market and their marketing efforts. As the internationalization process moved forward, these hotels began to diversify their services geographically, enabling them to strengthen their position vis-à-vis tour operators and reduce their reliance on the performance of a given destination. In addition, hotel chains began to expand their existing facilities and to build new, large-scale complexes, with a variety of hotels targeting different market segments.

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

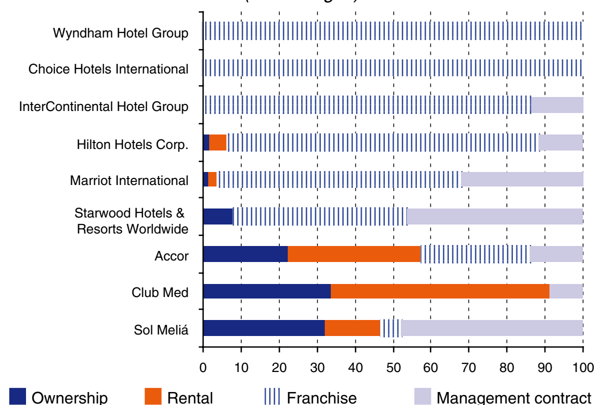
Shortly afterwards, some of the main domestic sun, sea and sand tour operators also embarked on active international expansion plans. These included Pestana and Vila Galé of Portugal (ECLAC, 2007a, p.179), the Mexican group Posadas and the Jamaican firms SuperClubs and Sandals.

The company's or investor's country of origin strongly influences where and how foreign investment in tourism occurs (Bardham and others, 2008, p. 8). In Latin America and the Caribbean there has been a strong geographical specialization. Spanish firms have preferred the Spanish-speaking Caribbean countries (Cuba and

the Dominican Republic) and Mexico; Portuguese and Mexican firms have opted for different segments of the Brazilian market;[21] Jamaican companies have invested in other Caribbean islands; and United States companies have targeted the Pacific coast of Mexico and some Caribbean islands, including Aruba, the Bahamas, Puerto Rico and Saint Kitts and Nevis. After consolidating their position in those markets, these companies then set their sights on other destinations, which has blurred the strong original specialization.

In general, investors in the hotel segment have opted to base their international expansion plans on management, leasing and franchise contracts, sometimes combined with minority capital shares.[22] The decision to invest equity in tangible assets —properties— has often been taken basically to secure a unique property in an exceptional location, providing that there is a strong legal system to protect property rights (UNCTAD, 2007, p. 39). The extent to which investors use a particular modality also depends on the origin of the hotel chain. United States firms are much more likely to use franchises than European ones, for example, which has contributed to the supremacy of the United States chains in the global hotel industry (Hjalager, 2007, p. 446) (see figure III.4).[23] The large United States chains, which target the urban segment, have built up vast franchising experience, first in their home market, where they achieved broad brand recognition, then internationally. In emerging markets, the United States brands have shown greater profitability than domestic providers (Bardham and others, 2008, p. 9). When they first started to expand abroad, European chains preferred to have an equity stake in their foreign subsidiaries, especially in developed countries (Dunning and McQueen, 1993, p. 256). Later, they began to use non-equity means of broadening their international presence.[24]

Figure III.4
OWNERSHIP MECHANISMS OF SOME OF THE MAJOR INTERNATIONAL HOTEL CHAINS, 2007
(Percentages)



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

Holiday hotel chains typically use franchising arrangements less than the chains that target urban and business segments (see table III.3). This distinction is particularly evident among the Spanish hotel companies. The Spanish holiday chains have found it more difficult to use franchises, since they have been unable to position such solid brands as the urban chains have. As well, due to the volume of activities —basically entertainment- and leisure-related— in holiday complexes, parent companies have found quality control more problematic there than in business-oriented hotels (Ramón Rodríguez, 2002c, p. 40).

In the light of these considerations, the growing presence of "global hotel brands" could be rather misleading, especially as regards the magnitude and significance of FDI in the industry. It is estimated, in fact, that only 20% of hotel TNCs have an equity stake in their subsidiary hotels abroad, of which approximately half are joint ventures (UNCTAD, 2007, p. 35). Nevertheless, the capital contribution and popularity of the large hotel chains act as economic leverage for other investors, guarantee projects a certain degree of viability and arouse interest in related activities that can help to enhance the tourism product (UNWTO, 2002, p. 83). The entry of those firms helps to create the conditions for new business opportunities for smaller firms, which can expand by integrating some kind of related product into their activities.

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[21] The Mexican group Posadas has focused on the corporate segment, with six hotels in Sao Paulo, two in Rio de Janeiro and two in Belo Horizonte, under the brand names Caesar Park Hotels & Resorts and Caesar Business Hotels.

[22] In the hotel industry, management contracts are the closest arrangement to a shareholder agreement in which the foreign firm has control of local operation. The hotel TNC has less influence in cases where a local investor with experience in the sector holds a franchise. Even where franchises are used, however, there are mechanisms —such as access to the Global Distribution System (GDS), which gives investors access to the international tourism market— that increase the international hotel chain's control over the local investor's behaviour and performance.

[23] In 2007, over 85% of the hotels in the United States chains Wyndham Hotel Group, Hilton Hotels Corp., Marriott International and Choice Hotels International and the British chain InterContinental Hotels Group operated under franchise schemes (*Hotels Magazine,* 2008).

[24] In the early 2000s, more than three quarters of hotel establishments in North America operated under franchise agreements, while 12% operated under management contracts and 12% were operator-owned. In Europe, the distribution is more even: 42% are franchised, 33% owner-operated and 25% run under management contracts. In Asia, management contracts are the most common, with 54%, followed by owner-operation (35%) and franchises (11%) (Ramón Rodríguez, 2002c, p. 43).

Table III.3
CHAINS OF CITY OR BUSINESS HOTELS AND VACATION HOTELS: DIFFERENCES IN INTERNATIONAL EXPANSION PROCESSES

Chains of city or business hotels	Chains of vacation hotels
Tracking of local customers	Tracking of customers in the main origin markets of Europe and the United States
Emergence of new business centres	Consolidation of distribution structure of organized tours
Increase in business travel	Maturity of vacation packages (all-inclusive scheme) and deseasonalization of the activity
Heightened importance of brand image	Strengthening of business position vis-à-vis tour operators
Marketing through the Global Distribution System (GDS) and Computer Reservation Systems (CRS)	Marketing through tour operators
Extensive franchising as means of international expansion	Little use of franchises for international expansion
Location strategy targeting major world capitals	Location strategy in sun, sea and sand destinations with suitable access infrastructure
Aggressive marketing and customer loyalty campaigns	Marketing and promotion strategies led by tour operators
Horizontal integration strategies through productive segmentation or branding	Growing vertical integration
Growth through mergers and acquisitions	Little mergers and acquisitions activity
Trading on stock markets	Little stock market presence; capital raised through financial partners
Intensive international competition	Sector internationally fragmented and segmented; increasing use of niche strategies

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. Ramón Rodríguez, "Principales determinantes de la internacionalización hotelera española", document presented at the round table on impacts of the internationalization of the Spanish hotel companies on the competitiveness of local destinations, held during the eleventh International Tourism Forum, Benidorm, 13 and 14 March 2007.

In the 1990s, this model went into crisis, as traditional sun, sea and sand destinations reached maturity and overdevelopment and excessively price-driven strategies led to infrastructure deterioration and environmental degradation. Another factor was increasingly sophisticated and exacting demand from customers. In addition, the liberalization of air transport brought down airfares and facilitated access to new, more distant locations. Sun, sea and sand markets came to be seen as unviable in the long term, particularly among the European destinations in the Mediterranean (Knowles and Curtis, 1999).

The tourism market has thus become increasingly segmented as firms have attempted to satisfy the diverse needs and interests of consumers. With demand growing more sophisticated and income levels rising, less standardized vacation options are becoming more common, as firms seek to cater to different segments for whom environmental and safety considerations are of mounting importance. A key driver of this trend has been the integration of new technologies, such as the Internet, into the tourism industry, as well as the active role being played by new entrants such as construction companies, real estate firms and financial entities.[25] Thus, new tourism developments are beginning to spring up and integrated hotel and real estate complexes are becoming a more and more common alternative.

This sort of hotel and real estate venture is especially attractive for real estate developers and investors. First of all, such projects diversify income sources by combining inflows from property management (hotels) and from real estate sales (vacation homes). This formula is also a good way to lower the capital investment and recoup it more quickly. Association with a prestigious luxury hotel brand also adds a premium to the selling price of the residential property. Second, the project master planners have a great deal of flexibility for structuring the business. They can create joint ventures or offer land parcels, usually known as mega-plots, to other developers or investors. Third, a well-designed master plan with high-quality basic infrastructure allows the project to be rolled out in stages, bringing in new investors or increasing the capacity of the facilities as and when the demand arises. Lastly, increasing government support —particularly in Latin America and the Caribbean— for these mega-projects confers high levels of legal certainty and statutory benefits, especially for investors, real estate developments and individual buyers.

Integrated hotel and real estate developments are also one of the more explicit manifestations of today's segmented tourism industry, in which tourists and buyers have major benefits. First, such developments offer environments with levels of security and privacy that individual residential complexes cannot readily match. Second, they offer a broad array of leisure

25 For United States real estate firms specializing in the hotel industry, foreign operations are beginning to be as attractive or more attractive than those in the home market. The reasons for this include domestic market saturation, the sharp increase in property prices and the subprime mortgage crisis in the United States and the need to diversify risk (Bardham and Kroll, 2007, p. 11).

and entertainment facilities within a particular area, including beach activities, water sports, golf courses[26] and marinas, as well as health and wellness services. Residents also have access to hotel facilities and services. Third, these developments supply quality infrastructure such as drainage systems, water treatment plants, access roads and underground cabling, that gives property owners a degree of independence from local utility providers.

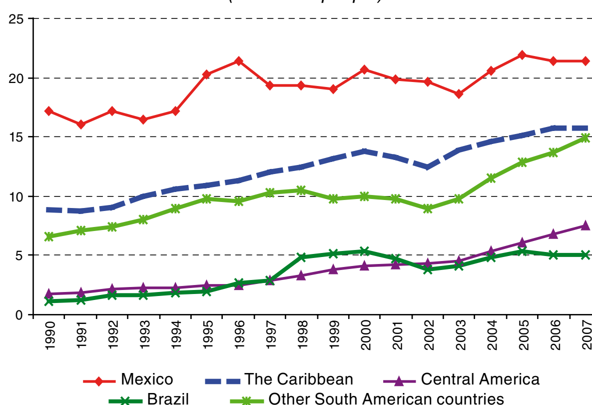
In short real estate or residential tourism can have massive potential for the host economy, since it can drive such activities as construction, agro-industry and manufacturing, as well as tourism-related services. It can also be a major source of foreign exchange.

C. Latin America and the Caribbean: phased development

The tourism industry is configured in many different ways in Latin America and the Caribbean, especially in sun, sea and sand destinations. On the one hand, Mexico has built up a robust tourism industry based on its proximity to the United States and a rich array of geographical and cultural alternatives. With strong government support, early on Mexico became the region's main destination for foreign visitors and investors and produced powerful homegrown groups (see figure III.5). On the other hand, the natural landscapes of many Caribbean countries and territories have become a magnet for international tourism. The larger islands hosted a multitude of all-inclusive-type developments aimed at mass tourism, while the smaller islands became more exclusive destinations. Lastly, Central America and Brazil have recently swelled the Latin American tourism offer with new initiatives in coastal areas, focused on high-income visitors.

All these destinations have different types of hotel offer, from small hotels and inns to exclusive luxury hotels, passing through various sorts of all-inclusive models. Recently, though, a new and growing phenomenon has been attracting much of the investment effort of the different agents involved in one way or another in tourism: projects that combine hotel infrastructure, real estate developments and related leisure facilities, such as golf courses. In this segment, the hotel chains have combined local and external sources to mobilize great volumes of financial resources. Seeking to move away from mass tourism and ease pressure on the natural environment, developers have opted for low urban density and low environmental impact projects, aiming at a high-end, developed-country market, basically in the United States and Canada and, to a lesser extent, Europe. A number of the internationally prestigious hotel chains have been attracted to the region by these developments, and all-inclusive chains have set about upgrading their facilities and incorporating some of the services that more demanding potential visitors may require (see table III.4).

Figure III.5
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL TOURIST ARRIVALS, 1990-2007
(Millions of people)



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

[26] Golf is one of the most promising products because of its direct impact on income and its contribution to the development of high-end tourism. It also helps to diversify and deseasonalize the tourism offer. There are some 60 million affiliated golfers in the world, of whom 32 million are in the United States. Over 40% of United States players travel more the nine times per year to play, normally in spring and autumn, in other words outside the traditional high season. For United States golfers, almost 30% of these trips are international.

Table III.4

MAIN SUN, SEA AND SAND HOTEL CHAINS WITH A PRESENCE IN LATIN AMERICA AND THE CARIBBEAN, BY SEGMENT, 2007 [a]

(Number of establishments)

	Origin	Mexico	Dominican Republic	Jamaica	Cuba	Jamaica	Other Caribbean destinations	Central America	Brazil	Total
High-end chains		14	6	1	-	1	16	3	-	40
Rosewood Hotels & Resorts	United States	2					3			5
Four Seasons Hotels and Resorts	Canada	2					2	1		5
One & Only Resorts	United States	1					1			2
Wyndham Hotel Group	United States	2	6				1			9
Marriott Hotels & Resorts [a]	United States	3					6	1		10
JW Marriott [a]	United States	2						1		3
The Ritz Carlton [b]	United States	1		1		1	3			5
St. Regis Resort [c]	United States	1								1
All-inclusive chains		42	31	4	38	21	11	11	41	199
Club Méditerranée	France	2	1				2		3	8
Sol Meliá	Spain	10	5		26			4	20	65
Barceló	Spain	11	10		3			6		30
Iberostar	Spain	8	5	1	5	1			3	23
RIU Hotels & Resorts	Spain	11	9	3	2	3	2			30
Pestana Hotels & Resorts	Portugal								10	10
Vila Galé Hotéis	Portugal								3	3
SuperClubs	Jamaica		1		2	10	2	1	2	18
Sandals	Jamaica					7	5			12
Total		56	37	5	38	22	27	14	41	239

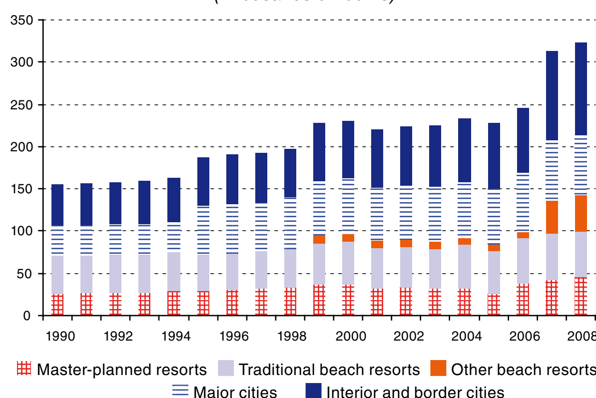
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the companies.
[a] The shaded sections show where the different hotel chains' operations are largely concentrated.
[b] Subsidiaries of Marriott International.
[c] Subsidiaries of Starwood Hotels & Resorts.

The following pages will look at how these new hotel and real estate complexes have been formed. In view of information the constraints that arise from the complexity of the different combinations of economic agents involved and the coexistence of different models within countries and across the region, the analysis will focus on the hubs where this phenomenon is unfolding.

1. Mexico: a new destination for high-income baby boomers

Mexico is one of the world's 10 main tourism destinations and the largest market in Latin America and the Caribbean, with over 21 million international visitors in 2007 (UNWTO, 2008c) (see figure III.5). The hotel offer of the major tourism centres has more than doubled in the last 20 years, from 155,000 rooms in 1990 to 323,000 in 2008 (see figure III.6). In the last decade, however, the Mexican tourism industry has shown some signs of losing competitiveness, slipping down the table of the world's top tourism destinations. In 2007 Mexico was in tenth place, down from seventh in 2000.

Figure III.6
MEXICO: HOTEL OFFER OF THE MAIN TOURIST RESORTS, 1990-2008
(Thousands of rooms)



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

The loss of momentum in the Mexican tourism industry has been caused by multiple factors, including its heavy dependence on the United States market and the impact on that market of the terrorist attacks of 11 September 2001 and the recent economic downturn. Other important factors are the frequency of hurricanes in the Caribbean region and certain indications of overdevelopment in some of the main Mexican tourism centres, which could be discouraging potential visitors and turning them to other destinations in the Caribbean and Asia.

Tourism has been one of the key drivers of Mexico's domestic economy in recent years. Today the industry generates almost 8% of GDP and 5% of employment, as well as being the country's third largest source of foreign exchange after oil and remittances from Mexicans residing abroad. In 2007, Mexico received US$ 12.9 billion dollars in tourism-related income, which places it seventeenth in the world in this indicator (UNWTO, 2008c). Tourism has also helped to even out the balance of payments situation in the wake of the voluminous negative balances produced by manufacturing. For all these reasons, the federal government continues to promote tourism energetically, in an effort to make up for the loss of market share of the last few years.[27] In this regard, the National Development Plan 2007-2012 is aimed at broadening and diversifying the sun, sea and sand tourism product by upgrading existing resorts and developing new ones.

Mexico has three main groups of sun and sea tourism destinations. First are its master-planned resorts, which were developed by different federal and local government bodies to stimulate local and regional development. In the 1970s, the National Trust Fund for Tourism Development (FONATUR) began to spearhead large-scale tourism projects in little-developed areas of Mexico in order to capture a share of the growing international mass tourism market.[28] The first of these initiatives was developed in Cancun, followed by others at Huatulco, Ixtapa, Loreto and Los Cabos (see map III.I). Other master-planned resorts have been built more recently at Nayarit and Teacapan, as well as the Costa Maya development, which was planned to cater essentially to high-income visitors.[29] Second are those destinations viewed as more traditional, which grew up relatively spontaneously and were not created or planned by government agencies, although the federal government has supported and contributed to the development of some of them. This group includes a number of Pacific coast resorts, such as Acapulco, Puerto Vallarta, La Paz, Manzanillo, Mazatlan and the port of Veracruz on the Gulf of Mexico. Lastly, Mexico's tourism offer includes other beach locations such as Costalegre, Ensenada and

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[27] The National Tourism Board was created in the early 1960s, and the Secretariat of Tourism and the National Trust Fund for Tourism Development (FONATUR), the executive arm for planned tourism developments, in the mid-1970s. The Mexican Council for the Promotion of Tourism was established in 1999.

[28] In the last 30 years, the main mission of FONATUR has been to provide the basic infrastructure and contribute to the legal certainty that are crucial for the success of tourism schemes, as well as sourcing financial resources for the private investors who have developed them. Since it was created, FONATUR has invested over US$ 2.2 billion, which has leveraged private investment of over US$ 15 billion. See [online] http://www.fonatur.gob.mx/es/fonatur/mensaje.asp.

[29] The creation of the Teacapan master-planned resort in the State of Sinaloa was announced in late 2008. The government has committed US$ 450 million in public investment to this project, which is expected to leverage some US$ 6.6 billion in private investment. The capacity of the new resort has been estimated at 16,850 hotel rooms and 16,350 vacation homes (*El Debate*, 24 November 2008).

Puerto Escondido, also on the Pacific coast. Also part of Mexico's tourism offer are some of its major cities, such as Mexico City, Guadalajara and Monterrey, as well as some border and interior towns, which possess a rich and varied cultural heritage.

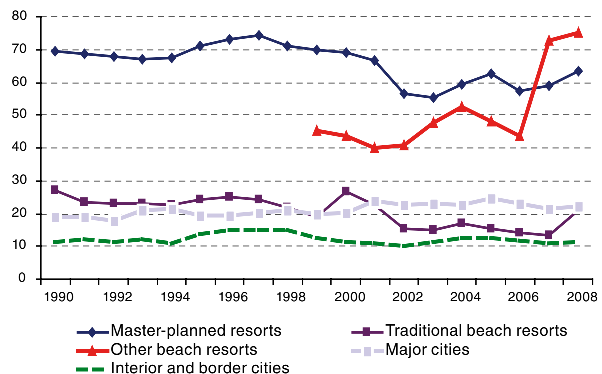
Cancun is Mexico's best known resort today. Its growth has stimulated development in neighbouring areas, such as Riviera Maya, Cozumel and Isla Mujeres. Combined, the surrounding markets have a larger hotel offer than Cancun, which is evidence of the success of the policy implemented by FONATUR. In fact, government support has served as a catalyst for private investment.

Map III.I
MEXICO: MASTER-PLANNED RESORTS

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the National Trust Fund for Tourism Development (FONATUR).
Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

In the last few years, Mexico's offer of tourism-related real estate has seen major growth and diversification. To the traditional vacation hotels, many of which operate as all-inclusive schemes, have been added integrated multipurpose hotel and real estate mega-projects, which may include luxury hotels, condominiums, timeshare complexes, vacation homes, marinas, golf courses, wellness centres, haute cuisine restaurants and shopping centres. The more exclusive destinations even have private airfields. Recently, much of the investment in tourism-related real estate in sun, sea and sand destinations has gone to this type of development.

Figure III.7
MEXICO: PROPORTION OF FOREIGN TOURISTS IN TOTAL HOTEL OCCUPANCY IN THE MAIN TOURIST RESORTS, 1990-2008
(Percentages)



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

Today, the main sun, sea and sand resorts possess a hotel offer of 143,000 rooms, of which the largest numbers are located in the master-planned resort of Cancun (27,385 rooms), Los Cabos (9,650) and Ixtapa (4,970) and the traditional destinations of Acapulco (16,434), Puerto Vallarta (10,598), Veracruz (8,866) and Mazatlan (8,568) (see figure III.6). There is a clear difference among resorts as regards domestic and international visitors. Domestic visitors show a preference for the traditional tourism centres in the States of Guerrero and Jalisco (Acapulco and Puerto Vallarta), foreign visitors for the new destinations in the States of Quintana Roo (Cancun and Riviera Maya), the Los Cabos corridor (Baja California Sur and Sonora) and Nayarit (Nuevo Vallarta, Punta Mita) (see figure III.7). United States tourists form the majority, although a greater diversity is beginning to be seen on the Caribbean coast, with larger numbers of European and Latin American tourists. The differences between domestic and international tourism are driven by geographical proximity, access to infrastructure (airports and roads), the larger supply of hotel facilities and price.

The attraction of natural landscapes, climate and culture, lower land prices and cost of living, the geographical proximity to the western, southern and central parts of the United States, good infrastructure and services provision and greater guarantees for foreign buyers[30] have positioned Mexico very well. In addition, baby boomers, mainly from the United States, are acting as key drivers of demand for these high-end tourism destinations.[31] Apprehension over

[30] Legislation on real estate and foreign investment protection has undergone major reform. Foreigners are now allowed to buy real estate within particular areas —a strip within 50 kilometres of the beach and another 100 kilometres from the borders— through a trust set up by a Mexican bank. Under the Foreign Investment Act of 1994, such trusts have a life of 50 years and can be renewed at any point upon request. The legislation also allows the sale, transfer or lease of the property at any time. Mortgage loans are available for foreign buyers, as is property title insurance issued by United States firms.

[31] The first of the 80 million baby boomers in the United States turned 62 in 2008. Many of them will be making plans for their retirement, including moving to another area, buying a second home or simply travelling more often. In fact, according to the United States real estate company Del Webb Corporation, over 50% of baby boomers are planning to move when they retire.

long-distance travel following the events of 11 September 2001 has also contributed to this trend (*NotiTur*, 2007a, p. 16). Baby boomers who, until a few years ago, would tend to have bought homes in Florida or California, have been pushed by the overpopulation and steady rise in real estate prices in those States to seek other alternatives, and Mexico is an obvious choice. Over a million United States citizens are estimated to have acquired a second home in Mexico, either through a timeshare scheme or by buying it outright (*El Economista*, 1 October 2007). In 2008, for the second year running, Mexico was ranked the best retirement location in the world for United States citizens (*International Living Magazine*, 31 August 2008).

As a result, multiple large-scale projects are changing the landscape of Mexico's coasts (see table III.5). The interest of investors in the industry is shifting from mass tourism developments to real estate ventures for a high-end market, in other words, a type of tourism adapted to the needs of the traveller. In this context and given the sheer scale of these undertakings, new actors have begun to displace the international hotel chains from the lead role they played in the past, particularly in terms of financial commitment. Real estate and construction companies, various sorts of financial entities and institutional and individual investors are becoming the main links in these mega-projects, of which a good example is the Mayakoba development in Riviera Maya (see box III.3). In order to facilitate this process, the Mexican authorities created an instrument called Infrastructure and Real Estate Trusts (known by the Spanish acronym FIBRAS). These instruments are inspired by the REITs in the United States market and are designed to capture venture capital to fund large-scale real estate projects in tourist areas.[32] The ownership of many of these large developments is thus quite spread out, which makes it difficult to identify individual investors.

Table III.5

MEXICO: MAIN HOTEL AND REAL ESTATE DEVELOPMENTS IN OPERATION, 2008

Location/project	Main features
Cancun / Riviera Maya	
Mayakoba	5 luxury hotels: Fairmont, Rosewood, Banyan Tree, Viceroy and Raffles (649 rooms) 197 homes 18-hole golf course
Playacar	18 hotels: 3 hotels (RIU, Iberostar and Holiday Inn), 2 Wyndham hotels (5,186 rooms) Vacation homes 18-hole golf course
Puerto Aventuras	5 hotels: Omni, Sunscape, Catalonia, 2 Porto Bello (2,899 rooms) 900 homes 18-hole golf course
Playa Mujeres	3 luxury hotels (Hotel Excellence) (672 rooms) 2,400 homes 18-hole golf course Marina
Los Cabos	
Palmilla	1 luxury hotel (One and Only) (172 rooms) 1,300 homes 27-hole golf course
Cabo del Sol	2 hotels (537 rooms) 1,700 homes 2 18-hole golf courses
Punta Ballena	Luxury hotel (50 rooms) 137 homes
El Dorado	192 homes 18-hole golf course
Querencia	172 homes 2 18-hole golf courses
Pacific coast	
Punta Mita	2 luxury hotels: Four Seasons and Saint Regis (293 rooms) 350 homes 2 18-hole golf courses
Nuevo Vallarta	15 hotels (RIU, Occidental, among others) (3,228 rooms) 1,500 homes 2 18-hole golf courses Marina
Flamingos Riviera Nayarit	Multiple hotels 2,934 homes 18-hole golf course
Tamarindo Costa Careyes	Luxury hotel: El Tamarindo Beach and Golf Resort (32 rooms) 150 homes 18-hole golf course
Isla Navidad Manzanillo	2 hotels: Wyndham and Grand Bay Hotel (210 rooms) 450 homes 18-hole golf course Marina

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

[32] The FIBRAS scheme raises funds through the issue of real estate participation certificates on the Mexican stock exchange.

Box III.3

MAYAKOBA: A NEW GENERATION OF INTEGRATED HOTEL AND REAL ESTATE DEVELOPMENTS IN MEXICO

The area known as Riviera Maya —from Cancun to Tulum— has traditionally offered a fairly standardized product with large (500-room) beachfront hotels, none of which are associated with luxury brands. These hotels operate under the all-inclusive model and charge an average nightly rate of US$ 100 per person. But 40 kilometres south of Cancun airport, one of the most interesting projects of Mexico's new, segmented and differentiated tourism has sprung up: Mayakoba.

This project arose almost unplanned in the wake of the merger of the Spanish construction companies Obrascón, Huarte and Lain to form the company now known as OHL. After nearly a decade of sitting idle, a 600-ha, difficult-to-develop land parcel, including two kilometres along the beach, originally owned by Huarte, became a lynchpin of the merged company's internationalization and diversification strategy. In addition, its peculiar trait —its mangroves— which in principle made it difficult to turn to commercial use, became one of its main distinguishing features.

The starting point was the opportunity arising from the buying power of baby boomers, in combination with their propensity to acquire second homes, and United States investors' preference for real estate assets at the top-end segment. To tap into this potential, the company set about designing a project that would stand out from the existing offer in Riviera Maya —and, in general, in Mexico— and would cater to the quality tourism market for high-income United States customers.[a] The master plan of the project showed internationally renowned, prestigious hotel brands located in the most exclusive segment; low building density; incorporation of and respect for the natural setting; and a canal-based internal transportation system. To conserve the beach environment, most of the infrastructure was placed behind the mangroves and the sand dunes, 500 metres from the shore —an innovative design for the Mexican coast. In addition to the sun, sea and sand product, it was essential to include a broad variety of alternative activities, most notably golf and health and wellness facilities. With these features and the support of a plan to market to clients directly —independently from tour operators— it was hoped to generate annual average hotel rates of over US$ 300 per day.

OHL sought hotel operators positioned in the high-end segment to bring the project to fruition. The management of the six hotels has been assigned to two chains from the United States (Rosewood and Viceroy), two from Canada (Fairmont and its subsidiary Raffles) and one from Singapore (Banyan Tree), with one still left to assign. By the end of 2008, Rosewood's and Fairmont's facilities were operating, while Banyan Tree, Viceroy and Raffles are expected to open their doors between 2009 and 2011. In addition, the construction of the El Camaleon 18-hole golf course was completed, and the Professional Golfers' Association (PGA) has held a yearly tournament there since 2007. The result is a resort surrounded by green areas and canals, with the hotel facilities extending inland and hidden by water and lush vegetation. Once construction has been completed, OHL will keep somewhat less than 50% of the equity in the establishments and will leave the management to specialized partners.

Although hotel activity is the core of the business, the venture envisions major real estate developments. Each hotel complex built by OHL will have dozens of vacation homes that will be put up for sale. In the environs of the Rosewood, Fairmont and Viceroy hotels, 40, 50 and 60 homes have been built, respectively, whose prices will be well over US$ 1 million (*Cinco Días*, 5 March 2008).

The total investment is expected to exceed US$ 1.6 billion, of which nearly half has now been made. In principle, a sixth hotel is planned, possibly to be run by the Canadian chain Four Seasons. Much emphasis will also be placed on developing commercial areas, and more top-end vacation homes might be contemplated, in addition to the construction of two new golf courses. Hence, Mayakoba has positioned itself as one of the top hotel and real estate developments in Mexico.

Source: Economic Commission for Latin American and the Caribbean (ECLAC), based on information provided by OHL.

[a] In general, for high-income customers, brand image is an important factor when choosing a vacation destination. In addition, tourists in this category are typically strongly loyal to a destination and spend high average amounts during their stays.

Unquestionably, jointly owned property development is now one of the main drivers of tourism-related real estate in Mexico (*NotiTur*, 2007b, p. 21). Moreover, as well as hotels and vacation homes, other formulas are helping to broaden the tourism and real estate offer.

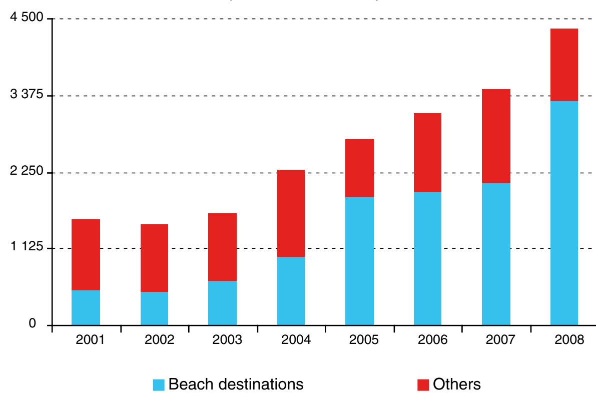
The timeshare concept has been popular in the United States market for some 30 years. It has evolved to include fractional ownership, condohotels and private residence clubs.[33] In Mexico, such projects are found mainly on the Pacific coast, particularly in Los Cabos, Puerto Vallarta, Ensenada and Rosarito, and on the Caribbean coast of Cancun and Riviera Maya. Acapulco continues to be a market with major potential for domestic tourism, with easy road access from the main interior cities.

International luxury hotel chains have also realized the potential of this type of venture. For example, the Canadian chain Fairmont has given its name to a private residential club in Acapulco, and the United States firm Ritz Carlton, a subsidiary of Marriott, has done likewise in Los Cabos. This new mechanism of alliances between luxury hotel brands and real estate development has proven particularly successful, since it gives greater credibility to projects and factors in quality hotel services, which usually results in higher sale prices and a quicker turnover of properties. In fact, for investors and real estate developers, this formula is a good way to reduce the capital investment and recoup it within a shorter period.

[33] In the fractional ownership model, a group of investors acquire a property jointly, with each obtaining the contractual option of using the property during pre-established periods. In the condohotel model, investors buy hotel rooms either to use themselves or to entrust to a specialized administration to generate an income, or both. Private residence clubs are boutique fractional ownership schemes for high-end segments, usually located within or adjacent to luxury hotels.

With all these new ventures, private investment in the Mexican tourism sector has grown steadily in the 2000s, and coastal destinations have become increasingly prominent (see figure III.8). The bulk of this new investment has gone into developing large integrated hotel and real estate projects and building and remodelling hotels (SECTUR, 2006, p. 4). Private sector activity in the hotel and real estate segment has been complemented with voluminous investment in transport infrastructure (airports, cruise-ship docking areas, and roads), telecommunications, utilities and tourist facilities (golf courses, marinas and theme parks).

Figure III.8
MEXICO: PRIVATE INVESTMENT IN TOURISM, BY SEGMENT, 2001-2008
(Millions of dollars)

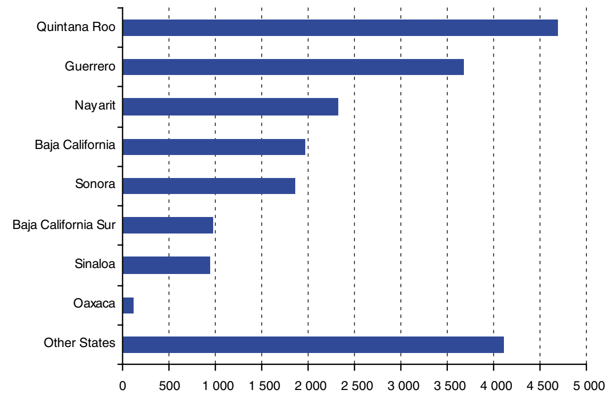


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Secretariat of Tourism of Mexico (SECTUR).

The geopolitical divisions where the main beach destinations are located —both master-planned resorts and traditional locations— account for the bulk of private investment in tourism. In fact, over 60% of investment goes to projects in just four States: Quintana Roo, Guerrero, Nayarit and Baja California. Cancun, the most successful master-planned resort and the main catalyst for this type of investment, is situated in the State of Quintana Roo. In addition, recent efforts to diversify the tourism offer towards higher-income segments with low-density integrated hotel and real estate developments have shifted the focus of private investment towards states such as Nayarit and Baja California Sur (see figure III.9).

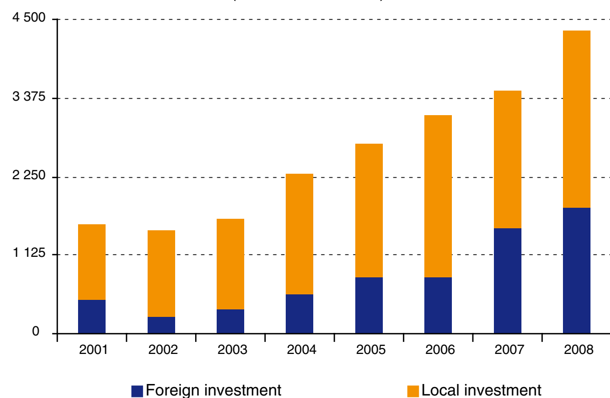
Although the foreign investment component has become more significant, domestic investment continues to drive local tourism. Almost 70% of cumulative investment in 2001-2008 corresponds to Mexican capital (see figure III.10). This merely confirms the existence of a trait that is typical of the tourism industry, particularly the hotel business, in which infrastructure and real estate are financed by local private capital and services are provided under international brand names through management, leasing or franchise agreements.

Figure III.9
MEXICO: PRIVATE INVESTMENT IN TOURISM, BY STATE, 2001-2008
(Millions of dollars)



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

Figure III.10
MEXICO: PRIVATE INVESTMENT IN TOURISM, BY ORIGIN, 2001-2008
(Millions of dollars)



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

Foreign investment in Mexico's tourism industry comes almost entirely from the United States and Spain. In the last two years (for which period disaggregated information is available), Spain contributed 64% of the foreign investment in the Mexican tourism business, while the United States generated 30%. There is virtually no foreign capital in the traditional resorts such as Acapulco and Puerto Vallarta, as investments there are made by Mexican businesses. Foreign investors are much more active in the resorts aimed at international tourism, in Baja California, Quintana Roo and, recently, Nayarit. Here, Spanish investors stand out, being the majority in Quintana Roo (Cancun), Nayarit, Campeche and Baja California Sur (see figure III.11). Spanish investors' initial strong preference for Caribbean destinations thus seems to have shifted, as they seek greater diversification on the Pacific coast, hence their interest in Nayarit (see box III.4).

Box III.4

RIVIERA NAYARIT: A NEW HIGH-END TOURISM DESTINATION DRIVEN BY FOREIGN INVESTMENT

The brand name Riviera Nayarit was coined in March 2007 to refer to a stretch of 111 km of shoreline running from the municipality of San Blas as far as Puerto Vallarta. Since then the federal government (through the Mexican Council for the Promotion of Tourism), the Nayarit state government and private investors have embarked on numerous ventures to develop this new sun, sea and sand tourist destination on Mexico's Pacific coast. More than US$ 3.23 billion in private investment is expected in coming years (*Expansión* 15-29 September 2008, p. 70). The federal government has also pledged over US$ 455 million though the National Trust Fund for Tourism Development (FONATUR) to create and maintain infrastructure to support the development of tourism in the region (*Boletín informativo SECTUR* No. 5, 19 January 2007). In mid-2006, spurred by the positive outlook for the region, FONATUR launched the Nayarit master-planned resort.

Recently completed real estate and hotel complexes are expected to position Nayarit as one of Mexico's leading destinations for tourism investments, most of which will be aimed at attracting visitor with high purchasing power, especially from the United States. In late 2008, more than 90% of visitors and real estate buyers were United States citizens. Nayarit currently has more than 12,000 hotel rooms, two thirds of which are in the four-star to super luxury range (*Notitur*, 2008, April-June). These efforts have been supported by state authorities to avoid the rapid overdevelopment that ocurred in other Mexican tourism centres.

The first large-scale development began in the late 1990s, when the Mexican group Dine undertook an ambitious real estate and hotel project in Punta Mita, 45 km west of Puerto Vallarta. Two luxury hotels were built on a 600-ha plot, one run by the Canadian chain Four Seasons (173 rooms) and the other, the recently opened Saint Regis, run by the United States chain Starwood,[a] with 120 rooms, 350 vacation homes and two golf courses certified by Jack Nicklaus. More than US$ 500 million is now being invested to build 1,000 new residences, each valued at more than US$ 1 million. Nearby, the Spanish hotel chain RIU recently inaugurated a 445-room all-inclusive luxury hotel.

Another major initiative in the region is Punta Raza, a project that was tendered to C&C Capital, a Mexican consortium involved in high-end residential and tourism development. At Punta Raza, it is planned to build eight four- and five-star hotels, 1,800 vacation homes, a golf course and a marina on a 293-ha plot, with an investment of more than US$ 270 million. The two first hotels, a 400-room Gran Hyatt and a 200-room Park Hyatt, will require investments of US$ 105 and US$ 85 million and are expected to open in 2011 (see [online] http://www.nayarit.gob.mx/notes.asp?id=10514).

A second C&C Capital project, this time jointly with The West Paces Hotel Group of the United States, involves a US$ 450-million investment to build a tourism complex on Destiladeras beach, in the Nuevo Vallarta-Punta Mita corridor. In the first phase, a 100-room luxury hotel, under the Capella brand, 120 homes, a spa and an 18-hole golf course will be built on a two-km stretch of beachfront. US$ 255 million will be invested in this phase (*Excélsior*, 17 March 2008).

The Mexican real estate group Rasa Land, with financial backing from Goldman Sachs and Texas Pacific Group, is planning several tourism complexes in the region. The first envisions the construction of two luxury hotels, a golf course and 600 residences on a 300-ha plot. The second, very close to Punta Mita, includes the construction of a luxury hotel and 150 residences on a property of 22 ha.

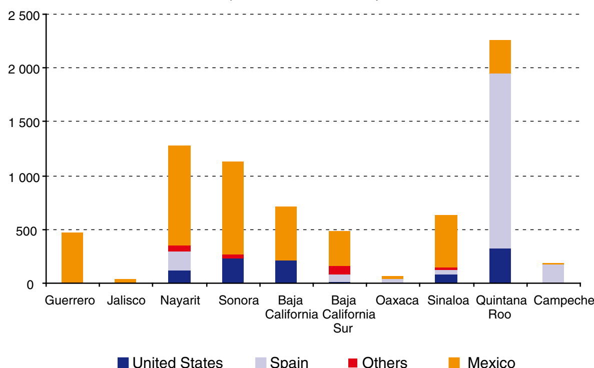
From a medium- and long-term perspective, the progress in the Nayarit master-planned resort merits special mention. Under this project, an 865-ha property, divided into three areas —Litibú, El Capomo and El Peñita— is to be developed in phases. The first, Litibú, located 2 km north of Punta Mita, is expected to have a hotel offer of 4,000 rooms, 910 vacation homes, a marina and a golf course, with an investment of some US$ 1.1 billion dollars (*Notitur*, April-June 2008 and *Inmobiliare Magazine*, 27 March 2008). The hotel plots for the first stage of the master-planned resort were sold quickly. Prominent among the purchasers were the Spanish companies Iberostar and Fadesa, which acquired 200 ha for US$ 80 million. In early 2008, Fadesa announced that it would invest US$ 350 million to build two luxury hotels, 320 residences and a golf course. However, Fadesa's recent bankruptcy could complicate the realization of this portion of the project. In addition, by 2015 the 268-ha area El Capomo is expected to be operational with 2,000 hotel rooms, 212 residences and a golf course, with an investment of about US$ 870 million (*Notitur*, April-June 2008).

These investments have made the State of Nayarit one of the leading recipients of private tourism investment in Mexico. Indeed, by 2008, the State was bested in this regard only by Quintana Roo, which has been the preferred location of investors in recent years. As a result, tourism now accounts for nearly 21% of the State's GDP, and has displaced traditional activities such as agriculture (80% of the tobacco produced in Mexico comes from Nayarit), fishing and mining (*Expansión*, 15-28 September 2008, p. 70).

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

[a] This hotel is a joint venture with the Rosewood chain and the Mexican real estate groups Dine and Ideurban.

Figure III.11
MEXICO: PRIVATE INVESTMENT IN TOURISM, BY ORIGIN AND STATE, 2007-2008
(Millions of dollars)



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

The Mexican real estate market slowed in late 2008, owing mainly to greater fiduciary caution and tighter lending practices in the United States. The current financial market crisis and its effects on investors' resources and consumer confidence will probably have a short-term impact on many developments (see table III.6). Unless the global financial crisis deepens or the effects of the influenza that broke out in March 2009 worsen, however, the outlook for the medium and long terms still seems promising.

In summary, Mexico built up an extensive tourism infrastructure with strong government support, which helped the country to become the largest international tourism destination in Latin America and the Caribbean. Now seeking to leave behind the stigma of mass tourism and its undesired effects, the preference is for large-scale projects targeting high-income segments, with emphasis on residential tourism.

Table III.6
MEXICO: MAIN HOTEL AND REAL ESTATE DEVELOPMENTS UNDER WAY, 2008

Cancun / Riviera Maya	
Bahia Principe	Project to broaden the offer of the Bahia Príncipe Tulum, Bahia Principe Akumal and Bahia Principe Coba hotels (2,562 rooms) 900 homes 36-hole golf course In late 2008, the project was facing multiple authorization problems with the State of Quintana Roo
Capella Bahia Maroma	Luxury Hotel: Capella Hotels & Resorts (83 independent villas) 127 vacation homes 18-hole golf course US$ 300 million in investment
Puerto Cancun	5 hotels (4,000 rooms) 2,100 luxury apartments and condominiums 435 single-family residential plots 18-hole golf course designed by Tom Weiskopf Marina US$ 2 billion in investment
Gran Coral	2 hotels (1,000 rooms) 1,280 homes 18-hole golf course
Los Cabos	
Puerto Los Cabos	Luxury hotel (95 rooms) 100 homes 2 18-hole golf courses designed by Greg Norman and Jack Nicklaus Marina US$ 1.2 billion in investment
Chileno Bay	Luxury hotel (15 rooms) 725 homes 2 18-hole golf courses Marina
Cabo San Cristobal	3 luxury hotels (455 rooms) 405 homes (first phase) 2 golf courses
Pacific coast	
Litubu	3 hotels (500 rooms) 450 homes, 18-hole golf course Marina

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

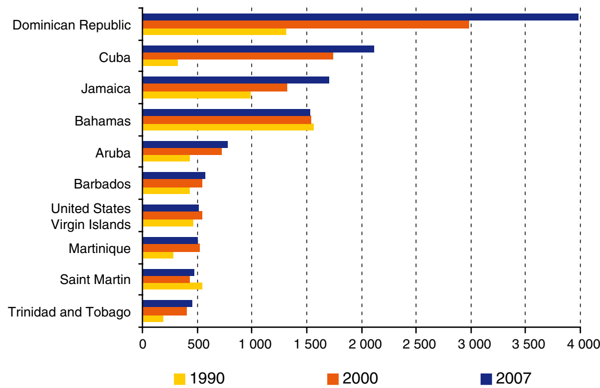
2. The Caribbean: moving towards niche tourism

Tourism has grown steadily in the Caribbean subregion in the last two decades (see figure III.5). In terms of numbers, the main destinations for international visitors are the Dominican Republic, Cuba, Jamaica and the Bahamas (see figure III.12).

Tourism is now a significant industry for the great majority of the Caribbean islands, especially some of the smaller countries and territories (see figure III.13). In fact, the foreign visitors received by some small islands with fewer than 100,000 inhabitants multiply

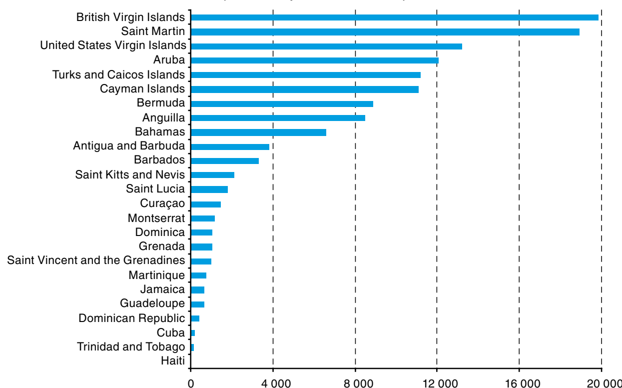
their population several times over. This is the case of Antigua and Barbuda, Bermuda, the British Virgin Islands, Grenada, Saint Kitts and Nevis, Saint Martin, Saint Vincent and the Grenadines, and the Turks and Caicos Islands, where income from international tourism is the main driver of the economy. Although the tourism industry is bigger in absolute terms in the larger and more diversified economies, in relative terms it is more significant on the smaller islands.

Figure III.12
THE CARIBBEAN: INTERNATIONAL TOURIST ARRIVALS, MAIN DESTINATION COUNTRIES AND TERRITORIES, 1990-2007
(Thousands of people)



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

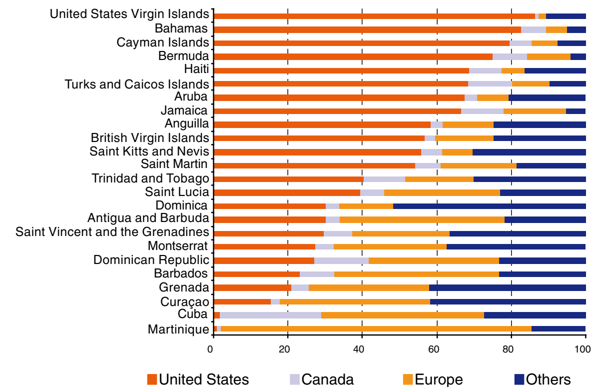
Figure III.13
THE CARIBBEAN: PER CAPITA INCOME FROM INTERNATIONAL TOURISM, 2007
(Dollars per inhabitant)



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

The subregion depends heavily on the origin markets of North America, principally the United States. This is particularly true in the English-speaking countries and territories (see figure III.14). There is more diversification in some of the main tourism destinations in the Caribbean (such as Barbados, Cuba and the Dominican Republic), for which Europe and a number of Latin American countries are more significant origin markets. Among other reasons, this pattern reflects active marketing campaigns, greater cultural and language affinity, rich economic and political relations with former colonies, explicit conflicts with the United States (for example, the embargo against Cuba) and the strong presence of European firms —mainly hotel chains closely associated with tour operators— in these countries' tourism industries.

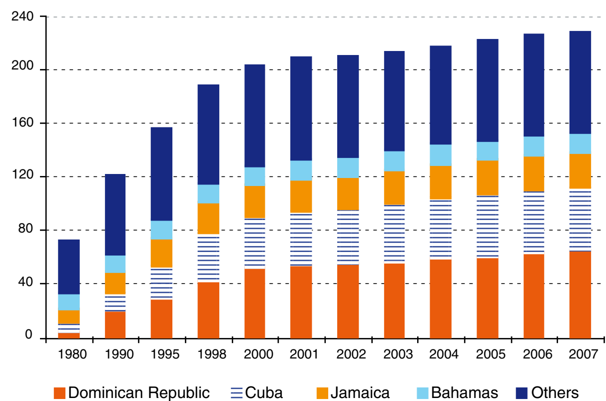
Figure III.14
THE CARIBBEAN: INTERNATIONAL TOURIST ARRIVALS, BY COUNTRY OF ORIGIN, 2007
(Percentages)



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

The hotel offer in the Caribbean has increased considerably in recent decades, especially in the four countries that account for two thirds of all rooms in the subregion: the Bahamas, Cuba, the Dominican Republic and Jamaica (see figure III.15).

Figure III.15
THE CARIBBEAN: HOTEL OFFER, BY COUNTRY, 1980-2007
(Thousands of rooms)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Caribbean Tourism Organization, the National Statistical Office of Cuba, the Central Bank of the Dominican Republic and the National Hotel and Restaurant Association of the Dominican Republic (ASONAHORES).

The hotel offer in the Caribbean is very varied today, and includes integrated hotel and real estate complexes, full service hotels and all-inclusive resorts, timeshare units, vacation clubs, holiday homes and apartments and more modest inns and hostels. The subregion has adapted very quickly to the new trends in international tourism. The first all-inclusive hotels appeared in the 1980s in response to the demand from leisure travellers, and the system prospered notably in Jamaica (Issa and Jayawardena, 2003, p. 168). In the 1990s, the industry shifted rapidly away from mass tourism towards a more discerning type. A change in strategy became apparent in most of the Caribbean destinations, with promotion and marketing efforts focusing on new vacation options that went beyond the classic sun, sea and sand variety, aiming at specific niches in the tourism market. A broad array of hotel establishments began to target different types of holiday-makers, such as couples, singles or families, generally operating under the all-inclusive scheme.[34] The Jamaican firms SuperClubs and Sandals have been extremely important in spearheading the changes that have occurred in the industry (see box III.5). The range of vacation clubs and timeshare complexes also began to increase. This decade, there has been a boom in the market for second homes, either in integrated hotel and real estate developments or in new coastal urbanizations designed specifically for foreigners.

Among the larger countries, such as Cuba, Jamaica and the Dominican Republic, the all-inclusive hotel offer began to expand rapidly. Despite an incipient trend towards specialization in niche markets, much of this offer was oriented towards standardized mass tourism, in which tour operators played a major role. In general, these were beach resorts, where price was the crucial factor. Better quality and more extensive infrastructure, active national promotion policies and cluster economies resulting from the en masse arrival of international hotel chains all helped to reduce costs. Thus the sun, sea and sand product quickly became commoditized and this, combined with the large increase in hotel capacity, led to a fierce price war which eroded the quality of tourism and the benefits it brought to the host economies (Perelló, 2007, p. 12).[35] Conversely, the smaller islands with less developed infrastructure focused on more exclusive, sophisticated and, hence, costly tourism products. Aruba, the Bahamas, Barbados, Bermuda, the British Virgin Islands, the Turks and Caicos Islands, Saint Kitts and Nevis, Saint Martin and the United States Virgin Islands were chosen by high-income tourists looking for peace and quiet, privacy and a natural setting, with low building density and minimal human intervention.

The tourism industry expanded rapidly in the Spanish-speaking Caribbean. In the Dominican Republic, in the wake of the success of pioneering initiatives such as Casa de Campo,[36] close to La Romana, new sun, sea and sand developments proliferated all along the coast, including Punta Cana and Puerto Plata. Between 1990 and 2007, hotel capacity and international visitor arrivals tripled and income from tourism increased more than fourfold (see figures III.12 and III.15). In Cuba, following the loss of the country's main trading partners —the former Soviet Union and the countries of Eastern Europe— the government banked strongly on the development of tourism on the island, especially in the resort of Varadero. Between 1990 and 2007, the hotel offer in Cuba more than tripled, international tourist arrivals multiplied almost sevenfold and tourism income increased by a factor of more than eight (see figures III.12 and III.15). The diversification of origin markets was a key driver of the success of the tourism industry in Cuba and the Dominican Republic (see figure III.14). Despite the distance involved, Europe has become the largest single market of origin for both islands. Canada has become especially important for Cuba, owing to the travel ban applied to United States citizens. Gradually, all-inclusive hotels become increasingly significant, coming to represent 47% and 58% of hotel capacity in Cuba and the Dominican Republic, respectively (Perelló, 2007, p. 21).

[34] Some destinations specialized in the wedding and honeymoon market, reducing or simplifying procedures for conducting marriage ceremonies, and several hotels built wedding reception rooms and special accommodation for honeymooners. A number of resorts offering all-inclusive services exclusively for couples have been very successful in the United States market, where the Jamacian firms SuperClub and Sandals have been very active. Other successful niches are those linked with golf, water sports, diving and family vacations. Some destinations have promoted cultural events such as the carnivals in Aruba, Dominica, Jamaica and Martinique, and the jazz festivals in Aruba, Barbados, the Dominican Republic, Saint Lucia and Trinidad and Tobago (ECLAC, 2003, p. 23).

[35] Many all-inclusive resorts were built on wetlands, swamps and mangroves, taking advantage of the cheapness of this type of land. This has had a strong impact on the environment and has made coastal areas more vulnerable to natural disasters such as tropical storms and hurricanes (Perelló, 2007, p. 19).

[36] In the 1970s, the United States firm Gulf and Western Industries abandoned the sugar industry and began to invest in developing the Casa de Campo resort, which now consists of a hotel, 1,300 vacation homes, three golf courses and an international airport.

Box III.5

THE "ALL-INCLUSIVE" CONCEPT: A JAMAICAN SPECIALITY

The all-inclusive concept first emerged in the 1930s in the holiday camps of the United Kingdom but was popularized in 1950s by the French company Club Méditerranée (Club Med). In fact, Club Med was the first hotel chain to introduce this concept in warm beach destinations (Issa and Jayawardena, 2003, p. 167).

The idea of all-inclusive service arose as a way to cope with the difficult situation faced by the tourist industry in the Caribbean as a result of the oil crisis in the early 1970s. Rather than to increase the hotel supply, the need was to offer a different type of vacation. The first all-inclusive packages in the Caribbean were introduced in Jamaica, based on the concept developed by Club Med and the cruise industry. The scheme offered tourists a combination of prized ingredients: including security, entertainment and, above all, vacations with no complications or surprises, since everything was paid for. In 1976, John Issa —currently the chairman of SuperClubs— opened the Negril Beach Village Resort, known today as Hedonism II. The young-singles image of the all-inclusive concept continued until 1978, when a complex for couples opened in Ocho Rios. In 1987, Issa founded the first all-inclusive family hotel. The success of these resorts was quickly reflected in industry trends, and many companies copied the various concepts (Issa and Jayawardena, 2003, p.168). Subsequently, to differentiate itself from other all-inclusive companies, especially in the more economical and mass-tourism segments, SuperClubs introduced the "super-inclusive" system.

At about the same time, Gordon Stewart bought a small property in near-ruin in Montego Bay, which he transformed into the first all-inclusive hotel of the Jamaican hotel chain Sandals (Hawkes and Kwortnik, 2006, p. 370). This chain specialized in the couples market, offering vacation services, weddings and honeymoons, under the "luxury included" system which offered super luxury features at all of its facilities.

In the mid-2000s, SuperClubs and Sandals dominated the Jamaican market, controlling 40% of rooms under hotel-chain management (PWC, 2005, p. 6). Trailing far behind were other international operators such the Marriott of the United States and RIU of Spain.

ALL-INCLUSIVE RESORTS OF THE JAMAICAN CHAINS SANDALS AND SUPERCLUBS, 2009

	Sandals	SuperClub
Jamaica	7	10
Saint Lucia	3	
Antigua	1	
Bahamas	1	1
Cuba		2
Curaçao		1
Dominican Republic		1
Panama		1
Brazil		2
Total	12	18

In the late 1990s, Sandals and SuperClubs launched an ambitious internationalization strategy within the Caribbean, based on the all-inclusive model. They rapidly branched out to Antigua and Barbuda, the Bahamas, Cuba, Curaçao, the Dominican Republic and Saint Lucia. SuperClubs also began operations in Brazil, where it had particularly strong success in the promising north-east region, and in the buoyant tourism sector of Panama, where it will open a new hotel in 2009. In Brazil, SuperClubs was involved in developing the Costa do Sauípe complex, where it has a hotel and manages the establishments of the United States chain Honesta. In 2007, it inaugurated a second all-inclusive resort on the island of Santa Luzia, off Aracajú. In late 2008, SuperClub acquired a controlling interest in the Costa do Sauípe resort.

In response to strong competition, SuperClubs recently began an intensive effort to upgrade its facilities and reposition its Breezes brand. Once this has been achieved, the company plans to have 14 Breezes hotels with similar features in seven countries. Hence, SuperClubs has remodelled some of its complexes in Jamaica (at a cost of US$ 20 million), Bahamas (US$ 10 million) and Curaçao (US$ 2 million) (*Diario HotelTur* Nº 2354, 27 January 2009).

In sum, SuperClubs and Sandals —two companies that began in Jamaica— have taken a significant lead in the Caribbean market by renovating and remodelling their hotel facilities and transforming them into luxury resorts for niche markets, such as couples, families and single adults, adapting the all-inclusive concept to their operations. The Jamaican hotel chains are thus the leading operators of a model that has become widely established and popular in the Caribbean.

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

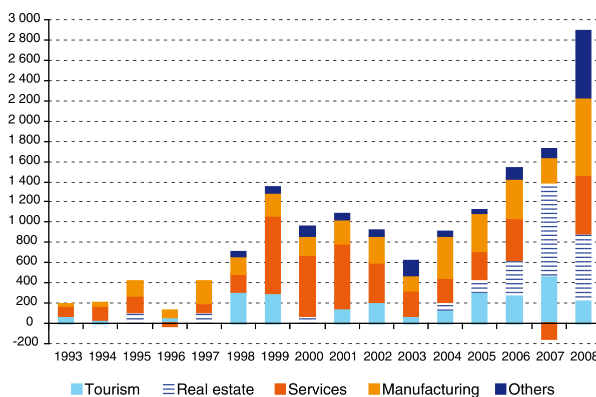
National governments and FDI have been crucial in this process. The Dominican Republic has maintained a policy of incentives for tourism and for foreign capital investment, coupled with heavy investment in infrastructure.[37] This has included international airports in some of the main tourism areas on the coast —Santo Domingo, Punta Cana, La Romana, Puerto Plata and Samaná— which have facilitated quick and easy access for foreign tourists and have bypassed the island's road infrastructure shortcomings (*Hostelmarket*, No. 93, May 2007). Cuba thoroughly overhauled its tourism industry by creating the first enterprises in the sector (the chains Gran Caribe, Horizontes and Isla Azul, and the corporations Cubanacan and Gaviota) and a Ministry of Tourism, and establishing development hubs that could benefit from the hotel and airport infrastructure and ancillary services. In the mid-1990s, the Cuban authorities allowed foreign investment, which led to a proliferation of mixed-capital enterprises, as a way of compensating for the lack of specific skills (Pérez, 2003, p. 16).[38]

37 Dominican legislation offers facilties for the construction of hotels, restaurants, aquariums, leisure parks and golf courses (Law No. 158 of 2001, modified by Law No. 184 de 2002), and for real estate activity (Law No. 108 of 2005) and the promotion of tourism in under-developed areas (Law No. 198 of 2002). It also encourages pensioners and retirees who are interested in setting up residence in the country, with tax exemptions of up to 100% (Law No. 171 of 2007).

38 In 1992 a reform to the Constitution, among other things, recognized mixed enterprises as a form of ownership. Under the Foreign Investment Act of 1995, known as Law No. 77, foreign investments can take the form of mixed enterprises, international economic partnership agreements or fully foreign-owned firms. In 2004, Agreement 5290 established procedures for cooperative production contracts (goods and services) and hotel management

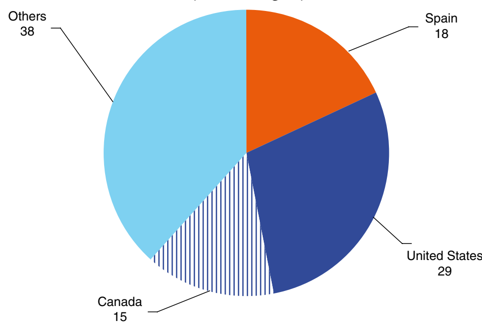
FDI in tourism represented almost 20% of total FDI income in the Dominican Republic between 1993 and 2008. The sum of this investment and the resources poured into real estate make up a third of all inflows (see figure III.16). In Cuba, over a third of the more than 300 firms with foreign capital are involved in tourism-related activities, mainly in the area of hotel management (MINVEC, 2008).[39] Spanish hotel chains have been the most active investors in the tourism industry in both countries (see figure III.17 and box II.2).

Figure III.16
DOMINICAN REPUBLIC: FOREIGN DIRECT INVESTMENT, BY DESTINATION BRANCH OF ACTIVITY, 1993-2008
(Millions of dollars)



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

Figure III.17
DOMINICAN REPUBLIC: FOREIGN DIRECT INVESTMENT, BY COUNTRY OF ORIGIN, 1993-2008
(Percentages)



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

The main Spanish vacation chains have a presence on the Spanish-speaking coasts of the Caribbean and have specialized strongly in the all-inclusive segment. In 1985, Barceló Hotels & Resorts was the first Spanish chain to invest in Latin America, choosing a Dominican location that at the time was difficult to access: Playa Bávaro, Punta Cana.[40] In the early 1990s, Sol Meliá of Spain formed the first mixed-capital enterprise in Cuba, with the opening of Hotel Sol Palmeras in the emerging tourism hub of Varadero, 140 km from Havana.[41] These ventures were highly successful and prompted other international firms to invest in the subregion, replicating the experiences of Barceló and Sol Meliá. Today, the 14 international chains operating in Cuba —mostly Spanish and led by Sol Meliá— manage more than half the country's hotel capacity under contract (*Buen viaje*, 1 September 2008).[42] There are more international chains in the Dominican Republic, but the Spanish ones, headed by Barceló and RIU (see box III.4) are still very important. The Spanish chains currently manage almost 70,000 hotel rooms in the Caribbean, or over half the available offer. In the Dominican Republic, they encompass some 70% of the market (*HostelTur*, January 2009).

Although the international chains initially competed for market share on a price basis, that strategy was quickly exhausted. As the competition stiffened, new investments were needed to improve the quality and diversity of services offered in the all-inclusive schemes, and this was difficult given their narrow profit margin. Accordingly, most of the chains began to migrate towards higher standards of service, that is, to four- and five-star hotels. The idea was to retain the all-inclusive scheme but aim it at a market segment with greater purchasing power that would be less sensitive to market fluctuations.

High-end hotel chains, which had hitherto preferred to locate in the smaller, English-speaking Caribbean islands, also began to become involved in more projects. Shifts in demand patterns and the response of all-inclusive chains forced the high-end hotels to more

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contracts for Cuban firms and foreign natural or legal persons. In 2007 Law No. 171 was passed establishing special incentives for those receiving pensions or incomes from abroad, in order to stimulate the real estate sector.

39 Hotel management contracts are signed for an initial period of five to seven years. The parties may extend them as many times as they wish, taking the opportunity upon each renovation to update the conditions and operating modules that govern them. These partnerships are formed on the principle that the mixed enterprise does not own the land it occupies, but receives the right to its use, which represents the capital contribution of the local entity (*Hostelmarket*, No. 86, October 2006).

40 Today the Barceló complex at Playa Bávaro has five hotels, a golf course, a casino and a convention centre.

41 Sol Meliá entered Cuba with the creation of Cubacan, an enterprise in which the local tourism group Cubanacan and Corporación Interinsular Hispana —in which Sol Meliá has a 25% stake— had equal shares. Cubacan thus began to venture into new hotel establishments, managed under the Sol Meliá brand.

42 In 2005, Spanish companies managed 40% of Cuban hotel capacity: almost half the rooms in Varadero and one in four in Havana. The Spanish presence is even greater in other places, such as the area of Jardines del Rey and the Cuban Keys —Cayo Coco, Cayo Guillermo, Cayo Largo and Cayo Santa María— where the market share is as high as 70%, mainly owned by Sol Meliá (*Hostelmarket*, No. 86, October 2006). Sol Meliá now operates 21 hotels in Cuba, which represents 20% of all hotel capacity and 50% of the units administered by Spanish chains.

actively defend or even increase their presence in the luxury segment. There are 65 new projects under way in the Caribbean subregion at present, of which 28 are at the construction stage. Ten of these are located in the Dominican Republic, the largest number in a single country (Freitag, 2008).[43]

Against this backdrop, as well as the upgrading of many hotel establishments, new, more sophisticated projects began to spring up, incorporating luxury hotel infrastructure, real estate, golf courses and other commercial and leisure facilities. This new concept, known as real estate tourism, caters to the regular traveller who begins to feel attached to a particular destination and consider the possibility of investing in it long-term. The companies' aim is to move away from low-cost tourism and all-inclusive hotels, capture new high-income customers and contain some of the unwanted effects of mass tourism. A number of large-scale developments are under way in the Dominican Republic at present, including Roko Ki, Cap Cana and some new projects in established resorts, such as Casa de Campo (Los Altos real estate development) and Punta Cana Resort & Club (Los Corales project) (see box III.6).

Box III.6

CAP CANA TOURISM PROJECT: PARADISE IN PERIL

The Cap Cana project, near Punta Cana International Airport in the Dominican Republic, has positioned itself as the leading tourism real estate development in the Caribbean. The project envisions some 5,000 vacation homes, seven luxury hotels, five golf courses (including three designed by Jack Nicklaus, the first of which was inaugurated in November 2006), and a marina for 1,000 boats, in addition to shopping and leisure areas.

This undertaking has been headed by the Abrisa group, which is one of the largest in the Dominican Republic and also has a share in administering six airports, which handle 65% of the country's air traffic. Agreements to develop the project were signed with various international companies and a number of real estate schemes have been announced; these will gradually materialize in several stages over about 15 years. Some of the main real estate schemes are described below:

In 2005, the Spanish hotel chain NH, through its real estate company Sotogrande, entered into an agreement to develop a real estate and hotel complex composed of a hotel (managed by NH) and 352 luxury residences, called "Sotogrande at Cap Cana." The estimated investment for this project is US$ 234 million, to be contributed in equal shares by Cap Cana and NH, and the complex was officially launched in January 2009.

In 2005, the Spanish chain Altabella Hotels began building two luxury hotels in Cap Cana, with an investment of close to US$ 300 million (*Expansión*, 21 May 2007). In mid-2007, the Hotel Sanctuary Cap Cana Golf & Spa was inaugurated, followed a few months later by Golden Bear Lodge, a complex of condominiums that will operate as a boutique hotel.

In early 2007, the United States magnate Donald Trump joined the mega-project, to develop a large real estate complex with a luxury hotel, a golf course and vacation residences named "Trump at Cap Cana," the value of which is expected to reach 1.52 billion euros (*Cinco días*, 20 February 2007). The first stage of this initiative, Solares del Farallón Trump at Cap Cana, was very successful, with US$ 350 million in properties and over 95% of the land sold in the first four hours.

In late 2007, the United States-based hotel chain Marriott, through its Ritz-Carlton brand, joined the project with the aim of a building a luxury hotel (The Ritz-Carlton Cap Cana) and a real estate complex with 194 private residences, named "Residences at The Ritz-Carlton Cap Cana". This will take an investment of close to US$ 1 billion (*Clave digital*, 9 November 2007). The project is expected to be inaugurated in early 2010 (*El Economista*, 19 September 2007).

In addition, several independent real estate projects have been undertaken, most notably the Cap Cana Luxury Retreats with apartments facing the marina, and Green Village. Cap Cana has also offered other real estate projects to the international markets, including Ribera Marina Town Homes and Villas Las Iguanas. By mid-2008, Cap Cana had sold more than US$ 1.24 billion in real estate products and invested more than US$ 1 billion in the Dominican Republic.

The project managers have had difficulties in maintaining the pace of construction and delivery of the urbanized plots, condominiums and vacation residences, which has significantly reduced cash flow. Liquidity problems greatly complicated payment and borrowing capacity, and this was further exacerbated by the real estate and financial crisis in the United States. In late 2008, the Lehman Brothers bankruptcy prevented Cap Cana from receiving a US$ 250-million loan, causing it to default on a bridge loan of US$ 100 million from Deutsche Bank and Morgan Stanley, and the company had difficulties in paying the dividend on its US$ 250-million corporate bond issue maturing in 2013 (the largest corporate debt issue in the history of the Dominican Republic). Even though the mega-project managers were able to avoid imminent bankruptcy by reaching an agreement with their main creditors (*Clave digital*, 9 December 2008), in the current situation, the future does not look straightforward for this ambitious business initiative.

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

[43] The countries and territories with the largest numbers of projects are the Dominican Republic (10), Turks and Caicos Islands (7), the Bahamas (7) and Saint Lucia (5), and the most active hotel chains are Marriott, through its brand Ritz-Carlton (4), Radisson Hotels & Resorts (3), Starwoods Hotels & Resorts, with its brands Westin (3) and St. Regis (3), Four Seasons (3), Choice Hotels, through the brand Comfort Inn (3), and Mandarin Oriental (3) (Freitag, 2008).

In 2007, sales of over US$ 1.5 billion were made in the main real estate tourism complexes developed in the Dominican Republic (*Gestión y competitividad*, No. 2, May 2008). At the end of 2008, some 4,000 vacation homes and apartments had been built and about 2,000 were in construction, mostly in the tourist areas of Samará, Punta Cana-Playa Bávaro, La Romana, Puerto Plata, Jarabacoa and Constanza (*Listin Diario*, 19 December 2008). As in Mexico, some of these projects are being carried out by local groups financed from abroad, but foreign investors also have a strong presence (financial entities, real estate and construction companies and hotel chains, among others). This has helped to diversify the sources of investment and Spanish firms have been joined by others from Canada, the United States and other countries (CEI-DR, 2008a, p. 5). These projects target external markets, mainly in the United States and Europe. The appreciation of the euro has made the Dominican Republic very attractive for the European market despite the distance involved. Between 2004 and 2008, almost US$ 2 billion in FDI flowed into the real estate sector of the Dominican Republic (see figure III.16).

This prosperity has coincided with the international real estate boom, but is also occurring in a context in which the all-inclusive model is showing signs of exhaustion. However, the current international financial crisis could complicate the financing of projects under way (see box III.6) and undermine the purchasing power of potential United States and European customers and their willingness to engage in leisure travel. In fact, in the last few weeks of 2008, real estate prices fell sharply in the main Caribbean vacation hubs, in some cases by as much as 40%. The sector may face difficulties in the short term as a result of slumping demand for real estate and hotel services in the Caribbean but, depending on the duration and depth of the international crisis, the medium- and long-term outlook should start to brighten and give the industry fresh momentum.

In summary, attractive natural settings, combined with the proximity of the United States and Canadian markets, have made most of the countries and territories of the Caribbean into highly attractive and sought-after holiday destinations. The subregion first built up a platform for mass tourism with a range of all-inclusive formulas tailored to the needs of different segments of demand (couples, singles and families). The larger countries improved access infrastructure (airports) and accommodation and entertainment services, which contributed to standardizing the tourism offer and heightening competition based largely on price. The tourism offer in the smaller island territories tended to be more segmented and environmentally lower-impact, targeting high-income visitors. When the all-inclusive model began to show signs of depletion as a result of tight profit margins, over-exploitation of the environment, changes in travellers' preferences and the deterioration of hotel facilities, companies began to take steps to capture more volatile segments of demand. First, the major hotel chains embarked on massive upgrading of their facilities. Second, multiple emerging projects began to combine luxury hotel infrastructure with real estate developments, along with additional facilities such as golf courses and marinas. The renewed tourism offer thus aimed to capture both sporadic visitors and higher-income residents. The global real estate and financial crisis has reduced international arrivals, caused serious difficulties for a number of projects under way and forced the postponement of new ventures, freezing the second homes markets in much of the Caribbean.

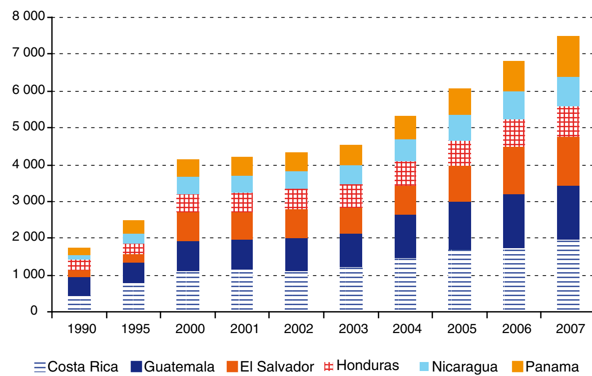
3. Central America and Panama: leapfrogging the traditional stages of tourism development

New real estate and hotel projects have begun to give the tourism industry a new lease of life in a number of Central American countries and the subregion's coasts have become a promising destination for the growing United States retiree market and for local and foreign economic groups willing to invest in tourism (see figure III.5). At this early stage in the development of the sector, FDI is playing a larger role than in did in other countries. Unlike the pattern in Mexico and in several Caribbean countries and territories, however, the Central American countries have yet to come consolidated as destinations.

Political stability and sound economic performance have driven local tourism demand and enabled the development of tourism industries orientated towards long-distance visitors (UNWTO, 2007a, p. 47). The entry into force of the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR) could

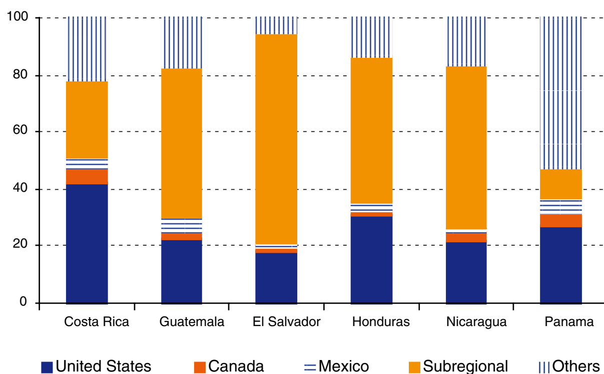
facilitate the operation of foreign tourism companies, especially hotels, which use large volumes of imported inputs. In this context, international tourism arrivals have seen substantial and sustained growth, from 4.1 million visitors in 2000 to 7.5 million in 2007. Tourism has become a major source of income for Central American countries, especially Costa Rica, Guatemala and Panama (UNWTO, 2008c), the countries where the sector has grown the fastest, along with El Salvador. Income from international tourism more than doubled between 2000 and 2007, which has helped to offset the downturn in the maquila industry and the difficulties faced by the agricultural sector (see figure III.19). In Costa Rica, tourism has become the second-largest generator of foreign exchange and one of the main poles of attraction for FDI (Román, 2007b).

Figure III.18
CENTRAL AMERICA: INTERNATIONAL TOURIST ARRIVALS, 1990-2007
(Thousands of people)



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

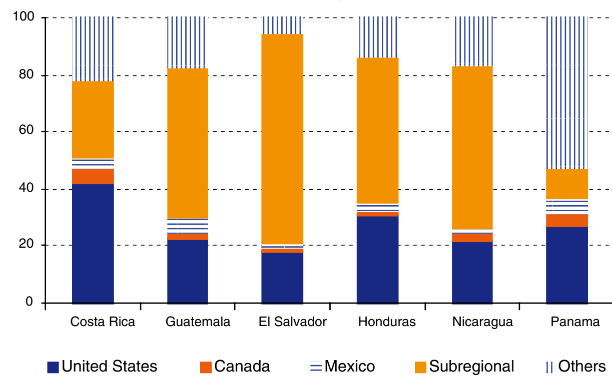
Figure III.19
CENTRAL AMERICA: INCOME FROM INTERNATIONAL TOURISM, 1990-2007
(Millions of dollars)



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

Intrasubregional tourism and the North American market, especially the United States, are both very important for Central America (see figure III.20). In Costa Rica, tourists from Canada and the United States represent almost 50% of all international arrivals, while intrasubregional visitors are the most frequent in the rest of Central America, except in Panama, where tourists from South America represent a large proportion.

Figure III.20
CENTRAL AMERICA: INTERNATIONAL TOURIST ARRIVALS, BY COUNTRY OF ORIGIN, 2007
(Percentages)



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

The tourism sector has developed in different ways within Central America. Given the natural endowments of the subregion, much of the tourism industry consists of traditional sun, sea and sand resorts and related services. Other major attractions are the subregion's natural environment (ecotourism) and archeological and cultural heritage. Seeking to build on these innate advantages, the governments of the region are treating tourism as a pillar of national development and have created institutions and legal instruments to support and promote the industry, making tourism activities a priority for FDI.

In most of the Central American countries, the tourism industry has developed rapidly and not necessarily sequentially.[44] In a short period of time, destinations that had emerged spontaneously under the management of small local companies gave way to more established resorts as international chains set up in business. As

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44 The traditional development cycle of a tourism destination starts when it is discovered as a place of interest, but still lacks the infrastructure and ancillary support services for visitors. Later, a range of more sophisticated services, especially hotel services, are offered to stimulate the arrival of tourists. The location is considered to have reached maturity with the arrival of international hotel chains. Large real estate developments, especially on the coast, begin to appear at a later stage, for seasonal leisure use and as second homes for overseas retirees. These large real estate complexes usually include golf courses and marinas (Román, 2008, p. 7).

occurred in Mexico, in a few Central American beach destinations all-inclusive hotel resorts sprang up with few links to the local community (Román, 2008, p. 5). Shortly afterwards, real estate developments aimed at middle- and high-income buyers, particularly from abroad, began to gather momentum, along with the infrastructure and services needed to facilitate the arrival and stay of temporary residents. The early advent of residential tourism represents a certain overlap in the traditional stages of tourism development in Central America.

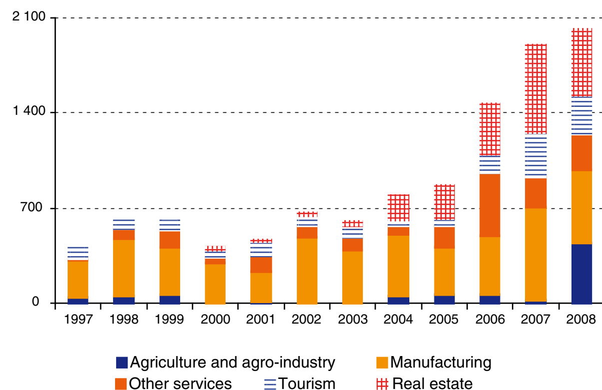
The main sun, sea and sand hotel and real estate schemes are found in a few locations in Costa Rica and Panama. Costa Rica in particular has managed to position itself internationally as a "country brand" associated with democracy, peace, security, environmental conservation and sustainable management of natural resources which, at least initially, appears to have enhanced the natural attributes of its coastal areas. Panama has been able to benefit from the traditional influence of the United States—thanks to the Panama Canal and the use of the dollar as domestic currency— to attract foreign visitors and residents.

The Costa Rican province of Guanacaste on the northern Pacific coast has become one of the country's main sun, sea and sand tourism centres. The first investments were made in the beach areas of Coco and Tamarindo, then shifted to the Papagayo Gulf, which became the "Cancun of Central America".[45] The hotel and real estate industry, oriented mainly towards the high-purchasing-power segment, took off in the area with the 2004 opening of a complex with a hotel run by the Canadian chain Four Seasons, a golf course and vacation homes (*La República*, 8 June 2007). Since then, a number of hotel and real estate complexes, run mainly by foreign investors, have started up and are at different stages of development. Foreign investment in real estate, especially from the United States, has been driven basically by the flow of foreign tourists looking for vacation locations or interested in investing in a second home in the main coastal areas of the Pacific (BCCR, 2008, p. 16).

The projects under development include Monte del Barco, Hacienda Pinilla, Rancho Manzanillo and Cacique del Mar. The Monte del Barco complex will include a hotel run by the United States chain Global Hyatt Corporation, 600 homes and condominiums, a golf course and a marina, with an investment of some US$ 1 billion (*El Financiero*, 14 September 2008). The Hacienda Pinilla project will have a Marriott hotel, a spa and a convention centre. Rancho Manzanillo includes a hotel belonging to the Chinese chain Mandarin Oriental, a residential complex and a golf course. Lastly, a group of United States investors announced the investment of about US$ 800 million in a hotel and real estate mega-project due to start up in Punta Cacique in 2010. This venture will offer vacation homes, a golf course and other facilities (*La Nación*, 4 August 2007). The project has been postponed as a result of the real estate crisis in the United States, however (*Business Information Systems*, 1 September 2008). The Spanish chain RIU is to open a hotel complex in 2009. Other projects correspond to a number of major luxury hotel chains, such as Marriott's Rosewood and Ritz-Carlton brands (United States), which have expressed an interest in establishing a presence on Costa Rica's beaches. There are also projects for exclusively residential schemes aimed at retirees from the United States, and many marinas. In fact, there are plans to build over 20 new marinas, which would be enough to moor over 5,500 vessels and would boost Costa Rica as a tourism and residential destination (Román, 2007b, p. 7).

This trend has signified that tourism and real estate projects account for almost 30% of FDI stocks in Costa Rica between 1997 and 2007, and over half of the investment flows received in the last year (see figure III.21). Much of this investment corresponds to purchases by foreign citizens of housing, land, condominiums and commercial properties, mainly in Guanacaste and Punta Arenas (BCCR, 2008, p. 16).[46]

Figure III.21
COSTA RICA: FOREIGN DIRECT INVESTMENT, BY BRANCH OF ECONOMIC ACTIVITY, 1997-2007
(Millions of dollars)



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

However, this increasing tourism and real estate activity in the coastal areas is occurring in a context of limited public capacity for oversight and planning, and identification and mitigation of environmental impacts. This can cause problems

[45] The Costa Rican authorities made over land for use, built access roads and took electric power to the start of the peninsula. A number of local and foreign groups of investors did the rest.

[46] In Punta Arenas, FDI has been driven by the purchase of land and acquisition of properties, much of it in the real estate mega-project Hacienda El Dorado (BCCR, 2008, p. 17).

of land management, natural resources and environmental quality, particularly in relation to the management, quality and use of drinking water, earth movements, changes in land use and production and management of solid waste (Román, 2007b, p. 10). In some tourism areas, water quality is apparently being affected by increasing population density combined with lack of sewerage systems and waste water treatment facilities. There have also been major difficulties in ensuring a sufficient supply of water (Román, 2007c). In addition, 10 more golf courses are planned for Guanacaste in the next 20 years, which will demand large stretches of land (between 50 and 100 ha) and a huge amount of water to maintain them.

A number of tourism ventures have been undertaken in Panama, along both coasts and on some of the islands. There are a number of mega-projects on the beaches of the Pacific coast, known as the "Panamanian Riviera", where hotel chains are setting up and golf courses and luxury condominiums are being built. The most popular regions are Chiriquí and Pedasi on the Azuero Peninsula, Vista Mar, Coronado and Altos de María, Las Perlas Archipelago and Taboga Island, close to Panama City and Bocas del Toro on the Caribbean coast (EuroPraxis Consulting, 2008).

The first hotel resorts were built on the Pacific coast, where many high-income Panamanian families have their beach houses. Two of the largest are the Colombian-owned hotels Coronado and Royal Decameron, both with golf courses and many other facilities. Real estate developments built by foreign firms have proliferated in the vicinities of these hotels and all along the coast, and have been very popular among foreign buyers. One is the Tucán Country Club & Resort which is being built adjacent to the Panama Canal zone and will have over 500 residences, a golf course and a boutique hotel. At the other end of the country, the coastal area of Bocas del Toro has become a favourite among retirees from the United States, particularly the Red Frog residential complex. The real estate segment has thus become the main driver of tourism investment in Panama. Lastly, the most ambitious tourism development is being built on Viveros island in Las Perlas archipelago. This includes several hotels, golf courses designed by Jack Nicklaus, luxury homes, condominiums, a marina and an airport, with an investment totalling over US$ 500 million (*El Periódico*, 14 November 2006).

Similar initiatives are springing up in other countries of the subregion. A prime location in Honduras is the Caribbean island of Roatán, especially West End beach. Development here began with the construction of hotels and real estate projects have gathered momentum more recently. A number of United States investors have built hotel and residential complexes oriented towards water sports, such as the Mayan Princess Beach Resort and the Parrot Tree Plantation. Within a few months, the Honduran hotel offer could be expanded with Los Micos Beach & Resort Center, which is now under construction on the Bay of Tela on the Caribbean coast. Los Micos is the country's largest hotel and real estate project and will include two luxury hotels, one of which may be run by the United States chain Hilton, over 430 vacation homes and a golf course. Likewise, local and foreign investors are looking into the almost unexplored advantages of the beaches of El Salvador. In 2005, the Colombian group Decameron opened the country's first beach hotel resort and since then other investors, including some local groups, have embarked upon new initiatives, such as Costa Real Resort & Villas, Portopongo and Puerto Cutuco, as well as real estate developments oriented towards foreigners, especially retirees from the United States (Baires, 2007).[47]

As has occurred with other destinations around the Caribbean basin, recent tourism and real estate developments in Central America have been hurt by the international financial crisis. Prices for some homes and condominiums have dropped by as much as 40% from the highs seen during the market's boom period and sales fell by at least 30% in the second half of 2008 (see [online] http://www.businessleone.com). The problems in the banking system severely constrained lending to retirees and travellers who would normally have financed their second homes by mortgaging their homes in the United States.

In summary, before even becoming consolidated as mass tourism destinations, the Central American countries were able to attract the interest of —mainly foreign— investors in developing coastal tourism hubs for high-income overseas visitors and residents. Costa Rica and Panama have taken the lead with a number of large-scale projects that combine hotel infrastructure, vacation homes and other facilities, especially golf courses.

[47] In fact, it may be that the strong increase in real estate investment in El Salvador has to do with the sale of some of the large local banks to international entities (Román, 2008, p. 9).

4. Brazil: looking to improve access for tourists from the main markets of origin

Although Brazil is the leading recipient of international visitors in South America, its capacity to draw in tourists is clearly under-utilized. As well as being Latin America's largest economy, the country is privileged in terms of natural and cultural diversity, several thousands of kilometres of coastline and a climate well-suited to year-round sun, sea and sand tourism. Yet Brazil receives only a little over five million international tourists per year (see figure III.5).

During the second half of the twentieth century, the Brazilian authorities focused their attention on industrial development, leaving the tourism industry practically in the hands of private enterprise. Rio de Janeiro, with its famous beaches, was the main destination, while the rest of the country remained isolated from domestic, regional and international tourist routes and most efforts to improve and expand hotel services were concentrated in large cities. The main factors contributing to this equation were infrequent international flights to the area, high-cost domestic flights, distance from the principal sources of tourists (United States and Europe), insufficient support infrastructure, limited marketing of Brazil as a tourist destination and bureaucratic barriers that complicated the arrival of tourists (Neto, 2000). As a result, despite its size and tremendous potential, Brazil has had only a marginal position in the global tourism industry.

Although the first large resorts were built in the 1970s, among them Club Med on the island of Itaparica across from Salvador de Bahia (see box III.1), the trend really took hold in the 1980s. In 1989 a new Club Med was opened near Rio de Janeiro, along with several other locally run resorts. Due, in particular, to the success of the Hotel Transamérica Ilha de Comandatuba in Bahia,[48] great expectations surrounded such initiatives at that time in Brazil, particularly in the North-East, which had all the conditions necessary to replicate the success achieved in the Caribbean (Silveira da Rosa and Mendes Tavares, 2002, p. 98). Macroeconomic turmoil delayed the completion of other similar projects, however. In time, with regained stability and significant government investment in infrastructure, institutional investors and international hotel chains took a fresh interest in large-scale tourism projects, particularly in the North-East. At the end of the 1990s, the Caesar Park Cabo de Santo Agostinho in Pernambuco[49] opened and the Brazilian construction company Odebrecht embarked on Brazil's largest integrated resort development on Costa do Sauípe, near Salvador de Bahia (Toledo, Marroquin and Castroman, 2006, p. 14).[50]

In 2000, the first phase of the Costa do Sauípe project opened. Odebrecht had obtained financial support from the Banco do Brazil Pension Fund (PREVI) (Latin America's largest pension fund), which invested nearly US$ 840 million in the project (*Exame*, 12 September 2008). The venture included five high-end hotels: two managed by the French chain Accor, two by Marriott of the United States and one by SuperClubs of Jamaica, along with six inns run by the Portuguese group Pestana.[51] The project planners aimed to distinguish Costa do Sauípe from other destinations, such as Mexico and the Caribbean, by attracting foreign visitors with greater purchasing power from Europe and the United States. The project ran into accessibility issues, however, and failed to make a profit. At the end of 2008, these difficulties led PREVI to withdraw from the project and sell its share to a consortium led by SuperClubs for close to US$ 112 million (*Gazeta mercantil*, 15 September 2008).

In the early 2000s, the difficulties faced by the large Brazilian hotel resorts in attracting foreign visitors and generating profits were due to circumstantial factors such as the terrorist attacks in the United States and the economic crisis in Argentina. Nevertheless, what hampered these initiatives' performance was the distance from tourists' countries of origin and, fundamentally, poor access to sun, sea and sand destinations like those in the North-East (Silveira da Rosa and Mendes Tavares, 2002, p. 100). Lastly, Brazil's size and federal structure also conspired against the industry's development. In fact, the incentive wars between States to capture large-scale projects may have made it difficult to generate cluster economies.

Government authorities and major private entities began taking measures to improve this state of affairs,

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48 The hotel chain Transamérica is currently controlled by the financial group Banco Real.

49 This resort is controlled by the Brazilian real estate developer Foundation of Federal Economists (FUNCEF), managed by the Mexican chain Posadas under the brand Caesar Park.

50 Since the early 1980s, Odebrecht had been looking at the possibility of building a tourist hub on the land it owned 80 km from Salvador de Bahia. In fact, the firm invested US$ 5 million in market and viability studies before taking the project to market (Toledo, Marroquin and Castroman, 2006, p. 13).

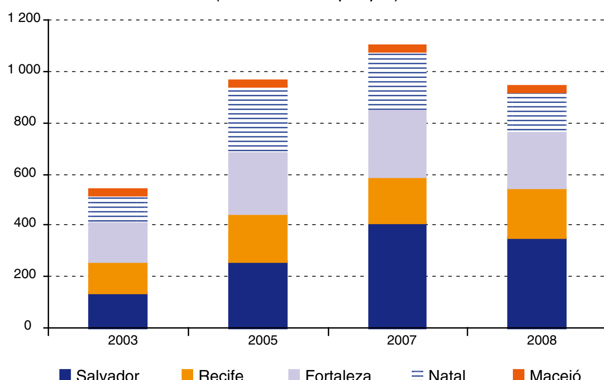
51 In 2007, due to differences in forms of payment, which included compensation for chains operating at a loss, PREVI decided to rescind its contract with Accor and Marriott and began to manage the four hotels on its own, before withdrawing from the business a few months later (*Exame*, 12 September 2008).

strongly upping the resources used to stimulate the sector. They launched international marketing campaigns, plans to expand and upgrade infrastructure and systems of financial and fiscal incentives for investment in tourism and hotels. The number of international flights was sharply increased, especially in the North-East, which more than doubled the number of foreigners landing at the region's principal airports (see figure III.22).[52] All this occurred in the context of relatively low land and property prices compared with other similar destinations[53] (HVS, 2008, p. 2), steep appreciation of the euro and the pound sterling[54] and abundant liquidity in international capital markets in the period before the crisis. Moreover, the beaches of Brazil's North-East, which are free from seasonality issues, began to attract greater attention after destinations like Thailand, the Caribbean and the southern United States suffered large-scale natural disasters such as hurricanes and tsunamis (*Exame*, 2007). The North-East region is thus at the heart of the recent transformation in the Brazilian tourist industry.

Figure III.22

AIR TRAFFIC THROUGH THE MAIN AIRPORTS IN NORTH-EAST BRAZIL, INTERNATIONAL PASSENGERS, 2003-2008

(Thousands of people)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Brazilian Airport Infrastructure Company (INFRAERO).

The picture has not been uniformly positive, however. First, local currency appreciation has severely impacted demand for these large resorts, as Brazil has become more expensive than other similar destinations. Second, the recent crisis in the domestic transport system has complicated access to tourist areas, particularly the North-East. Lastly, a surge in supply in recent years has created stiffer competition, pushing down prices and seriously eroding the profitability of many of these ventures (HVS and Newmark Knight Frank, 2008, p. 6).

In the light of these developments, and building on past experience, the planners of new projects increasingly incorporated real estate components in order to reduce risk and gain quicker returns on their investment. Today, some 50 real estate developments of varying sizes are being built in Brazil's North-East, with the active engagement of local and foreign companies. Tourism and real estate investments in vacation-home condominiums and resorts in the area now border US$ 5 billion (*América economía*, 21 January 2009, p. 32). As a result of this boom, nearly 50,000 homes for foreigners could be built in the next eight years, with an investment of roughly 7.5 billion euros (*Revista Hotéis*, 14 May 2008).

Today, foreign investors, led by Spanish and Portuguese firms, are investing close to US$ 2.5 billion in the Brazilian real estate market (*Revista Pronews*, No. 102, August 2008). Portuguese firms have committed some US$ 1.2 billion to new tourism developments in Brazil, particularly in the North-East, and Spanish firms plan to invest nearly US$ 700 million by 2010 (*Exame*, 2007).

The entry of Portuguese investors reflects cultural, linguistic and, in particular, geographical proximity between the two countries. In fact, a flight from Lisbon to Natal, in Rio Grande do Norte, takes less than six hours. There are currently more than 2,500 direct flights per year between Portugal and North-East Brazil, with no need to connect through Rio de Janeiro or Sao Paulo (*Exame*, 2007). This has made Portugal the third largest origin market for Brazilian tourism, after Argentina and the United States, and one of the largest foreign investors in the country (ECLAC, 2007b, p. 165).

Much of Portuguese investment in Brazil goes to the States of Bahia, Ceará and Rio Grande do Norte. Ceará is home to the largest Portuguese investment not only in Brazil, but in all of Latin America. Near Fortaleza, a consortium led by Banco Privado Portugues (BPP) plans to invest US$ 500 million in the construction of Aquiraz Golf & Beach Villas, a complex which will include eight hotels, 600 vacation homes and 640 apartments, as well as a golf course and other services. It is the boldest project to be carried out in the North-East since the construction of Costa do Sauípe. Similarly, Vila Galé Group is building Cumbuco Golf Resort, with an all-inclusive hotel and, later, a golf course and a 900-apartment condominium complex (*Revista Hotéis*, 14 October 2008), and the Reta Atlântico group built three hotels and 184 homes in Reserva Imbassaí.

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[52] The Programme for North-East Tourism Development (PRODETUR-NE) has been especially active in executing infrastructure projects to facilitate access for tourists to the region (BSH, 2008, p. 9).

[53] The average price per square metre of luxury vacation home in Brazil is US$ 3,000, compared with US$ 65,250 in Monaco, US$ 11,850 in Barbados, US$ 4,950 in Mexico and US$ 4,050 in the Dominican Republic (HVS, 2008, p. 3).

[54] This lowers Brazil's costs relative to other markets, not only as regards land prices, but also for labour and operation maintenance.

Table III.7
BRAZIL: MAIN HOTEL AND REAL ESTATE DEVELOPMENTS UNDER WAY, 2009

Project	Estimated investment (*millions of reais*)	Number of rooms	Controlling group	Origin of capital	Opening
Aquiraz Golf & Beach Villas	750	1 400	Consórcio Aquiraz (BPP)	Portugal	2009
Complexo Hoteleiro Praia do Forte	620	8 000	Grupo Trusam	Spain	2010
Vila Galé Cumbuco Golf Resort	600	2 886	Vila Galé	Portugal	2011
Pontal do Camaragibe	420	600	Invest Tur	Brazil	2010
Ilha da Barra Velha Resort	225	580	Universal Properties Brasil	France	2010
Pestana Resort	210	300	Grupo Pestana	Portugal	2009
Iberostar Bahia (Praia do Forte)	184	950	Iberostar	Spain	2009
The Reef Club	150	500	Grupo Qualta Resorts	Spain	2009
Reserva Imbassaí	150	1 050	Reta Atlântico	Portugal	2012
Bahia Beach	150	50	Patrik Axelsson	Sweden	2010
Complexo Sol Meliá	100	1 000	Grupo Sol Meliá	Spain	2009

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

These mega-projects have made Portuguese investors pioneers in Brazil as regards the new trends in large hotel and real estate ventures, such as those seen in Mexico and the Caribbean Basin. Their target markets, however, are different: the schemes in Mexico and the Caribbean Basin cater to United States baby boomers, whereas the Portuguese-built resorts are aimed at Europeans and the high-end domestic market.

Spanish investors have largely stayed true to their traditional model of all-inclusive resorts, but are slowly incorporating the real estate segment into their investments in Brazil. The Spanish chain Iberostar recently opened a five-star hotel and golf course in Praia do Forte, near Salvador de Bahia, to which it will add a 208-residence condominium complex with hotel services and infrastructure. Trusam Group is building a hotel complex at Praia do Forte Norte, with three hotels and a residential and commercial area, and Sol Meliá is also planning a resort complex. Both projects are located in the area around Salvador de Bahia.

This combined formula of hotel and real estate ventures is present in most of the projects recently announced by local and foreign investors. Although the North-East remains the centre of this phenomenon, projects with similar features are beginning to be seen in other regions too: the Jamaican chain SuperClubs in Búzios, near Rio de Janeiro and the Costão do Santinho Resort in Florianópolis, Santa Catarina.

In the latter months of 2008, the financial crisis began to impact on the tourism and real estate investments already exposed in vacation-home condominium complexes and resorts.[55] As has occurred in other destinations in Latin America and the Caribbean, the firms managing the ventures began to experience liquidity problems as a result of the sudden plunge in property sales, which forced them to slow the pace of projects already under way. Foreign tourist arrivals are expected to slump by at least 20%, which will strike a blow to the fledgling hotel industry in the country's North-East. The industry will attempt to compensate by attracting Brazilian and Argentine tourists, who tend to spend less but could be more likely to return (*América economía*, 21 January 2009, p. 33).

In summary, despite its enormous innate potential, Brazil has not been able to lock fully into international tourist circuits because of its distance from markets of origin, access infrastructure constraints and higher relative costs. Recently, however, the North-East has attracted the interest of investors and potential visitors, creating a significant tourism and real estate boom. Unlike some similar destinations, Brazil has been quite successful in diversifying its markets of origin for tourism. Thanks to hefty investments in airport infrastructure and increased flight frequency, Brazil has come onto the radar of the European market. As in the rest of the region, however, real estate and tourism have been severely hit by the international financial crisis in recent months.

55 Uncertainty in the real estate market has caused multiple delays and postponements in the Pontal do Camaragibe complex in the State of Alagoas. This project includes the construction of three hotels (two managed by the Thai chain Six Senses Resorts & Spa and one by local group Invest Tur, which is spearheading the initiative) along with 165 vacation homes, with an investment of US$ 193 million (*América economía*, 21 January 2009, p. 33).

D. Conclusions

Competition in the sun, sea and sand tourism industry in Latin America and the Caribbean has intensified and the price-driven, all-inclusive offer is showing clear signs of exhaustion. Over-exploitation of the natural environment has eroded the comparative advantages that sustain the activity, bringing a range of related problems, including issues of waste disposal and beach pollution, difficulties with drinking water supply and rising crime. Demand has been volatile and sensitive to external shocks (such as the terrorist attacks of 11 September 2001 and the recession in the United States) and this, combined with the low profit margins of mass tourism, has hurt the companies involved.

In response to this situation, the major companies have embarked on massive upgrades of their facilities in order to capture higher-income segments of demand. As well as generating larger profit margins, this is opening up access to a less volatile and more predictable market. There are also new ventures on a much larger scale involving local and international real estate developers. Spurred by the real estate boom in the industrialized countries, developers are seeking to offer a high-quality product for the second- and retirement-homes market, taking advantage of the lower prices prevailing in the developing economies. The combination of high-end hotels and real estate developments has enabled investors to increase their cash flow through home sales and to prorate the costs of building and maintaining shared leisure facilities, such as golf courses, among the owners of the residential units. These mega-projects have been highly successful in Mexico and are beginning to spread to other countries, such as the Bahamas, Costa Rica and the Dominican Republic. In fact, the proliferation of huge hotel and real estate projects could reduce the importance of the all-inclusive model, which has a very limited impact on local economies.

Unlike the boom in mass tourism, during which the hotel chains played a large role in real estate investment, other agents are driving the major hotel and real estate projects being built today. Generally speaking, the investors are construction companies, real estate developers and financial entities, while the hotel chains contribute their business know-how and customer management experience, all vouched for by the prestige of their brand names. As a result, it is difficult to quantify and measure the presence of foreign capital in such developments, and even more difficult to delineate the corporate strategies of the firms involved.

Finally, investors' expectations may be severely dented by the repercussions of the global economic and financial crisis. In fact, sales of several of these real estate developments have plummeted in the last few months, which has complicated the financial management of these mega-projects.

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