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Foreign direct investment between Latin America and Spain

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Rationale

This article describes the main features of foreign direct investment (FDI) into and out of Latin America and the Caribbean (LAC), with a special focus on flows to and from Spain. According to the latest available data for 2023, Spain is the second largest investor in the region, after the United States, and LAC FDI in Spain is also significant of late.

Takeaways

- FDI received and originated by LAC has increased its relative share in global FDI flows since the 1990s, but it has been heavily influenced by cyclical fluctuations in the Latin American economies and by commodity prices.
- The European Union ranks first as the geographical origin of the stock of FDI in LAC, with Spain in a prominent position (15% of the total). LAC accounts for over 30% of the stock of FDI by Spain, which is concentrated in the region's two largest economies: Brazil and Mexico. By sector, services accounts for the bulk of investment.
- FDI from LAC into Spain is sizeable, as it accounts for close to 8% of the stock of inbound FDI, most notably from Mexico, which represents nearly half of the region's FDI in Spain.

Keywords

Foreign direct investment, Latin America and the Caribbean, multinationals.

JEL classification

F21, F23.

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Introduction

The global map of foreign direct investment (FDI) inflows and outflows has changed significantly since the late 1990s. Traditionally, FDI came from advanced economies, which were also its main destination. However, in recent decades, the importance of emerging market economies as a destination for FDI has gradually increased, attracting more than 50% of global FDI in some years. At the same time, the importance of emerging market economies as a source of FDI has also been increasing progressively. All of this against a background of specialisation in productive activities internationally, which enabled the expansion of global value chains (GVCs). LAC joined this process, albeit with some specific characteristics reflecting, among other factors, the region's heterogeneity. This article analyses FDI to and from LAC, focusing on that from and to Spain, since the expansion of investment towards LAC since the 1990s is a key driver of Spain's business internationalisation and is therefore relevant for assessing the external positioning of the Spanish economy.[1] In particular, in the current setting of high geopolitical risks, bilateral patterns of direct investment between Spain and LAC could help soften the impact of such risks (Andrino, López Espinosa, Martín Machuca and Matos Celemín, 2025).

FDI in LAC: overview of developments in recent decades

FDI in LAC experienced an upwards trajectory in terms of GDP in the 1990s, accounting for over 4% of the region's output by the end of the 20th century. It has subsequently hovered around 3%, influenced by cyclical fluctuations in the Latin American economies and by commodity prices (see Chart 1.a), which affect developments in direct investment received by these economies, particularly in mining and quarrying. This significantly exceeds the share of global FDI in global output (1.5%), underlining the importance of direct investment as a source of financing in the region.[2] FDI from LAC has a lower economic impact, accounting for around 1% of GDP in the region in recent years.

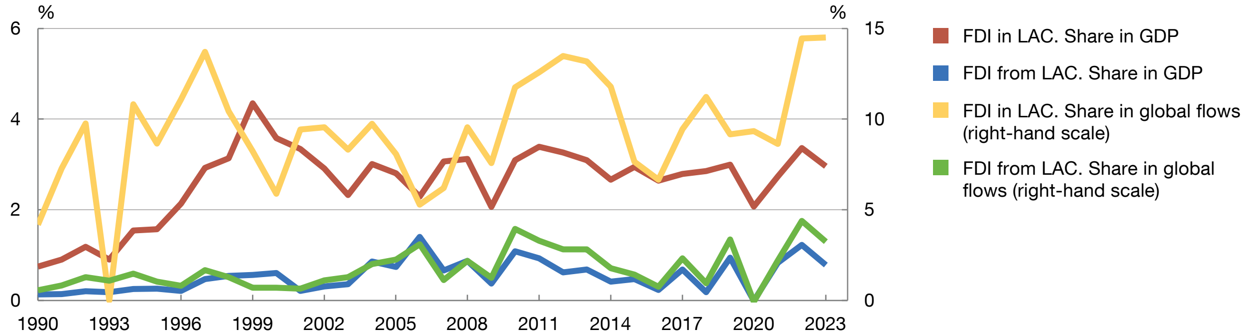
In relative terms, LAC is a player of some significance in the global FDI arena, although its share in global flows exhibits volatility. Since the pandemic, its share in global FDI inflows has recovered strongly (over 14% of the global total in 2023), while the region's share in outflows is more moderate (around 3% of the world total).

1 As regards the Spanish economy's exposure to "material third countries" or those outside the European Economic Area (as identified annually by the Banco de España) to which Spanish credit institutions have significant exposures, see Berganza and Lara (2025).

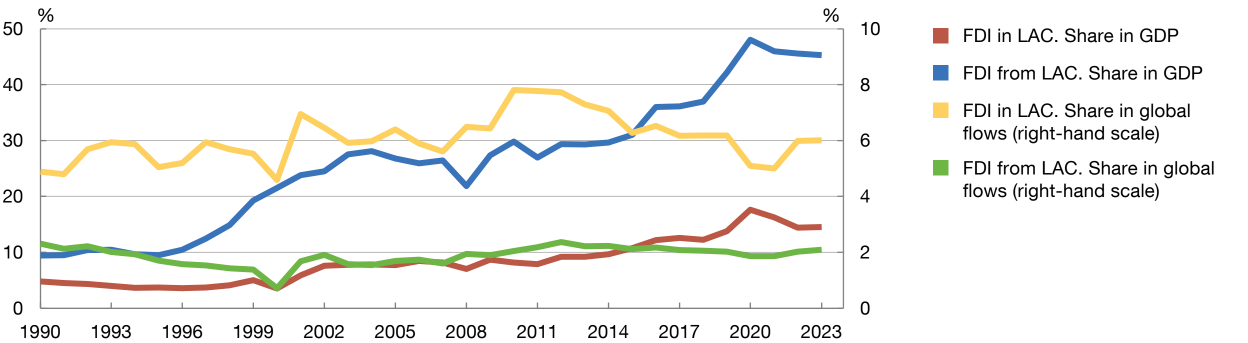
2 This importance is compounded by a setting in which the twin green and digital transitions must be addressed. United Nations (UN) Member States have set an ambitious mandate for the Fourth International Conference on Financing for Development that will be held from 30 June to 3 July 2025 in Spain in the context of the urgent need to accelerate the implementation of the 2030 Agenda and the achievement of the Sustainable Development Goals and to support reform of the international financial architecture (UN, 2024). FDI is key in this connection, as it allows emerging market economies, such as those of Latin America, to access cutting-edge technologies (Álvarez, Albis, Moraes and Mora, 2023).

Chart 1
FDI in LAC

1.a FDI in LAC. Flows



1.b FDI in LAC. Stock



SOURCES: UNCTAD and IMF (Culture for Development Indicators Suite (CDIS)).

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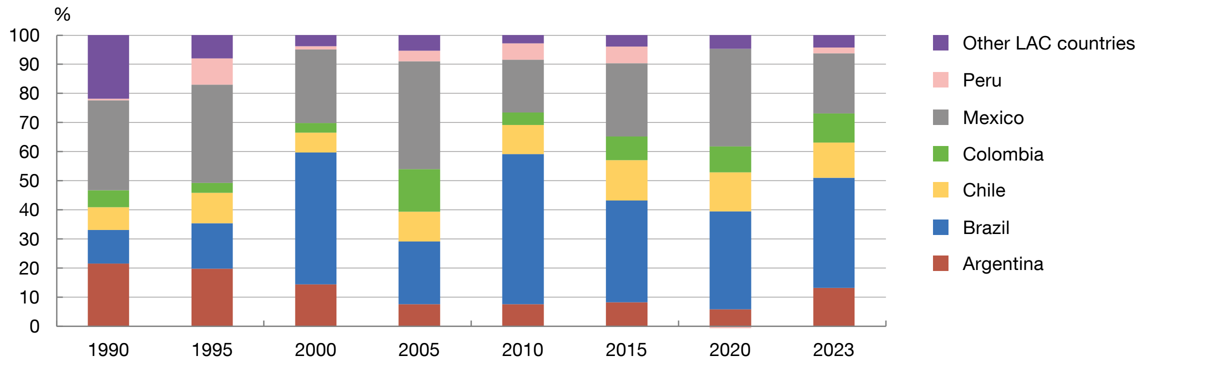
In terms of stock, FDI liabilities in LAC have grown appreciably more than assets, with the former standing at around 45% of GDP after the pandemic, far exceeding the position of FDI abroad, which stands at around 15% of GDP (see Chart 1.b). As a result, LAC has accumulated a net debtor position, in terms of the stock of FDI, of around 30% of GDP in 2023. However, LAC's relative weight in the global stock of FDI liabilities has diminished over the past decade, standing close to 6% following the health crisis. Once again, the region's relative weight in FDI assets is even smaller (around 2% of the global total), although it shows a more stable pattern.

As for the sectors where the FDI received is directed, Economic Commission for Latin America and the Caribbean (ECLAC) data show that investment flows are preferentially routed towards services (around 55% of the total after the pandemic), followed by manufacturing (about 27%). Nonetheless, there is significant heterogeneity across countries, depending on their productive specialisation and allocation of natural resources. Thus, in countries such as Chile and Colombia, OECD stock data[3] show that mining has a prominent role (27% and 37% of the total in 2023,

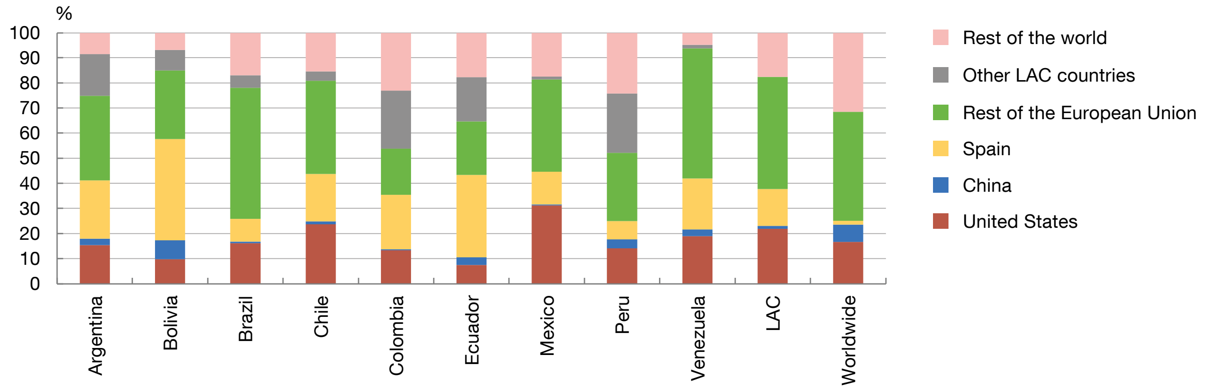
3 Specifically, for Chile, Colombia, Costa Rica and Mexico. See "FDI by counterpart area and by economic activity, BMD4".

Chart 1
FDI in LAC (cont'd)

1.c FDI flows received in LAC



1.d Weight of investor countries in the stock of FDI in LAC and in the rest of the world (2023)



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SOURCES: UNCTAD and IMF (Culture for Development Indicators Suite (CDIS)).

respectively). The investment projects announced for the region point to the growing importance of the extraction of raw materials needed for the digital transformation and the energy transition (ECLAC, 2024). By contrast, the national statistics for the two main economies in the region, Brazil and Mexico, reveal the importance in the stock of inbound FDI of services for Brazil and of manufacturing for Mexico (around 60% and 50%, respectively). According to ECLAC (2024), FDI in services relies not only on traditional sectors (energy and water distribution companies, banking and telecommunications), but also on the gradual increase in the content of services in manufacturing GVCs. This can be observed globally in technological and organisational changes in production and, within the region, is most visible in Mexico and Colombia.

FDI in LAC shows significant geographical concentration. This is driven by the varying economic weight of the countries in the region, their membership of free trade areas (e.g. the United States-Mexico-Canada Agreement, or USMCA,[4] and the Southern Common Market, or Mercosur) and

4 The USMCA (known as CUSMA in Canada and T-MEC in Mexico) is a free trade agreement that replaced the North American Free Trade Agreement (NAFTA) and entered into force on 1 July 2020.

natural resource wealth. Just two of the largest regional economies, Brazil and Mexico, attract more than 50% of FDI inflows to Latin America. This figure rises above 80% when Chile, Colombia and Argentina are added (see Chart 1.c).

The European Union is the largest source of FDI in LAC, with Spain playing a key role. Spanish involvement far exceeds its relative share in global FDI flows, which has stood around 3% in recent years. In contrast, in 2023, Spain accounted for 13% of the total stock of inbound FDI to LAC (see Chart 1.d).[5] In fact, Spain ranks as the second largest investor in LAC, behind the United States (which originates 22% of the total stock of inbound FDI to LAC). The US economy is particularly dominant in Mexico, accounting for more than 30% of FDI inflows, as well as in Chile and Brazil (23% and 16% of the total stock). Spain is comfortably the leading investor in Bolivia and Ecuador (40% and 30%, respectively, of the total inbound stock). Likewise, it is well ahead of the United States in Colombia and Venezuela – Spanish investments make up approximately 20% of the total stock in these countries. China's relative share in FDI flows remains low, but looks set to grow as Chinese firms expand worldwide. Nevertheless, there is a meaningful Chinese presence in the Andean economies, which are rich in critical mineral and energy resources. China's FDI into Bolivia already tops 7%, while standing at around 4% and 3% in Peru and Ecuador, respectively.

Outbound FDI from LAC also shows significant geographical concentration. Just five countries (Brazil, Mexico, Chile, Colombia and Argentina) account for more than 80% of the stock of outbound FDI from LAC (see Chart 2.a). There appears to be no standard pattern uniting the top recipients and the geography of Latin American investments has been shifting in recent decades. Nearly 60% of Argentina's outbound direct investment remains within the region itself. In contrast, Mexican investments are notably directed towards the United States and Europe, with Spain occupying a key position. Brazil, and particularly Chile, show more geographical diversification, although flows to other countries in the region are particularly significant, as are those to the United States and the EU.

Spain as an origin and destination of FDI into and from LAC

Spain has been a key and constant investor in LAC since the 1990s. On average, the region has accounted for around 40% of Spain's annual outbound direct investment since 2013. FDI into LAC exceeds 30% of Spain's total stock of outbound direct investment. Investments are concentrated in the region's major economies, with Mexico and Brazil topping the list, attracting around 10% and just under 9%, respectively, of the total in 2023 (see Chart 2.b).

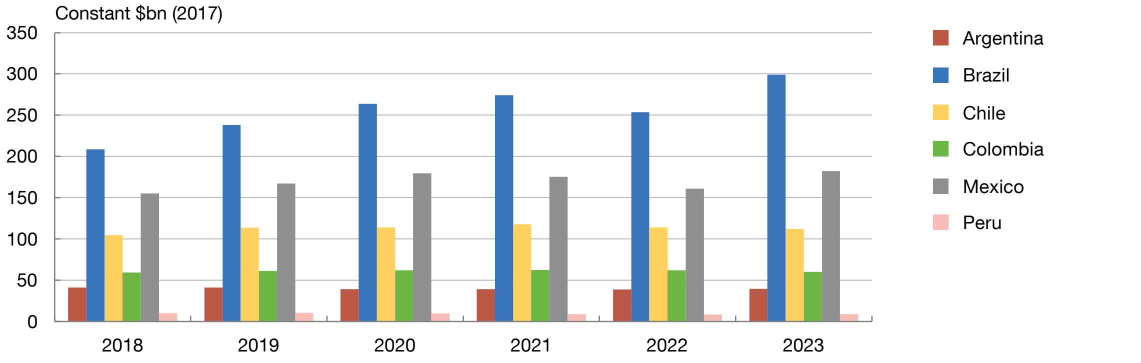
The pattern of sectoral specialisation of Spanish FDI into LAC is broadly similar to the global stock.[6] Services attract the bulk of this investment (see Chart 2.c). Within these, financial and insurance services are particularly prominent (35% of the total), owing to the expansion of Spanish

5 According to the mirror data on investing countries in the International Monetary Fund's Coordinated Direct Investment Survey.

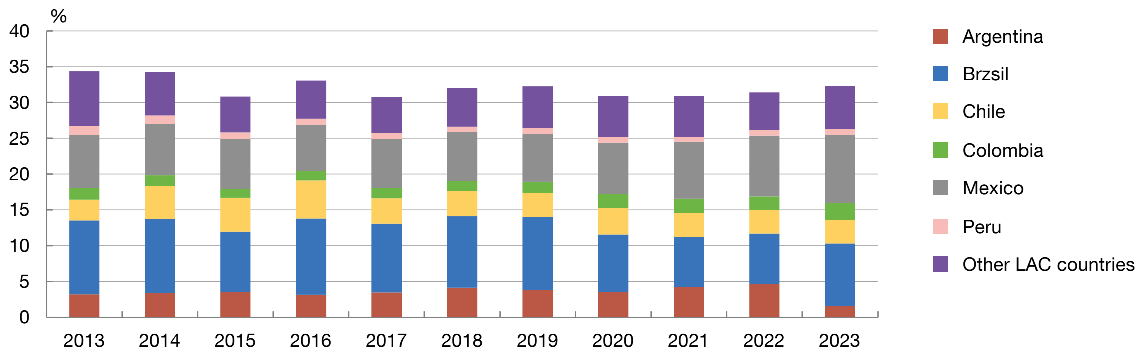
6 The data on FDI stocks in the Foreign Investment Register of the Ministry of the Economy, Trade and Business offer information on the sectors receiving investment from Spanish multinationals.

Chart 2
FDI into LAC

2.a Spain's outbound FDI. Stock



2.b Relative weight of LAC in the total stock of Spain's outbound FDI

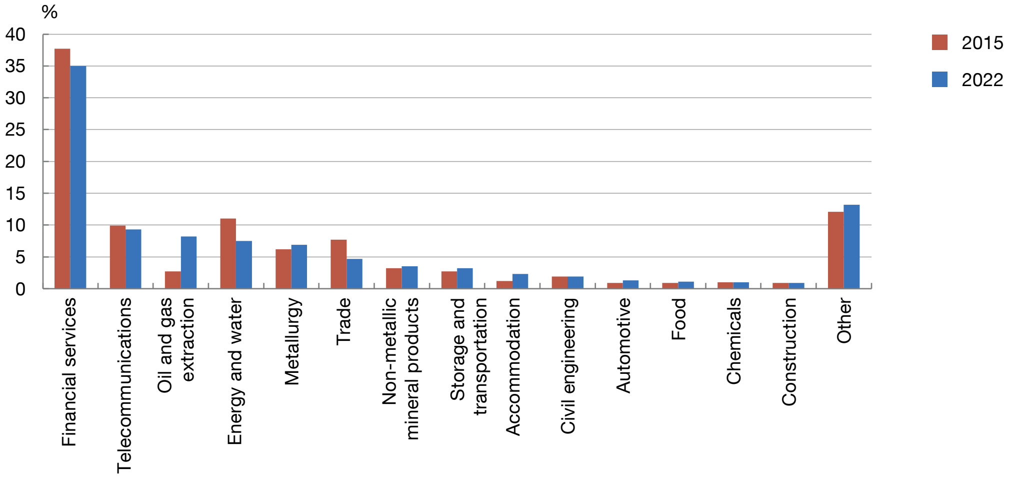


SOURCES: Eurostat, Foreign Investment Register and ORBIS.

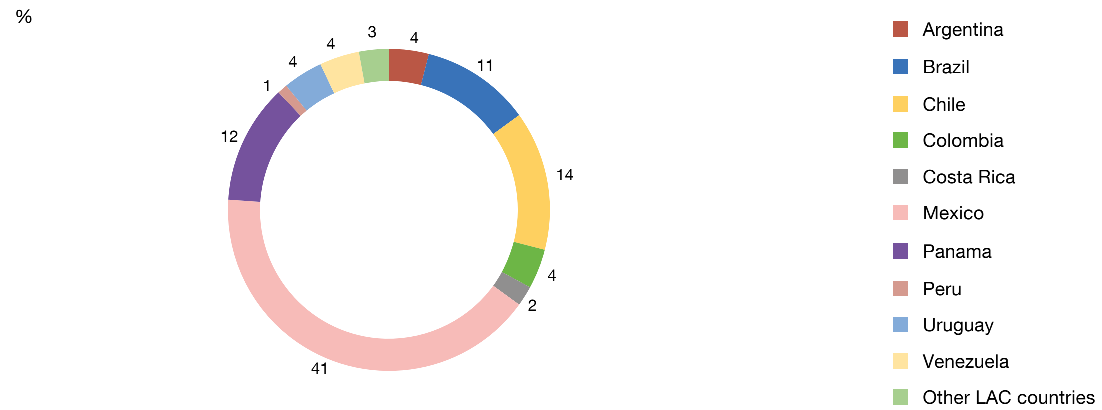
banks in the region since the early 1990s. Telecommunications services lie a distant second, accounting for somewhat more than 9% of the total. In other activities there has been some diversification to the detriment of certain services that were privatised in the early 1990s and had attracted significant Spanish capital, such as energy and water distribution. The relative share of these activities in the total stock of FDI has fallen by around 4 percentage points (pp) since 2015, to stand at approximately 8% in 2022, the latest year for which data are available. Likewise, the relative importance of the retail distribution sector has declined appreciably (by around 3 pp) to fall just below 5%. Natural resources have attracted Spanish capital to the mining and quarrying sector in LAC more than the rest of the world, particularly in oil and gas, which have gained share. Likewise, metallurgy and storage and transportation services have also increased their shares. The stock of FDI going to the automotive sector has grown in relative terms, while that of other manufacturing activities, such as food and chemicals, has remained flat, at low levels in all such cases. Investments have been seen to increase recently into high-skilled services, such as programming and consultancy, although they still account for a fairly small proportion of the total stock and their weight is also lower than in the global total stock, given the lower level of development and skill of the region's human capital.

Chart 2
FDI into LAC (cont'd)

2.c Sectoral breakdown of Spain's FDI into LAC



2.d Distribution of firms with Latin American ownership in Spain (2023 data)



SOURCES: Eurostat, Foreign Investment Register and ORBIS.

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In turn, outbound FDI from LAC into Spain is not insignificant. According to Banco de España data,[7] LAC originated 8% of the total stock of inbound Spanish FDI in 2023. This figure is somewhat lower than the pre-pandemic peak of 10% (see Table 1). By country, Mexico, Argentina and Brazil stand out, accounting for 46%, 17% and 10%, respectively, of the region's outbound FDI.

To characterise the presence of Latin American multinationals in Spain, these aggregate data can be complemented with the more granular data in the ORBIS database. According to these statistics, as at 30 July 2023, there were 3,379 firms in Spain of which at least 51% of the capital is held by Latin American investors, accounting for approximately 5% of all firms with foreign ownership. The majority of these investments originate in Mexico (41%), followed by Chile (14%), Panama (12%) and Brazil (11%). Argentina, Colombia, Uruguay and Venezuela have a smaller presence, each representing less than 4% (see Chart 2.d). By sector, investments in distribution

7 Balance of Payments by "ultimate investing economy".

Table 1

FDI into Spain. Stock of FDI, by ultimate investing economy

€m	2018	2019	2020	2021	2022	2023
TOTAL	658,584	694,719	713,474	772,079	813,776	873,592
Europe	434,638	453,847	484,053	516,712	553,626	596,447
LAC	66,908	69,352	63,850	69,898	67,191	72,407
Argentina	6,862	8,573	7,963	11,152	11,275	12,039
Brazil	5,820	6,205	5,701	6,587	7,592	7,514
Chile	71	42	187	1,105	716	645
Colombia	3,329	2,677	3,602	3,936	4,484	4,772
Mexico	32,461	32,630	27,866	31,884	29,704	33,060
Peru	1,054	810	1,048	874	892	728
% of the total						
Europe	66.0	65.3	67.8	66.9	68.0	68.3
United States	13.6	13.9	13.9	15.1	15.1	14.8
LAC	10.2	10.0	8.9	9.1	8.3	8.3
% LAC						
Argentina	10.3	12.4	12.5	16.0	16.8	16.6
Brazil	8.7	8.9	8.9	9.4	11.3	10.4
Chile	0.1	0.1	0.3	1.6	1.1	0.9
Mexico	48.5	47.0	43.6	45.6	44.2	45.7
Other LAC countries	32.4	31.6	34.7	27.4	26.6	26.4

SOURCE: Banco de España (Balance of Payments).

activities stand out, accounting for 13% of firms. These are followed by manufacturing and financial services, each representing around 10%. In contrast, the digital services and energy and telecommunications sectors have a smaller presence, accounting for 3% and 2% of the total, respectively.

Outlook for FDI in LAC

The outlook for FDI in LAC is favourable and is underpinned by foreign capital pull factors in the current geopolitical setting of trade tensions and the energy transition. The neutral stance adopted by most Latin American countries amid increasing geopolitical fragmentation and the restructuring of GVCs could potentially redirect investment flows towards the region, as a way of bypassing restrictive trade or direct investment measures. However, this development is contingent upon the investment and trade policies of the new United States Administration. The level of uncertainty surrounding these policies and their implications for economic and investment prospects in LAC remains very high (Banco de España, 2025). The outlook for FDI in the energy and mining sectors is favourable, owing to the energy commodity reserves and the availability of natural resources necessary for the green transition in certain Latin American countries. In the services sector, investments related to the digital transition can be expected to expand gradually. Furthermore, announcements of projects by Latin American multinationals indicate significant growth (ECLAC, 2024), with investments in commercial distribution in Argentina, renewable energy in Chile and metallurgy in Brazil. These projects would primarily be located in other economies within the region (nearly two-thirds). A smaller proportion, almost 20%, would be situated in Asia and the Pacific.

If these expectations for capital inflows materialise, FDI would help enhance the growth capacity of Latin American economies. This would be related to the positive effects FDI has on innovation, gross capital formation and the creation of higher-quality jobs (Bruno, Campos and Estrin, 2018 and Harms and Méon, 2017). The positive outlook for the investment activities of Latin American multinationals would support the expansion and competitiveness of certain sectors of the productive framework and strengthen intra-regional economic ties, thereby favourably affecting the medium-term growth capacity of activity in LAC. However, achieving this requires the consolidation of an institutional environment and economic policies in the region that foster a stable, predictable and favourable framework for the sustained deployment of international investment activities.

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