Groupement de Recherches Economiques et Sociales

http://www.gres-so.org

Cahiers du GRES

The strategies of multilatinas: from the quest for regional leadership to the myth of the global corporation

Alexandre MINDA

LEREPS – GRES

alexandre.minda@univ-tlse1.fr

Cahier n° 2008 - 08

Mars 2008

La stratégie des multilatinas : de la recherche d'un leadership régional au mythe de la firme globale

Résumé

Les firmes multinationales émergentes latino-américaines proviennent pour l'essentiel du Brésil, du Mexique. Leur motivation principale réside dans l'acquisition de ressources naturelles et la recherche de débouchés. A l'exception de Cemex et d'Embraer qui aspirent à être des global players, la majorité des translatines sont des firmes régionales ou bi-régionales. L'orientation sectorielle des translatines reflète pour une grande part la spécialisation productive et technologique de l'Amérique latine. Elles ne disposent pas des mêmes avantages spécifiques que les firmes multinationales émergentes asiatiques dans les industries de haute technologie ou dans les secteurs à forte intensité capitalistique. Le développement récent de leurs activités internationales qui s'effectue en parallèle avec l'essor des firmes émergentes asiatiques ne sont pas sans conséquence sur la dynamique de l'économie mondiale, en particulier sur la reconnexion Nord-Sud et l'approfondissement des relations Sud-Sud.

Mots-clés : Firmes multinationales émergentes, multilatinas, investissements étrangers directs, reconnexion Nord-Sud, relations Sud-Sud

The strategies of multilatinas: from the quest for regional leadership to the myth of the global corporation

Abstract

The emerging Latin American corporations come essentially from Brazil and Mexico. Their prime motivation lies in the acquisition of natural resources and the search for market openings. With the exception of Cemex and Embraer who aspire to be global players, the majority of the multilatinas are regional or bi-regional companies. To a large extent, the sectorial breakdown of the multilatinas reflects the productive and technological specialisation of Latin America. They do not have at their disposal the same specific advantages as the emerging Asian multinational corporations in the high-tech industries or in the high capital-intensive sectors. The recent growth of their international activities has certainly impacted the dynamics of the global economy, particularly as regards the re-establishment of North-South links and the strengthening of South-South co-operation.

Keywords: Emerging multinational corporations, multilatinas, foreign direct investment, re-establishment of North-South links, South-South co-operation

JEL : D 21, F 23, L 21, O 11, O 54

Introduction

The international expansion of companies which originate from developing countries has gathered pace since the middle of the 1990s. Foreign direct investment (FDI) from these countries increased tenfold between 1990 and 2005; it represents a growing proportion of the world stock of FDI (15.8% in 2005 compared with 8.2% in 1990). Even if Asia's emerging multinational corporations are the most active, the large Latin American corporations have also emerged as new international players.

Of the fifty largest multinational corporations from developing countries, in 2005 eight come from Latin America. Their head offices are in Mexico (CEMEX, Telmex, América Móvil, FEMSA-Fomento Economico Mexicano) in Brazil (Petrobras, Companhia Vale do Rio Doce (CVRD), Gerdau) and in Venezuela (Petróleos de Venezuela SA (PDVSA)). The *multilatinas* specialise principally in exploiting natural resources such as mining activities (CVRD), metallurgy (Gerdau, Imsa), hydrocarbons (Petrobras, PDSA) and construction (CEMEX) but also in the telecommunications sector (Telmex, América Móvil) and foods and drinks (FEMSA-Fomento, Grumba, Bimbo).

The major Latin American companies started reinforcing their internationalisation process during the last decade for a variety of reasons: economic reforms which encouraged an opening on to the exterior, privatisation programmes, saturation of domestic markets, the desire to conquer neighbouring markets and the need to diversify risk.

The emergence of multinational corporations originating in developing countries raises numerous questions. Do the theoretical fundamentals behind the multinationalisation of corporations from Triad companies apply in the same way to companies from emerging economies? Do the latter have specific motivations for investing abroad? Do they have global or regional strategies? Similarly, it is worth wondering what effect the rapid development of these corporations has had on their home country as well as on host countries. Is their impact the same as that prompted by multinational corporations from developed countries? What is their role in the re-establishment of the North-South link and in South-South cooperation?

While our objective is not to provide answers to all of these questions, we shall contribute elements of response to some of them. Therefore, we shall start by explaining the role played by *multilatinas* in the upsurge of foreign direct investment from emerging economies. The second stage will be to examine the fundamentals behind the expansion of Latin American multinational corporations. We shall then analyse the strategic behavioural approach adopted by emerging multinationals in Latin America. Lastly, we shall endeavour to identify what lessons can be learned from the multinationalisation of the large Latin American corporations, particularly as regards North-South economic relations and enhanced South-South co-operation.

I - The role of multilatinas in the expansion of foreign direct investment by developing countries

A - The expansion of foreign direct investment by developing countries

The multinationalisation of companies from developing countries is nothing new, with the Argentinian textile company Alpargatas setting up a subsidiary in Uruguay as early as 1890 (UNCTAD, 2006). Wells (1983) recalls that the Argentinian industrial manufacturer, S.I.A.M. di Tella, created a subsidiary in Brazil back in 1928 to produce petrol pumps there. However, it was not until the Sixties that foreign direct investment (FDI) by companies from developing countries really began to take off.

Dunning and Narula (1996) as well as Chudnovsky and López (2000) distinguish three waves of outward FDI flow from developing countries. The first wave started in Latin America in the years 1960-1970. At that time, new multinational corporations[1] emerged from Argentina, Mexico, Chile and then from Brazil, Colombia and Venezuela. The FDI outflows accompanied the industrialisation strategies of their home countries, based on the substitution of imports. The majority of these investments centred on other developing countries, particularly neighbouring countries, and concentrated on the extractive industries, civil engineering and construction services. They were aimed at the receiving countries' markets and/or the search for natural resources for the home countries. In many cases, these investments were also prompted by the desire to circumvent the trade barriers imposed by host countries.

The second wave which began during the 1980s was dominated by Asian multinational corporations, particularly those from the Four Little Dragons (South Korea, Taiwan, Hong Kong, Singapore). Malaysia, Thailand, China, India and the Philippines rapidly joined "the Foursome" whereas Latin America paused momentarily. These corporations accompanied the industrial strategy of promoting their home country's exports. Their foreign investments were governed by a number of factors: appreciation of local currencies, access to natural resources, proximity to customers, search for cheaper labour, access to brand labels and new technologies (Whitmore *et al*., 1989). The FDIs of the emerging Asian economies which were more significant than those of the first wave, were directed at sectors which were more technologically sophisticated (Chudnovsky and López, 1999). They mainly targeted the other emerging economies of the region together with North America and Europe.

The third wave, initiated during the 1990s, is characterised by a strong surge in the outward flow of investment and by renewed activity on the part of Latin American FDI in a context of increasing competition on a global scale both in the industrial and service sectors. Andreff (2003b) underlines the fact that at that time the major Asian multinational corporations started competing with the multinational corporations (MNCs) from developed countries. The Asian corporations began investing in developed as well as developing countries and became net FDI exporters, a privilege up to then reserved for developed countries.

[1] We shall retain the definition of multinational corporations formulated by Dunning (2006: 173): "… all enterprises that engage in FDI and that own or control value-adding activity outside their national boundaries".

With the exception of a few corrections in 1990-1991, 1998 and 2001-2003 the FDI flows from developing countries have not ceased to increase since the 1970s. They have moved up from an annual average of $4 billion between 1982 and 1986 to more than 117 billion in 2005, topping almost 144 billion in 2000 (table 1). Excluding the year 2000 peak, the outward flows of FDI from developing countries more than doubled between 1998 and 2005, whereas over the same period total world FDI only managed to move up by 13.3 %, also experiencing a peak in 2000. The growth of investments outside developing countries went hand in hand with an increasing share on their part in the total of world FDI, reaching 15.1% in 2005 compared to 6% in 1982.

Table 1. Regional breakdown of outward FDI, 1982-2005
(Billions of dollars and percentage)

Region	1982-1986*	1987-1991*	1992-1997*	1998	1999	2000	2001	2002	2003	2004	2005
Value at current prices (billions of dollars)											
Developed economies	53,0	183	275,7	631,5	1014,3	1097,5	684,8	485,1	514,8	686,3	646,2
Developing economies	4,0	12	51,4	53,4	75,5	143,8	76,7	49,7	35,5	112,8	117,5
Central and Eastern Europe	0,01	0,02	1,2	2,3	2,5	3,2	2,7	4,7	10,7	14,0	15,1
World	57	195	328,2	687,2	1092,3	1244,5	764,2	539,5	561,1	813,1	778,7
Share in world FDI outflows (%)											
Developed economies	94	94	84,0	91,9	92,9	88,2	89,6	89,9	91,7	84,4	83,0
Developing economies	6	6	15,6	7,8	6,9	11,6	10,0	9,2	6,3	13,9	15,1
Central and Eastern Europe	0,01	0,01	0,4	0,3	0,2	0,3	0,4	0,9	1,9	1,7	1,9
World	100	100	100	100	100	100	100	100	100	100	100

* Annual average

Source: Compiled by the author from UNCTAD (2006) and the FDI/STS database (www.unctad.org/fdstatistics)

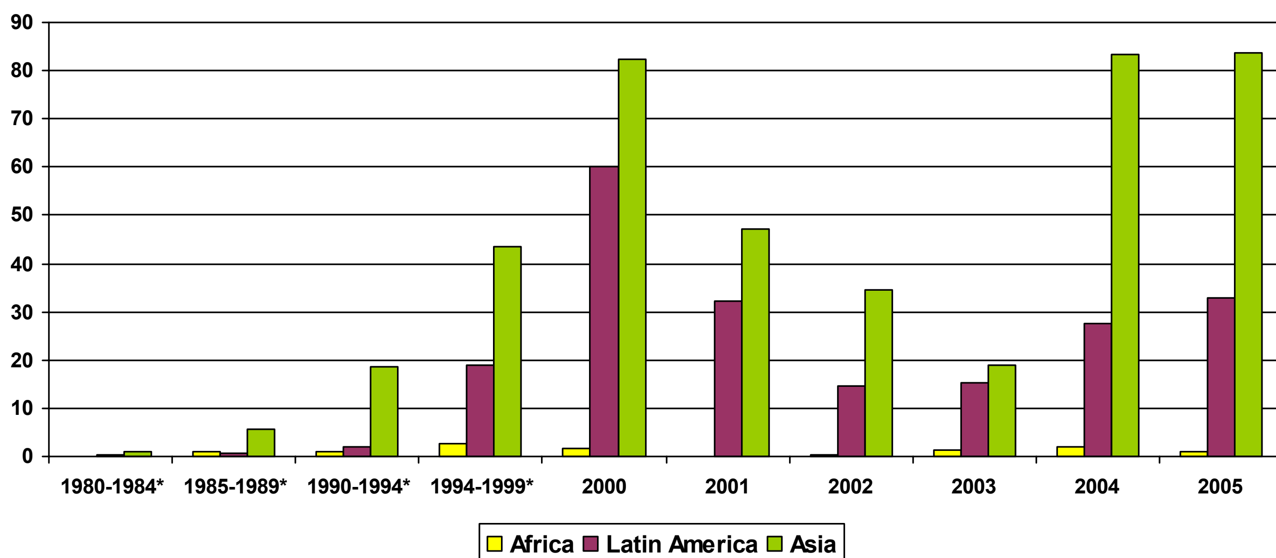
The expansion in outward FDI realised by developing and transition countries brought with it, on the part of MNCs from these countries, an increase in international merger and acquisition operations. Between 1987 and 2005, the proportion accounted for by these MNCs moved up from 4% to 13% in value terms, and from 5% to 17% in the number of operations conducted (UNCTAD, 2006). In terms of sectorial activity, the flows were mainly directed at the tertiary sector, particularly services to business, commercial and financial services. However the flows recorded into the manufacturing sector were by no means insignificant, the electronics industry in particular, and more recently in the primary sector (oil exploration and mining).

B - Latin America's contribution to outward FDI from developing countries

The geographical composition of FDI coming from developing countries has changed over time, with a marked and constant progression of developing Asian countries as a source of outward investment. At an annual rate of $18.5 billion between 1990 and 1994, FDI coming out of Asia exceeded the 83 billion mark in 2004 and 2005, up 4.5 times over some fifteen years (figure 1). Over the same period, the FDI coming out of Latin America multiplied by fifteen to stand at $32.8 billion in 2005, while FDI from Africa maintained its very low level, as at the outset.

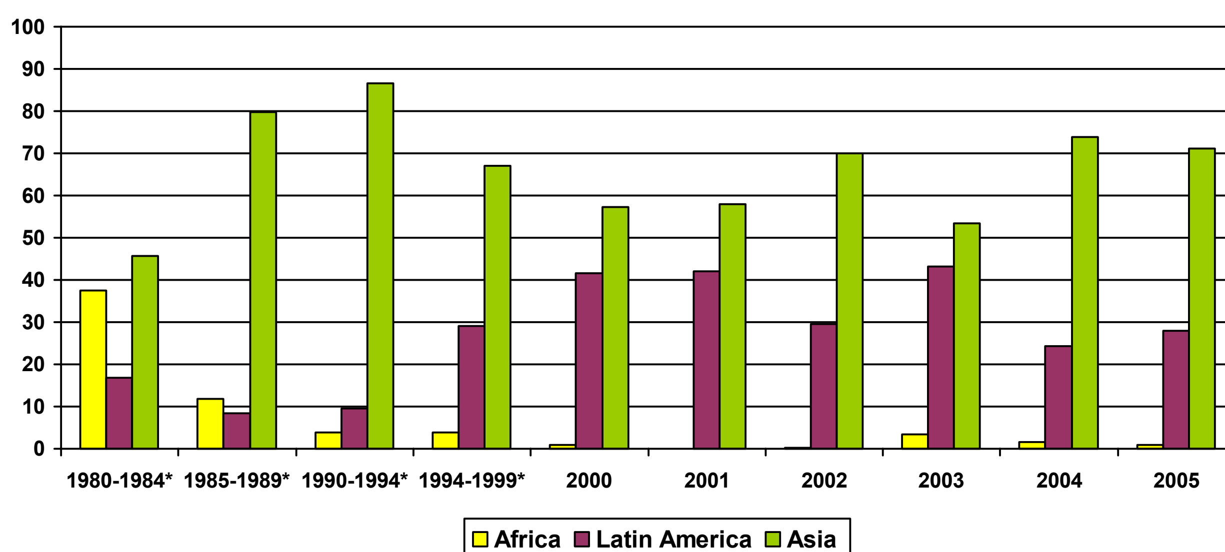
Latin America's share in the total of developing countries' outward FDI has fluctuated enormously over the last ten years. Standing at about 10% between 1990 and 1994, it rose to 43% in 2003 before dropping back to around 28% in 2005 (figure 2). Asia's share has also fluctuated, but in the opposite direction, dropping back from its 86.6% level between 1990 and 1994 to 53.5% in 2003, before climbing back up to 71.2% in 2005. On the other hand, Africa's share which was still high at the beginning of the 1980s (37.5%) has fallen back substantially, accounting for barely 1% of developing countries' outward FDI in 2005.

Figure 1. Regional breakdown of outward FDI from developing countries, 1980-2005 (Billions of dollars)



* Annual average
Source: Compiled by the author from UNCTAD data (2006) and the FDI/STS database (www.unctad.org/fdstatistics)

Figure 2. Share of the regions in the total of outward FDI from developing countries, 1980-2005 (Percentage)



* Annual average
Source: Compiled by the author from UNCTAD data (2006) and the FDI/STS database (www.unctad.org/fdstatistics)

In terms of country of origin, outward FDI from developing and transition countries are more concentrated than those from developed countries. In 2000, more than 70% of the stock of FDI from developing and transition countries came from the top five countries of origin, with 85.6% coming from the top ten (table 2). Concentration remained strong in 2005, with the relative share held by each of these two groupings standing at 65.8% and 82.3% respectively. In the same year, Hong Kong (China), the British Virgin Islands, the Russian Federation, Singapore and Taiwan were, in that order, the countries with the largest outward stock of FDI. Brazil (6th), Mexico (12th), Argentina (13th), Chile (14th) held, between the four of them, 11% of the total stock of FDI outflows.

Table 2. Batting order of the 15 principal developing and transition countries in terms of stock of FDI outflows, 2000-2005

2000			2005		
Ranking	Country	Millions of $	Ranking	Country	Millions of $
1	Hong Kong, China	388 380	1	Hong Kong, China	470 458
2	Taiwan	66 655	2	British Virgin Islands	123 167
3	British Virgin Islands	64 483	3	Russian Federation	120 417
4	Singapore	56 766	4	Singapore	110 932
5	Brazil	51 946	5	Taiwan	97 293
6	South Africa	32 319	6	Brazil	71 556
7	China	27 768	7	China	46 311
8	Republic of Korea	26 863	8	Malaysia	44 480
9	Malaysia	22 874	9	South Africa	38 503
10	Argentina	27 141	10	Republic of Korea	36 478
11	Caiman Islands	20 553	11	Caiman Islands	33 747
12	Russian Federation	20 141	12	Mexico	28 040
13	Bermuda	14 942	13	Argentina	22 633
14	Chile	11 154	14	Chile	31 286
15	Mexico	8 273	15	Indonesia	13 785
Total from developing and transition countries		893 102	Total from developing and transition countries		1 399 963

Source: UNCTAD data (2006)

Mainly due to the economic crises, institutional changes and economic policy modifications which occurred at different times, these four countries successively shared the leader position in Latin America. While Argentina and Chile were the main investor countries during the 1990s, Brazil and Mexico (the latter only publishing statistics since 2001) have been battling for sub-continent supremacy since 2004 (table 3). Brazil regained the top slot as the number one investor abroad in 2006, in the wake of a spectacular surge in its outward FDI which totalled $28.2 billion, some eleven times its 2005 figure. This record amount which for the first time made Brazil a net exporter of FDI, can to a large extent be explained by CVRD's acquisition of Inco, the Canadian mining company for a total of $16.7 billion. (CEPAL, 2007). However, without the other acquisitions or investments by MNCs such as Itaú, Petrobras, Votorantim and Gerdau, Brazilian FDI would never have attained such a historic level[2].

[2] By comparison, the amount of FDI realised in 2006 by Brazilian emerging multinationals alone was equal to the total FDI figure realised by all MNCs of Latin American origin during 2004

Table 3. Net flows of outward FDI of the main Latin American investor countries, 1992-2006 (Millions of dollars)

Country	1992-1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Argentina	1 196	3 653	2 325	1 730	901	161	-627	774	442	1 151	2 008
Brazil	516	1 042	2 721	1 690	2 282	-2 258	2 482	249	9 807	2 517	28 202
Chile	726	1 463	1 483	2 558	3 987	1 610	343	1 606	1 527	2 209	2 797
Colombia	205	809	796	116	325	16	857	938	142	4 662	1 098
Mexico	0	0	0	0	0	4 404	891	1 253	4 432	6 474	3 897
Venezuela	400	557	1 043	872	521	204	1 026	1 318	619	1 183	2 089

Source: CEPAL (2007

As in Brazil, the increase in FDI outflows from Mexico up until 2005 came essentially from a small number of sizeable operations by just a few MNCs in specific sectors such as cement, telecommunications, foods and drinks. Hence, the acquisitions by CEMEX of Southdown Inc (the second largest American cement manufacturer) in 2000 for $2.8 billion and of the British company RMC in 2005 for $5.8 billions explain the uplift in the flows recorded for the years in question. Conversely, the relative downturn in 2006 reflects a year where there were no large-scale operations and which also marked CEMEX’s withdrawal from Indonesia. Chile, which has maintained its position as the number three investor country since 2004, concentrates its investments in the retail and mining sectors, particularly targeting other countries in the region. Venezuela has held on to its fourth position in the region since 2001 thanks to the outward investments made by PDVSA in the hydrocarbon sector.

C - The role played by multilatinas in the emergence of Southern multinational corporations

Even if the number of Triad-origin MNCs still holds majority sway, the share attributable to developing country MNCs has been growing significantly these last few years. In 2004, five developing country companies, all with their head office in Asia, figured in the batting order of the top-100 non-financial MNCs, ranked on the basis of their assets abroad (UNCTAD, 2006). These five companies - Hutchinson Whampoa (Hong Kong (China)), Petronas (Malaysia), Singtel (Singapore), Samsung Electronics (South Korea) and CITIC Group (Chine) - constituted the Top 5 MNCs from developing countries. Likewise, the number of companies from developing countries listed in the *Fortune Global 500* (listing taking all sectors into account) increased from 26 in 1988 to 60 in 2005. Sinopec (China) which comes in 23rd position is the highest-ranked company from developing Asia; PDVSA (Venezuela), ranked number 35, is the top firm from Latin America based on turnover.

Asia’s relative dominance is also apparent from the list of the top 50 non-financial MNCs from developing countries, occupying 37 of the 50 positions in 2005. Hong Kong with 10 companies, but also China and Singapore with 7 companies respectively were massively represented (table 4). In this listing, Latin America comes out honourably, with a dozen or so companies present up to the turn of this century. However, its position has been eroded in recent years in favour of South Africa which boasted 5 companies in the top 50 whereas the number of Latin American MNCs dropped back to 8 in 2005.

As table 5 shows, the largest *multilatinas*, with the exception of PDVSA, all come from Mexico and Brazil. This dominance is logical when all is said and done in that, as we saw earlier, these countries became the top two countries to invest outside Latin America. While the top three Brazilian *multilatinas* specialise in the extraction of natural resources (oil,

mining), the large Mexican *multilatinas* are more diversified in their business activities. Their international operations cover the construction industry and metallurgy, as well as telecommunications and transport, even foods and drinks.

Table 4. Home territories of the non-financial MNCs ranked* in the Top 50 MNCs from developing countries, 1995-2005

Region	Number of companies ranked in the Top 50 MNCs from developing countries		
	1995	2000	2005
Asia	35	34	37
Saudi Arabia	*0*	*1*	*0*
China	*7*	*3*	*7*
Republic of Korea	*7*	*5*	*4*
Hong Kong, China	*9*	*11*	*10*
India	*0*	*0*	*1*
Malaysia	*2*	*5*	*3*
Philippines	*1*	*1*	*0*
Singapore	*4*	*6*	*7*
Taiwan	*4*	*2*	*5*
Latin America	13	12	8
Argentina	*1*	*1*	*0*
Bermuda	*1*	*0*	*0*
Brazil	*4*	*4*	*4*
Chile	*1*	*1*	*0*
Mexico	*6*	*5*	*3*
Venezuela	*1*	*1*	*1*
Africa	2	4	5
South Africa	*2*	*4*	*5*
Total	50	50	50

* Ranking based asset value abroad
Source: Compiled by the author from UNCTAD data (2006)

Table 5. The principal Latin American non-financial MNCs, ranked by asset value abroad, 2005 (Millions of dollars)

Company	Home country	Industry	Foreign assets	Ranking in the Top 100 MNCs from developing countries
Cemex S.A.	Mexico	Construction	13 323	6
PDVSA	Venezuela	Petroleum	8 868	9
Petrobras	Brazil	Petroleum	6 221	12
Telmex	Mexico	Telecommunications	4 734	17
América Móvil	Mexico	Telecommunications	4 448	18
Companhia Vale do Rio Doce	Brazil	Mining & quarrying	4 026	25
Metalurgica Gerdau S.A.	Brazil	Metal	3 358	33
FEMSA-Fomento Economico Mexicano	Mexico	Food & beverages	2 110	50
Gruma S.A. De C.V.	Mexico	Food & beverages	1 168	70
Grupo Bimbo S.A. De C.V.	Mexico	Food & beverages	1 166	71
Grupo Imsa	Mexico	Metal	934	83
Cintra	Mexico	Transport	716	98

Source: Compiled by the author from UNCTAD data (2006)

II - The fundamentals behind the expansion of Latin American multinational corporations

A - Literature's contribution

The first works devoted to developing country MNCs appeared about thirty years ago (Diaz Alejandro, 1977; Lecraw, 1977; Lall, 1983; Wells, 1983). They were partly inspired by earlier work conducted by authors such as Hymer, Kindleberger, Vernon in the United States or by Dunning in Great Britain on the multinationalisation of corporations in developed countries.

Kindleberger (1969) and Hymer (1976) put the multinationalisation of industrial corporations down to the existence of specific advantages that they are able to transfer abroad. Derived from market imperfections these specific advantages are diverse in nature: brand image, know-how, privileged access to certain markets (capital, raw materials, specialised labour), achieving economies of scale and/or of range, legislation encouraging the entry of foreign capital. In his product life-cycle theory, Vernon (1966) shows that the innovative company loses its technological advantage once its product reaches its stage of maturity. To improve its competitiveness, it is tempted to relocate its production into the countries which import its product in order to reduce transport costs and to adapt more efficiently to local demand. As soon as the product becomes part of everyday life, competitiveness is measured essentially in terms of price, hence the search for set-up opportunities in countries where production costs can be reduced. As part of this process, the oligopolistic structure of markets may prompt "copy-cat" reactions from other corporations who in turn will look at relocation options so as to preserve market share on a global scale.

In the same vein as Coase, Rugman (1981), Caves (1982) and Casson (1983) use the internalisation theory to justify set-ups abroad. They show that it is sometimes in a company's interest to retain some of the functions linked to their international activities in-house, particularly if moving abroad drives up transaction costs. In this scenario, transactions are conducted between subsidiaries of the same group and not with external companies (sub-contractors, suppliers, intermediaries …).

In addition to the corporation's specific advantages and to those regarding in-house operations, Dunning (1977) in his eclectic theory paper puts forward a third advantage, that of location. The corporation will invest abroad if the following three factors are simultaneously satisfied (the OLI paradigm): *Ownership, Location, Internalisation*. The first covers specific assets which can potentially be exploited profitably on an international scale (patents, brand names, product differentiation, human resources, marketing networks …). Location reflects the attractivity of certain countries (quality of production factors, labour costs, subsidies, country risk.…). Internalisation means that transaction-related costs between independent corporations can be obviated hence reducing uncertainty and providing greater control over the offer and prospects.

Following on from these studies, at the end of the 1970s, several authors began to home in on the determinants of developing countries' FDI in order to gain a better understanding of the emergence of "Third World Multinationals", to use the expression coined by Wells (1983). In agreement with Andreff (2003b), four analysis frameworks have emerged to explain the FDI of developing country companies. The first, formulated by authors such as Lecraw (1977) and Wells (1983), views developing country MNCs as acquiring their specific advantages from the use of small-scale and low labour-intensive technologies which enable them to compete

with developed countries on standardised, easy-price product markets. This advantage is linked to the economic conditions in developing countries which are mainly characterised by low labour costs and by the existence of small companies that benefit from reduced structure costs.

Lall (1983) moves well away from this approach by showing that the activities in which third world MNCs acquire a specific advantage are very diverse and vary from one home country to another. He stresses that their key assets come more from their national technological base and their operational know-how than from their commercial skills. Unlike Lecraw and Wells, he demonstrates that the range of products offered by third world MNCs is quite broad and that their advantage does not lie in the use of simple, labour-intensive technologies but in the technological developments they have been able to generate from their domestic technological base. Lall maintains that it is the characteristics of the home country more than the attractivity factors displayed by the host country which prompt developing country corporations to invest abroad.

A third analysis framework endeavours to explain the outward flows of FDI from developing countries, particularly from Asian countries, by the development of the industrial structures in the emerging economies. Tolentino (1993) shows that emerging country MNCs can develop specific technological advantages without having to take on board developed countries' technologies. For Tolentino, several Asian MNCs have divorced themselves either partially or totally from foreign technologies and have become genuine, innovative companies in their own right, innovative in the Schumpeterian sense of the term. These corporations have succeeded in winning their technological independence on the back of the industrial and technological development of their home country in which they were stakeholders particularly through their on-going impetus in research and development.

The final approach attempts to pull together the conclusions of the three previous currents by integrating them into an overall theory applicable to all MNCs and all FDI. The IDP (*Investment Development Path*) model drawn up by Dunning (1988) suggests that a country's inward and outward FDI flows depend on its level of economic development (as measured by per capita GDP). For Dunning, each country is supposed to go through five phases. At the pre-industrialisation stage, FDI flows are virtually non-existent because of the country's low level of attractivity and local companies rarely have competitive advantages that they can assert abroad. During the second phase, the infancy of industrialisation, the country possesses advantages in the labour-intensive sectors, its domestic market expands and it begins to attract FDI. At the same time, some outward FDI start to appear but national corporations are not yet competitive enough to become fully-fledged MNCs. In the third phase, the newly-developed country's technological competencies grow in stature, domestic demand for more sophisticated products increases and the advantages in terms of labour costs progressively recede. The economy becomes attractive for inward FDI which increase, albeit at a slower rate; outward FDI moves ahead significantly and at an increasing rate particularly on the back of local innovations. During the fourth stage, the developed country establishes itself as a net FDI exporter and the balance between outward and inward FDI becomes positive for the first time. In the last stage, the developed country reaches the post-industrial age, receives considerable FDI but is also one of the largest investors abroad. The balance between outward and inward FDI can fluctuate either side of the zero mark.

B - Identifying home countries' push factors

Do the determinants of FDI mentioned earlier apply in the same way to the main Latin American investor countries?[3] Taking the example of the domestic factors which determine FDI outflows (*push factors*), we shall show that the existence of common reasons does not prevent us looking for factors which are country-specific.

The home-country factors which push companies to invest abroad fall into four categories: market conditions, production costs, local business conditions and governmental policies (UNCTAD, 2006). If we look at the factors that are common to the origin of FDI from the major Latin American countries since the beginning of the last decade, the first reason to put forward is the wish to find markets for their raw materials but also to diversify their sources of supply (CEPAL, 2006). Similarly, the macroeconomic instability, characterised in particular by considerable fluctuations in domestic demand and interest rate volatility, pushed companies to invest abroad in order to diversify their risks (Goldstein, 2007). Lastly, deregulation and privatisation policies played an identical role by intensifying competitiveness and also facilitating access to foreign competencies, hence the build-up of additional advantages in launching out to conquer foreign markets.

Furthermore, macroeconomic factors have played a predominant role, particularly in relation to the transformations the countries in the region have undergone since the beginning of the 1980s. After the "Lost Decade" of the Eighties, marked by a fall in the standard of living in several economies, the Nineties saw Latin America, influenced by international financial organisations, implement adjustment policies enabling higher growth rates to be achieved. The first few years of the new century coincided with an acceleration in growth, albeit still lower than in Asia, but nonetheless higher than that recorded in the other regions of the world. This improvement in "macroeconomic fundamentals"[4] (rise in growth rate, drop in inflation, a healthier current account balance) have undoubtedly served to attract foreign investors (Minda, 2007), but it has equally encouraged outward FDI flows, particularly due to the gains in corporate profitability and the increase in foreign exchange reserves.

It is worth noting that public companies have also played by no means an insignificant role in the expansion of Latin American FDI, even if government policies to promote these investments have been less dynamic than in Asia. In fact, Asian country leaders have not hesitated to use the weapon of foreign exchange rates, to hand out financial aid and to create specialised bodies to promote the international expansion of their own companies. Over and above these common factors, the internationalisation of Latin American corporations has also been influenced by the specific features of their country of origin. Hence, Brazilian *multilatinas* wanted to strengthen their presence abroad to reduce the impact of the *réal's* volatility on the competitiveness of their exports and to achieve a more even balance between their inflows and outflows of both local and foreign currency (CEPAL, 2006). The limited availabilities of raw materials, notably in the domain of hydrocarbons, have encouraged a corporation such as Petrobras to multiply set-ups or partnerships in neighbouring countries. The structural reforms of the Nineties (liberalisation of trade, deregulation, privatisations) and the persistency of macroeconomic problems in creating respectively new conditions of

[3] While most of the Latin American countries fall within the 2nd or 3rd stages of the IDP model, surely Brazil and Mexico are now moving into stage 4 ?

[4] The structural adjustment policies have nonetheless carved out inequalities within the population (Salama, 2006)

competition and stagnation in the domestic market encouraged Brazilian corporations to look for new opportunities abroad in order to lessen the risks on their home market. The acquisition of foreign assets also opened up the occasional option for securing better sources of financing.

In Mexico, the free-trade agreement signed in 1994 with the United States and Canada, the commercial agreements with the European Union (1999) and Japan (2004) and the economic reforms (services deregulation and privatisations) forced the major Mexican companies to develop more aggressive strategies to counter the arrival of foreign MNCs on their own domestic market. The other outward-looking impetus was provided by the fact that markets such as mobile phones, cement, foods and drinks were showing signs of saturation. The increasing pressures in competition drove some *multilatinas* to internationalise their competitive advantages (GPS technology from CEMEX, distribution systems from Gruma and Bimbo, homogeneous mobile telephony network from América Móvil) in order to win over new markets and strengthen their existing export markets (CEPAL, 2006).

In Argentina, the need to build up and diversify their reserves led the oil companies YFF and Pérez Companc[5] to mount outward investments in order to access new natural resources. In Chile, the narrowness of the domestic market prompted Chilean companies to turn their focus more on foreign markets (Chudnovsky and López, 2000). Here, the earlier economic reforms, the specific advantages held by some companies in sectors such as telecommunications, energy, trading, together with natural competitive advantages (cellulose, paper, ores) also played a driving role in the internationalisation of local corporations.

C - Host country attractivity factors

If push factors have played a critical role in the expansion of Latin American MNCs, those same corporations have also directed their outward investments in light of the conditions prevailing in the countries likely to play host to them (pull factors). In particular, they have sought to seize acquisition opportunities or to acquire holdings resulting from the deregulation and privatisation programmes implemented in neighbouring countries. The presence of populations of Hispanic origin, particularly in the United States, and the improvement in distribution systems have also played their part in attracting Latin American MNCs. This is also true for the regionalisation of national brands, characterised by tie-ups with other MNCs, particularly in the foods and drinks sector, and the preferential access to the markets of countries that were signatories of bilateral or regional integration agreements (ALENA, Mercosur).

In addition to these common factors of attraction, MNCs from the major Latin American investor countries sometimes had specific reasons for investing in a given country. Given the privileged economic relations between Brazil and Argentina, Brazilian MNCs seized the opportunities resulting from the Argentinian government's privatisation programmes or from the economic crisis at the end of the 1990s (the acquisition of Pérez Companc by Petrobras). Some companies did not hesitate in following their customers into other regions (automobile parts). The protection measures taken in sectors such as steel and drinks, notably in the United States, provided the incitement for Brazilian MNCs to invest in the USA directly so as to get round barriers of this nature. The absence of bilateral commercial agreements with countries which represented meaningful outlets for Brazilian exports, especially the United States,

[5] YPF and Pérez Companc were acquired by Repsol and Petrobras respectively in 1999 and 2002

served as a stimulus for investments in these countries, or in bordering countries so as to use them as export platforms.

The Mexican *multilatinas* took advantage of the free-trade agreement with Canada and the United States to bolster their presence there, all the more so in that the USA received a substantial influx of Mexican immigrants. There are estimated to be some 11 million Mexican migrants, born in Mexico and now living in the United States. In the last ten-yearly census carried out in 2000, the results showed that there were 20.6 million Mexicans and Americans of Mexican origin, the equivalent of 58.5% of the "Hispanic" grouping. Mexican MNCs were also attracted by the possibility of finding new foreign partners with whom they could seek to capture new foreign markets. Alliances with other MNCs was a technique often employed by companies such as América Móvil, Gruma, San Luis Rassini and Mabe.

As well as the opportunities created by deregulations, privatisations and the search for new markets, the Argentinian *multilatinas* such as Quimes in Uruguay and Paraguay and Techint in Italy sought to turn both geographical and cultural proximity to their advantage. The shortage of natural resources forced YPF and Pérez Companc to seek out countries with reserves. Techint and Impsa used the host countries' potential to transform their subsidiaries into export platforms aimed at peripheral markets to be captured. The Mercosur agreement with its commercial preferences was also an important attractivity factor. Conversely, the policies implemented by host countries to promote investments abroad played a secondary role (CEPAL, 2006).

The Chilean *multilatinas* were conscious of the growth potential and market access offered by neighbouring countries, especially Argentina, Peru, Brazil and Colombia. The objective of some companies, CMPC, Lan Airlines, Falabella for example, was to transform their national brands into regional brands. Others, such as ENAP and Masisa, were looking to enhance their logistics and distribution systems. As in Mexico, some companies like ENAP, CCU, Embolladora Andina were aiming to form alliances with other foreign companies.

III – The strategic behavioural patterns of the *multilatinas*

A - Prioritisation in the search for market openings and natural resources

As we have just shown, FDI determinants are closely linked to the decisions of MNCs whose investment in a given country depends on their overall strategy. While the strategies of MNCs are diverse, they can be grouped on the basis of the typology put forward by Dunning (1993) into four major categories: market-seeking, resource-seeking, efficiency-seeking and created asset-seeking.

Market-seeking, which sets out to widen business openings, is by far the most commonly employed strategy among developing country MNCs, including in Latin America. Indeed, winning foreign markets is the prime motivation pushing Latin American MNCs to invest abroad, even if, as we shall see later on, they privilege neighbouring countries or the rest of the sub-continent. Nevertheless, the example of the foods sector shows that MNCs do not hesitate in their search to win over other continents once they have consolidated their position in Latin America. Hence, the Mexican corporations Bimbo and Gruma which had set up business in the United States, more often than not through acquisitions, at the same time strengthened their presence in the rest of the region, mainly to satisfy the demand of Mexican

immigrants. They then began to position themselves on the European market and more recently in China and Japan to meet the growing demand for Mexican foodstuffs such as *galletas* and *tortillas*.

Resource-seeking constitutes the second most important reason for *multilatinas* to invest abroad. In the hydrocarbons sector, the shortfall in resources in their home country has for example led corporations such as YPF and Pérez Companc in Argentina, Petrobras in Brazil and ENAP in Chile to launch an initial phase of exploration and production investment in Latin America as well as in Asia, Europe and the Middle East. These same companies are going to embark on a second phase by seeking out markets, especially in neighbouring countries, where they can invest in refining, distribution and marketing activities. On the other hand, PDVSA which possesses significant reserves in Venezuela has started by launching its refining and marketing operations mainly in the United States and in Europe, so as to sell off its locally produced production.

Even if efficiency-seeking, the aim of which is principally to reduce production costs, appears to be a less important driving force compared to the strategies of Asian MNCs, some Latin American MNCs have recently conducted outward investment, including outside Latin America in order to benefit from lower production costs, while in some cases getting closer to their main markets abroad. This is the case with Nemak, a subsidiary of the Mexican conglomerate Alpha and now world leader in high-tech aluminium cylinder heads and blocks for car engines, which recently set up in China and Eastern Europe to get closer to the European and Asian markets and to take advantage of the relative low level of labour costs.

The last strategy is that of created asset-seeking, like the access to new technologies, particularly by means of merger and acquisition operations or by alliances with companies in developed countries. The strategic alliances between Embraer and European groups such as EADS, Dassault, Thales and Snecma have enabled the Brazilian aeronautics constructor to acquire a wealth of know-how with a view to securing military contracts (Golstein, 2002). However, whereas it represents the second most important driver for Chinese MNCs, after market-seeking (UNCTAD, 2006), this reason is put forward less frequently by the *multilatinas*. Miotti *et al*. (2001) show that Korean groups have occasionally resorted to FDI, primarily in the United States, to gain access to new technological resources in order to be able to implement their catch-up and innovation strategy. The reason the *multilatinas* have shown less interest in acquiring creative resources compared to Asian MNCs is partly due to their lower profile in R&D-intensive sectors such as electronics, IT, chemicals and transport equipment.

Even though the Latin American MNCs have privileged market and resource-seeking, their strategies have not always been exclusive. In some cases they have been able to invest abroad for a variety of reasons or to modulate the reasons for their internationalisation over time. The example of Nemak referred to earlier shows that its establishment in China and in Eastern Europe was driven as much by cost reduction reasons as by the wish to break into new markets. Likewise, PDVSA recently slimmed down its structures in the United States only to bolster its presence in the rest of Latin America and also in China and India, both as regards exploration and production as well as refining and distribution.

B - The diversity of spatial strategies

If one takes into account the spatial dimension of their operations, MNCs can be classified into four categories: global, multi-regional, bi-regional and regional. For Andreff (2003a), what distinguishes global MNCs is their ability to combine the four previous strategies and to replace one by another at any moment in any given country. This aptitude is derived from the implementation of a flexible post-Fordist production process capable of being adjusted at any time in response to quantitative or qualitative variations in demand. As Levitt (1983) points out, this capacity enables them to have a global vision of markets and of the competition and no longer just a multi-domestic approach. This ability to offer high added-value, global products allows them to locate their subsidiaries in the countries where they are the most profitable and to coordinate their activities within an international value chain (Porter, 1986).

The implementation of such a strategy which calls for the structuring of multiple resources (financial, technological, organisational, managerial) is the domain of merely a small number of MNCs. Rugman (2005) identifies only nine "global" corporations[6] which he defines as corporations achieving at least 20% of their sales in each of the three regions of the Triad (North America, European Union, Asia-Pacific), but without any one region exceeding 50%. All these corporations, with the exception of Flextronics International (Singapore), come from developed countries. Discounting Coca-Cola and LVMH, the seven other corporations concentrate their main activity in just three sectors: electronics, IT and office automation.

While no Latin American corporation can claim global corporation status, two of them (Cemex and Embraer) aspire to becoming global players. Cemex, which we will analyse in greater detail in the next paragraph, is, together with Lafarge and Holcim, one of the three largest global operators in the cement market. Established in 1969 with a majority State holding, Embraer initially specialised in the production of aircraft for agricultural and military purposes and for passenger transport. Privatised in 1994 (with the State retaining 6.8% of the capital and foreign ownership being capped at 40%), the company pursued the international development it had initiated earlier (set-up in the United States in 1979 and in Europe in 1988) by forming strategic alliances with European groups as well as establishing a joint-venture assembly plant in China in 2004 in order to give itself a foothold in the Asian market. Within a decade, the Brazilian MNC has become the 4th aeronautics constructor in the world and holds top position for commercial planes in the under 110 passenger capacity category. Together with CVRD it is the only Latin American MNC whose foreign business represents more than 90% of its turnover (table 6).

The second category comprises the multi-regional MNCs which are present in Triad countries, less frequently on the five continents, but whose presence abroad suffers from being unevenly split over the various regions and whose market share on a global scale is relatively weak compared to the corporations who are world leaders in their market sector. Hence, PDVSA which is present in the United States, Europe and Asia is only ranked as the 9th oil company worldwide. By comparison, the turnover of Exxon Mobil (the number 1 oil company in the world) was nearly four times that of PDVSA in 2005. Petrobras (16th oil company in the world) is also present in countries of the Triad, even if its turnover achieved

[6] The nine global corporations in order of turnover (2001) are: IBM, Sony, Philips, Nokia, Intel, Canon, Coca-Cola, Flextronics International and LVMH

abroad is relatively low (21.2 %) compared to that of PDVSA (54.8%) (table 6). Other multi-regional MNCs such as CVRD, Gerdau Gruma, Bimbo, Techint, and Odebrecht are also established in developed countries, some of them having quite a significant degree of internationalisation. As Chudnovsky and López (2000) observe, these corporations embarked on acquisitions outside Latin America to counterbalance the risk of competitors entering their own domestic or regional markets but also to maintain their market share at a world level.

Table 6. Foreign operations of the major multilatinas, 2004
(Millions of dollars and percentage)

Company	Turnover		Operations in regional markets					Internationalisation category*			Type of multinational corporation
	Total	Foreign* %	Latin Amer.	North Amer.	Europe	Asia Pacific	Others	>50 %	>25% <50%	<25%	
Petrobras	52 109	21,2	x	x	x	x	x			x	Multi-regional
PDVSA	46 589	54,8	x	x	x	x	x	x			Multi-regional
Telmex	12 444	11,4	x	x						x	Bi-regional
América Móvil	11 962	47,5	x	x					x		Bi-regional
CVRD	10 380	90,5	x	x	x	x	x	x			Multi-regional
FEMSA	8 341	21,1	x							x	Regional
Cemex	8 059	67,1	x	x	x	x	x	x			Aspiring global player
Gerdau	6 973	49,1	x	x	x				x		Multi-regional
Bimbo	4 592	32,3	x	x	x				x		Multi-regional
Embraer	3 854	92,3	x	x	x	x	x	x			Aspiring global player
Imsa	3 291	49,4	x	x					x		Bi-regional
Cintra	3 200	42,0	x						x		Regional
Gruma	2 219	68,9	x	x	x			x			Multi-regional

* Calculated as a % of the turnover realised by subsidiaries outside their countries of origin
Source: Compiled by the author from UNCTAD data (2006) and corporate annual reports

Bi-regional companies such as Telmex, América Móvil, Imsa launched their attacks on North America, principally the United States, because their market was showing signs of saturation and also because of the density of Hispanic immigrants, especially Mexicans. The regional companies, more numerous although less well-known, are those whose market remains within the confines of Latin America either because it still offers growth potential or because the companies have no competitive advantages to assert abroad. The Mexican company FEMSA for example, of which some 40% is controlled by Coca-Cola, concentrates its activities in the region because Latin America represents around 20% of global alcohol-free drink sales, with Mexico alone accounting for half of that. In volume terms, Mexico comes just behind the United States whereas Brazil and Argentina stand in 5th and 15th positions respectively. In the alcoholic drinks segment, Corona beers from the Mexican group Modelo, can pride themselves on possessing a world-renowned brand label, selling in more than 150 countries (Quenan and Santiso, 2006).

C - Cemex: the germ of a global strategy?

Since its first cement works opened in Mexico in 1906, Cemex has become one of the world's leading producers of cement, ready-mixed concretes and aggregates. Today the group counts more than 50,000 employees and a presence in more than 50 countries. From the role of merely a local player to the world's number 3 in the cement business, Cemex has developed

its regional then world presence by setting up or acquiring production units, then high profile companies in their respective countries.

Its expansion has been built in several stages. From 1906 to 1990, the objective of Cemex was to affirm its leadership on its own local market. During the 1970s, the company broadened its operations to cover the whole of Mexico, at the same time bolstering its vertical integration by increasing its activities on the ready-mixed concrete market. At the end of the Eighties, it bought out two of its competitors on the Mexican market (Cementos Anáhuac and Empresas Tolteca) in order to strengthen its production capacities on the concrete market and to reinforce its export potential, especially towards the United States.

During the 1990s, Cemex began its quest to conquer foreign markets. Its introduction to the Mexico stock exchange in 1976 and Wall Street in 1999 was the pledge of the growing level of confidence granted to Cemex by international financial players, thereby enabling the company to access the financing required to implement a solid growth strategy and culminating in more than fifteen or so major acquisitions since 1992. From being a Mexican company, Cemex was rapidly becoming a multi-regional corporation following the acquisition in 1992 of the two largest Spanish cement producers, then of Balcones, a cement factory in the United States. Its expansion has not ceased to progress over the last decade with acquisitions in the emerging countries of Latin American (Venezuela, Chile, Costa Rica, Dominican Republic) of Asia (Indonesia, Philippines, Thailand), of the Middle East and North Africa.

Its wish to diversify its geographical risks provided the incentive to establish itself in developed countries. In 2000, the company acquired Southdown Inc., the second American cement producer, enabling it as a result to become the number one producer in North America and number 3 in the world. With the acquisition in 2005 of RMC, the British group, present in Europe and the United States, Cemex doubled its size to become a top-ranking player on European markets. As a result of this ambitious operation, Cemex reinforced its position among the major world cement producers, alongside Lafarge, Holcim, Heidelberg and Italcementi and moved into the number 1 slot for ready-mixed cement. This integration, unprecedented in its history, also permitted Cemex to position itself as a competitive player in each segment of the value chain: cement, aggregates and ready-mixed concrete.

A further chapter in this external growth story was written in 2007 with the launch of a takeover bid for the Australian Rinker. If the bid goes through, it would constitute the largest ever takeover trasaction in the history of construction materials, with the new structure becoming the world leader in aggregates. This additional acquisition would enable Cemex to strengthen its position in the United States, where Rinker generates 80% of its sales. Rinker is also one of the top three sector players in Australia, a country where Cemex is not represented to date.

This international development is the result of a strategy combining a global vision of the market with the conservation of the local specificities of each country. Each subsidiary's human resources policy puts the accent on safety, on-going vocational training for the teams and career development coaching. This genuine corporate culture is articulated round the "Cemex Way" approach and based on a common data management platform whose objective is to strive towards industrial and commercial excellence by allowing all to share best practices and synergies in every domain (production, commercial, logistics, environment, back-office). Genuine continuous improvement programmes have been set up for all group activities using a benchmarking format and a system to identify best practices on an on-going

basis. The establishment of common values also favours exchanges between staff, job functions and countries, thereby facilitating the development and opportunities of international careers and the sharing of a strong corporate culture.

IV - What lessons can be drawn from the expansion of Latin American multinational corporations?

A - The multilatinas: a reflection of the strengths and weaknesses of Latin America's productive specialisations?

To a large extent, the sectorial and spatial orientation of the *multilatinas* reflects the productive and technological specialisation of Latin America which has progressively been built up over recent decades. Development strategy based on the import substitution industrialisation (ISI) has been confronted by numerous restrictions: problem of technical competency and financial resources for local companies, technological and financial dependence when viewed from outside, limitation of economies of scale given the narrowness of certain domestic markets, problem of industrial employment (qualification of labour). The slender opening towards the exterior engendered by the adoption of protectionist barriers was accompanied by a slight incentive to innovate and modernise production tools (Bethell, 2003). The dropping of the ISI model in the wake of the 1982 debt crisis and the implementation of a strategy to promote industrial exports brought with it a wave of commercial and financial liberalisation, privatisations, a liberalising of FDI and State divestiture measures (The Washington Consensus).

Latin American firms were confronted head-on by the competition from MNCs from developed countries, particularly in the high technology sectors such as pharmaceuticals, chemicals and capital goods. In a second phase they also had to face the competition presented by Asian MNCs which began to steal market share in labour-intensive sectors such as clothing, footwear and furniture (Katz, 2001). In this latter scenario however, the corporations from South East and Eastern Asia rapidly moved their positioning into more technology-intensive segments such as IT, electric and electronic goods and telecommunications. These corporations benefited from the more premature orientation of their home country's industrialisation strategy in broadening the range of their manufactured goods exports. In some cases they were able to take advantage of technology transfers conducted in partnership with MNCs from developed countries who were investing in their home regions. They also benefited from a more favourable environment: greater economic and political stability, higher rates of investment and savings, public sector subsidies for research and development, quantity and quality of human resources (De Gregorio and Lee, 1999).

Certainly, some *multilatinas* have succeeded in facing up to the new competition created by the globalisation process by specialising or intensifying their activities in manufactured products based on natural resources like cement, petrochemicals and pulp. (UNCTAD, 2006). Nevertheless, Latin America does suffer overall from a problem of competitiveness when compared with Asia. The rates of accumulation of physical and human capital are relatively lower, thereby generating a low productivity of production factors and less innovation capacity (Maloney and Perry, 2005). The Global Competitiveness Index (GCI) calculated by the World Economic Forum provides some of the explanations for this structural handicap

which is plaguing Latin America[7]. This index is calculated using the factors that are likely to impact a country's productivity and competitiveness. The GCI consists of nine factors: institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, degree of business sophistication and lastly innovation (table 7).

On the basis of the GCI, Chile is ranked as the top Latin American country for 2006-2007, coming 27th in the total world ranking. For the authors of the World Economic Forum report, this competitiveness is principally explained by the solidity of the institutions, the absence of any major distortions within the markets and the reduction in public debt. The resources freed by the change in fiscal policy have made it easier to finance investments in health and education. Mexico, ranked 57th, chalks up honourable scores in the areas of education and health, but also regarding FDI and technology transfers as a result of its NAFTA membership. However, just like the rest of Latin America, it suffers from the same weakness in its institutions.

Brazil, which stood in 57th position the previous year, has slipped back to 66th place as a result of the structural problems affecting its education system (access inequalities between social classes and religions, high drop-out rate) and its macroeconomic performances marked by insufficient control over its public finances. The weight of public debt is keeping interest rates high, thereby penalising the financing of investments and consumption by bank lending. As regards the institutions, Brazil scores particularly badly (114th out of 125) due to the shortcomings and excessive bureaucracy of its public institutions. Argentina comes in three places behind Brazil given that it scored less well as regards fiscal discipline, inflation, the inefficiency of certain markets but especially due to the bad functioning of its institutions (118th out of 125). This institutional weakness is particularly marked in the following areas: environment governing property rights, independence of the justice system, wastage of public resources and corruption.

Table 7. Global competitiveness index, 2006-2007

Country	Overall index		Subindexes					
	Rank	Score	Basic requirements*		Efficiency enhancers**		Innovation and sophistication factors***	
			Rank	Score	Rank	Score	Rank	Score
Singapore	5	5,63	2	6,13	3	5,63	15	5,11
Taiwan	13	5,41	21	5,50	14	5,36	9	5,38
Republic of Korea	24	5,13	22	5,47	25	5,00	20	4,96
Chile	27	4,85	28	5,35	31	4,58	33	4,22
India	43	4,44	60	4,51	41	4,32	26	4,60
China	54	4,24	44	4,80	71	3,66	57	3,75
Mexico	58	4,18	53	4,61	53	3,91	52	3,80
Brazil	66	4,03	87	4,14	57	3,94	38	4,09
Argentina	69	4,01	67	4,42	66	3,79	79	3,44

* Institutions, infrastructure, macroeconomy, health and primary education
** Higher education and training, market efficiency (goods, labor, financial), technological readiness
*** Business sophistication, innovation

[7] The downside of this indicator is that it only ranks countries according to criteria linked to business competitiveness and the business environment. As a result, it fails to take account of the human dimension of the development.

Source: World Economic Forum, The Global Competitiveness Report 2006-2007

With the exception of Chile, the other emerging Latin American economies suffer from a lack of quality in their public institutions. Yet the competitiveness of an economy and its companies also relies on the complementarity of the policies conducted in the fields of education, science, technology and investment. The success of certain Asian countries is the result of coherent and targeted governmental policies aimed at strengthening the overall framework of innovation and the influx of knowledge. To a certain extent, the public authorities have endeavoured to attract techniques, know-how, personnel and capital from abroad. At the same time they have gone ahead with strategic investments in human resources, notably by encouraging the training of scientists and engineers. They have invested in the development of the infrastructures for research and development (science parks, public laboratories, business incubators, etc.) while at the same time pursuing strategies to protect intellectual property rights. As a result, the absence of industrial, education, research and development policies comparable to those that have been implemented in the emerging Asian economies are the reasons behind the lower proportion of FDI from Latin American corporations in the high-tech industries (Chudnovsky and López, 2000).

B - Emerging multinational corporations and the re-establishment of North-South links

Even if, taken as a whole, the *multilatinas* are still relatively small in size and their presence in terms of countries and geographical areas significantly inferior to that of developed countries' MNCs, it is still a fact that the growth of their international activities which is advancing alongside the expansion of MNCs from the emerging Asian economies is not without consequence on the dynamics of the global economy, particularly on the development of North-South relations.

The example of the *multilatinas,* and more especially of the Asian MNCs show that the Northern countries represent destinations which are important for their international investments. The search for openings and specific advantages encourage them to form partnerships or to acquire rival companies in developed countries and which possess substantial market share and reputed brand names. As Aykut and Goldstein (2006) point out, Chinese corporations such as Lenovo, TCL which previously owned no internationally recognised brand names have acquired the Thomson, RCA and IBM labels. Similarly, the purchase of Marionnaud by the A.S. Watson Group, a subsidiary of Hutchinson Whampoa (the top developing country MNC) followed the same logic with the added advantage of acquiring a distribution network.

The strategies implemented by several emerging MNCs aim to find a balance between market-seeking on the one hand, and partnerships to acquire specific assets, particularly technological, on the other. The success of such strategies will lie in their ability to control the whole of a process stretching from conception through to realisation, or to join forces on strategic segments, by developing specific assets. In the case of India, this wager is on the brink of success for the IT sector, and is likely to be confirmed for part of the pharmaceutical biotechnologies and for some segments of the automobile industry.

Emerging MNCs contribute in their own way to the implementation of a new principle of division of labour based on the knowledge economy. As Moati and Mouhoud (1994) suggest, the Taylorist division of labour theory is losing ground to a cognitive division of labour. These authors maintain that corporations redefine their activity based on competencies

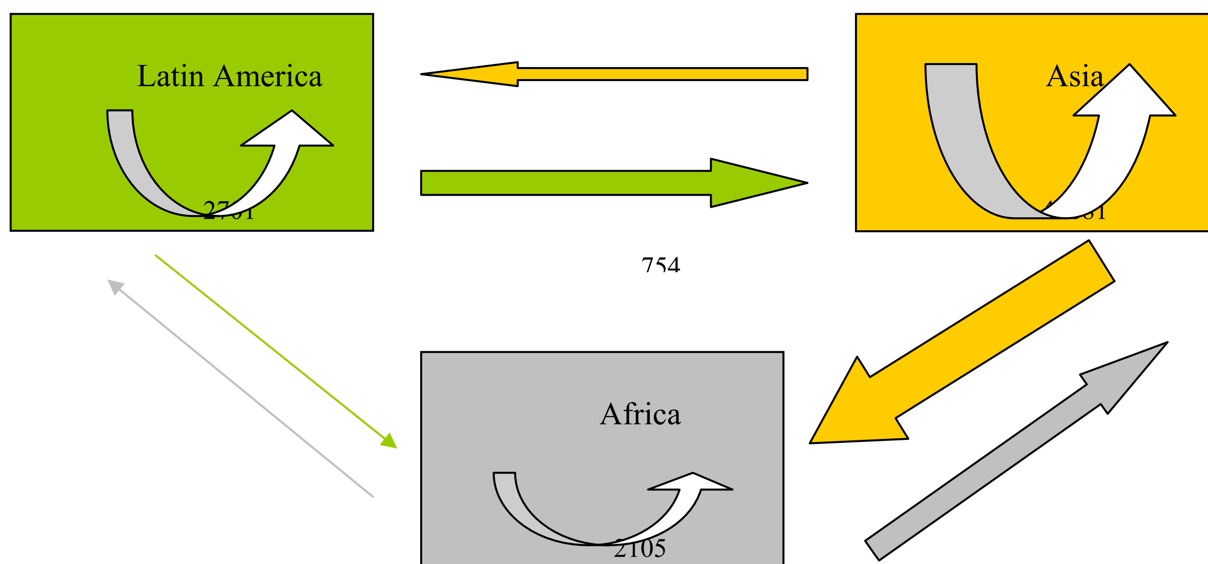
concentrated on blocks of knowledge and that they adopt organisational methods which aim to maximise their learning capacity. It therefore follows that corporations are more intent on seeking out an environment which favours their learning capacity than more advantageous cost conditions. However, the creation of cognitive resources is no longer the prerogative of Northern country corporations. For example, the Argentinian corporation Tenaris which has just bought in succession the American corporations Maverick Tube and Hydril is the number 1 producer of tubes used in the drilling and extraction of oil and natural gas. Embraer is the world leader in the construction of regional transport aircraft, ahead of Bombardier and Dassault. Televisa (Mexico) is the leading Spanish language communications group in the world.

C - Latin American multinationals and the strengthening of South-South co-operation

As figure 3 shows, South-South FDI, with the exclusion of offshore financial centres, are mainly conducted on an intraregional basis. According to UNCTAD estimates, the annual flows between Asian countries over the period 2002-2004 totalled an average of 47.8 billion dollars, representing 85.6% of total flows between developing countries (UNCTAD, 2006). Over the same period, the average annual flows between Latin American countries stood at 2.7 billion, a figure which was considerably higher than the intraregional flows in Africa which, for the most part originate from South Africa. At the interregional level, South-South FDI movements, in order of importance, were first from Asia towards Africa, then from Latin America towards Asia and thirdly from Africa towards Asia. Contrary to what one might think, Asia's outward FDI towards Latin America is quite modest and that between Latin America and Africa very low. On a sectorial level, South-South flows are strongly concentrated in the extraction of natural resources and associated services due to the progressive liberalisation in the areas of origin and the privatisation programmes in the recipient areas.

Over and above the actual flow volumes, under certain conditions the *multilatinas* can represent an additional vehicle in driving economic cooperation between developing countries. The impacts of their investments are sometimes more beneficial than those caused by developed countries. This is particularly so in the case of regional corporations whose technological and operating model corresponds to that of corporations in the host country. The cultural proximity that is particularly apparent in relatively similar management methods works in favour of technological absorption capacities. This same adoption capacity can be facilitated when there is little technological divergence between foreign and domestic corporations, a facet which is more often the case as regards South-South FDI flows (Durham, 2004). Furthermore, while some *multilatinas* may employ production techniques that are less capitalistic than those of MNCs from developed countries, it is quite conceivable that the former create more jobs than the letter, even though there are no detailed studies to provide conclusive evidence to support this.

Figure 3. Intraregional and interregional FDI flows in developing countries, excluding offshore financial centres, average 2002-2004 (Millions of dollars)



Source: Compiled by the author from UNCTAD data (2006)

The FDI made by the *multilatinas* and more generally by emerging MNCs represent an opportunity for LDCs (less developed countries). Except for the extraction of natural resources, MNCs from the North are less inclined to invest in small-scale economies and prefer to locate their investments in more substantial markets (Levy-Yeyati *et al.,* 2003). Yet, developing countries' FDI can represent up to 40% of total inward FDI in a lot of LDCs (UNCTAD, 2006). South-South FDI flows can also make up for the relative or temporary drop in FDI from countries of the North destined for developing countries. Aykut and Goldstein (2006) show that the collapse of North-South FDI caused by the Argentinian crisis prompted asset buying by Brazilian investors (cf. the acquisition of Quimes by Brahma, later to become AmBev, of Pérez Companc by Petrobras, of Acindar by Belgo Mineira, of Loma Negra by Camargo Correa).

FDI by Southern countries does however entail new risks. Prospection and extraction activities in the hydrocarbons sector can be a source of tension if they are not sufficiently well organised or if they are conducted by foreign public companies, as is the case for PDVSA, Petrobras and ENAP. Among the tensions aroused, one can mention safety and corporate governance issues. Moreover, a lot of cross-border mergers and acquisitions made by Latin American corporations provoke the same concerns in terms of employment as when they are made by other MNCs.

The strengthening of South-South cooperation through the FDI of the *multilatinas* can generate risks of instability in the scenario where the parent company decides to close down a subsidiary. The increase in FDI flows between developing countries and the enhanced economic integration it prompts can be a double-edged sword in the sense that economic crises can be more easily contagious from one country to another (Aykut and Goldstein, 2006). However, the risk of contagion is proportionate to the relative share of inward FDI

coming from developing countries and eventually to their higher or lower degree of concentration in any one sector.

Conclusions

With the exception of Cemex and Embraer which aspire to be global players, most of the *multilatinas* are corporations with a regional vocation. Their principal motivation lies in the acquisition of natural resources and the search for market openings. This spatial strategy together with their sectorial focus, partly reflect the productive and technological specialisation of the emerging Latin American economies. Indeed, the *multilatinas* do not enjoy the same specific advantages as the emerging Asian multinational corporations in high-tech industries or in high capital-intensive sectors. This handicap is partly rooted in the initial mode of industrial development, the relatively low rate of accumulation of physical and human capital, but also the lack of ambition and resources on the part of public policies, particularly in industry, education, research and development. All these elements generate a low level of productivity of the factors of production and a lesser capacity for innovation.

Despite this handicap, the development of the *multilatinas* is not without consequence on the dynamics of the global economy. Together with the other emerging MNCs they are contributing to the re-establishment of North-South links and the strengthening of South-South co-operation. To better define the issues at stake in their expansion, further in-depth work would be needed to supplement the research that has already been devoted to them. At the macroeconomic level, not enough is yet known about the impact of the *multilatinas* on their own country, nor on the countries where their subsidiaries set up, particularly in terms of balance of payments, technology transfers and employment. At the microeconomic level, it would be interesting to perform a more detailed analysis of their mode of governance and the financing mechanisms they employ when setting up abroad. At the global level, one would need a better understanding of the relations they maintain with the MNCs from developed countries (competition and/or co-operation?). These avenues for research, which are not exhaustive, could bear more fruit if they were conducted from the starting point of a comparative analysis in terms of the MNCs' sectors of activity and countries of origin (OECD, emerging economies of Asia, Latin America and Africa). These comparisons would have the merit of enlightening us as to the greater or lesser degree of specificity displayed by the multinationals originating from emerging countries.

References

Andreff, W. (2003a) *Les multinationales globales* (Paris: La Découverte).

Andreff, W. (2003b) The newly emerging TNCs from economies in transition: a comparison with Third World outward FDI. *Transnational Corporations*, 12(2), pp. 73-118.

Aykut, D. and Goldstein, A. (2006) Developing country multinationals: south-south investment comes of age, *Development Centre Working Paper n° 257*, OECD, Paris, France.

Bethell, L. (2003) *Historia de América Latina, Economía y sociedad desde 1930* (Barcelona: Crítica).

Casson, M. (ed.) (1983) *The growth of international business* (London: George Allen & Unwin).

Caves, R.E. (1982) *Multinational enterprise and economic analysis* (Cambridge: University Press).

CEPAL (2007) *La inversion extranjera en América latina y el Caribe-2006*, Santiago, Chile.

CEPAL (2006) *La inversion extranjera en América latina y el Caribe-2005*, Santiago, Chile.

Chudnovsky, D. and López, A. (2000) A third wave of FDI from developing countries: Latin America TNCs in the 1990s. *Transnational Corporations*, 9(2), pp.31-73.

Diaz-Alejandro, C.F. (1977) Foreign direct investment by Latin Americans, in: T. Agmon and C.P. Kindleberger (eds) *Multinationals from small countries*, (Cambridge: MIT Press), pp. 167-196.

De Gregorio, J. and Lee, J-W. (1999) Economic Growth In Latin America: Sources And Prospects, *Documentos de Trabajo*, Centro de Economía Aplicada, Universidad de Chile.

Dunning, J. H. (1977), Trade, location of economic activity and the multinational entreprise: a search of an eclectic approach, in: B. Ohlin, P.O. Hesselborn and P.M. Wijkman (eds) *The international allocation of economic activity*, (London: Macmillan), pp. 395-418.

Dunning, J. H. (1988) *Explaining international production* (London: Unwin Hyman).

Dunning, J. H. (1993) *Multinational enterprises and the global economy* (Wokingam: Addison-Wesley).

Dunning, J.H. and Narula, R. (1996) The investment development path revisited: some emerging issues", in: J.H. Dunning and R. Narula (eds) *Foreign direct investment and governments. Catalyst for economic restructuring* (London: Routledge), pp. 1-41.

Dunning, J.H. (2006) Towards a new paradigm of development: implications for the determinants of international business activity. *Transnational Corporations*, 15(1), pp. 173-227.

Durham, B.J. (2004) Absorptive capacity and the effects of foreign direct investment and equito foreign portfolio investment in economic growth. *European Economic Review*, 48(2), p. 285-306.

Goldstein, A. (2007) *Multinational companies from emerging economies* (Basingstoke: Palgrave Macmillan).

Goldstein, A. (2002) Embraer: de campeón nacional a jugador global. *Revista de la CEPAL*, 77, pp. 101-121.

Hymer, S. H. (1976) *The international operations of national firms: a study of foreign direct investment* (Cambridge: MIT Press).

Katz, J. (2001) Structural reforms and technological behaviour: the sources and nature of technological change in Latin America in the 1990s. *Research Policy*, 30(1), pp. 1-19.

Kindlberger, C. P. (1969) *American business abroad, six lectures on direct investment* (New Haven: Yale University Press).

Lall, S. (ed.) (1983) *The new multinationals: the spread of third world enterprises* (Chichester: John Wiley & Sons).

Lecraw, D. (1977) Direct investment by firms from less-developed countries. *Oxford Economic Papers,* 29(3), pp. 442-457.

Levitt, T. (1983) The globalization of markets. *Harvard Business Review*, 83(3), pp. 92-102.

Levy-Yeyati, E., Panizza, U. and Stein, E. (2003) The cycle nature of North-South FDI flows, Inter-American Development Bank, *Research Department Working Paper,* 479, Washington, United States.

Maloney, W. F. and Perry, G. (2005) Towards an efficient innovation policy in latin America. *Revista de la CEPAL*, 87, pp.25-43

Minda, A. (2007) The entry of foreign banks into Latin America: a source of stability or financial fragility ? *Problemas del Desarrollo, Revista Latinoamericana de Economía*, 39(150), pp. 44-71.

Miotti, L., Perrin, S. and Sachwald, F. (2001) Multinationales émergentes: un modèle coréen ?. *Economie Internationale*, 85, pp. 37-61.

Moati, P. and Mouhoud, E.M. (1994) Information et organisation de la production : vers une division cognitive du travail. *Economie appliquée*, 66(1), pp. 47-73.

Porter, M.E. (ed.) (1986) *Competition in global industries* (Boston: Harvard Business School Press).

Quenan, C. and Santiso, J. (2006) *L'Europe et l'Amérique latine*, in : T. de Montbrial and P. Moreau Defarges (eds) *Ramses 2007 L'Europe et le monde*, IFRI (Paris: Dunod), pp. 157-168.

Rugman, A.M. (1981) Inside the multinationals: the economics of internal market (Londres: Croom Helm).

Rugman, A.M. (2005) *The regional multinationals* (Cambridge: Cambridge University Press).

Tolentino, P.E.E. (1993) *Technological innovation and third world multinationals* (London and New York: Routledge).

UNCTAD (2006) *World Investment Report 2006, FDI from developing and transition economies: implications for development,* United Nations, New York, United States.

Vernon, R. (1966) International investment and international trade in the product cycle. *Quaterly Journal of Economics*, 80(2), pp. 190-207.

Wells, L. Jr. (1983) Third world multinationals: The rise of foreign investment from developing countries (Cambridge, MA, London, England: MIT Press).

Whitmore, K., Lall, S. and Hyun, J. (1989) Foreign direct investment from the newly industrialized economies, *Industry and Energy Department Working Paper*, Industries Series Paper n° 22, World Bank, New York, United States.

Cahiers du GRES

Le **GRES (Groupement de Recherche Economiques et Sociales)** est un Groupement d'Intérêt Scientifique entre l'Université Montesquieu-Bordeaux IV et l'Université des Sciences Sociales Toulouse I.

Il regroupe des chercheurs appartenant à plusieurs laboratoires :

- **GREThA - UMR CNRS 5113** (Groupe de Recherche en Economie Théorique et Appliquée), **Université Montesquieu-Bordeaux IV** ;
- **LEREPS - EA 790** (Laboratoire d'Etudes et de Recherche sur l'Economie, les Politiques et les Systèmes Sociaux), **Université de Toulouse 1 Sciences Sociales**;
- L'**UR 023** "Développement local urbain. Dynamiques et régulations"**, IRD** (Institut de Recherches pour le Développement) ;
- Le laboratoire **EGERIE** (Economie et de Gestion des Espaces Ruraux, de l'Information et de l'Entreprise), **ENITAB** (Ecole Nationale des Ingénieurs des Travaux Agricoles de Bordeaux).

www.gres-so.org

Cahiers du GRES (derniers numéros)

2007-19 : OLTRA Vanessa, SAINT-JEAN Maïder, *Incrementalism of environmental innovations versus paradigmatic change: a comparative study of the automotive and chemical industries*

2007-20 : FRIGANT Vincent, *Les fournisseurs automobiles après dix ans de modularité : une analyse de la hiérarchie mondiale et des performances individuelles*

2007-21 : DOUAI Ali, *Wealth, Well-being and Value(s): A Proposition of Structuring Concepts for a (real) Transdisciplinary Dialogue within Ecological Economics*

2007-22 : THOMAS Olivier, *L'inflation de la fiscalité locale en France : une conséquence inattendue de la promotion de l'intercommunalité ?*

2008-01 : BERR Eric, *Quel développement pour le 21ème siècle ? Réflexions autour du concept de soutenabilité du développement*

2008-02 : NICET-CHENAF Dalila, *Les accords de Barcelone permettent – ils une convergence de l'économie marocaine ?*

2008-03 : CORIS Marie, *Les délocalisations sous l'angle de la coordination : Une lecture par les catégories de la proximité appliquée au logiciel*

2008-04 : DUPUY Claude, LAVIGNE Stéphanie, *Investment behaviors of the key actors in capitalism: when geography matters*

2008-05 : GAY Brigitte, *Competitive intelligence and network mapping of interfirm alliances: strategic implications*

2008-06 : POUYANNE Guillaume, *Théorie économique de l'urbanisation discontinue*

2008-07 : LACOUR Claude, PUISSANT Sylvette, *Medium-sized cities and the dynamics of creative services*

2007-08 : MINDA Alexandre, *The strategies of multilatinas: from the quest for regional leadership to the myth of the global corporation*

La coordination scientifique des Cahiers du GRES est assurée par Alexandre MINDA (LEREPS) et Vincent FRIGANT (GREThA). La mise en page est assurée par Dominique REBOLLO.