LATIN AMERICAN MULTINATIONALS AT THE THRESHOLD OF A GREAT OPPORTUNITY

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FROM EMERGING COUNTRIES TO ECONOMIC POWERS

Since Goldman Sachs' famous 2003 report: Dreaming with BRICs: the path to 2050 we have been experiencing a seismic change in the global economy. As we exit the Great Recession, emerging countries are projected to represent 70% of global growth, to be the driving force and to finance the global recovery. The term emerging markets, developing countries or third world countries has become obsolete and represented a paternalistic attitude by Europe and the United States. The emerging countries are becoming economic powers.

In the realm of politics, the power of China, India and Latin America can be seen everywhere: three Latin presidents participate in the G20, which, since the autumn of 2008, has replaced the G8 as the forum for global discussion. For the first time, emerging markets have been given a voice in formulating economic policies for the world. In February of this year, the Latin American presidents agreed to create the Community of Latin American and Caribbean States (CEALC) without European and North American guardianship, which would have been unthinkable a short time ago. The solution to the recent conflict between Colombia and Venezuela went through the Union of South American Nations (Unasur), which is indigenous in place of the traditional Organization of American States (OAS) where the United States plays a key role. Brazil is the largest emerging economy after China, the second economy of the Americas, after the United States, part of the BRIC (Brazil, Russia, India and China) and BASIC (Brazil, South Africa, India and China) and was the leader of the G20 at the World Trade Organization.

In the realm of economy, the market liberalization policies imposed by the World Bank and the International Monetary Fund have become outdated. China has just become the second largest economy in the world after the United States and the largest exporter with a model in which the public and private sectors work in harmony and assist each other as necessary. The English weekly, *The Economist*1, dared to ask whether China offered a better model for development than the West. On the other side of the Pacific, in a new Latin America more influenced by the South than the North, the governments play a prominent role in reconfiguring economic power.

In the realm of business, the presence of emerging countries in the 'Global 500' ranking of the biggest companies in the world by sales by the American magazine, Fortune, has grown fivefold since 1995. This year, there are 93 (19% of the total), ten from Latin America. Among the top ten in the world, three are Chinese, three European, two Japanese and two American. According to the magazine, América Economía, Brazil leads the ranking of the biggest Latin American companies by sales with Petrobras (101,948 million dollars) and by total number of companies.

The Itaú-Unibanco bank, Vale mining company, Friboi meatpacking firm and Gerdau steel company, all Brazilian, are among the top ten in Latin America. Mexico has three in the top ten: América Móvil, Cemex and Femsa. Venezuela's PDVSA and Chile's Cencosud complete the list.

If we consider stock market value, the Chinese oil company, Petrochina, is the biggest in the world, and Petrobras has just taken over fourth place. Hong Kong is the third largest financial market in the world, after New York and London. Innovation has ceased being a Western exclusive, and Reliance and Tata, of India, Petrobras, of Brazil, and BYD Company, Haier Electronics Group and China Mobile, of China, appear among the most innovative in the world in the ranking by the Boston Consulting Group published by the American magazine Business Week.

This revolution allows us to observe that in each sector of industry, companies from countries with different competitive advantages and economic, political and social contexts compete. In telecommunications infrastructure auctions, Alcatel-Lucent could battle China's Huawei; Spain's Telefónica competes with Mexico's América Móvil in Latin American countries; and France's Carrefour struggles in Brazil against Brazil's Pão de Açúcar just to mention a few examples.

THE EMERGENCE OF LATIN AMERICAN MULTINATIONALS

Latin America has been a market economy region with a dynamic private sector that was committed to the development of its countries. From the Monterrey group in Mexico to Brazil's large conglomerates, their founders believed that part of their mission was to move their country forward with advanced technology at the service of society. Some Latin American companies were founded at the beginning of the 20th Century and have been able to survive for more than 100 years despite the many economic crises. We can distinguish three phases of internationalization for Latin American companies. The first (1970-1990) is the *beginning of multi-latinas* when they expanded into their natural market, the neighboring countries. According to the definition of my 2002 article in *Foreign Affairs Latin America*, natural markets are those that share the same language, history or geographic proximity. The term *multi--latinas* was coined at the time and it defined those Latin American companies that had begun to expand in the region. This phase of international expansion is hampered in the 1980s, the so-called 'lost decade', when the region's governments ceased paying their debt.

The second phase (1990-2002) corresponds to the years of *Washington consensus*. It is the time of great privatizations of telecommunications, energy, financial sector and natural resource firms. The Latin American economic press began to talk about The Reconquering, alluding to the mass arrival of Spanish companies that, knowing the region, saw an opportunity where others saw only risk. Twenty years later, the Spanish banks, BBVA and Santander, dominate the region's financial sector. Spain's Telefónica is the leader in the telecommunications sector. This entrance of foreign companies acted as fuel for Latin companies to begin to internationalize. Some followed the path of the free trade agreements. Argentina, Brazil, Paraguay and Uruguay formed the Southern Common Market and Mexico signed its agreement with the United States and Canada in 1994. The Mexicans expanded into the United States: Cemex bought Southdown in 2000. The Brazilian companies expanded into the southern cone. Petrobrás increased its presence in Argentina in the production of natural gas at the Aguaragüe (Salta) TEP; drilling of the San Julián (Santa Cruz) exploratory well and prospections in Cuenca Neuquina. América Móvil, of Mexico, took advantage of the 2000 crisis in the technology sector to buy assets in Bell Canada and Bell South, MCI WorldCom, at bargain prices, and became the regional leader overnight.

The current phase began in 2002, in which emerging markets create global Latin American companies. The increase in raw material prices: oil, copper, silver, gold or iron ore, and in prices for agriculture products tied to the growing demand in China and Asia, benefit exporting regions like Latin America. If the 1990s was the decade of the dollar, the new millennium began as the decade of raw materials. According to CEPAL, for the first time in 30 years, the region was able to enjoy average economic growth of 5 percent, except in 2009, when it fell to 1.9% as a consequence of the global crisis. In this context, an increase in internal demand is also taking place due to economic improvement. The benefits were transferred to the companies. In 2006, Brazil's mining company, Vale, the largest global exporter of iron ore, bought Canada's Inco, specialized in nickel. That acquisition was a milestone due to its value (18,900 million dollars) and because it was a daring move by an emerging company into a developed world. That is how the global Latin companies were created, that is, companies that have successfully entered Europe or the United States.

Investment flows traditionally

moved between Europe and the United States. In this new phase of globalization, investment has grown at a spectacular rate between emerging countries and from them to the developed world. Data from 2009 and 2010 indicate that investments between or from emerging markets have been greater than those from the developed world. If we consider the ten biggest mergers and acquisitions in the region last year, Latin American companies surpassed Western firms, which the crisis left without liquidity and which retracted back to their national markets. According to data from Latin Finance, Brazil dominated this scene with five of the ten largest transactions. Four were mergers in Brazil that reinforced its "domestic champions": JBS, the beef company, led the ranking with the acquisition of Bertin in Brazil for 6,300 million dollars; Perdigão, from the same sector, bought Sadia for 4,100 million creating Brasil Foods; Globex Utilities (Pão de Açúcar) bought Casas Bahia for 2,200 million dollars, grabbing back the lead in the Brazilian retail sector; and, Votorantim Pulp and Paper merged with Aracruz Pulp to form Fibria Celulose in a transaction worth 1,980 million dollars. The Swiss bank, UBS, sold its Brazilian branch to the Brazilian financial group BTG, UBS Pactual for 2,500 million dollars. The resulting entity, BTG Pactual, is the largest investment bank of emerging countries. André Esteves was behind this operation, the same person who had sold Banco Pactual to UBS in 2006 for the same amount.

Mexican companies have shifted north. The Bimbo group bought the American bakery, Dunedin, a branch of Canada's George Weston Limited for 2,500 million dollars. The Grupo Mexico mining group bought Asarco of the United States for 2,200 million dollars. Only the three remaining transactions were in the hands of foreign multinationals. Vivendi of France beat out Spain's Telefónica by grabbing 55.5% of the Brazilian telecommunications company GTV for 2,403 million dollars. Wal-Mart (through its Mexican branch) purchased Chile's supermarket chain, Distribución y Servicio S.A., from the Ibáñez family for 1,983 million dollars. And the last of the ten biggest acquisitions was the purchase of Uruguay's Botnia, a branch of the Finnish firm with the same name by UPM of Finland for 2,400 million dollars.

This tendency increases in 2010 and Brazil and Mexico are leading players in six of the ten biggest mergers and acquisitions at a global level. According to data from September of this year, published in the English newspaper, Financial Times, the biggest acquisition was in Mexico, with Carso Global Telecom purchased by America Movil for 24 billion dollars. Within the same conglomerate, Telmex Internacional bought America Movil for 5.4 billion dollars. Also in Mexico, Heineken, of Belgium, acquired FEMSA beer for eight billion dollars. The other three transactions occurred in Brazil: Telefónica of Spain acquired 50% of its joint venture in Brasilcel with Portugal Telecom for 9.6 billion dollars; LAN airlines of Chile acquired Brazil's TAM for 5.5 billion dollars and the Dutch/British Shell Oil company bought Cosan for 5.4 billion dollars.

LIFT OFF OF THE LATIN GLOBAL COMPANIES

In 2006, Antoine van Agtmael published the book entitled 'The Emerging Markets Century[2]' which examined emerging countries that had been successful despite coming from countries without any clear competitive advantage and that continue to have infrastructure problems and poverty. In a country like India, where power outages are frequent, companies have arisen like Tata Consultancy Services, the largest provider of software and technology service outsourcing company in Asia.

In this context, I began a qualitative study[3] in 2006 of 21 Latin American global companies4 in collaboration with the Inter-American Development Bank. This sample intended to cover different countries, industrial sectors and sized to find common behavior in most. The study used case study methodology and we interviewed the directors of these companies with the objective of studying these Latin American global firms. We wanted to check the reasons behind internationalization, the strategies they had followed and their differentiating characteristics. I give details of the results from this study below.

INTERNATIONALIZATION AS LEARNING

The macroeconomic context is present in the daily action of emerging companies. The continent has been characterized by enormous volatility over the past 30 years: the debt crisis of the 1980s; the Mexican crisis of 1994; the depreciation of Brazil's real in 1999 and of the Argentine peso in January 2002, hampered business in the region. In most cases, a company's growth is tied to the country's gross domestic product growth. Thus its ambition to enter stable economies that will compensate for domestic instability. The cost of capital for Latin companies has been and still is very high, immediately putting them at a competitive disadvantage with Western companies that have access to cheaper financing. Appraisal of an emerging company by ranking agencies in most cases is tied to their country of origin. Although this situation has changed radically and today most of the countries in the region have investment grade, it must be remembered that until 2007 the only countries who had that were Mexico and Chile. When the Spanish firm Repsol bought Argentina's YPF in December 1999, some experts signaled the main reason was that Repsol could have access to cheaper financing because it was in Europe. After its privatization, YPF was considered the crown jewel among Argentine business owners. The loss of YPF probably played a symbolic role in the subsequent collapse in Argentina. Given all of the above, internationalization, which is normally considered a risky process in business schools, is yearned for by Latin companies in order to balance domestic volatility and gain access to cheaper financing through a Western country. That is what Cemex did after its purchases in Spain in 1992. After that moment, financing of its expansion was negotiated by its Spanish branch.

According to the classic work by John Dunning5, there are three reasons for companies to go international: the search for efficiencies, guarantee natural resources at reasonable prices or new markets. Latin American companies fundamentally seek new markets to increase in size. The region is a destination for those investments sought by the other two. Emerging companies do not always begin their growth with any clear competitive advantage except for the internationalization process they acquire. A virtuous circle is thus created through which internationalization is understood as a learning process brought back to the head office and that builds the competitive advantage. For example, the fast food restaurant chain Pollo Campero, of Guatemala, made its first international venture to Miami in 1986. Although it had to abandon the city the following year, Pollo Campero assimilated the differences in the restaurant business in the United States and Central America. After this first failure, it understood the need to improve its organizational processes, to achieve employee loyalty and to thus construct a business model that could be transferred to other countries. This lesson proved extremely useful to become the great multinational it is today and to be able to compete with Kentucky Fried Chicken in its own country.

INTERNATIONALIZATION BEGINS IN THE NATURAL MARKET

The growth of successful Latin American multinationals begins in its natural market. Companies from emerging countries try to avoid errors in their international development since they have less room to maneuver. In their natural markets, there is more information and thus one better understands the competitive scenario, the customers and the vendors and it is easier to attract talent. The networks and ties between countries in a natural market are closer than outside of it. Languages are formidable barriers of entry.

The Iberian-American world is a large natural market that shares a similar culture with two predominant languages, Spanish and Portuguese. The immigration flow in both directions of the Atlantic has created a constant exchange of people, information and culture. The Iberian-American Summits have been held since 1991, gathering the 22 presidents of the member countries, and they have driven the Iberian-American space for knowledge. A program has just been created for Iberian-American students within the Universia network, comprised of one thousand universities from eleven Iberian-American countries6. It is similar to the Erasmus European university student exchange program. From now to 2015, Banco Santander will use 600 million Euros to finance the creation of a program with the objective of promoting the mobility of 15,000 students and researchers among network universities.

Spanish, Portuguese and Latin American companies have made use of this market. Just as England has been the European port of entry for American companies, Spain has served as such for Spanish speaking ones. Astrid y Gastón, the Peruvian restaurant chain, opened its first European location in Madrid. Portugal is the bridge for Brazilian companies. Banco Itaú opened its European headquarters in Lisbon in 1994, and Embraer entered Europe through Portugal when it led the consortium that purchased OGMA in 2004. Vale and Petrobrás entered Africa through Angola and Mozambique, the countries that speak Portuguese on that continent.

ARE THE LATIN AMERICAN EMERGING MULTINATIONALS DIFFERENT?

As we have just affirmed, emerging multinationals internationalize to achieve more stable growth and to learn about other markets. They tend to first enter countries within their natural market. In the aforementioned study, we found other common characteristics such as strong leadership with long-term vision. Leaders like David Servitje of the Bimbo Group run the day-to-day activities of their companies with a long-term perspective. On one hand, they need to know details of the business' progress to navigate through major crises, make quick decisions, and on the other, they need to build tomorrow. They are not companies that copy strict business processes elaborated at some head office, but rather are flexible companies with the capacity to adjust to different realities with great agility.

State-owned businesses still dominate in Latin American businesses and the emerging world in general. PDVSA of Venezuela, Cemex of Mexico and semi-state owned Petrobras of Brazil will generate sales of more than US$ 250 billion dollars, equivalent to the combined sales of the next 18 companies in the ranking published by Latin Trade in August 2010. The large families that frequently coincide with the great fortunes of the region complete the business structure that often adopts the conglomerate format. The Carso Group, for example, encompasses hotels, mines, railroads and commercial centers. The different sectors of a conglomerate are useful in times of crisis to compensate for losses in one sector with the rest.

Emerging market companies must know and adapt their services and products to customers of the so-called base of the pyramid. High class markets are small in Latin America, and if you want to win you need to attract most of the population with limited purchasing power. Alpargatas' Havaianas, part of the Brazilian conglomerate, Camargo Correa, are a global product that was initially cheap footwear for the mainly Latin American population. Through a series of innovations in marketing and in the design of the flip-flops, the product has gone global with a brand image that alludes to a laid-back and open air lifestyle.

REVERSE INNOVATION

Traditionally, the developed world exported new products and innovation in general to the developing world. However, nowadays we talk about reverse innovation, that is, from the emerging world to the West. Micro credit, prepaid cards for cellphones and sugar cane ethanol are some of the innovations that have revolutionized the financial sector, telecommunications or biofuels in emerging countries and which have been exported to Europe and the United States. For example, the Brazilian aeronautical company, Embraer, has a business model that some specialists call reverse outsourcing. At its plant in São José dos Campos, the aircraft is designed and the final assembly is made with the parts that have been manufactured in Europe and the United States. Brazilian aeronautical engineers from the Technological Institute of Aeronautics (ITA), one of the best schools of its kind in the world, and which is near Embraer, are excellent and comparatively cheaper. Embraer is thus able to achieve quality at a low cost.

At a moment in which we are seeking alternative energy sources, Brazil offers the world its hybrid motors, which began to be manufactured in 2003. These motors operate with gasoline, ethanol or any combination of the two. The German multinational, Volkswagen, was the first to sell vehicles with these motors. Last year, this technology was extended to motorcycles and Japan's Honda was the first to launch one with these characteristics. Ethanol is available at every service station in the country and all of the manufacturers produce these types of flexible motors. Ethanol is the result of the Brazilian government's interest in achieving energy self-sufficiency after the 1973 oil crisis as well as Embrapa's agricultural research, a government institute founded that same year. Embrapa is also responsible for transforming Brazil into an agricultural power, the result of a 150% increase in productivity in this sector over the past thirty years. According to Pedro Antonio Pereira, director of Embrapa, during this period of time, the land dedicated to agriculture only increased about 20%7. For 2025, Brazil's objective is to be the largest exporter of agriculture products in the world, surpassing the United States and without harming the environment.

The so-called creative industries include fashion, industrial design, cinematography, audiovisual products and cultural tourism. The possibility of instantaneous global communication has made dissemination possible on one hand, and on the other, the dislocation of these innovative sectors, which are at their peak throughout the region. It is worth celebrating the success of Latin music with the Colombian Shakira as one of the recognized figures. The Argentine tango has just been declared a heritage of humanity. Besides music, the region exports soap operas produced by Brazil's Globo or Mexico's Televisa. In Argentina, small and mid-sized companies like Pol Ka produce and adapt television programs. Argentina exports more than 500 million dollars in this sector. That is the result of an ecosystem that combines highly skilled labor with a culture of creative design and the commitment by the Government of Buenos Aires that established the

Metropolitan Institute of Design and Innovation (IMDI).

BRAZIL'S TURN

Except for the great existing differences in size and geographic location, we could compare the Brazil of today with the Spain of the mid-1980s. In 1985, when Barcelona was chosen to hold the 1992 Olympic Games, Spain's economy was coming out of a stagnation caused by the successive crises of the previous two decades. Its per capita income was similar to Argentina's and Mexico's. The opening of the economy had brought results that were questioned by some sectors. Half of Spain's 100 largest companies had fallen into foreign hands, many of which were French. The economic press called them 'The New Napoleons'. In this context, a social consensus was reached from the so-called 'Moncloa Pacts'. These Pacts represented the willingness of the social classes to work and cede some claims in order to construct a better country for all. The Olympic Games enabled the country to change its brand image and they were the beginning of a great economic miracle. By the end of the 1980s, Spanish companies understood that the best defense was to attack and Telefónica bought the Chilean phone company from an Australian financial firm. The rest is history, and today Telefónica, Santander, Iberdrola and Zara are among the biggest in the world in their sectors.

The year of 2009 played a leading role in the rebirth of Brazil. A reconfiguration of corporate power began in the country, leader of emerging countries and the region, through the National Bank of Economic and Social Development (BNDES) and public pension funds. BNDES is the largest development bank in the world and the greatest money lender in Brazil, two times more than the credit granted by the Inter-American Development Bank. In 2009, it provided loans totaling 69 billion dollars. This financing helped Brazilian companies position themselves among the ten biggest in the world in sectors as diverse as foods (JBS-Friboi and Brasil Foods), finance (Itaú- Unibanco), mining (Vale) and paper (Fibria). Brazil has thus continued its support of its 'national champions', going beyond Petrobras in oil and natural gas and Embraer in the manufacturing of aircraft. Although most of BNDES' loans concentrate in energy and large company infrastructure, the bank's hand reaches every sector.

Brazil's public pension funds, with 306 billion dollars, represent 18% of the country's Gross Domestic Product. The Caixa de Previdencia dos Funcionarios do Banco do Brasil (Previ), the pension fund for employees of the state-owned bank, Banco do Brasil, manages 75 billion dollars. Previ contributed to the recent acquisition of Brasil Telecom by Oi/Telemar, creating Oi, Brazil's largest telecommunications company, capable of competing on equal footing with the Latin American leaders: América Móvil/Telmex and Spain's MoviStar/Telefónica.

Previ participates with BNDES and other pension funds in ownership of most of Brazil's large corporations. It also wants to be an instrument for promoting innovation and as such it is one of the official partners of the funds for incubators organized by the state-owned agency to promote Brazilian innovation, FINEP.

The region needs to improve its image as a power capable of exporting not only oil, copper, iron ore, gold and silver, but also aircraft, technology and innovative, value-added products. The golden opportunity has arrived since Brazil will hold the 2014 World Cup and the 2016 Olympic Games, the first in South America. These major events are the occasion to improve the brand's image and to use them as a showcase for the world to see the country's technological capacity and advances.

President Lula's popularity ratings of nearly 80% over the final months of his term represent the consensus that any society needs to achieve development. One of the goals Brazil has proposed achieving for 2016 is to reduce poverty to around 5%, the level of a developed country. In the joint work by the private and public sectors on the road to 2016, we should find the foundation for Brazil and Latin America to achieve their so longed for development with social inclusion. Supporting this development, new Brazilian and Latin American companies will be among the biggest in the world in the next twenty years.

FINAL THOUGHTS

In this new scenario, risk is no longer a heritage of developing countries and the most volatile currencies are those that years ago were a refuge in times of crisis. Will the Western multinationals have the necessary agility to navigate these turbulent waters? In this crisis, as in the previous ones, great opportunities are going to arise; will the emerging multinationals know how to take advantage of them?

As we have seen before, Latin American multinationals have gone to Europe and the United States to learn. At a time when growth and innovation are no longer exclusively of the developed world, will they know how to look towards other emerging countries?

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Will the business, management and leadership models we have taught over the past 50 years in business schools still be valid for new emerging multinationals?

The internationalization of Latin companies has only just begun. What sort of skills will Brazilian and Latin American executives need for their companies to be successful?

The definition of economic success has changed and social and environmental elements have been incorporated. Latin America is the region with the lowest CO2 emissions in the world. On the other hand, social improvements have been remarkable over the past five years. Will the region and its companies be able to take advantage of this leadership to drive it to the top?

NOTES

1. RE-ENTER the dragon. *The Economist*, v. 395, n. 8685, p. 89-90, 2010.

2. VAN AGTMAEL, A. *The Emerging Markets Century: How a new breed of world-class Companies is overtaking the World.* New York: Free Press, 2007.

3. This study was published as a report Casanova, L. and M. Fraser. 2009. From Multilatinas to Global Latinas. The Latin American Multinationals (Compilation Case Studies). January 2009. Inter-American Development Bank Working Paper. Washington, DC: IDB. www.iadb.org/intal/intal- cdi/PE/2009/03415.pdf and in the book: Casanova, L. 2009. Global Latinas. Emerging Multinationals from Latin America. 2009. Palgrave Macmillan. This article gathers the results from this research.

4. The companies studied were: América Móvil, Bimbo, Cemex, Grupo Carso, Grupo Modelo, Televisa, TV Azteca, from Mexico; Vale, Embraer, Petrobras, Banco Itaú, CSN, Pão de Açúcar, Sadia, from Brazil; the Grupo Luksic of Chile and Techint/Tenaris of Argentina; and the small and mid-sized companies: Concha y Toro (Chile), Natura & Politec (Brazil), Pollo Campero (Guatemala) and Astrid y Gastón (Peru).

5. DUNNING, J. H. *Multinational enterprises and the global economy.* Reading, Mass: Addison-Wesley, 1993. 687p.

6. The eleven countries in this network are: Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru, Portugal, Puerto Rico, Uruguay and Venezuela.

7. SPECIAL report on Latin America: It is only natural. *The Economist*, v. 396, n. 8699, p. 05-09, 2010.