2007

The Emergence of Latin Multinationals

OECD Emerging Markets Network Working Paper

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04/2007

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The corporate world has changed remarkably in the past ten years. New multinationals are emerging in countries such as Brazil, India, China, South Africa and Mexico. The entire global corporate chessboard is rapidly being altered.

In some sectors, such as steel or cement, the global leaders are no longer corporations from developed countries. For example, in 2006, an Indian group, Mittal, took control of its European based rival Arcelor and became the leader in the steel sector while the Mexican company Cemex is in the same league as Lafarge (French) and Holcim (Swiss). In early 2007, Tata Steel also completed a major takeover of its UK rival Corus. With the takeover of the Canadian based company Inco in 2006, the Brazilian minerals producer, CVRD, is now topping international rankings along with the Anglo-Australians of BHP Billiton and Rio Tinto. The list of emerging multinationals competing head to head with their OECD counterparts is increasing fast, including Chilean based corporations like ENAP, public companies like PDVSA from Venezuela and more often private ones like Petrobras from Brazil. From South Korea, Samsung, LG or Posco are worldwide competitors while Russian giants like Gazprom are increasingly willing to trespass their frontiers, following the example of Chinese companies like Lenovo or Indian conglomerates like Tata.

Along the same lines, foreign direct investment (FDI) in emerging countries by enterprises from other emerging countries has increased threefold, from $15 billion in 1995 to more than $45 billion in 2003. During the same period, investment by these enterprises in OECD countries rose from $1 billion to $16 billion. In 2005, according to UNCTAD figures, FDI from emerging countries reached a record of $133 billion, representing 17 per cent of the world's outward flows, the highest level ever recorded. The total value of the FDI stock from emerging economies also jumped to the impressive amount of $1.4 trillion in 2005, 13 per cent of the world total. The number of emerging countries now playing in the international FDI Ivy League has also increased, jumping from 5 countries in 1990 to 25 in 2005.

Emerging Asian players dominate, accounting for more than 60 per cent of FDI stock from emerging countries in 2005, but Latin American players are also actively involved in this new trend. More interestingly, we have witnessed a boom of South-South investment flows. Total outflows from emerging countries increased from levels below $5 billion twenty years ago to more than $60 billion in 2005, the bulk being concentrated in other emerging economies. After Asia, the next largest stream of FDI from emerging markets is coming from Latin America and is driven by Argentina, Brazil and Mexico. The number of companies from emerging countries now at the top of worldwide rankings is increasing along with their overseas investments: in 1990 only a happy few emerging multinationals from developing countries were listed in the *Fortune Global 500* rankings; by 2005, the number had risen to 47.

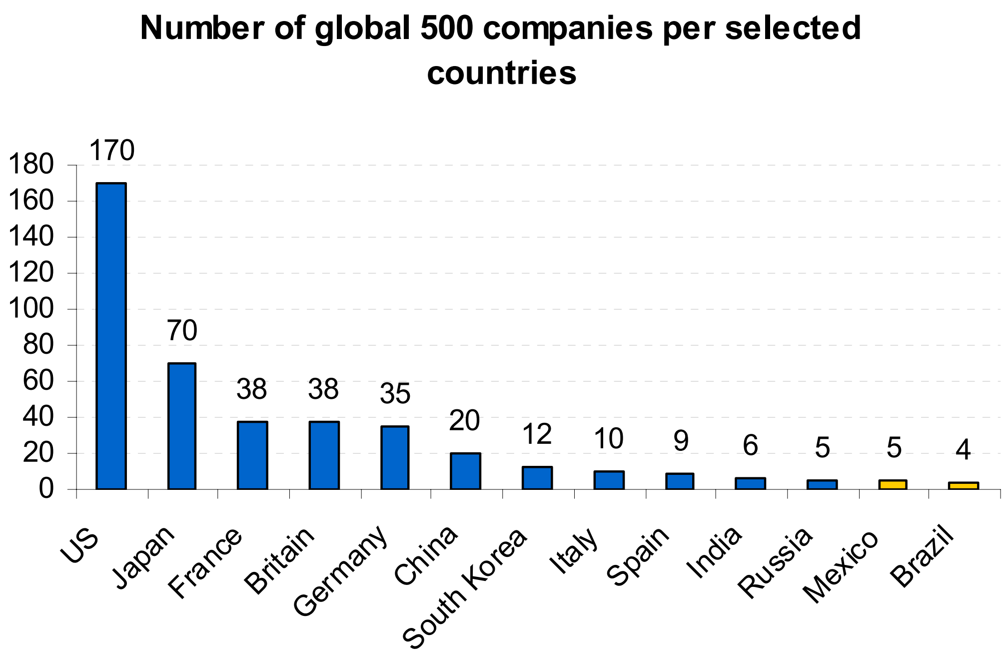
However, beyond the remarkable growth of emerging multinational corporations, there is, as already mentioned, the noteworthy irruption, on a global scale, of Latin multinationals from Mexico and Brazil, and above all from Spain. In the mid-1970s, Spain was still officially considered as an emerging country, duly listed as such by the World Bank and more specifically by the International Finance Corporation (IFC). Now a developed country, Spain is a former emerging country with a good number of *multilatinas* – Latin multinationals, either from Latin European countries or Latin American countries that have experienced a tremendous internationalisation process – positioned in the global corporate rankings. One of the most spectacular economic transformations of the past quarter of a century may well have been the emergence of Spanish multinationals. This is not, however, the only example of the boom in *multilatinas*. In Brazil and in Mexico, groups such as CVRD and Telmex have multiplied investments beyond their borders to become leaders in their respective sectors.

This significant increase in Latin multinationals is recorded in the global classifications produced by *Forbes* in 2005: its list of the top 2000 global enterprises includes about 30 Spanish multinationals, about 20 Mexican ones and 20 Brazilians ones (Figure 1). Other rankings like the *Fortune Global 500* also indicate the increasing presence of Latin multinationals in the top league tables: 4 Brazilian firms are included in that list, nearly the same number as Russia, India or Mexico (Figure 2).

Figure 1:

Source: Forbes Top 2000 Companies, 2006.

Figure 2



Source: Based on Fortune 500, 2006.

Spain: an ex-emerging country

In 2005, the two major Spanish banks played a leading role in the integration of European banking. The initiatives did not flood in from German or French banks, nor from the Swiss or British, but from Spanish banks with, for example, Santander Central Hispano's acquisition of Britain's Abbey National Bank for €1.5 billion and with BBVA's attempt to buy the Italian BNL. Added to these initiatives were ABN Amro's and Unicredito's acquisitions in Italy and Germany respectively. Spanish banks thus took the lead in the concentration process of the European banking sector. In less than ten years both banks, BBVA and Santander, became top players in their sector with market capitalisations surpassing those of Deutsche Bank or Dresdner. At the same time, Telefónica was moving up the road to become one of the leaders in its sector, consolidating its international position with the takeover of the UK mobile phone group O2 for the record amount of €26 billion. In 2006, it is one of the biggest worldwide companies in its sector, competing hand in hand with Verizon or Vodafone and with a more important market capitalisation than its German counterpart, Deutsche Telekom.

All these acquisitions and buy-out attempts are illustrations of a broader phenomenon connected to the boom of the Spanish economy and the globalisation of its enterprises. In less than two decades, Spain has become an example of vibrant economic development: 20 years after entering into the European Union, it became the eighth-ranking global economic power in terms of GDP. Today, its major cities are among the most attractive for the establishment of multinational corporations' headquarters in Europe. Equally surprising are the rankings achieved by business schools "made in Spain". In 2006, IESE Business School topped, for the second time, the worldwide rankings of business schools established by *The Economist*, taking the lead ahead of Stanford, Chicago or Harvard. The same year, ESADE, another Barcelona based business school, topped the international rankings published in The Wall Street Journal (WSJ), displacing the Swiss school, IMD, which occupied 1st place the previous year.

A clear signal of the international recognition of a quality of managers "Made in Spain" is the fact that an increasing number of Spanish managers are now on the boards of some of the largest European companies like Siemens in Germany, Carrefour in France or Nestlé in Switzerland. In 2006, managers like Eduardo Montes joined the board of Siemens while José Luis Durán took over the top job at Carrefour. The board of Nestlé includes two Spanish managers while at Alstom the Asian region is run by a Spaniard.

The most spectacular change, however, is perhaps that which occurred within Spanish enterprises.[1] A little over ten years ago, Spanish enterprises were focused on their domestic market, with little or no international projection or recognition. In a record time of less than ten years, half a dozen of them reached leading international positions. Proof of this success lies in the fact that Spanish champions are listed in all the global classifications. In its latest study on the most successful European multinationals in terms of market capitalisation, the illustrious investment fund *Fidelity International*, one of the most important in the financial community, placed two Spanish enterprises (Telefónica and Santander) in its 2005 ranking of the ten major European multinationals. Spain is thus for the first time on a par with France and has left Germany far behind (German enterprises have fallen off the roster). Only Switzerland has performed better than Spain, with four Swiss enterprises on the winning list. Twenty years ago, in 1985, not a single Spanish enterprise had made it into this classification (which featured seven German enterprises at the time). In just ten years, Spain's corporate journey has been meteoric.

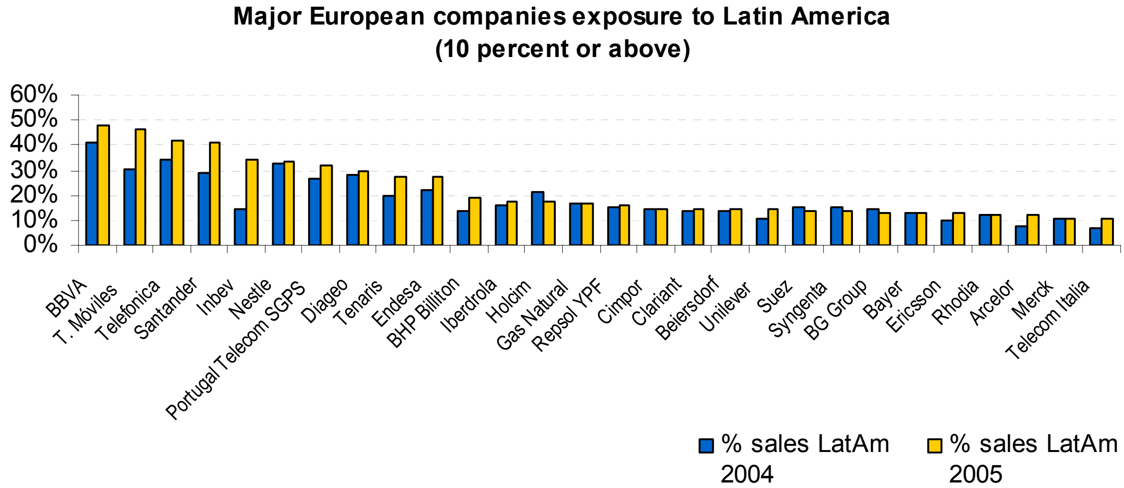
Interestingly, emerging markets played a pivotal role in this development, and Latin America in particular. The big Spanish enterprises placed massive bets on the Latin card: in 1999, at the crest of the wave of investments in Latin America, 65 per cent of the total overseas investment effort of Spanish enterprises was concentrated in the region. Spain has now become the leading direct foreign investor in Latin America, ahead of the United States. Today, the 7 most important IBEX 35 multinationals, totalling more than 60 per cent of the Spanish capitalisations by mid 2006, generate nearly 30 per cent of their income in Latin America. In 2004, they obtained more than $41 billion in the region, i.e. the equivalent of 5.6 per cent of Spain's GDP. In 2005 and 2006, the two major Spanish banks accrued comparable profits in Latin America and in Spain. Paradoxically, Spanish multinationals became the first *multilatinas*, Latin multinationals.

We conducted a systematic survey of the Latin American exposures of major European based listed companies. Not surprisingly, Spanish firms have the largest exposures in terms of sales. For companies like BBVA or Telefónica Móviles nearly half of their revenue in 2005 came from the Americas. In total, 8 out of 28 of the largest sales exposures by European firms to Latin America are Spanish based companies (only 2 German companies are in that ranking). As shown in Table 1, all the Spanish firms increased their Latin American bet in terms of sales between 2004 and 2005, while in the group of European OECD companies that have sales in Latin America superior to 10 per cent of their total sales, companies like Suez (from France), BG Group (from the UK) or Holcim and

[1] Mauro Guillén has produced a masterful essay on this globalisation process (Guillén, 2005).

Syngenta (both from Switzerland) reduced their relative Latin American exposures.

Figure 3



Source: OECD, 2006 (data extracted from companies annual reports, 2005)

Table 1: Major European exposures to Latin America (above 10 percent of sales)

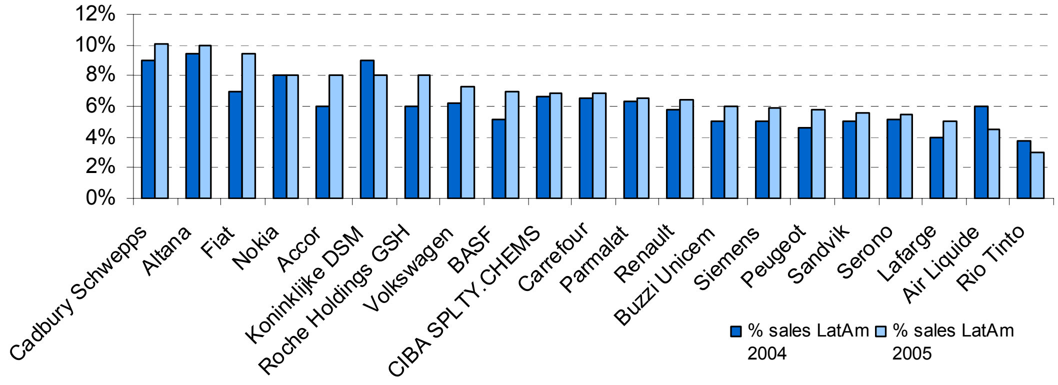
Major European exposures to LatAm (>10% of sales)	% sales LatAm 2004	% sales LatAm 2005	% change 2004-2005
BBVA	41%	48%	7%
T. Móviles	30%	47%	16%
Telefonica	34%	41%	7%
Santander	29%	41%	12%
Inbev	14%	34%	20%
Nestle	33%	34%	1%
Portugal Telecom SGPS	27%	32%	5%
Diageo	28%	29%	2%
Tenaris	20%	27%	7%
Endesa	22%	27%	5%
BHP Billiton	14%	19%	5%
Iberdrola	16%	17%	2%
Holcim	21%	17%	-4%
Gas Natural	16%	17%	0%

Major European exposures to LatAm (>10% of sales)	% sales LatAm 2004	% sales LatAm 2005	% change 2004-2005
Repsol YPF	15%	16%	1%
Cimpor	15%	15%	0%
Clariant	13%	15%	1%
Beiersdorf	14%	14%	0%
Unilever	11%	14%	3%
Suez	15%	14%	-1%
Syngenta	15%	14%	-1%
BG Group	14%	13%	-1%
Bayer	13%	13%	0%
Ericsson	10%	13%	3%
Rhodia	12%	12%	0%
Arcelor	8%	12%	4%
Merck	10%	11%	1%
Telecom Italia	7%	11%	3%

Source: based on annual reports, 2006.

Figure 4

Major European companies exposure to Latin America (5-10 percent)



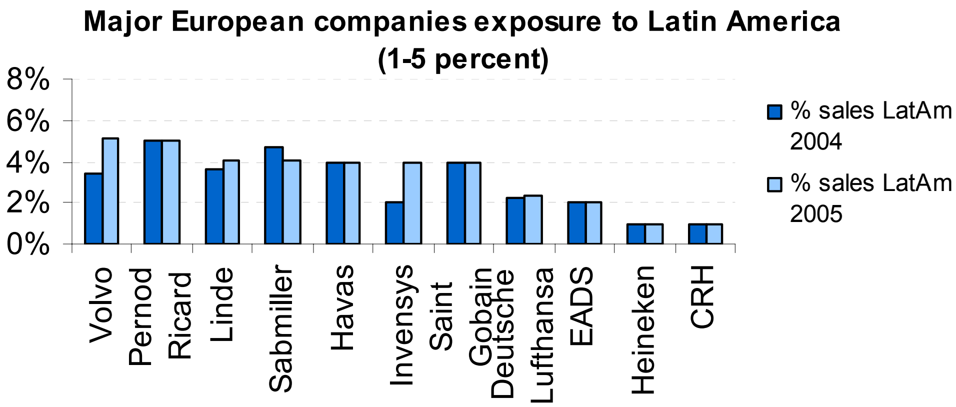
Source: OECD, 2006 (data extracted from companies annual reports, 2005)

Table 2: Major European exposures to Latin America (5-10 percent of sales)

Major European exposures to Latam (5-10% of sales)	% sales LatAm 2004	% sales LatAm 2005	% change
Cadbury Schwepps	9%	10%	1%
Altana	9%	10%	1%
Fiat	7%	9%	2%
Nokia	8%	8%	0%
Accor	6%	8%	2%
Koninklijke DSM	9%	8%	-1%
Roche Holdings GSH	6%	8%	2%
Volkswagen	6%	7%	1%
BASF	5%	7%	2%
CIBA SPLTY.CHEMS	7%	7%	0%
Carrefour	6%	7%	0%
Parmalat	6%	7%	1%
Renault	6%	6%	1%
Buzzi Unicem	5%	6%	1%
Siemens	5%	6%	1%
Peugeot	5%	6%	1%
Sandvik	5%	6%	1%
Serono	5%	5%	0%
Lafarge	4%	5%	1%
Air Liquide	6%	4%	-2%
Rio Tinto	4%	3%	-1%

Source: OECD, 2006 (data extracted from companies annual reports, 2005)

Figure 5



Source: OECD, 2006 (data extracted from companies annual reports, 2005)

Table 3: Major European exposures to Latin America (1-5 per cent of sales)

	% sales LatAm 2004	% sales LatAm 2005	% change 2004-2005
Volvo	3%	5%	2%
Pernod Ricard	5%	5%	0%
Linde	4%	4%	0%
SabMiller	5%	4%	-1%
Havas	4%	4%	0%
Invensys	2%	4%	2%
Saint Gobain	4%	4%	0%
Deutsche Lufthansa	2%	2%	0%
EADS	2%	2%	0%
Heineken	1%	1%	0%
CRH	1%	1%	0%

Source: OECD, 2006 (data extracted from companies' annual reports, 2005)

The bet was therefore a bold one and the Spaniards' vote of confidence for Latin America was unprecedented within Europe. An enterprise like

Telefónica, for instance (the fifth market capitalisation in its sector in late 2005, ahead of France Telecom and Deutsche Telecom), invested a record €75 billion in Latin America between 1990 and 2006, with initial acquisitions of €41 billion and later investments in technological infrastructure totalling €34 billion. All in all these sums represented nearly 45 per cent of all net FDI from Spain in Latin America. Moreover, the Latin American bet by Spanish companies was not short-term. Their long-term view became clear, soon after the Argentine crisis in 2001 when, as large numbers of American and European enterprises pulled out from the region, Spanish multinationals weathered the storm and looked to the north of the continent for more investment opportunities, for example BBVA with its new operations in the United States, Mexico and Colombia.

The keys to success of this Latin globalisation were many. Most important, however, was the capacity to adapt their technological platforms, business-development processes and risk systems. Human resources also played a key role, as well as the knowledge acquired by the enterprises in average-income market environments (which was the case of Spain for somewhat more than a quarter of a century) and the capacity to transfer and adapt this knowledge to Latin American contexts.

In 2006, although interest in Latin America has not disappeared, these Latin multinationals have moved onto a second stage in their globalisation process. As in 2005, the bulk of FDI is now going to OECD countries: in 2005, just 15 per cent of Spanish FDI was addressed to the Americas, the majority of investments being directed to OECD countries. Most Spanish *multilatinas* have completed their Latin American franchising, leaving few gaps to be filled on the regional map. Corporate gazes are now turned towards a wider market diversification. Telefónica is looking at Europe – including Eastern Europe – Morocco and China. Banks have also focused their attention on Europe or Asia and are showing growing interest in the United States and possible synergies with Latin America. Enterprises in the electricity and oil sectors have also sought to consolidate their presence beyond the American continent while infrastructure companies like Ferrovial took over the British aviation and materials group (BBA), and in 2006 Abertis, another leading Spanish infrastructure company, completed the takeover of its Italian rival Autostrade.

The transformation of the Spanish economy and its enterprises is beyond doubt one of the swiftest experienced to date. To a large degree, it testifies to a high faculty for boldness, innovation and pleasure in running operations in distant markets. An entire corporate generation threw itself into this adventure and was able to turn its enterprises into global leaders. The giant Inditex is today one of the most powerful multinational corporations in the textile sector, alongside GAP (United States), Hennes & Mauritz (H&M, Sweden) and Benetton (Italy). It is present in more than 55 countries, making 55 per cent of its total sales abroad. Its business model has become a corporate landmark in top business schools such as Harvard.

An enterprise like Telefónica has become a multinational corporation with operations in 17 countries and a presence in more than 40. It remains the largest private investor in Latin America. Between 1990 and 2006, it put nearly €100 billion into international acquisitions and investments in infrastructure abroad. By mid-2005, Telefónica had 56 per cent of its clients outside of the country bringing in 33 per cent of the group's income, and was the leading enterprise in the Latin American region with a 25 per cent market share of the total fixed- and mobile-telephony sector, and with 58 per cent of the group's total staff in this geographical area. By mid-2005 (before the O2 deal), with 145 million customers, it was already the fourth global operator in its sector in terms of managed customers and represented the fourth global capitalisation of its sector, just behind Vodafone, Verizon and China Mobile (in 1999 it was barely making the first 20) and ahead of Deutsche Telekom or France Telecom. In terms of market capitalisation, Telefónica is almost 3 times the size of an enterprise like Danone, and 2.5 times the size of enterprises like Philips or Sony. Its contribution to the economic development of the countries in which it has investments is also well worth noting: Telefónica's local income amounts to an average of 1.8 per cent of the GDP of the main countries in which it operates (2.3 per cent of GDP in Spain and Peru, 1.8 per cent of GDP in Chile, etc.), and employs a staff of 110 000 in Latin America (out of a world total of 190 000 in mid-2005). In 2005, Telefónica was the second major taxpayer in Brazil (paying $2.83 billion) behind Petrobrás, and the fourth employer in the country (with 44 000 employees), behind the postal service and the retailers Pan de Azúcar and Carrefour.

In the energy sector enterprises such as Endesa, Unión Fenosa, Iberdrola, Gas Natural and Repsol YPF have been continuously expanding their international operations. Endesa, the country's leading electricity utility, has developed a substantial international presence, mainly in Latin America but also in Europe (Italy, France and Portugal). As for Unión Fenosa, its international income amounts to one third of its total income, and the enterprise is present through its subsidiary Soluziona in nearly 30 countries (half of them in Latin America). Unión Fenosa Internacional is present in ten countries; spread over four continents. Iberdrola, the leading Spanish enterprise in terms of installed capacity and a world leader in wind energy, has also developed a significant global presence, with energy and engineering activities today in 35 countries spread over 4 continents. In December 2005, the enterprise continued bidding in view of its globalisation, signing an important international agreement with the Algerian enterprise Sonatrach for the sum of €10 billion over 20 years for the development of joint ventures. Repsol YPF is now present in 30 countries, having made more than €30 billion of investments in the 1995-2005 period (amounting to 65 per cent of its total investments), which has turned it into one of the biggest foreign investors in the region in the last ten years. Finally, Gas Natural, another of the major enterprises in the energy sector, has also built up intense international activity over recent years. With half of its employees located abroad, the group is present in Latin America (Argentina, Brazil, Mexico, Colombia and Puerto Rico), Italy and Morocco.

In the banking sector, both Santander and BBVA are emblematic of this successful globalisation strategy throughout the Americas. BBVA, for instance, was not much more than a domestic retail bank in 1995, scarcely present abroad. In just ten years, it has become a universal, international bank, present in three continents and in all the wholesale- and retail-banking business areas including asset management, pensions and insurance. During this period, it invested more than €13.5 billion in Latin America. In 2006, the bank was present in 35 countries (14 in Latin America) and could vouch for 50 different nationalities among the group's 100 000 employees throughout the world. It also started to complete its Asian franchise in order to dominate the investment and trade boom between Asia and Latin America, boosted by the emergence of China and India[2]. In November 2006, BBVA paid €1 billion for stakes in Chinese banks controlled by the Beijing backed Citic conglomerate, in order to break into China's fast growing financial sector and boost its position as a leading intermediate between China and Latin America. The investment was the largest ever made by a Spanish operator in China, and followed another made by Telefónica who paid more than €300 millions for a stake in PCCW. All in all, it became one of the largest banking capitalisations in Europe, ahead of Deutsche Bank or Société Générale, while its rival, Santander, became the largest European continental banking capitalisation in 2006 with the finalisation of the Abbey National takeover. These two banks became among the most profitable and efficient of the Eurozone, their reliance on emerging markets helping to boost their revenues and market capitalisations. On the contrary, Commerzank's reliance on an almost solely European home market has led to dramatic underperformance.

Brazil and Mexico: the emergence of a new generation of multilatinas

Turning to another continent and other Latin countries - successful rapid globalisation stories are also being written in Latin America. A number of

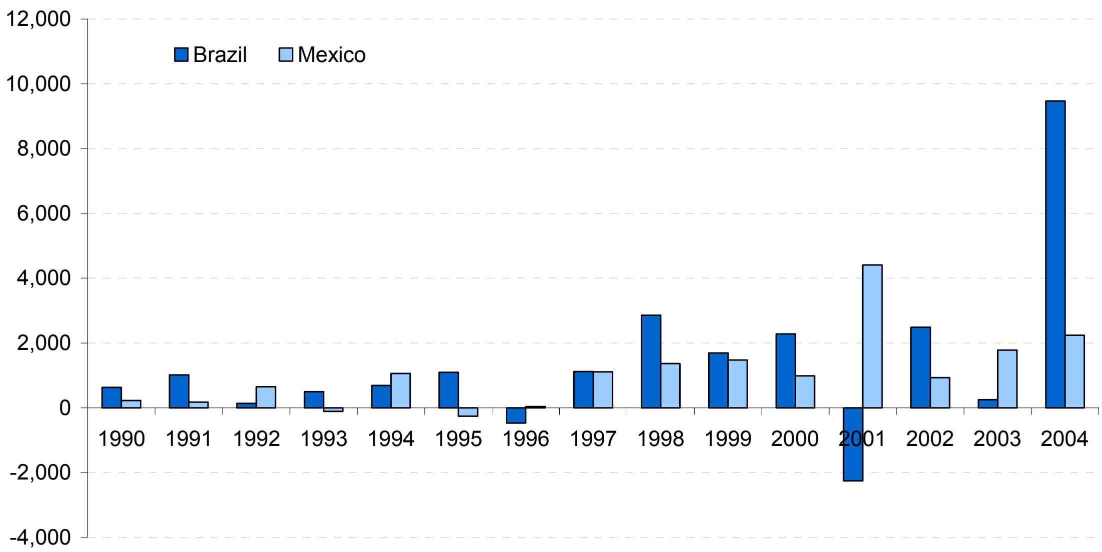
[2] See for more details on the Chinese impact on Latin America, the OECD Development Centre working paper by Blázquez, Rodríguez and Santiso (2006).

corporations from emerging Latin American countries are providing outstanding examples: in Argentina, for instance, Arcor, today the leading global sweets manufacturer and the first confectionery exporter in Argentina, Brazil and Chile, is present in 117 countries in all five continents; the pipe manufacturing industry Tenaris is present in Argentina, Brazil, Mexico and Venezuela, as well as in Canada, Italy and Japan (in 2005, it made more than 85 per cent of its sales outside of Latin America).

However, the biggest *multilatinas* jumping into the global markets are Mexican and Brazilian. 85 of the 100 leading enterprises on the continent and 35 of the 50 most profitable ones are in one or both of these two countries. In less than ten years, Mexican corporations have multiplied mergers and acquisitions, with the total amount of their investments outside of Mexico in this period coming to more than $25 billion, ahead of the $20 billion put out by Brazilian multilatinas (Figure 6). Mexico and Brazil are driving the process but it is also taking place elsewhere. In 2004, Latin American enterprises as a whole invested $22 billion outside of their respective borders, which amounted to a 500 per cent leap with regard to the previous year. The most spectacular rise was recorded by Brazil. According to UNCTAD data, Brazilian enterprises invested nearly $10 billion abroad in 2004, compared to barely $250 million the previous year. In 2005, total Brazilian stock of FDI abroad topped more than $71 billion, surpassing by far the $28 billion of Mexico or the $22 billion of Argentina (and almost the same amount for Chile). Therefore Brazil has the strongest outward FDI position in Latin America, concentrating 40 per cent of all overseas FDI stock from the region.

Figure 6

Overseas Investments by Brazil and Mexico (in USD)

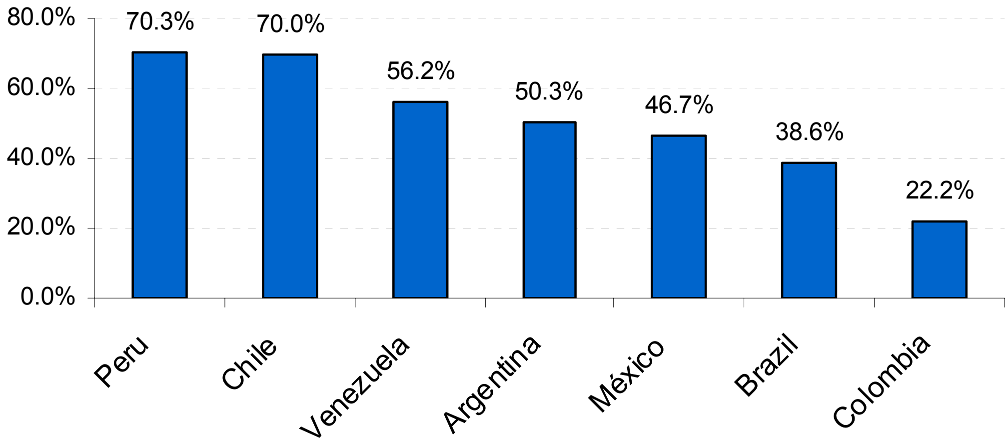


Source: Based on UNCTAD, 2006.

A global appetite was stimulated among the enterprises by industrial and financial interests, i.e. the quest to expand their markets and improve their risk profiles. Their hunger for new markets was combined with the financial need to reduce the cost of access to capital. Some of them are quoted in international stock markets, such as that of New York. Madrid also drew attention, with many of the *multilatinas* listed in Latibex, a stock market instituted in 1999 and now featuring more than 30 quoting enterprises. They also increased dramatically their sales overseas. Based on América Economía rankings of the top 100 major Latin American companies, we calculated their ratios of sales abroad in percentage of total sales. For Peruvian and Chilean companies in the list, overseas sales in 2005 represented no less than 70 per cent of their total sales (Figure 7). But even for countries like Brazil and Mexico, which have many more companies on the list, the averages are impressive: 47 per cent of total sales are made abroad for Mexican companies (mostly directed to the US market) and 39 per cent for their Brazilian counterparts. The bulk (75 per cent) is related to oil, gas and mineral exports (Figure 8), which is not surprising as more than one third of all Latin American exports are commodity related.

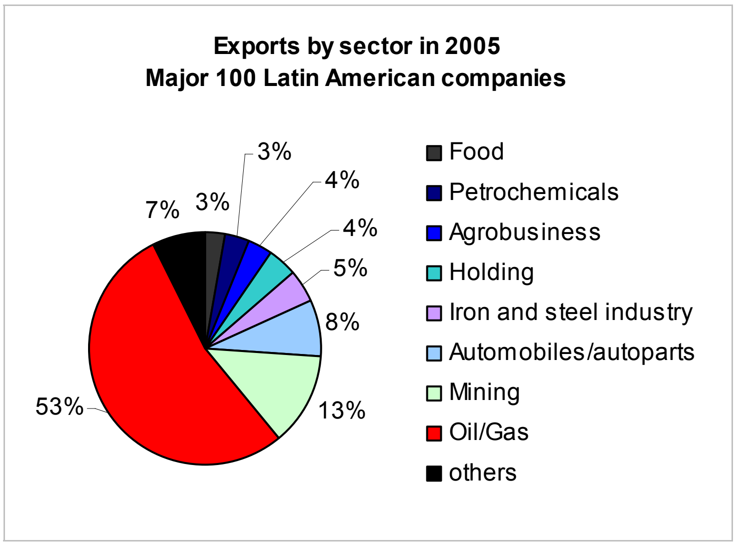
Figure 7

Exports as percentage of local sales
Major 100 Latin American companies



Source: América Economía, 2006

Figure 8



Source: América Economía, 2006.

To understand this process it should be kept in mind that the enterprises' immediate environment was transformed with the massive entrance of foreign competitors over the past decade (some of them Spanish as we saw previously). As a consequence, between 1991 and 2001 the profile of the 500 most important enterprises established in Latin America changed drastically. The number of enterprises under state control decreased enormously, from 20 per cent in 1991 to less than 9 per cent ten years later. During the same period, foreign transnational enterprises staked out significant territory in the region: in 1991 they represented 27 per cent of the continent's 500 most important enterprises; by 2001 they had risen to 39 per cent. This growing competition put pressure on local groups, which traditionally provided products and services for their immediate environment. The most dynamic among them turned to external markets and became *multilatinas*. Some of them directed their globalisation towards given regions of the continent, concentrating on the Mercosur or the Andean zone. Others undertook a pan-regional strategy and some even sought emerging markets in other continents – Africa and Asia – or in the OECD countries, the United States in particular.

Therefore, over the past years Latin American companies multiplied acquisitions, both in home markets and above all abroad, both in Latin America and other emerging or OECD markets. This includes domestic market operations, since at the beginning of the century, acquisitions in Latin America by Latin American firms reached nearly $110 billion (Table 4). Of this amount, more than $23 billion were finalised in countries of the region that were not the home market of the firms. Brazilian and Mexican have been the most active firms in that process (Figure 9).

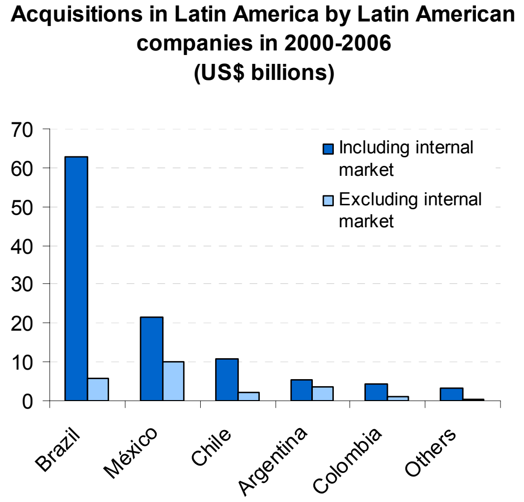
Table 4

Acquisitions in Latin America by Latin American companies from 2000-2006 (US$ million)

	Including internal market	Excluding internal market
Brazil	62,809	5,573
México	21,658	10,217
Chile	10,829	2,322
Argentina	5,415	3,483
Colombia	4,332	1,161
Others	3,249	0,465
Total	108,292	23,221

Source: Bsed on BBVA Corporate Finance, 2006.

Figure 9



Source: Based on BBVA Corporate Finance, 2006.

Mexico was the uncontested leader of this process, with pioneering enterprises such as the cement plant Cemex, whose globalisation process is without undoubtedly one of the most outstanding in the continent. Between 1990 and 2006, Cemex became a world leader among emerging multinationals in terms of overseas acquisitions with no less than 40 operations completed during that period. In 2006, just ten years after its international take-off, Cemex has branches not only in Latin America but also in the United States, England, Spain, Egypt, Indonesia and the Philippines. Present on four continents and with more than $15 billion invested abroad, the Mexican cement manufacturer is spearheading the globalisation of Latin American multinationals. In 2005, it performed one of the most important transactions ever carried out by an enterprise from the south of the continent with its acquisition of Britain's RMC for close to $6 billion. With this acquisition, sales in Mexico decreased to 21 per cent of total sales, behind sales in the United States (27 per cent) and even further behind those in Europe, which in 2005 was Cemex's largest market, amounting to nearly 40 per cent of its total sales (Spain totalling 10 per cent and the United Kingdom 10 per cent). The year after the UK acquisition, Cemex repeated its international bet offering $13 billion for Rinker, the Australian building materials group. If successful, the bid will make Cemex into the leading worldwide company in its sector. It will also be the largest acquisition in the building materials industry to date, surpassing Lafarge's $9.5 billion purchase of Blue Circle in 2001.

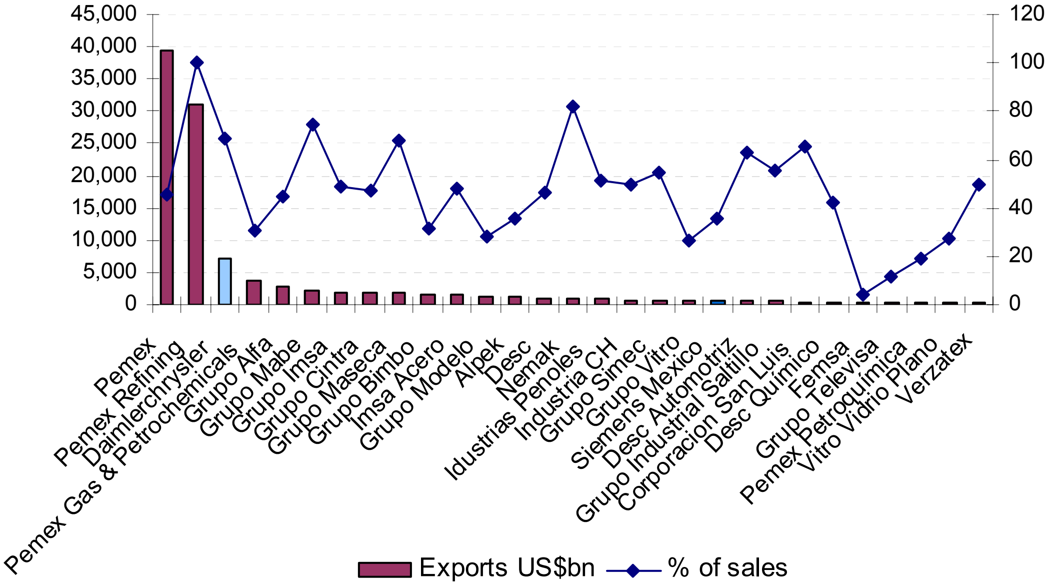
These investments abroad brought to light another aspect of the globalisation of the Mexican economy. Not only does Mexico present one of the highest trade-openness rates among the emerging countries, with the international sales of its enterprises achieved mainly in the United States, but a significant number of the enterprises have entered a phase of international activity turned towards a more direct presence in other markets, with significant establishment or acquisitions. The Alfa conglomerate, based in Monterrey, has partnerships and strategic alliances with more than 20 enterprises in the United States, Japan, Europe, South America and Mexico, all of them leaders in their respective fields of activity.

The telecommunications giant Telmex has thus become one of the biggest competitors in telephony in Latin America. Along with its spin-off América Móvil, it has multiplied acquisitions in the region, completing their franchising plan in just a couple of years. In 2005, América Móvil was still franchising in the region. In partnership with Bell Canada Inc. and SBC International, it set up Telecom Americas as the main vehicle for expansion in Latin America. América Móvil today has subsidiaries and joint investments in the telecommunications sector of Guatemala, Ecuador, Argentina, Brazil, Colombia, Venezuela, the United States, Puerto Rico, Mexico and Spain. A number of enterprises also stand out in other sectors for their international activity, like for instance the brewer Grupo Modelo, present in more than 150 countries. Founded in 1945 in the agro-industrial sector, the Bimbo group also stands out today with more than 80 000 employees. In past years, Bimbo has also made a large number of important acquisitions in the United States, where it achieved practically 30 per cent of its net sales in 2005.

Mexican companies have therefore entered into a new phase of expansion, looking for direct presence overseas. This internationalisation dimension complements the initial expansion and is related to the increasing sales abroad. Using the América Economía databases and rankings, we can see that among the major Mexican exports some are reaching significant levels of international sales. For groups like Nemak or Mabe, international sales in 2005 represented respectively 82 per cent and 69 per cent of their total sales. Interestingly some German firms are also leading Mexican based exporters, like DaimlerChrysler or Siemens, with respectively 69 per cent and 35 per cent of their total Mexican production exported abroad.

Figure 10

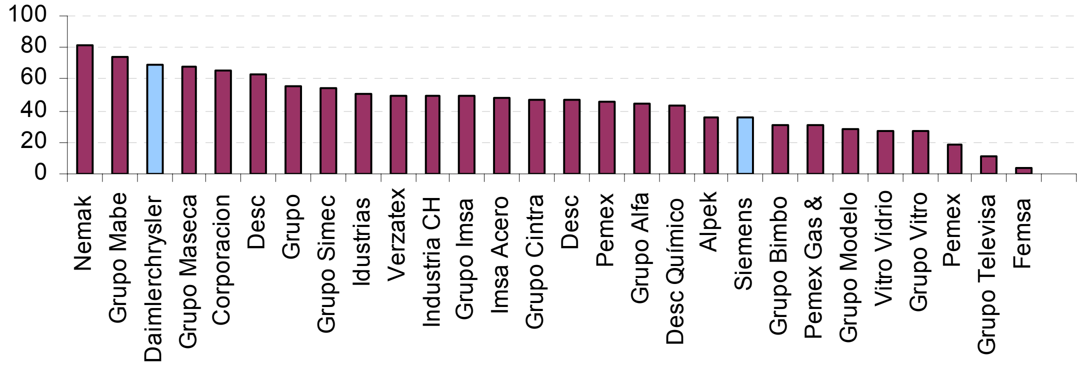
Major Mexican exporters in 2005



Source: based on América Economía, 2006.

Figure 11

Top Mexican companies
Percentage of sales in 2005



Source: based on América Economía, 2006

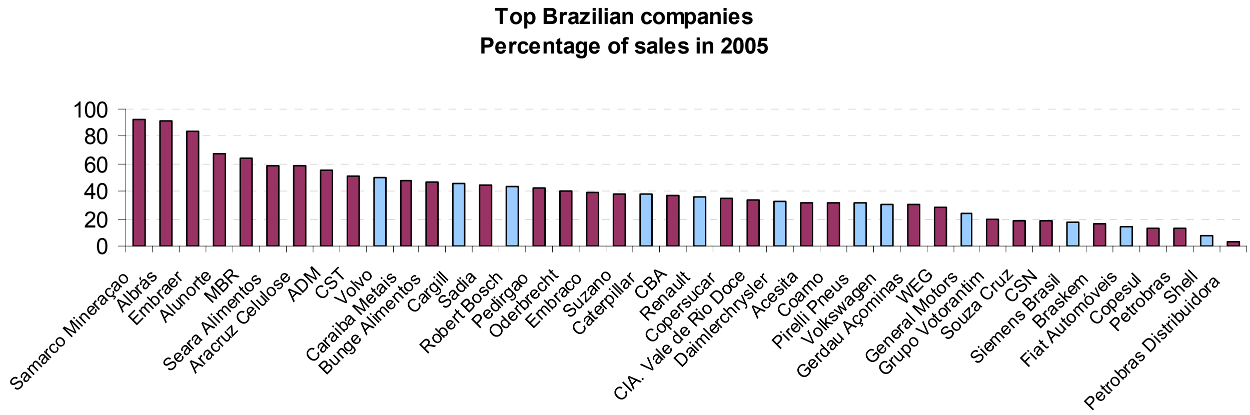
Table 5: Major Mexican-based Companies – Exports as share of Sales

US$ billions - 2005	Exports US$bn	% of sales
Pemex	39,297.20	45.6
Pemex Refining	30,897.90	100
Daimlerchrysler	7,049.70	69
Pemex Gas & Petrochemicals	3,786.50	30.4
Grupo Alfa	2,773.00	44.6
Grupo Mabe	2,098.90	74.3
Grupo Imsa	1,805.40	49
Grupo Cintra	1,732.70	47
Grupo Maseca	1,710.40	68.2
Grupo Bimbo	1,653.60	31.3
Imsa Acero	1,496.40	48.3
Grupo Modelo	1,312.20	28.2
Alpek	1,150.00	35.9
Desc	1,073.90	46.5
Nemak	1,019.00	82
Idustrias Penoles	1,018.00	51
Industria CH	753.6	49.4
Grupo Simec	673.8	54.8
Grupo Vitro	607.9	26.8
Siemens Mexico	539.2	35.2
Desc Automotriz	498	63
Grupo Industrial Saltillo	494.9	55.3
Corporacion San Luis	422.2	65.6
Desc Químico	414	42.6
Femsa	395.1	4
Grupo Televisa	355	11.6
Pemex Petroquímica	354.3	18.9
Vitro Vidrio Plano	312.3	27
Verzatex	309.1	49.6

Source: based on América Economía, 2006

In Brazil, the major groups are also moving into a second phase in the globalisation arena. In the past few years, there has been a significant increase in their sales volume outside of the country. As in the case of Mexico, some of the biggest Brazilian based exporters and foreign companies like Volvo from Sweden, which sells abroad nearly 50 per cent of its Brazilian based production, General Motors, Cargill and Caterpillar from the US, Fiat and Pirelli from Italy, Renault from France or Bosch and Volkswagen from Germany increased their sales abroad(Figure 12).

Figure 12



Source: based on América Economía, 2006.

Table 6: Major Brazilian-based Companies – Exports as share of Sales

US$ billions - 2005

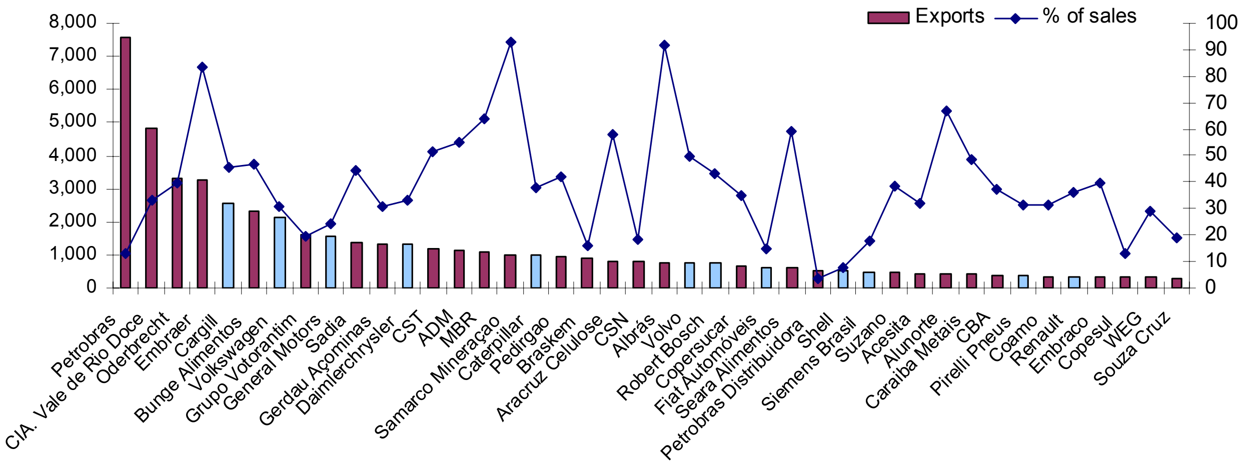
	Exports	% of sales
Petrobras	7,585.5	13
CIA. Vale de Rio Doce	4,817.2	33.2
Oderbrecht	3,306.9	39.7
Embraer	3,266.6	83.7
Cargill	2,556.5	45.4
Bunge Alimentos	2,328.9	46.6
Volkswagen	2,136.9	30.7
Grupo Votorantim	1,600.0	19.6
General Motors	1,570.2	24.3
Sadia	1,381.2	44.2
Gerdau Açominas	1,312.5	30.5
Daimlerchrysler	1,302.4	32.9
CST	1,188.0	51.3
ADM	1,156.5	55.1
MBR	1,078.9	63.8
Samarco Mineraçao	986.6	92.9
Caterpillar	980.4	37.8
Pedirgao	928.2	42.2
Braskem	880.7	15.8
Aracruz Celulose	828.2	58.2
CSN	799.0	18.6
Albrás	768.5	91.50
Volvo	751.7	49.9
Robert Bosch	742.0	43.3
Copersucar	681.4	35.2
Fiat Automóveis	620.5	14.5
Seara Alimentos	616.4	59.1
Petrobras Distribuidora	542.8	3.3
Shell	515.9	7.7
Siemens Brasil	479.3	17.9
Suzano	455.8	38.3
Acesita	437.3	32
Alunorte	422.3	66.9
Caraiba Metais	410.3	48.3
CBA	368.0	37.4
Pirelli Pneus	365.1	31.1
Coamo	351.1	31.5
Renault	350.3	36
Embraco	340.4	39.6
Copesul	313.2	13.1
WEG	308.2	28.7
Souza Cruz	298.8	18.8

Source: based on América Economía, 2006.

In 2005, the aeronautical group Embraer achieved 84 per cent of its sales abroad, while Aracruz Cellulose, another of the country's export champions with more than 60 per cent of its production exported outside of Latin America, made sales essentially in Europe, North America and Asia. In the steel sector, Gerdau carried out 31 per cent of its total sales outside of Brazil and the leading enterprise in the mining sector, CVRD, 33 per cent. Even the oil enterprise Petrobrás has become a major exporter, achieving 11 per cent of its total sales abroad and starting exploration and production operations in the United States, Mexico, Venezuela, Colombia, Ecuador, Peru, Bolivia, Nigeria and Angola. The agro-industrial sector, one of the most dynamic in the country, features a number of outstanding groups such as Sadia, which exports to more than 65 different countries, including Russia, Japan and countries in the Middle East, invoicing nearly half of their sales abroad (44 per cent). Like Sadia, other groups are succeeding in increasing and diversifying their exports. This is the case of the petrochemical enterprise Braskem: Europe and Latin America receive 20 per cent each of its exports, with 50 per cent going to North America.

Figure 13

Top Brazilian exporters in 2005



Source: based on América Economía, 2006.

Nonetheless, all of these groups are moving beyond the mercantile phase and on to significant investment operations abroad. The strategies reflect two broad purposes. Like the pioneering Cemex, the groups are seeking on the one hand to enlarge their market of operations by staking out positions in other emerging, mainly Latin American countries. On the other hand, from a more strategic point of view, they are also seeking to stake out positions in OECD countries or to boost their investment grade in order to improve not only their industrial profile but also their financial one and reduce their capital costs.

In 2005, the steel producer Gerdau continued down this line of action, building up its acquisitions and purchasing 40 per cent of Spain's Sidenor by the end of the year. A century-old enterprise, Gerdau was able to establish important positions not only in Latin America (Brazil, Chile, Argentina, Colombia and Uruguay) but also in North America (the United States and Canada), thus improving not only its industrial profile but also its financial one. In the transport equipment sector, Marco Polo, the leading enterprise in Brazil for buses, has also started down the road of global establishment. With its international income amounting to half of the total, the enterprise now owns manufacturing units not only in Brazil, but also in Argentina, Colombia, Mexico, Portugal and South Africa, exporting to more than 60 countries, among which are France, England, Germany, Spain, Portugal, The Netherlands, Mexico, Argentina and Saudi Arabia.

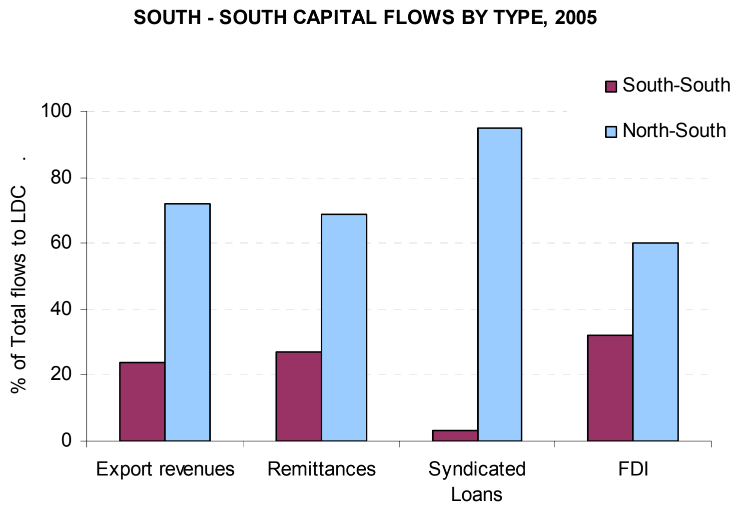
Other prominent examples are Brazilian conglomerates such as Votorantim or the giant CVRD. Votorantim, one of the major companies in Latin America, took the path of investments abroad, diversifying to the OECD countries through acquisitions in the cement sector in the United States and Canada. Another large group that has diversified and moved into strong international activity is Odebrecht. Present in four continents, with diversified sales across 50 countries, the group now gets more than one-third of its income from abroad. In 2005, CVRD, the fourth enterprise worldwide in the mining sector, writes up 90 per cent of its invoices in dollars and 70 per cent of its income comes from abroad (30 percent from Europe and another 30 per cent from Asia, China and Japan in particular). In the past few years, it has made acquisitions and established itself in the United States, Canada, France, Bahrain and Norway. It has also started an ambitious plan to develop a global portfolio of exploration projects embracing three continents (beginning notably in Peru, Argentina, Gabon, Mozambique and Australia). Otherwise, Asia (China in particular) has become one of the group's main areas for trade expansion. Its stock structure is also largely international, with 70 per cent of the enterprise's shares in the hands of non-residents of Brazil. In 2006, the company undertook a major development with the acquisition of the Canadian based company, Inco, for a record $17 billion.

Aeronautics is another sector featuring a Brazilian enterprise with extensive international presence, the *multilatina* Embraer. As previously mentioned, Embraer is the second most important Brazilian exporter. It has also become an enterprise emblematic of the country: an international leader, like its Canadian competitor Bombardier, but from an emerging country. Founded in 1969 by the Brazilian government then seeking international prestige, the enterprise was privatised in 1994 (a conglomerate of European enterprises led by Dassault Aviation and EADS has a 20 per cent share in it). Today it employs a staff of 15 000. By mid 2006, Brazil's Embraer, the world's No. 4 commercial aircraft maker, signed a deal with the Chinese airline HNA Group for 100 jets valued at $2.7 billion, its biggest order to date in China. At about the same time, Embraer also said it would significantly boost its technical support network in the Asian-Pacific region, creating a parts logistics centre and installing a full flight simulator for its jets starting from the second half of 2007.

Back to the Future:
What are the drivers of this multilatinas investment boom and will it last?

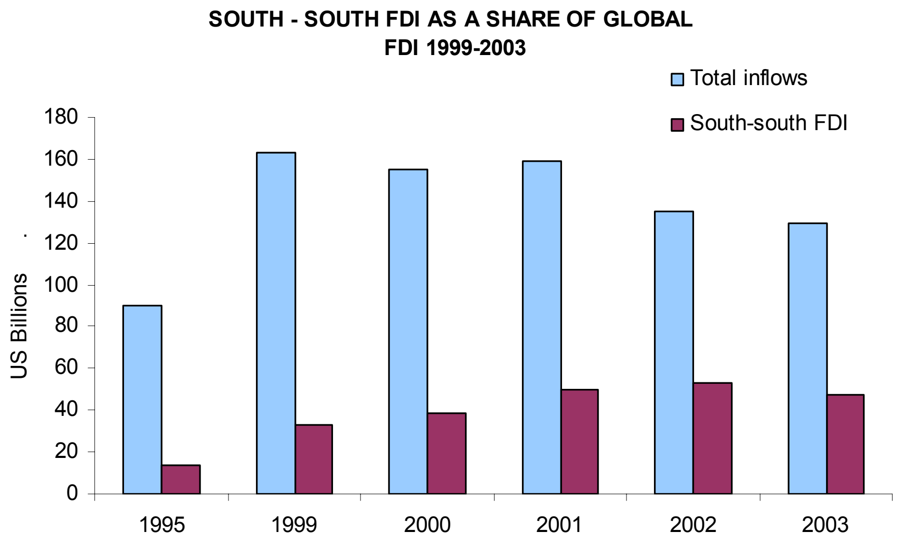
Before answering these questions it is important to stress that the Latin American trend described above is not unique. We are witnessing a major emergence of new multinationals arising from home-based emerging markets. Outward investments and more generally South-South flows from emerging markets are on the rise. In the case of foreign direct investments, South-South flows represented in 2005 more than 30 per cent of all FDI flows that went to developing countries.

Figure 14



Source: based on UN Comtrade database, World Bank staff estimates, Global Development Finance, 2006.

Figure 15:



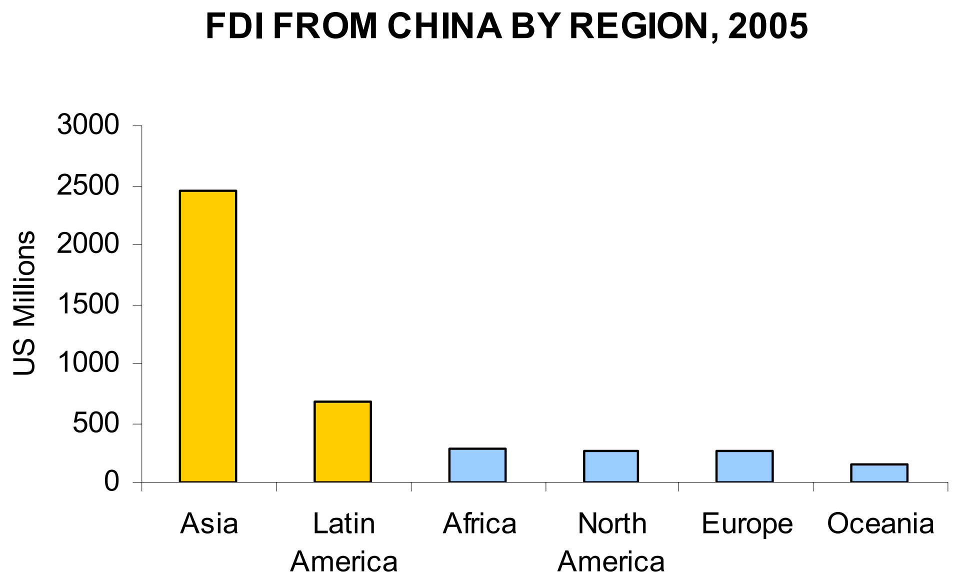
Source: based on UN Comtrade database, World Bank staff estimates, Global Development Finance, 2006.

The recent string of high-profile, cross-border mergers and acquisitions involving Chinese or Indian companies as acquirers is symbolic of this new global emergence. According to The Boston Consulting Group, who identified the top 100 emerging multinationals, China totalled 44 firms in this selective ranking, followed by India (21), Brazil (11) and Mexico (6). Latin America has a total of 18 companies in the list, far behind Asia (70) but ahead of other regions (12 more companies are located in very different countries like Egypt, Russia, South Africa or Turkey).

As regards India and China, energy needs and domestic competition are key drivers of overseas expansion. In the case of China, the aim to create national champions is also acting as an accelerator. As stressed in a previous report by Deutsche Bank Research, Chinese global champions are in the making, with the flow of overseas investments from these companies increasing year after year[3]. All in all, according to Boston Consulting Group, since 1986 Chinese firms realised more than 220 transactions in overseas expansion, with a total value of about $18 billion[4]. Importantly, Latin America is on the radar screens of Chinese companies: in 2005 the region was the second recipient of Chinese FDI, after Asia (the previous year it was ahead of Asia).

[3] See Deutsche Bank Research, August 2006.
[4] See Boston Consulting Group, May 2006a.

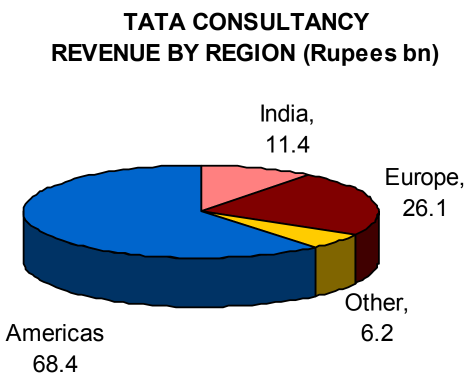
Figure 16:

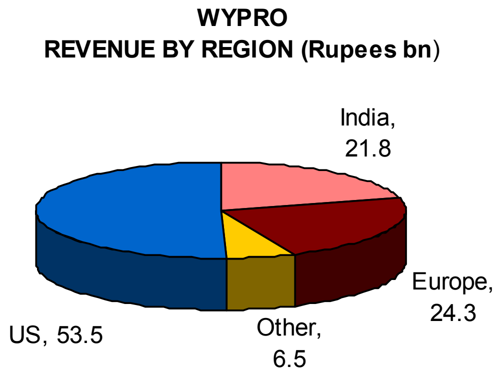


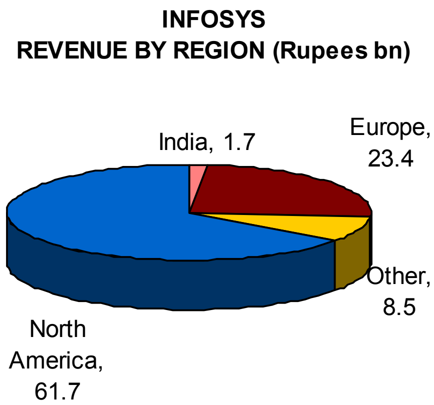
Source: based on China's official data, 2006.

The case of India is even more spectacular. Some Indian companies have already been heavily oriented towards overseas markets. Indian software groups like Tata Infosys, Consultancy Services (TCS) and Wipro already generate respectively 98 per cent, 90 per cent and 80 per cent of their revenues from markets outside India. The connection with Latin America is also important as some of these companies are setting up development centres in time zones close to their major markets, with Latin America servicing the US and local markets. But Indian companies also started to invest heavily abroad (TCS for example has 1 100 employees in Brazil and 250 in Uruguay). In 2006, we have been witnessing an overseas investment boom from Indian companies: with Tata Steel's attempted takeover of Corus (a record for overseas acquisition by an Indian company) they reached a record level of nearly $16 billion, an amount surpassing the FDI inflows in the country. Without the Tata Steel – Corus deal, Latin America attracted 43 per cent of this Indian FDI, basically in commodity-related sectors, oil, minerals and gas, with Brazil, Colombia and Bolivia being the major recipients. It is also interesting to see that the bid on Corus by Tata Steel has stimulated another bidder…from Latin America. Concretely, CSN from Brazil also launched a cash bid of $10 billion for the Anglo-Dutch steelmaker, leaving emerging multinationals as the sole pretenders, while at the same time another emerging giant, Eras Group from Russia, was bidding another $2.3 billion for US Oregon.

Figure 17: Major Indian Companies – Revenue by region







Source: Based on corporate annual reports, 2006.

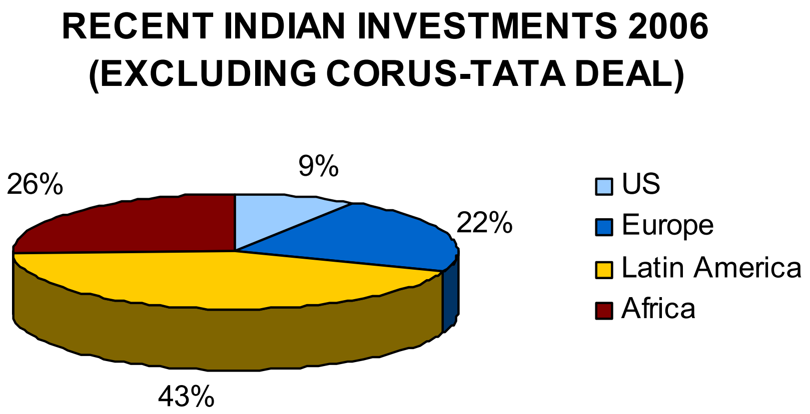
Table 7

Indian FDI Boom in 2006

Target	Nationality	Acquirer	Deal Value ($m)
Corus	UK/NL	Tata Group	7700
Oil & Gas Assets (Campos Basin)	Brazil	Oil & Natural Gas Corp	1670
Omnimex de Colombia	Colombia	Oil & Natural Gas Corp: China Group	850
Oil & Gas Assets (Brazil)	Brazil	ONGC Videsh	820
Greater Nile Petroleum (25%)	Sudan	Oil & Natural Gas Corp	783
Glaceau (30%)	US	Tata tea	677
Shell Development Angola	Angola	Oil & Natural Gas Corp	600
Oil & Gas Assets (Syria)	Syria	Oil & Natural Gas Corp: China Group	581
Betapharm Arzneimittel	Germany	Dr Reddy's Lab	572
Hansen Transmissions	Belgium	Suzlon Energy	562
Eve Holding	Belgium	Suzlon Energy	548
Terapia	Rumania	Ranbaxy	324
Total			**15687**

Source: Estimations based on Dealogic and Financial Times, 2006.

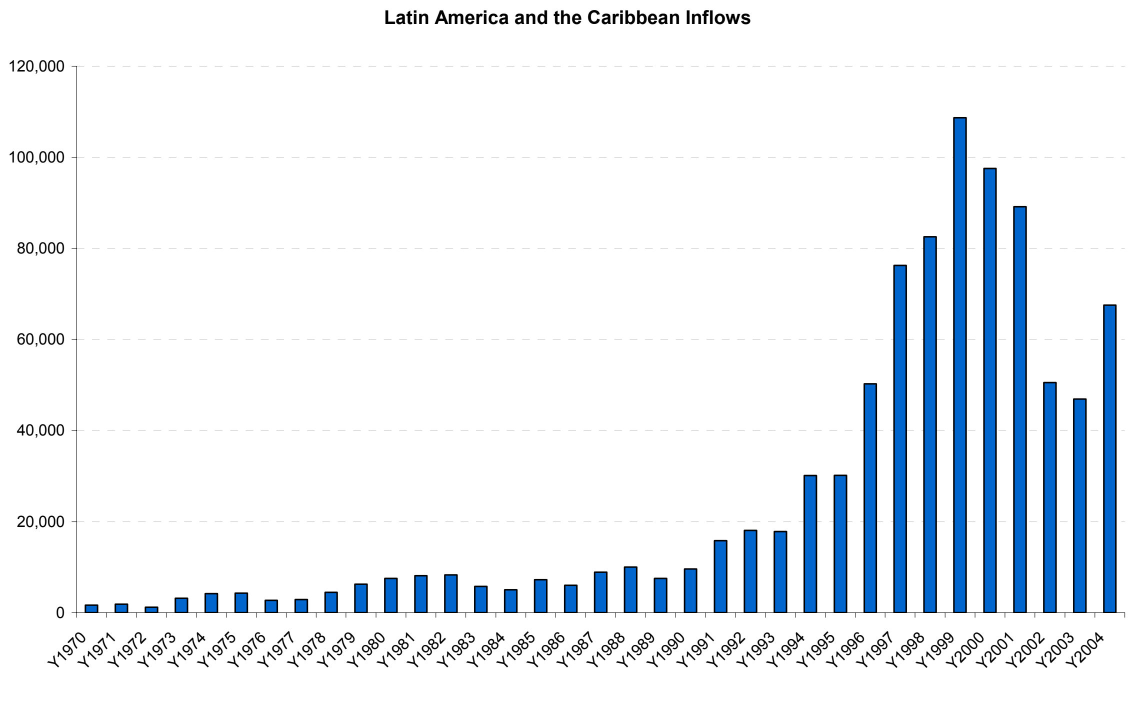
Figure 18:



Source: Estimations based on Dealogic and Financial Times, 2006.

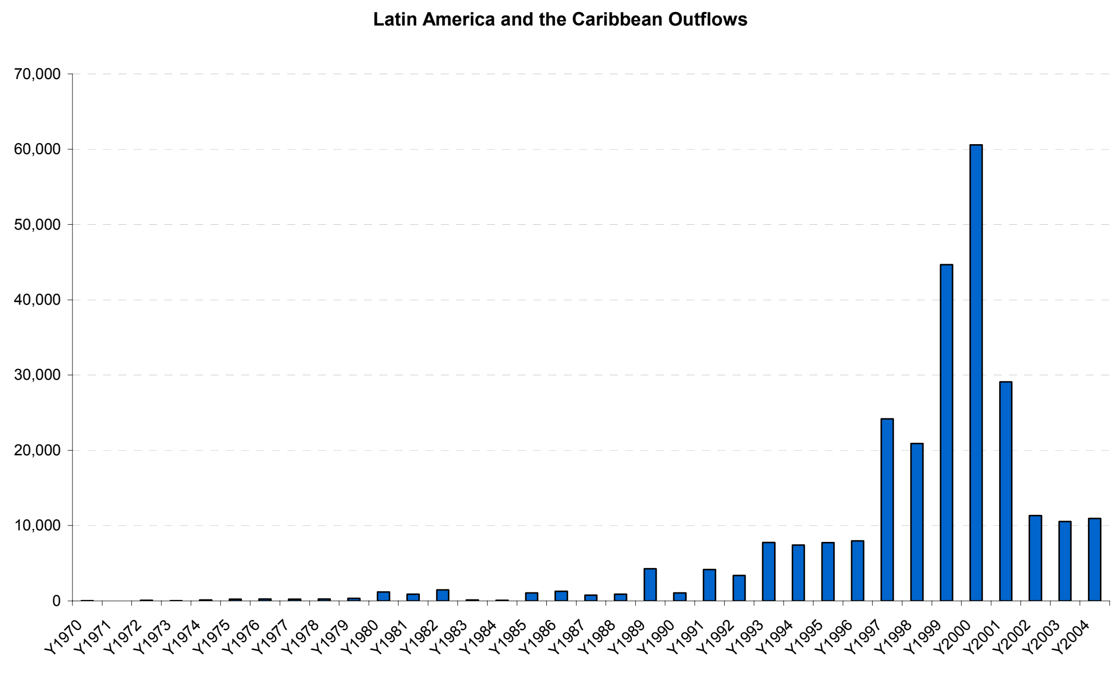
FDI from emerging countries is on the rise. Latin American multinationals are also part of this new dynamic, and the trend will continue in the future if the current conditions and incentives are maintained. As we can see in figures 19 and 20, Latin America has been a key recipient of foreign direct investment but is also becoming an increasing overseas investor. Since the year 2000, Brazilian companies have been investing overseas an average of more than $3 billion per year, according to the Brazilian official statistics which calculate outward net flows. In 2004, in part because of the merger between Brazilian Ambev and Belgium Interbrew companies, they reached a record of $9.5 billion. The following year they returned to a more common pattern ($2.5 billion). But in 2006, they will reach a record high: solely with the CVRD takeover of Inco for an all cash bid of $19 billion, total Brazilian overseas FDI will more than double the previous record year. Mexico is following the same pattern, with the boom of Mexican FDI abroad also being very recent. Until the 2000s there was practically no overseas investment by Mexican companies, but since 2000, FDI abroad also averaged $3 billion per year. In 2005 it reached a record of nearly $6.2 billion according to official Mexican figures. In 2006, this amount will be greatly exceeded: with the sole operation of Cemex on Rinker ($13 billion), Mexican FDI abroad will more than double.

Figure 19:



Source: based on UNCTAD, 2006.

Figure 20:



Source: based on UNCTAD, 2006.

The sustainability of such trends will depend partly on the persistence of the current drivers that are helping emerging multinationals to expand abroad, including in OECD developed markets. Over the 2000s we have been witnessing a tremendous excess of liquidity and search for yield, explained by the low levels of interest rates in OECD countries. Such an environment has been very favourable to emerging markets and has driven the spreads down, lowering the cost of capital for many emerging multinationals. At the same time, local emerging markets deepened and became more sophisticated, while new investors entered into the asset class, investing in bonds and equities all around the emerging world. In parallel, emerging multinationals attempted to expand into new markets, both in other emerging countries and in more mature markets. Armed with business models combining low costs, appealing products and services and modern logistical facilities and knowledge systems, they started to expand overseas. As a result, Cemex and CVRD are becoming world leaders in their industries. Embraer surpassed Bombardier as the market leader in regional jets. Embraco became the world leader in compressors. And the list will continue to expand if the current international financial and industrial environment does not change dramatically.

Some of the drivers explaining such a boom are structural, among them being fast moving globalisation forces such as the dramatic surge in low cost telecommunications technologies as well as key macroeconomic reforms that improved the profile of emerging countries. The need for all those companies to continue to grow beyond their home markets became more pressing as new competitors entered their homelands. In order to continue to create value and sustain competitiveness, they have been pushed to take another step forward. This need encountered a favourable international financial environment with the lowering of the cost of capital.

All the companies, Brazilian and Mexican but also Indian and Chinese, have some elements in common that explain their rise. They all come from fast growing emerging markets that are already very large and have been able to support large domestic companies. They all have low cost resources such as labour forces or primary products. They have all been able to grow in difficult local environments and surpass the difficulties of shortages of skilled management, volatile legal and financial environments, and deficient logistical and infrastructure systems in their homelands. All these obstacles helped to transform the survivors into highly capable firms able to innovate and make quick decisions in order to capture new opportunities. As other OECD multinationals expanded increasingly towards emerging markets during the 1990s, they also forced emerging multinationals to move ahead and look for overseas opportunities. A last important driver has also been linked to portfolio allocations. Risk diversification has been behind a large share of both market- and natural resource-seeking investments, emerging Latin American multinationals also looking to produce hedges against exchange rate risks and commodity price fluctuations and diversify the location of assets in order to improve access to capital.

This globalisation process also follows some key patterns identified by the Boston Consulting Group (BCG) as follows: some are looking to become global brands; others to turn their engineering assets into global innovation; another important group is pursuing a strategy looking to monetise emerging countries' natural resources or to proceed to acquisitions of commodities based in other countries; a last group – which includes the early mover like Cemex – is also struggling to roll out new business models to multiple markets. Until recently, the way in which they grow abroad has been above all through organic growth according to the study by the BCG (20 per cent done through M&A). However, as financial engineering develops and the cost of capital lowers, mergers and acquisitions are becoming increasingly popular as they allow the operation of quick moves and the building of important market shares in a single operation. América Móvil, the Mexican telecommunications operator, spent more than $5 billion from 2001 to 2005, in order to build a strong presence all over Latin America and replicate its business model in other countries. The recent wave of huge operations from emerging multinationals in 2006 confirms that M&A is becoming increasingly popular and that such companies have now conquered the taboo of huge bids, even in developed countries.

There are also differences between emerging multinationals. Most of them are related to the commodities industry but we also have big manufacturer players, some in high tech industries. The differentiation might be elsewhere: not between sectors or nationalities but within their capitalistic structure. Most of the Mexican, Brazilian or Indian companies, for example, are open societies, listed and above all no longer controlled by the State, either directly or indirectly. Even when they have large stakes controlled by the State, they behave like private companies. In the case of Russian or Chinese companies, the ties with the power are much more direct or, when indirect, much deeper. Unsurprisingly, some Chinese or Russian bids encountered much stronger resistance in OECD countries. Meanwhile they also achieved big takeovers as exemplified by that of Chinese Lenovo on IBM computer machines, or more recently that of Norilsk Nickel, the world larger nickel producer (Russian company), on a Cleveland based company or also Rusal /

Sual, another Russian company, on some assets of Swiss based Glencore, also in 2006.

Conclusions

In less than ten years, Spanish enterprises have turned into multinational corporations, harvesting a great deal of success in Latin America and the rest of the world. In Mexico and Brazil, other *multilatinas* have taken up a strategy of globalisation going beyond the mercantile exporting phase. The examples of Cemex and CVRD show that boldness and innovation in the processes can lead to becoming world leaders in a given sector. Some of these multinational corporations could also take advantage of new emerging markets such as those of the Hispanic communities in the United States or in sectors such as agro-industry, where enterprises like Arcor, Sadia and Bimbo are benefiting from the competitive advantages offered by the region.

Above all, beyond these achievements, what really draws attention is the broader process in which these enterprises are involved. In just one decade, Mexico became a leading world exporter, mainly of manufactured goods. In 2005, Brazil raked in more than $100 billion in exports. The economic pragmatism of entrepreneurs has responded to the pragmatism of the economic policies implemented in the past decades not only in Chile but also in Mexico and Brazil.[5] The moorings of the monetary and fiscal policies have provided moorings for corporate strategies.

The good news from the Americas may be that more good news is on its way. The aforementioned examples remain exceptions. Few enterprises of the region have become global leaders in their respective sector the way Cemex, CVRD and Embraer have. The global corporate map, however, just like the economic map of the nations, is being swiftly redrawn. From China, India, Korea, Turkey and South Africa multinational groups are arising, staking out one after the other important positions not only in their domestic markets but also in foreign markets. Latin America also appears to have some excellent cards in its hand. In the future, the success of its multinational corporations could equal that achieved by Spanish multinationals in recent history and create further successful Latin multinationals. The region will continue to participate, as

[5] See on this point Santiso, 2006; and more generally Feenstra and Hamilton, 2006.

already seen during the current decade, in the rising process of emerging multinationals from developing countries.

Transnational firms from emerging markets already account, according to the United Nations, for one fourth of the total number of major multinationals in the world. Most of these firms are still relatively small multinationals compared to their OECD peers, with a limited geographical reach. But the lowering of the cost of capital over the last years and their increasing appetite for overseas expansions is rapidly changing the map. In 2006 we have witnessed major takeover operations by emerging multinationals in OECD countries, for amounts approaching $10 billion or more: CVRD acquired Inco, Cemex made a massive bid for Australian rival Rinker while Tata Steel and Brazilian CSN both looked for the UK based steel company Corus, and Mittal snapped up the leading European steel company Arcelor. OECD multinationals are no longer the sole bidders. In the future, from Brazil and Mexico as well as India, China, South Africa and Russia, we will see more emerging giants taking over OECD-based firms. We are entering into a new world where emerging multinationals, thanks to lower access to capital and their business models and assets, are shaping and challenging the large OECD-based companies.

Another important trend is the increasing South-South connection. Chinese companies are investing in Asia but also now in Africa and South America. Latin America is not only on the radar screens of Chinese firms but is now of interest to Indian companies too. Beyond Europe and the US, the Latin American and Asian connection might become one the most promising trends of this century, illustrating one of the major changes underway in the global economy: what we used to call the Centre (OECD countries) is becoming less and less the centre of global trade and capital flows, while the Periphery (emerging countries) is becoming less and less the Periphery. The borderline between poor and rich countries is also becoming more complex to define. The so-called OECD countries include some emerging markets like Mexico, South Korea and Turkey.

Over the next decades new emerging giants will contribute to redesigning these frontiers. Part of this story will be written by emerging multinationals and some of them will be certainly *multilatinas*.

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