FEATURED Q&A

Will the 'Multilatinas' Continue to Expand Abroad and Prosper?

Brazil-based companies recently announced new investments in Peruvian steel and fertilizer plants that exceed a billion dollars combined, and similar announcements of multinational Latin American companies extending their reach into non-domestic markets have been increasing. Will Latin America continue to become an originator of capital and investment—as opposed to primarily a destination for it? What factors have been driving the trend, and what do the "multilatinas" look for when making investments abroad?

A Guest Comment: Abraham Lowenthal: "Even as foreign investment for Brazil continues to flow in at impressive levels—$34.6 billion in 2007—Brazil’s outward investment has gained attention since the country became a net source of FDI in 2006. Brazilian-based companies such as Petrobras, Vale, Embraer, Gerdau and Ambev are vigorously expanding their activities abroad. The same drive outward is occurring in Mexico, Chile and Argentina, and even in Colombia, Peru and Guatemala. Multilatinas are not only competing throughout Latin America; many are holding their own and some are growing fast in North America, Europe, Asia and Africa. Brazil’s Odebrecht is one of two companies jointly building the Miami Airport. Embraer is selling commuter aircraft in the United States and Europe but expanding quickly in the Middle East.

Cemex is the now largest building materials company in the United States, but is also growing fast in China. These companies are competing on products ranging from aircraft to passenger bus manufacturing and from cement to steel, and in services from construction to telecommunications. The impressive growth of multilatinas owes partly to the consequences of economic liberalization, which brought in global competitors and forced Latin American companies to compete effectively with them, first at home and ultimately abroad.

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Unasur Calls for Emergency Summit on Bolivia Today

Chilean President Michelle Bachelet (second from right) said Sunday the extraordinary meeting of Unasur will seek to "bring the sides together to ... guarantee democratic process and stability and peace in Bolivia." See related story on page 2.

Photo: Chilean Government.

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**Political News**

**Unasur Calls Emergency Meeting Over Bolivia Violence**

The twelve countries that make up the Union of South American Nations (Unasur) have scheduled an emergency meeting in Santiago, Chile, today to discuss violence that has wracked Bolivia in recent days. Chilean President Michelle Bachelet said Sunday the extraordinary meeting of the group will seek to "bring the sides together, to seek support for the efforts of the Bolivian people and of the Bolivian government to ... guarantee democratic process and stability and peace in Bolivia," Chile's government said in a Web site press release. Some 30 people have been killed in clashes that began last week in gas-rich provinces of Bolivia over taxation and other sovereignty issues, wire services reported. Gas supplies were temporarily cut from Bolivia to neighboring Brazil and Argentina last week. Both Bolivia and politically-aligned Venezuela have expelled their US ambassadors. US Department of State spokesman Sean McCormack said Friday the moves reflected "weakness and desperation" on part of those countries. "We regret the actions of both President Hugo Chavez and President Evo Morales to expel our ambassadors in Venezuela and Bolivia. This reflects the weakness and desperation of these leaders as they face serious internal challenges and an inability to communicate effectively internationally in order to build international support," McCormack said in a statement. "The charges leveled against our fine ambassadors by the leaders of Bolivia and Venezuela are false—and the leaders of those countries know it ... The only over-thrown we seek is that of poverty," he added. On his way out of the country, US ambassador to Bolivia told reporters in La Paz this weekend that US efforts to stamp out cocaine production in Bolivia would suffer as a result of his ouster from the country, AFP reported. Amb. Philip S. Goldberg also denied Morales' accusations he had been encouraging the division of Bolivia. Meanwhile, some opposition leaders this weekend indicated they would end protests. Pro-autonomy businessman Branko Marinkovic said his followers would end roadblocks that have crippled the eastern province of Santa Cruz to help foster negotiation, Reuters reported. "As a sign of good will, so that dialogue prosper and there is no more blood spilled in Bolivia, we will ask that road blocks in all provinces be lifted.

"— Pro-autonomy businessman Branko Marinkovic"

**Economic News**

**Uruguay Economy Grows at Fast Clip in Second Quarter**

Uruguay saw its economy grow by the fastest rate in two decades during the sec-

**Correction**

An item about Bolivia in Friday’s Capitol Hill Watch (page 3) incorrectly reported that Rep. Eliot Engel (D-NY) had called for US preferences to Bolivia under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) to be cut off. In fact Engel made the following statement: "Given the litany of attacks and actions against the United States, I believe we should review every aspect of US policy toward Bolivia—from foreign aid to our trade relationship."
Featured Q&A
Continued from page 1

abroad. But the growth of multilatinas owes a lot to innovative leadership in companies like Cemex, Embraer, Bimbo and Techint. As the global downturn deepens, falling commodity prices and international recession will certainly hurt some multilatinas, especially as North America and Europe curtail imports. Still, most analysts predict that Latin America will continue to grow at a region-wide rate of more than 4 percent over the next two years. In that case, international investment and expansion will surely continue.”

Guest Comment: Kevin Gallagher: "It is good news that many Latin American companies are extending their reach to non-domestic markets, but there’s a lot of catching up to do, and it’s not clear that the region has the right policy environment to do so. According to research by the Economic Commission for Latin America and the Caribbean, the number of transnational corporations from Latin America and the Caribbean lags far behind Asia—and the historical record. ECLAC finds that only seven of the 50 largest transnational firms from developing world are from Latin America, the majority of the difference is from Asia. In 1977, Latin America was home to 14 of the 30 biggest developing country transnational firms. Today’s ‘trans-Latins,’ as they are also called, are mostly concentrated in natural resource based companies in a handful of countries, namely Argentina, Brazil, Chile and Mexico. The big movers are in mining (CVRD), steel (Techint, Gerdau), oil and gas (Petrobras), and cement (CEMEX). The driving factors behind the surge in non-domestic investment are the need to access more natural resources to capitalize on the commodities boom, and because of over-exploitation at home. In addition, many of the trans-Latins’ domestic markets are saturated or lack solid demand growth. These firms also invest abroad to diversify their risk. What is interesting is that the majority of these firms received great deal of state support in their founding and many of them remain state-owned companies. Many bilateral investment treaties and other international commitments precisely outlaw the support these firms once enjoyed.”

Guest Comment: Alexis Rovzar: "It has been fascinating to work closely with companies in Latin America for the last 30 years, first as a legal advisor to their foreign lenders, then to their foreign partners, later to domestic ones and lately as counsel to many of them and even as an independent Board member. In my view, what we experience today is not circumstantial, as it would appear to tourists or newcomers. Latin American entrepreneurs leading these ‘multilatinas’ are as prepared as their counterparts in North America, Europe or Asia, if not more, given the difficulties of doing business in the region. Banco Itau, Grupo Bimbo, FEMSA, CVRD and many others are a clear example of world-class management teams. Shareholders and professional managers throughout the region have not only guided their companies out of the ‘conglomerate’ approach of the seventies (when a holding company was involved in many unrelated industries from tourism and carpets to steel) and into a highly specialized and focused fields where companies in a group are generally interconnected and make business sense. Also large companies are better capitalized than ever, and debt is dealt with respect and limitation derived from lessons learned during successive financ-

* "Many bilateral investment treaties ... precisely outlaw the support these firms once enjoyed.” — Kevin Gallagher

of the 30 biggest developing country transnational firms.

Company News

Chevron Decrees Ecuador Gov’t Indictment of Company Attorneys

California-based Chevron on Friday objected to what it said were Ecuadorian government attacks on its company attorneys. Last week, Ecuador’s Prosecutor General indicted two Chevron attorneys working on the company’s ongoing civil lawsuit between Chevron and 48 Ecuadorian plaintiffs. "The politically motivated indictments mark a renewal of the Ecuadorian state’s attempts to disavow contractual obligations owed to Chevron from contracts signed in 1995 and 1998," Chevron said in a statement. "By issuing these baseless indictments, it is clear the government of Ecuador is trying to intimidate Chevron into forfeiting its legal rights. This outrageous tactic won’t work," Chevron Vice President and General Counsel Charles James said in a statement. The Ecuadorian government’s attorneys say the company never adequately cleaned up a mess left behind after searching for oil decades ago.
The Venezuelan pharmacy chain Farmatodo has agreed to buy Farmacity, an Argentine chain that also operates in Colombia. Brazil’s Magnesita plans to pay 277 million euros in cash and stock to buy LWB Refractories, a German company that makes products used in the steel industry. These are but a few examples of the reach of multilatinas in global markets. In addition to the first wave of Latin American multinational giants such as Embraer, Cemex, Corona, Vitro, Gerdau, and Techint, a new cohort of Latin American firms are expanding their trans-border presence. Market liberalization in the region has created both threats and opportunities within domestic markets; and cash-rich firms are fortifying their presence in their home markets (a defensive posture) as well as expanding into foreign markets (offensive posture)—including those of their competitors. Like all multinationals they seek a new source of customers, knowledge, resources, technology, financing or a combination of these drivers. As existing and new multilatinas plant their flags around the globe, closer and deeper integration with their local suppliers will allow these smaller enterprises to enhance their competitiveness and move on their own into international markets in addition to serving their multilatina clients.”

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