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FEATURED Q&A

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

Q 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?

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

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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.



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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NEWS BRIEFS

Honduras Government Asks New US Diplomat to Hold Off

The government of Honduras on Friday asked the incoming US ambassador to delay presenting his diplomatic credentials to the Central American nation, Reuters reported. The move is seen as a diplomatic snub to the US and in support of Bolivia, which expelled its US ambassador last week. Venezuela also expelled its US ambassador, claiming that the US supports violent uprisings and even assassination plans against its government.

Friday Brings Deadliest Day This Year in Mexican Drug War

The bodies of 24 men were discovered late Friday about 30 miles from Mexico City. The case appears to be the largest single mass killing since Mexico's vicious drug war exploded nearly two years ago, the *Los Angeles Times* reported. This year 3,148 people have been killed in drug-related violence, with Friday being the single-most deadly day of the year. [Editor's note: see related Q&A in the September 9, 2008 [issue](#) of the *Advisor*.]

Norway Prime Minister on Five-Day Visit to South America

Norway's Prime Minister, Jens Stoltenberg, begins a five-day visit to South America today. In Brasilia, Stoltenberg will meet with President Luis Inacio Lula da Silva to discuss prospects for Norwegian oil companies on the Brazilian continental shelf, climate change, the Amazon, and child and maternal health, Norway's government said in a statement. Later in the trip, Stoltenberg will participate in Independence Day celebrations in Santiago, Chile, and will meet with President Michelle Bachelet.

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

throw 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

“As a sign of good will, so that dialogue prospers 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*

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-

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 prospers and there is no more blood spilled in Bolivia, we will ask that road blocks in all provinces be lifted," Marinkovic said Sunday, according to the report.

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 multinationals 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 multinationals, 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."

A 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

“Many bilateral investment treaties ... precisely outlaw the support these firms once enjoyed.”

— Kevin Gallagher

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."

A 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 'multinationals' 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 finan-

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ond quarter of 2008, driven by increases in pulp manufacturing and the country's agricultural sector, reported Bloomberg News. Uruguay's [central bank](#) said Friday the country's GDP grew by 13.1 percent in the first half of 2008 compared to the same period a year ago. The government's statement also cited a continued demand for imports and a strong telecommunications sector as contributing to economic growth, which increased by 4.6 percent in the second quarter of 2008 compared to the first quarter this year. Uruguay's industrial sector expanded 20.5 percent in the first half of 2008 over the previous year, led by pulp manufacturing. The growth was largely due to a controversial \$1.1 billion pulp mill that began operations in November of last year in the city of Fray Bentos, which amounted to the biggest single foreign investment in Uruguay's history. Argentina has protested against the mill's construction in international courts, saying the facility will dump pollution into the river border it shares with Uruguay.

Company News

Chevron Decries Ecuador Gov't Indictment of Company Attorneys

California-based **Chevron** on Friday objected to what it said were Ecuadorean 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 Ecuadorean plaintiffs. "The politically motivated indictments mark a renewal of the Ecuadorean 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 Ecuadorean government's attorneys say the company never adequately cleaned up a mess left behind after searching for oil decades ago.

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cial crises that gave Latin America a bad reputation; no longer. Even countries, at least most of them, learned to apply market-oriented financial policies, embracing democratic regimes—those that have done a better job are cashing in on the benefits (just take Chile as an example). But let's focus on Brazil, no longer the country of the future, it is creating jobs and new industries ranging from ethanol and biofuels to world class aircraft, attracting investment, listing

“Those companies with better corporate governance command a premium in their valuations.”

— *Alexis Rovzar*

more companies last year alone than the rest of Latin America put together and growing its economy to the envy of its neighbors to south and north. Mexico is struggling behind; Colombia and Peru are working to close the gap. Others will follow. Governance has played a big role, inasmuch as many of these giants are still controlled by families or groups, many have listed in local and international stock exchanges and adopted corporate best practices, transparency, accountability and respect for minority rights. Although there may be exceptions, the trend is irreversible. Those companies with better corporate governance command a premium in their valuations. The challenge remains to have privately owned companies adopt these standards. So when these well-run companies dominate their local markets, many have looked to the neighborhood and beyond for growth, mainly in their core business areas. Quite a journey, and it can only get better.

A Guest Comment: Jerry Haar: "Mexican retailer Elektra plans to open 1,500 more stores in Brazil and a branch of their Banco Azteca over the next five years.

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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