



SPECIAL REPORT

The multilaterals

by Ramón Casilda

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LLORENTE & CUENCA

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THE MULTILATINAS BY RAMÓN CASILDA

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PRESENTATION

The changes undergone by the business world during the last decade and, more specifically, by Latin American organizations, can be clearly seen: many multinational corporations have increased their investments in emerging countries such as Brazil, China or South Africa. Until recently, the latter were mere receptors of foreign investment, and have now become important investors in international markets.

This is the case of the Multilatinas, Latin American business groups that are part of the known as “emerging multinational organizations”. This idea may match the definition and objectives of multinationals. However, in this case, this organizational conglomerate belongs to a single region: Latin America.

Even though Latin American corporations have been part of the markets for centuries, it is necessary to understand the financial importance and strength that they currently hold, competing with the largest business groups around the world and, sometimes, even reaching leading positions, as in the case of Latin American airlines, a sector where regional companies prevail and which Ramón Casilda thoroughly analyzes in this paper.

The value of multinationals for the countries in which they operate cannot be denied, and particularly now in a period where the Latin American region will experience an economic slowdown and negative forecasts have been made as regards the development of the region compared to that of recent years. Multilatinas have become a key element to enhance the economic forecasts of the region. However, it is crucial for these businesses to focus their business strategy in innovation, an essential feature which will help them be competitive in other business environments, beyond the regions that they already control.

This international and regional expansion of Multilatinas cannot be explained through an intelligible mathematical formula; but through foundations that have made it possible for these businesses to be successful and achieve leading positions in their markets. Ramón Casilda identifies five competitive advantages that improve their presence in the business environment: a high-quality upper management, access to capital market and founding tools, leadership in the local market, acquisitions and joint ventures and a sound corporate governance.

Therefore, these are part of the conditions that other Latin American companies will need to meet in order to become Multilatinas, although they will face a highly competitive market. Besides the already known leading Multilatinas, almost all of them state-owned organizations from the petrochemical, energy and commodity sectors such as Pemex, Petrobras and YPF, there are several private Multilatinas across all sectors. The latter includes companies such as Mexican Gruma and Bimbo, Brazilian enterprise JBS-Friboi or the largest cement company in the world, the Mexican organization Cemex.

Special attention should be paid to Multilatinas located in Spain, a market where they have found a niche through which they can penetrate into Europe. Their entry into the Spanish economy can be partially explained through the historical, cultural and linguistic ties that link them and also thanks to the facilities that Spain provides to any organization willing to invest.

At this point, it would be interesting to wonder what the future of the Multilatinas will be: Will they become responsible for the changing of the economic map in the next decade? Everything suggests that their expansion will gradually increase and this will provide greater potential and international influence to Latin America.

Alejandro Romero

Partner and CEO of LLORENTE & CUENCA in Latin America

“The region is now expected to grow by 1.3%”

THE MULTILATINAS

I. A GLANCE AT THE LATIN AMERICAN ECONOMY

Latin America (LA) has a GDP of USD 5,657 billion, which accounts for 8% of the global wealth, and a population of 588 million people, comprising 8.5% of the world's population. The region has grown over the past three decades, also managing to reduce poverty and raise the income level of its citizens to USD 9,536 at current prices or USD 13,000 according to purchasing power parity (PPP)¹. However, it still has not been able to close the welfare gaps between the region and more developed countries.

The region is slowly losing its increasingly important role within the global arena. Experts and international organizations have downgraded its growth forecasts due to a mild, yet persistent, generalized slowdown. Every New Year usually gives rise to renewed optimism, but the prevailing feeling among many Latin American countries is that of anxiety, as 2015 began with a further reduction in the growth expectations, according to Alejandro Werner, Director of the Western Hemisphere Department of

the International Monetary Fund (IMF): “The region is now expected to grow by 1.3%, about the same low rate as in 2014 and almost 1 percentage point below our previous forecast (October, 2014)². The challenging external circumstances are an important burden for many countries. But it is not too late to define a list of resolutions for the New Year in order to address the internal weaknesses and improve the growth prospects”.

The prices of commodities have continued dropping due to the unexpected weakening of the demand in several major economies, such as China. The best, recent example is oil, where the growth of supply has also played an important role in relation to the price drop. In this context, the IMF has revised the forecast for world economic growth to 3.5% in 2015. The growth prospects in the U.S. have improved, but the weak state of the Eurozone, China and Japan is affecting the global activity.

Within the context of global economy, in general, it is expected that the fall in oil prices will be neutral for Latin America and the Caribbean as a

¹ For more information, see: Ramón Casilda Béjar (2015): *Crisis y Reinención del Capitalismo: Capitalismo Global Interactivo (Crisis and Reinvention reinvention of capitalism: interactive global capitalism)*. Editorial Tecnos. Madrid.

² FMI. *Regional Economic Outlook (October, 2014): “América Latina y el Caribe: Enfrentando tiempos complejos” (Latin America and the Caribbean: facing complex times)*. Washington.

whole, but the effects at national level will greatly differ (Table 1).

In 2015 it grew by 3%, in 2013 by 2.5% and in 2014 by 0.8%, figures well below the ones recorded in the years before the crisis (4%-5%). **South America fell sharply due to internal factors, worsened by the economic slowdown that most of its international business partners suffered and the severe consequences in some of the major economies entailed by the global drop in prices of commodities. On the other hand, the growth of Mexico and Central America has stabilized thanks to the strengthening of the U.S. activity** (WB, *Global Economic Prospects, January 2015*)³.

Similarly to international organizations, most analysts consider that there will be some recovery in 2015 and 2016, since the region will grow by 1.3% and 2.3% respectively as a result of **exports which will be boosted through the recovery of high-income countries, as well as the arrival of major capital flows which should rise the GDP to an average of 2.6% between 2015 and 2017. However, the possibility of a stronger slowdown in China and a sharper fall in prices of commodities and oil pose significant risks** (GEP, January 2015).

In order to achieve a long-term growth, it is essential to implement structural reforms and, in general, promote access to more diverse funding sources and vastly enhance the business environment and climate. This environment is also suffering these negative consequences and, according to a study carried out by the Brazilian Foundation Getulio Vargas (FGV, October 2014), has recorded its lowest level since July 2009. The same has happened to the economic climate index, which dropped from the 84-points mark in July 2014 to 75- points by January 2015⁴. This is the lowest score in over five years (July 2009),

³ World Bank (January, 2015): "Global Economic Prospects: Washington".

⁴ Survey conducted quarterly by the FGV in partnership with the Institute of Economic Studies of the University of Munich among 1,071 experts of 117 countries.

Table 1

América Latina y el Caribe: Crecimiento del PIB real (porcentaje)

	2014	2015
América Latina y el Caribe¹	1.2	1.3
Economías financieramente integradas ²	2.4	2.8
América del Norte		
Canadá	2.4	2.3
México	2.1	3.2
Estados Unidos	2.4	3.6
América del Sur		
Argentina	-0.4	-1.3
Brasil	0.1	0.3
Chile	1.7	2.8
Colombia	4.8	3.8
Perú	2.5	4.0
Venezuela	-4.0	-7.0
América Central³	3.7	3.8
El Caribe		
Economías dependientes del turismo ⁴	1.4	2.0
Países exportadores de materias primas ⁵	2.6	2.9

Fuentes: FMI, *Perspectivas de la economía mundial (Informe WEO)* y cálculos del personal técnico del FMI.

¹ Promedio ponderado por la PPA.

² Promedio simple de Brasil, Chile, Colombia, México, Perú y Uruguay.

³ Promedio simple de Belice, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua y Panamá.

⁴ Promedio simple de Las Bahamas, Barbados, Jamaica y los Estados miembros de la Unión Monetaria del Caribe Oriental (ECCU, por sus siglas en inglés).

⁵ Promedio simple de Guyana, Suriname, y Trinidad y Tobago.

“The access of enterprises to capital markets is limited”

when the region was suffering the effects of the international economic crisis. These 75 points are below the average of the last ten years, which stood at 102 points.

The study warns that this has been the fifth consecutive quarter in which Latin America continued at a negative level. The fall of the business climate in Latin America contrasted with the slight global improvement thereof, rising from 105 points in October 2014 to 106 points in January 2015, fostered by a better environment both in the U.S. and the EU, where the index rose from 104 points to 113 points in three months and a slow improvement is taking place in Japan and Spain.

As regards promoting access to more diverse funding sources, the global economic crisis has taught us one of the most significant lessons. The World Federation of Exchanges confirms that the Santiago Stock Exchange (Chile) and Bovespa (Brazil) are among the exchanges that have channeled the most funding to their respective enterprises in 2013. In aggregate terms, the stock exchanges of the region have translated into over USD 50 billion, a figure that doubled the previous one. This is good news,

as it shows the right path and the progressive improvement that all countries should strive for. However, similarly to the situation in Spain and other European countries, the access of enterprises to capital markets is limited, as these are mainly reserved for major companies. Thus, there is a common objective; granting a broader and deeper access to funding through stock markets for smaller companies, which would help them to grow and gain importance.

In this regard, the World Bank, in its report: “El emprendimiento en América Latina: Muchas empresas y poca innovación” (Latin American entrepreneurs: many firms but little innovation)⁵, states that: “60% of the Latin American employees work in enterprises with five or less people. Thus, entrepreneurship in the region is high, but the companies that survive, grow at a much slower pace than those in other regions of average income. The economic outlook in Latin America is such that business starts as small enterprises and remain small. There is no problem with being small, but remaining small forever is a problem for survival”.

Moreover, size is not always the best indicator of growth potential and quality jobs. In

⁵ Ramón Casilda Béjar. Coordinator, with the World Bank, of the Conference: “Retos y oportunidades del emprendimiento en América Latina” (Entrepreneurial challenges and opportunities in Latin America). Fundación Ramón Areces. Madrid, June 24, 2014. www.worldbank.org/content/dam/Worldbank/document/LAC/LatinAmericanEntrepreneurs.pdf

“Latin America is a middle-income region”

fact, many multinational firms in Latin America are much less innovative and Multilatinas also suffer from a lack of innovation which affects their dynamism, that is, their competitiveness. Thus, the report suggests the creation of an economic environment that promotes innovation and competitiveness, therefore reducing the power of monopolies, improving productivity and diversifying the risks⁶. Furthermore, the report shows that multi-Latin companies launch their products at a slower pace than their counterparts in other developing countries. In fact, in Ecuador, Peru, Jamaica, Mexico and Venezuela the launch rate of new products is less than half of that in Thailand or Macedonia and well below the rate recorded in South Korea.

Consequently, this lack of innovation hurts competitiveness, slows down growth and affects the creation of quality jobs, and thus, the desired virtuous circle is not completed. It is a matter of creating an innovative business class, where first class companies, those which export goods, services and even foreign direct investment, as occurs with multi-Latin

companies, start competing with multinational enterprises of developed countries⁷.

This whole situation might put Latin America in the known as “middle income trap”. It should be taken into account that Latin America is a middle-income region: the typical country has a per capita income 25% higher to that of a typical global country, but 80% lower than the per capita income of a developed country. This translates into a decline of its relative position: 50 years ago the region was in a much better condition compared to the rest of the world and, despite recent developments, it has been unable to converge with, for example, the U.S. (IDB, *Rethinking productive development*)⁸.

2. DEFINING THE MULTINATIONAL ENTERPRISE

Collective nouns are a useful abstraction when defining an idea or a thing with a certain degree of accuracy, but are dangerous when taken as an end by themselves. The collective definition of “multinational” has been and still is subject of discussion

⁶ “Retos y oportunidades del emprendimiento en América Latina” (Entrepreneurial challenges and opportunities in Latin America). www.worldbank.org/content/dam/Worldbank/document/LAC/LatinAmericanEntrepreneurs.pdf

⁷ World Bank Report (2014): “El emprendimiento en América Latina. Muchas empresas poca innovación” (Latin American Entrepreneurs. Many firms but little innovation). Office of the Chief Economist for Latin America. Washington.

⁸ Inter-American Development Bank. 2014 Annual Report (Edited by Gustavo Crespi, Eduardo Fernández-Arias and Ernesto Stein): “Rethinking Productive Development. Sound Policies and Institutions for Economic Transformation”. Washington.

“This form of internationalization beyond the traditional meaning of international”

and debate within specialized literature, largely due to the broad diversity of these organizations and their evolution in time⁹.

Perhaps the most striking feature of multinational companies is the amount of time it took for them to obtain a collective noun and, therefore, the possibility of a distinct identity. This denomination was coined by David E. Lilienthal¹⁰, during his speech at the Carnegie Institute of Technology (April 1960): *Multinational Corporations*. During the speech, Mr. Lilienthal referred to the special problems of American companies with industrial or business transactions abroad with direct management responsibility, offering the following definition: “I would like to define such corporations –which have their home in one country but which operate and live under the laws of other countries: as multinational corporations” (Lilienthal, 1960)¹¹.

In order to obtain acknowledgement of the authorship of the aforementioned term, the Wall

Street Journal had to edit his article: “The European Common Market”. “As far as I know, during my conference at the Carnegie Technology, it was the first time that the word “multinational” was used: thus, I am inclined to think that it was me who coined it to refer to this form of internationalization beyond the traditional meaning of international”. In any case, it was positive for this term to become part of the economic language. Lilienthal deserves the credit for the term and his authorship and reasoning has been recognized, as he stated that the multinational corporation had three defining characteristics¹²:

- Has, at least, a production base or some form of direct investment in a foreign country. It has a truly international scope, since its management makes the fundamental decisions about marketing, production and research according to the available global alternatives.
- The top management of the company takes full responsibility for foreign

⁹ For more information, see: Ramón Casilda Béjar (2015): *Crisis y Reinención del Capitalismo: Capitalismo Global Interactivo* (Crisis and reinvention of capitalism: interactive global capitalism). Editorial Tecnos. Madrid.

¹⁰ Initially, he was the Director of the Corporation Tennessee Valley, the Atomic Energy Agency and, since 1955, the CEO of Development and Resources Corporation in New York, jointly established with the investment bank Lazard to grant loans to less developed countries. Lazard is the parent company of the Lazard Group, a global independent investment bank with offices in 27 countries in Europe, North America, Asia, Australia, Central America and South America.

¹¹ Fieldhouse (1990).

¹² Business Week. New York, April 25, 1963.

“The common element is the control of a business activity abroad”

operations, so that the international division is established as an independent department in charge of all international operations.

- But, above everything, multinationals should be considered as an integrated organization. The object is to achieve the greatest profits, even at the expense of the interests of a particular part of the whole.

The simplest definition of a multinational is: “a corporation that owns and controls productive assets in more than a country” (Dunning, 1974). Also: “a company of a specific nationality with partially or wholly owned subsidiaries within at least one other national economy” (Gilpin, 2001). A more detailed one: “company that conducts its activities at an international level, without taking into account national borders, designing its actions based on a strategy managed by the corporate center, that is, its headquarters, located in the country of origin (Vernon, 1971).

As can be seen in the above definitions, the common denominator or common element is the control of a business activity abroad being present in, at least, two countries, one being the origin country (the one to which the company belongs) and the other being the country where the company is established (where the company owns assets or has subsidiaries).

The multinational enterprise is considered to be a historical continuation of the great modern industrial corporation. It can be said that, as we know them today, their development started after WWII, during the 50s and 60s, a time that greatly promoted agreements or arrangements of collaboration between businesses, which led to the proliferation of horizontal and vertical integration processes. Consequently, multi-sectorial enterprises greatly developed, entailing the creation of industrial groups.

Mergers, takeovers and acquisitions in the European Economic Community (EEC), during the 60s and the 70s, transformed large European companies into multinationals similar to U.S. multinational corporations. Unlike the U.S., the European boom in the growth of external businesses was marked by horizontal integration, with the removal of competitors and, thus, an increase in the degree of business concentration.

However, Japanese multinational enterprises are more recent. During the 60s and, particularly, the 70s Japan considerably acquired importance within the global arena through exports. This rose during the 80s, when the trade balance showed a significant surplus as regards the U.S. and the EEC, which led to both countries pressuring Japan to give greater facilities

**“Local companies
that started
conducting business
across the Americas”**

to import industrial products from abroad. The response was to increase capital export through direct investments in third countries, a prominent strategy in the 80s.

In all this corporate policy, the incredibly powerful Ministry of International Trade and Industry (MITI) played a quite important role, as it was responsible for the creation, for many years, of the policies that would increase industrial growth, ensuring that the capital was channeled towards the most productive sectors of the Japanese economy and also avoided the proliferation of widespread destructive industrial processes. The MITI was considered to be the ministry with the largest direct influence on the economy of a country.

According to these definitions and conceptualization of the multinational corporation, it could be said that their nature is defined by the control and ownership they hold in the various countries in which they operate.

3. DEFINING THE MULTILATINAS

Originally, Multilatinas were defined by the magazine *América Economía* in 1996. Its aim was to describe local companies that started conducting business across the Americas. In this sense, it could be said that collective

nouns are a useful abstraction when they define an idea or a thing with a certain degree of accuracy.

Their origin, which took place during the 90s, coincided with a general context of economic boom in the region (although with ups and downs), and the implementation of the Washington Consensus, whose policies facilitated the changes that Latin American economies experienced during the last three decades, which led to a greater productive modernization and transformation as well as the international integration thanks to increased openness and liberalization. And all of this, benefiting from good economic times, mainly due to higher prices of raw materials, which increased thanks to the strong Chinese demand and a favorable international environment.

Just like multinationals, which originated from industrial and mining manufacturing companies, Multilatinas first started among the mining sector and then expanded to the industrial manufacturing sector, finally reaching fields as diverse as the cement industry, construction and engineering, cosmetics, agribusiness, biofuels, food, telecommunications, steel, petrochemical, audiovisual, distribution, department stores or aircrafts.

The closest example of Multilatinas can be found in

“The regional expansion were favored by the implementation of several trade agreements”

the “Spanish multinationals”¹³ (which I have been analyzing and following up since they began their internationalization process across the region), which also capitalized on the economic momentum and context with the incorporation of Spain to the European Union and the Single Market. Since the Spanish economy has leading multinationals, its transformation has been significant as regards its dimension, organization, modernization and international scope, and thus Spain’s weight has prominently increased, becoming an important international player.

4. REGIONAL EXPANSION OF MULTILATINAS

The regional expansion of Multilatinas, as previously described, coincided with a general positive economic context and a favorable international environment, which was crucial for the start of a vigorous growth cycle throughout the region, entailing excellent results which, in turn, led to an

increase in the confidence of investors in their respective countries.

The regional expansion strategies which sought to achieve greater size, diversification and benefits, were favored by the implementation of several trade agreements whose objective was the promotion of regional integration through exchanges between the various economies that take part in these regional treaties and have participated with different intensity, such as: MERCOSUR, CAN, CARICOM and more recently the Pacific Alliance¹⁴.

According to the data annually published by the magazine *América Economía*, which ranks the 50 most important Multilatinas, Brazil holds the top position with 14 organizations, followed by Mexico with 12, Chile with 11 and closing the list, Colombia, Peru and Argentina with 3 respectively (Table 2).

During 2014, the total sales of the top 50 Multilatinas grew

¹³ For more information, see; Ramón Casilda Béjar (2002): *La década dorada. Economía e inversiones españolas en América Latina 1990-2000* (The golden decade. Spanish investment and economy in Latin America 1990-2000). Ediciones de la Universidad de Alcalá. Madrid; (2008): *La gran apuesta. Globalización y multinacionales españolas en América Latina. Análisis de sus protagonistas* (The great bet. Globalization and Spanish multinational enterprises in Latin America. Analyzing the players). Editorial Granica and Norma Editorial. Barcelona and Bogota; (2011): *Multinacionales españolas en un mundo global y multipolar* (Spanish multinational enterprises in a global and multipolar world). ESIC Editorial. Business & Marketing School. Madrid.

¹⁴ Ramón Casilda Béjar (10-06-13): *La Alianza del Pacífico y la Cumbre de Cali* (“The Pacific Alliance and the Cali Summit”). www.economia.elpais.com

Table 2. The 50 largest private Multilatinas in 2014

2014 RAN-KING	MULTI-LATIN ENTERPRISE	COUN-TRY	SECTOR	SALES 2013	% EMPLOYEES ABROAD
1	CEMEX	MEX	CEMENT	14,953.90	77.7
2	LATAM	CHI	AIRLINE	13,266.10	77
3	BRIGHTSTAR	USA/BO	TELECOM	10,600.00	84
4	GRUPO JBS - FRIBOI	BRA	FOOD	39,658.00	59.2
5	SUDAMERICANA DE VAPORES	CHI	SHIPPING	3,206.00	83.1
6	TENARIS	ARG	METAL	10,597.00	74
7	TERNIUM	ARG	METAL	8,530.00	70
8	AVIANCA-TACA	CO/SV	AIRLINE	4,609.60	70
9	MEXICHEM	MEX	PETROCHEMICAL	5,177.00	72
10	AJEGROUP	PER	ALCOH. BEVERAGES	1,745.00	77.7
11	TELMEX	MEX	TELECOM	10,277.10	75
12	GERDAU	BRA	METAL	17,016.60	55
13	GRUMA	MEX	FOOD	4,138.00	58.8
14	AMÉRICA MÓVIL	MEX	TELECOM	60,079.70	58
15	MASISA	CHI	MANUFACTURING	1,364.70	68.4
16	ARAUCO	CHI	PAPER	5,145.50	37.6
17	CENCOSUD	CHI	RETAIL	19,648.00	60.3
18	NEMAK	MEX	AUTOMOTIVE COM- PONENTS	4,390.90	49.5
19	SONDA	CHI	SOFTWARE	1,277.30	72.5
20	SIGMA	MEX	FOOD	3,744.10	95.2
21	ARTECOLA	BRA	CHEMICAL	128,196.00	61.6
22	EMBOTELLADORA ANDINA	CHI	ALCOHOL BEVERAGES	2,905.30	77.9
23	CMPC	CHI	PAPER	4,974.50	43.8
24	MARFRIG	BRA	FOOD	8,007.20	30.9
25	INDRA	BRA	MULTISECTOR	4,011.60	53.7
26	COPA AIRLINES	PAN	AIRLINE	2,608.30	24
27	GRUPO ALFA	MEX	MULTISECTOR	15,560.30	28.9
28	ISA (INTERCONEX ELEC)	COL	ENERGY	1,872.70	63.3
29	FEMSA (3)	MEX	BEVERAGES	19,640.40	21.8
30	GRUPO BELCORP	PER	CHEMICAL	1,963.00	79
31	GRUPO BIMBO	MEX	FOOD	13,785.00	39.8
32	MARCOPOLO	BRA	AUTOMOTIVE COM- PONENTS	1,766.80	60.2
33	PDVSA	VEN	OIL/GAS	116,256.00	6
34	IMPISA	ARG	ENERGY	689.6	54.8
35	SQM	CHI	MINING	2,203.00	4.4
36	MADECO	CHI	MANUFACTURING	415.9	75
37	VALE	BRA	MINING	43,323.50	19.1
38	COCA-COLA FEMSA	MEX	ALCOHOL BEVERAGES	11,931.70	47.7
39	LOCALIZA	BRA	LOGISTICS	1,483.80	93.4
40	WEG	BRA	MANUFACTURING	2,915.10	18.2
41	GRUPO NUTRESA	COL	FOOD	3,156.10	32.8
42	PETROBRAS	BRA	OIL/GAS	130,150.30	11.6
43	POLLO CAMPERO	GUA	FOOD	400	47.8
44	NATURA	BRA	PHARMACEUTICAL/ CHEMICAL	2,966.70	80.2
45	CONSTRUTORA ODEBRECHT	BRA	CONSTRUCTION	4,101.50	32
46	GRUPO MODELO	MEX	BEVERAGES	6,771.70	7
47	SUZANO PAPEL E CELULOSE	BRA	PAPER	2,428.30	6
48	ALICORP	PER	FOOD	2,047.80	46.7
49	METALFRIO	BRA	ELECTRO.	344.1	53
50	FALABELLA	CHI	RETAIL	12,653.30	47.7

Source: *América Economía*. Ranking 2014. Santiago de Chile.

by 29% over the previous year. A first analysis shows that the internationalization of the operations is a good way to protect the enterprise against the economic policies of each country (economic cycle), while risks are diversified and synergies exploited.

Over the last two decades, Multilatinas have gradually expanded throughout the region and, thus, across the international markets, promoted, as previously described, by the economic liberalization and openness policies of the Washington Consensus, but also, and this point has to be reminded, thanks to the open regionalism of the ECLAC.

The implemented growth strategies are various and are strongly influenced by the singularities of the countries of origin and destination, although they share certain common points. For example, Chilean companies still lead the ranking of mergers and acquisitions. An illustrative example is the merger between Chilean airline LAN Chile and Brazilian TAM, which resulted in "LATAM", among the top 10 airlines worldwide, providing transport services for passengers and cargo to over a hundred destinations in twenty countries. A similar strategy was carried out by the largest private Brazilian Bank, Itaú, which merged its subsidiary in Chile with Corp Banca Colombia, through which the Brazilian

company was granted access to the markets of Colombia, Peru and Central America. The resulting company: Itaú Corp Banca, will have Itaú Unibanco and Corp Group as main shareholders.

This shows that the Latin American business map is subject to rapid changes and variations, as evidenced by the intense activity that Colombian and Chilean groups are carrying out, having acquired important European multinationals that decided to leave the region. Among the latest transactions, the following stand out:

- Grupo Aval (Colombia): Purchased Banco BAC Credomatic in Central America, financial arm of General Electric, for USD 1.9 billion.
- Grupo Aval (Colombia): Acquired AFP Horizonte in Colombia previously owned by BBVA for USD 530 million.
- Grupo Aval (Colombia): Controls Editorial El Tiempo of Spanish Grupo Planeta after purchasing it for USD 300 million.
- Grupo Aval (Colombia): Acquired the historical subsidiary of BBVA in Panama for USD 646 million.
- Davivienda (Colombia): Took over the operation of HSBC (UK) in Costa Rica, Honduras and El Salvador for USD 801 million.
- Grupo Gilinski (Colombia): Took over the operation of HSBC (UK) in Colombia, Uruguay, Paraguay and Peru for USD 400 million.
- Grupo Sura (Colombia): Purchased ING Netherlands, assets in pensions, insurance and mutual funds in Chile, Mexico, Peru, Uruguay and Colombia. The transaction computed USD 3,763 million.
- Grupo Argos (Colombia): Acquired several assets of the French cement company Lafarge in the U.S., with a total cost of USD 760 million.
- ISA (Colombia): Purchased the subsidiary Intervial Chile of Cintra (Spain) for USD 580 million.
- Corpbanca (Chile): Purchased Grupo Santander, Santander Colombia, for USD 1,225 million.
- Corpbanca (Chile): Purchased Helm Bank in Colombia for USD 1,278 million.
- Cencosud (Chile): Acquired French hypermarket Carrefour and its stores in Colombia for USD 2.6 billion.
- Compañía Sud Americana de Vapores (Chile): merged with Hapag-Lloyd, its German competitor in containerized liner shipping services, becoming

“These transactions show a significant change in the growth pattern”

the fourth largest company in the sector with a turnover of USD 8.7 billion. The headquarters will be located in Hamburg and the regional center in Santiago de Chile.

- Abbott Laboratories (EE.UU.): purchased CFR Pharmaceuticals, specialized in generic drugs, one of the largest companies in the region as regards development, production and sale of drugs, present in 15 Latin American countries and Vietnam. It has 7,000 employees and manages production plants and research centers in Chile, Colombia, Peru and Argentina. The purchase amounted to USD 2.9 billion and the total cost is USD 3.33 billion if the debt of the Chilean enterprises is added. Abbot will double its presence in the generic drugs market in Latin America and its revenues will rise by 900 million annually.

It should be noted that these transactions show a significant change in the growth pattern, since until recently, these acquisitions were almost exclusively carried out by multinationals of developed

countries, such as Spain¹⁵. This rise of Multilatinas indicates their excellent skills to adapt and transform resources to successfully compete at a regional level, as occurs in the Latin American airline sector.

REGIONAL GROWTH STRATEGIES OF AIRLINES

Due to their nature, the airline sector is constantly transforming, seeking expansion paths to successfully compete at an international level. Competing globally is a capital-intensive project, with network economies that facilitate the integration of subsidiaries in several countries and the possibility of creating global brands.

At the same time, because of its strategic nature, it is a highly regulated and protected sector by national governments. In fact, it is one of the few Latin American sectors where foreign owned enterprises are limited by law. These factors have resulted in a partial consolidation of the industry, completely dominated by regional corporations.

During the opening and liberalization of public services, which took place during the

¹⁵ For more information, see; Ramón Casilda Béjar (2002): La década dorada. Economía e inversiones españolas en América Latina 1990-2000 (The golden decade. Spanish investment and economy in Latin America 1990-2000). (2008): La gran apuesta. Globalización y multinacionales españolas en América Latina. Análisis de sus protagonistas (The great bet. Globalization and Spanish multinational enterprises in Latin America. Analyzing the players), and; (2011): Multinacionales españolas en un mundo global y multipolar (Spanish multinational enterprises in a global and multipolar world).

“The integration of local and regional corporations into the airline industry has considerably advanced in recent years”

90s, it could have been thought that airlines would follow the same path as energy or telecommunications enterprises and would end up being controlled by foreign groups. However, the outcome has been quite different.

In fact, purchases by international investors were scarce and unsuccessful. The main transaction was the purchase of Aerolíneas Argentinas by Iberia and Marsans –both Spanish– before its re-nationalization in 2008. Likewise, Continental acquired a majority stake in Copa de Panama, an enterprises that did not generate the expected benefits either and thus entailed the gradual withdrawal by Continental since 2005 until it completely stepped down.

Contrarily to the results of actions undertaken by foreign enterprises, the integration of local and regional corporations into the airline industry has considerably advanced in recent years. The most illustrative example is LATAM, which was created through the merger between Chilean LAN and Brazilian TAM, currently the largest airline company in Latin America and the Caribbean. Besides operating in these two countries, it is also particularly important in other Latin American nations thanks to LAN Peru, leader

airline in the Andean country and LAN Colombia and LAN Argentina, the second most important airlines in their respective countries.

The second largest airline group in the region is Avianca, the previous Colombian national airline, which merged in 2009 with TACA Airlines¹⁶, a Central American corporation headquartered in El Salvador that previously acquired Lacs, the airline of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Peru. With its extensive operations, Avianca offers a more complete services network than its main competitors. Currently, Grupo Avianca is owned by Synergy Group Corporation, founded by Germán Efromovich, a Bolivian entrepreneur, of Brazilian and Colombian nationality. In 2012, Synergy also tried to purchase TAP Portugal, but the offer was rejected by the Portuguese Government.

The airline Copa has chosen a different strategy and used its base in Panama as a hub for long-haul destinations for Latin America and the rest of the world. The only exception was the purchase of Aero República in 2005, currently known as Copa Airlines Colombia since 2010, the third largest Colombian airline.

¹⁶ It was a strategic merger and both Avianca and Taca kept their corporate image. This merger sought to strengthen the services of both corporations within the region and exploit synergies.

“The difference between these large airline groups in Latin America is its networking nature”

The Caribbean airlines, as well as enterprises of other sectors, establish subsidiaries networks in several countries to reduce the operating costs in very small markets. The national airline of Trinidad and Tobago, Caribbean Airlines, started operating in 2007 to replace West Indies Airways (BWIA), a British company that went bankrupt. In 2010, Caribbean Airlines acquired the remaining operations of Air Jamaica, and thus also became the Jamaican national airline. In late 2012, Caribbean Airlines also became the national airline of Guyana. Another important Caribbean airline is Leeward Islands Air Transport (LIAT), a Panamanian enterprise, co-owned by eleven Caribbean governments and with important hubs in Antigua and Barbuda, Barbados, Saint Vincent and the Grenadines and Trinidad and Tobago, apart from private shareholders.

The difference between these large airline groups in Latin America is, undoubtedly, its networking nature. In each country of the region, the operation of a group is executed through individual airlines, subsidiaries of a parent company, in order to comply with local regulatory requirements as regards limiting foreign participation in the airline industry. Most of the Latin American countries merely allow foreign investors to partially own a national airline (often not over 50%) and limit flight airlines on certain

routes, particularly as regards internal flights. This entails an organizational burden for the airlines that must create this type of pan-regional networks. In the case of Avianca and LATAM, this resulted in working with partially owned subsidiaries.

This is the case of LAN, which only owns 49% of LAN Peru and LAN Argentina and 45% of LAN Colombia. However, these companies are an integral part of LATAM, which owns aircrafts instead of local airlines. When TAM was purchased in 2012 by LAN a specific agreement had to be signed to comply with the legal requirements of Brazil. Ultimately, TAM is 100% owned by LATAM Chile, but 80% of the decision-making rights rests with Brazilian investors, in order to comply with Brazilian Law, which requires that 80% of the domestic airlines must be property of nationals. Following a similar strategy, Avianca has not completely integrated Lacs into its operations to keep its Costa Rican nature.

The reason behind the success of these large networks in Latin America and the Caribbean seems to be related to the lower relative size of national markets and the strong demand for various flight choices across the continent. Furthermore, regional entrepreneurs have been creative enough

“It is essential to exploit these dynamic forces to incorporate them as much as possible to promote a regional integration”

to operate within the legal framework of each country and exploit the expansion possibilities of the networks.

Finally, it should be noted that not all main airlines in the region take part in this regional internationalization process; airlines operating in the main internal regional markets tend to exclude themselves from this process. Thus, one of the largest Latin American airlines is Aeroméxico. The Mexican airline has implemented a completely different strategy than LATAM or Avianca and has focused on its large national network and the connections with the U.S. These two features (internal market and opportunities in the U.S.) are probably the reason why the airline did not need to establish these networks.

Another important Latin American and Caribbean airline is Brazilian Gol, the only low-cost airline, mainly focused on the huge internal market. However, it is a growing business, which has a great room for expansion in its domestic market.

Source: Author, based on ECLAC (2014): O. De Groot and Miguel Pérez Ludeña: *Foreign direct*

investment in the Caribbean: trends, determinants and policies. Caribbean Studies and Perspectives, N° 35 (LC/L.3777). ECLAC and the Caribbean Sub Regional Office. Port-of-Spain. Trinidad and Tobago.

It is also mandatory to highlight the positive impact that multi-Latin corporations have on such an important process as the “regional integration”¹⁷. This occurs due to the large and increasing level of transactions, projects and investments that are carried out throughout the region, showing the contribution they make towards the enhancement, cohesion and integration of the Latin American markets. Therefore, producers and consumers develop an unprecedented relationship at a faster speed than that of treaties and agreements in recent years¹⁸. Consequently, it is essential to exploit these dynamic forces to incorporate them as much as possible to promote a regional integration that, by the way, is still well below the expected level.

In this regard, the Institute for the Integration of Latin America and the Caribbean (INTAL)¹⁹, shows that between 2003 and 2013, the trade between South

¹⁷ In the 23rd Ibero-American Summit, in Panama City, October 16-18, 2013, during the opening ceremony, the President of Panama; Ricardo Martinelli said solemnly and deeply that “integration is our future”, and added that “if we reflect on the future of the Summit, we will see that countries could find the Latin American community to be a useful tool to develop and strengthen their countries in the 21st Century”.

¹⁸ These integration agreements cover every aspect and are: ACS; ALADE; ALBA; CA-4; CAN; CARICOM; CELAC; MERCOSUR; NAFTA; OAS; OECS; ACTO; PARLACEN; SELA; SICA; UNASUR and AP.

¹⁹ INTAL is an institute part of the Inter-American Development Bank based in Buenos Aires (Argentina).

“Developments are still being made as regards the business regulatory framework in many economies in Latin America”

American countries reached levels over those of global exports and sales of the region to the rest of the world. The most significant intra-South American growth exchanges were those of intra-industry trade, both in relation to manufacturing and resource-based products²⁰.

In general, Latin American economies complement each other. Those specialized in the production of raw materials are complemented by those specialized in manufacturing. INTAL considers that the region shows a mixed picture as regards trade and identifies significant industry flows in 11 out of the 66 bilateral relations between 2003 and 2013. Only three economies (Argentina, Brazil and Uruguay) have a high level of intra-industry flow, although Colombia and Ecuador are close to it. Argentina and Brazil are the two countries with most significant intra-industry exchange; whereas in the other cases the two-ways exchange is almost nonexistent. It is here where multinationals can act to revert and enhance the intra-industry flow.

These data undoubtedly contribute to the debate regarding Latin American integration and relevant conclusions can be drawn from them, both for policymakers and the private sector, since the exchange flows represent

one of the key attributes of economic integration. Diversifying the regional export supply and penetrating new markets as Mexican multi-Latin corporations are doing in Spain (Box 2), as well as developing intra-industry exchange flows, creating new potential for trade gains as a result of economies of scale, incorporating technology and the creation of business networks entail positive effects for the rest of the economy and foster regional expansion and business.

DOING BUSINESS IN LATIN AMERICA

According to the: *Doing Business 2015. Going Beyond Efficiency* report by World Bank Group, developments are still being made as regards the business regulatory framework in many economies in Latin America. Local Latin American entrepreneurs perceived certain improvements to do business in the last year, as the strong reformist pace to improve business regulations remained unaltered. According to the report, half of the regional economies implemented, at least, a regulatory framework reform between 2013 and 2014.

The report states that certain Latin American and

²⁰ For more information, see technical note; Romina Gayá and Kathia Michalczewsky (May, 2014): El comercio intrarregional sudamericano: patrón exportador y flujos intra industriales (Intra-South American trade: export patterns and intraindustry flows). Institute for the Integration of Latin America and the Caribbean. Buenos Aires.

“Some Latin American economies have improved their business environment”

Caribbean economies took steps to remove the barriers for entrepreneurship and strengthened the legal institutions. For example both Costa Rica and Guatemala implemented an electronic system to file and pay business taxes, saving over 60 hours per year in time spent in meeting tax obligations. Uruguay passed a law that seeks to speed the resolution of business disputes and also implemented a system of risk-based inspection that reduces the time spent for custom clearance.

It should be noted that Colombia is the easiest economy to do business. Additionally, it has led the ranking of implemented regulatory reforms in the region since 2005, with a total of 29. For example, in 2013/2014 access to credit was made easier through a new law that enhanced the law of security in movable assets. Peru, Mexico, Chile and Puerto Rico are the other four countries in the top 5. These economies are among the top global scenarios to do business in many of the studied areas. For example, ten years ago, it would have taken over 33 days for a Peruvian entrepreneur to register the transfer of a property. Currently, this would only take 6.5 days, less time than in the U.S. (15 days) or Austria (20.5 days). “For almost a decade, some Latin American economies have improved their business environment, in many cases reaching

levels that can be compared to the best global practices”, according to Augusto López-Claros (director of the global indicators group, development economy, World Bank Group), who considers that: “broadening and speeding up this process would contribute to closing the gap with the economies with the best global performances and would also boost competitiveness”.

In this issue, for the first time, *Doing Business* collected information for a second city of the 11 economies with a population of over 100 million people. In Brazil, the business regulations of Sao Paulo and Rio de Janeiro are analyzed, in Mexico, it is Mexico City and Mexico D.F. The report shows that the differences between the cities are more common in indicators that measure stages, time and cost to complete regulatory operations in which local agencies play a more important role.

The report also shows that Singapore tops the global ranking to do business, followed by the ten main economies with positive environments to do business: New Zealand, Hong Kong, China, Denmark, Republic of Korea, Norway, U.S., UK, Finland and Australia.

Source: World Bank Group (October, 2014): *Doing Business 2015 Report: Going Beyond Efficiency*. Washington.

“There are certain advantages when operating under close ‘cultural environments’”

5. INTERNATIONAL EXPANSION

The international expansion of Multilatinas has made certain proposals related to traditional theories obsolete. For some authors, now it is not enough to think that access to cheap labor, control of natural resources and productive skills are sufficient to explain these growth trends. The new trends differ from these approaches by pointing out, for example, that innovation and quality are distinctive features of the main enterprises that expand internationally, as Multilatinas do.

This expansion has some singularities, for example, some argue that there are certain advantages when operating under close “cultural environments”, such as Angola, where Brazilian Multilatinas have rapidly and successfully implemented large construction, engineering and infrastructure projects.

The proximity of the cultural environment, as could be a common language, allows to develop skills more easily in order to generate attitudes and behaviors that benefit them in relation to

the form and manner of establishing relationships with their environment, this also being the case of the Spanish companies that were widely favored in their rapid and successful investment expansion across Latin America thanks to the common language²¹, a certainly valuable bond. In the process of international growth, the comparison between the institutional environment of origin and that of the destination country can provide “signals” of the degree of ease or difficulty that the enterprise will encounter during its internationalization process, as well as regards the consequent development of their activities.

According to the above, the corporation will try to establish itself in the countries whose conditions are similar or lower than those of its country of origin, thus allowing the company to take advantage of these conditions to increase its competitive advantage. This hypothesis may largely reflect the behavior, for example, of Colombian Multilatinas²² and how they adapt to similar or better settings, the reason behind the incredibly growth

²¹ For more information, see; Ramón Casilda Béjar (2011): *El español en el mundo. Una década de inversiones españolas en Iberoamérica (1990-2000)* (Spain in the world. A decade of Spanish investment in Ibero-America [1990-2000]). Anuario del Instituto Cervantes. Madrid.

²² Andonova, V. and Losada, M. (2010): *Las nuevas multilatinas y sus retos. El caso Colombia* (The new multi-Latin enterprises and their challenges. The Colombian case). Business Magazine ITAM, issue 34. Mexico

**“Argentinian
Multilatinas were
the pioneers of
internationalization”**

in their sales, well above those obtained by Mexican and Brazilian organizations, which is attracting attention of several experts²³.

As regards foreign direct investment by Multilatinas, these have a high volatility from year to year, partly because the figure that these flows generate is still limited and focuses on specific projects. Some examples can be found among Brazilian Multilatinas companies²⁴ such as Jbs-Friboi, Embraer, Natura, Petrobrás and Vale, the two latter with the largest global reach and presence in all continents. Also, Mexican América Móvil, Cemex, Femsa and Bimbo stand out thanks to their international ranking and others, such as the Chilean enterprises, should be noted because of their dynamism; becoming leaders in certain fields like the wine sector through Concha y Toro, which exports wine to over 100 countries; Peruvian companies are gradually improving their ranking, with Aje Group at the top of the beverage sector, present in over 10 countries and Astrid & Gastón, a symbol of the catering sector which

operates in eight countries in Latin America and Spain.

As an international recipient of FDI, Brazil is the leading country in the region and fourth worldwide. In 2013, it received over USD 63 billion. Regarding other BRIC countries, Russia is third with USD 94 billion, while India, fifth, received 28 billion. The U.S. leads the ranking with USD 159 billion followed by China with USD 127 billion (UNCTAD, 2014).

It should also be taken into account that Argentinian Multilatinas were the pioneers of internationalization. The shoe factory Alpargatas (currently Brazilian) launched a subsidiary in Uruguay in 1890 and later in Brazil. This path was followed by the agricultural organization Bunge & Born which, in 1905, built a mill in Brazil, and then expanded to Uruguay and Peru. This would ultimately lead to industrial activities. However, Brazilian corporations currently lead the ranking and have quite important international Multilatinas. Although among

²³ Casilda Béjar, R. (2014): *Multilatinas y translatinas. Las nuevas realidades empresariales de América Latina (Multi-Latin and trans-Latin corporations. The new business realities in Latin America)*; in: LANMARQ. LID Editorial. Madrid.

²⁴ For more information, see; Ramón Casilda Béjar and Jaime Llopis Juesas (August, 2014): “Brasil. Las multilatinas. El reto de la internacionalización y la seguridad jurídica de las inversiones extranjeras”, en: “Brasil, un socio estratégico para España” (Brazil. Multilatinas. The challenge of internalization of legal certainty for foreign investments, in: Brazil, a strategic partner for Spain). Boletín Económico de Información Comercial Española, issue 2054, June 2014. Ministry of Economy and Competitiveness. Government of Spain. Madrid.

“Mexico is the sixth most important investor in Spain”

the various international mergers and acquisitions, according to the ranking of Brazilian multi-Latin corporations abroad, only 15 out of 40 increased their internationalization rating compared to 2008 (Fundação Dom Cabral 2013).

Regarding the 65 internationally most important Multilatinas (América Economía 2014), Brazil is the leading country with a total of 25 corporations, followed by Mexico with 14, Chile 12 and Argentina and Colombia with 4. In relation to the enterprises operating in the most countries, Brightstar²⁵ (Bolivia-U.S.) tops the list, as it operates in 50 countries, followed by Weg (Brazil) in 49, Lupatech (Brazil) in 39, Vale (Brazil) in 39 and Cemex (Mexico) in 36. As regards the number of employees: Femsa (Mexico) leads the ranking with a total of 177,470 workers, followed by Andrade Gutierrez (Brazil) with 175,503 and Ibs-Fribobi (Brazil) with 128,036, Brazil Foods (Brazil) is fourth with 127,982 and Bimbo (Mexico) closes the top 5 with 126,747 people.

Considering their size, the importance, significance and scope that Multilatinas

can have for Latin American modernization and industrialization is clear, as they cover a wide productive spectrum and, at the same time, constitute the tool that governments should use to promote growth and, consequently, achieve a greater presence and a more successful participation and international projection. Mexico and its Multilatinas in Spain are a good example.

MEXICAN MULTILATINAS IN SPAIN. THE MOST NOTEWORTHY TRANSACTIONS 2012- 2014

The increasing investing presence of Mexico in Spain during the last years is evidenced by the significant purchases made by Mexican investors taking advantage of the various opportunities offered by several sectors due to the economic crisis. Mexico is the sixth most important investor in Spain with a FDI volume close to EUR 19.5 billion (12-31-2013)²⁶, followed at a considerable distance by Brazil: 5,683 million²⁷.

Thanks to financial holdings in banking, real estate, ground transportation, the food industry and shipping Mexico has become the largest Latin

²⁵ Although headquartered in Miami, its founder is the Bolivian businessman Marcelo Claire, its current CEO. In January 2014, SoftBank invested USD 1.26 billion thus controlling the enterprise. Brightstar is the world's largest wireless distributor and a leading innovator of diversified services within this industry.

²⁶ Source. Investment Register Stock. General Authority for Investment and Trade. Secretariat of Commerce. Ministry of Economy and Competitiveness.

²⁷ Source. Investment Register Stock. General Authority for Investment and Trade. Secretariat of Commerce. Ministry of Economy and Competitiveness.

“The singularity of these transactions is the close relationship that defines them”

American investor in Spanish economy. The position of Spain as a gateway to Europe and the price adjustment due to the crisis offers acquisitions possibilities at highly attractive levels, which entails an unprecedented activity. These are some of the most noteworthy Mexican capital transactions.

The pioneer was Petróleos Mexicanos (Pemex), as it acquired 5% of Repsol between 1990 and 1992, gradually increasing the figure until it reached 9.34%, thus becoming the second largest shareholder. Finally, on June 4, 2014 Pemex decided to sell 7.86%, which marks the beginning of new plans driven by the energy reform enacted by the government of President Peña Nieto on December 10, 2013.

In 2012, businessman Carlos Slim made a major investment through the purchase of 439 branches of La Caixa for EUR 490 million. This was how his real estate business began in Mexico, with Inmobiliaria Carso as one of the main pillars of his business conglomerate. At the same time, Slim has almost 1% of the capital of CaixaBank, thus becoming the largest individual shareholder. The singularity of these transactions is the close relationship that defines them with a share exchange between the Spanish banking group and the financial holding: Inbursa, since La Caixa acquired 20% of Inbursa, Slim's financial holding, in 2008.

The U.S. fund Fintech, headed by Mexican financier David Martinez, acquired 4.94% of Bank Sabadell. This great commitment is also promoted by Colombian investor Jaime Gilinsik, the largest shareholder with 7.5% of the entity and an investment of EUR 700 million. Gilinsik is the owner of the fourth local Colombian bank: GNB Sudameris, which controls 4% of the Colombian market and has been strengthened thanks to being part of the operation of HSBC in four Latin American countries. Another acquisition, for the moment, is the equity holding of Liberbank by Mexican corporations Davinci Capital with 2% and Inmosan with 7.02%, which became the third largest shareholder.

Part of a group of Mexican investors led by the Del Valle family acquired 6% of Banco Popular for EUR 450 million. In exchange, the Spanish bank purchased 24.9% of the shares of the Mexican bank BX+ for EUR 97 million. The transaction further strengthens the solvency of Banco Popular and allows it to start its international expansion in Mexico and, consequently, in Latin America with its experience and leadership as regards SMEs and individuals. Meanwhile, BX+ (Ve por más, “Go Get More”) expects to triple its size within the next five years. It currently has 23,000 customers and its balance sheet has assets that amount to EUR

“The agreement confirms the renewed interest in Spain as a gateway to other European markets”

1,850 million. The NPL ratio is below 1.6% and its solvency level reached 12.5% at the time of the transaction.

Fibra Uno acquired 253 branches of Banco Sabadell Atlántico from the British fund Moor Park Capital Partners for EUR 300 million. This was the most important real estate transaction of 2013 in the sector. The bank will keep the branches during 35 years, with a mandatory minimum of 25 years.

The ADO group purchased Avanza, the largest Spanish business in the field of urban transport and second in long-haul transport. The new owner has 2,000 buses and a turnover close to EUR 450 million. Although the prize of the transaction is not public, it is estimated to have been close to EUR 800 million.

Mexican frozen foods company Sigma and Chinese Shuanghui, a practical example of global alliances, share ownership of Spanish meat industry leader, Campofrío, valued at EUR 695 million. The agreement confirms the renewed interest in Spain as a gateway to other European markets. For Sigma, part of the Mexican group Alfa, the agreement offers the possibility of exporting leading brands such as Fud and Nochebuena from the U.S. and Latin America to Europe, where both companies seek to strengthen the leading position of Campofrío.

The TEC of Monterrey is present in Spain, through the creation of e-learning content and training courses for BBVA, which in turn owns the largest bank in Mexico: Bancomer, the most important asset for the turnover sheet of the Spanish corporation. Other information systems enterprises such as Neoris, BSD Enterprise or Softek, which has a research center in A Coruña, show the dynamism and technological competitiveness of Mexican businesses.

Bimbo has built new factories, with the plant of Azuqueca de Henares (Guadalajara) as the most important one, with an investment of EUR 50 million, a production line of just bread; the largest, fastest and most efficient of Europe, designed by the company. The enterprise expects to increase its size over the next years, although the specific number of new facilities, location or investment has not been defined yet. The organization also wants the headquarters of Barcelona to not only control the Iberian market, but also Europe and North Africa.

Pemex, through its subsidiary PMI, has become the majority shareholder of Hijos de J. Barreras, the largest private shipyard in Spain, with over 100 years of experience. The scope of the energy reform does not only translate into the arrival of new businesses in Mexico, but also the international

“Carlos Slim had become the largest shareholder of the company Fomento de Construcciones y Contratas (FCC)”

expansion of Pemex. The strategy of PMI is to acquire the skills and advanced technology of Barreras to export it to Mexico and develop larger and more advanced ships.

Entrepreneur Roberto Alcántara invested EUR 100 million in the Prisa group, thus becoming the majority individual shareholder with 9.3% of the shares.

Therefore, the group reinforces its commitment towards Latin America, the leading media in education, information and entertainment in Spanish and Portuguese. It is present in 22 countries with an audience of over 60 million people (40% in Spain and 60% internationally) through its global brands such as El País, Santillana, 40 Principales, Cadena SER or radio Caracol among many others. Slim's participation is more of a token presence, since the Mexican businessman had over 3% of the shares that gradually diminished through the business' capital increases. Gruma, one of the leading global manufacturers of corn tortillas recently acquired the Mexifoods Spain factory seeking to invest, modernize and increase the capacity of the Spanish plant. It will start producing tortillas, wraps and other products for southern Europe, entailing an investment of EUR 35 million.

Mexican businessman Valentín Díez Morodo is also part of this dynamic and was awarded the prize Enrique V. Iglesias for the development of the Ibero-American business space

in its first edition in 2014. Díez Morodo, one of the creators and Vice President of the Grupo Modelo, after its sale to Belgian-Brazilian Company AB INBEV, the largest brewer in the world, remains as a shareholder. The appointment of Carlos Fernández González as independent director of the Santander Bank during this new stage with Ana Patricia Botín as President should also be highlighted. This Mexican businessman is President of the Grupo Televisa and Emerson Electric Co. He also founded the Academia Mexicana de la Comunicación, the Fundación Carolina, and the Fundación Beca and is Chairman of the Consejo Consultivo del Agua.

By the end of 2014, Carlos Slim had become the largest shareholder of the company Fomento de Construcciones y Contratas (FCC), leading enterprise in construction and services in Spain, with an extensive and intense international activity, after 50 years under control of the Koplowitz family. The investment amounts to EUR 650 million: 25.634% of the shares.

With these successive investments, Carlos Slims shows his confidence in Spanish economy and its future, where he seems to be creating a replica of his Mexican conglomerate. Although it is still far from his Mexican conglomerate as regards economic size, it can be compared in terms of covered sectors: construction, services

**“Multilatinas
can expand
beyond regional
borders to become
international
leaders”**

and infrastructure concessions, operating through Inmobiliaria Carso and the Ideal group, both exclusively present in Mexico, as they are complemented by FCC through its vast experience and international relevance. So far, he still has to invest in energy, mining and telecommunications to fully replicate his Mexican conglomerate in Spain. Difficult objectives, each for different reasons. In any case, what does seem clear is that his investments are gradually increasing and are close to EUR 1.5 billion, which shows his confidence in Spain and its attractive prices.

The mine of Aznalcóllar (Seville) will be reopened after remaining closed for 16 years and the responsible company will be Minorbis-Grupo México (formed by Spanish Magtel and Grupo México, one of the leading copper producers in the world with extraction sites in Mexico, U.S., Peru and Chile). This society won the international competition held in January 2014 by the Andalusian Government to reopen the site, closed after the environmental disaster caused by the rupture of tailing pond in 1998. The awarded zone is Los Frailes, with deposits of copper, lead and zinc of around 30 to 35 million tons and another 45 million tons in “possible

deposits”, according to the Andalusian government.

A perception of this Mexican investing presence is that it will grow in its different categories hand in hand with the recovery of Spanish economy. These transactions, in its diverse manifestations, strengthen Spain’s position as a hub, a bridge for Multilatinas to penetrate and grow in Europe and, likewise, Spain can be used as a platform for European companies to arrive and invest in Latin America.

6. BEYOND REGIONAL BORDERS

There are several reports, studies and surveys that confirm the sound state of Multilatinas and their dynamism to expand beyond regional borders. One of these reports is: “América Latina sin fronteras” (Latin America without borders)²⁸, which analyzes the 500 leading corporations of the Latin Trade Ranking 2013. The singularity of the study is its conclusion: “Multilatinas can expand beyond regional borders to become international leaders, since they do not only successfully compete at a local level, but are also gaining relevance beyond regional borders”.

²⁸ Deloitte Américas (September 2014) and the successive reports of El País Negocios on Multilatinas. For more information, see; Alejandro Rebossio (4-1-2015): “Techint una multilatina argentina de acero” (Techint, an Argentinian steel multi-Latin enterprise). JackelineFowks: (1-2-2015): “Belcorp cosmética peruana para las Américas” (Belcorp, Peruvian Cosmetics for the Americas). Elizabeth Reyes (8-2-2015): “Bavaria en cada bar de Colombia” (Bavaria in all Colombian bars), and Pedro Cifuentes (15-2-2015): “El “oro negro” hace sufrir las Américas” (Black gold keeps America suffering). El País-Negocios.

**“Multilatinas have
conquered new
regional markets”**

While major multinationals in Latin America used to be Canadian, European (particularly Spanish) or U.S. corporations, during the first years of the 21st century, the region has witnessed a massive influx of foreign direct investment from Asian multinationals, specifically from South Korea and China. This picture has greatly changed as years passed, and the report confirms this pattern, showing how Multilatinas have gained ground, to the point of becoming local leaders. The six major economies in the region: Brazil, Mexico, Argentina, Colombia, Chile and Peru account for 86% of the GDP of Latin America.

“One of the most important conclusions was that over 70% of the revenue generated by these 500 corporations was produced by Latin American enterprises and not foreign multinationals that operate locally, which refutes the popular belief that multinationals control the Latin American market”. The report raises a number of reflections regarding international expansion of Multilatinas and analyzes the challenges they face, while highlighting “five factors or key competencies”.

Each and every one of the factors are of great interest because of their importance to design strategies for international expansion, which requires a process of organizational and productive transformation to successfully compete. Three of these factors are competencies that enterprises can influence through their own actions, while the two remaining ones are structural by nature, meaning they are greatly determined by the local environment on which business have no control direct. This lack of control does not necessarily mean that businesses will not be able to succeed internationally.

Multilatinas have conquered new regional markets in a fierce competition with foreign multinationals, as occurred in Chile, Peru, Argentina, Brazil or Colombia. Thanks to these learning experiences and successive approaches, they initiated their internationalization beyond regional borders, as Spanish multinationals did when they expanded towards Latin America where, by the way, they achieved the necessary experience to start a new era with great international activity of global scope²⁹. The five key factors that

²⁹ For more information, see; Ramón Casilda Béjar (2002): *La década dorada. Economía e inversiones españolas en América Latina 1990-2000* (The golden decade. Spanish investment and economy in Latin America 1990-2000). (2008): *La gran apuesta. Globalización y multinacionales españolas en América Latina. Análisis de sus protagonistas* (The great bet. Globalization and Spanish multinational enterprises in Latin America. Analyzing the players), and; (2011): *Multinacionales españolas en un mundo global y multipolar* (Spanish multinational enterprises in a global and multipolar world).

“Global Multilatinas
are powerful
companies”

confer advantages in the context of global competition are:

- **Senior managers:** the business environment of a country plays a key role in the availability and retention of senior managers, key in the process as they directly affect the capacity of a business to efficiently guide the international expansion of an enterprise in a sound manner and its consequent operations abroad. According to the distribution of the top 100 CEOs in the world, Brazil and Mexico are the countries of Latin America with the highest number of senior managers.
 - **Capital markets and financing:** to finance their international expansion, Multilatinas need to diversify their access to both capital and a relatively cheap financing. On average, global Multilatinas are listed on two stock exchanges in comparison with regional enterprises, on an average of 1.3 and 1.25, respectively.
 - **Market leadership:** global Multilatinas are powerful companies with strong growth prospects that, thanks to their sound performance, lead the market in their home countries before expanding abroad. The dominant position of leadership is reflected on the huge growth of sales, an advantage over regional Multilatinas and local enterprises.
 - **Acquisitions and strategic alliances:** the expansion of global Multilatinas corporations is often based on inorganic growth through acquisitions and joint ventures. On average, these companies run nearly four times more joint ventures and over six times the number of mergers and acquisitions.
 - **Governance practices:** implementing leading international corporate governance practices helps global Multilatinas operate more effectively at an international level. Furthermore, it helps them gain access to capital of state pension funds and sovereign wealth funds, which usually have a strict regulation regarding the type of companies which can request them.
- These five factors are considered to be key elements to gain experience and successfully expand at an international level. As noted, three of these factors can be influenced by companies through their own actions:
- Achieving a leadership position in the market of their home country.

“40% of the regional households have improved their ‘social class’”

- Implementing strategies that focus on acquisitions and “joint ventures” as the primary means for international growth.
- Carrying out leading corporate governance practices of international scope.

Internationalized Multilatinas tend to be very strong in these three areas and any local or regional enterprises that seek to achieve international success will probably have to take all three points into account. The other two factors are structural, largely determined by the local environment. They are:

- Availability and capacity to retain the most qualified managers to lead the international expansion.
- Access to capital and financing markets.

Since companies have no absolute direct control over these factors, they must have appropriate alternative strategies. Successfully meeting the five previously discussed factors entails a clear competitive advantage. However, this does not completely guarantee success, as there is no single formula for international expansion. Various companies will face different opportunities and challenges and walk divergent paths. However, regional

Multilatinas should remember that the implementation of these five factors will yield them greater chances of success in their international expansion. These same factors could also serve as guidelines for foreign multinationals that seek to operate or establish themselves in Latin America.

For all these reasons, in order to achieve the results expected of powerful Multilatinas, it is mandatory for them to internationalize their operation to benefit from the major trends in Latin America which, as previously stated, is a rising star within the global economy. Although not currently being at its peak, it should be noted that according to the World Bank poverty was reduced by 40% in the year 2000 and 30% by 2010. This means that 50 million Latin Americans lifted themselves out of poverty during that decade. Furthermore, it is estimated that at least 40% of the regional households have improved their “social class”.

These critical structural changes as regards the composition of social classes have reshaped the Latin American map and business value. Thus, between the 30 Multilatinas whose revenue is increasing, over 20 specialize in sectors that respond to the growing demand of the middle class, such as food, cement, retail, electronics, education, construction and

“They generally operate and work within the old mentality of central planning”

others that have an export and import component, but also respond to a great extent to the demand of the thriving middle class, such as electronics and communications, automotive and air transportation.

According to the World Bank report: “Latin American entrepreneurs: many firms but little innovation”, it is a matter of creating an innovative business class, where first class companies, those which export goods, services and even foreign direct investment, as occurs with Multilatinas, start competing with multinational enterprises of developed countries.

7. THE WORLD'S LARGEST MULTINATIONAL AND MULTI-LATIN CORPORATIONS

The *Forbes Global 2000* ranking. “The world’s largest companies of May 2014”³⁰ (Table 3 and Graph 1), only includes enterprises listed on stock exchanges, taking into account just four indicators: “profits, sales, assets and market value”. The list features companies from 63 countries, the largest figure since it went public in 2002, when only 46 nations took part.

In total, ranking firms have generated revenues amounting to USD 38 billion³¹ and 3 billion in profits. The assets of these global giants reach USD 161 billion and employ 90 million people worldwide. The pattern remains unaltered: Chinese companies continue growing, taking the top three positions and five among the top ten (four banks and an oil company).

These firms are increasingly important but they still have to go a long way to gain the influence, image and global projection of their U.S., European and Japanese counterparts. So far, thanks to their condition of state companies, they generally operate and work within the old mentality of central planning and the rigidity, limitations and burdens that this approach entails. The best option would be, once predominant positions had been achieved, to review this approach and strive for greater agility and flexibility as South Korean multinationals have done, which strengthen through the most advanced technology sectors, with benchmark multinationals such as LG and Samsung, leader in mobile phones (27% of the global market share), surpassing Nokia, which

³⁰ For more information, see: www.forbes.com

³¹ In 1998, revenues amounted to USD 11.5 trillion and in 2008 it was more than twice that figure: USD 25.2 trillion.

“The global corporate landscape is, above everything, a dynamic and constantly changing environment”

seemed impossible some years ago (purchased by Microsoft in September 2013)³².

For the first time, no European bank or firm ranks among the top ten of the list. For the second consecutive year the list is headed by the Industrial and Commercial Bank of China (ICBC), while China Construction Bank ranks second. Agricultural Bank of China raised five positions to reach the third place, followed by JP Morgan Chas and Berkshire Hathaway, Exxon Mobil, General Electric and Wells Fargo (all three from the U.S.) which hold the sixth, seventh and eight places. Bank of China and Petro China appear at the bottom of the top ten. Apple, fifteenth, ranks first in terms of market capitalization or market value, while the superstores giant Walmart, twentieth, ranks first in sales volume.

Among Multilatinas, Brazil is the country with the largest representation with Petrobras leading the list, ranked 30th. It is followed by Itaú (46th), Bradesco (63rd) and Banco do Brasil (104th). The second country is Mexico, with

América Móvil as the most important company (115th), Femsa (373rd), Grupo Financiero Norte (469th), Grupo México (529th) and Modelo (564th). There are also eight Chilean enterprises, with Falabella at the head of the list (581st), six Colombians with Ecopetrol as the most important one (128th), two companies from Venezuela, Mercantil Servicios (774th) and Banco Occidental (1,423rd), Credicorp from Peru (901st) and Popular from Puerto Rico (1,301st). The growth of the ranking shows that, year after year, the global corporate landscape is, above everything, a dynamic and constantly changing environment. This is evidenced by the progress achieved by China, although the U.S. maintains the overall lead with 5 of the 10 largest companies.

In the case of Spain, there are 27 large multinationals in the list, again led by the Santander bank, which ranked 43rd; Telefonica (68th), BBVA (118th), Iberdrola (133rd), Gas Natural (230th) and Inditex (313rd). Caixa Bank (325th), Mapfre (376th), ACS (382), Repsol (471st), Bankia (582nd), Abertis (616th), OHL (1.610th), Liberbank

³² Microsoft purchased the patents and businesses of Nokia and paid EUR 3,790 million for the mobile manufacturing unit and 1,650 million for the patent portfolio. There was a time where everything mobile-related revolved around Nokia. Its past speaks for itself; fourteen years as the world leader. But then touch phones arrived. It was then, when almost by magic, the concept of mobile phones, simple and convenient, completely changed. Off with the old, in with the new. In April 2012, Samsung, the Korean giant, became the main supplier of mobile devices. This transaction entailed losses for Europe, since Nokia was not a mere corporation, but symbolized the fact that European manufacturers and technology companies could be competitive in today's market. The end of Nokia as a manufacturing company means that no options are left to compete against the U.S. and, particularly, the Asian technology world.

“Chinese corporations dominate the world arena”

(1.646th) and Bolsas y Mercados de España (1.679th) are also listed.

By country, the U.S. leads with 564 firms, followed by Japan with 225 and China with 207. This is the first appearance in the ranking for Mauritius, Slovakia and Togo. By regions, the power balance between the East and the West has considerably changed. The present issue shows this shift by dividing the corporations in seven regions: Asia with 674 corporations is ahead, followed by America with 629 and Europe with 506. This sharply contrasts with the results obtained 11 years ago, when it had over half the companies of Asia.

Emerging markets, particularly the Middle East and Latin America, also had a significant participation during the last decade with growths of 265% and 76% respectively. Africa, although with fewer representation, is also growing, and had seven companies listed. Four of the newcomers are headquartered in Nigeria, which represents a total of five companies for the African nation.

Another singularity is the incorporation of 179 new companies, many due to the equity market, the rise in corporate transactions and the increase in takeover bids. Thus, significant developments can be seen, such as the one achieved by Facebook, climbing 561 places to reach the position 510. On the other hand, Hewlett Packard,

which fell sharply in 2013, rose from position 438 to 80.

The ranking shows how certain industries dominate the business landscape. It is no wonder that banks and diversified financial corporations continue topping the list with 467 members. The three following industries are oil and gas (125), insurance (114) and services (110). As regards growth, the semiconductor industry leads in sales (11%); while diversified financial corporations have sharply risen in the field of profits (90%) and the construction sector leads the in terms of growth in assets (18%).

It can also be noted that Chinese corporations dominate the world arena thanks to the size of their market. However, they still need to face their weakness: further enhance their international relevance. The perception of these companies greatly growing through mergers and acquisitions is not a reflection of reality. These transactions amounted to USD 52 billion, a figure 20% lower than that of 2013 (the lowest result since 2009); a rather moderate figure in comparison to the global amount which exceeded USD 3.2 trillion³³ (the largest result since 2007). Of that amount, the U.S. represents a third, 1.053 trillion.

However, Chinese FDI has greatly grown, fivefold during 2005-2010, becoming the fifth largest global investor

³³ According to the specialized firm Dealogic, 2014.

(UNCTAD, 2011). Furthermore, in 2010 they had 16,000 subsidiaries in 178 countries. Therefore, Chinese companies have taken a very active role in the international markets. Many of these operations have been carried out by Chinese companies listed in the Forbes Global 2000 ranking.

THE 10 WORLD'S LARGEST COMPANIES OF 2014 (FORBES GLOBAL 2000, MAY 2014)

- **Industrial & Commercial Bank of China (ICBC):** China - Bank. Once again, it appears as the world's largest bank and the world's largest company. The Industrial & Commercial Bank of China is one of the 4 major Chinese banks, all state-owned.
- **China Construction Bank:** China - Bank. China Construction Bank, also one of the 4 state-owned Chinese banks, is second again. The bank has been internationalized and investments are starting to yield profits.
- **Agricultural Bank of China:** China - Bank. The Agricultural Bank of China, also among the 4 state-owned banks of China, has experienced an interesting growth which allows it to reach the third place, rising 5 positions compared to its result in 2013.
- **JP Morgan Chase:** U.S. - Bank. Main West and U.S. bank, global leader in investment banking, financial services and private investments worldwide.
- **Berkshire Hathaway:** U.S. – Diversified financial institution. One of the leading producers in the world, with over 80 years of experience, it has a large-scale, diversified manufacturing.
- **Exxon Mobil:** U.S. – Oil and gas. The largest energy company in the world and one of the most global corporations, Exxon Mobil specializes in exploiting, processing and marketing petroleum products and natural gas.
- **General Electric:** U.S. - Conglomerate. The company with the largest international presence (over 100 countries), diversifies its products and services, ranging from infrastructure, financial services, media or industry.
- **Wells Fargo:** U.S. – Financial services. Fourth largest U.S. bank, specializing in diversified financial services worldwide (deposits, mortgage servicing and debit cards).

- **Bank of China:** China - Bank. The oldest bank in China, state-owned since 1912, is nowadays the main Chinese bank and part of the 4 state-owned Chinese banking corporations.
- **Petro China:** China – Oil and gas. State-owned company which belongs to China National Petroleum Corporation (CNPC). It is the largest Chinese oil and gas producer and trader.

8. PROSPECTS OF MULTILATINAS, MORE PROMINENCE AND GREATER RESPONSIBILITY

The prospects of Multilatinas gain significant weight. Consequently, it should be taken into account whether these constantly growing companies will take the leading role to modernize their respective countries and, by extension, the region and thus become the promoters of productivity³⁴ (a key issue as regards the competitiveness of the region), innovation and the internationalization of a new global economic environment for the 21st century.

It should be noted that, just like multinationals of developed countries have become important

³⁴ The new conceptual framework published in the annual report of the IDB (2014): "Rethinking Productive Development", allows countries to implement essential productive development policies in order to progress, avoiding past mistakes. The report reviews productive development through the research of market failures that hinder transformation, as well as government failures that can turn policy remedies into something worse than the market's defects. Using a simple conceptual framework, the authors systematically analyzed the policies of the countries in key areas such as innovation, financing, human capital and internationalization. They recognize that even the best policies will fail without the technical, organizational and political skills to implement them. The book concludes with ideas on how to design institutions with appropriate incentives, increase public sector capability over time and promote a constructive public-private partnership.

The 10 World's Largest Companies 2014

Ranking	Compañía	País	Ventas	Ganancias	Activos	Valor de mercado
1	 ICBC	China	\$148.7	\$42.7	\$3,124.9	\$215.6
2	 China Construction Bank	China	\$121.3	\$34.2	\$2,449.5	\$174.4
3	 Agricultural Bank of China	China	\$136.4	\$27	\$2,405.4	\$141.1
4	 JPMorgan Chase	United States	\$105.7	\$17.3	\$2,435.3	\$229.7
5	 Berkshire Hathaway	United States	\$178.8	\$19.5	\$493.4	\$309.1
6	 Exxon Mobil	United States	\$394	\$32.6	\$346.8	\$422.3
7	 General Electric	United States	\$143.3	\$14.8	\$656.6	\$259.6
8	 Wells Fargo	United States	\$88.7 B	\$21.9	\$1,543	\$261.4
9	 Bank of China	China	\$105.1	\$25.5	\$2,291.8	\$124.2
10	 PetroChina	China	\$328.5	\$21.1	\$386.9	\$202

Source: Forbes Global 2000 (May, 2014).

“There are many opportunities in Spain”

players in the process of globalization of production and, thus, industrialization and modernization of their countries, Multilatinas must do the same, by greatly developing, offering increasingly attractive goods and services as regards cost and quality according to the needs of demand through the same slogan used by multinationals: act locally, think globally.

Multilatinas must broaden their perspectives if they really wish to internationalize beyond their traditional market, the U.S. They have to take advantage of the opportunities other markets offer in a decisive manner, as could be the case, for example, of the clear opportunity that the economic situation of Spain has entailed, with highly attractive prices in several sectors. This is exactly what Spanish companies did when a favorable economic cycle started thanks to its integration into the European Economic Community (1986), the creation of the Single European Market (1993) and the common currency (1999), taking advantage of the situation to expand with force and determination towards Latin America, which offered highly beneficial opportunities.

To establish themselves in Spain, Multilatinas have, just like Spanish companies in Latin America, historical and cultural links, a common language and very important economic and trade relations, largely promoted by Spanish firms of all sizes and conditions that operate across the region.

“There are many opportunities in Spain. For us what is important is achieving as many synergies as possible with our activities in Latin America and vice versa. We are convinced that this is the decade of Latin America. The continent is living a great time of growth and wealth. It is very exciting. And, why not incorporating Spain into this Latin American force? For us, it makes a lot of sense”, said Adriana Cisneros, Vice President of Organización Cisneros, although, for the moment, these undeniable good intentions have not materialized³⁵.

This “two-way path”, which I have always strived for, that is, a flow in both directions, makes a lot of sense. Many Spanish businesses, with its diversity and size, have already done so and continue doing so. Now it is the time for Multilatinas to undergo an expansion that is slowly taking place with the arrival of important Latin American investors and groups.

³⁵ Adriana Cisneros. Vice President of Organización Cisneros. “La tecnología es el mejor aliado de la democracia” (Technology is democracy’s best ally). El País-Negocios. Madrid, Sunday, September 11, 2011.

“Another important aspect in the long term is to promote Spain as a hub”

It seems as if this trip to Spain and, by extension, to Europe, mainly involves large Mexican³⁶ Multilatinas, followed by Brazilian³⁷ and Colombian enterprises, which almost fully complete the top 50 of the ranking (Table 2). A very important point is that these companies often trade on the Spanish stock market through the Latin American Securities Market in Euros (Latibex)³⁸, representing the advance of a broader movement that will be followed by Multilatinas of several sectors, such as consumption, food, catering or fashion.

Given these great prospects, it is important to point out the crucial economic and business significance that Multilatinas have both within and outside Latin America, the reason for which its presence among specialized business literature is gradually increasing. This

is also occurring at the Latin American forums, evidenced in the 21st and 23rd Ibero-American Summits, when Ibero-American Secretary-General, Enrique V. Iglesias, during the opening speech, referred to Multilatinas and its strength to compete internationally and the need to reflect on how the countries of the Ibero-American community could mutually reinforce themselves, enhancing their relations to face the tough international competition in a global context.

Another important aspect in the long term is to promote Spain as a hub, i.e., as a distributor or entrance bridge to Europe and North Africa. This is a permanent objective, since there are several important points, besides a common language, such as a broad presence and collaboration with Spanish corporations of

³⁶ For more information, see; Ramón Casilda Béjar (2014): “Las multilatinas. Una mención especial a las mexicanas” (Multi-Latin corporations. Special mention for Mexican organizations.) Boletín de Información Comercial Española (BICE). Ministry of Economy and Competitiveness.

³⁷ For more information, see; Ramón Casilda Béjar and Jaime Llopis Juesas (2014): “Brasil. Las multilatinas. El reto de la internacionalización y la seguridad jurídica de las inversiones extranjeras” (Brazil. Multi-Latin corporations. The challenge of internalization of legal certainty for foreign investments). Boletín Económico de Información Comercial Española (BICE). Ministry of Economy and Competitiveness. Government of Spain.

³⁸ Latibex is a stock market for Latin American securities based in Madrid, operating since December 1999. It is governed by Spanish Securities Market Law and is part of the holding Bolsas y Mercados Españoles (BME). It uses the same securities trading platform as the Spanish stock market and the securities therein are quoted in euros. It was created to, firstly, allow European investors to buy and sell Latin American securities through a single market, whose security and transparency standards were similar and in a single currency and, on the other, to grant access to the main Ibero-American corporations to the European capital market. The updated list of companies part of the Latibex, as well as a history of additions and withdrawals is available at www.latibex.com.

“The thriving regional and international dynamic carried out by Multilatinas could be slowed down”

all sizes, important banks, a noteworthy network of universities, business schools, law firms and consultancies for which Spain becomes the perfect partner and a strategic gateway to Europe. In addition, there are several Ibero-American organizations such as the headquarters of the Secretaría General Iberoamericana (Ibero-American General Secretariat, SEGIB), the Union of Ciudades Capitales Iberoamericanas (Union of Ibero-American Capital Cities, UCCI), the Latin American Stock Market in Euros (Latibex), the Organización de Estados Iberoamericanos (Organization of Ibero-American States, OEI) and the representation offices of the two major multilateral development banks in Latin America such as the Inter-American Development Bank (IDB) and the Corporación Andina de Fomento (Andean Development Corporation, CAF)³⁹.

From a close perspective, Latin America must gain relevance within the global arena through important Multilatinas, developed and competitive. Were the region not to do so, it would be unlikely for it to achieve the position it deserves in the international scene and to play the crucial role it

should in the 21st century world. As regards the role to be played by Multilatinas in the international projection of their countries, the closest example is that of Spanish multinationals. The process of becoming a major actor on the international arena for Spain is closely related to the creation of its multinationals, whose internalization was certainly late but intense through the rapid expansion of large banks and companies across Latin America, reaching a FDI of EUR 135 billion (Bank of Spain, 2013).

But from a different perspective, the thriving regional and international dynamic carried out by Multilatinas could be slowed down. Not only because of the changes in the global economic conditions, but due to the concerns regarding middle income countries. It may be possible for Latin America (and China), to be caught in the middle income trap. This trap occurs when a middle-income country is unable to take the next step to become a high-income nation (Foxley, 2012).

Latin America is the perfect example as it has the largest number of countries with middle-income worldwide, according to the ranking made by the World Bank. The growth rates of the income per capita

³⁹ For more information, see; Ramón Casilda Béjar (10-4-2011): “La importancia del efecto sede en la globalización” (The importance of the headquarter effect in globalization). El País. Madrid.

**“Productive,
institutional and
social organization
systems also compete”**

of Latin American economies were inferior to those of developed countries during the 20th century, which prevented the region from further reducing the gap. During the last 50 years, the region has not been able to reach the welfare levels of more developed countries. Although the per capita income in constant dollars has increased by 4.5 compared to the U.S. population, the welfare gap is now 8% larger than that of their parents or grandparents (IDB, 2014): “Rethinking Productive Development. Sound policies and institutions for economic transformation”.

The relative stagnation has led to the known as “middle-income trap”, the situation that defines the context of many economies in the region, whose wage costs are too high to compete in international markets, compared to other countries that exploit cheaper labor and, at the same time, do not compete with more developed countries as they find it difficult to access the highest part of the industrial chain with products and services that call for intensive knowledge and technology⁴⁰.

Yet, it is essential to take into account that businesses and

other economic players are part of a natural, social and political environment that determines and conditions their activities and possibilities. This was already mentioned by Fernando Fajnzylber when he referred to the determinants of international competition: “... within the international market not only companies compete. Productive, institutional and social organization systems also compete, and although the companies are an important part of this process, they are integrated into a network of linkages with the educational system, technological infrastructure, management skills, labor relations and public and private institutional system. These factors have been highlighted when the economic performances of countries such as the U.S. and the UK have been compared with those of Japan or Germany. The latter are an example of “organized capitalism” where the competitive relations between companies and economic groups are complemented by systems of long-term agreements with specific banks and a relationship with the State, which provides incentives and develops comprehensive policies in

⁴⁰ For more information, see; Pablo Sanguinetti and Leonardo Villar (2012). “Patrones de desarrollo en América Latina. ¿Convergencia o caída en la trampa del ingreso medio?” (Latin American development patterns. convergence or the middle income trap?) CAF. Working Papers. Issue 2012/02. July, 2012. Caracas.

cooperation with the major companies and industrial groups”⁴¹.

If Latin America were caught in this trap it will be, to a great extent, Multilatinas⁴², which will have defuse it and become the thrusting force to take a leap

forward and achieve a higher productivity, industrialization and a sustained long-term development which will entail an improvement in the income and welfare levels.

⁴¹ For more information, see; Fernando Fajnzylber: “*Competitividad internacional: Evolución y lecciones*” (International competitiveness: Evolution and lessons). ECLAC Magazine, issue 36. Santiago de Chile, December, 1998.

⁴² For more information, see; Ramón Casilda (2014): *América Latina. Región emergente del siglo XXI* (Latin America. Emerging region of the 21st century), and; Ramón Casilda (2014): *Multilatinas y translatinas. Las nuevas realidades empresariales de América Latina* (Multilatinas and trans-Latin corporations. The new business realities in Latin America); in: LANMARQ. LID Editorial. Madrid

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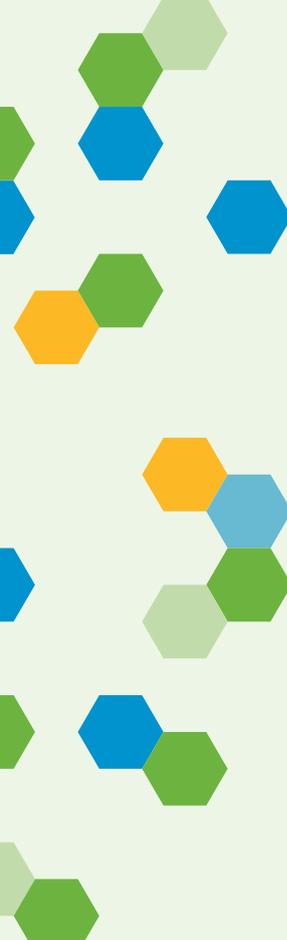
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