

# **OUTWARD FOREIGN DIRECT INVESTMENT: THE CASE OF MEXICO**

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### **Abstract:**

The importance of studying the participation of Emerging and Developing companies in the global market began when these countries increased their investments overseas in both developing and developed economies and the statistics showed their increasing importance in total share flows. Mexico is not the exception, this country needed to accept and understand the change in its economic model in order to be represented in the global economy through its multinational firms. This paper proceeds as follows: section one analyzes the OFDI evolution from both Asia and Latin America during 1970-2009, section two establishes the main differences between both regions that explains Asian's leadership in outward investments and also explains motives, strategies and challenges for each one according to the existence theory and it is contrasted to reality, section three is a little review about the evolution of the most important outward countries in each region, section five analyses the Mexican case and try to answer three questions: why do they invest abroad?, how do they do it? and which are the challenges that the Mexican Trans-Latins face?.

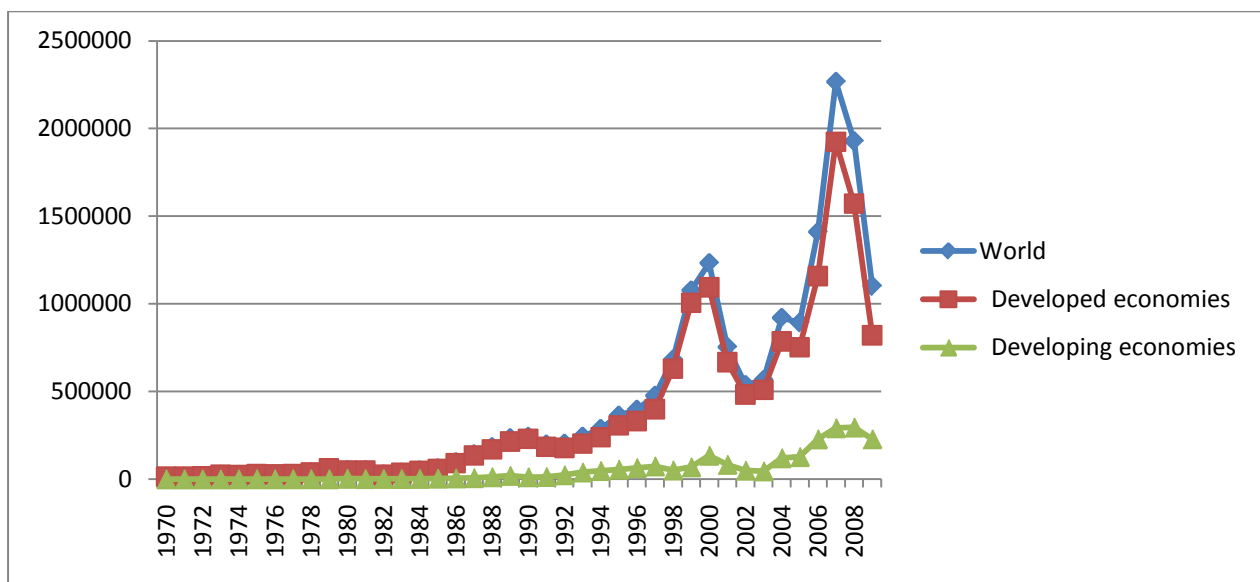
### **Introduction**

The 1990s is the decade of an important rise of Foreign Direct Investments outflows led by developing Asia and Latin America. The main difference that explains the Asian leadership in FDI outflows is the government support through different forms such as promotion and subsidies. Nevertheless there is a common denominator in the rise of investments abroad: The strong competitive pressures generated by globalization process forces firms to internationalize increasingly early. In Latin America in the 1990s, economic liberalization, deregulation and privatization policies exposed local companies to the challenge of competing not only in a captive local markets but also pursuing foreign investment opportunities

## 1. Outward Foreign Direct Investment from developing countries, Asia and Latin America: Reference framework

The outward foreign direct investment (OFDI) from emerging and developing countries is not a new phenomenon. What really is new is the recent increase of it during the last twenty years and its share in the global flows (See figure 1). As some authors have said, there are two “waves” of outward FDI from developing countries. The first began in the 1960s and ended in the late 1970s, while the second began in the 1980s and finished in the 1990s (Chudnovsky & López, 2000; in ECLAC, 2005). Comparing these first two “waves” with the outward investment boom of the 1990s, it is obvious the increasing of importance and presence of these countries in global economy.

**Figure 1. Outward foreign direct investment: world, developing and developed countries, 1970-2009 (Millions of dollars)**



**Source:** The Author on the basis of Major FDI indicators (WIR 2010) UNCTAD, 2009, *Beyond 20/20 web data server*, <http://stats.unctad.org/FDI/TableViewer/tableView.aspx>

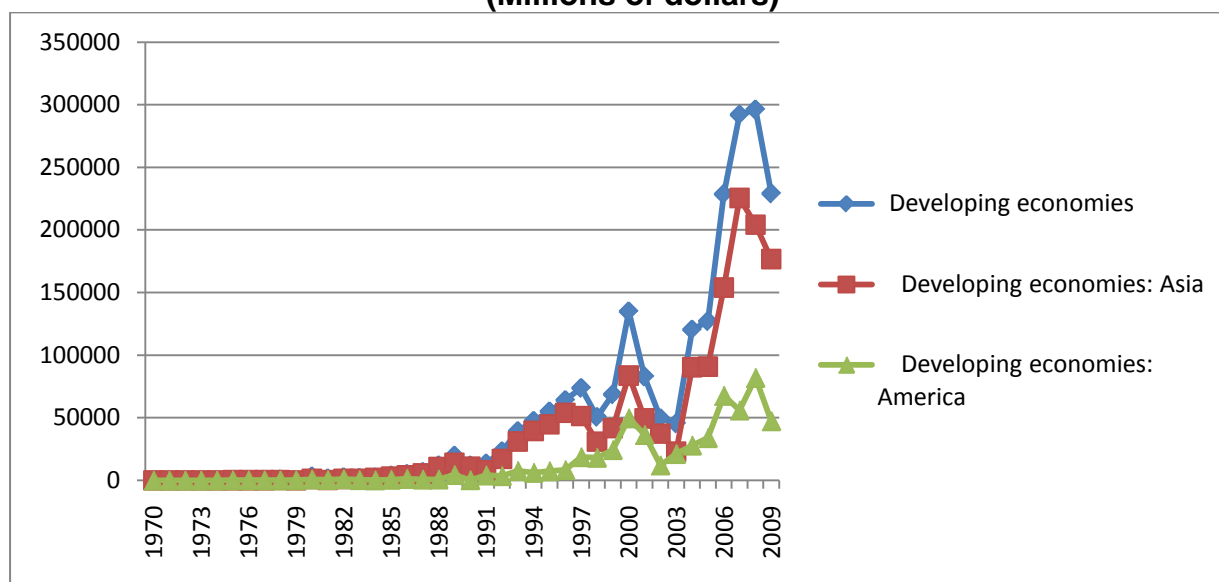
Asia and Latin America have been the major suppliers of FDI from developing countries. This means that emerging markets are concerned not only for attracting FDI but also are becoming part of such investment. Asia is the region where the FDI outflows have been growing faster than any other emerging economy; Latin America is the second largest region and has contributed

with 4.3 percent of total FDI outflows in 2009. Argentina, Brazil, Mexico and Chile are the most important countries that supply OFDI in the zone.

During the 1970s, according to information available from United Nations Conference on Trade and Development (UNCTAD), the OFDI from developing countries became a decade average of US\$ 347 869 million, then in the 1980s this number was increased to US\$ 5.5 billion meanwhile for 1990s the average was US\$ 44.7 billion. Between 2000 and 2009, outward foreign direct investment from developing countries as a group was an average of US\$ 160.6 billion (see Figure 2).

Latin America was the most affected developing region during the economic crises in United States; this impact was reflected on the ability of Latin American firms to invest abroad in 2007. Despite this situation, the enterprises could overcome and continued its upward in 2008: OFDI by firms in the region reached nearly USD\$ 82 billion in 2008, this is an increase of 46.5% with regard to 2007. This increase is the result of the accelerated efforts of some Latin American companies, better known as Trans Latins, to expand operations beyond their borders (Mortimore, 2009).

**Figure 2. Outward foreign direct investment: Developing economies by region (Millions of dollars)**



**Source:** The author on the basis of Major FDI indicators (WIR 2010) UNCTAD, 2009, *Beyond 20/20 web data server*, <http://stats.unctad.org/FDI/TableViewer/tableView.aspx>

The rising flows from Asia in 2007 were enough not only for increasing its investments overseas but also to contribute in the rising global OFDI, this fact prevent that OFDI flows from developing countries, as a group, were affected by the negative results of Latin America in that year.

To sum up, emerging markets have increased their share in FDI outflows from 1.23 percent in the 1970s to 13.84 percent during the period 2000-2009, while FDI outflows from developed countries have decreased in proportion from 98.76 percent during 1970 to 84.12 percent during the period 2000-2009. The value of the OFDI stock of developing economies reached \$2.7 trillion in 2009 or 14.17% of the world total. Asia has increased its share in the total stock of OFDI of developing economies during the last decades: from 23% in 1980 to 46% in 1990 and to 77% in 2009. Conversely, the relative role of Latin America and the Caribbean has declined substantially, from 66% in 1980 to 40% in 1990 and recently to 21% in 2009.

## **2. Asia and Latin America: differences, motives, strategies and challenges**

The active governmental intervention for supporting outward investors trough different forms such as OFDI promotion and subsidies is the main difference between developing Asia and Latin America that could explain the leadership of the Asian economy in the OFDI. The most important public bodies in this field include: trade promotion organizations (TPOs), investment promotion agencies (IPAs) and export credit and insurance agencies. In some countries, IPAs responsible for inward FDI promotion have also been given a mandate to encourage outward FDI. Examples include the Economic Development Board in Singapore, the Foreign Investment Agency of Viet Nam, and the Malaysian Industrial Development Authority (UNCTAD, 2006a).

In Singapore, the Government has implemented a range of measures to facilitate the international expansion of its public as well as private companies; China has adopted a “going global” strategy to boost investment overseas; the Prime Minister of India has stated that his Government will encourage Indian companies to go global (UNCTAD, 2006a). In this sense, Government policy plays an important role in creating the new enterprises that will represent their countries in the global economy in a “battle” for dominate foreign markets.

Another important difference between these both regions is related to the expansion and reaching of each investment: OFDI from developing Asia has tended to spread around the world while investments from Latin America and other regions are largely confined to neighboring countries. (ECLAC, 2005). This fact is explained by the internationalization theory which affirms that firms usually invest in a particular country or region with similar characteristics to its domestic market such as its geographical proximity and similar economic and cultural backgrounds (Brennan & Rios, 2007).

Although there are different circumstances that motivate each company to go out depending on their activities and geographical location, we could say in first place, that the most important reasons are: the continuing liberalization of FDI regimes worldwide, competition among firms from all parts of the world, and technological and logistical advancements (Sauvant, Mendoza & Irmak, 2008).

The eclectic paradigm by John H. Dunning, the Investment development path (IDP) and the internationalization theory are some theories that can explain the emergence of firms from developing countries.

The first one, also called “OLI paradigm”, is a mix of three various theories of foreign direct investment: ownership advantages (O), location advantages (L) and internationalization advantages (I). The model argues that a MNE invests when these three conditions are satisfied.

According to John H. Dunning (2001), the propositions of the eclectic paradigm are:

- 1) The competitive advantages which firms of one nationality possess over those of another nationality in supplying any particular market or set of markets. These advantages may arise either from the firm’s privileged ownership of, or access to, a set of income-generating assets, or from their ability to co-ordinate these assets with other assets across national boundaries in a way that benefits them relative to their competitors, or potential competitors.
- 2) The extent to which firms perceive it to be in their best interests to internalize the markets for the generation and/or the use of these assets; and by so doing add value to them i.e. by locating investment in a foreign market, returns must be higher than those obtained in the domestic market.

3) The extent to which firms choose to locate these value-adding activities outside their national boundaries i.e. the MNE must benefit from controlling the foreign business activity rather than hiring an independent local firm.

The Investment Development Path theory (IDP) argues that as countries become more industrialized or developed – with a parallel advance in their industrial and services sectors – their firms are likely to build up firm-specific advantages, and so are able to compete more effectively at the international level. The IDP theory suggests that countries tend to go out through five stages:

1) There is very little inward and outward FDI. This is because, at this stage, there are very few country-level factors (i.e. location-specific advantages such as a sizeable market or clusters of development) that might attract inward FDI, with possible exceptions being assets such as natural resources. Local firms have not created or acquired many firm-specific advantages that might allow them to invest overseas.

2) Inward FDI starts to rise, because of the increasing per capita incomes and other location-specific assets and outward FDI remains low, this is because firms are still developing.

3) The rate of growth of inward FDI is expected to decline (as local firms become more competitive), and that of outward FDI to grow faster.

4) A country's outward FDI stock should exceed or equal the stock of inward FDI. Most domestic firms are now capable of competing with foreign firms abroad as well as in their own market.

5) The net investment position of a country tends to fluctuate around zero, reflecting relatively similar magnitudes of the stocks of inward and outward FDI.

This process of structural upgrading driven by inward and outward FDI reflects growing national competitiveness in many of the countries such as Brazil, China, India, Mexico, South Africa and Turkey. These countries are at stages 1 and 2 of the IDP (UNCTAD, 2006b) i.e. companies from developing countries are investing significant amounts of FDI overseas.

Finally, the internationalization theory, better known as Uppsala model, focuses on the different stages of the internationalization process of a firm, suggesting that a firm with a competitive advantage in its domestic markets will seek to move abroad to exploit its competitive advantages.

According to this model, firms usually invest in a particular country or region with similar characteristics to its domestic market. The five phases of internationalization process of a firm through the process of incremental learning are (Saarenketo, 2003 in Brennan & Rios, 2007):

- 1) The firm is not involved in exports but is gaining knowledge of a foreign market.
- 2) Occasional exports through an agent.
- 3) Firm is involved with foreign markets through agents and subsidiaries.
- 4) Firm establishes a subsidiary in a foreign market.
- 5) The firm is producing in a foreign market.

These theories, as argued above, try to explain the OFDI from developing countries, nevertheless the motives for invest in ether one or other region are completely different for each region. It means that is required to find the drivers for both Asia and Latin America that motivate them for going out in order to understand not only the strategies adopted by each one but also for knowing the challenges that they have to face in the global economy. For this proposal is necessary, before focusing in each region, talk about the push<sup>1</sup>, pull<sup>2</sup> and policy factors that support and determine the place where developing countries companies locate their investments.

According to *World Investment Report* published by UNCTAD in 2006, the empirical evidence underlines four common drivers of internationalization by developing country companies, three push factors and one pull factor. The factors pushing firms out of their home countries are the limited size of domestic markets, rising costs of production in home economy and intense competition from both local and foreign firms. The main factor pulling companies into host countries is the opportunities arising from liberalization.

There are four main motives, additional to push and pull factors, behind the investment decision of the companies for choosing a specific country, these are:

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<sup>1</sup> Conditions that influence companies to move abroad.

<sup>2</sup> Foremost determinants of FDI in particular host economies.



1. *Market seeking*, the most common strategy, it can be based on leveraging a successful brand, exploiting competitive advantages in market niches, or rolling out a business model.
2. *Efficiency seeking* is often characterized in terms of taking advantage of lower-cost labor in foreign countries.
3. *Resource seeking* are those following three criteria: geographical proximity, same linguistic sphere, and common historical links.
4. *Created asset seeking* is generally associated with research and development activities and other motives like strategic and political objectives pursued on behalf of their home governments and countries.

Local (host-country) market size is more important for production for local sales than for production for export sales. Host-country skilled-labor scarcity is important for export production relative to production for local sales. Investment and trade cost barriers in the host country affect production for export more negatively than production for local sales (Markusen & Maskus, 1999).

The relative scarcity of natural resources, the need of lower production costs and acquire strategic assets are the drivers for OFDI from developing Asian countries, these drivers also include the sophisticated governmental promotion of these capital outflows in the form of currency regulations, institutional and financial support and, in some cases, direct support from organizations created for this purpose (ECLAC, 2005).

Rising costs in the home economy have been among the prime force driving the growth of outward FDI by firms from some developing economies, in particular the East and South-East Asia since the 1980s. Many developing country companies, including those from China and India, indicate the importance of home and, especially, host government policies in their decisions to go international. These include transparent governance, investment in infrastructure, property rights and minimal exchange-rate regulations (UNCTAD, 2006b).

In Latin America and the Caribbean, investment is determined by the need to find markets for their raw materials and diversify their sources, macroeconomic instability (boom and bust cycles in internal demand, and currency instability), abortive experiences as foreign investors, the need

to diversify risks, the rapid opening of domestic markets and the growth of outside competition owing to deregulation and privatization, and a far more limited supporting role for government (ECLAC, 2005).

There are some challenges that developing countries have to face in order to get into the globalized economy through FDI. The first one is for home country policy in emerging markets. It is necessary to create an environment and policy framework that supports domestic firms for going out (Sauvant Sauvart, Karl; Mendoza, Kristin & Irmak, 2009).

In this sense, developing countries have to learn about developed countries experience, e.g. the sign of bilateral investment treaties (BITs), this shows the necessity of protect and promote the OFDI in a bilateral context. So, if governments in the region wish to increase their investments overseas they are advised to design and implement more focused national policies for that purpose. It is important to clarify that the Asian region has already adopted the government support as a mechanism of promotion and development, Latin America and the Caribbean is far behind the policy initiatives of many Asian developing countries.

According to *Investing Across Borders* of the World Bank Group published in July 2010, Latin America is the region where it takes 74 days for starting a foreign business while the average world takes 42 days. Peter Kusek, the manager of the Investing Across Borders project, explained that Latin America and the Caribbean was also the slowest region for starting a domestic business. So, there is a double challenge to overcome, on the one hand to open a domestic business and on the other, once that it became a Trans Latin, to establish a local subsidiary in the region.

In sum, a newly established foreign subsidiary has the disadvantage of being foreign compared to the established enterprises in host economy. Second, additional problems related to cultural, social and institutional differences between home and host economies lead to higher coordination, governance and transaction costs. Third, companies face higher levels of complexity as they establish their presence in an increasing number of locations (UNCTAD, 2006b).

### **3. TNC's from Asia and Latin America and benefits for home countries**

Argentina, Brazil, Chile and Mexico are the countries that own most of Trans Latins in Latin America and the Caribbean. Although both Argentina and Brazil were the pioneers in investing abroad process, only the second one has achieved getting internalize; the companies from Mexico and Chile by their part, have increased their presence in external markets with new production and service activities (ECLAC, 2005). OFDI from East Asian countries has historically been concentrated in Hong Kong, Taiwan, Korea and Singapore.

Generally, the Trans Latins are concentrated in certain primary industries, some mass consumption manufacturing and a few services industries (ECLAC, 2006 in UNCTAD, 2006). With a few exceptions, most TNCs have a strong regional focus in their internationalization strategies.

According to UNCTADs list of *The top 100 non financial TNCs from developing and transition economies*, ranked by total sales in 2008, the largest Trans-Latin was Petrobras (Brazil) followed by Petroleos de Venezuela (Venezuela) and America Movil (Mexico). Meanwhile, in same list but now ranked by foreign assets, Cemex (Mexico) heads the list, follow by Vale, S.A. (Brazil) and Petroleos de Venezuela (Venezuela). In these both cases, including the participation of Latin America in the ranking, transnational corporations from China heads the list: China National Petroleum Corporation and Hutchison Whampoa Limited.

None of Trans Latins were among the global top 100 TNCs in 2004, the last ranking published in 2008 prove the fast growing and expansion of one firm around the world, Cemex. This Trans Latin is the only one that can be considered the major TNC at the global level (ECLAC 2006). It has evolved into one of the three largest cement producers in the world, with operations in more than 30 countries.

In 1977, 14 of the 30 largest developing country transnationals were from Latin America and the Caribbean and just 10 were from East and South-East Asia (Heenan and Keegan, 1979 in ECLAC, 2005). By 2003 the situation had been reversed, 40 of the top 50 developing-country transnationals were Asian and just 7 Latin American, all of them from Brazil and Mexico. And finally, by 2008 the view is this: 9 of the transnational from developing countries are from Latin

America, the new countries that were included in the list for having operations in foreign markets through their companies are Venezuela and Argentina. Nevertheless, Asian groups are still possessing the leadership in the list with 70 percent of firms included in it.

The ignorance in relation to benefits or losses that the OFDI brings along is, perhaps, the main limitation to generate policies for supporting the investments in foreign countries. It is considered that the establishment of subsidiaries in foreign markets means job losses, skills transfer among other things. Nevertheless, that is not entirely true because, in case of jobs, OFDI could have a positive impact on the composition of home employment between skilled and un-skilled labor through the movement of employees from subsidiaries to national firms at home (Williams, 2009).

Under a best case scenario for the home economy, investment abroad can boost demand for high level skills and managerial services and exports of intermediate goods from the home country, leading to structural change, and not necessarily reduced employment, in the home economy (UNCTAD, 2006).

The advantages of OFDI are present not only in jobs but also in the technological knowledge. Foreign subsidiaries can become a channel for transferring it to home countries, especially if they are located in an area with a high intensity of high-tech activities. At the same time, home country companies can be efficient channels for the importation of goods (including factors of production) for which the home country suffers a location disadvantage. In this context, OFDI promotes inter-industry trade and a resulting specialization of production within the home country along traditional lines of comparative advantage.

The potential economic impacts of OFDI can best be appreciated in the context of how OFDI contributes to a nation's international economic integration. OFDI will stimulate international trade by expanding an efficient channel through which trade takes place (Globerman, 2006).

The restriction of developing countries companies to access to developed markets is the obstacle to access to new skills, technologies and markets, and, ultimately, opportunities for growth and development for both the firm and the home economy. Given the growing significance of OFDI from the emerging economies it will help if the home and host governments involved seek to

establish common and specific collaboration platforms to raise information flows as well as coordinate better the negotiations and execution of investment projects (Rasiah, 2009).

#### **4. OFDI: The case of Mexico**

According to Jorge Basave (2001), the history of big companies and business groups are closely linked to Mexican modern economic history and its analyses has become an important reference for understanding the dimensions of any crises.

The first question that is necessary to answer is why the companies from Mexico are investing abroad and for this proposal we need to know the context in which Mexican firms emerged and the moment in which they became international and decided investing abroad. During the “substitution policy”, started in 1940s and concluded in 1980s, the Latin American companies couldn’t see the necessity of improving their competitive capacities for becoming Trans Latins, this was because of the governmental intervention and the high levels of regulation that used to protect the domestic firms against foreign competition (Cuervo-Carruzo, 2010).

This protection against foreign competition instead of benefit local firms, caused the reduction of efficiency and competitiveness levels, and this situation was a barrier for becoming an international company. The first step for catching this objective were the economic reforms<sup>3</sup> applied in Latin America at the end of 1980s and the beginning of 1990s, in response to the “debt crises”. This gave to Latin American firms an incentive to improve their competitive position and to expand into foreign markets (IDB, 2008).

In the case of Mexico, the new economic policy slowly began to produce results. In 1994, Mexico formalized a free trade agreement with the United States and Canada, with a view to consolidate the reforms began some years earlier, Mexico subsequently negotiated similar agreements with a number of Latin American countries, the European Union (1999) and Japan (2004). These drastic economic policy changes were also recognized by the main investor countries when they admitted Mexico to the General Agreement on Tariffs and Trade (GATT) (1986) and the OECD (1994) (ECLAC, 2005).

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<sup>3</sup> Liberalization, desregulation and privatization policies.

The domestic factors that also influenced the Mexican companies to go out were, on the one hand the overcome of the debt crises using financial investments strategies to reestablish the productive investment during 1984-1987 and, on the other the intention of the Mexican government to modify the model of economic growth. This new model were based in the active participation of FDI and private businesses groups in the economy as the main factors to impulse the growth and development of the Mexican economy.

The signing of the first Economic Solidarity Pact leaded by government and business men from the most important groups in the country was the political factor that contributed to materialize this change in Mexico. Since this moment, business men were part of the designing of the new economic policy (Basave, 2000). All these international, domestic and political factors permitted that various businesses groups started an expansion in others economies through OFDI but now, without any explicit support from the country Government.

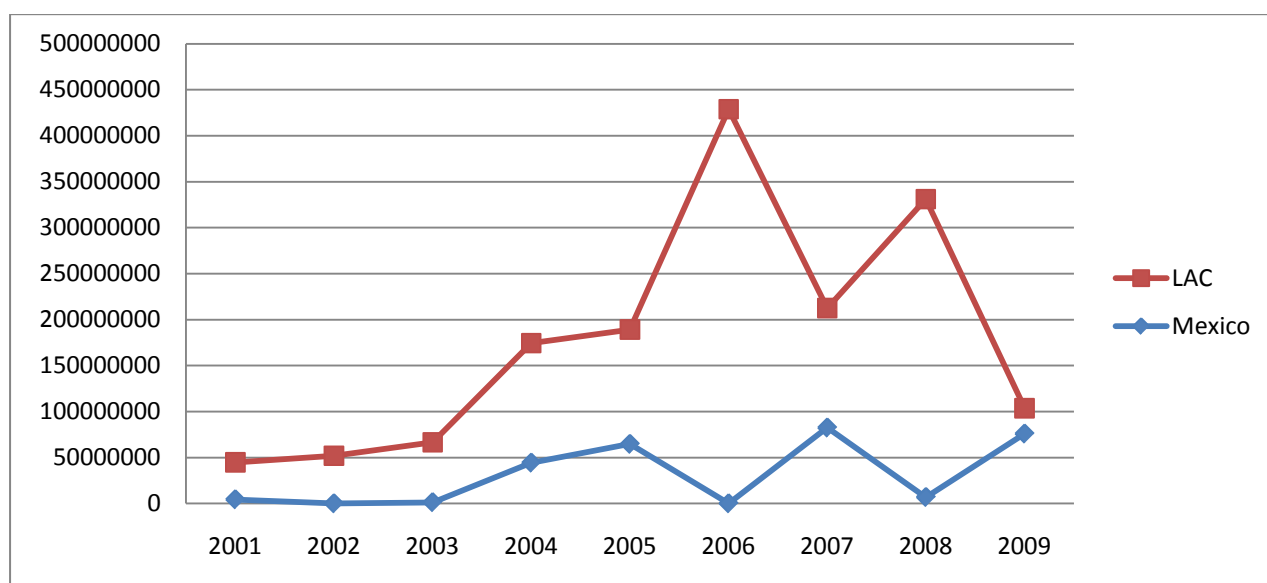
In sum, Mexico's economic model, like that of other Latin American countries, changed in the twentieth century. In the late 1980s, before it had even emerged from the rigors of the external debt crisis, the country implemented a radical reform that basically consisted in opening the economy to foreign trade and investment and reducing the role and size of the State in order to be more competitive trough its companies in foreign markets. The OFDI was not a new phenomenon for Mexican companies, it had already experienced a marginal growth in United States, Central and South America during the 1970s, this growth was stopped by the debt crises in 1982. For this situation, during the first half of 1980 the companies reduced their investments not only in foreign markets but also in home economy, nevertheless it was resumed in 1990s (Basave, 2001). The rise of domestic competition and a better access to foreign markets allowed Mexican firms to abandon their passive strategies and to adopt more aggressive ones in quest of new opportunities abroad (ECLAC, 2005). Finally, it is considered that the exports from Mexico to Latin America were the immediate precedent of OFDI to the region.

Unstable is the key word that describes the behavior of the OFDI from Mexico since 2001 until 2009. During the period 2001-2003 the flows from this country has decreased 71%, it could be explained by the recession in the first foreign market for Mexican investment, United States. In next period, 2004-2005, the outward overseas grew about 5 000% with regard to 2003 while the

decreased appeared once again in year 2006, this was about 100%, the same as in 2008. During 2007, as it was expected, the OFDI increased and 2008 was the year with a new decrease because of the financial crisis in United States and the recuperation arrive in 2009 growing 1 000%. The OFDI growth rate between 2001 and 2009 was about 1 625 percent.

What really is important to analyze is the share of Mexican OFDI in the total of Latin American and the Caribbean investment abroad because it seems, in appearance, that its share has increased in some years but this is not entirely true. During the period 2001-2005 Mexico had a similar behavior with the investment overseas tendency of Latin American, but in next years Mexico's behavior was the opposite of Latin America and the Caribbean. So, 2002, 2003, 2006 and 2008 were the years with the lowest participation in outwards flows. While 2005, 2007 and 2009 were the highest participation, but this was not because of increasing flows, instead of this the explanation is that total OFDI from Latin America decrease dramatically, this means that the perception of an increase in outward Mexican investments can't explain by itself an increase in their share of FDI outflows from the region and it is necessary to understand that the fall is bigger than the rise and that shows the real situation about it (See figure 3).

**Figure 3. OFDI: Latin America and the Caribbean and Mexico, 2001-2009**  
(Millions of dollars)



**Source:** The Author on the basis of ECLAC, 2009, *CEPALSTAT. Estadísticas de América Latina y el Caribe*. <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp?idAplicacion=6&idTema=119&idIndicador=1502&idioma>

Having established the framework that explains the emerging of Mexican companies and the reasons, for which they had to compete in international markets, now is necessary to know the push and pull factors that motivate them to go out. According to *Foreign investment in Latin America and the Caribbean 2005* published by ECLAC, Mexican Trans Latinos respond to these follow push factors:

- 1) Many of these companies faced limited long-term opportunities in the domestic business environment because local markets were saturated (mobile telephony, cement, food and beverages) and were affected by medium-term problems such as volatile domestic demand (car parts, white goods)
- 2) The corporate strategies adopted by these firms to improve their competitive situation. Many of the Trans Latinos have tried to internationalize their competitive advantages (the GPS technology used by CEMEX, the distribution systems of Gruma and Bimbo, the homogeneous mobile telephony network of América Móvil) to open up new markets and consolidate existing export markets and, in general, to improve their position in the value chain.
- 3) The impact of local policy changes by the country's government, as the decision to open up the Mexican economy to foreign competition, including privatization and the deregulation of services, had a very significant effect in forcing these companies to adopt more aggressive strategies.

The pull factors also include three elements:

- 1) There are the location advantages of the host countries. Mexican Trans Latinos have concentrated mainly on the United States and Latin America, showing that geographical proximity and ethnic networks (language/culture) or national ones (Mexicans living outside their country) have weighed heavily in the context of the renewed growth in opportunities in these markets.
- 2) The advantages, both strategic (raising market share, forming alliances with TNCs, following local customers) and competitive (improving products and logistics and distribution systems, and turning national brands into regional ones), that internationalization can bring. Alliances with



TNCs have been very important for companies like América Móvil, Gruma, San Luis Rassini, and Coca Cola FEMSA.

3) The impact of policy changes by host governments. Mexican firms took advantage of the many free trade agreements concluded to obtain preferential access to their partners' markets.

Now, the answer for the question posed at the beginning of this section can be answered: There are two main reasons for investing abroad, on the one hand the transition of one to other economic model with different proposal permitted that Mexican companies started a process of expansion as a response for the economic liberalization and on the other hand, the limitations of growing at the home economy.

It is time to talk about the Mexican Trans Latins that represent the country in the global market. The first proposal will be to classify them, for this, ECLAC suggests that concerning their level of internationalization, these companies can be classified into four groups:

1) The percentage of its sales generated outside the country is more than 50% and the degree of geographical coverage its operations have attained. Cementos Mexicanos (CEMEX) is the only Mexico-based company that can be said to be a major TNC at the global level.

2) Companies with an advanced degree of internationalization (over 50% of sales or employment outside Mexico), such as América Móvil, Gruma, and Grupo Alfa.

3) Firms with a moderate degree of internationalization (over 25% but less than 50% of sales or employment outside Mexico), such as Coca Cola FEMSA, Grupo Bimbo, TELMEX and Mabe.

4) Companies with a limited degree of internationalization (less than 25% of sales or employment outside Mexico), a category that includes a further nine companies.

Although there is a common denominator in the expansion strategies of the Mexican firms (Mergers & Acquisitions) is important to know more about the main Trans Latins from Mexico in order to recognize their strengths, motivations and internationalization strategies (IDB, 2008):

- CEMEX, Mexican building materials.

Cemex is today one of the world's three largest cement companies, along with France's Lafarge and Swiss-based Holcim. The company produces, distributes, and markets cement, ready-mix concrete, aggregates and related materials for infrastructure projects, buildings, and residential housing. According to *América Economía (2009)*, CEMEX is the 2th largest corporation in Latin America and the most global enterprise of Mexico.

Initially, its expansion was mostly directed towards natural and emerging markets but later moved on to developed countries, mainly through acquisitions, frequently targeting underperforming corporations operating in markets with long-term growth potential, favorable industry characteristics, manageable risks and attractive financials. Its first international expansion strategy was focused on the southwestern United States along the Mexican border. Apart from major acquisitions in Spain in the early 1990s, CEMEX initially focused its global strategy on emerging economies, especially in Indonesia, Thailand, Philippines, and Egypt. After 2000 it began moving into developed markets with large-scale acquisitions in the United States, Britain, and Australia. The cement business's main characteristic is high transportation costs relative to production costs.

With a unique business model that relies on IT solutions, CEMEX has strengthened its position among its competitors and become a leading global producer and marketer of cement, aggregate and concrete products.

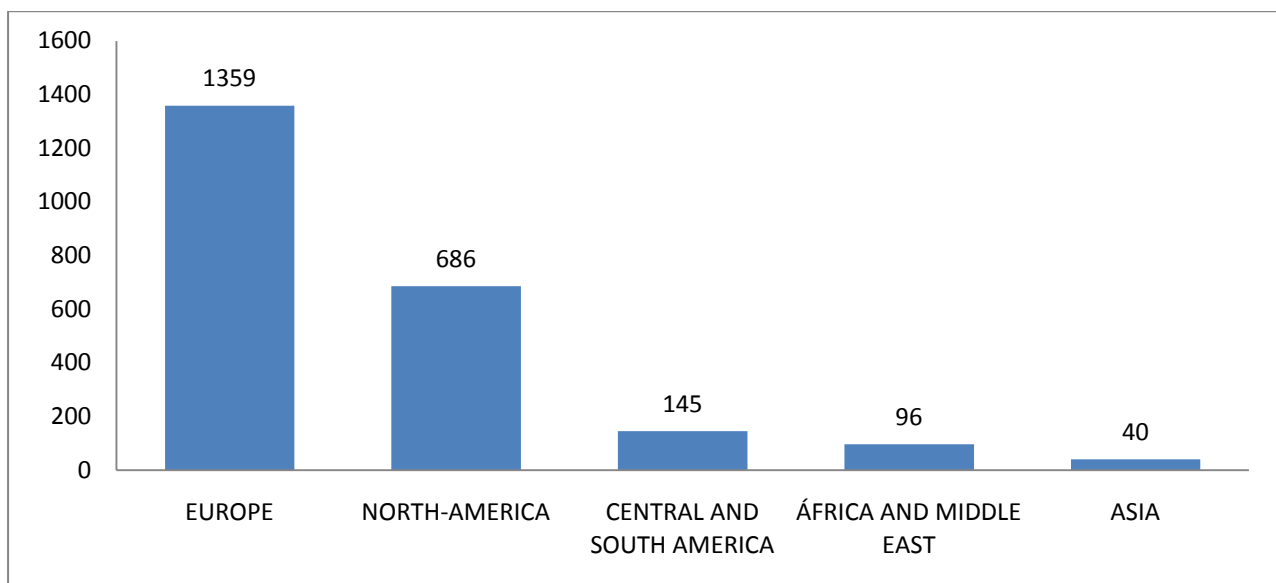
In the past half century, CEMEX has transformed itself from a local Mexican cement producer into a leading global provider of building products and solutions. While CEMEX targets any region that fits its investment criteria, the company's international growth trajectory can be divided, in general terms, into three main phases: (1) expansion throughout its "natural" market; (2) entry in further emerging markets; (3) transforming CEMEX into a Global Latina.

In October 2009 the company ended the sale of its operations in Australia to Holcim Group. The transaction amount was 1.700 billion dollars. This income was used for the redemption of debt of the company and strengthening its liquidity.

In Mexico the reason for the drop in sales was mainly due to macroeconomic conditions in the country, the infrastructure sector being the one to see some activity because of government stimulus (PODER, 2010b)

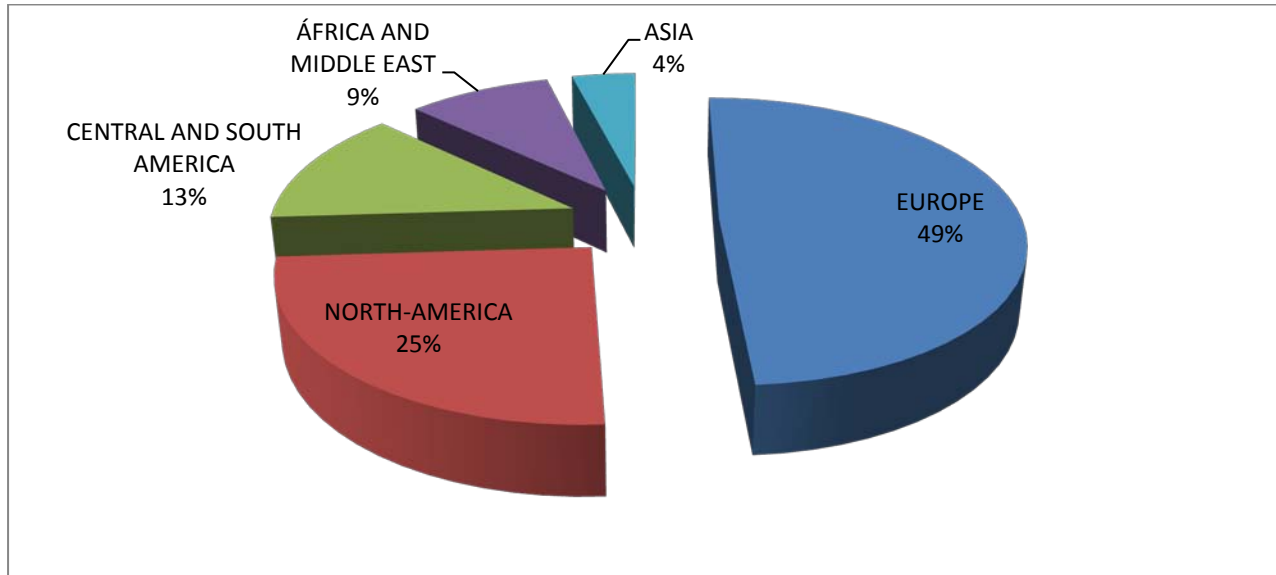
In 2009, Europe was the main region where Cemex had the largest number of plants and businesses, followed by North America and Central and South America. Europe has nearly twice South America plants while Central and South America possesses 145 plants (See figure 4). These statistics show the increased presence of Cemex in the world and the reason for which it is considered the only Trans-Latin that has become a Transnational company. The main source of external revenue comes from Europe contributed with 49%, followed by North America with 25% and finally Central and South America providing 13% (See figure 5).

**Figure 4. CEMEX: Number of plants and businesses by region, 2009**



**Source:** The author, based on information from *PODER* (2010b).

**Figure 5. CEMEX: Regional participation in external income, 2009**



**Source:** The author, based on information from *PODER* (2010b).

- AMERICA MOVIL, the Mexican mobile telecom titan.

America Móvil has annual revenues exceeding US\$20-billion and a market presence in 17 countries throughout Latin America and the United States. Forced to innovate due to its large low-income customer base throughout Latin America, the company pioneered the “pre-paid” mobile phone usage model that later spread through the industry. In the United States, the company operates under the Tracfone brand, and uses different brands in Latin American countries. Its main competitor in Latin America is Spanish-based telecom giant, Telefónica.

With a saturated domestic market and an excellent potential growth in Latin America, America Móvil has been an opportunistic buyer of distressed assets during crisis such as the one following the Argentinean in 2001. However, most of its acquisitions are comparatively small to the standard in this sector. Its prepaid cards model, to serve low income customers, has revolutionized not only the Mexican but also the Latin American and global markets. Also, its client outreach scheme of using vendors with a bright yellow outfit that sell cards at major cross points has been a grand business innovation model that has given a competitive advantage to the company. Carlos Slim has been a key player, his leadership and ability to create an empire but

still maintain fast decision-making has been essential to the achievement of the company's success.

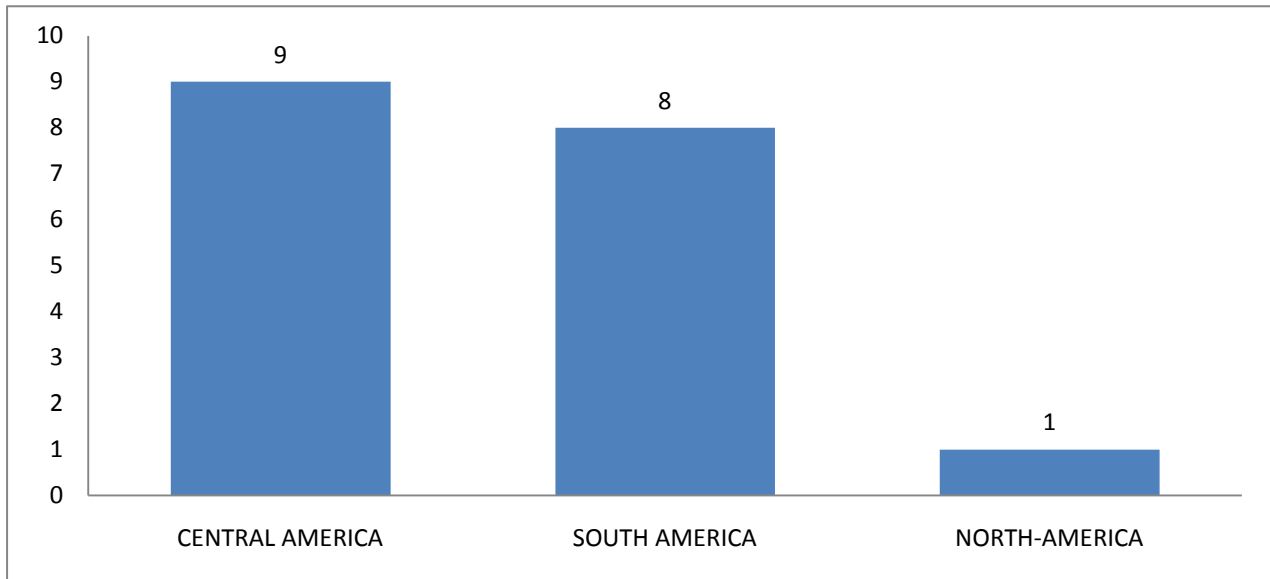
America Movil's international expansion has been driven by *market-seeking* strategies, especially in its "natural" market of geographically proximate countries in Latin America where customers share the same language and thus make marketing efforts less costly like Mexican multinationals Bimbo and CEMEX, America Movil was initially pushed to expand internationally by realities in its domestic market – notably its dominant position in a saturated market.

At the end of 2009, America Movil has 44.4 million subscribers in Brazil which represented an increase of 14.6% compared to previous year. Post-paid subscribers grew 10.8% to reach 8.7 million users. In Chile America Movil's 3G network covered 85% of the population at the end of 2009, the country's widest coverage. In May 2009, America Movil was awarded the license to offer cellular telephony in Panama through the company Claro Panama.

In July, America Movil began operating in the northern region of Brazil and in August announced the acquisition of 100% of Estesa Holding Corp., a provider of cable television, residential broadband services in Nicaragua. In recent years, it has invested 6,000 million dollars, of which 4,900 million were used for the expansion of coverage and capacity of fixed line networks and cellular, as well as incorporating 3G technology in all company operations. The rest was used for spectrum acquisition and licensing (Poder, 2010b).

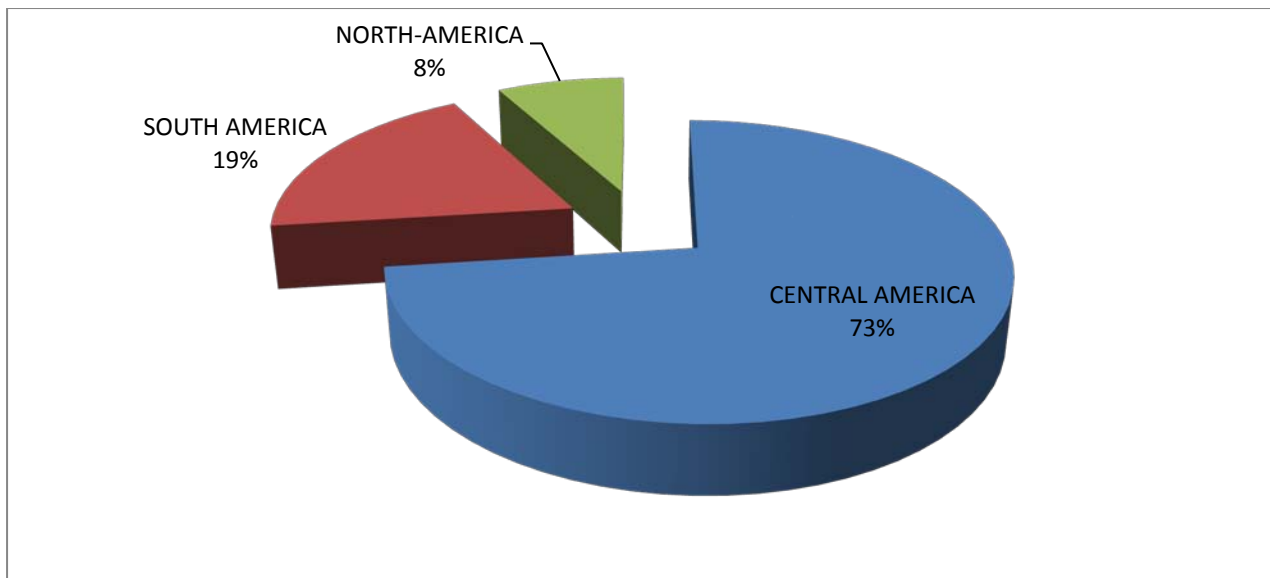
America Movil has the largest number of plants and businesses in Central America and South America, this company has been expanding its activities only in this region. The main source of external revenue comes from Central America providing 73 percent (See figure 6 and 7).

**Figure 6. AMERICA MOVIL: Number of plants and businesses by region, 2009**



**Source:** The author, based on information from *PODER* (2010b).

**Figure 7. AMERICA MOVIL: Regional participation in external income, 2009**



**Source:** The author, based on information from *PODER* (2010b).

- BIMBO, the Mexican bakery of the world.

Pioneering in packaging and “just in time” delivery has given Bimbo an important competitive advantage for internationalization. Its strategic approach has been similar to other Latin-

American companies, first to lock a dominant position at home then expand towards natural markets in Central & South America and the US through acquisitions and joint ventures.

Nevertheless, Bimbo is a first-class example of a Mexican company who perceived NAFTA as a good opportunity and with an aggressive M&A and through joint ventures strategy successfully penetrated the US market. Bimbo follows a more conservative approach in its financial management and prefers to reinvest its cash flow when expanding rather than taking on debt.

With more than 96,000 employees worldwide, Bimbo earned a net income of US\$319-million and consolidated sales of US\$ 6 billion in 2009. Has operations in North America, Europe and Asia.

Bimbo plans to become the world's largest bread maker by 2010. Its expansion into China in 2006 marked a major strategic step towards that goal.

Bimbo began internationalizing in the 1980s, starting with exports and operations in the United States, mainly to market its bread and snacks products to Hispanic immigrants. The company thus began expanding to seek new markets. Bimbo is also an asset seeker. Acquisitions have been strategically critical for its expansion into the United States and Europe. Bimbo's expansion into Latin America began in 1990 when it bought a small-sized bakery in Guatemala which, re-baptized Bimbo de Centroamerica, began producing and distributing bread, pound cakes, donuts and pastries under the Bimbo and Marinela brands.

The company's real Latin American expansion strategy, however, began in 1992 when it moved into Chile through the purchase of Alessa, a manufacturer of bread and snacks and Ideal. The next year, it acquired Venezuelan-based bread maker Panificadora to market its products under the Bimbo, Marinela and Holsum brands. And in 1994, Bimbo entered Costa Rica through an acquisition of the country's second largest bread maker.

In a very short period of time, Mexico has succeeded in positioning several of its companies among the ranks of the largest developing-country transnational. This is a sign from Mexico to world about the competitiveness and strengthens that a developing country can achieve for facing not only the challenges in domestic economy but also for facing the international competition from developed countries and their capacity for being one of the most important companies

around the world. Nevertheless, the government supporting in this internationalization process is necessary, the way for doing it is not through protection but through promotion, eliminating bureaucratic blocks and reducing the necessary days for starting a new business. Mexico has understood the importance of being in foreign markets, so had the Mexican Trans Latinos, but now the efforts of both government and companies have to be in one target: to prove that each Mexican Trans Latino can be a transnational corporation.

In 2009 Bimbo requested a credit for 2,300 million dollars for the acquisition of Weston Foods Inc., this is a significant event because when this funding was required, banks were very selective in this type of operation. Bimbo's global profile improved with the integration of this new company to its subsidiary operations called Bimbo Bakeries, in United States (BBU). This strategy consolidated BBU as one of the largest companies of its kind in this country (PODER, 2010b).

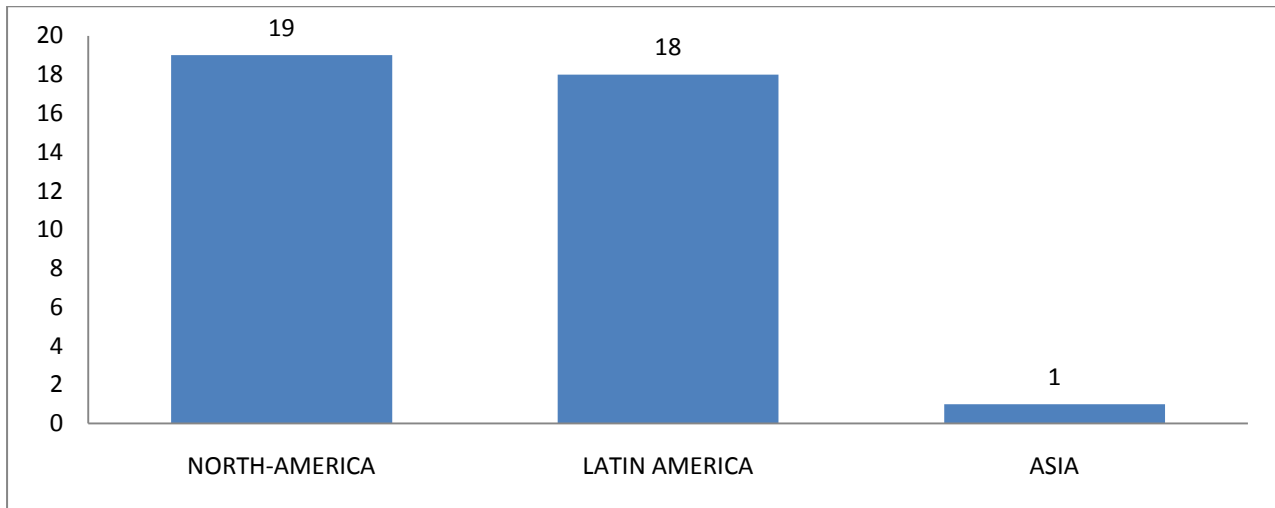
In China, the Company is pressing ahead with the consolidation by Mian Shi brand as well as the manufacture of food made with wheat. Under the scheme to bring all products to the customer's needs Bimbo has managed to grow and successfully introduced several innovations in the *know how* of the Company, with local ingredients such as red bean paste.

Bimbo's competitive advantage has been its consistency, quality and safety. All these have allowed the Company to have a significant progress which was reflected in the integration of operations between BBU East and BBU West that would allow the Company to leverage the platform in America by consolidating the manufacture, distribution and administration.

Bimbo's investments are concentrated in North America and Latin America, the first one has 19 plants while the second has 18. Although the difference between both regions is minimal, North America is the region where Bimbo concentrates its activities and that is the region that provides 78% of external income.

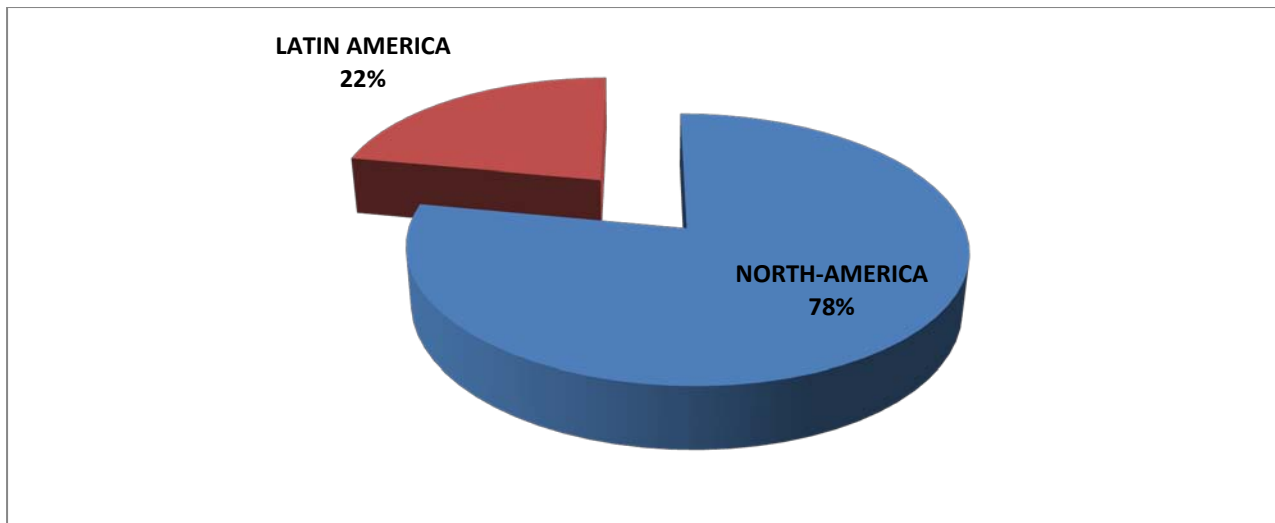


**Figure 8. BIMBO: Number of plants and businesses by region, 2009**



**Source:** The author, based on information from *PODER* (2010b).

**Figure 9. BIMBO: Regional participation in external income, 2009**



**Source:** The author, based on information from *PODER* (2010b).

## Conclusions

The economic reform applied in Latin America at the end of 1980s and the beginning of 1990s had two positive impacts: on the one hand this liberalization permitted the emerging of companies in the region and on the other the competitiveness of each country from Latin America grew up. One of these countries is México, an important developing economy that implemented the new economic policy and obtained the most important Trans Latin considered as a real

transnational company: Cemex. This liberalization is the first reason for which Mexican Trans Latin decided to invest abroad; the second is the limitations of growing at the home economy.

The recent increase in the number of Trans Latins that are investing abroad is an important achievement that any statistic can't deny; nevertheless if the Latin American economy wanted to exceed its own expectative, the region would need the government supporting but, as argued above, not trough protection but promotion. In this sense, Asia is the region with more investments in foreign markets and it is explained by the active government promotion, is necessary that both Latin America and Mexico take that experience as a good policy for increasing their international investment position. It is not enough to be concerned about the attraction of FDI, is time to see the foreign economies as a good opportunity for invest and of course, as a good opportunity to grow.

It is considered that government supporting for OFDI is not the best decision because in some developing home economies outward FDI from domestic sources could be viewed as a loss of financial capital that could have been used for investment at home. Nevertheless, an Outward FDI Project can benefit the home economy as well as the companies that are investing abroad, but is important to take a long term perspective.

The relative scarcity of natural resources, the need of lower production costs and acquire strategic assets are the drivers for OFDI from developing Asian countries, these drivers also include the sophisticated governmental promotion of these capital outflows in the form of currency regulations, institutional and financial support and, in some cases, direct support from organizations created for this purpose.

In Latin America and the Caribbean, investment is determined by the need to find markets for their raw materials and diversify their sources, macroeconomic instability (boom and bust cycles in internal demand, and currency instability), abortive experiences as foreign investors, the need to diversify risks, the rapid opening of domestic markets and the growth of outside competition owing to deregulation and privatization, and a far more limited supporting role for government.

Mergers & Acquisitions and market seeking are the most important forms for the Mexican Trans Latins for expanding their operations through Outward Direct Investment in the global economy.

These big companies are the argument for the international reinsertion of Mexico around the world.

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