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Mixed fortunes for Mexico's top firms

MEXICO

DR JORGE BASAVE KUNHARDT AND **DR MARÍA TERESA GUTIÉRREZ-HACES** DISCUSS THEIR LATEST PAPER, WHICH OFFERS INSIGHT AND ANALYSIS INTO THE PERFORMANCE OF MEXICO'S TOP 20 MULTINATIONALS

Illustration by John Holcroft

A survey analysing the performances of the top 20 Mexican companies in 2009 shows that those tied closer to Latin America fared better than those which primarily dealt with US businesses. The survey also highlights that the global slowdown hit construction and auto firms much harder than it did those in the telecoms and food sectors.

The Institute for Economic Research of the National Autonomous University of Mexico and the Vale Columbia Center on Sustainable International Investment, a joint initiative of the Columbia Law School and the Earth Institute at Columbia University in New York, have produced a second annual survey of Mexican multinationals. The survey is part of a long-term study of the rapid global expansion of the multinational enterprises of emerging markets. The report focuses on data for 2009.

In 2009, the 20 companies listed in the survey posted about \$117bn in foreign assets, \$63bn in foreign sales, and had 227,484 employees in their overseas operations. The top three firms on the list are building materials supplier Cemex and telecoms companies America Movil and Carso Global Telecom, which combined controlled \$86bn in foreign assets, accounting for 73% of the survey's total. The leading sectors in the survey are food and beverages (four companies), non-metallic minerals (two) and telecoms (two).

In keeping with the tradition in Mexican outward FDI, most of the investments were undertaken in Latin America and the Caribbean and in North America – specifically the US. These regions were followed in importance by western Europe, though outward FDI from Mexico is now also rising to prominence in China, India and Australia.

Drivers of outward FDI

The first outward investment cycle for Mexican business groups occurred in the 1970s, after several decades of expansion of the Mexican economy. During that decade some of the largest manufacturing firms in the country developed a broad strategy of purchasing domestic competitors inside the country and diversifying their businesses, which in some cases included the acquisition of banks and other financial companies. They also embarked on a process of internationalisation through exports and investment abroad.

This investment cycle during the 1970s coincided with that of several developing economies with high growth rates during that and the preceding decade. Other developing countries with important outward flows in the 1970s were Hong Kong, India, Singapore, Brazil and Argentina.

The peculiarity of the Mexican case was that, while in the other economies outflows went into countries with common borders and/or similar or lower levels of economic development, a good part of Mexican investment abroad was undertaken as south-north investment, in a country that was both much bigger and much more developed: the US. These flows were abruptly cut off with the foreign debt crisis of the 1980s. Companies even divested all their foreign assets as part of a policy to strengthen their finances.

The second foreign expansion cycle occurred at the beginning of the 1990s, following (and feeding) the Mexican export boom. Those involved were the country's largest business groups (as they had been in the 1970s) and, in several cases, also the oldest, with the history of some dating back to the first quarter of the 20th century or earlier. This second expansion, which is still continuing, has taken place mainly through cross-border acquisitions and the main target areas have been Central and South America and, again, the US.

Some of the investments in the US, such as those undertaken by food and TV programming companies, have taken advantage of the market niches opened up by the growing Latino population in that country. In the case of investments by steel, auto parts, and glass manufacturing companies, their links with multinational auto and beverage companies located in the US and South America have been decisive.

Liberalisation catalyst

The growth in Mexican outward FDI occurred following the liberalisation of the Mexican economy, along with that of all the other Latin American economies, and has been steady, with the exceptions of the crisis years of 2001 and 2008. The opening of the economy also brought along with it a spectacular increase in inward flows and stock.

Mexico, similar to most developing countries, has linked its policy on foreign investment inflows to its economic development goals. While the government has developed policies designed to attract and promote inward investment in the country, it has made few such efforts to promote outward investment by Mexican companies. Since 1986, the Mexican government has focused its efforts on promoting exports, with the result that its economic strategy has leaned toward negotiating instruments such as the North American Free-Trade Agreement, or Nafta. The priority has been foreign trade, not investment abroad.

The expansion of Mexican multinationals can thus be attributed more to their efforts to compete in the global economy, to increase their competitiveness in the Mexican internal market, and to take advantage of the opening of the economies south of its borders – rather than to any specific policies on the part of the Mexican government.

The effects of the world crisis were very severe in 2009. The Mexican economy, due to its trade dependence on the US economy and other structural deficiencies, was the most affected among the larger countries in Latin America.

The impact of the crisis on Mexican multinationals has varied greatly, depending on the industries they operate in. It has also varied according to their location.

Thus, for example, the impact was felt less keenly by companies with their assets mainly in Latin America, which has been one of the regions least affected by the crisis, than by companies that depend on recovery in the US market, as is the case for those with activities related to construction. The outlook for these firms is the most uncertain.

In 2009, Mexican outward FDI flows were fed primarily by an expensive international acquisition by bakery Bimbo and the exceptional investment made by Grupo Mexico to recover its subsidiary Asarco. But the uncertainty over a possible lengthening of the recession fed by the crisis could lead to the spread of a much more conservative investment attitude of the kind exemplified by one of the leading Mexican telecoms multinationals, America Movil.

As a result of the crisis, in 2009 the total sales of the 20 companies included in the survey fell 2.2% in relation to the previous year, but if state-owned oil enterprise Pemex is excluded to avoid the distorting weight it represents in the aggregate data, the result is not negative but a 9.2% increase.

A more precise analysis can be obtained by observing the individual performances of the multinationals, which vary considerably, depending on their industry. As noted earlier, 40% of the 20 companies experienced a reduction in total sales and 40% also saw their foreign sales decline (although this did not always involve the same firms).

The companies most affected are in sectors tied to the construction industry (Cemex, Industrias CH, Xignux and Vitro), in mining (Grupo México), in oil (Pemex) and in autos and auto parts (San Luis Corp and ALFA's automotive division). In the case of Cemex, a global company that offers services and products in more than 50 countries and that is the third largest in the world in cement and clinker sales, it should be noted that in 2009, as in 2008, the company had to divest foreign assets, specifically its operations in Australia,

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which it sold to the Holcim Group.

Cemex indefinitely postponed a bond placement for $500m until market conditions turn more favourable. The company – which has faced large losses in Venezuela following the expropriation of its plants – also began talks with its main creditor banks to restructure $14.5bn in debt. Thanks to its corporate strength, Cemex has managed to deal with international lawsuits filed against it in Poland, the US and Spain.

Perhaps what transpired in 2009 in relation to Cemex tells us that the geographical expansion of Mexican companies should be conducted more cautiously in the future, in the light of the manner in which governments are reacting to the role of foreign companies in increasing market concentration.

Avoiding the crisis

The crisis had no major effect on companies in telecoms (America Movil and Carso Global Telecom) or on those in the food and beverage business (Femsa, Bimbo, Gruma and Accel), which increased their total and foreign sales. The most noteworthy cases were those of the latter four companies, which boosted their total sales with regard to the previous year by 24%, 50%, 19% and 75%, respectively, and increased their foreign sales by 47%, 120%, 22% and 97%, respectively.

Nevertheless, in response to the crisis, America Movil adopted more conservative policies and reduced the pace of its expansion, as evidenced by its merger and acquisition and greenfield investments. ■

The survey's authors, Dr Jorge Basave Kunhardt and Dr María Teresa Gutiérrez-Haces, are senior researchers at the Institute for Economic Research at the National Autonomous University of Mexico. The full report is available online at www.vcc.columbia.edu/files/vale/documents/EMGP-Mexico-Report-2010-Final-08_Dec_10.pdf