Introduction

The wealth of nations is experiencing an unprecedented transformation. With the new millennium, emerging markets have gained economic prominence and become motors for growth. In contrast, the OECD countries plummeted with the crisis that broke out in 2008. Since then, we continue to witness the progress of the emerging countries with awe; meanwhile the European economies remain immersed in a deep crisis.

In 2013, the bulk of global growth will no longer come from the OECD countries, but from the emerging markets. And this will not change radically throughout the present decade. The Banco Bilbao Vizcaya Argentaria (BBVA) anticipates that the EAGLEs, the ‘emerging and growth-leading economies’ – that is, the emerging economies that lead global growth – will be responsible for half of the global growth over the next ten years, whereas the G7 will only contribute 30% of the growth.[1] Standard Chartered, however, predicts that by 2030 more than two-thirds of global growth will come from emerging markets and these will continue to benefit from the super cycle of raw materials. China will contribute to most of this growth (22%), followed by the European Union (15%) and the United States (14%). All of Latin America will make a contribution to global growth comparable to India (9%), followed by Central Asia (4%), the Middle East (5%) and Africa (5%).[2]

[1] See www.bbvaresearch.com/KETD/ketd/esp/nav/eagles.jsp; and in particular, the presentation made by Alicia García Herrero at ESADE Business School, in Madrid, in 2011: www.bbvaresearch.com/KETD/fbin/mult/110214_BBVA_EAGLES-ESADE_tcm346-246602.pdf; and BBVA, *Who Are the Eagles? Driving Global Growth for the Next Ten Years*, Madrid and Hong Kong, BBVA Research, February 2011.

[2] See Standard Chartered, *The Super Cycle Report*, London, Standard Chartered Global Research, 2010. Available at www.standardchartered.com/media-centre/press-releases/2010/documents/20101115/The_Super-cycle_Report.pdf.

The new economic and financial balance does not always lead to an identical transformation in terms of prosperity. The Legatum Institute reminds us of this in an index that measures not just wealth but also development and prosperity. Although China and Brazil are already economic superpowers, they only hold positions 58 and 45 respectively in this ranking, behind Singapore (17) and Chile (32). In Latin America, Uruguay stands out at 28.[3] Although China caught up with Japan in 2010 as the second largest economy in the world, this emerging market is lagging far behind Japan in terms of development, and is forty positions behind Japan in the Legatum Institute ranking. Moreover, although Brazil exceeded Spain in economic terms in the year 2010, it is twenty-two positions behind in the Legatum ranking.

This new balance is incomplete and it will take years to close some of the gaps. However, in many areas, changes are taking place at a rapid rate. This is especially true in the area of business and two symmetrical movements can be observed.

Firstly, multinationals in the OECD countries started making investments and aggressive bets on emerging markets. This was the case, for instance, of the Spanish companies that went international – many of them through Latin America – and in the process became multinationals. This phenomenon was not isolated: the 600 main OECD companies listed in the Dow Jones increased their exposure to emerging markets on average from 9% to 20% of their total revenue between 1990 and 2010.[4] Companies such as Unilever or Telefónica generated in 2012 half of their income in emerging countries; others already have a totally ‘emerging’ DNA, such as the ‘British’ bank Standard Chartered or Vedanta (obtaining 71% and 85%, respectively, of their income from emerging countries). Goldman Sachs analysed this phenomenon in detail by examining the fifty largest companies with activity in emerging countries and found that an average of 30% of

[3] See www.prosperity.com/rankings.aspx/. This institute forms part of the initiatives promoted by Legatum, an investment fund based in Dubai which also donated $50 million to establish an innovation and development centre at MIT. See www.legatum.mit.edu/. It also developed a venture capital fund for developing countries, called Legatum Ventures. See www.legatumventures.com/.

[4] See Schroders, *Emerging Markets Investments: Exploding the Myths*, London, Schroders, 2011. Available at www.schroderstalkingpoint.com/?id=a0j50000000u972AAA; and Schroders, *What is the Best Method of Gaining Exposure to Emerging Markets? Exploding the Myths*, London, Schroders, June 2011. Available at www.schroderstalkingpoint.com/files/Exploding%20the%20myths%20Jun%202011.pdf.

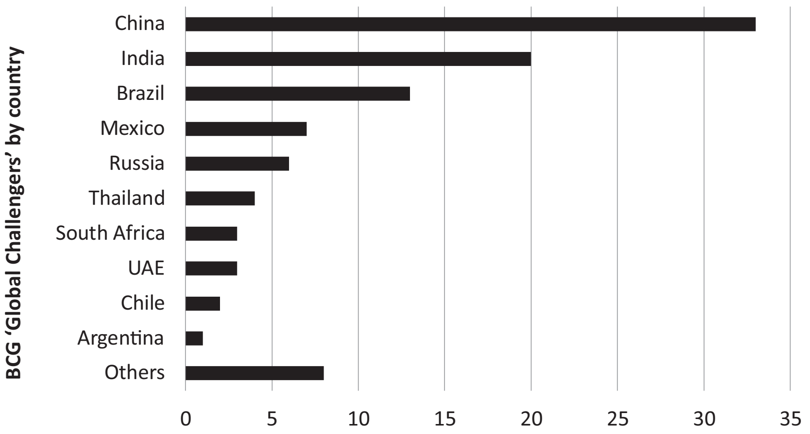


Figure 0.1 The most important emerging multinational companies (by country).
Source: BCG, 2011. *Note:* 'Others' includes Egypt (1), Hungary (1), Malaysia (1), Saudi Arabia (1), Indonesia (2) and Turkey (2).

their sales or income already come from these economies.[5] All of these companies significantly increased their international exposure: today the top 100 companies in the FTSE obtain 70% of their income from outside the nation where their headquarters is located. At the same time, these firms have also globalised their production and supplier centres, particularly in the emerging countries: 94% of the components and labour costs involved in creating the Apple iPhone come from outside the United States.[6]

Secondly, the multinationals from emerging markets began an accelerated course towards other markets, many of them also emerging, and also moved towards the OECD markets (Figure 0.1). As the emerging economies, headed by China, India and Brazil, began to make their way onto the world stage, their companies started globalising and making an increasingly large place for themselves on the international business stage. These companies have tended to perform better than their OECD counterparts who invested in emerging

[5] See Goldman Sachs, *Revisiting our BRIC Nifty 50 Baskets*, New York and London, Goldman Sachs, May 2010.
[6] See Schroders, *Fragmentation in the Global Village: The Paradoxes of our Increasingly Connected World*, London, Schroders, 2011. Available at www.schroderstalkingpoint.com/files/VMaisonneuve%20Fragmentation%20in%20the%20Global%20Village.pdf.

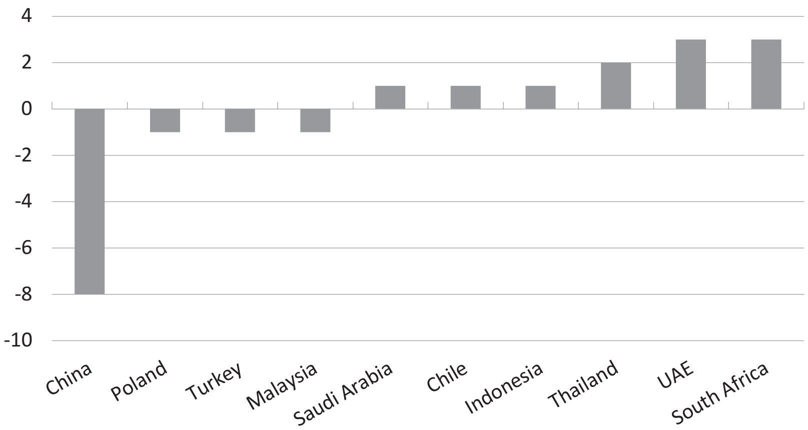


Figure 0.2 Change in the number of companies in the BCG index, 2011–2008.
Source: BCG, 2008 and 2011.

markets and boast share returns of nearly 470% between 2001 and 2011, compared to 130% for their counterparts in the OECD.[7] The story of the emerging multinationals is just starting. It is very likely that by the end of the present decade many of these multinationals will have strengthened their positions as leaders in each of their sectors, including technology – as we will see.

The rise of the multilatinas that we will be analysing in detail is, therefore, part of a wider phenomenon that includes the emerging multinationals in their search for expansion. The Boston Consulting Group (BCG), in its most recent report on the top 100 emerging multinationals, entitled 'Global Challengers', points out that this phenomenon is massive. Today, a total of sixteen countries have multinationals among the 100 main multinationals identified by BCG.[8] Asia dominates, with China and India accounting for a total of fifty-five companies. To these, we must add another seven companies from Indonesia, Thailand and Malaysia. Emerging Asia represents nearly two-thirds of these multinationals (Figure 0.2).

[7] See www.schroderstalkingpoint.com/?id=a0j50000000u972AAA.
[8] See BCG, *BCG Global Challengers. Companies on the Move: Rising Stars from Rapidly Developing Economies Are Reshaping Global Industries,* Boston, BCG, 2011. Available at www.bcg.com/documents/file70055.pdf.

However, the phenomenon is not only Asian. Multinationals have also emerged in Africa, Turkey and the Middle East (eleven). Latin America accounts for a formidable twenty-three multinationals, mostly from Brazil and Mexico, but also from Chile and Argentina. In addition, BCG created a separate category for *emeriti* – that is, companies that already resemble their OECD counterparts – which are five in total, including two from Latin America: Vale and Cemex. Latin America now accounts for one in every four emerging multinationals.

The BCG list is questionable, like all exercises of this type. For instance, no multinational companies from Singapore, Korea or Taiwan are included – and all of these countries have world champion firms. In addition, the ranking by country can vary. For example, in the case of Chile, there is no mention of Cencosud, which should be alongside Falabella. Also not included in the ranking is Colombia, which may have multinationals on this scale. In any case, these details have no bearing on the core message: we are witnessing an unstoppable and unprecedented progress of these multinationals. In the first edition of this report in 2006, there were only fourteen countries with ranked multinationals. In addition, China and India dominated even more so, accounting for sixty-three multinational companies in the ranking. Since then, this number has fallen, particularly for China. Meanwhile, Latin America has progressed: in 2008, there were only twenty-one Latin multinationals; yet by 2011, there were already twenty-five (if we add the conglomerates Vale and Cemex). Argentina continues to have just one company in the ranking (Tenaris); however, Chile has doubled its number of companies in the ranking (in 2011, there were two: Falabella and LAN; in 2008, there was only one: CSV). As for Brazil and Mexico, they continue to boast fourteen and seven, respectively. Some have changed: in 2011, Mabe and Mexichem made their way into the ranking for Mexico, and Magnesita and Brasil Foods for Brazil (the latter company results from a merger of two companies that were in the ranking in 2008: Sadia and Perdigão).[9]

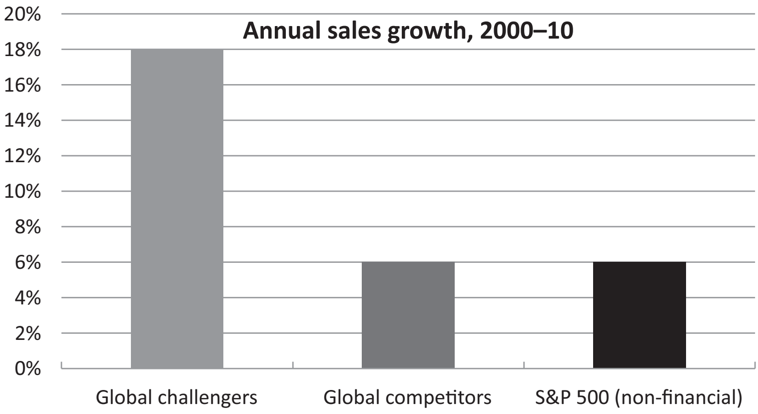
BCG estimates that in 2020 these *global challengers* will generate $8 trillion, that is, the equivalent to what is generated today by the

[9] See BCG, *The 2008 BCG 100: New Global Challengers. How Top Companies from Rapidly Growing Economies Are Changing the World*, Boston, BCG, 2008. Available at www.bcg.com.cn/export/sites/default/en/files/publications/reports_pdf/New_Global_Challengers_Feb_2008.pdf.

500 main OECD multinational companies represented in the S&P 500 index. In the Fortune 500, the number of emerging multinational companies has skyrocketed, multiplying by nearly five over the past decade (up from twenty-one to ninety-two). In the Forbes 2000, the number has also tripled; there were nearly 400 emerging multinational companies in this ranking in 2010. The United States has lost the most relative weight, and emerging countries have gained a larger presence. Throughout the decade 2000–10, income from these companies has grown an average of 18%, or three times more than their OECD counterparts in the S&P 500, while still maintaining margins (Figure 0.3).

This progress has meant an unprecedented process of business consolidation and internationalisation. These companies no longer aim just to take control of competitors in domestic markets or neighbouring markets. Over the decade 2000–10, emerging multinational companies carried out 60% of takeovers in developed countries. Takeovers in OECD countries were on average valued at more than $550 million, more than the average of the acquisitions carried out in emerging markets ($340 million). The appetite and investing capacity of these multinational companies, including the multilatinas, have spilled over from their immediate regions and become a more global process. It was shown in 2000 by the mega operations of Cemex (when taking over an Australian company), of Mittal (taking over a French company) or of Lenovo (buying an American company), that no OECD market can resist their appetite.

The focus on OECD countries has intensified with the crisis of 2008–12. The emerging multinational companies have taken advantage of the weakness of their OECD rivals to carry out mergers and acquisitions (Figure 0.4). More than 70% of operations since 2010 have been concentrated on acquiring rival companies in OECD countries (compared to 60% during the previous two years). Although this activity was reduced in 2009 owing to the effect of the crisis, in 2010 the emerging multinational companies started taking over firms at a rate similar to the pre-crisis year (2008 was a record year with 135 transactions). Brazil and Mexico provide excellent examples of this phenomenon and we will later examine these in depth. Everything pointed to 2010–12 being another year of strong investment by these multinationals, as indicated by the data we analysed for Latin America, and which we will also delve into in the following chapters.



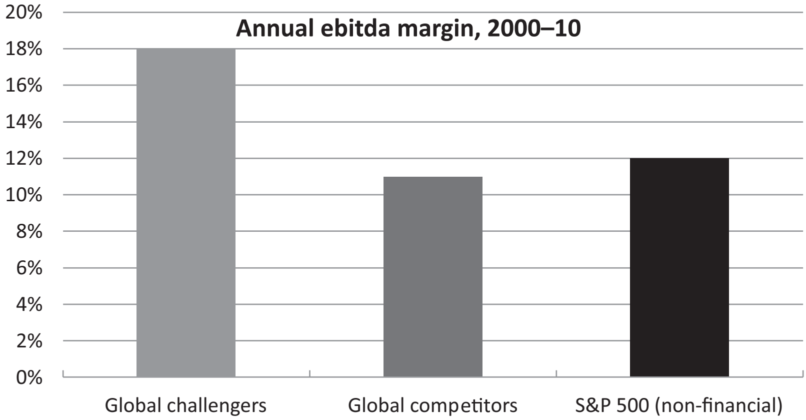


Figure 0.3 The emerging multinational companies: world champions, by sales and margins.
Source: BCG, 2011. *Note:* 'Global competitors' refers to multinational companies based in advanced economies that operate in the same industries as the 'global challengers'.

Therefore, the history of the multilatinas is not an isolated adventure. In the first chapter, we will see how it is framed within a broader phenomenon linked to the progress of the emerging economies, and in particular those of Latin America.

This growth is not limited to Brazil, the Latin variable of the BRICs (a term used to describe Brazil, Russia, India and China) that has gone from being a promise for the future to becoming a present power.

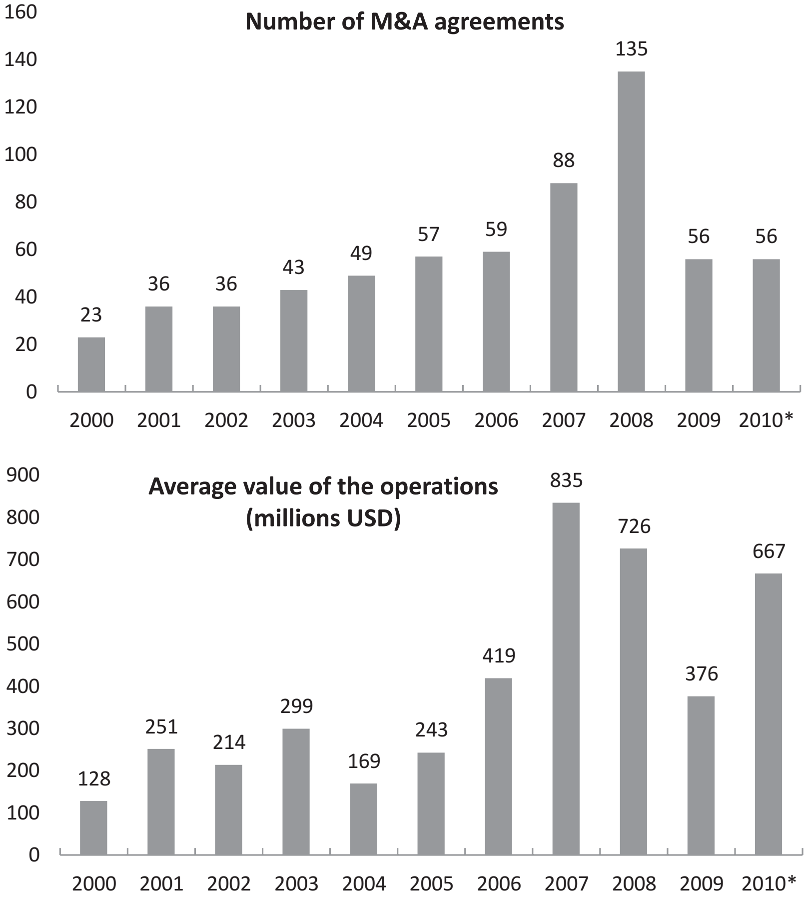


Figure 0.4 Cross-border mergers and acquisitions (M&A) by global challengers, 2011.
Source: BCG, 2011. Note: Data referring to operations with public information. *Until August.

Growth is now extending to other economies on the continent, which are 'graduating' one after the other, and becoming members of the OECD club of countries (such as the case of Mexico in 1995 and Chile in 2010); or are obtaining investment grade rating (more than 80% of the Latin American GDP in 2012), the most recent nations to obtain this rating being Peru and Colombia.

This economic progress has led to business development, as we will see in Chapters 2, 3 and 4. Although the decade 2000–10 witnessed the emergence of several multilatinas that tended to invest mostly in the Americas, in the decade 2010–20 these firms are already exploring new European, Asian, African and Arab markets. Growth in the Americas in the previous decade is now being followed by globalisation. As a result, the decade 2010–20 is that of the multilatinas, with a large role for Brazilian companies (Chapter 3), as well as for the Mexican, Andean and Argentinean firms (Chapter 4). It is also important to stress that the pioneers, the very first multilatinas, were from the Spanish-speaking countries (Argentina in particular), which went abroad much earlier than their Brazilian counterparts. Nevertheless, Brazilian firms are the ones now making the greatest inroads.

We will see in Chapter 5 that this progress is not solely restricted to the sectors of raw materials or the agricultural-industrial sectors. Some multilatinas are already making waves in the field of technology. The major rebalancing of the world towards emerging countries is not only economic and financial, but will also be technological. In this sense, the great business challenge of the continent will be to retain a hold on the technology launched at great speed by the Indian and Chinese growth drivers. The development of venture capital and Latin American startups is encouraging and could lead to a future with more 'Multilatinas 2.0' (IT, software, telcos, startups from Latin America), or who knows, with the emergence of a Latin Facebook in the future.

In this journey towards more value added industries, the path of Latin America will be bumpy: the rules of the game are not (yet) written, but the challenges abound, one of them being precisely also the major event that has boosted Latin American economic development since 2010: the rise of China. As we will stress in Chapter 6, this is a major event for the region. It is both a blessing and a challenge. The rise of Latin American exports is linked to the rise of China, and of Asia more widely. The increasing ties between both regions are good news, but they are also challenging. Multilatinas find new markets for their products in China and Asia, but these markets are commodity related. At the same time multinationals from China are becoming stronger competitors for manufacturers of the region. In this context, for Brazil and other Latin countries, climbing the value chain and also being a technological and innovative powerhouse will require an industrial rebalancing of relations with China. The rise of China now goes well beyond trade; it also involves investments. China has become one of the largest foreign direct investors in the region since 2010. This new entrant now competes with US and Spanish traditional heavyweight investors in the region. More than ever the landscape is changing for traditional Western investors.

At the same time, multilatinas are on the rise, creating new challengers. The progress of the multilatinas invites us to rethink relations with Europe, and particularly with Spain, which is an aspect that we will touch on in the final chapters (7 and 8). Given this dynamic, we can soon expect to see some of these multilatinas emerge with a strong presence in Europe. This could represent an opportunity which could become the platform for entrance into Europe for the multilatinas (and Latin American startups). Petrobras is looking for partners in Europe; the Brazilian banks are eager to open beyond Brazil's borders; and in Chile and Mexico, many companies need or aspire to diversify their markets. For now, these firms are exploring opportunities in Lisbon, London or Paris. Why not imagine, however, that, just like the Mexican Cemex or the Brazilian Gerda in their day, these companies locate themselves in Madrid, Barcelona or Bilbao?

The progress of the emerging countries, and the multilatinas in particular, represents a challenge and an opportunity. Without a doubt, the privileged business relations that Spain has managed to weave in the past with Latin America are a solid foundation. It will be necessary to rethink relations with the continent and open its investment opportunities, as Latin America did with Spain in the past. In the end, the world that is emerging is a more balanced world. The unilateral relations of the past (Spain investing in Latin America) have ended, giving way to bi-directional relations (Spain continues to invest in Latin America, but the multilatinas also invest in Europe). Indeed, this new world is an opportunity, a bias for hope.