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Andrés Gaudán

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Multilatina Growth Shows Corporate Strength in Brazil, Argentina

by Andrés Gaudín

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In a crisis in which conservative sectors have turned the governments of the two largest South American economies—Brazil and Argentina—into targets to destroy, academic studies have begun to circulate in the region, highlighting the role that multinationals—called multilatinas—have had in the development of the national economies in both countries.

Brazilian President Dilma Rousseff and her counterpart Argentine President Cristina Fernández de Kirchner weren’t the architects of the birth and consolidations of these companies. Nevertheless, through active diplomacy, their governments have protected the firms and helped keep them riding the crest of the wave.

Rousseff, who has governed since 2010 and in January began her second term, is one of the supporters of the BRICS (Brazil, Russia, India, China and South Africa) group of emerging nations, precisely the cradle of the multinationals with the greatest global presence and state-of-the-art activities. Fernández de Kirchner, who has governed since 2007 and is ending her second and last constitutional term in December, has just signed a package of agreements in China that will allow Argentine multinationals to enter a place they never would have imagined: to participate in a major public-works plan and, at the same time, access the largest market in the world with their own products.

Based on statistics from the regional magazine América Economía that indicate that, of 50 leading multilatinas, 12 Brazilian and five Argentine companies stand out, María Inés Barbero, a researcher at the state Universidad de Buenos Aires (UBA), said that this group of companies merits special study. A look at the 17 shows that, in nearly all cases, these firms were acquiring skills throughout their histories, and by the time they began foreign-investment plans, they already had reached competitive levels to position them in respective internal and regional markets. In almost half the cases—Brazilian companies Vale, Petrobras, Weg, and Embraer and Argentine companies Tenaris/Ternium, Impsa, and Bagó—the companies conducted research and development that resulted in important technological innovations.

In its annual Multinacionais Brasileiras edition, the specialized newspaper Valor Económico highlighted a specific accomplishment: the Brazilian multilatinas have developed research activities in partnership with state universities. The manufacturer of electric motors Weg also maintains technological exchanges with universities in the US and Germany.

The Argentines, in contrast, have used alliances with other multinationals, usually those with whom they do joint projects. A case in point is the metallurgical firm Impsa that has developed major engineering projects, hydroelectric plants, and ports with technology provided by firms in Germany and the former Soviet Union. Or the case of the steel firm Tenaris/Ternium that since its inception has had private technical assistance from Italy. The pharmaceutical firm Bagó, also Argentine, is the only one of this group of 17 firms that has developed its own investment strategy from the beginning.
Of the 12 Brazilian multilatinas, the three with the greatest size and global presence have another common characteristic: all three began, developed, and consolidated as state-owned enterprises. The mining firm Vale, oil company Petrobras, and airplane manufacturer Embraer were turned over to private capital between 1994 and 1998—except for Petrobras where the state retained a majority stake—during the neoliberal privatization fever of the 1990s (NotiSur, April 23, 1987, April 4, 1991, April 16, 1991, and May 14, 1991).

Among them, Barbero said, Embraer is a paradigmatic case of a Latin American technological firm that competes with Canadian Bombardier for third place in the world ranking of aircraft manufacturers. From the time it was created as a state enterprise in 1969 and through its privatization in 1994, it focused efforts on product and process innovation. It began production in the 1970s in cooperation with foreign partners via coproduction accords and licensing and today leads a complex chain of external suppliers.

Research shows that multilatinas first entered the top 100 global multinational list published in the World Investment Report of the UN Conference on Trade and Development (UNCTAD) in 1999, and nine were listed by 2011. A look at history recalls that transnationals, as such, emerged on a global level at the end of the 19th century, during the first globalization and expanded beginning in the postwar period following World War II (from 1950 on). They have been establishing their current profile since the last two decades of the last century.

During these phases, the most developed firms in Latin America still didn't participate in the select group that distributes access and dominance in global markets and sets the rules of the game. It was only in the last decade of the 20th century when multinationals from emerging nations took shape, with strong Asian dominance (Hong Kong, Taiwan, Singapore, and South Korea) early on. An incipient presence was then observed in Brazil, Argentina, Mexico, and Venezuela that in some cases has now collapsed.

**Trade opening, deregulation, privatization**

In emerging countries, policies of trade opening, deregulation, and privatization of state-owned enterprises imposed in the 1990s "resulted in more competitive scenarios, which, in turn, prompted offensive strategies by local companies to compete with the advance of multinational firms into their domestic markets," said Barbero (NotiSur, Jan. 30, 1992). The UBA researcher pointed out that many companies from emerging economies "were forced to adopt innovative strategies that included internationalization," deepening trends that began to develop or starting an expansion beyond national borders.

Regional integration experiences, such as the Southern Cone Common Market (MERCOSUR), acted as factors in multinational external expansion (NotiSur, March 3, 2000). Today, in a world that seemed so far away back in the 1950s, Latin American companies are playing world leadership roles in mining (the Brazilian Vale), the cement industry (Mexico’s Cemex), steel (Brazil’s Gerdau and Tenaris/Ternium of Argentina), oil (Brazil's state-private Petrobras), and food (Brazil’s Jbs Friboi for meats and Argentina’s candy producer Arcor).

Economists at the private Universidad de San Andrés (UdeSA) in Argentina, who were quoted in the Buenos Aires business daily Buenos Aires Económico, said the rise of direct investment originating from the emerging economies of Latin American in the past 20 years was boosted by favorable international and domestic factors. In the external context, the multilatinas benefitted
from the liberalization of the exchange of good, services, and capital within the process of globalization.

As for the domestic context, researchers added, Latin American countries implemented reforms that led to liberalization and deregulation of their markets, an unlimited opening of the economies, and the privatization of the best and most profitable state-run enterprises. In some countries these changes were accompanied by the development of local capital markets (such as the Chilean model, hand in hand with the major capitation of resources from the privatization of the retirement system) or from the supply of public credit to support expansion of leading companies (Brazil with the governments of neoliberal President Fernando Henrique Cardoso [1994-2002] and ex-Marxist President Luiz Inácio Lula da Silva [2002-2010]).

In parallel with liberalization and economic opening, free-trade agreements were set up such as MERCOSUR and the North American Free Trade Agreement (NAFTA) [SourceMex, Dec. 4, 1991, Feb. 5, 1992, and Nov. 10, 1993].

Opportunities and challenges of structural reform

Barbero points out that globalization and structural reforms meant opportunities as well as challenges for Latin American companies and added that the stabilization of local economies and the resumption of the growth cycle involved the revival of demand, credit, and investment. Privatization of public companies, meanwhile, offered private firms the possibility of gaining access to sectors previously reserved for the state and freed them from a major competitor, acquiring public companies they previously had competed against. At the same time, Barbero added, the internal markets became much more competitive and attractive for expanding multinational firms within the context of globalization.

Barbero then cites UNCTAD to show that average annual foreign investment in Latin America and the Caribbean jumped from US$20.2 billion in 1995 to US$100 billion in 2007, reaching an unimaginable US$188 billion in 2013, the latest year with available data. The various analyses on the topic agree that the massive entry of multinationals into the region implied the sale of the best and most traditional local firms, but at the same time it meant the consolidation of Latin American companies, the multilatinas, that were capable of competing with the major global players in both internal and international markets.