Thursday, March 11, 2010

Mexican Multinationals: Outbound FDI Grows

Mexican outbound foreign direct investment has been growing -- even durting during the global crisis last year.

BY JERRY HAAR AND DEBORAH RINER

With a population exceeding 112 million, a GDP per capita over $13,000--more than double that of China—and preferential access to the U.S. and Canadian markets, Mexico is one of the most dynamic emerging markets. (One could make the compelling case that the BRICs should be renamed the CRIMBs, to account for Mexico's prominence.)

While it is true that the global economic recession severely impacted Mexico, given its exceedingly large, integrated trade relationship with the United States, the outward bound foreign direct investment of Mexican multinationals has displayed a remarkable resilience. In the first nine months of 2009, Mexican FDI (Foreign Direct Investment) reached $5.4 billion. During the last eight years—from the time official statistics were gathered and analyzed in-depth, Mexican FDI averaged $4.0 billion a year. Not even the global financial downturn has stopped the outward expansion of Mexican firms: between the fourth quarter of 2008 and the third quarter of 2009, Mexican FDI totaled $6.02 billion.

Three distinct characteristics capture the dynamics of the creation and growth of Mexico's multinationals. First, Mexico's multinationals emerge from the private sector. Some are listed; others are privately held. Unlike Brazil, state-owned companies have remained in Mexico rather than venture abroad. Second, unlike Mexican exports, Mexican FDI has not focused on the U.S. market. Third, when Mexican firms have expanded abroad, they have moved into markets where they could take advantage of special expertise or brand identification.

GENESIS

The genesis of Mexican FDI may be found in the expansion of Mexico's giant private sector firms, companies that enjoy quasi-monopolistic positions in their domestic market. In the first eight years of this decade, Mexico's GDP grew at an average annual rate of 1.8 percent. Faced with a slowly growing domestic market, these giant firms did not have much opportunity to grow their business in the domestic market. What options were open to firms that wanted to grow? They could diversify into new businesses in Mexico. Or, if they wanted to grow their existing business lines, they had to expand abroad. Adopting the first option exposed the successful company to the dangers of taking on competition in unknown business lines. The second option held out the possibility of becoming a world class player in a business the company already dominated. And that was the choice taken by the giants.

The global reach of Mexican firms is impressive, with investments in Latin America, the United States, Australia, Europe, India and China. Since the Mexican government does not compile statistics on the destinations of Mexican FDI, it is difficult to identify the specific countries in which Mexican firms invest. However, non-official information and statistical reports indicate that Latin America has been a favored destination for Mexican multinationals. The locales of Mexican FDI apprears to be driven by the market strategies of the companies that are investing. Mexican firms have made both acquisitions and green field investments. Judging by the publically available information, acquisitions, such as Grupo Mexico's purchase of U.S.-owned Asarco, seem to be more prevalent but hard data is lacking.

NAME RECOGNITION

Mexican multinationals invest in the businesses they know. Grupo Carso, billionaire industrialist Carlos Slim's conglomerate, invests in telecommunications; Cemex, in cement; the Alfa companies in autoparts; Grupo Mexico, in mining; Femsa and Modelo in beverages; Gruma, Bimbo and Lala, in tortillas, bakery goods and milk, respectively; Grupo Salinas in financial services and media; and Cinepolis, in movie theaters. Their foreign investments often take advantage of their knowledge of how to operate in developing countries and of name recognition. Dealing with the challenges posed by distribution networks is an example of the former. Examples of the latter are the U.S. Hispanic market and the identification of "tortillas" with Mexico.

The opening of the Mexican economy has not been a one-way phenomenon. At the beginning of the decade, Mexican FDI was a small fraction of the FDI that came into the country. In the middle years of the decade, when inexpensive financing was easily available from the international financial markets, Mexican FDI represented a significant percentage of incoming FDI. In the first nine months of this year, Mexican FDI represented an astounding 55 percent of incoming FDI, testimony to both the drop-off of FDI in the country and to the ability of Mexican multinationals to move ahead, regardless of the weak economy.

TWO-PRONGED STRATEGY

In February, Mexico's government raised its estimate for 2010 economic growth, citing signs of recovery in internal and external demand after the country's biggest slump since the Great Depression. Gross domestic product is expected to rise 3.9 percent in 2010, an increase from a previous forecast of 3 percent, according to the Mexican Finance Ministry. A forecasted 20 percent rise in auto production in Mexico along with the 15 percent decline in the peso over the past three years will keep Mexican exports competitive and contribute to domestic recovery.

Mexican multinationals will be poised to pursue a two-pronged strategy---responding to increased domestic demand as the local economy recovers and seizing global market opportunities as the world economy emerges from recession. One should expect Mexican FDI to increase significantly both within and outside the Western Hemisphere and across a range of sectors and industries.

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