

## EMERGING PHONAMONAS FOR MULTINATIONAL ENTERPRISES IN MEXICO

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**Abstract—** This paper is aimed to analyze the rise of New Mexican emerging multinational enterprises (MexEMNEs) into the global market.

**Keywords-component;** Mexican emerging multinational enterprises, performance, strategies.

### I. INTRODUCTION

Mexico had been host economy for multinationals from developed countries. Foreign policy entered México when this country changed trade policy from an economic model of import substitution to an export oriented strategy model. Trade liberalization policy has changed the behavior of large Mexican firms providing incentives to internationalize their activities. The Mexican emerging multinational enterprises (MexEMNEs) are involved in broader processes of economic globalization of Mexico post-NAFTA (North American Free Trade Agreement). After 15 years of the implementation of NAFTA, Mexico has become the 12<sup>th</sup> largest economy of the world and one of the leading world exporters in manufacturing goods.

There is a growing interest in the study of these emerging multinationals among scholars. Several theoretical perspectives are reviewed which can give an explanation of the emergence of Mexican multinationals and support their expansion in overseas markets. Then, it is analyzed the strategies these multinationals implement and their performance and in doing so, several profiles of MexEMNEs are described and examined. Finally, it is concluded that the survivor Mexican firms of this process of “creative destruction” have transformed into capable and innovative MNEs in order to look and move ahead and take advantage of the challenging new opportunities.

### II. THEORETICAL PERSPECTIVES

Various social sciences have contributed to study multinational enterprises in emerging economies. Conventional theories of economics and modern theories of multinational enterprises have not predicted the emergence of large new multinationals from emerging economies (Wells, 2007). Research on new emerging multinational

enterprises began in the eighties when they still represented a minor threat to the traditional multinationals, which simply ignore the rise of these new global business corporations.

The multinationals enterprises (MNEs) originating from emerging economies have been referred as “Third-world multinationals” by Wells (1983), “latecomer firms” by Mathews (2002), “unconventional multinationals” by Li (2003), “Challengers” by BCG (2008), “emerging multinationals” by Accenture (2008), “new multinationals” by Guillén and García-Canal (2009) and “emerging market multinational enterprises” (EM MNEs) by Luo and Rui (2009). However, the semantic of these terms are confusing the debate although may be other that may describe better the phenomena.

### III. CHARACTERIZATION OF NEW MEXICAN MULTINATIONAL ENTERPRISES (MEXMNEs)

New Mexican emerging multinationals (MexMNEs) operates within a range of economic sectors although they are more concentrated in construction, telecommunications, food and beverages and some others. Large economic groups and foreign multinationals control industries in México and there are evidences that these groups will remain playing an important role, although there is evidence also that the stock market is growing slowly. According to the analysis of Grosse (2007b), Mexican large economic groups are 100 percent family control, although the structure of most emerging Mexican MNEs is one of the open societies publicly listed and no longer directly or indirectly controlled by the state.

The industrial sector has changed in México during the last 30 years in Mexico. A close analysis to changes in the structure of industry from 1970 to 1992, measured by the structural change index, shows that engineering intensive industries has grown from 12.0 to 15.6 during this period and automobiles from 8.4 to 18.6, while natural resource intensive industries and resources processing industries has dropped from 43.2 down to 40.8 and labor intensive industries from 36.4 to 25 (Katz, 2007). The automobile industry in Mexico has expanded strongly.

According to the KOF (2010) Index of Globalization, Mexico is neither one of the World’s 15 most globalized

countries nor one of the World's least globalized countries. Despite the structural reform and major economic liberalization efforts introduced in the last three decades, Mexico is consistently lagging behind in the globalization process. 2010 KOF Index of Globalization ranks Mexico in 71, and 81 in economic globalization, among 208 countries based on data from the year 2007.

However, Mexican new MNEs are taking advantage of global reach and scale resulting from economic globalization processes, technological changes and increasing market competitiveness, by strategizing to succeed in a complex and uncertain international environment. The Mexican emerging MNEs are taking up the strategy of globalization further beyond the export phase of economic development. Mexican New MNEs are taking advantage of free trade agreements to search for partners to make strategic alliances with international businesses to get into foreign markets. Table 1 shows destinations of Mexican foreign direct investment in Latin America in 2005.

#### IV. PERFORMANCE OF MEXICAN EMERGING MULTINATIONAL ENTERPRISES' COMPETITIVENESS

It is quite difficult to measure the performance and gauge the real impact of Mexican emerging multinationals. Lack of opportunities and incentives for large Mexican companies in the domestic market have pushed them going abroad to widen their business and benefit from global markets. Deregulation of the market in Mexico occurred since the last years of the 80s but the turning point was the entry to the North American Free Trade Agreement (NAFTA) in January 1<sup>st</sup>, 1994, which had an impact on the more-diversified Mexican firms.

Between 1994 and 2000, the information technology (IT) manufacturing boomed, the electronics sector and the value of exports grew by 500 percent (Zarsky and Gallagher, 2007). However, the flagship MNEs shut down most operations during the industry shakeout of 2001-03. The researchers found two factors as being the main cause of the failure: A shift in global strategy towards outsourcing, and the lack of an active policy to support foreign investments.

According to the analysis of Grosse and Thomas (2007:262) the "more-international firms had superior performance than the more domestic group...", which is leading to the conclusion that greater internationalization correlates with higher performance.

Mexican MNEs have emerged as successful global companies in areas with intermediate levels of technological innovation, after overcame the internal conditions and difficulties of two financial crises. However, according to Grosse and Thomas (2007:257) the internationalization of Mexican companies "appears to be moderately positive in defusing the impact of the tequila crisis in México". Mexican companies that were doing business abroad were more successful in surviving the tequila crisis because exports were more internationally competitive.

There is a rising group of large Mexican companies that have been increasing global competitiveness pursued through diverse proactive business strategies to build up a position in the global market and becoming multinationals (Garrido,

2006), although the statistical analysis of Grosse and Thomas (2007:257) "give a limited amount of insight into the strategies of large Mexican groups in the turbulent 1990s". A puzzling phenomenon is the fact that there were more Mexican emerging multinational enterprises (MexEMEs) in the first years of the 1990s, then diminished the last years and rose again in the early years of 2000s.

From 1999 to 2002, CEMEX was the only one Latin American nonfinancial MNEs ranked by foreign assets that made it to the UNCTAD's list of the top 100. However, Goldstein (2007) has reported among the top 50 emerging multinationals ranked by 2003 foreign assets, CEMEX in 5<sup>th</sup> place, America Movil in 6<sup>th</sup> and Bimbo in 47 while measured by 2002 foreign assets, Gruma in 40<sup>th</sup> place, Savia 43<sup>th</sup>, Grupo Imsa 44<sup>th</sup>, and Cintra 49<sup>th</sup>. Among the top emerging multinationals Mexico had 3 listed in 1993, 7 in 2002 but only 3 in 2003 (Goldstein, 2007 elaborated in UNCTAD data). Sklair and Robbins (2002) identified a downward trend in multinationals of three Latin American emerging economies, Argentina, Brazil and México, listed in Fortune top 500: Multinationals from these three countries represented 33 percent in 1965 and only 16 percent in 2001.

#### V. CONCLUSIONS

There is a trend showing and signaling the emergence of new economic phenomena under the economic process of globalization represented by the rise of Mexican emerging multinationals enterprises (MexMNEs). Among the forces driving this trend are the economic processes of globalization, macroeconomic structural reforms, the fast moving systems of transportation and low-cost information and communication technologies, lower costs of capital and more favorable global financial system.

This new global economic environment is becoming more competitive and pressing business around the world to continue growing, sustain competitiveness and create value beyond their national borders, as new competitors appear in the markets. Mexican MNEs' strategy of grow abroad at overseas markets is mainly through organic growth and in less proportion through mergers and acquisitions

The overseas operations of Mexican emerging MNEs are entering into a new phase of international expansion in global markets, looking for direct presence related to the increasing sales. Mexican emerging MNEs are entering into a more globalized scale of activities through outward investments in new ventures, acquisition of assets, forming partnerships, strategic alliances and joint ventures. Emerging Mexican multinationals had invested overseas based on their ability to manage uncertain, complex and competitive environments as the result of severe economic crises, economic liberalization, structural reforms and steady economic globalization processes. This condition shows that Mexican firms present one of the highest rates of trade-openness among the emerging economies.

Mexican emerging MNEs attempt to enter and expand to emerging and mature markets equipped with business models combining low-cost, high-quality products and services and efficient systems of logistics and distribution channels to reach the overseas target markets.

All the Mexican emerging MNEs have very similar elements in common: They have the origins from very large domestic firms, low-cost resources including labor, a weak institutional legal system and economic and financial environment leading to a critical and cyclical periods of crises (1982, 1987, 1994-95, 2008-2010) followed by negative or low economic growth. The survivor Mexican firms of this process of “creative destruction” have transformed into capable and innovative MNEs in order to look and move ahead and take advantage of the challenging new opportunities.

Mexican Emerging MNEs are averse to implement the strategy of risk diversification to create a portfolio of outward investments allocation in assets and natural resources. Also risk diversification through a portfolio allocation prevents exchange rate and commodity prices fluctuations.

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