

## Emerging Multinational Markets Transcript

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**Moderator:** *Welcome to the Federal Reserve Bank of Atlanta's EconSouth Now podcast. Today we're joined by Stephen Kay, who's coordinator of the Atlanta Fed's Americas Center. Stephen will be speaking with Javier Santiso, chief economist at the Organisation for Economic Co-operation and Development (OECD), about the increasing number of multinational companies from emerging market economies and particularly those from Latin America. Javier has studied this phenomenon and these companies extensively. Thank you for joining us today, Javier and Stephen.*



Stephen Kay

**Stephen Kay:** *My first question is, why are we seeing this growth in the emerging market multinational corporations and, in particular, the multilatinas? Why now?*

**Javier Santiso:** Yes, but basically there's the classical push and pull factors that are obviously encompassing companies that are looking for new markets, that are expanding their operations. These are all factors that were in place even 10 years back. But the thing about this issue and, in fact, probably the decisive factor, is a more financial one.

Because when one sees these overseas expansions by these companies, one asks about the timing because the timing is strange. Last year we had for the major BRICs [Brazil, Russia, India, and China] nearly \$72 [billion] to \$75 billion invested overseas by those five countries. And the bulk of that, \$55 [billion], went to OECD countries, targeting OECD companies and acquisitions. This was not possible maybe 10 years back.

But [was it] not possible because the managers of those companies were lacking ambition or that the markets were closed to them—industrial markets or commercial markets? No. It was simply because they didn't have the financial muscle to do the operations. And why? Because in part the cost of capital for those multinationals—the emerging multinationals—10 years back was much higher than today. And since the beginning of this decade and, above all, since the years 2004, 2005, 2006, and 2007, the cost of capital went down, so they can tap both international and local markets at the lower costs and in nearly the same conditions as OECD multinationals, a lot of them now. And this is, I think, a decisive, different factor when we compare with 10 years back.

**Kay:** *You spoke about the cost of capital. And I know you've written about the cyclical drivers behind this process. So my next question is, to what extent is the emergence of the multilatinas part of the ample liquidity that we've seen in recent years and, can we expect some retrenchment in this process as we go through the economic cycle?*



Javier Santiso

**Santiso:** My feeling—and I'm not in the day-to-day analysis of the markets anymore, luckily—but I think that it's a structural component in the change that we have been witnessing. Beyond the current situation, the asset class—the emerging market asset class—has been changing a lot, massively. And now the frontier of the asset class is not anymore Latin America or Asia, it's Africa. So the frontier has been changing. And at the same time, the appetite of those companies is greater. I think that the conditions of accessing low-cost capital will remain even if there are all the adjustments.

But above all, keep in mind that even some of the companies already are a kind of different company that they were even two years ago. Take the example of Cemex. Cemex is a multinational from Mexico. The headquarters of Cemex are still in Monterrey, but the bulk of the operations of Cemex is overseas. And their financial operations, the financial divisions, the strategic divisions, and even their research department are not any more in Monterrey. It's based in

Europe, in London and Madrid. And when they tap international markets, they use also the subsidiaries located in OECD countries. So through that gain, they can also still access new and deeper financial markets, which was not the case in the past. You even have some of them that are moving their headquarters abroad. The Indian company Vedanta Resources, in the commodity sector, has moved the headquarters from India to the U.K. because also it gives more access to capital, so the game has already changed.

And I think that there's no . . . you can have a slower pace because of the financial turbulences but there's a structural element there that means the game has been changing. And remember, also, that some of those companies—we are talking about Latin multinationals or the Indian multinationals—they say they are private capitalism or classical capitalism, but others are not hurt by financial markets' waves. Gazprom from Russia. It's a minor consideration of the financial costs. The political costs might be a greater consideration for them.

**Kay:** *My next question is, is foreign direct investment, or FDI, that flows from the south to the north any different from FDI that flows from the north to the south?*

**Santiso:** Maybe [there is] another question behind this one, if I understand the direction of the question. Are we witnessing, in fact, emergence of multinationals coming from a specific sector? Let's say for example, a commodity-related sector. And we could think that because a lot of those countries and Latin America ones, most of them, big exception is Mexico, for example, the bulk of their exports, for example, are related to commodities. A player like CVRD, iron ore, a mineral player, a player like Petrobras, an oil player, a lot of those companies are related to commodity sectors.

**Kay:** *Well, I have one final question for you, actually. I was wondering if you could tell us a little bit about your new book.*

**Santiso:** I published one on Latin America last year. I guess it was on transformation in Latin America, and the one this year is an edited volume on China, the Chinese impact in Latin America. So it's precisely looking at these trends, these changes between south-south dynamics, and to explore the change between Latin America and China.

**Kay:** *Javier, thank you so much. This has been very interesting, and we really appreciate your joining us. Thanks.*

**Santiso:** Goodbye.

**Kay:** *OK, goodbye.*

**Moderator:** *Thank you, Javier and Steve. Again we've been speaking today with Javier Santiso, chief economist at the Organisation for Economic Co-operation and Development, which is based in Paris. This concludes our EconSouth Now podcast on emerging market multinationals. For more information please see the third quarter 2007 edition of EconSouth. From our Web site, you can read the full article about this topic or subscribe to EconSouth in print. Thanks for listening, and please return for more podcasts. If you have comments, please send us e-mail at [podcast@frbatlanta.org](mailto:podcast@frbatlanta.org).*

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