

# Mexican OFDI in China—Ownership Advantages to Gain New Markets: Two Case Studies<sup>\*</sup>

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This paper seeks to analyze recent Mexican OFDI in China. Its main purpose is to present two different forms in which Mexican MNGs have successfully used their ownership advantages to establish production subsidiaries in China and operate in the processed food and auto parts markets. It also argues about a foreseeable increase of capital flows between the two nations, particularly from Mexico to China in the near future. Its starting point is a general framework concerning the growing China-Mexico economic relations. In the second part there is a discussion on the specific evolution of Mexican OFDI since the 1990s in order to analyze the particularities of recent investments in China. Finally there is an analysis of the driving factors of Mexican OFDI through two case studies: Grupo BIMBO (food) and Nemark (auto parts). The methodological orientation of this paper is based on the dynamic version of the eclectic (OLI) paradigm that studies international production. The main findings of this paper are that certain ownership advantages possessed by these firms: innovative distribution systems (BIMBO) and technological innovations (Nemark) have encouraged them to invest successfully in emerging markets that have similar market structures, in this case China.

*Keywords:* emerging market multinationals, Mexican multinationals, OFDI, globalization, international production, OLI paradigm

## Introduction

In the analysis of the driving factors behind emerging market multinationals' (EM-MNEs) investments, it has become increasingly important to emphasize what is different from the experience of large U.S. and European MNEs. The evolution and the modalities of their internationalization appear to be different, not in all aspects, but in many that are sufficiently important to encourage us to review the traditional theoretical study frameworks. The first analysis of the topic were of key importance (Lecraw, 1977; Wells, 1983; Lall, 1983) and new contributions have been made through one of the classical interpretations on company internationalization, the OLI paradigm (Dunning, 1995; Narula & Dunning, 2000; Cantwell & Narula, 2001) and also by those who point out the limitations of the latter (Goldstein, 2007; Li, 2007). Several authors have contributed with new insights (Bartlett & Ghoshal, 2000; Mathews, 2002, 2006; Bonaglia, Goldstein, & Mathews, 2007).

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To enrich the information that could contribute to the theoretical debate on this issue, it is important to provide analysis on concrete experiences of EM-MNEs with a presence in developed countries (South-North investment) and/or in developing nations (South-South investment). With this in mind, the case studies that allow for an analysis of the comparative advantages of the FDI of EM-MNEs have been particularly useful.

To this end, in this paper we will present two case studies on Mexican MNEs that have established production subsidiaries in China. The author wants to emphasize two different ways of penetrating the Chinese market through the cases presented. One in which the similarity in the complexity of the structure of a specific market (processed food), in both countries (Mexico and China) are taken as investment advantage by a Mexican MNE given its know-how in distribution systems for its products. This is the case of the bakery company BIMBO. The other one is the case of Nemak, an auto parts company in which the advantage is based on specific technological knowledge that has been acquired through a long previous experience in South-North investments that has provided the MNE with the technological capability to compete in one of the fastest growing Chinese markets—the automotive sector.

In addition, these cases are of interest because both companies as well as most of the largest Mexican MNEs have embarked on an investment growth trend for the immediate future given their excellent results in their home country and in China. We are in presence of two countries in regions that have not been affected by the current global crisis to the same extent as the developed nations as a whole. In the case of Mexican MNEs in China, the volume of OFDI is still very incipient, but it affords us the advantage of studying its development since its inception.

This is mostly an empirical analysis, but one whose methodological orientation is the dynamic version of the eclectic paradigm (OLI) that is flexible enough (Dunning, 2000; Narula, 2010) to accommodate the specific objectives of this paper.

As opposed to the large number of academic papers on China's OFDI, there are few analytical works on Mexican OFDI (Basave, 1996, 1998; Basave & Gutierrez-Haces, 2009, 2010, 2011; Cerutti, 2003; Chudnovsky et al., 1999; Garrido, 1998; Pozas, 2002, 2010) and even less on Mexico's OFDI in China (Jenkins & Dussel, 2009; Proméxico, 2010).

At the same time, accumulated data on the subject can be found in the balance of payments item in the annual reports of the Banco de México, but there is no official information available with respect to a geographical breakdown. The most detailed information with regard to Mexican multinational's international operations can be found in the World Investment Report published by UNCTAD and in *fDi Markets*, an electronic publication issued by the *Financial Times*.

Taking all these factors into consideration, this research proceeds using companies' annual financial reports and applying direct surveys.

The paper is organized as follows: first it offers a general description of recent developments in capital investment and trade relations between China and Mexico commenting on a foreseeable increase in the near future. Next, it addresses the characteristics of the evolution of Mexican OFDI<sup>1</sup> in order to understand the current stage of international investment of some of the country's MNEs, some of which correspond to the two case studies. Finally it considers Mexican FDI in China and presents the two case studies.

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<sup>1</sup> This paper refers only to Mexican MNEs ranked among the largest 25 in the country (Basave y Gutiérrez-Haces, 2011).

### Mexico and China, Economic Relations

There are not many areas of economic relations that in the past might have existed between countries so very far apart geographically and that, with the exception of the (commercial and cultural) importance of the Nao de China in New Spain<sup>2</sup> have been confined to different specific historical and social experiences.

However, recently an exchange of capital has developed between the two nations that even though it is still incipient and one of the lowest in Latin America, it seems very feasible to increase in the near future. This phenomenon has not been studied sufficiently.

Latin America's trade with China has increased exponentially due to a combination of the sustained growth of China's economy and the deficit in primary products being experienced since the beginning of this century. This has a favorable effect on Latin America's traditional export products.

China now accounts for one third of world consumption of tin, coal, iron ore, steel, and cotton and a quarter of the globe's aluminum, rubber, and copper (Jenkins, 2009, p. 54). As a result, by 2007, almost 6% of all Latin American exports were earmarked for China.

Mexico's case is different. Exports to China account for only 0.8% of the country's exports. However imports from China have been growing rapidly. In 1995 they accounted for 0.9% of the total, but by 2010 the figure had surpassed 10%. As a result, China is Mexico's second largest trading partner, only behind the United States, and is second partner as a supplier and seventh as a buyer.

Mexico-China trade from 2000 to 2012<sup>3</sup> increased from US\$3.1 billion to US\$40.1 billion<sup>4</sup>. Imports from Mexico increased by more than 1,200%, while exports rose by 1,000% (see Figure 1) this is important because in the history of bilateral economic relations in a series of countries demonstrates that a strong trade relation is followed by intensive capital investment.<sup>5</sup>

China has long been attracting international capital, and since 1993 it has become the largest recipient of FDI among developing countries. In 2001, IFDI to China was further encouraged as a result of changes in country's foreign investment law that favored the installation of "solely foreign owned enterprises" and not just "joint ventures" with the participation of Chinese capital, as had previously been the case. From there on, the former has been the prevalent modality in China (Long, 2004) and IFDI in 2009 amounted to US\$95 billion.

By the same token, since the government gave green light for its companies to globalize in 2000, their expansion was triggered. Thus, an OFDI of US\$3 billion in 2003 rose to US\$57 billion in 2009 (see Table 1). The effect that a possible revaluation of the yuan would have on Chinese OFDI and IFDI has currently become a major topic of analysis (Sauvant & Davies, 2010). In 2009, the service sector largely concentrated Chinese OFDI, accounting for 77.1% of the total (Davies, 2010, p. 9).

More recently China has deployed a parallel investment strategy aimed at ensuring the supply of raw materials and energy resources which are necessary to meet the demand of its industrial sector. This policy is

<sup>2</sup> In the 16th century a maritime trading route was opened between China-Philippines-New Spain, which later became a direct route from China to New Spain. The so-called "Nao de China" ran along the Silk Road by the Pacific Ocean to bring cotton and pottery to New Spain and return to Asia with silver. It was canceled in 1815 during the Mexican War of Independence (Contreras & Jiao, 2007).

<sup>3</sup> 2012 data: January-August.

<sup>4</sup> The bilateral trade figures reported by the two countries differ significantly, probably due to a triangulation of bilateral trade. The figures reported by Mexico are approximately twice those reported by China. In this study we rely on the official Mexican figures.

<sup>5</sup> Almost all classical theories of the nature of FDI provide such an interpretation (Vernon, 1966; Johanson & Vahlne, 1977; Dunning, 1988).

carried out mainly through state-run companies and the most appropriate region for undertaking such investment has been Africa and to a lesser extent Latin America.

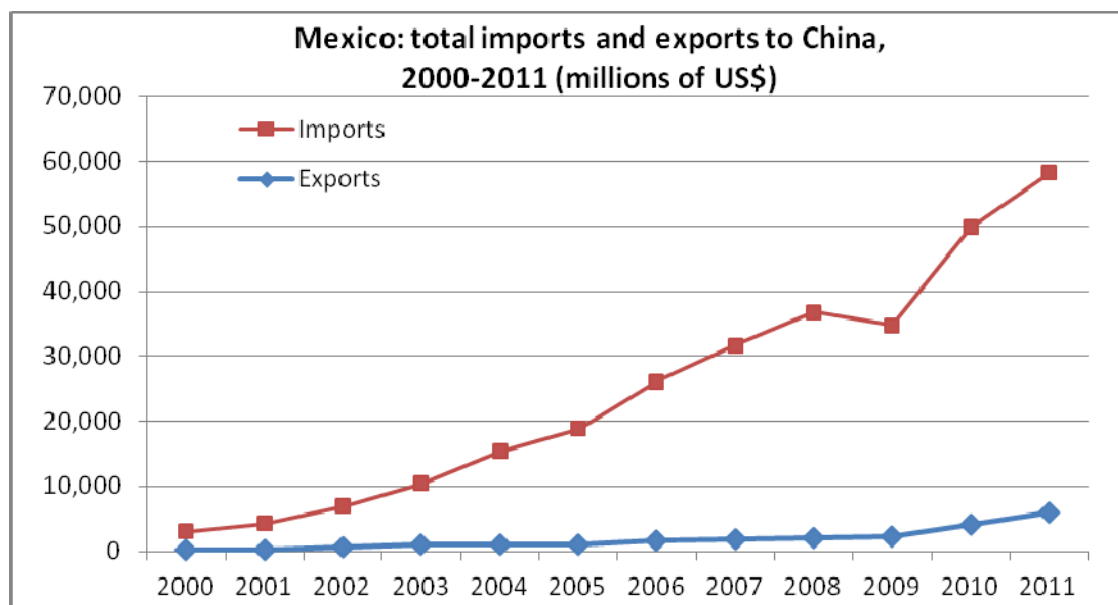


Figure 1. Mexico: Total imports and exports to China, 2000-2011 (millions of US\$).

Source: Banco de México, 2010.

Table 1

*China's OFDI by Region, 2003 & 2009 (millions of US\$)*

Region	Flows (2003)	% of total	Stock	% of total	Flows (2009)	% of total	Stock	% of total
Total	2,854.65		33,222.22		56,528.99		245,755.38	
Asia	1,505.03	52.7%	26,603.46	80%	40,407.59	71%	185,547.20	76%
Africa	74.81	2.6%	491.22	1.5%	1,438.87	2.5%	9,332.27	3.8%
Europe	145.03	5.1%	487.45	1.5%	3,352.72	5.9%	8,676.78	3.5%
Latin America	1,038.15	36.4%	4,619.32	14%	7,327.90	13%	30,595.48	12%
North America	57.75	2.0%	584.5	1.8%	1,521.93	2.7%	5,184.70	2.1%
Oceania	33.88	1.2%	472.26	1.4%	2,479.98	4.4%	6,418.95	2.6%

Note. Source: Statistical Bulletin of China's Outward Foreign Direct Investment (2010).

In the case of investments in Latin America, many of them are in minerals and oil although in Mexico and Brazil there is a greater diversification, into textiles and electronics in the former country and into electronics and telecommunications in the latter (Jenkins, 2009, p. 42).

According to more recent data (Proméxico, 2010), the sectors in Mexico in which some major Chinese companies have recently undertaken investments include telecommunications, textiles, electronics, and mining, and cooper products (the latter two also represent 20% of China's total imports from Mexico). Other authors (Dussel, 2009, p. 229) also cite (with data from 2007) other Chinese companies with investments in auto parts and textiles.

Meanwhile, FDI flows from Latin America to China are very low, about US\$100 million in 2007 with an accumulated stock between 2002 and 2007 of US\$727 million, with Panama and Brazil being the main investors (Jenkins, 2009, p. 42).

### The Evolution of Mexican OFDI

Unlike the case of China, the growth in Mexican OFDI<sup>6</sup> is primarily due to the international expansion strategies of its private companies. However, this would not have been possible without the process of economic liberalization and deregulation that the Mexican government promoted in the second half of the 1980s.

Indeed, as a result of these changes, Mexico first experienced a boom in its manufacturing exports which between 1994 and 1997 would become the leading export sector (in-bond factories excluded)<sup>7</sup>. Simultaneously, a range of large business groups implemented a strategy of direct investment in Central America and the U.S. southwest, two natural areas for expansion for Mexican business ventures.

Launching of the first OFDI of companies such as BIMBO and Gruma (foods) or the strategic partnerships of the Televisa group (TV and entertainment) in the United States took advantage of the expansion of the Latino consumer market in that country. But the factor that unquestionably most encouraged the initial geographic focus of Mexican OFDI was the economic opening throughout Latin America.

From an annual average of Mexican OFDI flows of USD\$248 million between 1984 and 1994, the figure would increase to nearly US\$2 billion between 1995 and 2005 and to US\$9 billion in 2011 (see Table 2).

Table 2

*Mexico: OFDI Flows, 1984-2011 (US\$ million)*

	1984-1994 (annual average)	1995-2005 (annual average)	2006	2007	2008	2009	2010	2011
Mexico	248	1,997	5,758	8,256	1,157	7,019	13,570	8,946
Memorandum: comparative countries								
Brasil		1,942	28,202	7,067	20,457	-10,084	11,588	-1,029
Argentina		1,273	2,439	1,504	1,391	712	965	1,488
Chile			2,212	4,852	9,151	7,233	9,231	11,822

*Note.* Source: Banco de México (2010) and World Investment Report (2012).

This led during the 1990s to Mexico temporarily becoming the largest Latin American exporter of capital. It was later displaced by Brazil and more recently by Chile.

By the same token, the country became a major recipient of FDI, with the greatest annual flow registered in 2001, when it exceeded US\$30 billion (see Figure 2).

Overall, the expansion of Mexican multinationals respond to a search for new markets and several of these companies have placed their foreign subsidiaries close to multinationals, in whose production chains (value chains) they participate (Basave, 2008; Pozas, 2010).

These are the cases with MNEs of the auto parts sector, San Luis Corp., Grupo Proeza, and Nemark, the auto parts division of Grupo Alfa, which have placed their subsidiaries close to the auto assembly plants that

<sup>6</sup> The growth that we refer to in this study began in the early 1990s and corresponds to a second phase of expansion of the country's OFDI. The first stage of expansion took place in the 1970s and was interrupted during the next decade by the foreign debt crisis that affected most of the developing countries (Basave, 1996, 2008).

<sup>7</sup> Since the second half of the 1980s, the Mexican government implemented a series of tax incentives to "highly export" companies in the country. At the same time, the large foreign multinationals modified their strategy of integration within Mexico and shifted much of their production from the domestic market to exports.

GM, Ford, Chrysler, and others have around the world. It is also the case with the glass containers division of VITRO, whose factories have been placed close to the large multinational soft drink bottlers in Latin America.

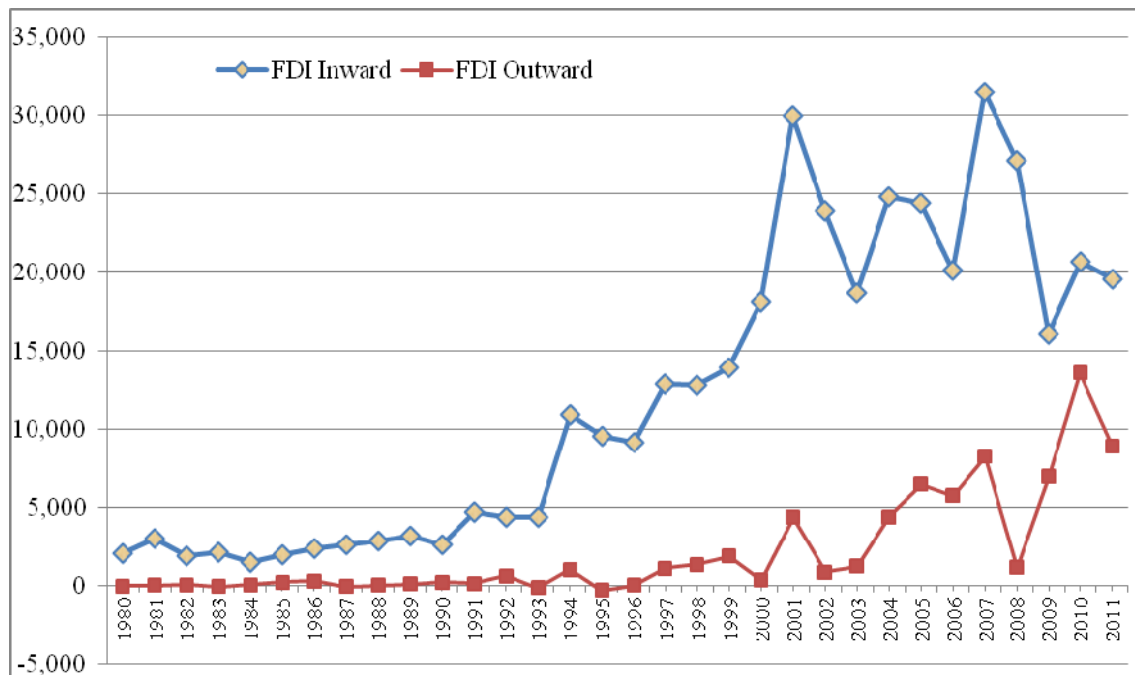


Figure 2. Mexico: Flows of FDI, 1980–2011 (millions of US\$). Source: United Nations Conference on Trade and Development (UNCTAD), FDI STAT on-line database (Retrieved from <http://stats.unctad.org>).

Other major factors have also been important location drivers such as lower labor costs in Central America and access to quality raw materials and skilled labor in the USA and Europe.

The Mexican government's involvement in the internationalization process of major Mexican business groups differs substantially from the policy followed by the Chinese authorities that since 2000 have implemented a state policy to promote the internationalization of its largest enterprises (Xue & Han, 2010; Davies, 2010). In the case of Mexico, the government policy of promoting OFDI has been directed primarily to its small businesses and the relative success achieved in this sector has been concentrated in the services industry. Mexican large MNEs have expanded due to their own internationalization strategies, with practically no direct involvement by the Mexican government.<sup>8</sup>

There are no known reliable data sources (official and unofficial) that allow an examination of a geographical breakdown of Mexican OFDI. Alternatively, an analysis of OFDI flows from a sample of the 20 largest multinational companies in Mexico provides an overview of where such resources were placed for a considerable percentage of the total Mexican investment from 2005 to 2009 (see Table 3).

As can be seen, during the 2005–2010 period, most of the Mexican OFDI continues to be earmarked to Latin America and the USA. But it can also be noted that, albeit incipiently, some countries in Asia have begun to form part of the expansion strategies of the major multinationals in Mexico. At least 16 large Mexican MNEs are selling their products in China, and six of them have production facilities there (see Table 4).

<sup>8</sup> I should note, however, that the country's monetary policy has indirectly favored the purchase of foreign companies by Mexican multinationals, by keeping the peso overvalued in relation to the U.S. dollar.

Table 3

*Mexico: Geographical Distribution of OFDI Flows, 2005-2009 (US\$ million)*

	2005	2006	2007	2008	2009	Total
Middle East & North Africa	17	45	90	58	83	293
East Asia & Pacific	9	30	89 (c)	76	21	225
South Asia					102	102
Developed Asia Pacific			2,114		-1,765	349
East Europe & Central Asia	22	46	175	325	148	716
Other Europe	2,247	467	1,123	257	166	4,260
Latin America & Caribbean	1,775	3,893	4402 (b)	815	440	11,325
North America	259 (a)	971 (a)	608 (a)	262 (a)	6,535	8,635
Total	4,329	5,452	8,601	1,793	5,730	25,905

*Notes.* (a) Includes a small portion of Europe not disclosed in data; (b) Includes a small portion of China not disclosed in data; (c) Includes a small portion of Australia not disclosed in data. Source: Companies financial statements and websites (M&As, capital investments, fix asset investments). The exchange rate used is the IMF each year's peso/dlr and euro/dlr average rate.

Table 4

*Mexican Enterprises in China*

Name	Sector	Multi-national	OFDI in Asia
Enterprises with distribution centers			
Grupo Televisa	TV & communications	Yes	No
San Luis Corp.	automobile parts	Yes	No
Interceramic	Construction	Yes	No
Grupo Carso	Diversified	Yes	No
Grupo KUO	Diversified	Yes	No
TAMSA	Construction	No	
Grupo Villacero	Construction	No	
CYDSA	Petrochemicals	No	
Grupo Herdez	Food	No	
Jumex	Food	No	
Enterprises with production facilities			
Gruma	Food	Yes	Yes
Grupo BIMBO	Food	Yes	Yes
Grupo ALFA	automobile parts division	Yes	Yes
CEMEX	Cement	Yes	Yes
Mexichem	Petrochemicals	Yes	Yes
KATKON	Auto parts	Yes	Yes

*Notes.* Table refers only to big enterprises. Source: company reports and websites (2010) and Proméxico (2010).

The global crisis has improved expectations of future capital flows between Mexico and China. Both countries are located in two regions of the world that have not suffered the severe consequences of the global crisis that have plagued the United States and Europe. China, in particular, has maintained economic growth rates well above the world average. South America (differentiated by country) and México have also sustained acceptable growth rates taking into account the severity of the crisis. The banking systems in all the above mentioned cases remained outside “junk bond” trading, which triggered the crisis. For this reason, much of Asia and Latin America became preferred venues for capital flows, especially FDI. Thus, FDI flows to developing and transition economies were higher in 2011 than such investment in developed countries as a

whole. Five years previously, FDI flows to developing and transition economies were half that of such flows to the developed world (see Table 5).

Table 5

*FDI Flows 2007-2011 (US\$ billions)*

	2007	2008	2009	2010	2011
World	1,976	1,791	1,198	1,309	1,524
Developed economies	1,310	1,020	606	619	748
Developing and transition economies	665	771	591	691	776
Asia (*)	221	279	225	247	257
Latin America (*)	108	126	76	115	146

Notes. (\*) Tax Havens not included. Source: World Investment Report (2012); UNCTAD.

In the case of Latin American subsidiaries of European and U.S. multinationals, returns were higher from 2008-2010 than for investments in other regions of the world and in their home countries (Cremers, 2011). In the same vein, Mexican multinationals that maintain most of their investments in Latin America posted higher growth in sales during the crisis than those MNEs with a greater weight of their investments in the USA (Basave & Gutiérrez-Haces, 2009, 2010, 2011).

This suggests that the flow of Chinese OFDI to Latin America and Mexican OFDI to China will persist and, in fact, increase in the short term, especially when the recovery in several European community countries is expected to be more than five years away and in the case of the USA economy there is no assurance of how long it will take for it to resume its growth levels.

### Driving Factors of Mexican OFDI in China

The main determining factor behind Mexican OFDI in China is market seeking. Using the basic tenets of the eclectic paradigm (OLI theory) (Dunning, 1988; Narula, 2010) as a reference point, the main location advantage for investing in China are its expanding urban markets, and as we will see in the case studies, that is indeed where Mexican multinationals are investing, more specifically, in the processed food market in the cities and the automotive industry.

The MNEs analyzed in this study have different ownership advantages, but they share common characteristics such as company size and scope in their home country, where they are leaders in their respective markets and for more than two decades have acquired experience investing in international markets and becoming global enterprises.

The way ownership advantages (O) interact with location advantages (L) that have led these MNEs to invest in China are different and we will discuss them separately.

The specific know-how that a company has is originally developed in its home country<sup>9</sup> and this generally provides it with a comparative advantage in new markets when they share similarities. This advantage should be considered in relation to other MNEs in the host country more than in terms of domestic companies (Cantwell & Narula, 2001, p. 158). Thus, even without becoming the company leader in the specific market in which it is inserted, its specific ownership advantage has enabled it to favorably operate in a special and differentiated environment.

<sup>9</sup> A different situation would be represented by “born global” MNEs, that develop their capabilities in international markets as they are first established.



This is the case with BIMBO<sup>10</sup>, which has managed to bring its experience and skills to distribute its products to thousands of retailers scattered in large cities like Mexico City and/or remote areas in Mexico's countryside as well as to the "hutons" of Beijing, which are very narrow streets where vehicular traffic is difficult or prohibited. This is perhaps the most interesting of all the cases due to dynamic consequences it has on the MNE itself.

This is a concern of major importance because it highlights the similarities that exist in specific markets in different developing countries, which in many cases represent entry barriers for MNEs from developed nations with rigid systems. At the same time, it affords certain specific ownership advantages to MNEs from developing countries, facilitating their entry and successful participation.

It involves a transferable know-how, in the sense that Verbecke and Yuan apply it to the transferable ownership advantages that should be considered in corporate strategies (Verbecke & Yuan, 2010, pp. 94-102). But in this case, unlike what was discussed by these authors, we are dealing with a typical comparative advantage of an EM-MNE (distribution system skills) applicable in a country with similarities to its market due to its structural complexity. In this context, special knowledge and skills of EM-MNEs become a comparative advantage.

An interesting consequence is, as suggested by authors who analyze the capabilities to adapt to new circumstances (Birkinshaw & Hood, 1998), that the management of the subsidiary can seek new ways of using the available resources (in the home country) more effectively and as a result, develop new ownership advantages within the MNE (Verbecke & Yuan, 2010, pp. 102-103).

We are referring here to the capacity to link distribution know how with transportation systems in Beijing and the lessons that this will represent for new investments in other countries in Asia or even in Latin American subsidiaries.

In the case of the participation of Nemark in China's automobile industry it is clear that the main driver is the impressive growth rate of the market. China is already the second largest producer of motor vehicles worldwide with 9.3 million in 2008, a 5.2% increase over the previous year. This dynamism is led by automakers in joint ventures with U.S. European, and Japanese capital, but companies with exclusively Chinese capital (Chery, Dongfeng, and FAW among others) produce their own models and are prepared for export operations. To the extent that the automakers grow, the market for auto parts also increases.<sup>11</sup>

But the most interesting point is that Nemark, prior to investing in China has been engaged in the acquisition of technological capabilities through investments in development countries.

This has represented an intermediate step that allowed the MNE to experience a previous period of technological assimilation and learning to then turn them into internalization and ownership advantages and compete in new markets, in this case highly competitive although in a developing economy.

As in the case of BIMBO, Nemark penetrate the China's market through acquisitions of already established companies (M&A). In addition, a while back it launched its own R&D center in Mexico.

<sup>10</sup> Before BIMBO's first direct investment in China in 2006, imports of food products in the country had a growth rate of 153% between 2000 and 2006 (WTO Statistics on World Trade, 2010).

<sup>11</sup> An antecedent of Mexico's participation in the Chinese auto market is, once again, the retail trade. Between 1995 and 2006 it was the sector that was in the first place in total exports from Mexico to China, and in 2006 came to represent 24% of total exports (Dussel, 2009).

### Mexican Multinationals in China (Technological and Investment Profiles): Two Case Studies

#### Grupo BIMBO

BIMBO began its operations in China by acquiring the Spanish company Pannrico's subsidiary, Beijing Pannrico Food Processing Center, in 2006 for US\$12 million. Investment consisted of a production plant and a broad distribution network in the cities of Beijing and Tianjin.

In 2010, BIMBO expanded to Shanghai by acquiring the Jin Hong Wei Company and in 2011 by purchasing more bakery plants and various micro-companies allowing them to increase its geographical presence in China.<sup>12</sup> BIMBO is a pioneer in developing packaged bakery products in these cities. It produces and sells whole wheat bread and several types of western and Asian type pastries, plus a line of prepared foods (sandwiches and hamburgers among others). Using its traditional know-how, it has entered new products lines, incorporating local ingredients such as red bean paste.

Its greatest success has been the innovation of distribution systems for its products, which reach small retail stores located in the "hutones" (narrow streets in old neighborhoods of Beijing). In addition to having a network of 187 delivery trucks, it attends to its approximately 30,000 customers with a fleet of bicycles that allows making frequent deliveries of fresh products "just in time" (see Table 6).

Table 6

#### *Case Studies: Summary*

Name	Sector	Start-up date	Initial investment	City	Technological contribution	Highlights
BIMBO	Food	2006	US\$10 million	Beijing	Product packaging.	Largest bakery in the USA
				Tianjin	Incorporation of local ingredients.	
				Shanghai	"Just in time" distribution system for retailers.	
ALFA	Auto parts division	2007	n.a.	Shanghai	Own design of aluminum monoblocks with high resistance to wear and tear.	More than 15 years investing in R&D.
	(NEMAK)					Research and Development Center with about 200 highly trained professionals and technicians.

*Note.* n.a.: not available.

Its distribution network in China is in Latin America consists of salesmen provided with hand-held digitalized devices to take down orders. Over 85% of BIMBO sales recorded with this mechanism is retail. The company plans to provide its salesmen with laptop computers to expedite orders. The subsidiary has contracted 1,500 employees, 99% Chinese and is now selling in 17 cities in the north of China.

BIMBOS's investment is still very small and the percentage of its Chinese sales in relation to its total sales in 2011 (US\$9.6 billion) was only 2%. But also here we are dealing with the most recent geographical area in the company's expansion, with excellent results that will tend to grow in the immediate future.

BIMBO, founded in 1945, ranks fifth among Mexico's largest multinational corporations, with US\$6.8 billion in foreign assets in 2011, international sales of US\$4.9 billion, 51,224 foreign employees, and 28

<sup>12</sup> According to statements made by the marketing director of the Asian subsidiary, from 2006 to 2011, the company tripled its sales in China (BIMBO web page news, March 21-27, 2011). Also, the growth rate of their business in China is bigger than that of the subsidiary in USA and they are expecting additional growth of 7% annual average for the next four years (BIMBO's web page news, 2012 and China Daily, 2012/06/20).

foreign subsidiaries in 23 countries. With the acquisition in 2009 of the U.S. Company Weston Foods Inc., BIMBO became the largest bakery company in the United States and the Mexican company that generates the most jobs in that country (Basave & Gutiérrez-Haces, 2010).

### **Nemak (Grupo Alfa)**

Nemak, the high-tech aluminum auto parts manufacturer that belongs to Grupo Alfa's automotive division, is participating as a supplier in the production chain of the General Motors assembly plant in Shanghai. In 2006, it obtained a new contract to manufacture aluminum engine heads for vehicles sold in the Chinese market. At that time Nemak already controlled 21% of the aluminum engine heads' world market.

This product was developed at Nemak's Center for Technological Development in the city of Monterrey, and then the company started exporting it from Mexico. But in June 2007, Nemak completed the acquisition of seven industrial plants that manufacture aluminum engine heads and monoblocks from the Italian company TK Aluminum Ltd. (Teksid), located in Mexico, the United States, Poland, Argentina, Brazil, and China. The price tag for the operation was US\$485 million plus an equity stake in the new company (ALFA web page, June 2007 news and 2006 annual report).

In 2010, Nemak began the construction on a new plant in Chennai, India, to increase its presence in Asia. In both places the company's focus was on the market for diesel engines and small cars. In 2011, ALFA was the sixth largest Mexican multinational in terms of the amount of foreign assets (US\$3.5 billion). It posted US\$7.9 billion in foreign sales (of which almost two thirds correspond to the auto parts division), and has more than 12,000 foreign employees and 26 foreign subsidiaries affiliates in 15 countries. Only 1% of Nemak's sales are in Asia.

Since 1991, Nemak invests in R&D and creating its Research and Development Center in Monterrey, which by 2006 had 200 high technology skilled employees. This has allowed the company to launch its own designs (see Table 6) and is currently producing close to 40 different types of engine heads and 10 different types of monoblocks for the international market. It has developed monoblocks for General Motors, modifying the properties of the aluminum with specifications designed to ensure greater resistance to wear and tear (Pozas, 2010, pp. 252-258).

## **Conclusions**

As it is shown in both case studies, certain ownership advantages possessed by EM-MNEs encourage them to invest successfully in other emerging markets with similar market structures. This brings useful information to the way we analyze EM-MNEs investment drivers, specifically ownership and location advantages.

This paper also analyzes the peculiarities of the OFDI of Mexican multinationals in China in the context of growing economic relations between the two countries, involving trade for about a decade and the initial experiences with direct investment for about five years.

To complete the panorama of what appears to be a clear trend toward more complex and greater bilateral economic relations, there have been a series of recent agreements between the governments of the two countries that open up opportunities for collaboration and promising public and private negotiations. Some examples are the creation and meetings of the Mexico-China Binational Commission in 2004 and 2006 and the establishment in 2004 of the High-Level China-Mexico Group aimed at strengthening and promoting trade and

investment between the two nations.

Also in 2005, the Air Transport Agreement was adopted, and in 2008 the Agreement on Reciprocal Promotion and Protection of Investments was signed. In the same year the Transitional Trade Agreement on compensatory quotas between the two nations was signed.

Nevertheless, it should be emphasized that it will be the international economic conditions and the need for increased capital investment by companies in both countries that will decide whether intensification in the exchange of investment capital materializes.

During the course of these developments there is no question that a group of Mexican MNEs, of which two case studies were present in this paper, are already “en route” to the Asian markets, especially the Chinese market.

In studying the issue, what should interest us most are the forms of insertion of Mexican companies in China’s economy (and vice versa) because, in the current trends of globalization and the formation of international production networks, it is productive complementarity that allow for successful and transcendental international economic relations.

In this sense, this paper examines the first stages of Mexican business presence in China’s economy and seeks to identify the analytical elements that should be included in future research.

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