

Latin American companies make big U.S. gains

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Gerdau Ameristeel of Brazil owns 17 steel mills in 11 states, including this one in Wilton, Iowa, one of the biggest employers in town.

First came a wave of immigrants from Mexico and elsewhere in Latin America. Next came tortillas and Spanish-language soap operas, made in the United States, for a growing Hispanic audience in this country.

Now, a Mexican bakery company called Grupo Bimbo is distributing English muffins, white bread and ready-made pizza crust across much of the country.

Mexican executives pitching Italian pizza in cities like Kansas City, Mo., a Brazilian steel company buying up troubled mills in the Midwest, a Peruvian cement maker breaking ground in Arizona; these are all part of a surprising, broadening surge of investment in the United States by an intrepid group of successful and suddenly multinational Latin American companies.

The new “multi-Latinas” are aggressive, resourceful enterprises that are a developing byproduct of the market liberalization that swept Latin American economies in the 1990s. But their broadening reach through the United States and the rest of the world — simmering below the surface for years — is beginning to turn heads.

These Latin American multinationals have even reached places like Wilton, a tiny prairie town right out of a Norman Rockwell painting, where the neon-faced soda shop features a syrupy concoction called the Pink Lady and friends gather for potluck dinners at the Masonic Lodge.

“As Latin America lowered its own barriers to trade and investment, its firms began to look at the world in a very different way,” said Robert Pastor, vice president for international affairs at American University in Washington and a former adviser on Latin America to President Jimmy Carter. “Now Latin America is not just a destination, but an originator of capital and investment.”

Samba is not exactly a hit here in Wilton, but a Brazilian-owned steel company, Gerdau Ameristeel, has become one of the two biggest employers in town, importing a new management style and fresh capital to modernize and expand an old mill and temper a tough American labor union.

Since arriving in the United States in 1999, Gerdau has swiftly acquired an empire of 17 mills across 11 states, to become the nation’s fourth-largest steel producer.

Similarly, in the last couple of years the Mexican company Cemex has emerged as the No. 1 supplier of cement and ready-mix concrete in the United States, with almost 10,000 employees across the country. The Brazilian oil company Petrobras has become one of the biggest players in deep-water exploration in the Gulf of Mexico, using techniques developed in its own ocean waters.

"It's a trend that is clearly growing, and we see it multiplying year after year," said Jerry Haar, a business professor at Florida International University who is an expert on the multi-Latinas. "These companies need to expand into new markets because they have reached market saturation at home, just as Wal-Mart has done here."

There are no official estimates of how many Americans work for Latin American companies in the United States, but experts say it could be as many as 100,000 out of the five million people who work here for foreigners.

Direct foreign investment from Mexico, Central America and South America rose from a tiny base of \$8 billion in 1995 to \$13.5 billion by 2000, but then jumped more sharply to \$30 billion in 2005, according to the Commerce Department's Bureau of Economic Analysis.

Analysts and government officials who track foreign investment say that number is continuing to rise rapidly. One recent example of that growth is Cemex's \$14 billion deal to buy the Rinker Group, an Australian construction supply company with large operations throughout the United States.

Bush administration officials say that they welcome the trend. "An open investment climate on our side," Franklin L. Lavin, undersecretary of commerce for international trade, said in an interview, "helps keep open the investment climate on the other side."

To be sure, Latin American investment still pales next to direct investment from big foreign sources like Britain or Japan. But it is growing at a faster rate than investment coming from most other regions.

Mexican companies had little direct investment abroad before 2000. But by 2005 they had invested \$6 billion outside Mexico. A Deutsche Bank report on multi-Latinas last month predicted that total "will be greatly exceeded" in 2006 and 2007.

Last year for the first time, Brazil's \$26 billion of investments abroad outpaced handily the \$18 billion invested by foreign firms in Brazil.

The Latin American investment trend in the United States originated with the influx of 40 million or so legal and illegal Latino immigrants, who hunger for a taste of nostalgia when eating at restaurants like Pollo Campero (owned by a Guatemalan chain) or watching Mexican soap operas on Univision (produced by the Televisa network in Mexico).

Banorte, a large regional Mexican bank, has recently bought up remittance operations in over 40 states to capture service fees on the billions of dollars immigrants send home.

But the surge has now gone way beyond heavily Latino cities like Miami and Los Angeles, with Latin American companies producing, selling and providing satellite-delivered communications, graphics software, sweets, tiles and even guns.

The Brazilian company Embraer, which builds commuter jetliners, is servicing airplanes in Nashville. ARPL Tecnologia Industrial, a Peruvian company, recently started work on a \$140 million cement plant in Arizona.

As Latin American executives see it, their spread through the United States is a natural extension of their search for markets.

"The demand here in the United States is tremendous for everything — for goods, commodities, services, everything," said Gilberto Neves, chief executive of Odebrecht

Construction, a Brazilian contractor that is helping remake the skyline of Miami with jobs like an airport expansion, a performing arts center, an arena for the Miami Heat basketball team and many residential and office buildings.

Since 1994, the North American Free Trade Agreement has provided extensive protections to investors in Canada, the United States and Mexico to operate in those countries and encouraged cross-border financial services.

"The fears that some Mexicans had about Nafta was that the United States would go down and buy Mexico," said Mr. Pastor, the former Carter administration official. What actually happened, he said, is that "the growth in foreign investment by Mexico in the United States has been much faster than the growth of U.S. foreign investment in Mexico."

The wave of economic liberalization that swept Latin America in the 1990s led to a big sell-off of state companies to domestic and foreign businesses, valued at \$400 billion in total.

Those domestic companies were forced to compete or die, and those that were tough enough to survive became increasingly ambitious.

After the Argentine economy collapsed in 2001, many multinationals pulled out of the region. That left the field open to private Latin American companies, which knew the terrain and went bargain hunting. Many first invested around the region, and then looked to the United States and beyond.

More recently, the purchasing power of Latin American companies to acquire and invest has grown with the value of their local currencies, most stronger in the last few years with surging commodity prices. That may partly explain why the trend has continued, even as economic openness has slowed in Latin America in recent years. Some companies may also see the United States as a market with lower risk, compared with some of their own countries.

But the transition to the United States is not always easy, because of more stringent regulatory standards and fiercer competition.

Grupo Bimbo, which also owns the company that makes Wonder Bread, had trouble absorbing its \$600 million acquisition of George Weston Brands in 2002 for its large distribution network of American brands like Boboli pizzas and Entenmann's cakes. For several years, the operation lost money until the Mexican company eventually fired its American senior management team and remade its product line.

Now, Bimbo is starting to make money from its American operations, and its expansion in the United States continues. Gerdau Ameristeel inherited labor problems from many of the steel mills it acquired, and staged a six-month lockout at its plant in Beaumont, Tex., in 2005.

The company has attempted to smooth over old tensions by applying management techniques it learned from Toyota and then applied across Brazil. The system includes regular audits and self-evaluation and the creation of benchmarks for production, quality and safety. It now offers bonuses to workers for achieving the goals.

Gerdau workers here say they do not always like the new system, and managers concede that some adjustments are needed to link the two cultures.

"In Brazil, you can have a dinner for employees and their families, and it's considered a big deal," noted Carl W. Czarnik, a Gerdau Ameristeel regional vice president who supervises the Wilton mill. "But in America some people look at that as an imposition on their free time."

The Wilton mill was still profitable when Gerdau acquired it for nearly \$300 million from Cargill in 2004, along with three other plants. But profit margins had been narrowing in recent years because of increased competition from Chinese, Russian and Turkish imports.

To increase the plant's value, Gerdau added specialty products like spring components for trucks and S.U.V.'s to the plant's product line. The company kept the plant's management and 320 workers while hiring 10 more employees. It agreed to invest an additional \$30 million.

Mr. Czarnik, who also managed the plant when Cargill owned it, said he lost sleep worrying about the mill's outlook before Gerdau came in.

"I thought there wasn't necessarily a lot of future in a plant, with outdated equipment that was depreciating, owned by a company that was not focused on steel," he recalled.

But now that Gerdau owns the mill, "it's like being adopted," he said. "I don't care what country the parents come from."

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