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The rise of "euro-emerging" multinationals

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FDI has fallen dramatically as a result of the global financial crisis. But this column shows that the trend for the decade is still up, suggesting a greater resilience of investment inflows towards emerging markets. Emerging markets are no longer considered a remote and exotic category for European companies; they are now a vital part of the "euro-emerging" multinationals.

FDI fell sharply in 2009, but these figures mask some of the strong trends of the last decade. Until recently a dominant share of FDI simply went from OECD nation to OECD nation. The decade has seen some important new trends of the "multipolar world" type. FDI from emerging countries has been on the rise (an Indian steel company buying a Belgian steel company). But emerging markets have also become more important as destinations of FDI, above all from OECD multinationals. This trend will continue over the next decade and will keep on transforming profoundly OECD corporations that are incorporating more and more emerging markets in their core activities.

Recently UNCTAD released figures of worldwide FDI for 2009. Global inflows fell by nearly 40% from $1.7 trillion in 2008 to less than $1.0 trillion in 2009.

The data underlines a larger slump for OECD developed economies relative to their emerging markets peers. While in OECD developed economies the decline of 2009 prolonged the one of 2008, in emerging economies the contraction of 2009 comes after a rise in 2008. While in the UK or the US, the slumps have been massive (-93% and -57%), China fell by a meagre 3%. China drew a comfortable $90 billion from foreign companies investing in the country's factories and other productive assets in 2009. In December 2009 alone, China attracted more than $12 billion in FDI, up 103% from a year earlier. Some emerging countries like Peru even enjoyed a rise of 28%. Most of the emerging countries however saw a reduction of FDI – but from a peak in 2008. In Brazil, for example, FDI fell by half in 2009 but from a historical record in 2008 of $45 billion. In Colombia, the fall has been less pronounced (-15% in 2009) but also from a peak in 2008. In India, according to the national estimates, FDI in the year to March 2010 would be about $18 billion, from a peak of $27 billion in the year 2008/2009.

These trends are pointing to a greater resilience of FDI inflows towards emerging markets and a relative stronger hit taken by OECD peers. Not only emerging multinationals are investing more and more abroad, sustaining the levels of FDI inflows in other emerging economies, but OECD multinationals are keeping an eye on developing countries. In fact, in parallel to a major event that took place in the 2000s (the rise of emerging multinationals as international investors), we are witnessing the persistence of another solid trend: the increasing interest of OECD multinationals for emerging economies. This appetite for developing countries is already profoundly transforming some of the major OECD multinationals. As a consequence of both trends, for the first time, three emerging countries, China, India and Brazil, are ranked in the top five in the AT Kearney Confidence Index – tracking the major future destinations for FDI – showing a strong vote of confidence for the strength of these economies in the future.

Over the last twenty years, companies in OECD countries have noticeably increased their investments and transactions in emerging markets. It was an emblematic move when a multinational like Madrid based Telefónica, today one of the global leaders in the telecommunications sector, invested almost €90 billion in Latin America alone during the period

1990-2009. Massive investments such as these changed the profile of such groups, some emerging countries like Brazil or China being today major markets for these European multinationals.

A new corporate panorama

The principal consequence of this FDI is that emerging markets ceased to be considered a remote and exotic category for these companies. These days, emerging markets are not only to be found in all our companies, but are at the very heart of the capital, sales and profits of European multinationals. Indeed, emerging countries already absorb about 50% of total European exports. But, above all, an investor today can bet on emerging countries by investing exclusively in multinationals from the Ibex 35, the CAC 40 or the FTSE 100. While FDI in emerging markets declined in 2009, the prospects remain positive according to investors polls conducted by firms like AT Kearney for example who, in its latest survey, reports that for the first time ever since these polls are conducted, the three major emerging market – China, India and Brazil – all ranked among the top four investment destinations, ahead of all European countries, as investors expect these countries to continue to deliver growth despite the economic crisis.

The current crisis partly obscures a new corporate panorama. As in the recent past, the high growth rates will, in the near future, continue to be in emerging markets and not in OECD countries. This explains why multinationals from developed countries are looking to increase aggressively their participation in new world markets. A corporation like Siemens, for example, estimates that, in the next few years, more than 50% of world growth in their business sector will come from emerging countries. In 2009 these economies already represent more than 33% of the total sales of the conglomerate. In 2015, in other words *tomorrow*, European groups like Philips, MAN or Renault estimate that they will carry out more than half their turnover in emerging markets. Even as we speak, multinationals like the Swedish/Swiss company ABB, the French company Schneider Electric, or the German firm Volkswagen, derive respectively 55%, 32% and 26% of their total sales from emerging markets. Moreover, in the case of the German group, this figure covers just two countries: China and Brazil.

For the French manufacturer Schneider Electric, China became a very key market, while Brazil is transforming the profile of the French chemical company Rhodia. The London base Tullow Oil, one of Europe's largest independent exploration and production companies, derives almost all its operations from Africa, South Asia and South America. Cairn Energy, an Edinburgh-based oil and gas exploration and production company listed on the London Stock Exchange, derives the bulk of its revenues from emerging markets like India, Central or South East Asia.

Commodity firms are not the only companies to have turned towards emerging markets. The “French” cement manufacturer, Lafarge, obtains almost 65% of its profits from the various emerging regions of the world, including Africa and the Middle East (its Swiss competitor, Holcim, also realises a substantial 34% of its sales in emerging countries). In 2008, with the acquisition of the North African company, Orascom, for nearly €9 billion, Lafarge significantly strengthened their profile as a “euro-emerging” multinational. What’s more, their principal shareholders are not any longer only the traditional French or Belgian investors, but also an Egyptian: Naguib Sawiris, who currently owns 13% of the ‘gala’ multinational. The race by western groups towards emerging countries is visibly not only limited to BRICs (Brazil, Russia, India, and China), many are taking on strong positions in other countries. New deployment frontiers include Mexico, Turkey, Egypt, Vietnam and South Africa.

Some, including Unilever, are now quoted in countries like South Africa or India, for example. Hindustan Unilever is an “Indian” company quoted on the local market. However, some companies like the “British” bank, Standard Chartered, have gone one step further, with the latter transforming itself into an emerging markets bank and realising the totality of its profits in these zones. Although Standard Chartered’s corporate headquarters remain in London, its business and revenue centres are in Africa, the Middle East, South East Asia, India, or China.

Recently, the investment bank, Goldman Sachs, published a study arguing that this group of companies – European but with strong presence, profit and sales in emerging markets – not only represent the greatest potential of their respective stock exchange indexes but also constitute a very specific category of assets. In fact, in barely a decade, this group of 40 select European multinationals has doubled its exposure to emerging markets. In the banking sector, Goldman Sachs also highlighted HSBC and Standard Chartered, companies which obtain respectively 50% and 100% of their income from emerging markets.

In fact, it is difficult to determine the nationality of many of the 40 "European" companies included in the list. How can one categorise Arcelor Mittal, a company whose headquarters may well be in Europe but which is owned by an Indian magnate? And Vedanta Resources, also based in Europe but with Indian capital and management and with more than 73% of its total sales realised in emerging markets? And again, Kazakhmys, based in London, originating in Central Asia and carrying out more than 40% of its total sales in emerging markets? One emblematic case is the Belgian-Brazilian-American brewery, Anheuser-Busch InBev. The company's headquarters remain in Belgium but, since the merger, years ago, with a Brazilian brewery, it is managed by Brazilians.

The Spanish stock exchange index, Ibex 35, includes some companies which correspond to this category, with a strong activity in emerging markets. In fact, the Goldman Sachs study includes BBVA, a bank which derives 50% of its revenue from Latin America. However, many other companies are missing from the list. Telefónica, already mentioned, for example, got more than 40% of revenue in the first nine months of 2009 from Latin America. The firm is certainly symbolic of this new category of European companies with strong emerging DNA, as are the Nordic companies Telenor, Ericsson or Nokia in their sector, realising respectively 28%, 39% and 54% of sales in emerging countries. Santander, Inditex, Iberdrola, Endesa or Gas Natural also possess a strong presence in emerging markets and could easily be added to the list. Investing in emerging markets from home.

These multinationals all make it possible to bet on emerging countries from home. They are all quoted in London, Paris, Zurich or Madrid. They all allow investors to bet on emerging countries via European companies. It is probable that we will soon witness the appearance of investment funds structured around this very idea: investment in emerging markets through European companies. Goldman Sachs invented the BRICs. Perhaps a new category of assets and crossbreed companies is now being invented. European for sure, but with more and more emerging DNA: euro-emerging multinationals.

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