

## **¿Acquisition or exploitation of competitive advantages as drivers for internationalization of Argentine companies? The case studies of Techint and Arcor**

*Brenda Denise Dorpalen*

### **Abstract**

The growth of outward FDI from emerging countries, especially from East Asia, has significantly increased in the first decade of the twentieth sector. The specialized literature can be classified into two strands. One of them is an extension of the traditional insights which have been developed for multinationals from developed countries. The other one relativizes that the exploitation of advantages is the main motivation for South-North patterns of FDI. Instead this literature argues that the acquisition of advantages is the main driver for their investment abroad. Whereas there are many scholars who have analysed the reasons why East Asian multinational companies internationalize, there are much less who have studied these issues for those of Latin American origin. Given the dialogues which have been discussed above, it is an interesting challenge to understand if the motives for outward FDI in Latin American MNC have also been the acquisition of competitive advantages as in the case of East Asia multinational companies. In this realm, the purpose of the present paper is to analyse how competitive advantages/disadvantages have influenced the internationalization of two of the principal largest multinationals companies of Argentinian origin, that bear significant differences: Techint (beginning from the 90s) and Arcor.

## ***Introduction***

In 1890, an Argentinian company, *Alpargatas*, set up its first affiliate in Uruguay and later it set another subsidiary in Brazil. In the late 1920s and during the 1930s, other Argentinian companies also began its internationalization process. Through these outward FDI, Argentina became one of the first emerging economies with multinationals companies not only with a South-South pattern, but also with a South-North pattern (World Investment Report, 2006). Despite this historical fact, their MNC ´s have not been so deeply studied, like MNC ´s from other Latin American countries, in comparison to Asian or BRIC MNC (Cuervo-Cazurra,2016).

Most studies on Asian and BRIC MNC are cross-cut by an underlying question: is it possible to apply the theoretical frameworks that have been deployed to analyse MNC from developed countries to emerging countries? According to main answers, the literature can be classified into two categories. On the one hand, there are works which have extended traditional theories to explain outward FDI from emerging countries. On the other hand, there are studies which question this traditional insight and have given rise to new and specific approaches (Andreff and Balcet,2013), most of them based on East Asian and BRIC ´s experiences.

Within the traditional frameworks, both the Product Life Cycle Model (Vernon, 1979; Lall, 1983) and the eclectic paradigm (Dunning, 1985) were adapted to explain outward FDI from developing countries. In the Product Life Cycle model, Vernon (1974) links multinationality to market concentration. From his viewpoint, oligopolistic structures provide competitive advantages to MNC ´s over their competitors. While in the first stages of the development of a new product this market failure is a result of product innovation, in later or mature stages it is the consequence of economies of scale, transportation and marketing. As the product goes from the first phase to the second one, it becomes easier to copy by European firms. Thus, the driver for internationalization is to be closer to European markets where these products are already being exported to avoid imitation, to offset their trade barriers and to reduce costs. In later phases, when the product becomes standard and the profits reduce, companies internationalize with the aim of reducing costs. In later works, Vernon (1979) argues that this theory can be applied to acknowledge South-South outward FDI (Ieto-Gillie, 2005).

Within the same theoretical background, and thanks to empirical work done in India, Lall(1983) explains South-South outward FDI based on technology advantages. MNC from India develop technology which is better suited to the features of emerging countries (factor relative prices, efficiency at a small scale and match to local tastes). She also maintains that with technological upgrading, multinationals from emerging economies would even be able to invest in developed countries.

In the eclectic paradigm (1985), Dunning also understands firm´s internationalization based on their unique set of advantages. Companies get involved in outward FDI to exploit their ownership advantages (oligopoly structures, access to markets and inputs, superior technical

and/or organizational knowledge, size, access to cheaper inputs, access to technology at zero or lower or marginal cost, multinationality, and so on) and to profit from a reduction in transaction costs given by the internalization advantages from internalizing external markets (rather than exporting, licencing or franchising). They choose where to invest according to locational advantages of countries (resources, market, technology and so on) (Ieto-Gillies, 2005).

The drivers for their internationalization can be of different types. Such as resource seeking motivations (natural resources), market-seeking motivations (in search of new markets), efficiency-seeking motivations (specializing and dividing production according to comparative advantages) and strategic-asset seeking motivations (searching for technology, knowledge and so on). Dunning (1986) argued that the so called OLI (ownership-locational-internalizing) paradigm could be applied to developing countries. In this case, multinationals ownership advantages rely in their ability to adapt imported know-how and technology, their better knowledge of other developing countries markets and their smaller institutional distance (Andreff and Balcet, 2013).

These adaptations of traditional theories agree in that the internationalization of MNC relies in their set of advantages in comparison to domestic firms: the purpose of outward FDI are to exploit them. The second category of theories, which develops specific approaches to understand outward FDI from MNC in East Asian and BRIC countries, relativizes in different degrees this main thesis when explaining outward FDI in a South-North pattern.

Luo and Tung (2007) argue that the main driver of South-North FDI from East Asian MNC is to overcome their competitive weaknesses. Thus, international expansion is not an end in itself but a recursive and revolving medium, or in their own terms a “springboard” in pursuing firm growth and, in the long term, its competitive position in the global market place. Through internationalization firms obtain strategic resources to compete more effectively abroad and at their own country. They also manage to reduce their domestic institutional risks.

In an similar vein to Luo and Tung (2007), Matthews (2006) states that the underlying motive in outward FDI of MNC from East Asian MNC to developed countries is to acquire external advantages in order to underpin new strategic options. The internationalization is accelerated to obtain these resources as soon as possible. Since this type of operation is very risky and its purpose is to learn from other companies, they tend to establish particular relationships with them: partnerships and joint ventures. Through these links they leverage their resources via technology licencing contracts, imitation and reverse engineering. Analogously to Luo and Tang (2007) that maintain that outward FDI to developed countries is done several times in a short period, Matthews (2006) states that linking and leveraging are also recursively done, so that in the process MNC learn how to perform these operations more effectively. For this author, the resulting linkage, leverage and learning (LLL) framework to analyse South-North outward FDI can be considered complementary to the OLI paradigm, which is better suited to study the internationalization of MNC from developed countries.

In an intermediate position between the extension of traditional theories and the creation of new insights, Moon and Roehl (2000) argue that the main driver of MNC from emerging countries (they refer to developing countries in general) to invest abroad is to correct the imbalance between their advantages and their disadvantages. Also from an intermediate position between focusing mainly on the advantages or on the disadvantages of MNC to explain their internationalization, Andreff and Balcet(2013) point out that low wages from skilled and unskilled labour in India and China may work as a competitive advantage for their multinationals, enabling them to accelerate the acquisition and creative assimilation of foreign technology. In this way, they reduce their technological gap with their competitors in developed countries.

## ***2. The purpose and organization of the paper***

Given these dialogues about the reasons that drive multinationals from East Asian and BRIC companies to internationalize, it is an interesting challenge to understand if the motives for outward FDI from Latin American MNC have been the exploitation and/or acquisition of competitive advantages. This understanding is relevant for planning and development: if their internationalization leads to technological upgrading and to their acquisition of competitive advantages, it means that policies oriented to support outward FDI are key in the set of strategies to promote structural economic change in these countries. It is also a very important issue for Argentina, which has been experimenting a declining trend in its multinationals after the mid-1990s (Finchelstein, 2012).

With a more modest aim, the purpose of the present paper is to study how competitive advantages/disadvantages have influenced the internationalization of two of the principal largest multinationals companies with Argentinian origin (though with significant differences between them): Techint (during the 90s) and Arcor. In 2009, the former had slightly less than USD 18 billion foreign assets, while the latter had USD 559 million foreign assets (Nofal, 2011). They are interesting cases to compare because of their differences in their degree of internationalization, and because Arcor´s main activity (food production) is more in line with the Argentinian productive structure than Techint (steel production).

The content of the present paper is organized into nine parts. The third section describes the dynamic in Latin America FDI and specifically in Argentina, for which it also provides an account of their composition and their geographical distribution, the fourth and fifth section refer to the main features of Arcor and Techint, respectively. The sixth section is about their process of their internationalization. Section seven delves into their respective drivers in outward FDI, considering if they were searching to exploit or to acquire advantages. In section eight, specific literature on the drivers for the internationalization of Multilatinas is analysed and it is related to the internationalization process of Techint and Arcor. In section nine, some final comments are presented.

### ***3. Dynamics in Argentina 's outward FDI in relation to the region***

Latin America and the Caribbean has been suffering a decline in its reception of inward FDI between 2010 and 2015. Though in terms of the GDP they have stabilized around 3,5%. Regarding outwards FDI, they have significantly increased between 2010 and 2012. Nevertheless, this trend has not continued in the last years. In fact, in 2015 there was a 15% reduction in them in comparison to 2014 (Foreign Direct Investment Report, 2016).

In relation to the region, inward foreign direct investments in Argentina had a more erratic behaviour between 2010 and 2012. This means that there were some years in which they increased and others in which they were reduced. Overall, during these years there was an average rise of around 44%. The same argument can be stated about the outward FDI, which they raised on average 20% between 2010 and 2015(Foreign Direct Investment Report, 2016). These data can be observed in table I in the annex.

Taking into account the composition of the outward FDI, in 2009, the 23 MNC from Argentina approximately held nearly 21 USD billion foreign assets, with a high concentration on Techint who owned 85% of the total. Between the three largest firms, Techint, Grupo Insud and Arcor, accounted for 92% of them. This means that there is a very unequal degree of internationalization between companies. The 23 MNC had 278 foreign affiliates in 62 countries. Regarding their geographical distribution, 63% of them were localized in Latin America and the Caribbean, 15% in Western and Central Europe, 10% in North America, 7% in East Asia and Oceania, 3% in Middles East and North Africa and 2% in Eastern Europe and Central Asia. Within Latin America and the Caribbean, most subsidiaries are concentrated in neighbouring countries, which are members or associated members of the MERCOSUR<sup>1</sup>. Considering the sectoral pattern of the geographical distribution, most affiliates in the pharmaceutical and steel manufacturing are located in North America (55%) and in Europe (17%), while those in the food processing sector are placed in Latin America and the Caribbean (82%) and in Eastern Europe and Central Asia (17%). Nevertheless, it is relevant to take into account that most MNC are in the food manufacturing and agribusiness sector, while there are very few in the pharmaceutical or steel industry (Nofal, 2011).

### ***4. Main Characteristics of Arcor***

Arcor is a family company which was founded during the period of industrialization by substitution of imports, in 1951. In line with Argentinian economic structure that is

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<sup>1</sup> The MERCOSUR (South Common Market) is a regional process of integration between Argentina, Brasil, Paraguay, Uruguay, Venezuela (which is at the present moment suspended), Chile, Colombia, Ecuador, Guyana and Surinam are associated members. Bolivia is still in the process of becoming a member. It is a zone of free trade, agreements on common tariffs and economic, social and cultural integration ( <http://www.mercosur.int/>, accessed on 10/12/2016)

characterized by the production of primary goods and manufactured goods with low value added, the company's main activity is the production of sweets, candies, chocolates, ice creams and biscuits. It is the first global producer of candies and one of the principal exporters of sweets from Argentina and from the MERCOSUR. In 2015, its billing was USD 3200 million. Approximately, 25% of them are generated in its subsidiaries while the rest are produced in Argentina. For 2015, its total exports generated revenues for USD 2700 million and they were targeted to more than 120 countries. This was achieved thanks to 40 industrial plants with the most updated technology. Thirty of them are located in Argentina, five in Brazil, three in Chile, one in México and another one in Peru. It also has ten commercial subsidiaries (Bolivia, Colombia, Ecuador, España, Estados Unidos, México, Paraguay, China, Uruguay y Venezuela) and nineteen distribution centres (Brasil, Bolivia, Chile, Uruguay, 1 in México, Venezuela, Perú, Paraguay, Ecuador). In total it employs 21000 ([http://www.arcor.com.ar/es\\_prensa\\_principalesCifrasDestacados\\_93.aspx](http://www.arcor.com.ar/es_prensa_principalesCifrasDestacados_93.aspx), accessed on 8/12/2016).

There are two characteristics that are usually highlighted to explain Arcor success. One of them is its vertical integration in the production of its key inputs: agro-industrial raw materials (fructose, glucose, milk, sugar, corn flour, semolina, ethyl alcohol from cereals) and packages (corrugated cardboard, flexible and packaging products). The other principal feature is its widely amplified and diversified distribution structure in Argentina as well as in Latin America (Kosacoff, 2007).

## ***5. Main characteristics of Techint***

Like Arcor, Techint is also a family company. It was founded by Agostino Rocca, during the period of substitution of imports in 1945. Differently to Arcor, it is not representative of the Argentinian economic structure as its main activity is the production of seamless steel pipes and tubes. With much bigger dimensions than Arcor, by 2007 it has already achieved approximately 20% share in the global market. In 2015, its revenues accounted for 19800 million with USD 29928 million total assets. This was achieved thanks to 51191 permanent employees (<http://www.techint.com/en/Highlights.aspx>, accessed on 8/12/2016). Assuming that there have not been significant changes in its principal sources of income, another difference with Arcor is that most of its sales come from its subsidiaries. In 2011, they accounted slightly less than 70% of the total revenues (Castro, 2014).

It is argued that the success of Techint's business model can be substantially explained by its ability to attract and to develop top global talent that enables it to innovate beyond cost-improvement, thanks to a network of five research and development centres, which are distributed between Argentina, Italy, Japan, Mexico and the United States. Each of them is specialized in one technology or product and in total they employ approximately 200 researchers, whose managers have been able to deploy cross-cultural capabilities (Casanova, 2009).

## ***6. Internationalization process***

Both Arcor and Techint began to export during the 60s. From then onwards, Arcor has been expanding its exports to other countries, going through a significant increase of them during the 90s (Kosacoff et al, 2014). While Arcor began to export as a way of testing its competitive capacities (Kosacoff et al, 2014), Techint started to export as a strategy to offset the reduction in internal demand (Castro, 2014). In its origins Techint was conceived to meet the demands of the local market and thus to replace foreign production. It was supposed to have a tight relationship with the national petroleum producer. Nonetheless, the reduction in its demand during the economic crises that followed the 1961 coup d'état and the contractionary monetary and fiscal programme of the dictatorial government, were sufficient signs for Techint to begin to allocate between 25-30% of its production to external markets. During the 70s its exports has significantly increased(Castro,2014).

Regarding the internationalization of production, Arcor began opening its first subsidiary in Paraguay, in 1976. Three years later, it acquired 50% of the equity share of the company Van Dam SA, continuing with investments in Uruguay. Lately, in 1981, the outward FDI had Brazil as destiny. It involved the purchase of the firm Nechar Alimentos. During the 90s, it consolidated its presence in this country by an important greenfield investment. By the end of this decade, it also extended to Chile by the acquisition of the company Dos en Uno (a company leader in its country) and to Peru by a greenfield investment (Kosacoff et al, 2014). During the 2000s it increased its assets in these countries as well as in Mexico.

Unlikey Arcor, Techint didn ´t wait so many years to begin its internationalization of production. Its first outward FDI to Uruguay started one year later after its foundation:1946 (Cuervo-Cazurra, 2014). Then, in the late 40s and during the 50s it invested in Brazil and Mexico. Nevertheless, its international expansion acquired significant pace during the 90s. Its main characteristic was that it mostly involved the purchase of companies that were going through financial problems. It began with companies in Mexico and Italy and it continued with firms in Japan, Brazil and Venezuela (Castro, 2014). After this accelerated expansion, it also succeeded with its outwards FDI to United States, Romania and Canada (Casanova, 2009).

## ***7. Main Drivers for Arcor ´s and Techint ´s internationalization***

Both Techint and Arcor began their internationalization process in geographically near countries, characterized by their cultural proximity to Argentina. Until the present moment Arcor has continued with this type of investment pattern and has basically invested in countries from the MERCOSUR. On the contrary, Techint ´s outward FDI have acquired a

more international scope and a quicker pace during the 90s. In this decade, this company began with South-North outward FDI aimed at developed countries, characterized by their significant cultural and linguistic distance to Argentina. These differences between Arcor´s and Techint´s respective geographical productive expansion during and after the 90s provide some first signs that while the former was expecting to exploit its *internal* competitive advantages through its internationalization of production, the later was pursuing both to exploit and to acquire *internal* competitive advantages through its outward FDI.

There is a vast array of reasons to sustain this argument. One of them lies in Arcor´s and Techint´s main activity and their respective relationship with Argentina´s economic structure. Arcor´s production of food goes hand in hand with the country economic specialization, which is based on primary activities and manufactures with low value added. Argentina does not have a tradition in basic industry or in products with high value added; such as steel tubes. This means that the industrial environment has not been so favourable to the development of Techint.

Nonetheless, between the 1930 and 1976 special macroeconomic policies were implemented so that industries like Techint could develop. These were the years of the industrialization by substitution of imports (ISI), in which a devaluated exchange rate and trade restrictions (protective tariffs, quotas, import licences) were implemented to aid the development of manufactured products that could compete internationally. Techint was born during this period. Thus, it benefited from the fact that local companies could only purchase its products.

By 1976 the macroeconomics conditions have radically changed. The economic crisis and the structural reforms, that involved the liberalization and opening of the Argentinian economy, gave an end to the industrial protection from competitive imports that had been benefiting Techint. It was in this context that Techint began an upgrading process, achieving productivity gains and increasing the quality of its products. Moreover, during the 80s, it changed its international commercial strategy and during the 90s it went through an accelerated process of purchasing firms that were going through financial problems from abroad. This internationalization of production proved that during the 80s it had been developing competitive advantages that enabled the company to surface the reduction of demand and the decline of prices after the fall of the Soviet Union, while other international firms couldn´t do it (Castro, 2014).

However, the fact that Techint benefited from trade protection and a guaranteed demand of its products during the ISI, the pace in which this international expansion (which gives account of how risky this operation was) occurred and its international scope help to interpret its outwards FDI during the 90s as a “springboard” to achieve firm growth and a leadership position in the global market. In words of one of the principal managers of Techint “We had to realize that we were novices, that nobody knew us in the international market and as a result the chances of achieving significant improvements in a short time were very difficult...The aim was to keep the plant running at full capacity, facilitating accelerated improvement in industrial efficiency” (Castro, 2014: 131). Therefore, proactive actions were

developed in order to employ skill and talented people and to acquire the best practices and technology all around the world (Casanova, 2009).

Pro-market reforms also meant a change in Arcor´s strategy. Its internationalization of production began at the beginning of this period and it was an integral component in its modernization process and upgrading of its products. These investments enabled the company to deepen its relationships with external markets, to increase the demand for an increasing supply and thus to take advantage of economies of scale. Therefore, these outwards FDI allowed Arcor to exploit its internal competitive advantages, based on its size and distribution network (Kosacoff, 2014).

Summing up, Techint´s internationalization process during the 90s could be interpreted as “springboard” to acquire a global dimension as a firm, as well as a medium to balance *internal* advantages and disadvantages. In the case of Arcor, its internationalization of production was driven by the exploitation of *internal* advantages.

## ***8. Multilatinas: a special phenomenon?***

Despite the differences between the drivers in Techint (after the 90s) and Arcor´s internationalization of production, it can be argued that they both share a very important aspect: this process happened during the period of pro-market reforms in Argentina. For special theories that address outward FDI of Multilatinas as a particular phenomenon distinct from the internationalization of companies from other countries, this is a key aspect to take into account. Most firms from Latin America became MNC´s or went through changes in their international strategy between the late 70s, the 80s and the 90s (Cuervo-Cazurra, 2016). The literature has developed a vast array of arguments to justify their internationalization of production during this period. Some authors argue that it can be interpreted as an answer to economic liberalization. Companies needed to upgrade their technology and competences to be able to compete internationally. Therefore, they had to get acquainted of best practices abroad (Cuervo Cazurra, 2016). Others researches underpin that firms’ ability to overcome the macroeconomic transformations gave them the tools to invest in countries that were beginning with pro-market reforms (del Sol and Cogan, 2007). In other cases, the internationalization of production is acknowledged as an escape to reduce the effects of pro-market reforms (Cuervo Cazurra, 2006). Overall, all these different interpretations agree in that the radical changes in the institutional set-up that accompanied the pro-market reforms were a fundamental driver in the outwards FDI from Latin American companies either because they worked as a competitive advantage to exploit abroad or because it was a disadvantage from which firms tried to escape.

Since Arcor began to invest abroad in the beginnings of the pro-market reforms, its outwards FDI can be interpreted more as an escape from the new institutional set-up rather than as a process intended to exploit new advantages. Techint started its new wave of outward FDI in

the 90s. This could be achieved thanks to the previous upgrading of its technology and a significant change in its commercial strategy. It could be underpinned that the modification in the institutional environment led to these internal transformations and thus to the internal acquisition of new competitive advantages necessary for its South-North FDI. It also provided the company assets to manage uncertain situations of radical institutional change. For example, contrary to many of its competitors, it could succeed from the crisis in the sector provoked by the reduction of demand due to the fall of the Soviet Union (Casanova, 2009).

### ***9. Drivers for internationalization: balancing external/internal advantages and disadvantages?***

From the comparison between the internationalization of production of Techint (during the 90s) and Arcor, it results that it is not possible to completely extend the theories that have been deployed for MNC from developed countries. A combination of the imbalance theory, the OLI paradigm and Latin America special theories could be best suited to explain their drivers for outward FDI. In both cases, these investments meant balancing advantages and disadvantages in a changing macroeconomic and institutional context.

In the case of Arcor, the balancing of advantages and disadvantages meant exploiting its *internal* strengths (access to markets, distribution network, size and multinationality) and avoiding the *external* weaknesses created by the change in Argentina´s institutional set-up. In terms of the eclectic paradigm, the internationalization of production has followed a market-seeking strategy. On the contrary, for Techint the changing environment worked more as an “*external* advantage” as it encouraged a set of internal transformations that enabled it to invest in a South-North pattern and even to overcome the fall of the Soviet Union. At the same time the internationalization was a “springboard” or a medium to offset some of its *internal* weaknesses. To understand this, it is important to consider the dissonance between the company’s main activity and Argentinian productive structure. Moreover, the accelerated dynamic of the process, the fact that it implied purchasing companies from abroad and the fact that it created a network of research and development centres which most of them are located in developed countries, are some other elements that help to sustain that the internationalization of production during the 90s involved offsetting some of its *internal* disadvantages to avoid the imbalance with its internal advantages. The latter were synthesized in its ability to surface the fall of the Soviet Union up to the point of being able to purchase many firms that were going through financial problems. In terms of the eclectic paradigm, these purchases were driven by the access to markets, asset-seeking strategy (searching for knowledge and technology) and an efficiency seeking strategy (specializing and dividing R&D in products and processes between countries).

Both cases also give account that history matters. Neither the internationalization of production of Techint nor the internationalization of production of Arcor can be grasped

without taking into account Argentina´s movement from a protectionist environment created by the ISI to a liberalized environment as a result of pro-market reforms.

Both cases also provide evidence that there is still need of deeper research regarding the internationalization of production of Latin American companies. This process has some unique features which deserve being studied. As far as my knowledge, until now most of the studies have concentrated on how institutional factors, which are external to the companies, influence their outwards FDI, but there are not so many which delve into the internal unique characteristics of the firms as their main drivers. So, there is an important challenge for future analyses on the topic.

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## ***11. Annex***

**Table 1:** Annual growth of inward and outward FDI in Argentina between 2005 and 2015.

Years	Inward FDI	Interannual growth	Outward FDI	Interannual growth
2005	5265		1311	
2006	5537	5%	2439	86%
2007	6473	17%	1504	-38%
2008	9726	50%	1391	-8%
2009	4017	-59%	712	-49%
2010	11333	182%	965	36%
2011	10840	-4%	1488	54%
2012	15324	41%	1055	-29%
2013	9822	-36%	890	-16%
2014	5065	-48%	1921	116%
2015	11655	130%	1139	-41%

Source: The author based on ECLAC (2016), *Foreign Direct Investment in Latin America and the Caribbean Report*, United Nations, Santiago de Chile.