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The Secrets of the World's Richest Man

Mexico's Carlos Slim makes his billions the old-fashioned way: monopolies

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(See Corrections & Amplifications item below.)

Mexico City

Carlos Slim is Mexico's Mr. Monopoly.

It's hard to spend a day in Mexico and not put money in his pocket. The 67-year-old tycoon controls more than 200 companies -- he says he's "lost count" -- in telecommunications, cigarettes, construction, mining, bicycles, soft-drinks, airlines, hotels, railways, banking and printing. In all, his companies account for more than a third of the total value of Mexico's leading stock market index, while his fortune represents 7% of the country's annual economic output. (At his height, John D. Rockefeller's wealth was equal to 2.5% of U.S. gross domestic product.)

As one Mexico City eatery jokes on its menu: "This restaurant is the only place in Mexico not owned by Carlos Slim."

Mr. Slim's fortune has grown faster than any in the world during the past two years, rising by more than $20 billion to about $60 billion currently. While the market value of his stake in publicly traded companies could decline at any time, at the moment he is probably wealthier than Bill Gates, whom Forbes magazine estimated at $56 billion last March. This would mark the first time that a person from the developing world held the top spot since Forbes started tracking the wealthy outside the U.S. in the 1990s.

"It's not a competition," Mr. Slim said in a recent interview, fiddling with an unlit Cuban cigar in a second-story office decorated with 19th century Mexican landscape paintings. A relatively modest man who wears ties from his own stores, the mogul says he doesn't feel any richer just because he is wealthier on paper.

How did a Mexican son of Lebanese immigrants rise to such heights? By putting together monopolies, much like John D. Rockefeller did when he developed a stranglehold on refining oil in the industrial era. In the post-industrial world, Mr. Slim has a stranglehold on Mexico's telephones. His Teléfonos de México SAB and its cellphone affiliate Telcel have 92% of all fixed-lines and 73% of all cellphones. As Mr. Rockefeller did before him, Mr. Slim has accumulated so much power that he is considered untouchable in his native land, a force as great as the state itself.

The portly Mr. Slim is a study in contradiction. He says he likes competition in business, but blocks it at every turn. He loves talking about technology, but doesn't use a computer and prefers pen and paper. He hosts everyone from Bill Clinton to author Gabriel García Márquez at his Mexico City mansion, but is provincial in many ways, doesn't travel widely, and proudly says he owns no homes outside of Mexico. In a country of soccer fans, he likes baseball. He roots for the sport's richest team, the New York Yankees.

INTERVIEW EXCERPTS

"This isn't a competition. Being a businessman isn't about that kind of competition. It's a competition for the marketplace."
-- *Carlos Slim, in a discussion with The Wall Street Journal.* ***Read the edited excerpts.***

Admirers say the hard-charging Mr. Slim, an insomniac who stays up late reading history and has a fondness for reading about Ghengis Khan and his deceptive military strategies, embodies Mexico's potential to become a Latin tiger. His thrift in both his businesses and personal life is a model of restraint in a region where flamboyant Latin American business tycoons build lavish corporate headquarters and fly to Africa on hunting jaunts.

To critics, however, Mr. Slim's rise says a lot about Mexico's deepest problems, including the gap between rich and poor. The latest U.N. rankings place Mexico at 103 out of 126 nations measured in terms of equality. During the past two years, Mr. Slim has made about $27 million a day, while a fifth of the country gets by on less than $2 a day.

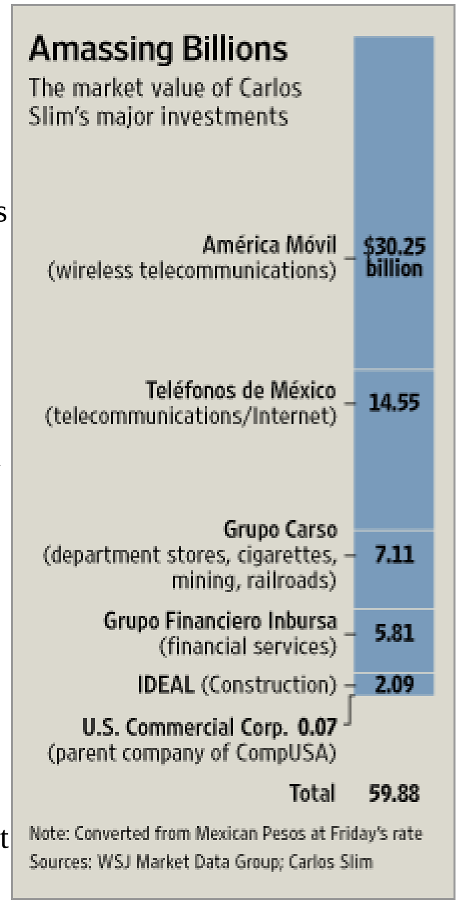
"It's like the U.S. and the robber barons in the 1890s. Only Slim is Rockefeller, Carnegie, and J.P. Morgan all rolled up into one person," says David Martínez, a Mexican investor who lives in Manhattan.

Monopolies have long been a feature of Mexico's economy. But in the past, politicians acted as a brake on big business to ensure that the business class didn't threaten their power. But political control faded in the 1990s with the privatization of much of the economy and the slow death of the Institutional Revolutionary Party, which held power for 71 years until 2000.

"It is surprising how big companies have captured the Mexican state. This is a risk to our democracy, and is suffocating our economy," says Eduardo Perez Motta, the country's antitrust chief.

As the face of the new elite, Mr. Slim presents an acute challenge for the country's young president, Felipe Calderón. He must decide whether to try and rein in Mr. Slim despite the mogul's standing as the country's largest private employer and taxpayer. Congress routinely kills legislation that threatens his interests, and his firms account for a chunk of the nation's advertising revenue, making the media reluctant to criticize him.

During the past few months, Mr. Calderón has looked to cut a backdoor deal with Mr. Slim. In a series of face-to face meetings -- the details of which have surfaced for the first time -- the president has tried to convince Mr. Slim to accept greater competition, according to people familiar with the talks. The government holds an important card: Mr. Slim can't offer video on his network -- a big potential market -- without government approval.



But even some within Mr. Calderón's camp privately say the closed-door talks play into Mr. Slim's hands by letting him circumvent the country's regulators, underscoring the weakness of Mexico's democratic institutions. Unless Mr. Calderón extracts big concessions from the mogul, they say, he may become too powerful to control. For his part, Mr. Slim says that his companies are "in constant contact" with regulators, but played down the notion of a secret negotiation.

A talkative man who is generally avuncular but who can easily lose his temper, Mr. Slim rejects the monopolist label. "I like competition. We need more competition," he says, sipping a Diet Coke. He stressed that many of his companies operate in competitive markets, and pointed out that Mexico accounts for only a third of sales at his cellphone company América Móvil SAB, which has clients from San Francisco to Sao Paolo.

Mr. Slim's strategy has been consistent over his long career: Buy companies on the cheap, whip them into shape, and ruthlessly drive competitors out of business. After Mr. Slim got control of Telmex in 1990, he quickly cornered the market for copper cables used by Telmex for telephone wires. He bought one of the two main suppliers and made sure Telmex didn't buy any cable from the other big supplier, eventually prompting the owners to sell the company to him.

His control of Mexico's telephone system has slowed the nation's development. While telephones have long been standard in any American home, only about half of Mexican homes have them. Only 4% of Mexicans have broadband access. Mexican consumers and businesses also pay above-average prices for telephone calls, according to the Organization for Cooperation and Economic Development.

Mr. Slim agrees that many industries in Mexico are dominated by big companies. But he sees no harm as long as they offer good service and prices. "If a beer in Mexico costs 1 peso and in the U.S. it costs 2 pesos, then I don't see the problem," he says.

Despite countless measures over the years that show his companies charge high prices, Mr. Slim steadfastly rejects that notion. During an interview, he orders an aide to fetch his own telephone bills. "See? We charge $14 per month for basic phone rental, cheaper than the U.S.," he says, pulling up a seat next to the reporter. That may be so, but additional fees in Mexico make most phone bills more expensive than in the U.S. Mr. Slim's total phone bill at his own house was a whopping $470 last month. "I have a lot of maids and my sons make calls," he says.

Mr. Slim says his success comes from spotting opportunity early, something he learned in part from reading futurist writer Alvin Toffler, who wrote the best-seller "Future Shock" in the 1970s, and who sends the mogul manuscripts to review. Pulling a dog-eared copy of Mr. Toffler's last book, "Revolutionary Wealth," Mr. Slim leafs through it and shows off his comments in the margins. "Some of his numbers were out of date," he mutters.

Mr. Toffler says he first met Mr. Slim on a trip to Mexico in 1993. Mr. Slim approached him after a speech, surrounded by his family and carrying one of Mr. Toffler's books, heavily underlined. The two have been friends ever since. "If you didn't know he was the richest guy in the world, you'd just think he was a likeable and intelligent guy," says Mr. Toffler.

The fifth of six children, Mr. Slim was born wealthy. His father, Julian Slim, made his fortune on a general store in downtown Mexico City called "The Orient Star." His father died when Mr. Slim was only 13.

Early on, Mr. Slim showed an aptitude for numbers that would help his career. He taught algebra at Mexico's largest public university while finishing his thesis, titled "Applications of Linear Theory in Civil Engineering." His love of numbers also drew him to baseball, a lifelong hobby. "In baseball...numbers talk," he once wrote. Even today, he enjoys discussing baseball, telling a reporter that slugger Barry Bonds should be remembered more for his walk ratio than his home runs.

After college, Mr. Slim and some friends became stockbrokers in the country's fledgling market. Trading by day and playing dominoes by night, the clique became known as "Los Casabolseros," or "The Stock Market Boys." Despite the success, friends say Mr. Slim, less of a party boy and more private than the rest, wanted to run companies rather than trade. "He never liked money as much as the rest of us. He just wanted to be a good businessman," says Enrique Trigueros, one of the casabolseros.

Mr. Slim soon got his chance. After turning around a soft-drink company and a printing firm in the late 1960s and mid 1970s, he made his first big move in 1981, buying a big stake in Mexico's second-biggest tobacco company, Cigatam, maker of Marlboro cigarettes in Mexico. The company generated the cash Mr. Slim needed to go on a buying spree.

A good time to buy came in 1982, a year that would shape Mr. Slim's destiny. That year, the collapsing price of oil threw Mexico into a tailspin. When departing president José López Portillo nationalized Mexico's banks, the traditional business elite feared the country was becoming socialist, and ran for the exits. Companies were selling for as little as 5% of their book value. Mr. Slim picked up dozens of leading firms for bargain-basement prices, a move that paid off when the economy recovered in the following years. He bought Mexico's largest insurer, Seguros de México, for $44 million. Today, the company is worth at least $2.5 billion.

"Countries don't go broke," an unflappable Mr. Slim told friends at the time. Indeed, Mr. Slim always says his inspiration to invest during the downturn came from his father, who bought out his partner in their general store during the worst days of the 1910-1917 Mexican revolution -- a bet that made his father a fortune when the fighting ended.

Mr. Slim still spots good values. From 2002 to 2004, he amassed a 13% stake in bankrupt carrier MCI, later selling it to Verizon Communications Corp. for $1.3 billion. "He has never overpaid for anything," says Hector Aguilar Camín, a historian and friend. While the pair were on holiday in Venice, Mr. Slim once haggled with a store owner for several hours to get a $10 discount on a tie.

Despite his abilities, many here believe his biggest break was the rise to power in 1988 of Carlos Salinas, a Harvard-educated technocrat bent on modernizing the country. The two men had struck up a friendship in the mid-1980s, and Mr. Salinas spoke of Mr. Slim as the country's brightest young businessman. Local wags dubbed the pair "Carlos and Charlies," after a popular local restaurant chain.

Under Mr. Salinas, hundreds of state companies were sold, including Telmex in 1990. Mr. Slim, together with Southwestern Bell and France Telecom, won the bid over one of his closest friends, Roberto Hernandez, who got together with GTE Corp. Mr. Hernandez later suggested the auction was rigged, something both Mr. Slim and Mr. Salinas have long denied. Regardless of whether there was favoritism in the sale of Telmex, the privatization process created a new class of super-rich in Mexico. In 1991, the country had two billionaires on the Forbes list. By 1994, at the end of Mr. Salinas's six-year term, there were 24. The richest of them all was Mr. Slim.

In retrospect, it is easy to see why Messrs. Slim and Hernandez considered Telmex a prize worth losing their friendship. Although countries like Brazil and the U.S. broke up state monopolies into a number of competing firms, Mexico sold its monopoly intact, barring competition during the first six years. And while countries like the U.S. initially barred local "baby bell" carriers from offering long-distance and cellular service in their same area, Telmex got to do all three at once, and across the entire country. Indeed, it won the only nationwide cellular-telephone concession, while rivals had to settle for concessions that were limited to certain regions. When competition was allowed in long distance, foreign carriers were limited to a minority stake in the fixed-line business. Mexico didn't even bother to set up a telephone regulator until three years after the sale.

Dan Crawford was one of those who took on Mr. Slim and lost. In 1995, the California native became chief operating officer of Avantel, a long-distance company partly owned by MCI and the bank of Mr. Hernandez, Mr. Slim's erstwhile friend. Avantel spent around $1 billion building a new network, but it soon ran into trouble trying to connect to Telmex's network -- something it needed to complete calls to and from Telmex clients. Telmex executives simply ignored phone calls or failed to turn up for meetings, Mr. Crawford recalls.

When Telmex did connect the calls nearly a year later, the price was so high that Avantel paid 70 cents of every dollar it made to Mr. Slim's company, according to Mr. Crawford. When Avantel took Telmex to court for monopolistic practices, Telmex responded by asking a judge to issue an arrest warrant for Avantel's top lawyer in Mexico, Luis Mancera, on trumped up charges, Mr. Crawford says. Mr. Slim confirms the story, but says a Telmex lawyer acted rashly, and that the judicial proceeding was dropped. Mr. Mancera declined to comment.

"Slim is very aggressive," says Mr. Crawford, who recently retired from MCI. Avantel eventually defaulted on its debts in 2001, much of which were scooped up by Mr. Slim and later sold for a profit. Avantel was sold recently to another Mexican firm for $485 million -- a fraction of what it invested in Mexico.

For his part, Mr. Slim says Avantel and others mistakenly focused on the long-distance market, which was in decline, rather than wireless, which was growing.

It hasn't been much easier taking on Mr. Slim in the wireless market either. In 2004, Spain's Telefónica SA began selling handsets at a loss here to build market share. But it soon realized that tens of thousands of phones were purchased but never used. According to a case currently at Mexico's antitrust agency, Telefónica says that Telcel distributors bought the phones to keep them off the market, in some cases swapping the phone's existing chip with their own and reselling the handset.

When asked about this practice, Mr. Slim says "It could be. That happens to all of us. If you sell something for $50 or $20 that costs $100, someone's going to buy it." His spokesman and son-in-law, Arturo Elías, says the distributors acted without Telcel's knowledge.

Attempts to regulate Mr. Slim's companies have largely failed over the years. Mexico's telephone regulator, Cofetel, was so weak in the 1990s that Telmex's rivals dubbed it "Cofetelmex." When the regulator did try to act, Mr. Slim's lawyers blocked it in the country's Byzantine courts.

The Telmex chief also had friends in high places. Vicente Fox, Mexico's first opposition president when he won in 2000, tapped a former Telmex employee, Pedro Cerisola, to be his minister of communications and transport. During his tenure, Mr. Cerisola rarely moved against Telmex, say executives from rival telephone companies. Mr. Cerisola declined to comment.

Using money from his telephone empire, Mr. Slim has expanded into Latin American markets as well as new industries in Mexico. His cellphone company América Móvil has 124 million customers and operates in more than a dozen Latin American nations. In Mexico, he has focused on industries that depend on government contracts. His new construction company, Ideal SAB, is currently bidding to run some of Mexico's biggest highways. His new oil-services company recently built the country's biggest oil platform.

Some of Mexico's business leaders say in private that they feel Mr. Slim has grown too greedy. The death of his wife, Soumaya, from kidney disease in 1999 left him without an anchor, says Mr. Trigueros, Mr. Slim's friend from his stockbroker days. "She was a special woman, the kind who keeps a guy in line. Nowadays, he only has business to think about," he says.

Mr. Slim's empire is so vast here now that doing business without him can be difficult. Two years ago, Hutchison Port Holdings and U.S. railroad Union Pacific teamed up to bid on a $6 billion port and railway in Baja California to compete with Long Beach port. But Mr. Slim felt the project had been arranged behind closed doors and was against the idea of the country's biggest project going to foreigners. He made his feelings known to the Baja California governor and the project was stalled. Mr. Slim has since worked to put together a rival consortium, which includes Mexican rail company Grupo Mexico and U.S. railroad Burlington-Northern. He says his potential bid is a better option for the country because the railroad will run along Mexico's north and help spur development. Union Pacific and Hutchison both declined to comment.

Mr. Slim has recently given more money to philanthropy, but he has often said his most important legacy is his family. In 2000, a few years after heart surgery, he put his sons and sons-in-law in charge of his businesses. He also started a group called "Fathers and Sons" that invites Latin American billionaires and their heirs for annual meetings, where they sip fine wines and attend seminars like "How to Run a Family Business."

There is no obvious successor to the patriarch's empire. That gives some Mexican officials hope that one day the state can regulate his companies. Says one high-ranking official: "When Slim dies, we can finally regulate his kids."

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Corrections & Amplifications:

About half of Mexican homes have telephone lines, according to the World Bank. This article about Mexican telecom magnate Carlos Slim incorrectly said only 20% of Mexican homes have phone lines. After Mr. Slim got control of Telmex in 1990, he bought a controlling stake in one of two main suppliers of copper cables used by Telmex for telephone wires, making sure Telmex didn't buy any cable from the other big supplier. That eventually prompted the owners of the rival firm to sell the company at a distressed price to a U.S. company. This article incorrectly says Mr. Slim bought the rival company.