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INTRODUCTION: M&A AND PRIVATIZATION IN DEVELOPING COUNTRIES

—Changing Ownership Structure and Its Impact on Economic Performance—

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I. INTRODUCTION

MERGERS and Acquisitions (M&As) are operations through which firms combine or acquire assets. M&As are economically relevant if they promote massive reallocation of resources in a short period of time, both within and across industries and regions, and potentially leading to wide-ranging institutional and organizational changes. The present international M&A wave represents an event of such high intensity.

It is expected that M&As will lead to growth of firms, greater opportunities in new markets, leading to the expansion of production and profits. M&As do not add new productive assets unlike greenfield investments, but they still may create values by enhancing efficiencies through: generating economies of scale/scope, internalizing vertical/horizontal transaction costs, and creating new combinations of technology and products. In short, M&As provide opportunities for replacing inefficient capital owners and management, thus enabling better use of productive assets.

For the first time in history, a M&A wave is taking place with the implied substantial involvement of developing countries. Transnational corporations (TNCs) have been acquiring developing countries' productive assets and knowledge as an effective mode of searching for profit opportunities. To a great extent the process of economic liberalization in developing countries opened up these opportunities. Especially under a crisis situation, M&As have been considered as the solution to rescue bankrupt but potentially profitable firms. This is also an investment mode

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that could substitute for others—by local firms or greenfield foreign direct investment (FDI)—that would not arrive in countries facing economic uncertainties.

M&As call for public attention because, if they result in grater market power and higher concentration levels of industry, they may give rise to monopolistic behavior of firms, thus generating negative impacts on social welfare. Other concerns are production and technological downsizing and employment reduction during the post-acquisition restructuring phase efforts.[1] Determinants and long-term consequences for the development of firms, markets and nations are largely unknown especially because, unlike past experience, the economic power of the emerging new corporations crosscuts markets, sectors and regions. Public and private policy implications are, to say the least, quite challenging.

This special issue is one of the few organized attempts[2] to discuss M&As from the perspective of developing regions. As it will be seen below, economists from developed countries have extensively examined M&A operations, their sectoral incidence, determinants and consequences thus providing a useful generic guideline for research. But the very nature of developing economies and the potential economic impact of wide-ranging ownership change imposes challenges to analysts, in terms of analytical focus and framework.

Firstly, M&As in developing economies have to be associated not only with changes in technology and competitive conditions, leading to the upsurge of new industries and/or upswings in stock markets, but also with changes in national regimes of incentives and regulations towards economic liberalization. In most developing countries pressure from international competition has increased simultaneously with a decreasing participation of state-owned enterprises. Thus, M&A must be understood as a process associated not only with private transactions but also with the implementation of privatization programs and investments carried out by foreign firms.

Secondly, capital markets in developing countries are still incipient, showing low levels of transactions and degrees of liquidity. Therefore, financially motivated transactions, aimed at gaining profit from short-term asset arbitration are rare. Most transactions are made to actually acquire assets, in the expectancy of an increasing stream of net business profits in the long run. It is also less likely that M&As would occur for a technology-seeking motive. More commonly then, M&As are associated with firms searching for newly opened market opportunities. These motivations coupled with changes in framework conditions provide the base line upon which to build up the understanding of why M&As are becoming a mode for economic transformation of developing countries.

Thirdly, M&As may have entailed not only ownership change but also drastic changes in corporate governance regimes. In many cases target enterprises could be

1 See UNCTAD (2000), Chapter 6.
2 Others include UNCTAD (2001), Zhan and Ozawa (2001), and Bonelli (2000).

considered as non-profit maximizing organizations, such as state-owned enterprises or family businesses. Both may have lacked independent and professional management. As large local or international players acquired them, supposedly they would be equipped with professional managers and connected to international production chains and superior production technology. If changes in that direction occurred, M&A would contribute to enhance the quality of corporate management in developing countries. However, coming from different national backgrounds, foreign investors would impregnate local economies with a myriad of business cultures and governance practices. The diffusion and blending of these practices in developing economies is an on-going, open process.

In what follows, different perspectives on M&As in the literature of economics are overviewed. Then a brief summary of articles in this volume is presented, followed by a discussion of relevant issues for further studies related to this topic.

II. HOW ECONOMISTS HAVE STUDIED M&As?

A stylized economic account of the international scenario of the 1990s should be grounded on three related processes: the acceleration of flows of capital, technology, goods, and services; the emergence and diffusion of new technologies; and economic liberalization as the emerging dominant regime of incentives and regulation of national economies. Concurrently, it is possible to observe widespread use of macroeconomic policies oriented towards price and public deficit stabilization. These transformations have increased competitive pressures in national and international markets, inducing firms towards adaptation and renewal of strategies, capabilities, and performance (Ferraz, Kupfer, and Serrano 1999).

The ownership structure of national economies has been affected with the greater presence of transnational corporations. In some countries and sectors the adaptive capacity of local firms has been positive, leading towards higher efficiency and export levels; others faced more difficulties. Uncertainty, in terms of the emerging industrial configuration remains high, especially in the context of developing countries. Still unknown is the extent to which there will be positive feedback effects between these micro-adjustment processes, macro performance (growth, balance of payments, employment, and so on) and future economic development. For surviving firms, greater competition may have stimulated productivity efforts, but it is still unclear how an increasing reliance on foreign technology and inputs may impact local innovation efforts.

Looking back in history, though, even for developed countries there seems to be a close relationship between upswings in stock markets, changes in framework conditions, and changes in corporate control. According to most of the literature (Mueller 1989; Gaughan 1999, for example), in the United States, M&As have occurred in several waves and, within a wave, strongly clustered around a few sectors: railroads, steel, oil in the 1900s; automobiles, media, chemicals in the 1920s; a conglomerate wave (the only exception) in the 1960s; oil, pharmaceuticals, airlines in the 1980s; and finance, oil and energy, information technology, health industries in 1990s. With the exception of the 1960s wave, firms merged or acquired others that were horizontally or vertically related to their main economic activities.

According to various stylized accounts, when new technologies and industries emerge, opportunities for new firms increase. However, inherent asymmetries in capabilities and performance among firms, associated with wide technological and market opportunities, imply fast expansion for active firms and, eventually, more concentrated market structures. In such a context, M&As have been used as a short cut for the growth of the firm (Penrose 1959). For UNCTAD (2000), the on-going wave resembles the process at the turn of the 20th century, when emerging industries and technologies provoked a series of economically important mergers and acquisitions. But, contrary to the eminently national character of that wave, the present M&A process has the outstanding feature of erasing national and industry borders.

For industrial economists like Mueller (1989) and Caves (1989), M&As are one of the oldest lines of quantitative research and no other economic phenomenon generates so much disagreement in terms of why it occurs, what are the social and economic consequences and what type of associated public policies should be relevant. At least four types of approaches have been followed:

• A Penrosian tradition that sees M&As as a mechanism for the expansion of the firm overcoming limitations of existing internal resources (Penrose 1959). Compared to the internal expansion (building up new productive asset), M&As make better sense if they lead to low cost, fast entry into new markets. At the same time, M&As can effectively reduce competitive pressures in a given market. Thus, firms with excessive entrepreneur and managerial services, plus access to financial resources will become active players in the M&A market, leading to growth and expansion;

• A financing/management approach that relates M&As to the market value of firms. By assuming that the stock market is imperfect, failing to reflect the real value of a firm, a speculative buyer may acquire an undervalued firm for sale when stock prices approach higher levels. Alternatively, by assuming that stock market valuation accurately reflects best economic values of firms, target firms have abnormal returns in stock prices, in the expectation of better corporate performance, while impacts on both acquiring firm and long-term effect on acquired firm are uncertain (Andrade, Mitchell, and Stafford 2001). These motives can be classified as asset-seeking, including the search for short-term capital gains and the expectation for value creation in the long-term, through achieving synergy from new combinations of both tangible and intangible assets;

• An industrial organization approach that searches for the evaluation of the economic consequences of M&As through an ex-post association of M&As to performance indicators like profitability and/or market share (Ravenscraft and Scherer 1989). M&As might increase efficiency if they lead to sufficient savings in transaction costs (Grossman and Hart 1986) and economies of scale/scope, unless they result in a concentrated market leading to higher inefficiencies;

• Case studies of firms and sectors examining the implementation process of M&As and its related organizational issues as well as personal histories of M&A champions (Kaplan 2000; Wasserstein 1998). These cases focus, preferably, on changing competitive conditions leading to sectoral overcapacity (such as pharmaceuticals, steel and automobiles in global competition, and banking in the United States and EU adapting to market integration), and technological development opening opportunities for new business association (such as the case of the fusion of information technology and mass media).

A very common empirical finding is quite striking in view of the increasing economic importance of the different M&A waves: most operations do not lead to economic success. In a recent work Sirower (1997) estimated that around 65 per cent of major recent strategic acquisitions in the United States resulted in failures measured by stock value, profitability, and market share. Ravenscraft and Scherer (1987, 1989), examining U.S. transactions from 1957 to 1977 using sound statistical data, came to similar conclusions: no efficiency was created for acquiring or acquired firms. If failure prevails, why do M&As continue to occur in ever increasing waves, reaching new sectors and regions and involving higher economic values? Analysts searching for a sound analytical framework upon which to build public or private policies are struck by at least two interesting common features found in the literature, especially from Anglo-Saxon origin.

Firstly, a recurrent reliance on the principal-agent framework to explain M&A processes. That is, considerable emphasis has been placed on the conflicting relations between stake/stock holders and managers as the basic and essential explanation for the occurrence and outcome of M&As. Most authors suggest that the only possible explanation for M&A failures is that managers do not follow profit maximization but a growth-maximizing strategy. They do not act on the shareholders' behalf; they are carried away by upswings in stock markets, overvaluing transactions and the potential benefits that can be accrued from new businesses. Conversely, the M&A market can be regarded as the privileged space where stockholders can effectively exercise their power, curtailing that of nonperforming executives. Therefore, conclusions and policy implications are as follows. There is a generic information failure in most M&A processes. Thus, changes in corporate governance must be introduced. Consequently, policy suggestions are: expand information available to shareholders, introduce external pressure onto managers (e.g., external directors) or mechanisms that align the interests of shareholders and managers such as shares options provided to the latter.

Secondly, especially in the business literature, it is common to find conclusions pointing out that M&As are the outcome of accomplishments of outstanding individuals who have used them in order to expand business empires. When the focus of the analysis is placed on case studies of the post-M&A consolidation process, most findings associate success or failure with synergies or differences of organizational structure and business cultures. On this matter success depends, to a large extent, on the "matching" capacity of corporate leaders. Thus, what comes to the fore is the lack of possible generalization of these processes.

Even taking into account explanations largely placed in the realm of industrial leadership, the questions remains open of why M&As continue to occur in ever increasing waves, reaching new sectors and regions and involving higher economic values? What is the role of competition and technical progress? Will changes in the relative economic power of agents induce innovation, rivalry, and wealth creation? What framework conditions (demand, regimes of incentives and regulation, technological opportunities, financial conditions) are likely to induce successful M&As? Are there differences in the economic results due to varying patterns of M&As in diverse regional and sectoral contexts? In the case of developing economies, do M&As contribute to growth? What kind of policy (promotion/regulation) toward M&As should be proposed? Are cross-border M&As qualitatively different from greenfield FDI, and should one be preferred to the other? Answers to these questions could pave the way for better-grounded policy implications.

III. M&As IN DEVELOPING COUNTRIES

One of the major characteristics of M&As in developing countries is the high incidence of cross-border M&As where foreign companies appear as acquirers. Table I reports the magnitude of the explosion of worldwide cross-border M&As in the second half of the 1990s. Cross-border M&A transactions in the world reached U.S.$1.1 trillion in 2000, a 36% annual growth rate since 1988. The largest proportion of M&As are carried out in developed countries (92% in 2000) where the M&A (seller) market grew more intensively (37% per year) than in developing countries (30%). Among developing countries, thirteen economies together account for 75% of the cumulated results of cross-border M&A, between 1988 and 2000; the four largest Latin American economies accounted for 48% while the Asian Nine accounted for 27%.[3] Especially Argentina and Brazil have surged as major M&A targets since 1997 as a result of far reaching privatization, especially in financial services, telecommunications, and electric power supply.[4] In Asia, the Republic of

[3] The readers might notice that the scope of "developing countries" in this special issue should be narrowly limited to upper-middle income countries, or newly industrialized economies, which already own a good stock of productive assets which whet the appetite of international acquirers.

[4] See ECLAC (2001), Chapter 1.

TABLE I

CROSS-BORDER M&As

(U.S.$ million)

	1995	1996	1997	1998	1999	2000
World	186,593	227,023	304,848	531,600	766,044	1,143,816
Developed countries	164,589	188,722	234,748	448,100	681,133	1,057,230
Developing countries	15,966	34,700	64,573	80,760	73,601	69,664
As sellers						
Argentina	1,869	3,611	4,635	10,400	19,407	5,273
Brazil	1,761	6,536	12,064	29,380	9,357	23,013
Chile	717	2,044	2,427	1,595	8,361	2,929
Mexico	719	1,428	7,927	3,001	859	3,965
Korea	192	564	836	3,979	10,062	6,448
Taiwan	42	50	601	24	1,837	644
China	403	1,906	1,856	798	2,395	2,247
Hong Kong	1,703	3,267	7,330	938	4,181	4,793
Singapore	1,238	593	294	468	2,958	1,532
Malaysia	98	768	351	1,096	1,166	441
Philippines	1,208	462	4,157	1,905	1,523	366
Indonesia	809	530	332	683	1,164	819
Thailand	161	234	633	3,209	2,011	2,569
As acquirers						
Argentina	1,987	321	1,170	3,545	1,313	675
Brazil	379	1,167	2,357	3,517	1,908	429
Chile	794	3,827	1,497	591	322	507
Mexico	196	867	3,154	673	2,216	4,231
Korea	1,392	1,659	2,379	187	1,097	1,712
Taiwan	122	4	433	628	408	1,138
China	249	451	799	1,276	101	470
Hong Kong	2,299	2,912	8,402	2,201	2,321	5,768
Singapore	892	2,018	2,888	530	4,720	8,847
Malaysia	1,122	9,635	894	1,059	1,377	761
Philippines	153	190	54	1	330	75
Indonesia	163	218	676	39	243	1,445
Thailand	144	180	55	43	154	5

Source: UNCTAD (2001).

Korea and Thailand received substantial cross-border M&As during 1998–2000 as an effect of post-crisis corporate restructuring that accompanied ownership structure reform. As a result, the Latin American countries in Table I together registered relatively higher M&A growth (38%) between 1988 and 2000 while in East Asia growth was slower (27%).

Latin Americans have played a timid role as acquirers although, more recently, an increase can be observed in Argentina and Brazil, probably due to the Mercosur regional block coming into effect. Also, the increases in acquisitions by Mexican

TABLE II

NATIONAL REGULATORY CHANGES, 1991, 1995, AND 2000

Item	1991	1995	2000
Number of countries that introduced changes in their investment regimes	35	64	69
Number of regulatory changes, of which:	82	112	150
more favorable to FDI	80	106	147
less favorable to FDI	2	6	3

Source: UNCTAD (2001), Box table I.1.1.

companies must be put into the context of NAFTA (North American Free Trade Agreement). In Asia, besides Hong Kong's outstanding position as a regional financial center, Singapore has been emerging as an active purchaser in recent years, especially in the information technology area.[5] Thus, acquisitions by developing country companies may be associated with regional integration projects.

However, the surge of cross-border M&As in developing countries is even more associated with regulatory framework changes which are strongly linked with macroeconomic management such as public finance restructuring or the prevention of massive private-sector bankruptcy. Although macroeconomic are very important, an emerging policy concern has been placed on the micro sphere where it is now strongly believed that outside influences (the entry of foreign companies) can induce M&As that are bound to induce reform and modernization of local corporate governance and production capabilities. That is why, as shown in Table II, since 1991 a worldwide FDI-friendly trend has consistently increased. The number of countries that introduced changes in their investment regimes increased from 35 in 1991 to 69 in 2000. This means that, in 2000, 147 countries, worldwide were explicitly concerned and had adopted measures towards facilitating the entry and the operation of foreign firms on local ground.

It is possible to distinguish two different types in this context: privatization and private transactions. Privatization is thought to be a pretense solution for weakened public finances. This type is more commonly seen in Latin America where, in the past, productive assets were intensely developed by the public sector and governments were highly indebted. According to Mortimore (2000), more than one-half of FDI inflows to Latin America during 1995–98 has been attracted by privatization of formerly publicly owned services such as telecommunications and electric power supply. For investors this is a unique opportunity: taking over public sector assets is much cheaper than building up new facilities, especially under the circumstances of liquidation sales of near-bankrupt governments.

[5] See ASEAN Secretariat (2001), Chapter 4.

However, privatization may not automatically lead to sustained improvements in previously state-owned businesses. As a result the population can be even worse off if the result is deteriorated service quality and higher prices. Another issue is related to the ownership composition of privatized companies. A common feature in the outcome of Latin America privatizations is the presence of mixed consortia composed by foreign and local partners. These mixed consortia tended to be inherently unstable because of conflicting business motivations and profit-making time horizons among investors, some having a Penrosian type of long-term growth strategy, others being financially motivated asset-seekers. Also, where privatizations have lacked clarity in terms of desired market structures and no investments have been made in regulatory policy-making capabilities, it has often been that new corporations have not behaved according to the nature of their business and have not adequately supplied the expected public services.

The second type is related to the use of M&As as a tool for private market restructuring and consolidation. This seems to be the case in East Asia during the post-crisis period. FDI in Korea and Thailand rose from U.S.$3.1 billion and U.S.$3.7 billion respectively in 1997 to U.S.$10.3 billion and U.S.$6.1 billion in 1999. During 1999 cross-border M&As accounted for 38 per cent and 16 per cent respectively.[6] Mody and Negishi (2001) called attention to the fact that cross-border M&As concentrated in slower growth sectors during the post-crisis recovery phase, pointing out that these investments entered the most distressed sectors. This finding does not necessarily mean that M&As did not contribute to the recovery and foreign companies were only interested in acquiring largely depreciated corporate assets caught up in a collapsed stock market and sharp currency depreciation, what Krugman (1988) described as “fire-sale FDI.” Whether or not Asian productive assets were acquired below the value that incorporated expected future profits is an issue associated with production capabilities and market prospects. As Zhan and Ozawa (2001) described, M&As were functional in preventing potentially productive asset from being wiped out, in facilitating foreign investment inflows and in mitigating the negative impact of deterioration from unemployment in the most affected sectors (such as banks and the Korean *chaebol* affiliates).

In Latin America, a large number of market consolidation M&As also were observed, resulting in the reduction of the number of market participants. They were prompted more or less by growing market prospects thanks to inflation stabilization and competitive pressure from trade liberalization. Bonelli (2000) found national companies in Mercosur countries were active in M&A. He also noted that a substantial part of them were affiliates of TNCs already located in the region. Interestingly, despite of reduction of competitors, M&As could make market conditions more competitive because the second or third competitors grew by acquiring smaller

[6] Based on the data provided by ADB (2001).

companies and came to threaten the earlier dominant position of the leading companies.

But by and large it is still not clear if the widespread takeover process by foreign companies will lead to better and more transparent corporate governance in the different parts of the world.

IV. WHAT OUR CONTRIBUTORS HAVE TO SAY

The unique contribution of the following papers to the debate on M&As is the focus on developing countries from different analytical perspectives: financing and management, industrial organization, economics of innovation, foreign direct investment, and the financial sector. In their research work, our contributors examine economic problems from Schumpeterian, post-Keynesian, structuralist, and finance/business frameworks.

This special issue is structured as follows. Initially, there are two general and complementary analyses on the meanings of the current wave of global M&As and their implications for developing countries; Cantwell and Santangelo analyze non-financial sectors, and Dymski focuses on the financial sector. These are followed by a comparative analysis by De Paula, Ferraz, and Iootty of the M&A wave in developing economies; they examine the four largest Latin America economies. Finally, four specific country case studies are taken up: Rocha and Kupfer on the evolution of large Brazilian groups, Hamaguchi on the privatization of the Brazilian electricity sector, Sohn on corporate restructuring in Korea, and Yeh and Hoshino on the efficiency of Taiwanese M&As.

The M&A literature is well reviewed by Cantwell and Santangelo. The industrial organization literature explains M&As as a means of enhancing corporate competitiveness and increasing market power. M&As may also be a useful tool for defensive reactions by firms against the threat of takeovers, to search for synergy effects as complementary assets are acquired, or to reduce transaction costs, especially in vertical related operations. Even without competitive pressures, M&As may also be implemented as an adaptation to new or existing regulations, to search for tax savings, and as a means of accessing new markets and/or technologies. In the financial-related literature M&As are interpreted as an effective means to remove inefficient management, to diversify risk, to reduce financial costs through the creation of internal capital markets where the information is shared, and to satisfy managerial egos. This empirical literature has often tried to measure value-creation effects of M&As based on stock prices. Conversely, the impacts on corporate performance are studied much less frequently because of difficulties in measurement. Finally, strategic management studies associate technology and geographical relatedness with post-acquisition synergy creation.

The main contribution of Cantwell and Santangelo is showing that international

M&As are increasingly becoming the common practice of TNCs through which they reshape competitive advantages within their respective lines of business. This is a new trend largely facilitated by recent developments in the global economic environment such as economic liberalization and privatization, the rapid pace of technological change, increasing technological interrelatedness among different economic activities, and drastic declines in communication and transportation costs. The authors demonstrate that these factors have had a relevant impact on the strategies of TNCs in such industries as motor vehicles, electronics and information technology related industries, pharmaceuticals, and oil and banking. Concerning the regional dimension, their article shows that not only are M&As most actively implemented in the United States and Europe but also that cross-border M&As are intense in these two regions. In Asia a traditional anti-takeover business culture and lingering nonperforming-loan problems have acted as constraints on M&A deals. On the other hand, since the mid-1990s, Latin America has emerged as a booming area for M&As, driven by economic liberalization and large-scale privatization programs.

Dymski argues that bank mergers should be attributed to macrostructural circumstances and banks' strategic motives. Macrostructure here refers to the key elements in the environment of banking firms—the pace of macroeconomic growth, the size and distribution of domestic income, and the size and strength of domestic financial markets. These factors have a controlling effect on what kinds of global (cross-border) bank mergers are feasible, and which are undertaken. Strategic motives refer to how banks try to capture profits by changing targeted customers, time horizon, or market focus, whether emphasizing wealth management or loan production.

Taken together, macrostructural and strategic factors explain what types of financial mergers are most likely in any one time and place. Thus, the U.S. bank merger story had very specific backgrounds, and it should not be considered as a global paradigm. Starting with overbanking due to long-standing geographic prohibitions, a sustained period of banking distress in the early 1980s created opportunity choices for acquisition targets. Many mergers were launched in pursuit of upscale retail banking attributable to the large size of the U.S. middle market. European banking was characterized by substantial fragmentation and strong home-country advantages. Then, the pro-active position of U.S.-based firms, especially in the investment banking segment, and the European monetary union opened up large opportunities for mergers. In Japan, the bank insolvency crisis motivated defensive mergers. Most cross-border mergers among non-Japanese East Asian banks also involved distress mergers in the wake of the 1997 financial crisis. Latin American banking prior to liberalization was comprised primarily of two clusters of bank types: family-owned financial groups and state-owned institutions. Economic liberalization, in the initial phase, led Mexico to privatize key national and state banks only to be followed by acquisitions by foreign banks, once NAFTA was implemented. Thus, deep cross-border penetration into Latin American banking markets was undertaken mainly for seeking out profitable customers. But there were important contrasts with the Mexican case, highlighting the importance of macrostructural factors. In Brazil, a pre-emptive and concerted set of policy actions, aimed at strengthening the banking sector, enabled firms to better resist the international financial crisis. Local banks, with accumulated knowledge about local practices and following aggressive acquisition strategies, were able to consolidate their position in the local market and keep foreign firms at bay.

Acquisitions of developing-economy banks by megabanks were widely considered as a secure path to better governance since, implicitly, mega banks would be more efficient, more market-oriented and regulated by more experienced national banking authorities. So providing maximum scope for the global expansion of first-world mega banks could, in this view, ensure universally higher welfare levels. Dymski challenges this idea and argues that while megabank expansion into developing economies is clearly welfare increasing for some affiliates, but it cannot be assumed that all will benefit or that the net economic impact across all society segments will be positive.

Under economic liberalization and macroeconomic reforms, privatization and corporate structure reform across developing countries have been far reaching. De Paula, Ferraz, and Iootty argue that M&As are contributing to the deepening of the internationalization of ownership in developing countries. Analyzing a vast database on M&As in four large Latin American countries (Argentina, Brazil, Chile, and Mexico) during the 1990s, they also found that new international actors—from Spain, Portugal, and Italy—are emerging in strength. The role of domestic investors in privatization has not been very prominent, with the exception of Mexico. Mixed consortia have been more frequently seen in larger and more complex operations in which foreign investors are expected to bring in technology, capital assets and international connections while local partners contribute knowledge and understanding of local framework conditions. Such asymmetric strategic alliances with different motivations and interests may have led to unstable governance and later internal stake-holding reorganization.

Private M&As are also associated with economic liberalization. The aggregated value of private M&As almost doubled privatization revenues which increased steadily during the decade of the 1990s. The sectoral distribution of private M&As was more diversified than in the case of privatization. In private M&As mixed consortia were not relevant. South American countries hosted cross-border M&As from European countries, while in Mexico the importance of NAFTA countries was highly substantial. M&As are not only affecting targeted developing countries, but local companies are moving outwards, especially within the framework of regional economic integration. Given the depth and breadth of M&As, the ownership landscape within developing countries is being significantly internationalized, opening relevant questions regarding the style and possibilities for future development in Latin America

Rocha and Kupfer analyze changes in the productive structure and in the ownership structure of leading Brazilian companies during the 1990s. Their main findings are: (i) the sectoral distribution of leading companies has remained stable; (ii) there have been important changes in ownership with an increasing participation of multinational enterprises among leading companies and a decrease in the market share of state-owned enterprises; (iii) these changes may be partially, though not integrally explained by M&As transactions; (iv) although M&As have been quite intensive in the period, market concentration has decreased, partly because of the asset desegregation of state-owned enterprises into parts during the privatization process; (v) acquiring firms have adopted specializing strategies during the period by taking over others in their main sector of productive activity. This trend is even clearer when private national companies are examined. They have adopted defensive strategies as a reaction to changes in macroeconomic and institutional conditions that took place in the 1990s.

The Korean case reported by Sohn clearly shows how ownership restructuring matters for economic reform. The collapse of *chaebol*s during the economic crisis of 1997 is now understood as the result of past excessive investment and diversification through debt financing from the group financial institutions, without prudential rules and appropriate monitoring systems of management by shareholders. A corporate restructuring plan was launched by the state, combining the assumption of nonperforming loans by the Korea Asset Management Corporation (KAMCO) and the enforcement of mergers of *chaebol* enterprises into fewer specialized companies. Other enterprises were sold to foreign firms and regulations on M&As and foreign direct investment were relaxed. In order to improve corporate governance, regulations on account auditing, information disclosure and protection of minority shareholder rights were strengthened. As a result, corporate finance was strengthened due to improvements in debt-equity ratios, the extended maturity of corporate debt and reduction of dependence on foreign borrowings. Moreover, profitability and productivity increased.

Hamaguchi examines the privatization of electricity in Brazil. After achieving significant success, the Brazilian electric power sector stalled in the 1970s due to financial problems. Starting from 1995, the government promoted a shift towards a private ownership model and tried to leave to the market the responsibility for stable and efficient energy supply. However, the energy crisis in 2001 highlighted difficulties in this transition. This article points out that the recent uncertainty of the market-based model increased the information rents of private power companies and complicated the post-privatization scenario. The explanation is to be found in the financial domain. More specifically, many privatized power companies increased their financial vulnerability due to the high borrowing levels that arose with post-privatization consolidation. Therefore they demanded higher rents to neutralize increasing financial risks. On the other hand, power companies that were not privatized followed defensive strategies, restraining investment and, consequently, borrowing. Since these companies are responsible for a large share of generation and transmission, the stability of energy supply has been increasingly threatened. Public authorities now faces a dilemma of whether to pursue the private ownership model by guaranteeing higher rents to stimulate new entries or to internalize the information problem by playing a more active role. In both cases, governance structures should be examined carefully so as to minimize social welfare loss.

Yeh and Hoshino analyzed M&A transactions in Taiwan between 1987 and 1998, searching for the effects of M&As on shareholders' wealth. M&As in Taiwan have only recently become an important means of internal expansion, especially by cash abundant corporations. Because Taiwanese corporations are relatively small in size, compared to Korean and Japanese companies, the market should have reasons to believe that achieving economies of scale and scope can enhance the value of firms. Their analysis shows that the shareholders of acquiring firms gained modestly positive abnormal returns around the announcement dates. They also distinguish different purposes behind transactions, finding that M&As for technology-acquiring purposes were most common, while vertical M&As were detrimental to shareholders' wealth. The latter result suggests that vertical integration may be a more difficult task, particularly in integrating intangible human resources.

V. OWNERSHIP CHANGE AND ECONOMIC PERFORMANCE: CONCLUSIONS

An overall appreciation of the analyses conducted in this volume indicates the following conclusions and suggestions for future studies concerning ownership change in developing economies:

1. M&A transactions are more intense in developed countries, reflecting the existence of opportunities for technological alliances and sophisticated capital markets. However, M&As are also increasing rapidly in developing countries due to the deregulation triggered by post–economic crisis reform and macroeconomic pressures. But, at the same time, among these countries marked differences remain in terms of the intensity and consequences of M&As, and they must be better understood.

2. Availability of international liquidity, liberalization of capital movements, deregulation and privatization, changing modes of international competition, emerging technological opportunities and upswings in stock markets are relevant determinants of M&As. Firms are moving with a high degree of freedom across regions and industries, and M&As are becoming a common strategy of TNCs. Choice mo-

tivations of TNCs in the context of economic liberalization is an issue for further research. At the policy level, the successes and failures of different national regulatory and incentive experiments must be investigated in order to contribute to the building up of effective policy-making capabilities in developing countries, also in the context of economic liberalization.

3. Leading international firms are putting considerable effort into strengthening their own technological competencies, exploring complementarities with collaborating partners, and reorganizing company-wide international production and innovation networks. There is an urgent need for further investigation about the geographical and intersectoral patterns of knowledge flows to detect the possible directions of M&As by leading international companies.

4. Developing countries are affected by the M&A waves, and their ownership structure is rapidly becoming internationalized. It is important to note that there are emerging TNCs from developed countries as well as in a number of Asian and Latin American countries. Firms from developing countries are also acquiring other companies either to strengthen their defensive power against international competitive pressure or to expand international operations. In Korea and Brazil corporate restructuring through M&As has led to specialization rather than diversification. The increasing weight of foreign firms in developing economies continues to be a relevant issue for further research. Also, it is necessary to monitor whether the emerging market structures are bound to generate more quality jobs and technological upgrading.

5. Private M&As are concentrated in technologically rapidly changing sectors as well as in those requiring global-scale market consolidation, such as automobiles and banks. Technology-seeking M&As are very experimental and favored by capital markets. There is an important association between M&As and expanding corporate size, but uncertainty still prevails in terms of the technological, productive, and social effects of M&As, especially in terms of the quality of services. The pre-M&A motivations, the post-M&A efficiency, and the transparency and effectiveness of resulting modes of corporate governance must be better understood.

6. Uncertain benefits seem to be arising from policy-induced privatization programs. At least in Latin America most privatization programs were carried out with explicit macroeconomic interests—the reorganization of public finances and the financing of current external balances—but with very low concern over what market structures and what regulatory framework would lead to self-sustained growth. Specific comparative studies on these subjects should highlight what practices were most likely to succeed. Such studies may lead to important policy recommendations on how to privatize public assets and how to regulate essential industries.

In summary, merger and acquisitions remain a fascinating and economically relevant issue for research. This special issue brings in new and interesting analyses of ownership change in developing countries. Although since 2001 the international

M&A wave seems to be receding, the consequences of asset ownership change are only revealed in the long term. For M&As time matters, and the economic implications of the recent M&A process are just about to emerge. Since further studies on this subject can certainly be expected, a few final warnings are necessary.

Firstly, there are serious problems regarding the measurement of determinants and consequences of M&As. From an analytical perspective, the objective association between M&As and framework conditions or structural factors is very difficult to put into practice. Also it is necessary to take into account and define an appropriate time lag for an appropriate evaluation of the consequences of M&As. For a correct evaluation of the performance of M&As it is necessary to fully incorporate into the analysis the absorptive capacity of the firms involved. Most important, ex-post performance must be evaluated against a set of ex-ante goals and motivations of the involved actors even though, from an ex-ante perspective, there are practical difficulties in detecting motivation and/or business strategies.

Since the M&A wave in developing countries is still a recent phenomenon, it is still too early to make any conclusive judgments. The articles in this special issue are exploring a new issue, and certainly with better data and analytical frameworks, the analysis could have moved further away from a descriptive level. In order to deepen our knowledge, considerable effort should be placed on building up reliable databases usable for hard empirical studies. Even with these caveats, it is hoped that these articles will help call the attention of analysts to the need for including the ownership issue in the development agenda.

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