The Developing Economies, XL-4 (December 2002): 467–96

# ECONOMIC LIBERALIZATION AND CHANGES IN CORPORATE CONTROL IN LATIN AMERICA

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This article analyzes ownership restructuring and changes in corporate control in four large Latin American countries—Argentina, Brazil, Chile, and Mexico—during the 1990s. Drawing on original firm-level data, this is a comparative study aimed at identifying cross-country differences and regularities. It focuses on transactions associated with privatizations and private mergers and acquisitions (M&As)—their evolution, relative importance, and sectoral incidence—as well as the role played by different types of investors: local, foreign, and joint ventures. A specially built database was used in the analysis, comprising 3,085 private M&As and 329 privatization transactions. Although similar to processes occurring elsewhere, it is argued that ownership restructuring in Latin America was facilitated and fostered by specific changes in policy-associated institutional framework conditions. That is, the wide-ranging process of ownership restructuring is strongly associated with economic liberalization, which has become the main feature of Latin American national regimes of incentives and regulation.

## INTRODUCTION

The last decade has witnessed a substantial acceleration in privatizations and private mergers and acquisitions (M&As) all over the world, measured both in terms of number and value of transactions. For instance, according to UNCTAD (2000, pp. xix, 129), the total number of M&As around the globe has grown at an annual rate above 40 per cent since 1980, and cross border M&As represented over 80 per cent of total foreign direct investment (FDI). In terms of

We would like to thank Nobuaki Hamaguchi and researchers who participated in the 2000 and 2001 Rio Workshops on Mergers and Acquisitions for comments on earlier drafts; Edmund Amann discussed the role of UK-based companies in Latin America; Jane Cristina Andretta, Edileuza Pereira Silva, Hereaclécea Peres Damasceno, José Borges da Silva Neto, Tatiana Maria Couto da Silva, and Thais Regina Oliveira Spanazzi assisted the authors. Conselho Nacional de Desenvolvimento Clentífico e Tecnológico (CNPq), Fundação Carlos Chagas Filho de Amparo à Pesquisa do Estado do Rio de Janeiro (FAPERJ), Coordenação de Aperfeiçoamento de Pessoal de Nível Superior (CAPES), and the Japan Foundation provided financial support and Thomsom Financial Securities Data the access to the basic information upon which the database for the analysis was built up.

value, throughout the 1980–99 period, M&A transactions (including domestic and cross border deals) completed worldwide have increased at an annual rate of 42 per cent, reaching U.S.$ 2.3 trillion in 1999. Latin America was also part of this global process. The economic relevance of privatizations and M&As is unequivocal, and their implications are far reaching, but still, there is a substantial lack of adequate understanding of their causes and consequences.[1] Thus, this is an area in much need of further research.

The literature can be appreciated from different levels of analysis. At the micro- and mesoeconomic levels, privatizations and private M&As may change market structures if, in a given country and sector, existing firms that are responsible for a high proportion of production value, are acquired or merged. This process is even more complex if the acquiring firms cut across countries and sectors, leading to a blurring of national and sectoral boundaries. In such cases, the economic power of new companies leads to unforeseen implications. On one hand, acquiring firms strengthen their capacity to define and implement policies regarding the volume, price, and performance of products in specific or related markets. On the other hand, new processes and products can emerge if companies are able to develop and sustain competitive advantages based on technological competences. For the developing countries, these strategies, if properly internalized, may lead to decreasing technological gaps vis-à-vis advanced nations. At the macroeconomic level, depending on the relative stage and other conditions, capital inflows/outflows may increase a country's external vulnerability, mainly in the context of developing nations. Moreover, if foreign investment is undertaken mostly through M&A, greenfield investments lose their importance, with corresponding diminished impacts on net employment generation. On the other hand, asset acquisitions, if undertaken in a long-term perspective, are a definite sign that an economy is attractive to investment, thus favoring development prospects.

This article addresses these issues directly. The focus is on the four large Latin American countries, and the objective is to analyze ownership restructuring and changes in corporate control resulting from privatizations and private M&As. Drawing on original firm-level data for Argentina, Brazil, Chile, and Mexico during the 1990s, this is a comparative study aimed at identifying cross-country differences and similarities, and discriminating between economic sectors, type, and origin of investors. The database is a register of 3,085 private M&A transactions, of which 1,535 have their values declared, plus a database of 329 privatization transactions, of which 97 per cent have reported sale values. Privatizations and private M&As are listed chronologically and geographically in terms of their impelling institutional determinants, especially policy changes towards economic liberalization in

[1] For M&As, see Mueller (1986), Ravenscraft and Scherer (1987), and Jensen (1988). For privatizations see, Meggison, Nash, and van Randengorgh (1994), Baer and Birch (1994), and Cook and Kirkpatrick (1995).

these countries, which are responsible for around 80 per cent of Latin America's GDP.

The paper consists of six sections, including this introduction. The second discusses the motivation and general impacts of policy changes in Latin America in the 1990s. The third discusses methodological issues, and introduces the main characteristics of the empirical database. The following two sections are dedicated to the analysis of privatizations and private M&As in Argentina, Brazil, Chile, and Mexico. The last section summarizes the main findings.

## I. LATIN AMERICA'S REFORMS AND MACROECONOMIC PERFORMANCE IN THE 1990s

Since the mid-1970s and, even more so after the 1982 debt crisis, a combined set of economic determinants, among them growing external constraints, escalating inflation, falling growth and investment rates, and the disorganization of public finances, exposed the fragilities of the so-called inward-oriented or import-substitution industrialization model of development in Latin America. Economic instability and the ineffectiveness of public policies, on one hand, and the emergence in international forums of a new reference model for economic policies, on the other, paved the way for important changes in national incentive and regulation regimes. The policy proposals, organized under what became known as the "Washington Consensus" (Williamson 1993), were aimed at macroeconomic stabilization and economic liberalization, and incorporated fiscal discipline, privatization, trade, and financial liberalization.

As shown in Table I, Argentina, Brazil, Chile, and Mexico engaged in wide-ranging economic reforms, but there were significant differences in terms of implementation. These are probably explained by idiosyncrasies such as size of markets, productive and technological basis of countries, and characteristics of local political systems. Argentina and Chile experimented with a first "wave" of liberalization during the 1970s, though in the latter only marginal adjustments were made in the following years. Brazil was a latecomer in the process of economic liberalization and in Mexico reforms were spread out over many years. In contrast, policy change and reversion was a main feature in Argentina. But, by the mid-1990s all converged towards economic liberalization as they either entered a second "wave" of reforms or reinforced their existing policy directions, showing definite commitments to a regime of pro-economic-liberalization incentives and regulations.

The reforms have had direct and indirect influences upon ownership restructuring. While FDI deregulation and privatization in themselves constituted a direct impact, import liberalization compressed local prices and profits margins, augmenting the financial fragility of firms and paving the way for private M&As. Indeed, imports expanded steadily during the 1990s (see Table II). The significant import

TABLE I

EVOLUTION OF ECONOMIC REFORMS, 1976–95

| | 1976–79 | 1980–85 | 1986–90 | 1991–95 |
|---|---|---|---|---|
| A. Chile | | | | |
| Import liberalization | R | S | S | R |
| Export promotion | | | P | |
| Exchange liberalization | | | | R |
| Deregulation of capital account | P | | | |
| Deregulation for FDI | R | | | |
| Deregulation of exchange rate | R | | | |
| Privatization | R | | | P |
| B. Argentina | | | | |
| Import liberalization | R | A | G | R |
| Export promotion | | R | S | |
| Exchange liberalization | R | A | | R |
| Deregulation of capital account | R | A | S | R |
| Deregulation for FDI | R | | | |
| Deregulation of exchange rate | R | | | |
| Privatization | | | | R |
| C. Mexico | | | | |
| Import liberalization | | | P | |
| Export promotion | R | | S | |
| Exchange liberalization | | R | | |
| Deregulation of capital account | | | | R |
| Deregulation for FDI | | R | | |
| Deregulation of exchange rate | | R | | |
| Privatization | | G & P | | R |
| D. Brazil | | | | |
| Import liberalization | | | G | R |
| Export promotion | | | | S |
| Exchange liberalization | | | | R |
| Deregulation of capital account | | | G | |
| Deregulation for FDI | | | | G |
| Deregulation of exchange rate | | | | |
| Privatization | | | | G & P |

Source: CEPAL (1996b).
Note: R = radical reform, G = gradual reform, P = partial reform, S = suspension, and A = reversal of process.

growth in Argentina during the 1991–93 period, as well as in Brazil in the years 1994–95, were strongly related to macroeconomic stabilization programs. In the Mexican experience, the figures were even more remarkable, as imports increased from U.S.$ 41.6 billion in 1990 to U.S.$ 142.1 billion nine years later. For the four countries as a whole, these values were U.S.$73.1 billion and U.S.$229.4 billion, respectively, or a 13.6 per cent per annum growth. For the same time and countries, GDP expanded just 3.1 per cent annually.

TABLE II

IMPORTS, 1990–99

(Current U.S.$ million)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | 3,726 | 7,559 | 13,795 | 15,663 | 20,162 | 18,804 | 22,283 | 28,554 | 29,448 | 24,144 |
| Brazil | 20,661 | 21,041 | 20,554 | 25,301 | 33,241 | 49,663 | 53,304 | 59,842 | 57,733 | 49,219 |
| Chile | 7,089 | 7,456 | 9,285 | 10,186 | 10,872 | 14,642 | 16,496 | 18,220 | 17,346 | 13,951 |
| Mexico | 41,592 | 49,966 | 62,130 | 65,366 | 79,346 | 72,453 | 89,469 | 109,808 | 125,373 | 142,064 |
| Total | 73,068 | 86,022 | 105,764 | 116,516 | 155,562 | 143,621 | 181,552 | 216,424 | 229,900 | 229,378 |

Source: CEPAL (2000, 2001a).

Latin American enterprises, in the face of unprecedented competitive pressure from imports, found themselves under-capitalized and lacking the technology necessary to maintain their local market shares and enter international markets. In the case of Brazil, Moreira and Correa (1997, p. 87) estimated that the profit margin decreased by approximately 17.5 per cent for intermediate goods and 32 per cent for durable consumer goods in the 1990–95 period. The increasing financial fragility and/or the requirements imposed by the context of international competition forced a large number of firms either to seek new partners or to sell off assets to new entrants.

Regional market agreements such as Mercosur and the North American Free Trade Agreement (NAFTA) also facilitated M&A activities, as companies were forced to expand economies of scale in order to serve an enlarged market and to seek efficiency gains. In the case of Mercosur—which is formed by Argentina, Brazil, Paraguay, and Uruguay—trade expansion has been quite impressive. Between 1991 and 1997, intra-regional trade jumped from U.S.$10.2 billion to U.S.$40.6 billion, an annual improvement rate of 26.2 per cent. During the same period, extra-regional trade grew from U.S.$67.8 billion to U.S.$133.8 billion, or a 12.6 per cent per annum increase. As a consequence, the share of intra-regional trade in the total flows of commerce of Mercosur countries increased from 13.1 per cent to 26.2 per cent (INTAL 1999, p. 11). Even taking into account a worsening of Mercosur's trade performance in 1998 and 1999, preferential reciprocal agreements certainly played a prominent role in stimulating trade volume and, consequently, fostering changes in the competitive and corporative strategies of firms.

Pro–market reforms should be counterbalanced by regulatory regimes on competition. Such regimes can be seen as barriers to corporate restructuring, especially if M&As imply new firms with greater market power. However, the regulation of competition has been given little priority in structural reforms in Latin America. In the mid-1990s, antitrust legislation in Chile was based on a law promulgated in 1973, while in Argentina and Brazil they had been issued in 1980 and 1994, respec-

TABLE III

CONSUMER PRICE INDEX, 1990–99

(December-to-December % variation)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | 1,343.9 | 84.0 | 17.6 | 7.4 | 3.9 | 1.6 | 0.1 | 0.3 | 0.7 | −1.8 |
| Brazil | 1,584.6 | 475.1 | 1,149.1 | 2,489.1 | 929.3 | 22.0 | 9.1 | 4.3 | 2.5 | 8.4 |
| Chile | 27.3 | 18.7 | 12.7 | 12.2 | 8.9 | 8.2 | 6.6 | 6.0 | 4.7 | 2.3 |
| Mexico | 29.9 | 18.8 | 11.9 | 8.0 | 7.1 | 52.1 | 27.7 | 15.7 | 18.6 | 12.3 |

Source: CEPAL (1996a, 2001b).

tively (Pereira Neto 1996, p. 120). Moreover, there are important differences in national regulations. While the Brazilian law is very comprehensive, the Argentinean and Chilean ones are more concise. More importantly, although all deal with anticompetitive conduct (such as cross-selling, cartels, and price discrimination), M&As are only subjected to scrutiny in Brazil, and even there effective actions did not start to be implemented until the 1990s (Pereira Neto 1996, p. 127). In the case of Mexico, the current Federal Law on Economic Competition was enacted in 1992. According to Clavijo and Valdivieso (2000, pp. 39–40), this regulatory mechanism will have an important potential impact on the Mexican economy in the long run, because it represents a radical change in state behavior. The new regulation substituted for laws that had been issued in 1914 and 1934. Its scope is similar to the legislation in Brazil, because in addition to the control of monopolist conduct, certain M&As are subjected to the prior approval of the Federal Commission on Competition, which began activities in June 1993.

It is worth mentioning that in these four countries, with the exception of Chile, institutional changes preceded or were introduced simultaneously with macroeconomic policies aiming at inflation control, through a combination of monetary or exchange anchors and import liberalization. Table III indicates that, in this area, significant success was achieved, in particular in Argentina (with its Conversibilidad Plan of 1991) and Brazil (Real Plan of 1994). Moving from hyperinflation to double-digit or even single-digit inflation increased confidence levels as macroeconomic foreseeability improved, creating an environment friendly to new entrants (Ferraz, Kupfer, and Serrano 1999).

In fact, monetary stability, import expansion, and reforms aimed at liberalizing capital accounts favored the return of capital inflows. During the 1980s external restrictions were substantial and a negative transfer of resources was observed, amounting to 3.2 per cent of the region's GDP between 1982 and 1990, in average. Nevertheless, in the wake of reforms and increasing international liquidity, the access to international funds improved between 1991 and 1995, implying a positive transfer of 1.5 per cent of GDP, in average (CEPAL 1996b). In the specific case of

TABLE IV

NET FOREIGN DIRECT INVESTMENT, 1990–99

(U.S.$ million)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | 1,836 | 2,439 | 3,218 | 2,059 | 2,480 | 3,756 | 4,937 | 4,924 | 4,175 | 21,958 |
| Brazil | 324 | 89 | 1,924 | 801 | 2,035 | 3,475 | 11,666 | 18,608 | 29,192 | 28,612 |
| Chile | 654 | 697 | 538 | 600 | 1,672 | 2,204 | 3,445 | 3,353 | 1,842 | 4,366 |
| Mexico | 2,549 | 4,742 | 4,393 | 4,389 | 10,973 | 9,526 | 9,186 | 12,830 | 11,311 | 11,568 |
| Total | 5,363 | 7,967 | 10,073 | 7,849 | 17,160 | 18,961 | 29,234 | 39,715 | 46,520 | 66,504 |

Source: CEPAL (2000, 2001b).

the four analyzed countries, the net transfer of resources in the period 1991–99 amounted to U.S.$147.9 billion.

Access to foreign capital was important from a macroeconomic perspective, as it financed current account deficits and contributed to reducing inflation rates. Capital inflows led to the overvaluation of local currencies, facilitating imports and, as a consequence, reducing the markup pricing capacity of local oligopolies, which used to operate in economies with a low propensity to trade. From the perspective of the issues analyzed in this article, capital inflows, mainly via FDI, were extensively used in privatization and private M&A operations.

As shown in Table IV, FDI into Argentina, Brazil, Chile, and Mexico skyrocketed from U.S.$7.9 billion in 1992 to U.S.$66.5 billion in 1999. Even considering the fact that the 1999 figure for Argentina is inflated by one single large transaction (the acquisition of Yacimientos Petrolíferos Fiscales, YPF, by the Spanish oil company Repsol, for approximately U.S.$15.2 billion), the growth of net FDI is quite notable. This inflow played a prominent role in financing the balance of payments' current account, in a proportion varying between 23 per cent in 1993 and 82 per cent in 1996. Furthermore, although the year 1999 can be regarded as an exception, due to the single large transaction, it is important to stress that net FDI into the four countries was in fact 30 per cent higher than the current account deficits.

Nevertheless, Ferraz and Iootty (2000) suggest that, from a macroeconomic perspective, this favorable external environment also posed two important challenges to the Latin American economies: the need to preserve the solvency of the financial system and to maintain macroeconomic stability and sustainability. Net capital inflows exceeded sustainable external savings levels (defined as total foreign capital inflows and variations in foreign reserves). As a result, foreign expenditures and current account deficits increased to levels that were not compatible with macroeconomic stability. In many countries the large-scale entry of financial resources exerted negative effects on monetary supply and on exchange rates. Exports were affected, imports expanded significantly, and most economies became very vulner-

TABLE V

Gross Fixed Capital Formation as Per Cent of GDP, 1990–99

(%, at 1995 constant prices)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | 11.9 | 14.1 | 17.1 | 18.7 | 20.8 | 18.0 | 18.8 | 22.0 | 20.8 | 18.7 |
| Brazil | 21.3 | 20.2 | 18.9 | 19.2 | 20.3 | 20.5 | 20.3 | 21.3 | 21.3 | 19.9 |
| Chile | 19.2 | 17.7 | 19.5 | 21.7 | 21.6 | 23.9 | 24.5 | 25.4 | 25.5 | 21.1 |
| Mexico | 19.0 | 20.3 | 21.9 | 20.8 | 21.6 | 16.2 | 18.0 | 20.6 | 21.2 | 22.0 |

Source: CEPAL (1999) and our own estimates using CEPAL (2000, 2001a).

TABLE VI

Growth of Selected Latin American Countries' GDP, 1990–99

(%, at 1995 constant prices)

| | 1990* | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | –0.1 | 10.6 | 9.6 | 5.7 | 5.8 | –2.8 | 5.5 | 8.1 | –3.4 | 0.0 |
| Brazil | –4.7 | 1.0 | –0.5 | 4.9 | 5.9 | 4.2 | 2.7 | 3.3 | 0.2 | 0.9 |
| Chile | 3.3 | 8.0 | 12.3 | 7.0 | 5.7 | 10.6 | 7.4 | 7.4 | 3.9 | –1.1 |
| Mexico | 5.2 | 4.2 | 3.6 | 2.0 | 4.4 | –6.2 | 5.2 | 6.8 | 4.9 | 3.7 |

Source: CEPAL (1996a, 2001b).
* At 1990 constant prices.

able to changes in the international context. Local governments were forced to sterilize the monetary effects of foreign capital by increasing interest rates. Consequently, gross fixed capital formation did not show sustainable growth, as shown in Table V.

In short, economic liberalization and macroeconomic reforms induced price stabilization, import expansion, acceleration of capital inflows, and a cautious attitude towards investment, all as part of a long process of institutional and economic change. However, and, most importantly, GDP growth was erratic during the years of reform, as demonstrated in Table VI. Chile is an exception as growth was maintained at relatively high rates. Mexico also performed well, in large part due to the economic relations it maintained with the United States. It is under this new economic scenario that the "wave" of privatization and private M&A activities in Latin America should be examined. The results of economic liberalization in a broad sense—along with the new "wave" of FDI and the escalating importance of cross border M&As, in particular—are, still, very controversial. This debate can be better contextualized if the process of change is more thoroughly understood, especially the dynamics of privatization and private M&As in the region.

## II. INFORMATION SOURCES AND THE ORGANIZATION OF THE DATABASE

The measurement and analysis of FDI and M&As involve a range of methodological problems, especially related to the quality and consistency of statistical sources. Insufficient information on the value of transactions, missing observations, inconsistencies arising from the use of different sources, and the identification of the national origin of investment are some of the main problems confronted.

For this article, an original and consistent data set on privatization and private M&As was organized, starting from highly disaggregated data. It was compiled and supplied by Thomson Financial Securities Data (TFSD). TFSD registered 3,607 transactions conducted between 1990 and 1999 in Argentina, Brazil, Chile, and Mexico. Each registry contained: date of transaction, names of acquiring and acquired firms, nationality of investor, sector of acquiring and acquired firms, value of transaction, and percentage of shares purchased.

To provide an appropriate basis for rigorous analysis, it became necessary to introduce refinements on the raw database in order to avoid the common drawbacks of similar data sets such as: double counting, misspecification of acquirer nationality, and lack of precision in discriminating between privatizations and private M&A activities. Thus, the raw data were subjected to five modifications:

1. Firstly, the raw data was checked to eliminate the double counting of transactions, especially those involving sequential rather than one-off payments. As a result, the number of observations fell from 3,607 to 3,291.
2. Information on privatizations was double checked against data supplied by official reports of privatization programs in Argentina, Brazil, Chile, and Mexico. As a result, the number of observed transactions rose from 3,291 to 3,414.
3. The Who Owns Whom[2] database, and to a lesser extent business publications like *Forbes* and *Fortune*, were used to identify the nationality of firms involved in transactions. After this procedure, investor countries were aggregated into six regional categories: domestic investors, Latin America, North America, Europe, Asia, and offshore centers and others.
4. Sectoral classification data by TFSD followed the company's own criteria, which were substantially different from and therefore impossible to match with widely used and standardized classifications such as SIC or ISIC. Therefore, the number of TFSD sectors was reduced from fifty-five to the following ten: agriculture, mining and oil, nondurable consumer goods, durable consumer goods,

[2] The Who Owns Whom database from Dun and Bradstreet contains, for 1999, information on 260,000 corporations in the United States, Canada, the United Kingdom, Continental Europe, Asia, Australia, and Latin America, including, for instance, data on corporate tree structure, which provided the accurate nationalities for firms.

intermediate goods, capital goods, infrastructure, financial services, wholesale and retail activities, and other services.

5. Finally the database was divided in two subsamples in order to distinguish those transactions relating to privatization operations (329 observations) and those related to private M&A activities (3,085 observations).

The refined database has an unusually high proportion of transactions with values revealed. Of the 3,085 private M&A transactions in the database, 1,535 or 50 per cent have values registered, a proportion that varies by no more than 8 per cent among the four recipient countries. For the 329 privatizations, no less than 97 per cent have reported sale values. Despite the good characteristics of the data, it is necessary to acknowledge that the values of a considerable number of transactions have not been disclosed, as a result of legally binding nondisclosure clauses among acquiring and acquired firms. As one might expect, for reasons of public accountability, the proportion of value disclosures for privatization transactions is considerably higher.

On the whole, three strong advantages can be put forward for this assembled and refined database, ensuring a high degree of consistency, accuracy, and reliability for cross-country and cross-sector analysis. Firstly, it basically employs just three carefully scrutinized sources: TFSD, "Who Owns Whom," and national official data on privatizations. Secondly, since the raw data was extremely comprehensive, including numbers and values of transactions, the bias against capital-intensive sectors that is implicit in studies based solely on numbers of transactions has been avoided. Thirdly, the division of the data between private M&As and privatizations helps to better understand the different dynamics associated with these transactions.

In spite of the refinement effort, there are still two unavoidable drawbacks. Firstly, it was not possible to control for differences in the propensity to disclose transactions and their values among companies. Furthermore, the revealed values of relatively small transactions tend to be underrepresented in the sample. These two shortcomings are, however, common to all available M&A datasets. They inevitably place some limitations on our ability to draw entirely robust conclusions.

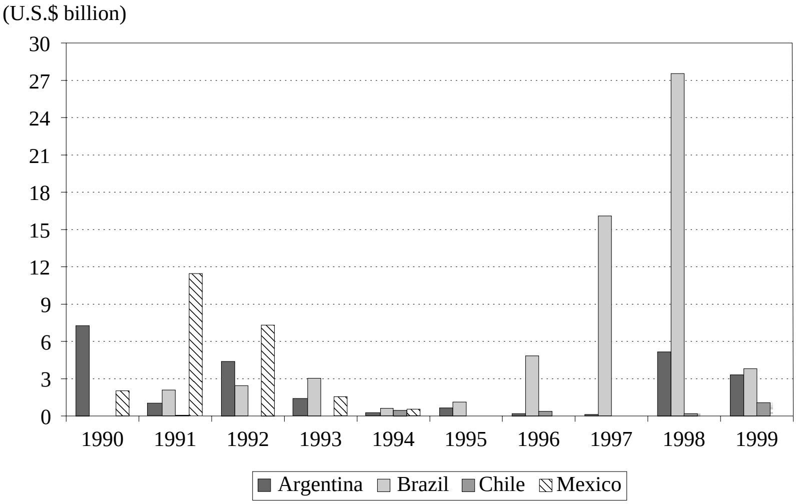
## III. PRIVATIZATION IN THE 1990s

### A. *Overall Results*

During the last decade, privatization across Latin America was far reaching. Combined revenues for Argentina, Brazil, Chile, and Mexico amounted to U.S.$110 billion, this inflow of income proved of great assistance to macroeconomic policies, not only in facilitating attempts towards fiscal adjustment, but also in financing deficits in the current account. In some official publications, these figures ap-

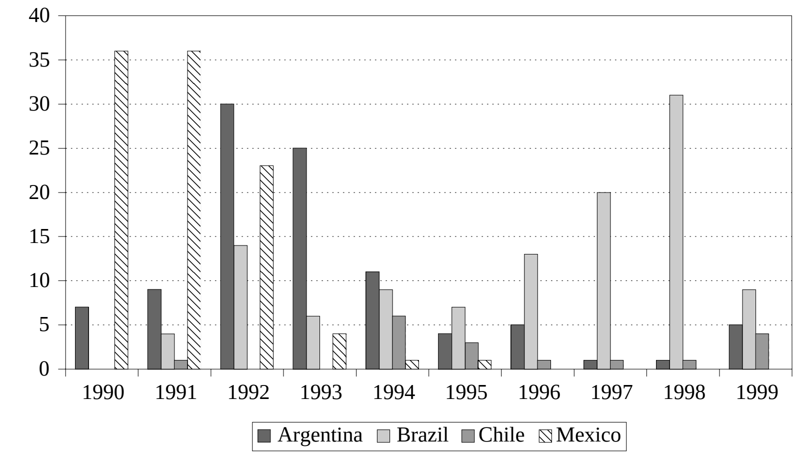
Fig. 1. Privatizations in Latin America, 1990–99

A. Value of Transactions




Source: Instituto de Economia, Universidade Federal do Rio de Janeiro (IE-UFRJ), Latin America M&A and Privatization Database.

B. Number of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

pear to be even greater, as they may also include the value of concessions, such as new services of mobile telecommunications. Since the analysis focuses on permanent asset ownership restructuring, these operations were deliberately not included in the database. Thus, a restricted definition of privatization was used, although some authors—like Vuysteke (1988, pp. 8–10)—also take contracting-out and demonopolizing into account.

As shown in Figure 1, sales revenue generated by privatization differed greatly among countries. This variation may be viewed as a function of the relative size of the economies, the timing of the privatization program and its sectoral coverage. Chile was the first country in the region to implement an active privatization policy. Indeed, it was a pioneer of this contemporary and global trend, and was even ahead of the United Kingdom. Chile's privatization program was divided into "rounds." Initially, 207 small companies were sold and 325 were returned without cost to their former owners. In the years 1974–82, the revenues amounted to U.S.$952 million (Lüders 1991, p. 17). In the second stage, between 1985 and 1989, 50 additional firms were privatized, generating total revenues of U.S.$1.35 billion. In Mexico, since the inauguration of the la Madrid administration in 1982, there have been political efforts to reduce the size of public sector. This policy was accelerated under Salinas (1988–94). In this way, the number of public enterprises under budgetary control diminished from 1,155 in 1982 to 379 in 1989 (Weiss 1995, p. 213).

Argentina and Brazil started to run their privatization programs in the early 1990s. This contributed to expanding their weight in this analysis, which concentrates on the 1990–99 period. In the case of Brazil, Latin America's largest economy, the telecommunications and electrical energy distribution sectors were almost entirely transferred to private ownership. Thus, it is hardly surprising that Brazilian privatization revenues, at U.S.$61.5 billion, were easily the largest of any of the surveyed countries. During the last decade, the amount of the privatization in Argentina and Mexico reached around U.S.$23 billion in each country and, in the Chile, sales revenues amounted to U.S.$2.1 billion. Figure 1.A, depicting privatization revenues by country, provides evidence on the importance of the Brazilian program in the second half of the 1990s, and in particular the sale of the telecommunications sector in 1998. On the other hand, Figure 1.B reveals a downward trend in the average annual number of privatization transactions over the decade for all countries except Brazil. It is necessary to note the nature and the slowing down of the Mexican privatization process. According to Ferreira (1994), the Mexican privatization program, when in full swing in the 1990–92 period, was characterized by a substantial number of relatively low value transactions, in which the *chiquillerias* (small state-owned enterprises) were sold off to private investors.

## B. *Sectoral Distribution*

Around the world, privatization programs began by focusing on manufacturing industries. Once divestment in these sectors was completed, privatization turned to public utilities. This pattern was also observed in Latin America. As most privatization programs were initiated in the 1980s, if not earlier, telecommunications and electrical energy were the public utilities that were sold to private investors during the 1990s in these four countries. Figure 2.A shows another interesting feature of Latin American privatization: the economic importance of infrastructure-related sectors amounted to an average of U.S.$62.3 billion, and is probably greater than the combined privatization revenues from other sectors. But, in terms of number of operations (Figure 2.B), the picture is considerably changed, especially in the case of Mexico, with substantial privatization activities in agriculture, intermediate consumer goods, and the financial sector. Again in terms of number of transactions, intermediate consumer goods and the services sector are gaining importance in the Brazilian and Argentinean experiences. In Argentina, mining and oil is also relevant.

Manufacturing has played a relatively small role in Latin American privatization programs, even in Brazil, the most heavily industrialized economy. There, the privatization of public enterprises in the industrial sector amounted to only 13 per cent of total revenues during the 1990s. Over the same period, these proportions were 3 per cent, 6 per cent, and 21 per cent for Mexico, Argentina, and Chile, respectively. In average, manufacturing accounted for only 9.6 per cent of the total privatization revenues in the 1990s, in comparison with the 15.0 per cent generated by the financial sector, for instance.

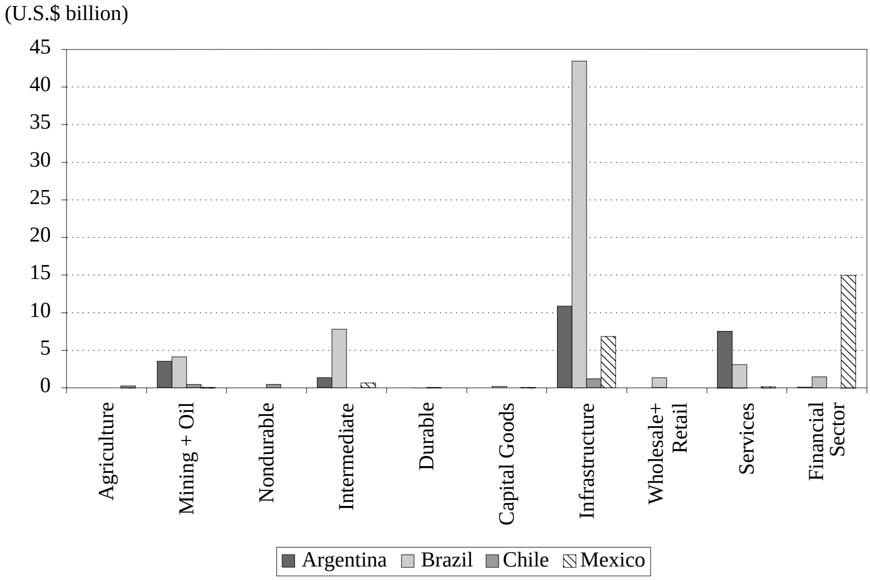
The case of Mexico deserves particular attention. There, while the economic importance of infrastructure divestment was lower, that of the financial sector was higher compared to the other three countries. Privatization of the financial sector accounted for 65.3 per cent of its total revenues. The enormous scale of its financial sector privatization may be viewed as a consequence of 1980s policies when, as a direct consequence of the debt default, the banking industry was virtually taken into public ownership.

### C. *The Nature of Acquiring Companies*

In each country, privatization was concentrated in time and in specific sectors, although there were substantial differences among them: in Chile, it occurred earlier; in Mexico, the number of transactions and the importance of the financial sector were comparatively higher; and in Brazil, the process was initiated later and the absolute size of privatizations was significantly higher. When the nationality of the acquiring firms is taken into account, there are similarities but also some interesting differences among these four large Latin American countries (Figure 3). The privatizations in Latin America marked an important change in the historically prominent role played by North Americans, North Europeans, and Japanese investors. The new relevant actors in the region were from Spain, Portugal, and Italy. Along

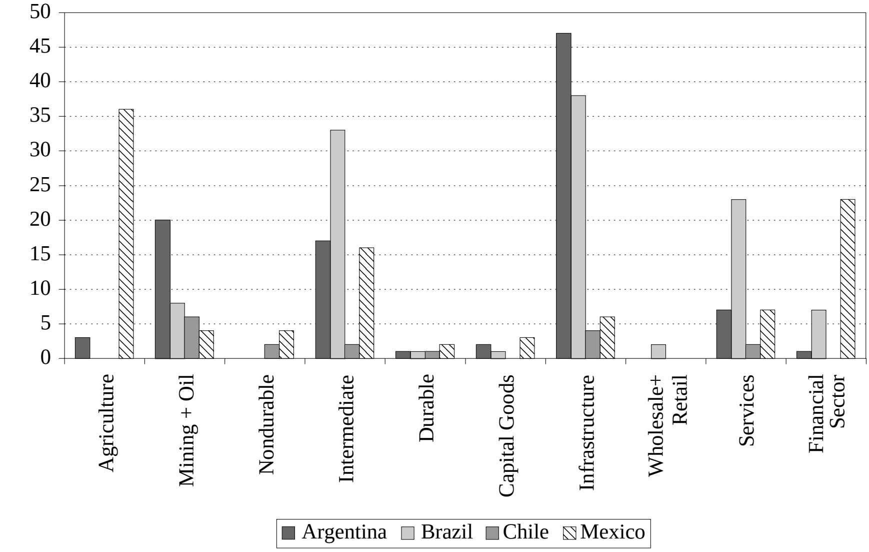
Fig. 2. Sectoral Privatizations in Latin America, 1990–99

A. Value of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

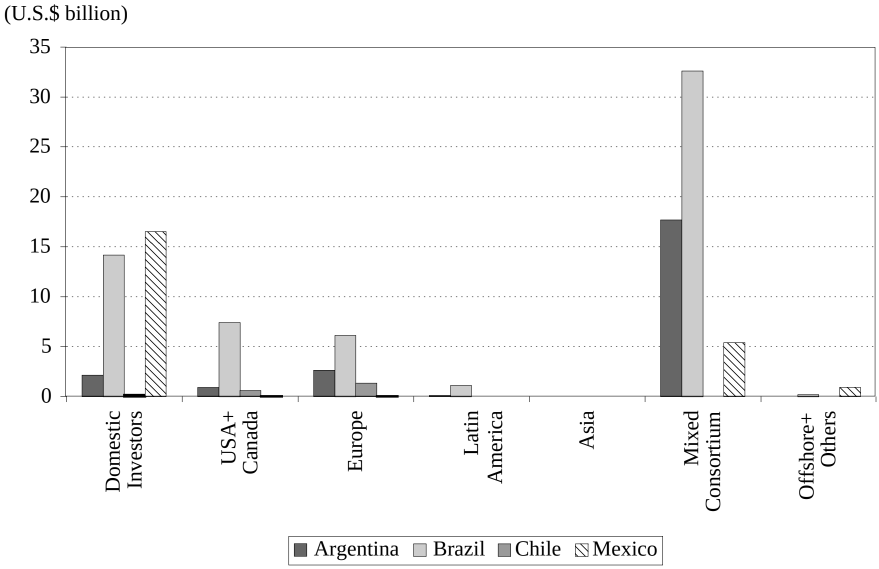
B. Number of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

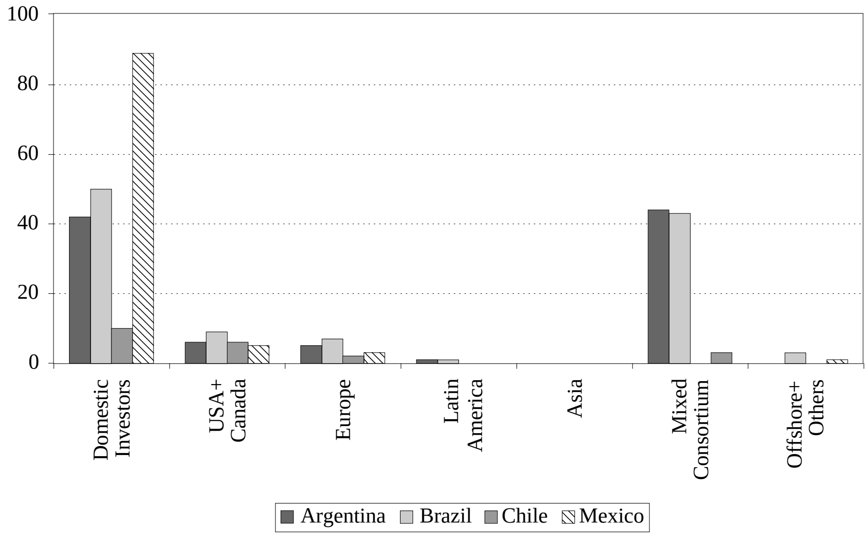
Fig. 3. Home Countries of Acquiring Companies in Privatizations in Latin America, 1990–99

A. Value of Transactions



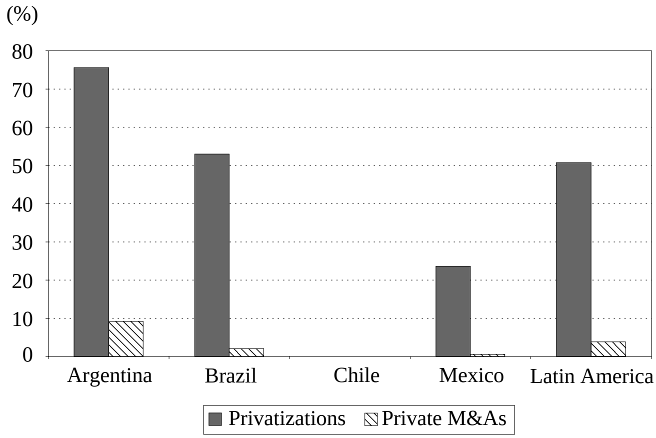

Source: IE-UFRJ, Latin America M&A and Privatization Database.

B. Number of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

Fig. 4. The Role of Mixed Consortia in Privatizations and Private M&As in Latin America, 1990–99: Value of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

the same line, the role of intra-regional participation in the privatizations has been quite insignificant. In this database Latin America's non-consortium share in privatization amounted to just 1.1 per cent of total revenues between 1990 and 1999.

The most striking feature of the above figures is the economic relevance of mixed consortia in successfully bidding for state-owned enterprises (SOEs) across the region, followed by the active role played by local firms. Mixed consortia accounted for U.S.$55.7 billion in privatization revenues, followed by domestic investors (U.S.$33 billion). European companies invested U.S.$10.0 billion, followed by U.S. and Canadian firms (U.S.$8.9 billion). If the number of transactions is taken into account, the role of domestic investors would be considerably greater, revealing that local companies were more active in smaller transactions and that the mixed consortia was an organizational mode designed for more complex operations.

Mixed consortia were prominent in Argentina and Brazil, accounting for 76 per cent and 53 per cent of total privatization revenues. Indeed, in Argentina, mixed consortia were the most prominent investors, followed, distantly, by Europeans and domestic investors (Figure 3.A). In Brazil, mixed consortia were also very active, followed by domestic, North American, European, and Latin American investors. In Chile, in contrast, Europeans and North Americans were more dynamic and, in Mexico, domestic investors played the prominent role in acquiring SOEs.

Most importantly, though, the mixed consortium is an ownership mode used extensively in privatizations but not in private M&A operations (Figure 4). In the latter, this ownership mode was used in Argentina for just 9.2 per cent of total value of operations and 2.0 per cent of total Brazilian private M&As.

Given their economic magnitude, the role of mixed consortia must be further examined. In this database, a mixed consortium was defined as an acquiring company formed jointly by domestic and foreign investors for the purpose of owning and managing a third firm. This ownership mode does not ensure absolute control to one specific group of investors, theoretically opening some level of participation in decision making to all partners. Foreign and local investors involved in a mixed consortium combine different, idiosyncratic and potentially valuable and complementary competences for running a newly acquired company. Foreign investors are expected to bring in technology and capital assets, plus international connections. For the local partners, these assets contribute to reduce financial and operational risks. Local investors' contributions are not limited local capital and technology but include, most importantly, knowledge and understanding of framework conditions such as the competitive environment, legal and social norms, and also cultural features of the country. For foreign partners, these competences can reduce risks associated with entering a new market and dilute political criticisms that often accompany the transfer of privatized assets to foreign entities (Kock and Guillén 2001).

In short, the mixed consortium is a Latin American version of strategic alliances established among international companies but applied specifically to privatizations. Potentially, the different partners in these alliances bring in specific and valuable resources that can decrease risks and increase competences. At the same time, given the multiplicity of origins and interests of the partners involved, mixed consortia are entities with complex and unstable governance.

The case of the Argentinean telecommunication companies evolved as follows. Until the end of 1990, the country's telecommunication system was monopolized by Empresa Nacional de Telecomunicaciones (ENTel), which controlled 95 per cent of all phone communications as well as other services such as data transmission (Herrera 1992, p. 163). It was broken up into two companies, Telecom Argentina and Telefónica Argentina. Privatization was carried out in two tranches; in the first, 60 per cent of the capital was sold by tender and in the second, 10 per cent was reserved for the employees and the remaining 30 per cent offered to the market. The mixed consortium that purchased Telecom Argentina was composed of STET (Italy), France Cable et Radio (France), Grupo Pérez Companc (a diversified Argentinean group), and JP Morgan Bank (the United States). In the case of Teléfonica Argentina, the mixed consortium consisted of Telefónica (Spain), Grupo Techint (another diversified Argentinean group), and Citibank (the United States). Thus, in each mixed consortium, there was one large European telecommunication company, one international bank, and one diversified domestic group. In other countries, especially Brazil, the composition of mixed consortia was even more complex, as local financial institutions and SOE pension funds played a prominent role.

There is at least one important peculiarity regarding this mode of ownership: it is constituted for a specific project and opportunity, in a once-for-all operation. Indeed, mixed consortia in Latin America are strongly correlated with privatizations and this type of transaction is unique in terms of time and place. While alliances for negotiating private M&A transactions could be dealt with from a long-term competitive perspective, in the case of a privatization tender, companies had to follow a specific chronology to bid for a specific asset. Thus, potential candidates had to recruit partners and organize a joint venture in a short time, running the risk of missing deadlines, with the primary objective of winning a financial tender. This context imposed two very distinct features upon the characteristics of the new company.

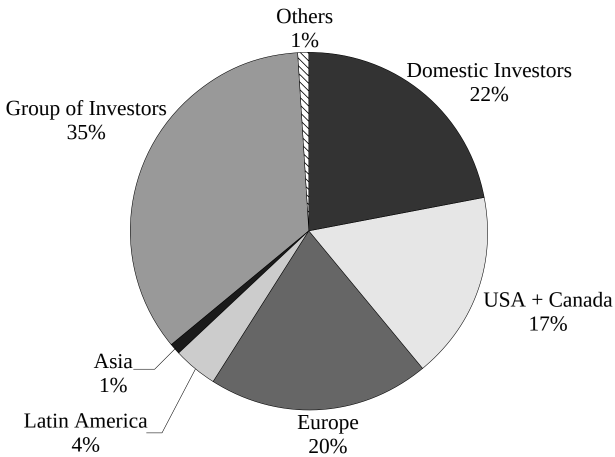
Firstly, not all partners had the same motivations and interests; some might be motivated by speculative reasons, in the sense of buying a share with the intention of disposing it as soon as a certain value tag was achieved; others might perceive their role from a long-term competitive perspective. Also, as privatizations were concentrated in time, many players became involved in more that one mixed consortium. Therefore, the ownership composition of consortia ran the risk of incorporating powerful but potentially contradictory interests into the functioning logic of the newly acquired company. Although differences of goals and interests are not unusual in other modes of international joint ventures, the potential degree of divergences tends to be comparatively high in mixed consortia formed for privatization purposes.

Secondly, and as consequence of differences in the time and risk preferences of investors, intra-consortium share transactions took place immediately after the privatization process ended, implying significant changes in the original ownership composition. This was the case for the above-mentioned Argentinean telecommunications firms. In Telecom Argentina, in July 1999, Pérez Companc and JP Morgan sold their stakes to the other two partners (France Telecom and Telecom Italia) for an estimated U.S.$530 million. In Teléfonica Argentina, the Spanish firm Telefónica currently holds, directly and indirectly, 91 per cent of its capital. Not only has the Techint group already disposed of its stocks, but Citibank also sold its stake to the North American fund Hicks, Muse, Tate & Trust. Hence, in both cases, soon after privatization the diversified domestic group and the international bank gave up their position in the mixed consortium.

Although these results cannot necessarily be generalized, they make clear three important issues: (a) the mixed consortium is a low risk option for the internationalization strategies of companies with a long-term perspective on new markets; (b) the formation of mixed consortia was followed by important changes in their internal compositions, meaning new M&A transactions; and (c) not only has the mixed consortium been organized by firms with different motivations and competences, but it can be considered as an asymmetric international strategic alliance, if international companies tend to improve their stakes with time.

The database allows the further examination of the internal compositions of all

Fig. 5. Internal Composition of Mixed Consortia in Argentina, 1990–99: Value of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

mixed consortia at the time of privatizations in Argentina. Figure 5 demonstrates that, by value of transactions, the share of domestic investors was only 22 per cent. In addition, 35 per cent of the total value was held by a category denominated group of investors, for which no nationality could be identified, although most certainly they were based in offshore financial centers. Even so, the share of identified international companies within mixed consortia in Argentina was very high, with the leaders being European companies (20 per cent) and the United States and Canadian investors (17 per cent). Latin American (4 per cent) and Asian firms (1 per cent) complete the list.

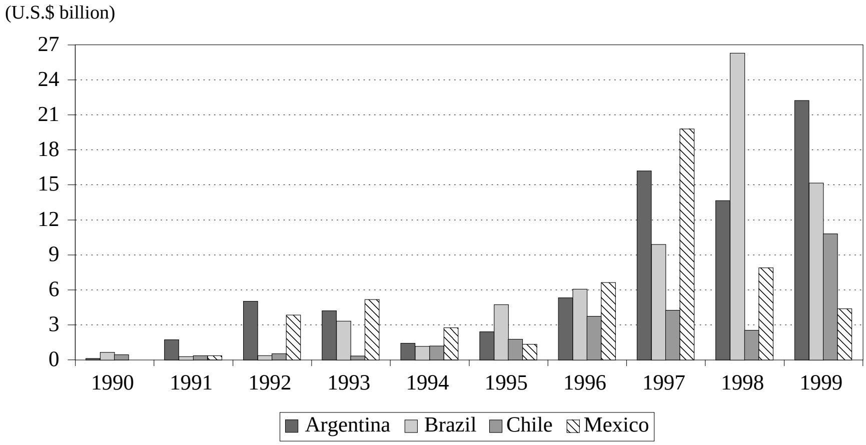
## IV. PRIVATE MERGERS AND ACQUISITIONS IN THE 1990s

### A. *Overall Results*

Figure 6 shows the evolution of private M&As in the 1990s, in value and number of transactions, in the four countries considered. The increase of M&As in the second half of the 1990s reflects an international trend, and is also associated with the process of economic liberalization in each country. The opening up of these economies implied changes in the market towards corporate control and unprecedented competitive pressure on domestically owned Latin American enterprises. Relative to international standards, these companies were undercapitalized and lacked the technology necessary to maintain local market shares and enter international mar-

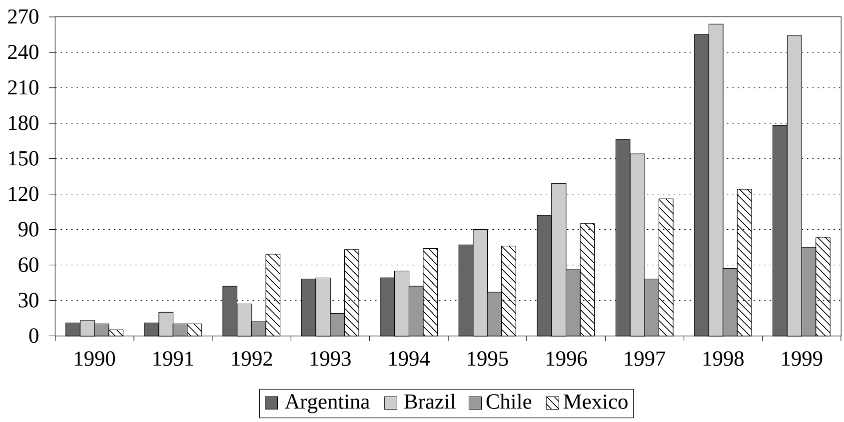
Fig. 6. Private M&As in Latin America, 1990–99

A. Value of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

B. Number of Transactions

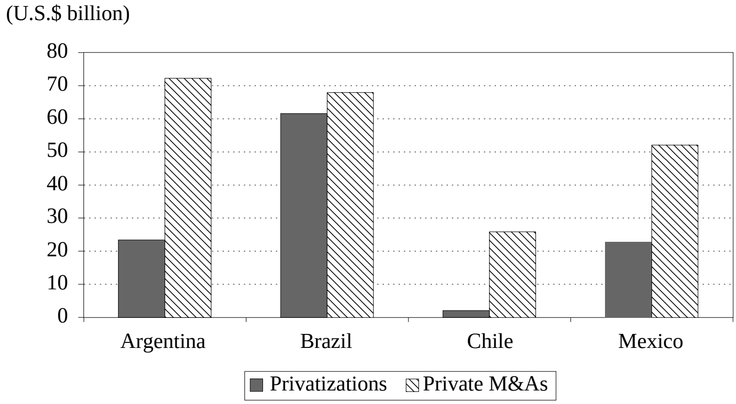



Source: IE-UFRJ, Latin America M&A and Privatization Database.

kets. Under these circumstances, not surprisingly, a large numbers sold participation to foreign investors or surrendered to takeovers.

As shown in the above-mentioned figures, private M&As in Brazil increased steadily along the years, reaching a peak in 1998, when over U.S.$26 billion or 260 transactions were registered. In Argentina, most transactions were concentrated in the period 1997–99, involving an annual average of U.S.$17.4 billion. The peak in

Fig. 7. Privatizations and Private M&As in Latin America, 1990–99: Target Country and Value of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

Mexico was reached in 1997, when acquisitions worth U.S.$19.8 billion were registered, though they fell substantially thereafter. Private M&As in Chile were relatively modest, reaching a peak of just above U.S.$10 billion in 1999.

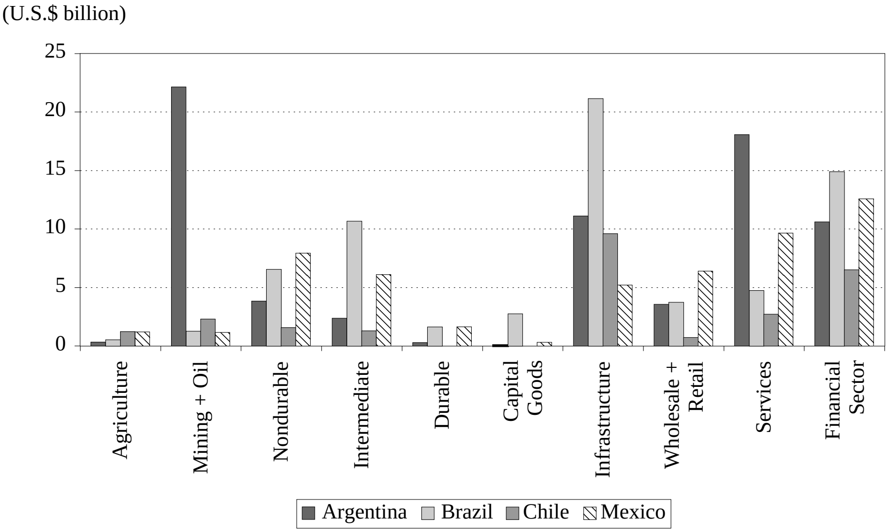
There are at least three important differences between private M&A activities and privatizations in Latin America. Firstly, the aggregate value of M&As reached U.S.$218 billion, practically double the revenues from privatization in the decade. Secondly, private M&As increased steadily during the decade with the peak in the final years, while privatizations were concentrated in specific and different years for different countries. Thirdly, the distribution among target countries was very different. Argentina was the leader in private M&As, with U.S.$72 billion in sale values (Figure 7), followed by Brazil (U.S.$68 billion), Mexico (U.S.$52 billion), and Chile (U.S.$26 billion). This is quite relevant given the differences in the sizes of each economy. Thus, proportionally, private M&As in Brazil were less important, whereas Chile represented the opposite case.

## B. *Sectoral Distribution*

Private M&A transactions were carried out in a large number of economic activities than were privatizations, especially when the number of transactions is considered (Figure 8). Even so, sectoral concentration was significant, especially in value terms. Of the U.S.$218 billion in total private M&A transactions, 42 per cent occurred in two non-tradeable sectors: infrastructure and the financial sector. This localized preponderance of M&As suggests that control over local and specific markets was, among other factors, a relevant motivation for acquisitions. In infrastructure, it must be remembered that private M&A transactions reveal post-

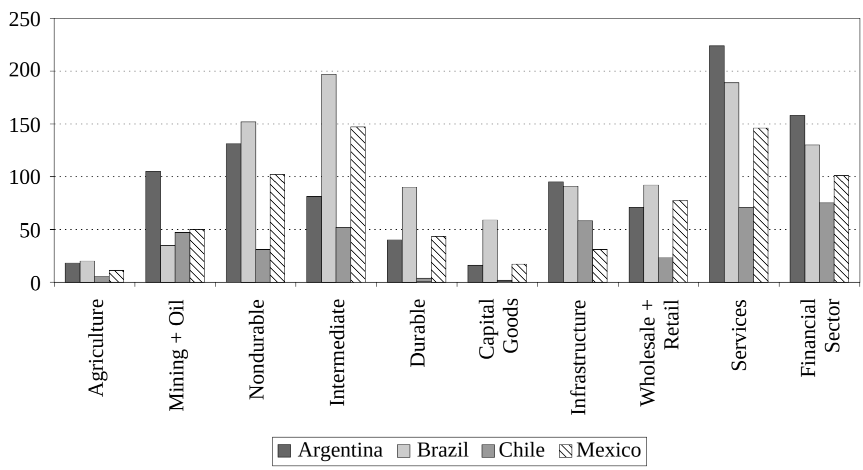
Fig. 8. Sectoral Private M&As in Latin America, 1990–99

A. Value of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

B. Number of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

privatization changes in the asset holders of mixed consortia, as mentioned above. Transactions in oil, mining, and agriculture-related sectors, which are export-orientated, accounted for a relatively small U.S.$30.1 billion or 13.8 per cent of the total value of deals. Almost half of this amount—or U.S.$15.2 billion—can be attributed to the purchase of the Argentinean oil company, YPF, in 1999 by Repsol of Spain (ECLAC 2001, p. 16). In the intermediate goods sectors, which is also export-oriented, private M&A activities amounted to U.S.$20.4 billion or just 9.3 per cent of the total. Finally, transactions in durable and capital goods sectors were even lower, both in value and number of transactions; this can probably be explained by the high preponderance of foreign ownership in these sectors (ECLAC 2001).

### C. *Nature of Acquiring Companies*

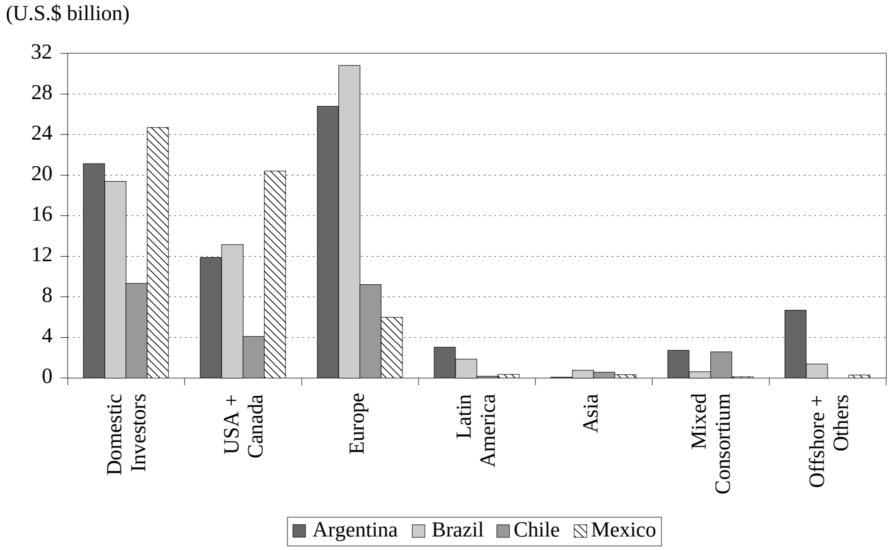
As shown in Figure 9, in contrast to the pattern observed in privatizations, mixed consortia were not significant actors in private M&As in Latin America. Domestic investors were active players, accounting for 34.2 per cent of total value (U.S.$218 billion) and 31.3 per cent of the total number (3,085). In value terms they were closely followed by European (33.4 per cent) and North American (22.7 per cent) companies. As in the case of privatization, Iberian newcomers played a prominent role in M&As, making substantial investments in infrastructure sectors (telecommunications, energy) and banks. However, European investors show a marked preference for the three Southern countries. In Argentina and Brazil, they were the leaders in terms of value of transactions, followed by local investors and North Americans. In Mexico, though, the role of European investors was significantly less important, a fact that can probably be explained by the emerging importance of NAFTA and the need of local companies to reposition themselves towards this regional market.

As in the case of privatizations, Asian investors demonstrated limited commitment to M&A opportunities during the 1990s. This lack of interest is very important, especially in the case of Chile, which is a Pacific Ocean–oriented economy. In the 1990–99 period, Asian private M&A activities in Chile amounted only to U.S.$536 million, or just 2.1 per cent of the total. An explanation for the low interest from Asian investors should be found in their preferred type of internationalization (greenfield joint ventures) and the strategy to focus investments towards other Asian countries.

The above results suggest that as a consequence of large inflows of FDI into the region, mainly via privatization and private M&A transactions, not only did the relative importance of local companies diminish, but their willingness to invest abroad also remained low. Figure 10 shows the importance of foreign investors in privatizations and private M&As during the 1990s, in terms of the value of transactions. Foreign investors were responsible for 70 per cent of all privatizations and 65 per cent of all private M&A transactions in Argentina, Brazil, Chile, and Mexico

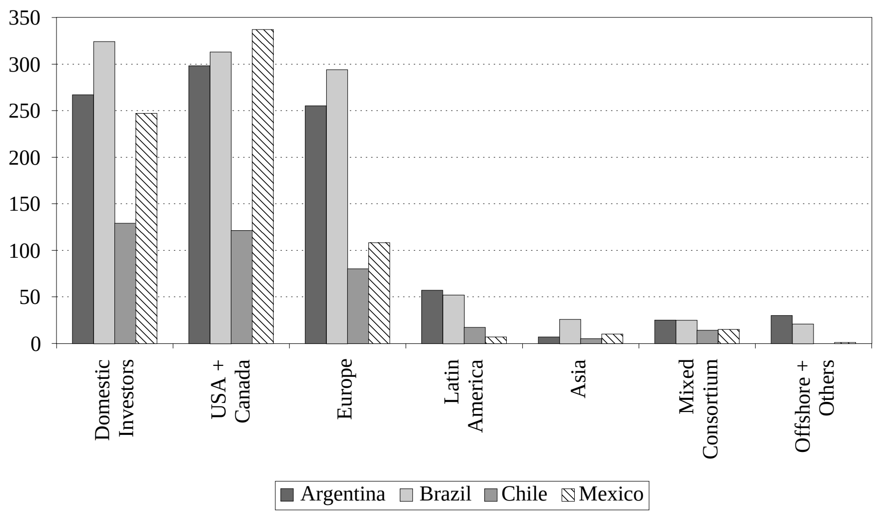
Fig. 9. Home Country of Acquiring Companies in Private M&As in Latin America, 1990–99

A. Value of Transactions



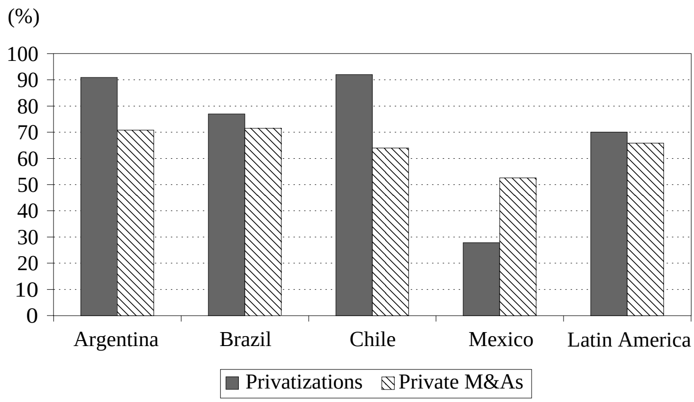

Source: IE-UFRJ, Latin America M&A and Privatization Database.

B. Number of Transactions




Source: IE-UFRJ, Latin America M&A and Privatization Database.

Fig. 10. The Role of Foreign Investment in Privatizations and Private M&As in Latin America, 1990–99: Percentage over Total Value of Transactions, by Target Country




Source: IE-UFRJ, Latin America M&A and Privatization Database.

TABLE VII

NATIONALITY OF THE 500 LARGEST LATIN AMERICAN FIRMS IN TERMS OF SALES, 1990–99

(%)

| | 1990–92 | 1994–96 | 1998–99 |
|---|---|---|---|
| Foreign companies | 27.4 | 32.1 | 43.7 |
| Domestic private companies | 39.4 | 41.0 | 37.2 |
| State-owned enterprises | 33.2 | 26.9 | 19.1 |

Source: ECLAC (2001).

(including all the stakes bought via mixed consortia). Mexico is the only country where the role of foreign investors was less significant.

The impact of this expansion of foreign investment was a decrease in the relative importance of local companies. Table VII demonstrates that the share of foreign companies in the 500 largest firms in Latin America jumped from 27.4 per cent in the 1990–92 period to 43.7 per cent in 1998–99. Conversely, domestic firms lost importance, especially state-owned enterprises.

The last dimension of the process of ownership restructuring is intra-regional M&As as an indicator of the willingness of local companies to explore investment opportunities, as their counterparts from specific developed countries have done. It would be expected that the relative success of Mercosur between 1991 and 1997, when intra-regional trade increased fourfold (from U.S.$10.2 billion to U.S.$40.6 billion) would have had a strong influence on fostering regional internationalization. However, and contrary to the pattern observed for NAFTA, looking at intra-

TABLE VIII

INTRA-REGIONAL M&A ACTIVITIES, 1990–99: VALUE OF TRANSACTIONS

(U.S.$ million)

| | Country of Acquiring Company | | |
|---|---|---|---|
| | Argentina | Brazil | Chile |
| Country of target company: | | | |
| Argentina | — | 483 | 1,331 |
| Brazil | 1,986 | — | 1,664 |
| Chile | — | — | — |

Source: IE-UFRJ, Latin America M&A and Privatization Database.

regional M&As from Argentinean, Brazilian, and Chilean firms, the results are quite disappointing. Table VIII shows that total intra-regional M&As in these three countries amounted to only U.S.$5.5 billion, or 1.7 per cent of total privatization and private M&A transactions. Looking at bilateral investments between Argentina and Brazil, in the 1990–97 period, Bonelli (2000, pp. 18–19) estimates that direct investments amounted to U.S.$2.2 billion, of which 40 per cent involved M&As. Some companies made greenfield investments, others were already located in the countries and just changed the proportion of production among countries, and others moved plants from one country to another.

The direction of intra-regional private M&A activity is quite interesting, as investments have flowed from smallest to bigger economies. Chilean companies invested U.S.$3 billion in Brazil and Argentina, while Argentinean firms invested U.S.$2 billion in Brazil. Brazilian companies, however, invested only U.S.$0.5 billion in Argentina. Bonelli (2000), using a different methodology and database, finds similar results. Chilean investments in Brazil were concentrated in infrastructure (81 per cent), whereas in Argentina nondurable consumer goods (51 per cent) and infrastructure (29 per cent) were the target sectors. These results were partly derived from the fact that as Chile was a pioneer of privatization, acquiring companies, especially of Iberian origin, were able to develop competences and define investment strategies aimed at the Southern region. In the case of Argentinean investments in Brazil, 85 per cent were focused on nondurable consumer goods, a trend headed by the Bunge y Born and Macri groups. Finally, Brazilian investments were focused on financial services (47 per cent), intermediate goods (20 per cent), and nondurable consumer goods (14 per cent).

## CONCLUSIONS

The 1990s were a period when Argentina, Brazil, Chile, and Mexico liberalized their national regimes of incentives and regulation. Over the course of the decade, as microeconomic liberalization—including privatization—accompanied macroeconomic stabilization, confidence levels increased and, following an international trend, there was a marked acceleration of capital inflows into the region. The data gathered for the analysis in this article shows that there was impressive growth in operations associated with privatizations and private M&As, leading to significant ownership restructuring and changes in corporate control. The main features of this process were:

- Privatizations occurred in batches, concentrated in time and mostly focusing on infrastructure-related sectors. National variances were noted. Chronologically, Chile was the pioneer country, followed by Mexico and Argentina. Brazil was the latecomer in the process. Sector-wise, for Argentina the privatization of its oil company was important, as was the case for the banking sector in Mexico and the telecommunications sector in Brazil.
- Private M&A transactions were distributed more evenly along the years, but there was an important acceleration in the second half of the decade for all countries, following a similar process occurring in international markets. Naturally, the sectoral dispersion in M&As was greater than in privatizations, but there was nevertheless an important concentration in non-tradeable sectors, especially infrastructure, and services and financial sectors.
- Mixed consortia—joint ventures formed by local and foreign sectoral companies—were the most active players in privatizations, especially in Argentina and Brazil. This was a new mode of business organization, that was very efficient in submitting proposals for public tenders. However, given the differing objectives of business partners, post-privatization changes in the compositions of mixed consortia occur red frequently, with an increasing importance for the foreign sector partners. In private M&As, the role of foreign investors was very important but local firms were also significant players, especially in Mexico. It is important to note the role of newcomers, especially of Iberian origin.
- These results indicate that a process of inward internationalization—in which foreign direct investment is a one-way process—has been the outstanding feature of ownership restructuring and changes in corporate control in the region during the 1990s.

Will this process continue? As far as privatization is concerned, the answer is straightforward: opportunities are decreasing, and the most attractive businesses have most likely already been sold off. Private M&A opportunities, on the other hand, do not have a predefined limitation, even though the movement was strongly correlated with the latest international wave. This seems to have receded after 2001, with the slowdown of the U.S. economy and the burst of the new economy bubble, but in the region, opportunities for further ownership alterations still remain.

Changes in asset holders constitute the end of one process and the beginning of a new one, which will be of long duration and have important implications for economic development and public policy. It signifies the entry—and the direction is towards greater internationalization—of newcomers into specific markets without adding capacity but with new actors, objectives, and business orientations. It appears that the consolidation of this wave of ownership change is a process to be seen in the few years to come. It implies introducing and experimenting with different management practices at all levels; this is a company specific issue, not open to greater generalization in terms of trends and outcomes.

What is certain, though, is that there has been increasing coexistence, in the region, of firms from diverse origins. The process of inward internationalization was already a feature of the Latin American region; it was simply reinforced during the last decade and will most probably remain significant in the years to come. In this sense, Latin American is quite different from Asian developing countries. Other articles in this special issue argue that the dominant role of major Asian conglomerates in their national economies has limited the scope for M&A activities. Although large diversified groups are also important in Latin America, they have not been able to block M&As and, consequently, inward internationalization. On the contrary, by and large, Latin American opportunities have been exploited by foreign companies. Even so, as also argued elsewhere in this special issue, privatization and private M&As have also been used by some local groups to change business focuses and exploit new opportunities for growth.

Given these trends, there will probably be an increase in outward internationalization. Chudnovsky and López (1999) examined Latin American multinationals and conclude that their main motivation for internationalization is market seeking (as was the case of inward internationalization) and that, with few exceptions, they do not belong to technology-intensive sectors. While Latin American policies facilitated inward internationalization, the fostering of instruments to promote outward investments is much more complex. Instead of deregulating and opening markets and privatizing companies, the agenda needs to be more positive oriented.

Whether these new actors, who have emerged from a decade-long process of ownership restructuring and changes in corporate control, are willing to consolidate and further expand their presence in the region through new investments and reliance on pro-competitive strategies based on innovation and quality job creation, remains to be seen. Most probably these are the parameters that will be used to evaluate their contribution to the economic development of the region. However, in the specific case of mixed consortia, the propensity to invest may remain low, to the extent that ownership conflicts will remain unsolved. This may imply low future growth rates for Latin American industry. The domain of public policy is closely tied to this subject.

During the 1990s, income from privatization and foreign capital inflows were instrumental in the reorganization of public finances and in financing national current accounts. From a macroeconomic perspective, their contribution was quite relevant. Most privatizations and private M&As were carried out in non-tradeable sectors with new actors buying positions in local markets. Given the growth of internationalization, an open macroeconomic issue for the future is the extent to which financial remittances to home bases are likely to affect national current accounts. To a great extent, this will depend on the attractiveness of local markets as destinations for investments but, given the level of ownership internationalization, pressures along this direction are likely to occur.

From a microeconomic perspective, however, the privatization mode, which favors the constitution of mixed consortia with members coming from various backgrounds and having different objectives, has led and is still leading to post-privatization ownership changes. In part, this state of affairs was also favored by the absence of a regulatory framework providing guidelines for the operation of privatized companies. Unlike in developed countries, the policy-making capabilities to regulate liberalized economies are still lacking, and this is a challenge that needs to be dealt with by all countries of the region if the benefits of privatization are to be accrued. Private M&A activities have also imposed pressures on competition authorities, but here again, most countries do have a corresponding legislation but the enforcement capabilities are quite limited.

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