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UK CORPORATE ACQUISITIONS IN LATIN AMERICA IN THE 1990s: LOST OPPORTUNITIES IN A NEW ECONOMIC ENVIRONMENT?

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UK CORPORATE ACQUISITIONS IN LATIN AMERICA IN THE 1990S: LOST OPPORTUNITIES IN A NEW ECONOMIC ENVIRONMENT?

Abstract

Over the 1990s foreign direct investment (FDI) flowed into Latin America at an unprecedented rate. During this period, capital inflows associated with privatisations and private mergers and acquisitions (M&As) rose especially steeply. Drawing on original firm-level transactions data, this article examines the extent to which UK enterprises participated in the Latin American privatisation and private M&A boom. The authors conclude that, relative to their counterparts in many other major industrial countries, UK enterprises adopted a cautious posture, largely eschewing privatisation opportunities and concentrating M&A activities across relatively few operations, sectors and countries, in order to strength product and market positions. Moreover, the strategic logic guiding the most important corporate acquisitions centered on gaining access to domestic markets rather than attempting to create global export platforms.

INTRODUCTION

In recent years there has been growing interest in the evolution and implications of privatisation and private mergers and acquisitions¹ (M&As) in emerging market countries including those of Latin America. This increasing interest has been closely associated with a substantial acceleration in such corporate transactions worldwide. According to UNCTAD (2000, p.xix), the total number of all M&As worldwide has grown by over 40% annually since 1980 with cross border M&As representing over 80% of total foreign direct investment (FDI). Underpinning this development have stood a number of interrelated factors which have applied throughout the emerging market world, but especially in Latin America. Within Latin America, since the end of the 1980s, countries have taken radical steps to open up both goods and capital markets to foreign participation (Bulmer-Thomas, 1994). In many cases this has involved the abolition of statutory state monopolies and, more frequently still, the privatisation of state-owned enterprises. In addition to these microeconomic reforms, countries across the region have increasingly embraced approaches to macroeconomic management aimed at the control of inflation and reorganisation of public finances, a development very much in line with a set of prescriptions known as the Washington Consensus (Williamson, 1993).

Of course, there were important differences in depth, breadth, and rhythm of reforms (CEPAL, 1996). Argentina and Chile introduced a first wave of liberalising reforms during the 1970s. By contrast, Mexican reforms were concentrated in the first half of the 1980s while, in Brazil, policy actions were undertaken during the first half of the 1990s. During the latter period most countries either entered a second wave of reforms or reinforced the drift of existing policy, demonstrably enhancing their commitment to economic liberalisation.

According to Ferraz and Iootty (2000), the return of direct capital inflows to Latin America has been strategically important in that it has enabled countries to cover current account deficits, to finance fixed capital investment and, above all, to reduce inflation by driving up the value of local currencies. Capital inflows to Latin America increased at a rapid rate, rising from US\$ 12bn in 1992, to US\$ 85bn in 1999 and US\$ 67bn in 2000 (ECLAC, 2001).

With privatisation and flourishing private M&A activity now almost defining features of the Latin American economic landscape, the moment appears appropriate for a retrospective and comprehensive analysis of these phenomena. In the case of the UK enterprises, an examination of their role in Latin American corporate acquisitions seems especially appropriate given Britain's historical role as a prime source of the region's foreign direct investment (FDI). With the UK possessing the region's second largest stock of FDI over the 1990s (Amann, 2001), the article sets out to ascertain whether this prominent position found its echo in active participation in corporate acquisitions. However, the completion of such an analysis presents serious challenges, not least the availability of reliable and consistent data. Fortunately, we have been able to assemble such data. After much refinement these data permit us to analyse not only broad trends in the evolution of privatisation and private M&A transactions but, more importantly, developments at sectoral and even enterprise level.

In examining these issues this article addresses an under-explored area in the literature: M&A operations by transnational corporations in developing countries. To date, the bulk of the literature has tended to analyze the determinants and consequences of M&A operations in developed countries. Underlying many such studies has been the work of Penrose (1959). Penrose indicates that growth may take place either through the use of internal resources or through the acquisition of the property of existing companies and these are strategies that may enhance and expand the market position of a firm.

Influenced by this pioneering work, Hughes, Mueller and Singh (1980) indicate that M&A may bring about increases in market power to acquiring firms, through changes in entry conditions, limit price and a firm's effective elasticity of demand. The literature on M&A and growth, however, is contradictory. On one hand, there are those (Weston 1961 and Weston and Mansinghka 1972) who found unequivocally positive relations between M&A and the growth of firms. On the other hand, there are those who found strong evidence against the efficiency of M&A operations (Ravenscraft and Scherer 1987 and Mueller 1980), a situation which can in turn lead to subsequent divestiture deals and decreases in corporate size. With respect to the direction of growth, most authors conclude that M&A may contribute to shape the growth of firms and lead to the acquisition of valuable market positions.

The general conclusion, therefore, is that the acquisition of existing companies constitutes a means of overcoming the absence of skills, capabilities and competencies inside the boundaries of a firm, leading to increases in market power. In our article we follow this Penrosian perspective, transplanting it to the context of transnational companies engaging in acquisitions in developing countries, taking the case of UK firms in Latin America. More specifically, using the specially assembled database, this paper examines the evolution of UK participation in Latin American privatisations and private M&A transactions over the 1990-1999 period, focusing on a subset of four of the region's largest economies: Argentina, Brazil, Chile and Mexico. Beginning with a methodological overview of the advantages and limitations of the database the paper then moves on to analyse the UK's participation in the four countries' privatisation programmes. Next, the paper considers the involvement of British companies in the purchase of Latin American enterprises through M&As. In conducting this analysis the database has enabled us to compare and contrast the performance of the UK to all other investor countries. In examining the involvement of the UK in privatisation and private M&A activity we wish to address a number of analytical issues. Most particularly, in analysing the sectoral and geographical destination of UK corporate acquisitions we wish to derive conclusions regarding patterns of specialisation, the relative importance of privatisation and private M&A as well as the relationship between M&A activity as a whole and internationalisation of UK companies. Last but not least, for the most prominent UK participants in the region's corporate acquisitions we aim to establish the main motivating factors driving their actions.

DATA SOURCES AND METHODOLOGICAL ISSUES

The measurement and analysis of foreign direct investment is subject to a range of methodological problems, many relating to the quality and consistency of statistical sources. Among the problems most frequently encountered are missing observations, inconsistencies arising from the use of different sources and – with the importance of offshore centres increasing – difficulties in establishing the ultimate national origin of investment. Nowhere are these difficulties more keenly observed than in the field of cross border M&A activity. The rapidly growing importance of these transactions has attracted considerable academic interest. However, the quality of data employed in much of the work so far conducted is open to question. With this in mind, participating in a research programme on international M&As at the Instituto de Economia, UFRJ, the authors were able to prepare a new and consistent data set from scratch using highly disaggregated raw transactions data supplied by Thomson Financial Securities Data (TFSD).

The data provided by TFSD consisted of 3607 M&A transactions conducted between 1990 and 1999 within the four largest Latin American economies, Argentina, Brazil, Chile and Mexico. The raw data comprised reports of individual operations providing details of:

- ?? Dates of transaction announcement and completion.
- ?? The target company, its national location and the sector within which it operates.
- ?? The acquiring company, its national location and the sector within which it operates.
- ?? The value of the transaction and the percentage of the interest purchased.

Having assembled the raw database, it was necessary to introduce a number of refinements so that the final data set was appropriate to the needs of rigorous analysis. It was necessary to avoid some of the common pitfalls of other data sets such as double counting, misspecification of acquirer nationality and lack of precision in discriminating between privatisation and private M&A activity. Thus, the raw data were subjected to five stages of refinement:

1. In first place the raw data were checked to eliminate double counting of transactions, especially those transactions involving sequential rather than one-off payments. As a result, the number of observations fell from 3607 to 3291.

2. Following this, to permit a more aggregate analysis, the remaining transactions were reclassified into a smaller number of sectoral categories. Thus, the number of sectors encompassed by the data was reduced from 55 to the following 10: agriculture, mining and oil, non-durable consumer goods, durable consumer goods, intermediate goods, capital goods, infrastructure, financial services, wholesale and retail activities, and other services.
3. The data were then subject to a further aggregation with the individual investor countries being combined together into seven regional categories: Domestic Investors, Latin America, North America, Continental Europe, the UK, Asia and Offshore Centres and Others.
4. The fourth step comprised the addition of privatisation transactions, employing carefully collated data supplied by privatisation programmes in Argentina, Brazil, Chile and Mexico. Following this step, the number of observed transactions rose from 3291 to 3414.
5. The final step in refining the database consisted of creating two sub-samples to distinguish those transactions relating to privatisation (329 observations) and those to private M&A activity (3085 observations).

One large advantage of the refined database is that an unusually high proportion of transactions have their values revealed. Of the 3085 private M&A transactions in the database 1535 or 50% have their values declared, a proportion which varies by no more than 8% when the case of each of the recipient countries is considered individually. Despite the good characteristics of the data in this respect, it will be noted that the value of a considerable number of transactions has not been disclosed. This is highly correlated with legally binding non-disclosure clauses which affect many M&A deals, not only in Latin America but elsewhere in the world. As one might expect, for reasons of public accountability, the proportion of value disclosure among privatisation transactions is considerably higher. Within our data sample of 329 privatisation transactions no less than 97% have reported sale values.

The assembled and refined database we believe to have three strong advantages. In first place, the database employs just two carefully scrutinised sources ensuring a high degree of consistency and accuracy. This makes for a more reliable basis for cross-country or cross-sector analysis. Secondly, the raw data employed were extremely comprehensive focusing on both the number and value of transactions. For this reason, the bias against capital-intensive

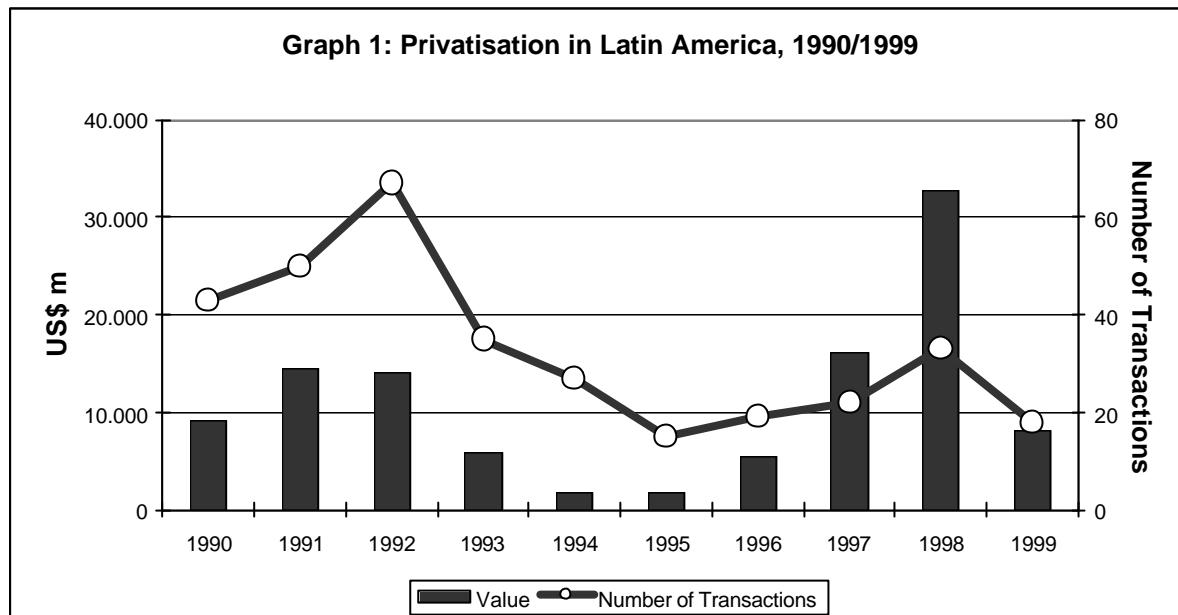
sectors implicit in studies based solely on numbers of transactions has been avoided. Thirdly, the data's separation of private M&As and privatisations helps us to better understand the differential dynamics associated with these transactions. On the other hand, the data set we have developed has an intrinsic and unavoidable problem; the fact that we cannot control for the differences in propensity to disclose transactions and their values among companies. Furthermore, revealed values of relatively small transactions tend to be under-represented in the sample. These two shortcomings are common to all available M&A datasets and inevitably place some limitations on our ability to draw entirely robust conclusions.

UK ENTERPRISES AND PRIVATISATION IN LATIN AMERICA

The 1990s were a period in which the process of privatisation advanced rapidly across Latin America. Between 1990 and 1999 privatisation receipts for the four countries analysed totalled US\$ 110 bn, an inflow of revenues to the public sector that proved of great assistance in facilitating attempts towards fiscal adjustment. As the data make clear, the sale revenue generated by privatisation varied greatly between countries. This variation may be viewed as a function not only of the relative size of the economies but also of the timing of the privatisation programme and its sectoral coverage. In the case of Brazil, Latin America's largest economy, privatisation was heavily concentrated in the 1991-1999 period, during which the telecommunications and electrical energy distribution sectors were almost entirely transferred to private ownership. By contrast, in Chile and Mexico, where the privatisation programme had commenced much earlier, privatisation revenues in the 1990s were rather more limited. Against this background it is hardly surprising that Brazilian privatisation revenues, at US\$ 61.6bn were easily the largest of any of the surveyed countries. On the other hand, in the case of Chile, privatisation revenues throughout the decade totalled just US\$ 2.9bn.

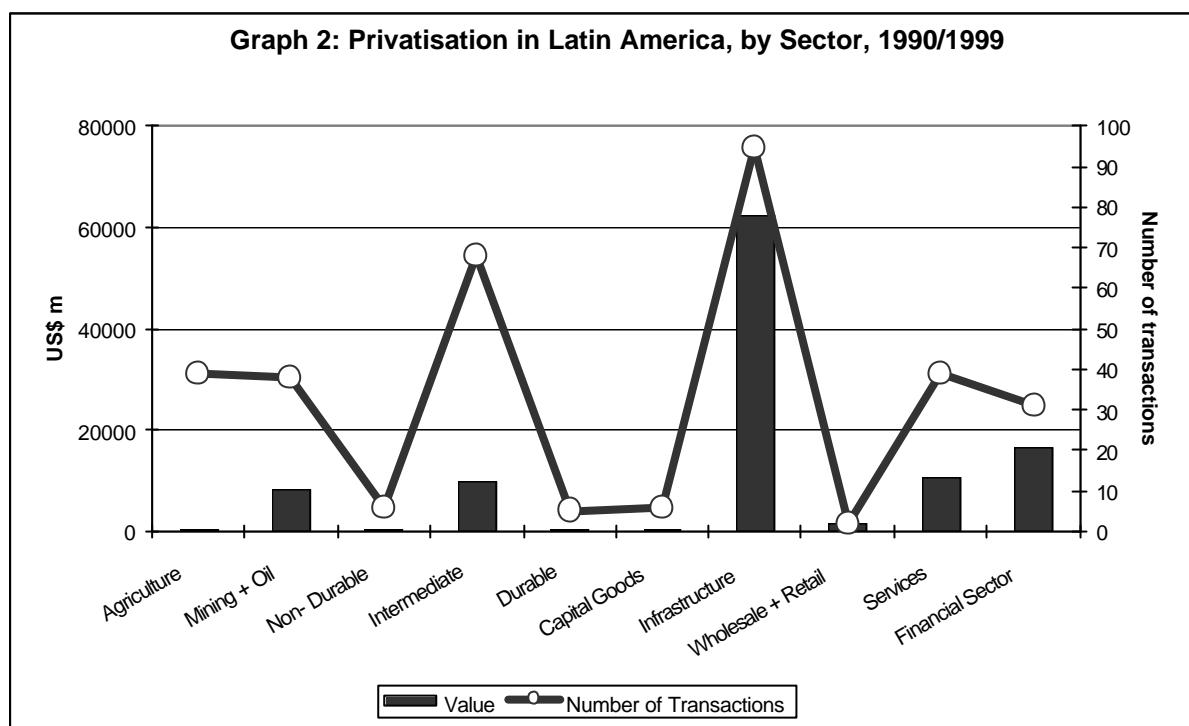
Strongly influenced by the acceleration of the Brazilian privatisation programme, in particular the sale of the telecommunications sector in 1998, the value of total Latin American privatisation revenues rose sharply between 1994 and 1998 (see Graph1). By contrast the average annual number of privatisation transactions tended to fall over the decade, a phenomenon largely resulting from the virtual end of the Mexican privatisation process in 1992. The Mexican privatisation programme, when in full swing in the 1990-1992 period, had been characterised by a substantial number of relatively low value transactions in

which small state owned enterprises known as *Chiquilleras* had been sold off to private investors (Ferreira Jr. 1994, p. 160).



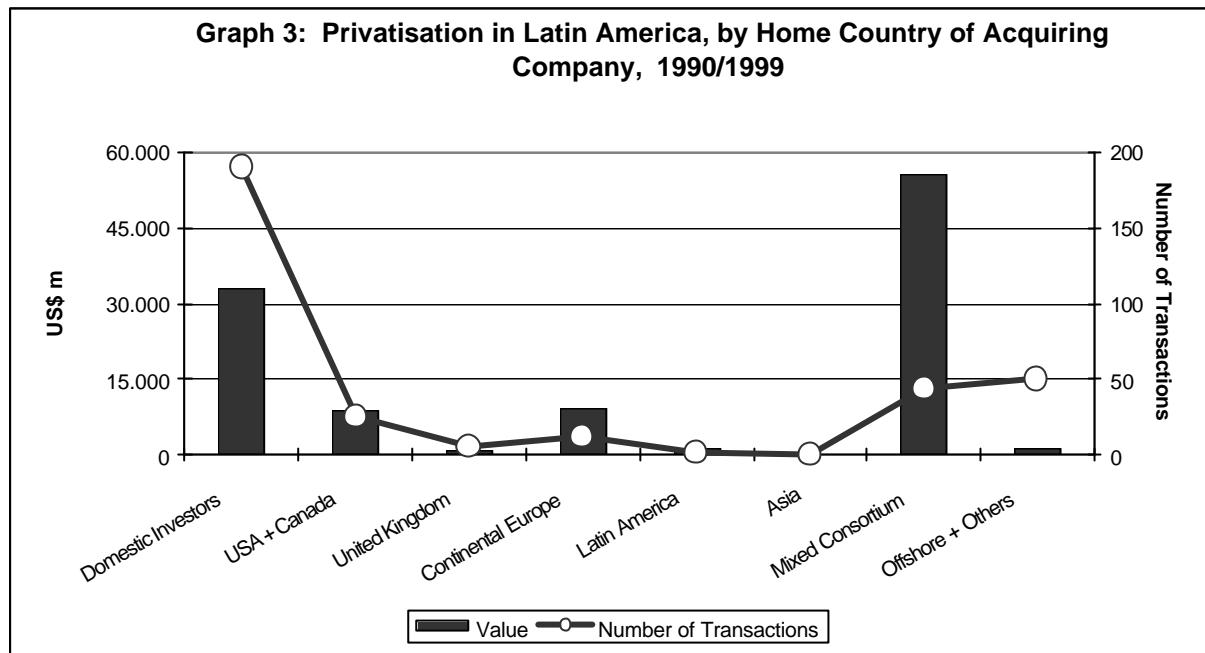
Source: IE-UFRJ Latin America M&A and Privatisation Database

As in the case of other regions, Latin American privatisations over the 1990s were heavily concentrated in the infrastructure sector, specifically telecommunications and, to a lesser extent, electrical energy (Graph 2). Taking the four countries surveyed as a whole, of the total privatisation revenues generated over the study period, US\$ 62.3bn derived from the infrastructure sector while the next most significant sector, finance, was responsible for US\$ 16.5bn of the total. Turning to the experiences of individual countries, it is interesting to note that in the case of Mexico the relative significance of the infrastructure sector was considerably less than the average for the four countries taken together. This is largely because of the exceptionally prominent role of financial sector privatisation that alone accounted for 65% of total revenues. The enormous scale of Mexico's financial sector privatisation may be viewed as a direct consequence of the event of the early 1980s when, following the debt default, large swathes of the banking industry were taken into public ownership. It is interesting to observe that manufacturing has played a relatively small role in the privatisation programmes, even in the case of the most industrialised of the four countries, Brazil. In the latter case, during the 1990s, privatisations of enterprises in the industrial sector accounted for 13% of total revenues. Over the same period, for Mexico, Argentina and Chile the proportions were respectively 3%, 6% and 15%.



Source: IE-UFRJ Latin America M&A and Privatisation Database

As is clear above, privatisation among the four Latin American countries has been a sectorally and spatially uneven process. This unevenness finds reflection in the country distribution of purchasers of privatised assets. Graph 3 reveals a number of significant features. In first place it may be noted that mixed consortia of purchasing companies have played the most significant role in terms of overall value of transactions. For the purposes of our database, mixed consortia have been defined as enterprise purchases where the buyers consisted of both domestic and foreign investors. The development of such consortia in the 1990s played an important role in the privatisation process. As a result their development, a significant number of privatisations have resulted in foreign enterprises taking partial, but not complete ownership of companies sold. Despite the absence of absolute control granted to foreign investors through the consortium route, these investment vehicles offer the considerable advantage of allowing the participation of local partners. The market knowledge and political connections of the latter not only reduce the risk of entering an emerging market but also dilute the criticism that often accompanies the transfer of privatised assets to foreign entities (Kock and Guillén 2001). By value, mixed consortia accounted for US\$ 55.7bn in privatisation revenues, followed by domestic investors (US\$ 33bn), Continental Europe (US\$ 9.1bn and the US and Canada (US\$ 8.9bn).



Source: IE-UFRJ Latin America M&A and Privatisation Database

In comparison to other source countries, UK non-consortium investment in privatisation was limited, reaching only US\$ 938m, a figure that is mainly attributable to BG plc's US\$ 693m purchase of Comgas, a Brazilian gas distributor, in 1999. The only other non-consortium privatisation in which a UK-based enterprise was involved was the case of Ispat International. This enterprise bought a major Mexican steel company, Sibalsa (now called Imexsa), in January 1992 for a consideration of US\$ 245m. It should be stressed, however, that whereas the headquarters of Ispat are located in the UK, the enterprise originated in India and remains under the control of an Indian entrepreneur.

However, UK involvement in privatisation through the use of consortia or through the purchase of operating concessions in partnership with national and international investors was more extensive. For example in Argentina, National Grid plc took part in a consortium that bought Transener, an electricity transmission utility. This transaction involved the purchase of a 65% stake in July 1993 for a consideration of US\$ 234m. The consortium was composed of seven companies including three Argentinean firms with each purchasing 15%, two US based companies with 15% each, National Grid also with 15% and finally a 10% stake owned by a Cayman Islands-based offshore investor. In the second and final Argentinean case, a BG plc-led consortium purchased 70% of Distribuidora de Gas

Metropolitana in December 1992 for US\$ 300m. In the consortium, BG plc's equity stake stood at 41% while three Argentinean investors accounted for the remaining 59%

Aside from these two Argentinean cases the only other instance in which a British company participated in a privatisation or public utility concession was the case of National Grid in Brazil. Following the privatisation of the Brazilian telecommunications system in 1998, a number of concession to operate fixed line telecommunications services were offered to investors. The idea of these concessions was to offer competition to the newly privatised service providers. Of the four available concessions, a consortium led by National Grid plc decided to bid for the long distance and international service concession in partnership with Sprint of the US and France Telecom. The amount paid for the concession was US\$ 42m of which National Grid advanced US\$ 21m. Even if one embraces a broad definition of privatisation to include those transactions involving concessions (which often in fact constitute greenfield investments), the relative role of the UK remains extremely small among the four countries studied. In Brazil, for example, the participation of UK enterprises across all privatisations and concessions between 1991 and the first half of 2001 stood at just 0.9%.

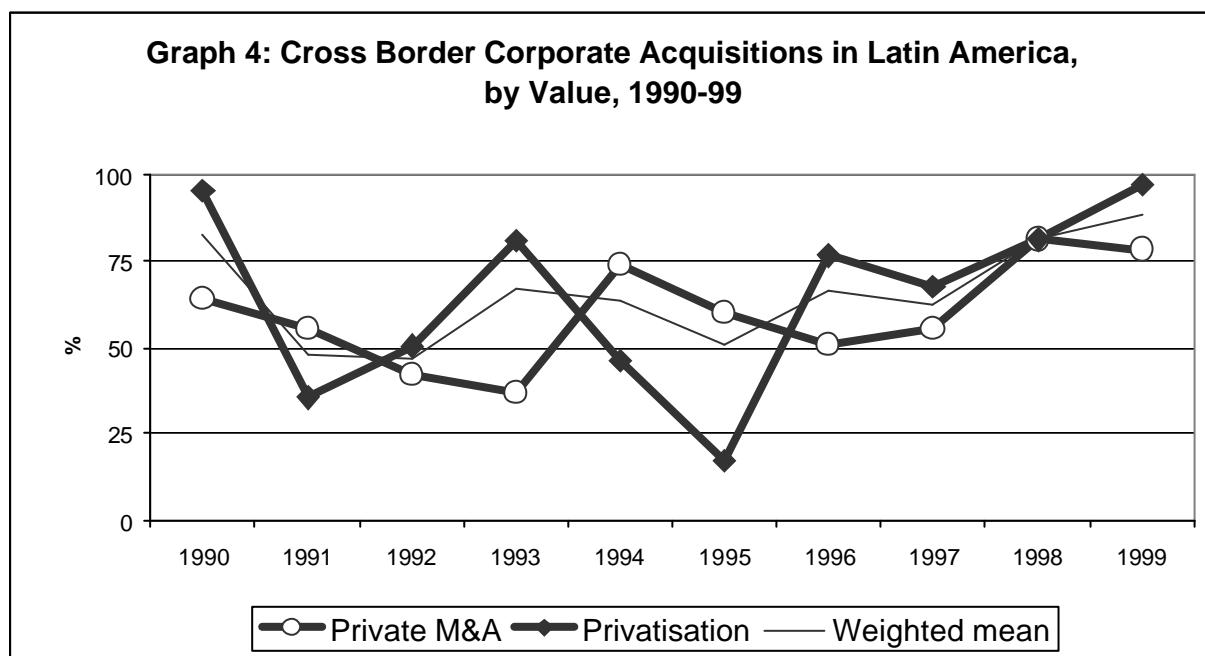
Despite the pioneering experience of the UK in privatisation, our data clearly demonstrate that it played a very minor participative role so far as Argentina, Brazil, Chile and Mexico were concerned. Nevertheless, the restricted role of the UK in this regard should not be viewed as unique among the advanced industrial economies. For example, in the case of Japan a country with traditionally heavy involvement with manufacturing and natural resources in the region, participation in the privatisation programmes was practically zero. Turning to the role of intra-regional participation in the privatisations, it is interesting to note that such activity has also been quite restricted. Between 1990 and 1999, intra-regional non-consortium participation in privatisation amounted to just 1.1% of total revenues in our database, compared with 0.85% originating from the UK.

UK ENTERPRISES AND PRIVATE CROSS BORDER M&A ACTIVITY IN LATIN AMERICA

i) General trends

Thus far, we have demonstrated that the involvement of UK enterprises in the privatisation programmes of Argentina, Brazil, Chile and Mexico was very limited over the study period.

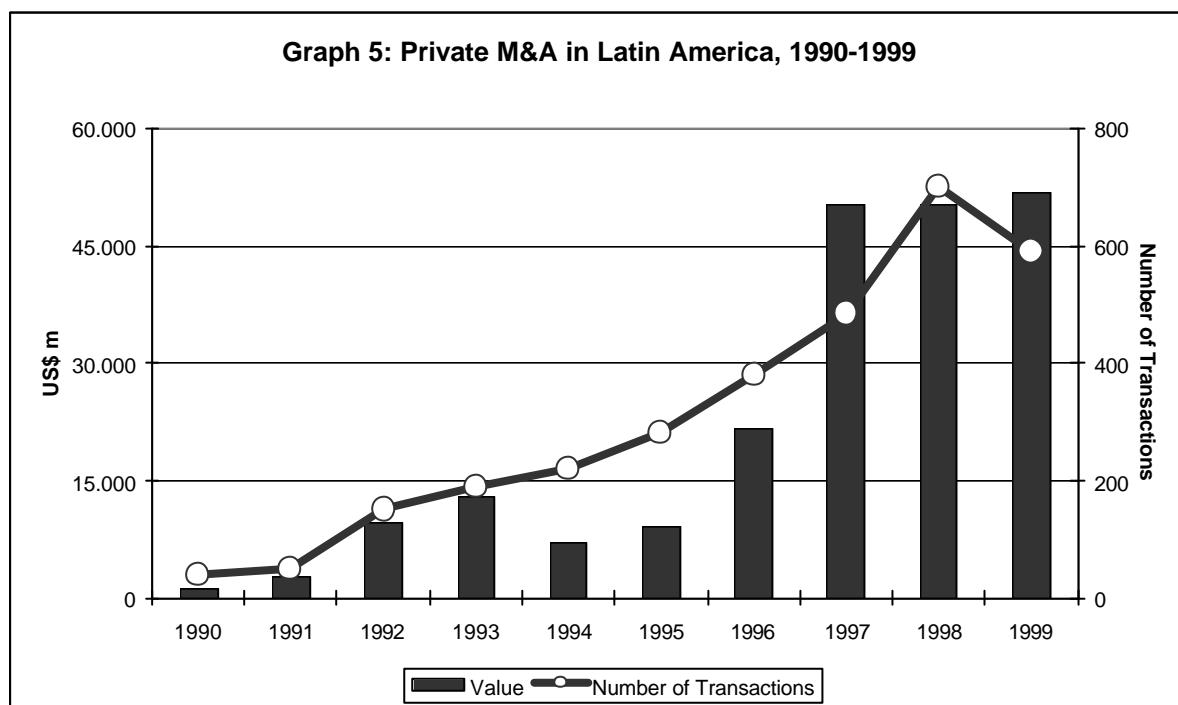
However, UK enterprises, in common with their counterparts elsewhere were able to increase their presence in Latin American markets through means other than privatisation. As Graph 4 illustrates below, for all investor countries combined, private M&A activity proved a highly significant phenomenon over the course of the 1990s. The graph reveals that in overall terms, the average share of foreign investors, by revealed value of transactions, for both total M&A and privatisation activity were respectively (65% and 70%) throughout the entire period. It should be emphasised that the data somewhat overestimates the real share of foreign capital since it includes the total amount deriving from transactions carried out by mixed consortia. This shortcoming arises from the fact that although the raw data were highly disaggregated, they did not always allow us to view the internal composition of mixed consortia and, more specifically, the proportional contribution of domestic and foreign capital. However, despite these limitations it is appropriate to view the high share of mixed consortia as an indicator of substantial internationalisation since, as we have pointed out, such consortia formed a very important means of facilitating foreign investment.



Source: IE-UFRJ Latin America M&A and Privatisation Database

Over the course of the 1990s, Graph 5 makes clear that there was a substantial acceleration in private M&A activity both in terms of the annual number of transactions and their overall value. The surge in M&A was especially marked in the late 1990s, a development which was intimately linked with market de-regulation and trade liberalisation. For foreign enterprises

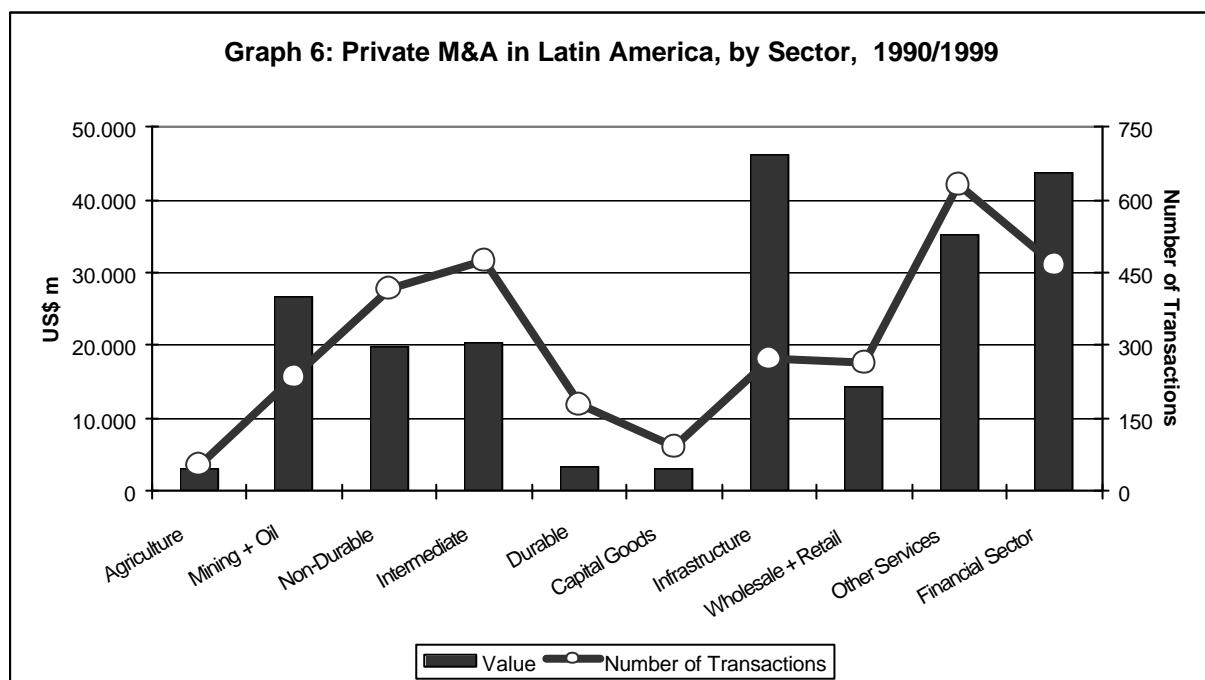
these policy developments generated substantial incentives and opportunities to buy Latin American companies. With domestically owned Latin American enterprises facing unprecedented competitive pressure brought on by market opening, many found themselves under-capitalised and lacking in the technology necessary to maintain local market share and enter international markets. In the case of Brazil, Moreira and Correa (1997, p. 87) estimated that the profit margin for intermediate goods decreased around 17.5% in the first half of the 1990s, forcing many enterprises into a financially parlous situation. Under these circumstances, not surprisingly, large numbers of such enterprises either actively sought the participation of foreign investors or succumbed to takeovers.



Source: IE-UFRJ Latin America M&A and Privatisation Database

Turning to the sectoral location of private M&A activity across the four countries, some clear trends emerge for the 1990-1999 period. Graph 6 shows that, by value, there was a substantial concentration of M&A activity in the two key services sectors: infrastructure and financial services². Of the US\$ 216bn in total private M&A transactions, 37.7% occurred in these non-tradeable sectors. This localised preponderance of foreign acquisitions by value suggests that the main motivation underpinning the majority of transactions lies not so much in the desire to create global export platforms as to establish greater market presence in particular economies. By contrast, transactions in the traditionally most export orientated sectors –oil, mining and agriculture – accounted for a relatively small US\$ 30.1bn or 13.9% of the total

value of transactions. Of this, the almost exactly half – or US\$ 15.2bn – can be attributed to the purchase of the Argentinean oil company, YPF in 1999 by the Spanish enterprise, Repsol (ECLAC, 2001, p.16). In the case of the intermediate goods sector, which has become much more export orientated since the 1980s, private M&A transactions summed US\$ 20.4bn or just 9.4% of the total. Transactions in the Durable and Capital Goods sectors were even lower probably because in these sectors the preponderance of foreign ownership is very high (ECLAC, 2001).

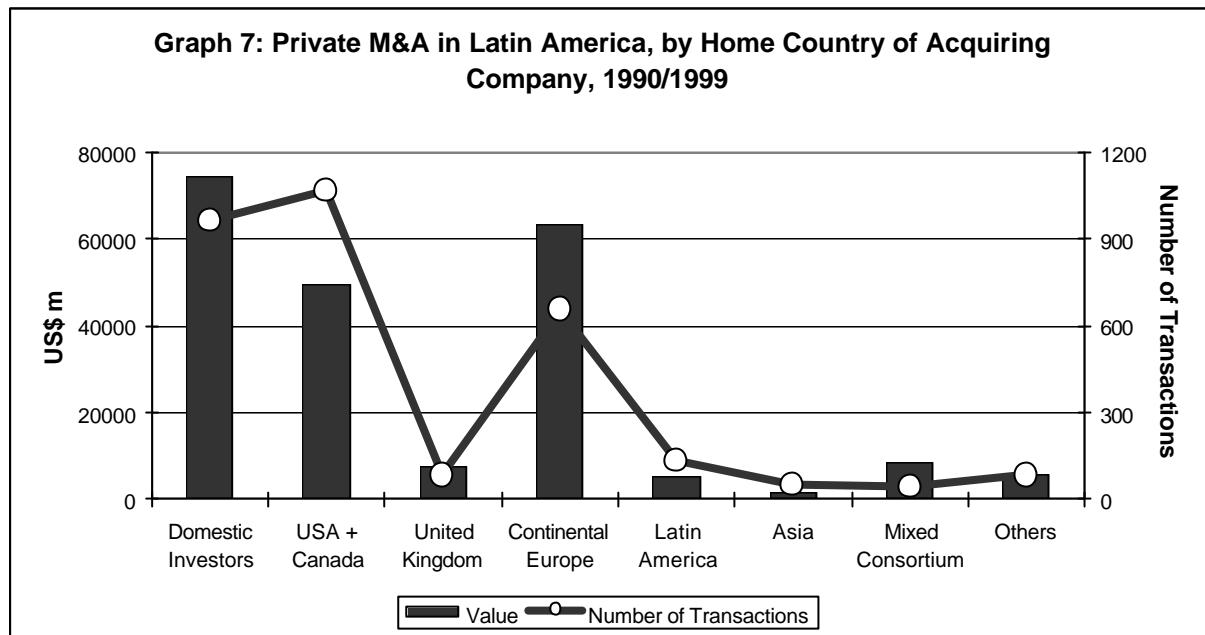


Source: IE-UFRJ Latin America M&A and Privatisation Database

ii) The UK experience

Turning specifically to the UK experience, our data point to a somewhat more intense participation in private M&A activity than was the case for privatisation. However, even here, the UK was not a major player. Of the US\$ 216bn and 3085 transactions in total private M&A undertaken between 1990 and 1999, UK enterprises accounted for purchases amounting to US\$ 7.3bn (or 3.4% of the total by value) and 2.7% of total number of transactions. Graph 7 clearly indicates that this type of behaviour is contrary to the UK's historical role as a major investor in the region. In contrast to the UK's 3.4% share, domestic investors accounted for 34.5%. Next in the order of importance stood Continental European

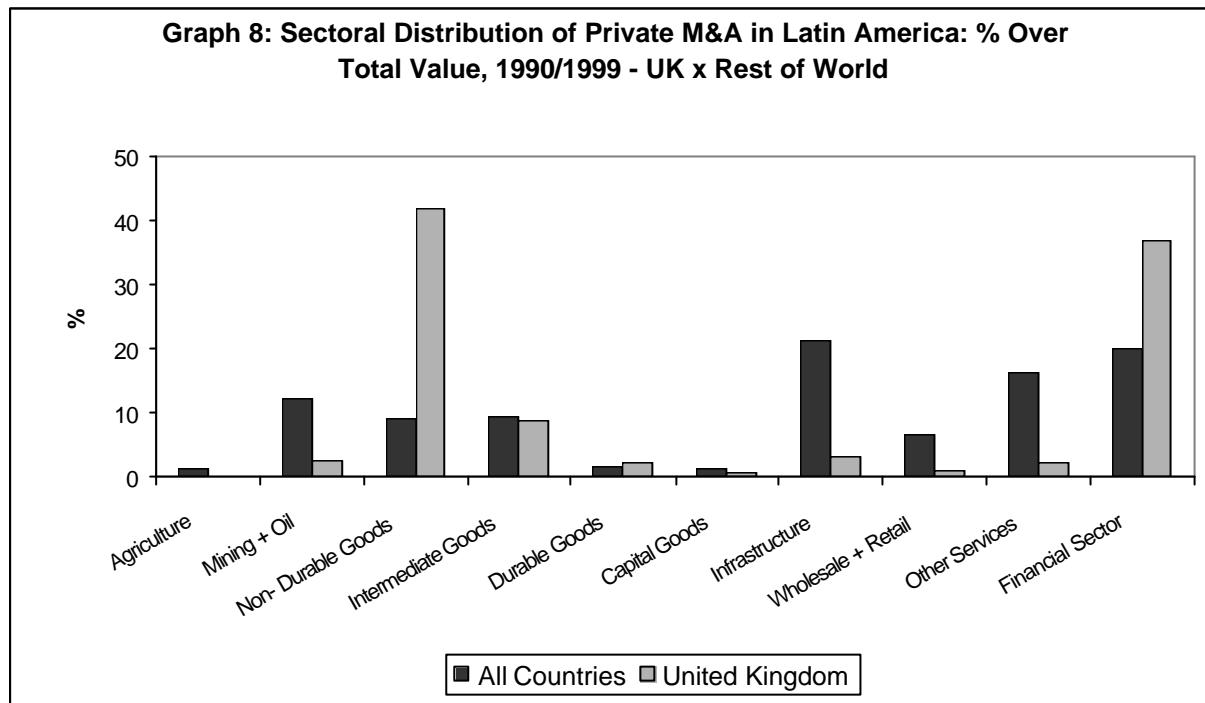
investors whose share in the value of private M&A transactions stood at 29.5% whereas for North America the share in participation was 22.9%.



Source: IE-UFRJ Latin America M&A and Privatisation Database

One of the most striking features revealed by the data concerns the sectoral location of recent UK private M&A activity in Latin America. Among our key objectives in analysing the data was to establish whether in fact there existed a distinct sectoral pattern to UK transactions that could be readily distinguished from that for the world as a whole. As Graph 8 reveals below, such a distinctive pattern clearly exists. In terms of the sectoral concentration of transactions by value, the graph indicates that, relative to enterprises from elsewhere, UK enterprise M&A activity in Latin America has been heavily concentrated and biased towards the non-durable consumer goods and financial sectors while other countries tended to disperse transactions among a wider variety of sectors. Of the total private M&A transactions in Latin America involving UK companies, 42% occurred in the non-durable sector compared to 9% for transactions in the same sector by all other countries. In the case of financial services, globally, 20% of transactions by value were located in the sector compared with 37% involving UK enterprises. On the other hand, for the infrastructure sector the situation is reversed with the share of UK transactions by value standing at 3% compared with 21% for all investor countries as a whole. For other services the participation in total UK

private M&A transactions by value stood at 2% compared to 16% for all investor countries as a whole.

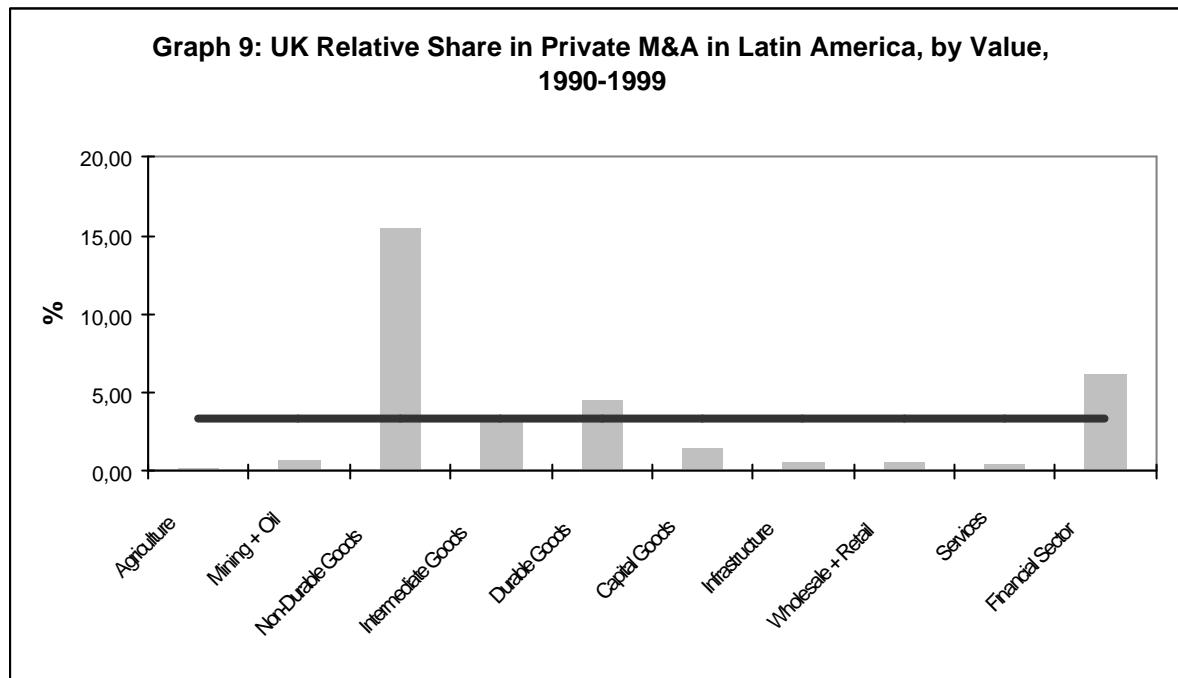


Source: IE-UFRJ Latin America M&A and Privatisation Database

As has been indicated above, a key distinguishing feature of UK M&A activity in Latin America over the 1990s was its heavy concentration in the consumer non-durables and financial sectors. In the case of the former, the UK's share in total Latin American M&A transactions by value was 15.5% compared with a participation of just 3.4% in transactions for all sectors as a whole. Graph 9 illustrates this phenomenon clearly showing the extent to which the UK's participation in each sector's M&A activities deviated from its average share in total M&A (indicated by the horizontal line). An important feature of the UK's disproportionately large involvement in M&A activity in the consumer non-durables sector has been a relatively small number of high value transactions. In particular, as will be discussed in the next section, UK private M&As in non-durable goods were dominated by the activities of just two companies; British American Tobacco (BAT) and Unilever.

Also, as we have already noted, UK enterprise participation in private M&A activity in the financial services sector was relatively substantial in the 1990s. For the decade as a whole, the UK's share of private M&A in the financial sector reached 6.2% of the total. Here again, UK transactions by value were dominated by very few operations; specifically HSBC's

purchase of Brazil's Bamerindus and Argentina's Roberts and, in addition, Lloyd's TSB's purchase of Banco Multiplic of Brazil and Banco Comercial de Tres of Argentina.



Source: IE-UFRJ Latin America M&A and Privatisation Database

While the UK private sector has proven active in purchasing Latin American consumer non-durables sector enterprises, it has been far more reluctant to become involved in infrastructural activities. This feature reinforces a pattern of absence from the latter sector, which has already been noted in the case of privatisation. This differential pattern of behaviour exhibited by UK enterprises is highly significant. Specifically, the enthusiasm displayed by UK enterprises in their purchases of Latin American consumer non-durables and financial companies suggests a certain commitment to expanding market share in industries characterised by relatively low technological opportunities, but intensive in product, brand and service differentiation, where the potential for future growth is strongly correlated with the expansion of demand. One interpretation of this “sectoral selectivity” is that it embodies a strategy of consolidating geographical presence at relatively low market risk.

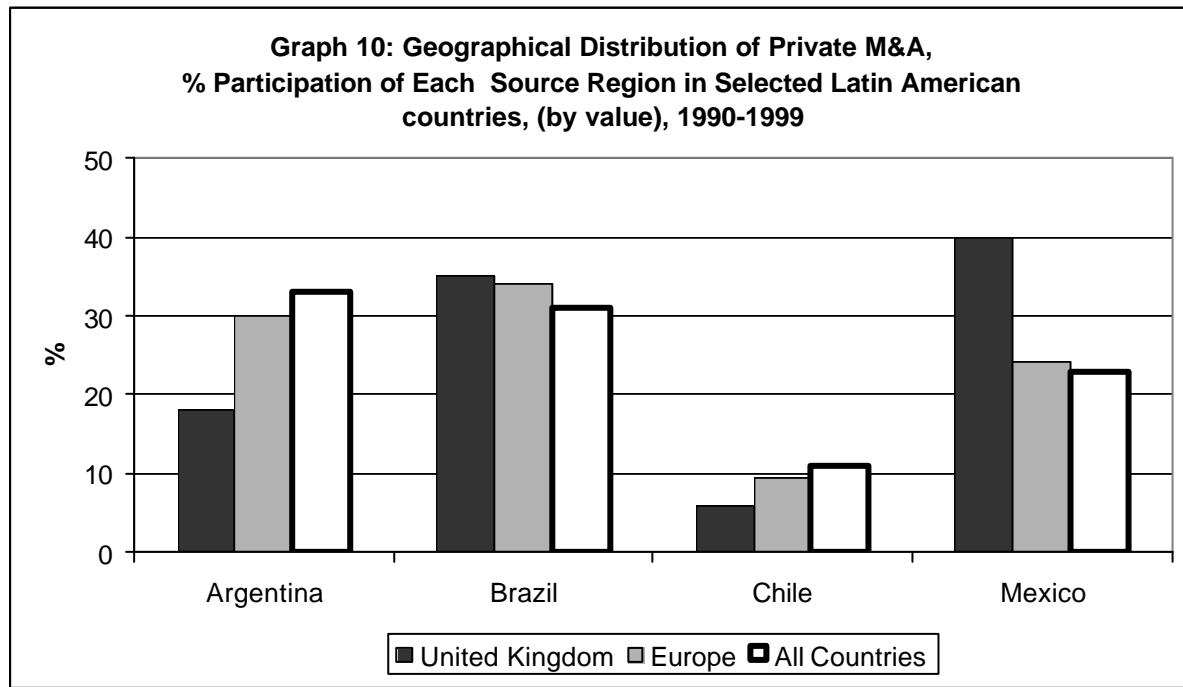
For the four economies under consideration – Argentina, Brazil, Chile and Mexico – recent years, despite some macroeconomic progress have none the less been marked by bouts of instability and fluctuations in growth. In this market context, a concentration in sectors

characterised by intense product substitutability offers an attractive and low risk investment alternative. Once enterprises – and their accompanying (financial) services, products, brands and market share - have been acquired, relatively steady demand combined with a stable technological frontier mean that the necessity to carry out long-term, ambitious capital investment projects is very limited. Given the high barriers to entry associated with efforts to overcome established companies or product brands, M&As may constitute the lowest cost strategy to buy into a specific geographical or product market niche.

By contrast, in the case of infrastructure, participation in the sector requires a far more “risk-loving” approach. This is because the sector is associated with three features: pent up demand which implies considerable investment requirements; a high income elasticity of demand (with some variation in this among sub-sectors) combined with macroeconomic instability; and, finally, an evolving and uncertain regulatory regime. Moreover, despite the advanced state of market liberalisation, doubt continues to surround political support for foreign investor-friendly policies. With privately owned public utilities occupying a far more politically sensitive position than the consumer non-durable goods sector, the “political risk” applying to investment in infrastructural services is commensurately higher.

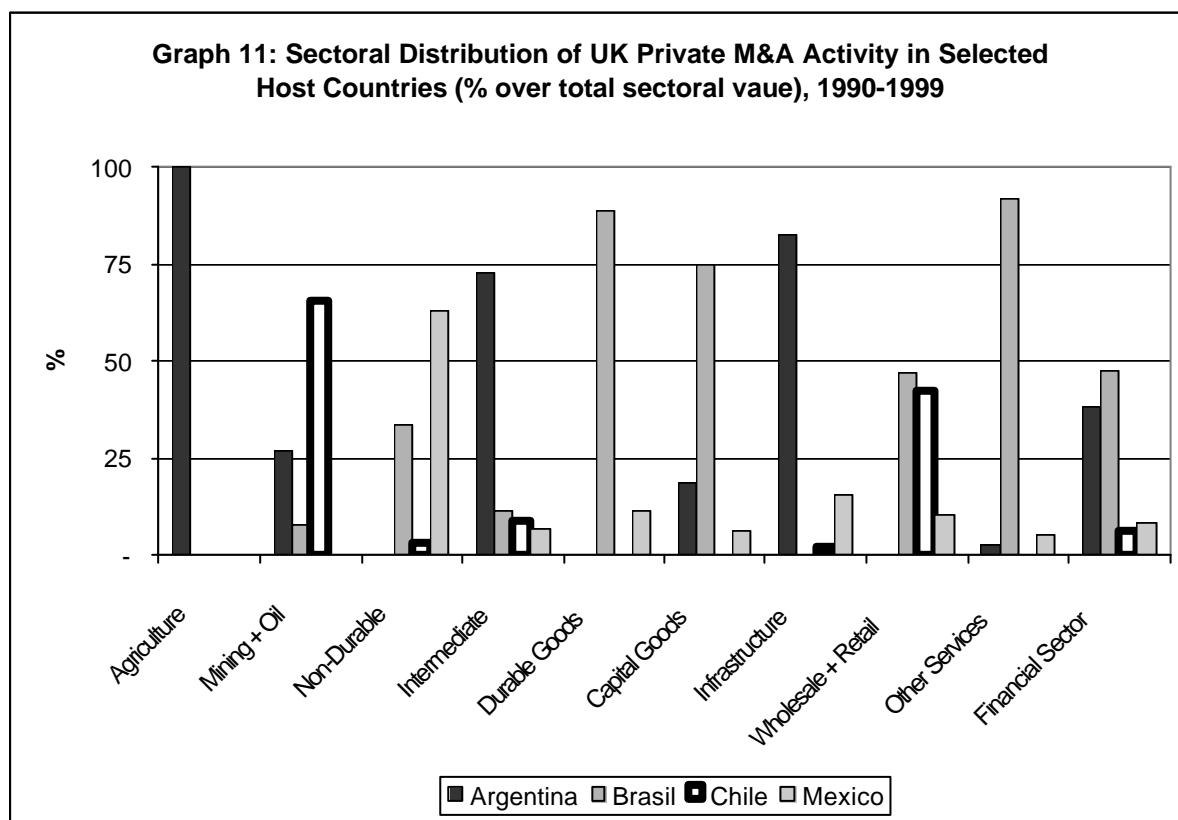
One very interesting and perhaps novel (but associated) finding stemming from our database is the remarkably intense participation of UK enterprises in the purchase of Latin American advertising agencies. Unfortunately, the data only provide information on the value of transactions for a limited number of M&A operations. Nonetheless, they testify as to the marked importance of the UK in terms of its proportionate involvement in the overall number of transactions in the advertising sub-sector. In the case of Argentina, among the 16 agencies subject to M&A transactions, 13 were acquired by foreign companies of which 6 were British. Of the 18 M&A transactions registered in the Brazilian advertising sector, 15 involved foreign enterprises of which 3 were British. Finally, in Chile, of the 4 M&A operations – all of them involving foreign advertising agencies – one was UK based. The concentration of UK involvement in the Latin American advertising sector provides some interesting contrasts with that in the consumer non-durables sector. In the advertising industry, unlike the latter sector, capital intensity is extremely low while the market is subject to sharp fluctuations.

Turning to the geographical distribution of UK private M&A activity as between the four Latin American countries under consideration some significant trends emerge. As Graph 10 demonstrates, UK participation is most marked in the Mexican economy with Brazil coming a relatively close second. Comparing the geographical distribution of transactions by value as between the UK, Continental Europe and all countries, it becomes clear that the UK's participation in M&As in Mexico was relatively much greater. Of the UK enterprises' private M&A transactions by value among the four countries, 40% were located in Mexico while for Continental Europe and all countries the equivalent figures were respectively 24% and 23%. The more prominent role of Mexico in UK corporate purchases was heavily influenced by BAT's acquisition of Cigarro la Modena, once again indicating the importance of a relatively few number of high value transactions. In the case of Brazil, the differences in relative transactions shares by value as between the UK, Continental Europe and all countries were significantly fewer. Finally, the data indicate that Argentina and Chile constituted a virtual mirror image of Mexico in that UK representation was significantly less than was the case for Continental Europe or all countries combined. Given the importance of size of demand for competitive success in non-durable and financial services sectors, the only explanation left for this geographical preference is that acquiring companies were focusing on the two largest markets of the region.



Source: IE-UFRJ Latin America M&A and Privatisation Database

Graph 11 reinforces the above mentioned emerging feature of the UK's pattern of M&A participation: the close relationship that exists between the geographical and sectoral location of private M&As. Transactions in non-durable goods represented 42% of total value or US\$ 3.06bn with Mexico and Brazil acting as hosts for most of these. Again, a significant proportion (36.8% of total value or US\$ 2.7bn) of financial sector operations were located in just two countries, Argentina and Brazil. In the agricultural sector, despite their low value (US\$ 5m) all registered transactions occurred in Argentina while in mining and oil 66% of transactions, worth US\$ 199m took place in Chile. In the case of a higher value-added sector, capital goods, 75% of transactions by value (US\$ 157m) occurred in Brazil whereas for durable consumer goods the Brazilian share amounted to 89% of the total US\$ 45m. These features of UK investment are strongly suggestive of the influence exercised by the development of comparative advantage and historical patterns of direct investment. For example, the concentration of consumer durable and capital goods sector M&A activity in Brazil must be viewed in the light of the fact that Brazil, has, more than other Latin American countries, developed comparative advantages specific to these sectors.



Source: IE-UFRJ Latin America M&A and Privatisation Database

Such advantages obviously increase the attractiveness of the country as a location in which to engage in industrial activities. In addition, the very development of this comparative advantage over time has involved substantial inflows of foreign, including British direct investment. The presence of such investments obviously creates more propitious circumstances for the expansion of UK M&A activity in the country. In other words, UK industrial investment and M&As in Brazil may be considered to be possessed of a strongly inertial component.

Turning to a sector in which UK participation through privatisation has been noticeably muted – infrastructure – Graph 11 reveals that M&A activity was highly concentrated in Argentina, a development exclusively resulting from B.T plc's purchase of a 20% stake in the telecommunications provider, Impsat for US\$ 150m in April 1999. However, almost two years later in January 2001, Vodafone plc announced that it was to buy a 34.5% stake in a Mexican telecommunications company, Iusacell for US\$ 973m. Also in the telecommunications sector, National Grid plc. gave notice in May 2000 of its purchase of a 30% stake in the Chilean utility, Telefónica Manquehue for US\$ 80m. Were our database to extend beyond the end of 1999, therefore, it would demonstrate a more geographically dispersed picture for the infrastructure sector than it currently presents.

Aside from the Vodafone and National Grid acquisitions mentioned above, the only transactions of any significance to be reported in 2000 concerned the expansion of UK water utilities into Latin America, a development which had yet to occur substantially in the 1990s. Shortly before it itself became object of a takeover by a German enterprise, Thames Water plc. in September 2000 purchased a 42% stake in a Chilean water utility, ESSBIO for a consideration of US\$ 282m. This followed its acquisition, together with Electricidade de Portugal, in March of the same year of 51% of ESSEL, another Chilean water utility. In July 2000, a different UK water utility, Anglia Water, took control of another Chilean water enterprise, Aguas Puerto, in an operation totalling US\$ 137m. The acquisition of Aguas Puerto by Anglia followed its 1998 purchase of a 28% stake in an Enersis-led consortium. The latter in turn purchased a 40% stake in ESVAL in December 1998 (ECLAC, 2001 p. 115-125). Prior to these purchases, the only other significant operation in the water and sanitation sector registered by our database was that carried out by Northumbrian Water in 1995 with its US\$24m purchase of a 40% stake in GEMA in Mexico. However, two years later, Northumbrian Water was taken over by the French utilities conglomerate, Groupe

Suez. From this limited number of observations it is of course impossible to draw any hard and fast conclusions as to whether any new long-term trends in UK M&A activity are emerging. Still, the concentration of very recent M&A transactions in the field of infrastructure is noteworthy in itself. Just possibly, such transactions may herald more intense UK participation in the acquisition of enterprises in the infrastructure sector than was the case in the 1990s.

UK ENTERPRISES' PARTICIPATION IN LATIN AMERICAN M&A ACTIVITY: SOME CASE STUDIES

Thus far, the discussion has centred on establishing the dominant trends characterising UK participation in Latin American privatisation and private M&A activity. In addition, we have attempted to discern some of the broad strategic motivations among corporations underpinning decisions to take control of, or purchase stakes in Latin American enterprises. However, in order to gain a more detailed perspective on these developments it will be useful to focus more specifically on the experiences of individual enterprises. The enterprises forming the basis for the discussion have been selected on the basis of their prominent participation by value in the wave of recent M&A transactions. The first such case study concerns British American Tobacco (BAT), the world's second largest tobacco company.

BRITISH AMERICAN TOBACCO: EXPANDING CONTROL AND OCCUPYING MARKET SPACE IN LATIN AMERICA

British American Tobacco (BAT), like many British non-durable consumer good manufacturers is a highly internationalised group with a strong presence across Europe, Africa, East and South East Asia and the Americas. Its acquisitions in Latin America reveal a strategy aimed at reinforcing drivers of sectoral competition against a background of fierce competition in a strongly internationalised, oligopolistic sector. According to the group's 2000 Annual Report, the Latin American region accounted for annual sales of 165bn cigarettes compared to 208bn in Europe, 87bn in Asia-Pacific and 109bn in North America and the Western Pacific. Thus, in comparative terms Latin America represents a highly important market for BAT. Moreover, compared to other markets, the Latin American market is relatively profitable with average margins for 2000 reaching 26% compared with 19% for Europe and 21% for North America and the Western Pacific.

The constant challenge facing BAT along with other participants in the mature consumer non-durables sector is to prevent the erosion of margins and market share. These threats are ever present for two reasons. First, given the static nature of the technological frontier in this sector, technological barriers to entry are low while; second, the inherently mature nature of the product itself holds forth the danger of incipient commodification. In this context, the maintenance or enhancement of margins depends on three key factors; strong brand identity, high market share and the achievement of substantial economies of scale. Over the past decade, BAT has been seeking to reinforce its strength in these competitive avenues while attempting to fend off the growing threat of legal action in its most mature markets, Western Europe and North America. Against this background, the prominent position of BAT as a participant in recent Latin American M&A activities is not hard to explain. In the case of Mexico, BAT found itself under considerable pressure arising from Philip Morris' increased stake in the country's second largest tobacco products manufacturer, Cigarros La Tabacalera Mexicana (CEPAL, 1998 p.59).

With these considerations in mind, BAT launched a successful bid to take control over Cigarro La Moderna, a mainly domestically owned enterprise accounting for approximately half of the Mexican market. Under the terms of the transaction, which was announced in July 1997, BAT acquired a controlling 50% share in Cigarro for US\$ 1.4bn. With the purchase of Cigarro, BAT has been able to expand dramatically economies of scale in production and distribution while taking advantage of the Mexican enterprise's substantial market presence and brand portfolio. An interesting feature of purchase of Cigarro is that BAT has effectively regained control of an enterprise that it used to own until legislative changes in the 1970s forced divestment. Following this, only a minority stake remained in the hands of BAT which itself was sold in 1989. Thus, the size and importance of the transaction should not obscure the fact that it has long historical roots. In other words, for BAT the purchase of Cigarro represents a return to a long established pattern of participation in the Mexican market.

Elsewhere in the region, BAT over the 1990s remained true to its strategy of maximising market share and focusing on the tobacco business. In the case of Brazil, where BAT has been operating since 1914, the pursuit of this strategy did not involve the purchase of rival producers but rather a focus on geographical expansion, plant modernisation, distribution and brand development. By the end of the 1990s, this strategy had proved sufficiently successful

as to raise BAT's share of the legal (i.e. non-contraband) Brazilian tobacco market to around 80%. An integral part of BAT's strategy in Brazil comprised the divestment of any activities not strictly related to the production, marketing and distribution of tobacco products. Thus, in 1998 BAT sold Maguary, a leading Brazilian fruit juice producer and Pirahy, a cigarette paper manufacturer. This focused strategy was also applied to BAT's Chilean subsidiary, which sold Consorcio Agrícola de Malloa, a leading food products manufacturer to Unilever for US\$ 102m in March 1996 (ECLAC, 1998 p.56).

UNILEVER: PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

Unilever, like BAT, has a long history of operation throughout Latin America, having been present in the region for over 70 years. Unilever maintains a presence in all of Latin America's key markets including the four countries that form the focus for this paper. The Anglo-Dutch company operates extensively in two key consumer non-durable product areas: processed foods and household cleaning products. Its acquisitions reveal a strategy of buying into new product and geographical markets, in areas closely related to the company's core competences.

In 1999, Latin America accounted for US\$ 4.6bn or 10.6% of the group's global turnover, representing a sales volume half that of the North American market. In the same year, Unilever's profits arising from its Latin American operations amounted to US\$ 500m, or 9.9% of the global total.

As in the case of tobacco, processed foods and household cleaning products can be characterised as highly advanced in the product cycle and, as such, vulnerable to the threats of commodification and erosion of margins. Moreover, tobacco is also a productive activity dominated by a restricted number of international companies. Thus, like BAT, Unilever places a strategic imperative upon maintaining and enhancing strong brand identities while building up market share and economies of scale. In the case of Latin America, Unilever has proven willing to engage in M&A activities in order to pursue these competitive imperatives. In one of the decade's largest single M&A transactions, Unilever in October 1997 purchased the Brazilian ice cream making subsidiary of Philip Morris, Kibon, for US\$ 930m. The acquisition of Kibon enabled Unilever to benefit from instant access to the brand reputation and sales, manufacturing and distribution network of Brazil's largest producer of ice cream.

In acquiring Kibon, Unilever announced that it was to install in its new subsidiary a regional ice cream innovation centre. This provides an indication that the acquisition of Kibon had a certain regional dimension even though the subsidiary's products are almost exclusively targeted at the domestic market. In another development one month previously, Unilever purchased for an undisclosed sum another ice cream producer, the Argentinian enterprise Monthelado. This enterprise, like Kibon was also a subsidiary of Philip Morris. Compared to Kibon with its three factories and 2300 employees, Monthelado was a smaller acquisition with a workforce of just 350 and one factory. However, at the time of acquisition it was the second largest ice cream producer in Argentina. Finally, in January 1997, Unilever bought out the equity stake of its joint venture partners in the Mexican ice cream manufacturer, Helados Holanda.

Unilever's strategy of active participation in M&A transactions in order to win market share, brand identity and economies of scale has not been limited to the four largest Latin American economies. In the case of the Andean region and Central America, for example, Unilever announced in November 1999 that it was to acquire a 60% interest in Varela, a Colombian home and personal care products manufacturer. In a major transaction less than six months later, in March 2000, Unilever purchased a Honduran soap, detergents and foods manufacturer, Grupo Cressida for US\$ 314m. The effect of the latter transaction was effectively to double Unilever's presence in the Central American region, further underlining its regional strategy of boosting market share through M&A activity.

HSBC: AN INTERNATIONALISED GROUP BUYING INTO A NEW REGION

The Hong Kong and Shanghai Banking Corporation, now known as HSBC plc. is unusual among UK clearing banks for its willingness to expand internationally, not least in Latin America. HSBC's marked international orientation at least in part stems from its origins outside the UK. Having initially been founded by British investors in Hong Kong to serve the interests of East Asian trade, HSBC has more recently enlarged the geographical scope of its operations to the markets of Europe, Africa and the Americas. In the 1980s, HSBC became a major participant in the UK retail and commercial banking market with its acquisition of Midland Bank. More recently, in the run up to the transfer of Hong Kong back to Chinese rule, HSBC moved its global headquarters to London. Seeking to diversify further its geographical presence, in the late 1990s HSBC engaged in three important acquisitions in Latin America.

The first and most significant by value of these transactions came in March 1997 when HSBC acquired a leading Brazilian retail and commercial bank, Bamerindus, for US\$ 1bn. The background to this transaction may be distinguished from those associated with the acquisitions of enterprises in the consumer non-durables and intermediate goods sectors since regulatory change was an important factor. In the case of Bamerindus, the low inflation that followed the Real stabilisation plan in 1994 had reduced significantly the automatic inflation-generated profits that the institution had once enjoyed. With Bamerindus' balance sheet rapidly deteriorating, the Brazilian Central Bank was obliged to intervene, injecting capital and seeking new owners for the bank. With other banks also in trouble and balance sheets in urgent need of strengthening, the Brazilian authorities began to adopt a much more liberal approach towards foreign participation in the retail and commercial banking sectors. Previously, such participation had been highly restricted with foreign capital tending to be limited to the investment and private banking sectors. With the Central Bank actively courting greater foreign participation, HSBC proved swift to take advantage of the business opportunities presented by Bamerindus. With the purchase of the bank HSBC stood to gain access to a network of 1241 branches, mostly located in relatively prosperous South and South East of the country. Against this background HSBC, completed its purchase in 1997 becoming the eighth largest bank in Brazil, the fifth largest private sector bank and, more important, the biggest foreign-owned bank in the country (Exame, 1998).

In another major Latin American transaction, HSBC in August 1997 acquired a majority stake in an Argentinean bank, Banco Roberts, for a consideration of US\$ 688m. Again, the purchase of the bank occurred against a background of regulatory change. Shortly prior to the transaction, the Argentinean Central Bank's restrictions on foreign participation in the retail banking sector had been eased thus creating much more favourable conditions for international banks seeking to enhance their market presence. As a result of this regulatory shift, the purchase of Banco Roberts formed only part of a massive international capital inflow into the Argentinean banking system. Between 1996 and 1998, the number of Argentinean current accounts under management by foreign banks rose from 36% of the total to 48%. At the end of 1998, among the ten largest private sector banks, foreign institutions controlled seven with Banco Roberts occupying 10th place (Hermann, 2000 p. 40-42).

Partly as a result of these transactions, by 2001, HSBC had acquired a network of branches totalling 1713 across all of Latin America of which 85% were located in Brazil and 12.5% in Argentina. However, to some extent, these data underestimate HSBC's presence in the region since they fail to take into account the bank's US\$ 174m purchase of a minority stake of 19.9% in the Mexican institution, Grupo Financiero Serfin in December 1997.

In common with the strategies exhibited with BAT and Unilever, HSBC's participation in Latin American M&As has been strongly driven by the desire to capture local market share. However, a number of characteristics distinguish HSBC's expansion in the region from that of the previous enterprises surveyed. In first place, it is important to note that HSBC is an effective newcomer to the region with a very limited historical market presence. Second, unlike the consumer non-durables and intermediate goods sectors, the banking industry across the region has been subject to extensive sector-specific policy shifts that have greatly improved access to foreign investors. Third, while the banking sector may not be associated with rapid product innovation, within Latin America at least, it is associated with dynamic market growth potential arising from the fact that the population is substantially under banked. However, while demand may have been rising rapidly, this has not been associated with radical alterations in the relative market shares of individual institutions. Finally, to an even greater extent than manufacturing industry, the profitability of the banking sector is highly subject to fluctuations in the rate of inflation, the exchange rate and the monetary stance of the authorities. On the other hand, while these factors imply differences in strategic imperatives for HSBC as compared to BAT and Unilever, it should be noted that all these enterprises are engaging in what Dunning (1980) would define as "market seeking" activities where the emphasis is on meeting the needs of the domestic, and not foreign, markets.

LLOYD'S TSB PLC.: NICHE DIVERSIFICATION

Lloyd's TSB has had a long presence in Latin America, especially in Brazil where it commenced operations in 1862, making it the country's oldest private sector bank. Within Latin America, the bank has traditionally tended to focus on the upper end of the market concentrating on corporate and private banking activities. For this reason, its participation by market share has remained relatively limited across the region. However, recently, there have been indications that Lloyd's TSB may be on the point of expanding – and altering – the scope of its regional activities. In September 1997, the bank purchased a 50% stake in Banco Multiplic for US\$ 600m, leaving it the sole owner of the institution. Unlike Lloyd's TSB,

Banco Multiplic operates in the lower end of the market spectrum providing consumer finance to less creditworthy borrowers.

Lloyd's TSB's acquisition of Banco Multiplic has greatly enhanced its market presence in the field of consumer finance. At the time of the transaction Banco Multiplic had a portfolio of 7.5 million borrowers and had signed agreements to provide consumer credit on behalf of 22,000 shops, most specialising in the retail of consumer durables. By early 2001, Banco Multiplic had come to control 30% of the Brazilian market for consumer credit. The incorporation of consumer finance into Lloyd's TSB's range of activities appears to have had a positive impact on profitability. In 2000, the consumer credit division improved its sales by 30%, contributing 47% of the group's Brazilian profits. By contrast, the corporate finance division contributed just 23% of profits (Gazeta Mercantil, 5/3/2001). In addition to its M&A activities in Brazil, Lloyd's TSB in December 1997 acquired an Argentinean institution, Banco Comercial de Tres, for US\$ 80m.

Lloyd's TSB's strategy of acquisitions in the Brazilian market is unusual since it has resulted in a bank specialising in the top and bottom ends of the market, but not the middle. Within the enterprise, corporate and private banking activities are carried out from just eight branches while consumer-finance operations are supervised from 90 offices. However, Lloyd's, despite its recent expansion, still lacks a retail banking operation in Brazil. Despite this unusual approach, Lloyd's strategy can nevertheless be characterised as one aimed at capturing market share even when this appears to conflict with long established core capabilities.

CONCLUSIONS

The 1990s were a period in which the markets of Latin America opened up to foreign investors on a substantial scale. Over the course of the decade, as microeconomic liberalisation accompanied macroeconomic stabilisation, the pace of foreign direct investment inflows, and, more specifically privatisations and M&A transactions picked up rapidly.

To some extent, the UK was not left behind in this investment surge. In terms of FDI stocks in Latin America, for example, the UK departed the 1990s as it had entered it as the owner of the second largest stock of direct investment in the region. However, as our data have

indicated, so far as privatisation and M&A activity was concerned, the UK was a more marginal participant in terms its involvement both by number or value of transactions. This was the first major finding of this paper. Secondly, the analysis of the data indicated a marked sectoral and geographical concentration of M&A activity, dominated by a very restricted number of transactions and firms. Such firms tended to be international leaders in their sectors and Latin America offered, in the 1990s, an opportunity for entering new geographical and product markets. As a result, they were able to consolidate their worldwide leadership.

The data also revealed the reluctance of the UK private sector to acquire companies operating in the most dynamic market segments, notably in the fields of, durable goods, capital goods and infrastructure, especially in areas of high technology opportunities. The infrastructure sector, of course, was subject to the most radical policy changes over the 1990s as governments in Argentina, Brazil, Chile and Mexico engaged in programmes of privatisation and relaxed restrictions on foreign investment. As the data indicate, the UK's participation in privatisation transactions was especially low at 0.85% of the total by value. Given the fact that privatisation in the region was strongly concentrated in the infrastructure sector, a natural consequence of this is that UK ownership of Latin American enterprises in this sector remains very limited.

To this extent, it is possible to argue that UK enterprises failed to take full advantage of the key investment opportunity presented by the region over the 1990s. By contrast, Spanish investors proved much more enthusiastic participants in the infrastructure sector (ECLAC, 2000 p. 141). Against this background, it may be argued that the UK relative to other major investor countries lost out on the opportunities offered by a unique set of policy shifts and improved macroeconomic conditions.

By contrast to the UK's timid participation in the region's privatisation programme, its involvement in private M&A's was rather more intense. In sectoral terms, the UK's pattern of investment through such transactions possessed a very interesting feature. As in the case of privatisation transactions, UK involvement in the M&A activities of the infrastructure sector was very restricted. By contrast, the lion's share of UK participation in M&A activity was associated with the non-durable goods and financial sectors. Significantly, the UK's regional involvement in these sectors stretches back a long way, in the case of the most important

companies more than half a century. As the case studies of the most important transactions made clear, the majority could be viewed as UK companies reinforcing pre-existent patterns of investment, taking advantage of more benign macro and micro economic conditions as well as changes in strategic focus of other multinationals. Thus, in the case of Unilever, which has been present in the Brazilian market for more than 70 years, a strategic divestment by Philip Morris of the US enabled it to take control of Kibon. In turn this enabled Unilever to tighten its grip on the South American ice cream market. To the extent that such strategies predominated – as our data suggest they did – then it is possible to characterise the UK approach to corporate acquisitions in the region as relatively risk averse and aimed at market control. Such a characterisation takes on yet more force when one considers the technologically mature and undynamic nature of the sectors involved in the bulk of transactions.

In the light of the above, and the earlier discussion, the following features would appear to characterise UK M&A activity in the four countries surveyed. In first place, with just two major exceptions (to be discussed below), UK corporate acquisitions were dominated by enterprises with long experience and presence in the region. Second, the bulk of acquisitions by value were concentrated in sectors with restricted opportunities for technological change but with intensive scope for product and service quality improvement and brand enhancement where the prospects for long-term growth depend on the evolution of local demand. Thirdly, the most important transactions were motivated by the desire to gain greater access to domestic markets. By contrast, very few important transactions in the database could be considered to be motivated by the objective of exporting either within or outside the region.

While the above features may be considered to characterise the bulk of UK M&A transactions by value, we do not pretend that they apply to all cases. Two important exceptions in this regard are constituted by HSBC plc. and BG plc. In both cases, the enterprises had no history of presence in the region. Moreover, in the case of BG plc., the enterprise acquired important infrastructural assets with its purchase of Brazil's Comgas in 1999. This followed its earlier purchase of a stake in an Argentinean gas utility via a mixed consortium. As a result of these transactions, therefore, BG plc. has joined the international race to invest in the Latin American infrastructure sector, an option that has largely been eschewed by other UK enterprises. In the case of HSBC, the “exceptionalism” of its strategy stems from the fact that in addition to its lack of regional experience, the enterprise was swift

to react to a shift in a sector-specific policy regime. Furthermore, HSBC acted very rapidly in acquiring majority and minority stakes in Argentinean, Brazilian and Mexican banks in the space of just one year. Despite the divergence from the “norm” in strategic approach demonstrated by BG plc and HSBC plc, it should be emphasised that in another respect their behaviour was much more typical. Specifically, both enterprises entered the regional market in an attempt to gain domestic market access.

Over the next few years the ability of Argentina, Brazil, Chile and Mexico to embark on a path of sustainable growth will depend on their overcoming a number of challenges. Without doubt, one of the most important among these will be presented by the need to attract foreign direct investment that not only finances the current account deficit but also boosts export performance and improves systemic competitiveness. From our database of UK M&A activity among the four countries, one of the most obvious conclusions is that whatever the positive impact of the initial capital inflows, the long-term impact on export performance may be quite limited. The reason for this is twofold. On the one hand, UK acquisitions among the countries have been motivated by the desire to gain access to domestic markets rather than to build up an export base while on the second, involvement in potentially competitiveness enhancing infrastructure investments has been limited. Looking ahead, is this situation likely to alter? From our informal survey of transactions in the 18 months following the end of 1999 there are tentative indications that change may be in the air. For example, this period saw a significant UK acquisition in the Mexican telecommunications sector while the Chilean water sector witnessed important transactions involving UK companies. Whether these developments portend a sustained shift in the character of UK M&A participation in Latin America remains to be seen, however.

Notes

¹ In Latin America, most Mergers and Acquisitions (M&As), in reality, reflect Asset Acquisition and Control operations. The expression M&A will be used because of its widespread acceptance and use.

² The third largest sector where transactions occurred - Other Services- encompasses a large number of different economic activities, like advertising, construction and business services.

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