

Economic Liberalization and Changes in Corporate Control in Latin America

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Abstract

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 merger and acquisitions (M&A), their evolution, relative importance, sectoral incidence and 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&A transactions, of which 1,535 have their values declared, and a database on 329 privatization transactions, of which 97% have reported sale values. Although similar to processes occurring elsewhere, in this article 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 range 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. Given their depth and breath, the ownership landscape of these countries is significantly internationalized, opening relevant questions in relation to the style and possibilities of future development of Latin America.

Key Words: economic liberalization, privatization, merger and acquisition, Latin America

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 and 129), the total number of M&As around the globe has grown above 40% annually since 1980 and cross border

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M&As represented over 80% of total foreign direct investment (FDI). In terms of value, throughout 1980-1999 period, the M&A transactions (including domestic and cross border deals) completed worldwide have increased at an annual rate of 42%, to reach US\$ 2.3 trillion in 1999. Latin America was also part of this global process. The economic relevance of privatizations and M&A is unequivocal, their implications are far reaching but, still, there is a substantial lack of adequate understanding of their causes and consequences¹. 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, responsible for a high proportion of production value, are being acquired or merged. This process is even more complex if the acquiring firms cross-cut countries and sectors, leading to a blurring process of national and sectoral boundaries. In these cases, the economic power of new companies increases with unforeseen implications. On one hand, acquiring firms will strength the capacity to define and implement policies towards 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 decrease technological gaps *vis-à-vis* advanced nations. At the macroeconomic level, depending on relative stage and conditions, on one hand, capital in/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 importance with corresponding diminished impacts on net employment generation. On the other hand, asset acquisition, if undertaken in a long-term perspective, is a definite sign that an economy is attractive to investment, thus favoring development prospects.

This article is directly addressed to these issues. The focus is on four large Latin American countries and the objective is to analyze ownership restructuring and changes in corporate control as a result of privatizations and private M&As. Drawing on original firm-level data on Argentina, Brazil, Chile, and Mexico, during the 1990s, this is a comparative study aimed at identifying cross-country differences and similarities, discriminating economic sectors, type and origin of investors. The database registered 3,085 private M&A transactions, of which 1,535 have their values declared, plus a database of 329 privatization transactions, of which 97% have reported sale values. Privatizations and private M&As are placed in time and place in terms of their impelling institutional determinants, especially policy changes towards economic liberalization in these countries, which are responsible for around 80% of Latin America's GDP.

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

¹ For M&A, see Mueller (1986), Ravenscraft and Scherer (1987), and Jensen (1988). For privatizations see, Meggison *et al* (1994), Baer and Birch (1994), and Cook and Kickpatrick (1995).

Latin America's Reforms and Macroeconomic Performance in the 1990s

Since the mid-1970s and, increasingly, after the 1982 debt crisis, a combined set of economic determinants, among them, a growing external constraints, escalating inflation, lowering 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 regimes of incentive and regulation. Policy proposals, organized under what became known as “Washington Consensus” (Williamson, 1993), were aimed at macroeconomic stabilization and economic liberalization, including fiscal discipline, privatization, trade and financial liberalization.

As shown in Table 1, Argentina, Brazil, Chile, and Mexico engaged in wide ranging economic reforms, but there were significant differences in the implementation. These are probably explained by countries' idiosyncrasies like size of markets, productive and technological basis of countries and characteristics of local political systems. Argentina and Chile experimented a first “wave” of liberalization during the 1970s and in the latter only marginal adjustments were made in the following years. Brazil was the latecomer in the process of economic liberalization and in Mexico reforms were spread out along the years. In contrast, policy change and reversion was a main feature of Argentina. But, by the mid-1990s all of them converged towards economic liberalization as countries either entered a second “wave” of reforms or reinforced existing policy directions, showing a definite commitment to a regime of incentives and regulations pro-economic liberalization.

Table 1 Evolution of Economic Reforms - 1976/95

	1976-1979	1980-1985	1986-1990	1991-1995
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
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
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
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

Note: **R**: Radical reform; **G**: Gradual reform; **P**: Partial reform, **S**: Suspension; **A**: Reversion of process

Source: CEPAL (1996b)

Reforms have direct and indirect influences upon ownership restructuring. While FDI deregulation and privatization in itself constituted a direct impact, import liberalization compressed local prices and profits margins, augmenting firms' financial fragility that paved the way for private M&As. Indeed, imports expanded steadily during the 1990s (see Table 2). The significant increases in imports in Argentina during the 1991-93 period, as well in Brazil in the years 1994-95, were strongly related with macroeconomic stabilization programs. In the Mexican experience, the figures were even more remarkable, as imports increased from US\$ 41.6bn in 1990 to US\$ 142.1bn nine years later. For the four countries as a whole, these values were US\$ 73.1bn and US\$ 229.4bn, respectively, or a 13.6% per annum growth. For the same time and countries, GDP expanded just 3.1% annually.

Table 2 Imports, 1990-99 (current US\$ 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 facing unprecedented competitive pressure from imports found themselves under-capitalized and lacking 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 decreased around 17.5% for intermediate goods and 32% for durable consumer goods in the 1990-95 period. The increasingly financial fragility and/or the requirements imposed by a 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 the Mercosur and 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 is quite impressive. Between 1991 and 1997, intra-regional trade jumped from US\$ 10.2bn to US\$ 40.6bn, an improvement rate of 26.2% a year. During the same period, extra-regional trade enhanced from US\$ 67.8bn to US\$ 133.8bn, or 12.6% per annum increase. As a consequence, the share of intra-regional trade in the total flow of commerce of Mercosur countries amplified from 13.1% to 26.2%, respectively (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 competition's regulatory regimes. These could be seen as barriers to corporate restructuring, especially if M&As would imply new firms with greater market power. However, regulation of competition has had little priority in structural reforms in Latin America. By the mid-1990s, the antitrust legislation in Chile was based on a Law promulgated in 1973, while in Argentina and Brasil these were issued in 1980 and 1994, respectively (Pereira Neto, 1996, p. 120). Moreover, there are important differences in national regulations. While the Brazilian law is very comprehensive, the Argentinean and Chilean are more concise. More importantly, although all of them deal with anticompetitive conduct (like cross-selling, cartel and price discrimination), M&As are subjected of scrutiny only in Brazil, in which effective actions started to be implemented only in 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 & Valdivieso (2000, pp. 39-40), this is the regulatory mechanism with an important potential impact in the Mexican economy in the long run, because it represents a radical change of State behavior. The new regulation substituted laws that were issued in 1914 and 1934. Its scope is similar to that one founded in Brazil, because beyond the control of monopolist conducts, certain M&As are subjected to the

prior approval of the Federal Commission on Competition, which began its activities in June 1993.

It is worth mentioning that in these four countries, with the exception of Chile, institutional changes were preceded or introduced simultaneously with macroeconomic policies aiming at inflation control, through a combination of monetary or exchange anchors and import liberalization. Table 3 indicates that, in this area, significant success was achieved, in particular in Argentina (with its *Convertibilidad* Plan in 1991) and Brazil (*Real Plan* in 1994). Moving from a hyperinflation situation to other with a two-digit, and even, a one-digit inflation increased confidence levels as macroeconomic previsibility enlarged, thus creating an environment friendly to new entrants (Ferraz et al, 1999).

Table 3 Consumer Price Index, 1990-1999 (December to December % variation)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Argentina	1343.9	84.0	17.6	7.4	3.9	1.6	0.1	0.3	0.7	-1.8
Brazil	1584.6	475.1	1149.1	2489.1	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)

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% of the region's GDP between 1982 and 1990, in average. Nevertheless, in the wake of reforms and increasing international liquidity, between 1991 and 1995, the access to international funds improved, implying a positive transfer of 1.5% of GDP, in average (CEPAL, 1996b). In the specific case of the four analyzed countries, the net transfer of resources in the period 1991-99 amounted US\$ 147.9bn.

The access to foreign capital was important from a macroeconomic perspective as they financed current account deficits and contributed to reduce inflation rates. That is, capital inflows led to the overvaluation of local currencies, facilitating imports and, as a consequence, reducing the mark-up pricing capacity by local oligopolies, used to operate in economies with 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 4, FDI towards Argentina, Brazil, Chile, and Mexico skyrocket from US\$ 7.9bn in 1992, to US\$ 66.5bn in 1999. Even considering that the 1999 figure for Argentina is inflated by one large transaction (the acquisition of Yacimientos Petrolíferos Fiscales/YPF by the Spanish oil company Repsol, for a consideration of US\$ 15.2bn), the growth of net FDI figure is quite notable. This inflow played a prominent role in the finance of balance of payments' current account, in a proportion varying between 23% in 1993 and 82% in 1996. Furthermore, although the year of 1999 can be regarded as an exception, due to that large transaction referred, it is important to stress that the net FDI into the four countries was in fact 30% higher than the deficit in current account.

Table 4 Net Foreign Direct Investment, 1990-99 (US\$ 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)

Nevertheless, Ferraz & Iooty (2000) suggested 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 its financial system and to maintain macroeconomic stability and sustainability. Net capital inflows exceeded sustainable external savings levels (defined as the total foreign capital inflows and variations in foreign reserves). As a result, foreign expenditures and current account deficits increased to levels not compatible with macroeconomic stability. In many countries the abundant 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 vulnerable to changes in the international context. Local governments were forced to sterilize the monetary effects of foreign capital, by increasing interest rates. Consequently, the gross fixed capital formation did not show a sustainable growth, as shown in Table 5.

Table 5 Gross Fixed Capital Formation as % of GDP, 1990-99 (at constant 1995 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 own estimates using CEPAL (2000, 2001a)

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 along the years, as demonstrated in Table 6. Chile is an exception as growth was kept at relatively high rates. Mexico also presented a good performance, in large part due to the economic relations it maintains with the US. It is under this new economic scenario in Latin America, that the “wave” of privatization and private M&A activities should be examined. The results of economic liberalization in a broad sense – and 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 placed if the process of change is better understood, especially the dynamics of privatization and private M&As in the region.

Table 6 GDP Evolution, 1990-99 (constant 1995 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

Note: * at constant 1990 prices

Source: CEPAL (1996, 2001b)

Information Sources and the Organization of the Database

Measurement and analysis of FDI and M&As are subject to a range of methodological problems, especially those related to the quality and consistency of statistical sources. Insufficient information on 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, departing from highly disaggregated data, 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 firm, 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 most of 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 types of modifications:

1. Firstly, the raw data was checked to eliminate double counting of transactions, especially transactions 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 were 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 in less extend business publications like Forbes and Fortune, were used to identify the nationality of firms involved in a transaction. After this procedure, investor countries were aggregated in six regional

² The Who Owns Whom database, from Dun & Bradstreet contains, for 1999, information on 260,000 corporations of the US, Canada, United Kingdom, Continental Europe, Asia, Australia, and Latin America, including, for instance, data on corporate tree structure, which provided the accurate nationality of the firm.

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 and impossible to match with widely used and standardized classification such as SIC or ISIC. Therefore, the number of TFSD sectors 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.
5. Finally the database was divided in two sub-samples 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% have values registered, a proportion that varies by no more than 8% among the four different recipient countries. For the 329 privatizations, no less than 97% have reported sale values. Despite the good characteristics of the data, it is worth acknowledging that the value of a considerable number of transactions has not been disclosed, which is highly correlated with legally binding non-disclosure clauses among acquiring and acquired firms. As one might expect, for reasons of public accountability, the proportion of value disclosure in privatization transactions is considerably higher.

On the whole, it is possible to put forward three strong advantages of this assembled and refined database, ensuring a high degree of consistency, accuracy and reliability for cross-country or cross-sector analysis. Firstly, the database employs basically just three carefully scrutinized sources: TFSD, "Who Owns Whom", and national official data on privatizations. Secondly, since the raw data was extremely comprehensive, including number and value of transactions, the bias against capital-intensive sectors, implicit in studies based solely on numbers of transactions, has been avoided. Thirdly, the discrimination 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 the differences in the 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, however, common to all available M&A datasets and inevitably place some limitations on our ability to draw entirely robust conclusions.

Privatization in the 1990s

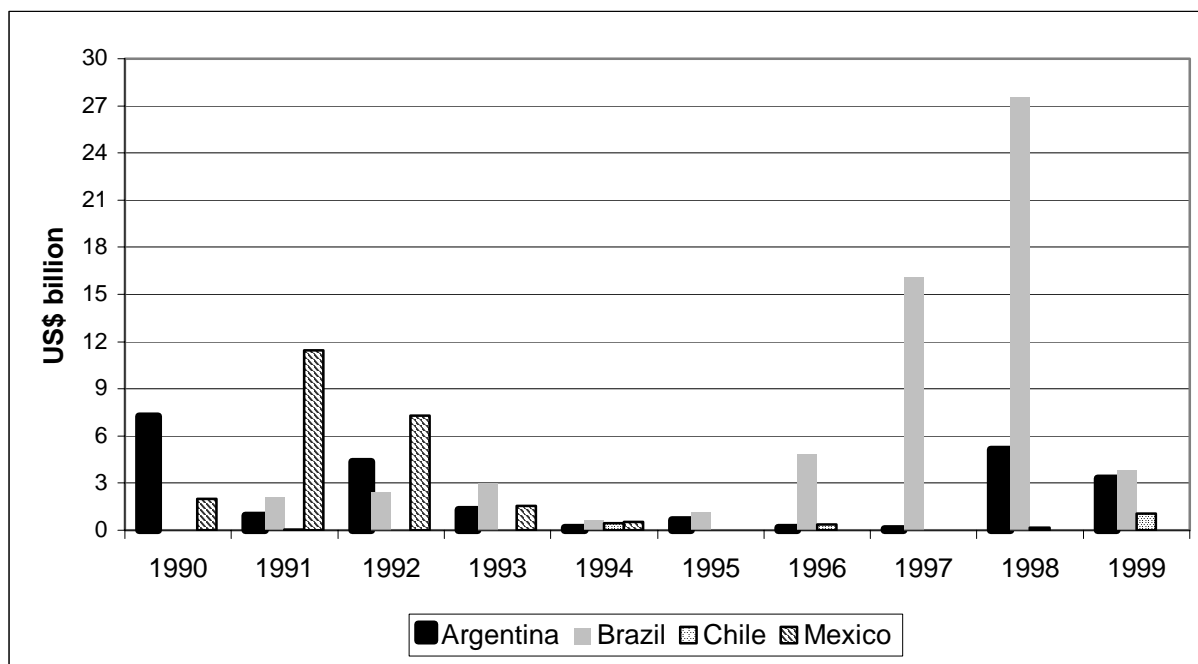
Overall results

During the last decade, privatization across Latin America was far reaching. Combined revenues for Argentina, Brazil, Chile, and Mexico amounted to US\$ 110bn, an inflow of income which was 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 can be even greater, as they may also include the value of concessions, like new services of mobile telecommunications. Since the analysis focused permanent asset ownership restructuring, these operations were deliberately not included in the database. Thus, a restricted definition of privatization was used, while some authors – like Vuysteke (1988, pp. 8-10) – take into account also contracting-out and de-monopolizing.

As shown in Graph 1 and 2, 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, the country was a pioneer of this contemporary and global trend, even ahead of the UK. Chilean privatization program was divided into “rounds”. Initially, 207 small companies were sold and 325 were returned without costs to former owners. In the years 1974-82, revenues amounted to US\$ 952m (Lüders, 1991, p. 17). In the second stage, between 1985 and 1989, 50 additional firms were privatized, generating total revenue of US\$ 1.35bn. 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 the Salinas term (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).

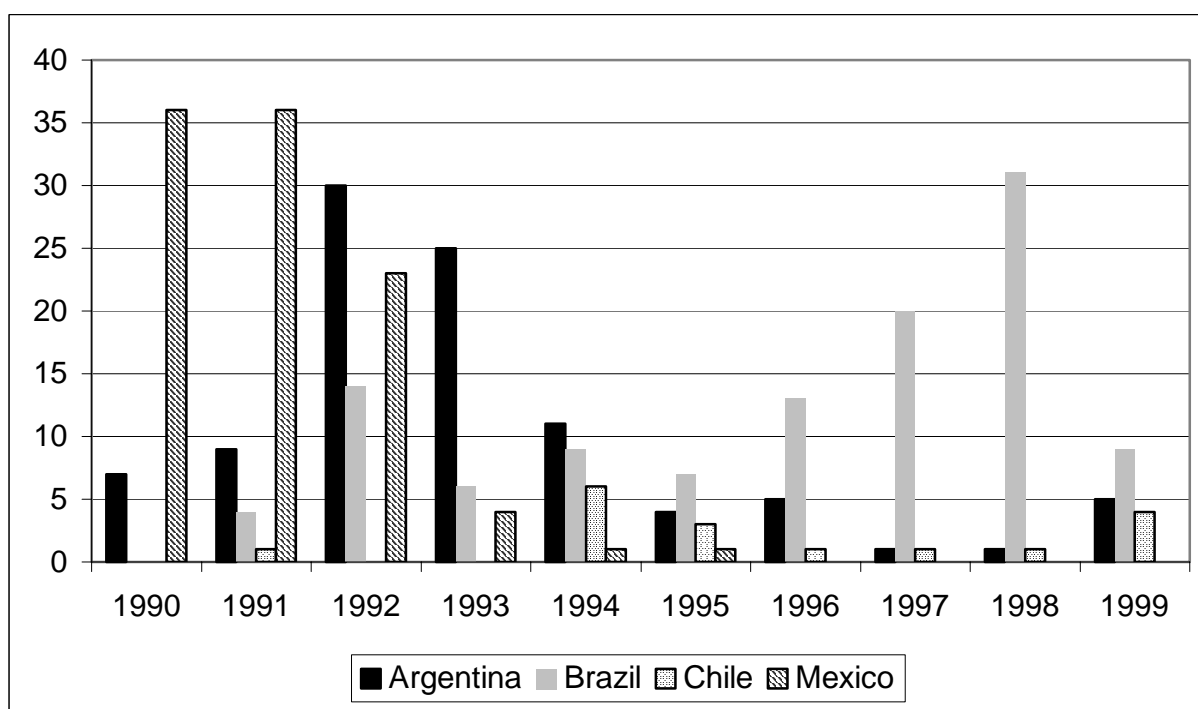
Argentina and Brazil started to run their privatization program in the early 1990s, contributing to expand their importance share in this analysis, which is concentrated in the 1990-99 period. In the case of Brazil, Latin America’s largest economy, this is the period, when the telecommunications and electrical energy distribution sectors were almost entirely transferred to private ownership. Thus, it is hardly surprising that Brazilian privatization revenues, at US\$ 61.5bn, were easily the largest of any of the surveyed countries. During the last decade, in Argentina and Mexico, the amount of the privatization reached around US\$ 23bn in each country and, in the Chile, sales revenue amounted to US\$ 2.1bn. Graph 1, depicting privatization revenues by country, provides evidence on the importance of the Brazilian program in the second half of the 1990s, in particular the sale of the telecommunications sector in 1998. On the other hand, Graph 2 reveals a downward trend in the average annual number of privatization transactions over the decade for all countries, except for Brazil. It is necessary to take into account the nature and the slowing down of the Mexican privatization process. According to Ferreira Jr. (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 *Chiquilleries*, small state owned enterprises, were sold-off to private investors.

Graph 1 Privatizations in Latin America, value of transactions, 1990-99



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

Graph 2 Privatizations in Latin America, number of transactions, 1990-99



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

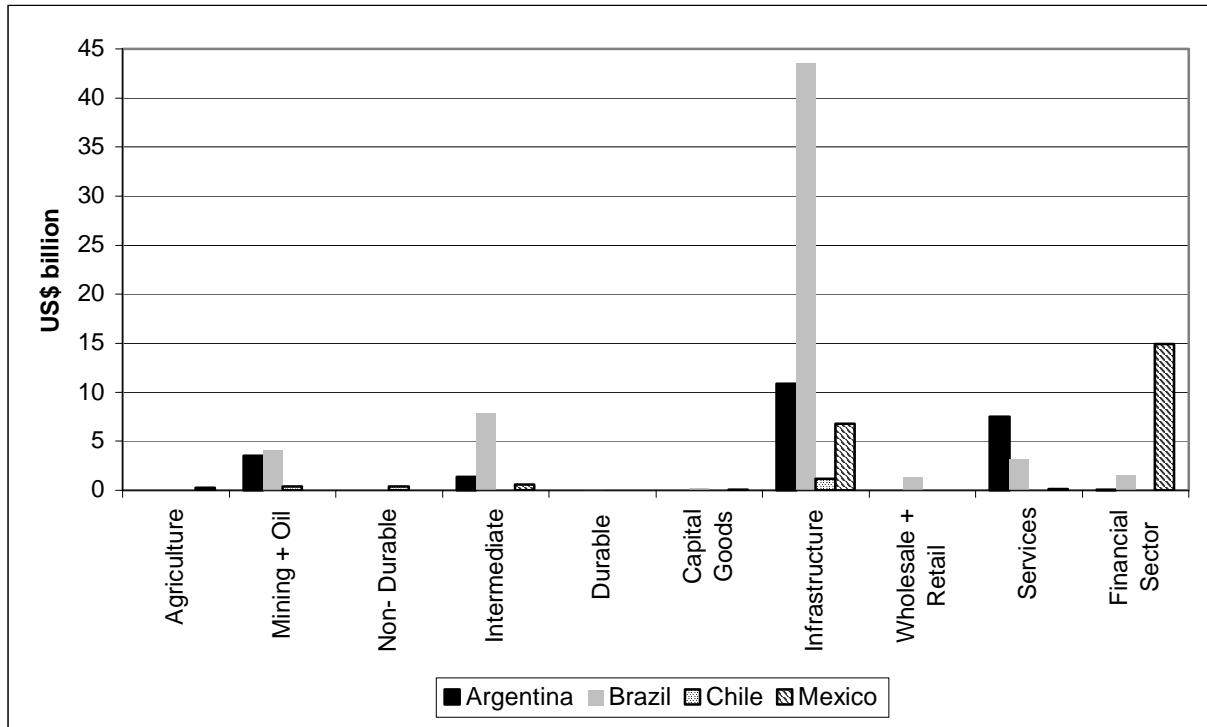
Sectoral distribution

Privatization programs worldwide at the start focused on manufacturing industries. Once divestment in these sectors was completed, privatization turned to public utilities. This is also the pattern observed in Latin America. As most privatization programs were initiated in the 1980s, if not before, during the 1990s telecommunications and electrical energy were the public utilities sold to private investors in these four countries. Graph 3 shows another interesting feature of the Latin American privatization: for most countries, the economic importance of infrastructure related sectors amounted to US\$ 62.3bn and is probably greater than the combined privatization revenues in other sectors. But, in terms of number of operations (Graph 4), the picture is considerably changed, especially in the case of Mexico, with substantial privatization activities in agriculture, intermediate consumer goods and financial sector. Again in terms of number of transactions, in the Brazilian and Argentinean experiences, intermediate consumer goods and service sector gain importance. In the latter country, mining & oil is also relevant.

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

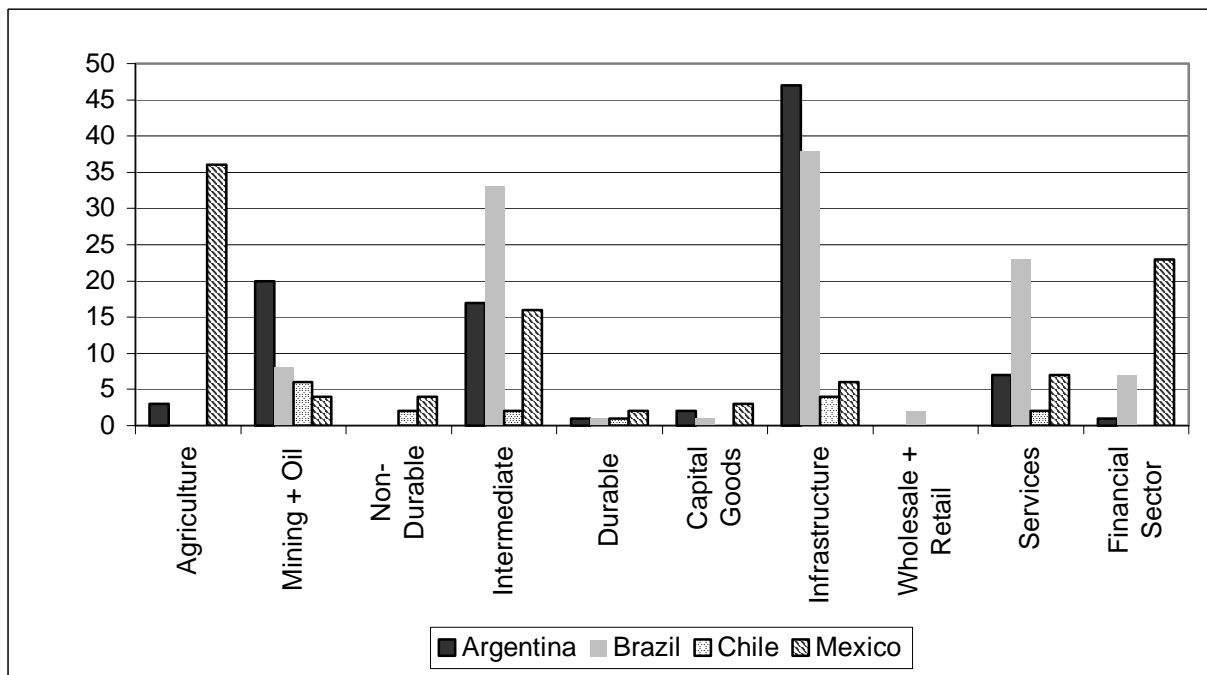
The particular case of Mexico deserves attention. There, while the economic importance of infrastructure divestment was lower, the relevance of the financial sector was higher, when compared to the other three countries. Privatization of the financial sector in Mexico accounted for 65.3% of its total revenues. The enormous scale of Mexico's 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 practically taken into public ownership.

Graph 3 Sectoral Privatizations in Latin America, value of transactions, 1990-99



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

Graph 4 Sectoral Privatizations in Latin America, number of transactions, 1990-99

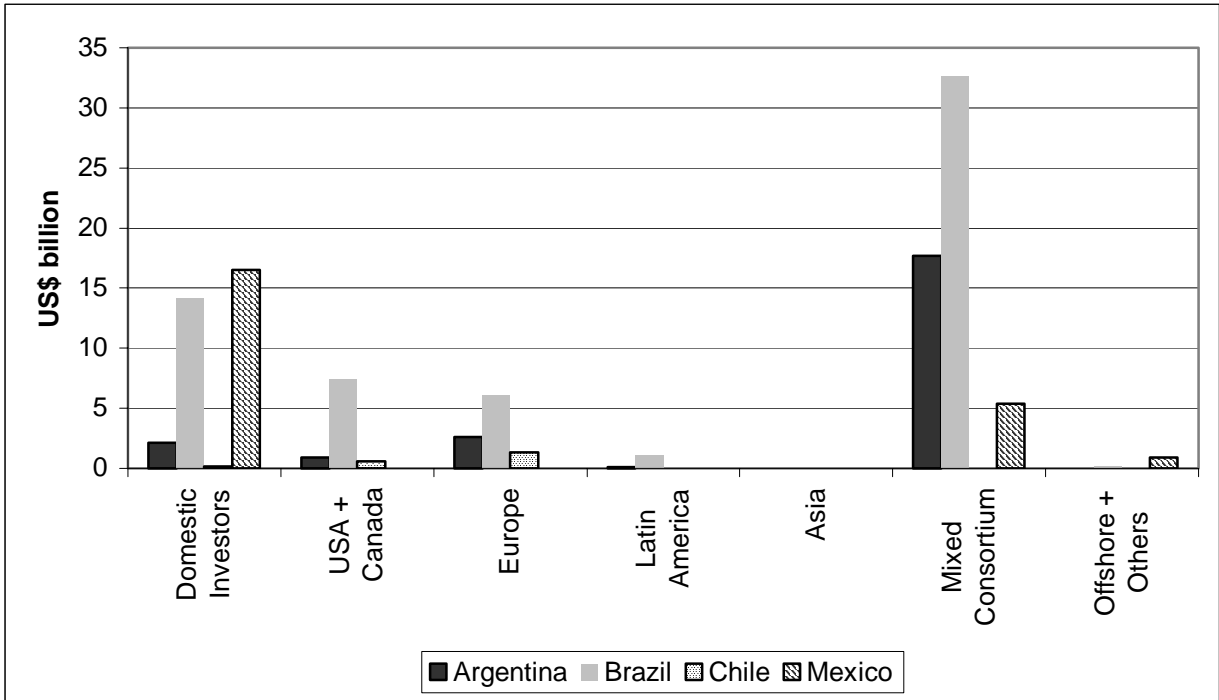


Source: IE-UFRJ Latin America M&A and Privatization Database

The nature of acquiring companies

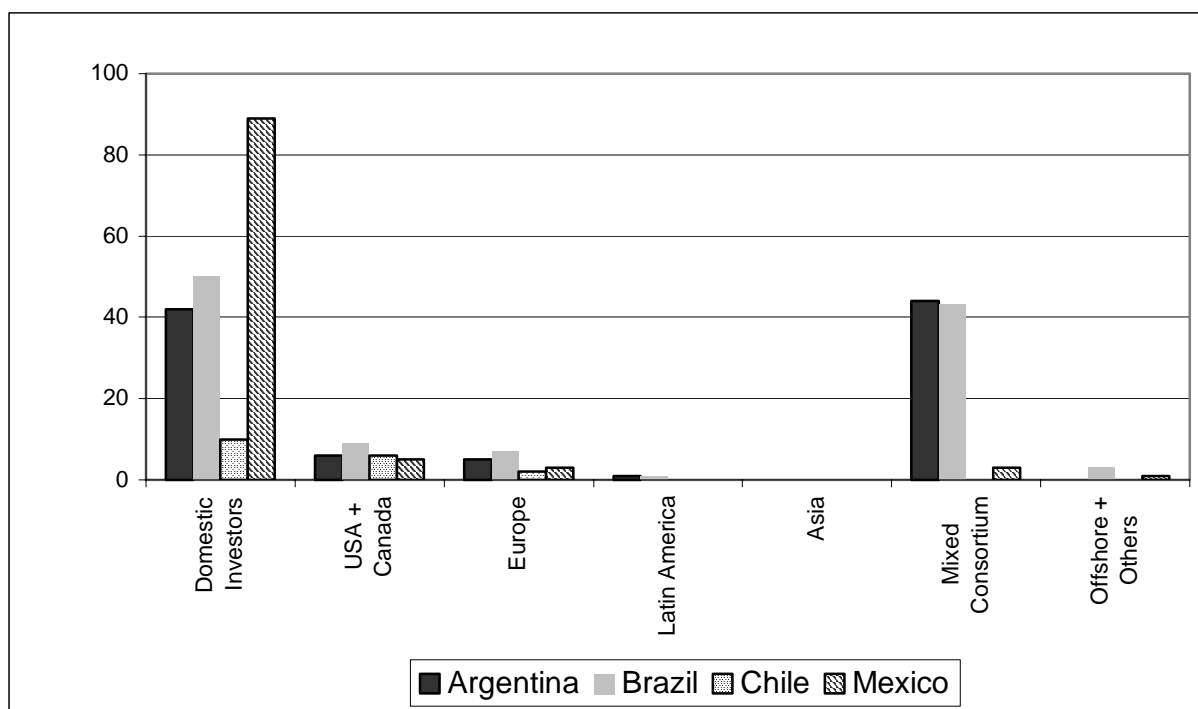
In each country, privatization was concentrated in time and in specific sectors, although there are substantial differences among them, especially Chile, where it occurred earlier; Mexico, where the number of transactions and the importance of the financial sector were comparatively higher and Brazil, where the process was initiated later and the absolute size of privatizations was significantly higher. When the nationality of acquiring firms is taken into account, there are similarities but also some interesting differences among these four large Latin American countries (Graphs 5 and 6). That is, privatizations in Latin America brought an important change to the historical prominent role played by North Americans, North Europeans and Japanese investors. The new relevant actors in the region are investors from Spain, Portugal and Italy. On the same line, the role of intra-regional participation in the privatizations has been quite insignificant. In this database, between 1990 and 1999, Latin America’s non-consortium share in privatization amounted to just 1.1% of total revenues.

Graph 5 Home Country of Acquiring Companies in Privatizations in Latin America, value of transactions, 1990-99



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

Graph 6 Home Country of Acquiring Companies in Privatizations in Latin America, number of transactions, 1990-99



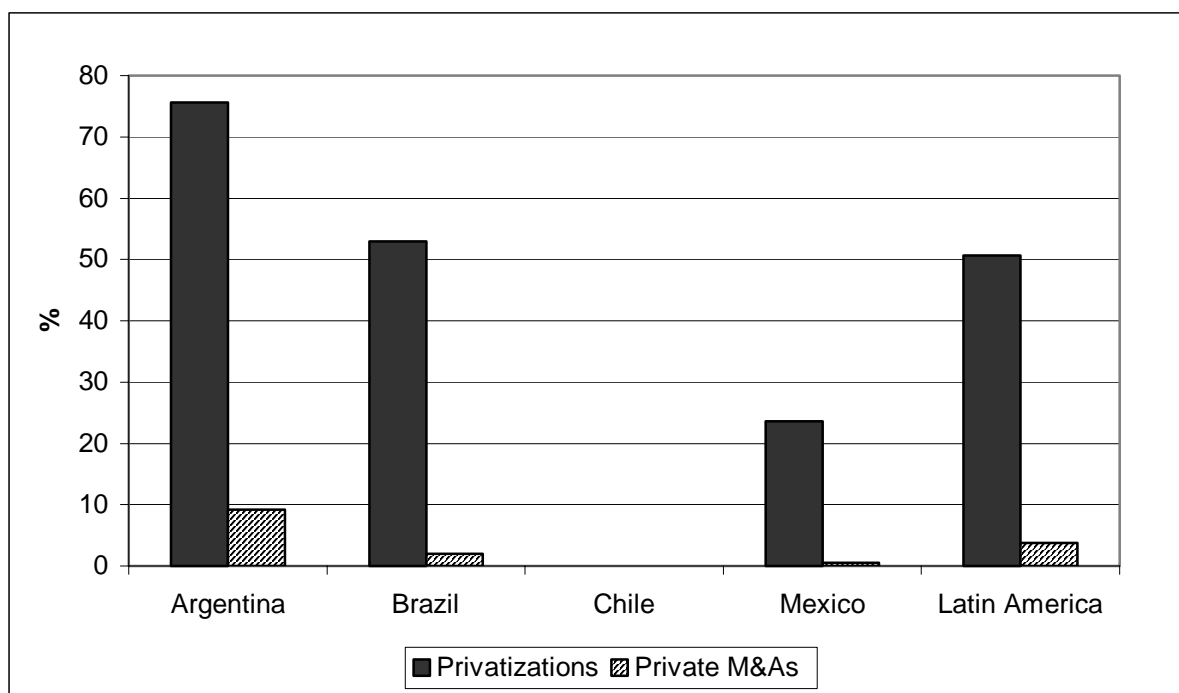
Source: IE-UFRJ Latin America M&A and Privatization Database

The most striking feature shown in the above graphs 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 US\$ 55.7bn in privatization revenues, followed by domestic investors (US\$ 33bn). European companies invested US\$ 10.0bn, followed by US and Canadian firms (US\$ 8.9bn). If number of transactions is taken into account, the role of domestic investors is considerably strengthened, revealing that local companies were more active in smaller transactions and mixed consortia was an organizational mode designed for more complex operations.

Mixed consortia were prominent in Argentina and Brazil, taking 76% and 53% of total privatization revenues. Indeed, in Argentina, mixed consortia are the most prominent investors, followed, distantly, by Europeans and domestic investors (Graph 5). In Brazil, mixed consortia are also very active, followed by domestic, North Americans, Europeans and Latin American investors. In contrast, in Chile, Europeans and North Americans were more dynamic and, in Mexico, domestic investors played the prominent role in acquiring SOEs.

Most importantly, though, mixed consortium is an ownership mode extensively used in privatizations but not in private M&A operations (Graph 7). In the latter, this ownership mode was used in Argentina for only 9.2% of total value of operations and in 2.0% of total Brazilian private M&As.

Graph 7 The Role of Mixed Consortia in Privatizations and Private M&As in Latin America, value of transactions, 1990-99



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

Given their economic magnitude, the role of mixed consortia must be further examined. For the purposes of this database, a mixed consortium was defined as an acquiring company jointly formed by domestic and foreign investors in order to own and manage 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 to run a newly acquired company. Foreign investors are expected to bring in technology and capital assets, plus international connections. For local partners, these assets contribute to reduce financial and operational risks. Local investors' contributions are not only local capital and technology but, most importantly, knowledge and understanding of framework conditions like the competitive environment, legal and social norms, and also cultural features of the country. For foreign partners, these competences can reduce risks associated with the entering in a new market and dilute political criticisms that often accompany the transfer of privatized assets to foreign entities (Kock and Guillén, 2001).

In short, 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 would bring in specific valuable resources to decrease risks and increase competences. At the same time, given the multiplicity of origins and interests of involved partners, mixed consortia are entities of complex and unstable governance.

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

There is at least one important peculiarity regarding this mode of ownership: its constitution for a specific project and opportunity, in a once for all operation. Indeed, mixed consortia are strongly correlated in Latin America with privatizations and this type of transaction is time and place unique. While an alliance for negotiating a private M&A transaction can 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 arrange 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 imposes two very distinct features upon the characteristics of the new company.

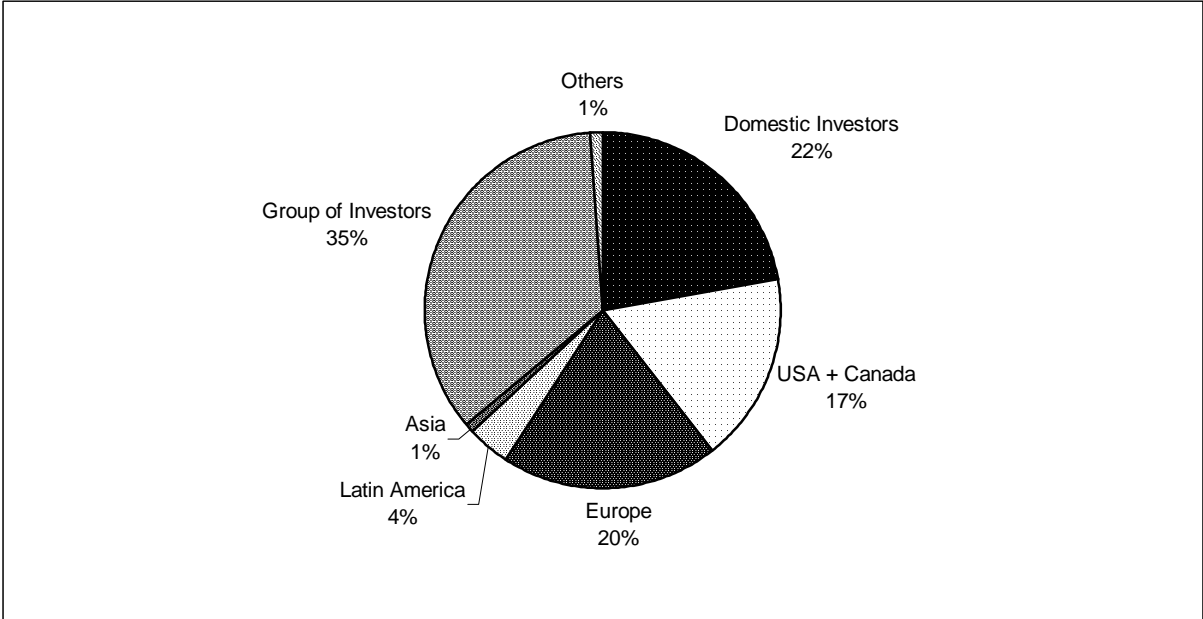
Firstly, not all partners have the same motivations and interests; some may be motivated by speculative reasons, in the sense of buying a share with the intention of disposing it as soon as a certain value tag is achieved; others may perceive their role from a long-term competitive perspective. Also, as privatizations were concentrated in time, many players became involved in more than one mixed consortium. Therefore, the ownership composition of a consortium runs the risk of being formed by powerful but potentially contradictory interests in the functioning logic of the newly acquired company. Although differences of goals and interests are not unusual in other modes of international joint ventures, comparatively, the potential degree of divergences tends to be higher in mixed consortium 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 relevant changes in the original ownership composition. This is the case of the above mentioned Argentinean telecommunications firms. In Telecom Argentina, in July 1999, Pérez Companc and JP Morgan sold their stake to the other two partners (France Telecom and Telecom Italia) for a consideration of US\$ 530m. In Telefónica Argentina, currently the Spanish firm Telefónica holds, directly and indirectly, 91% of its capital. Not only Techint group has already disposed its stocks, but Citibank also sold its stake to the North American fund Hicks, Muse, Tate & Trust. Hence, in both cases, in a short time after privatization, the domestic diversified group and the international bank gave up their position in the mixed consortium.

Although these results can not necessarily be generalized, it ratifies 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 consortium was followed by important changes in its internal composition, meaning new M&A transactions; c) the mixed consortium not only has 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 along the time.

The database allows for the further examination of the internal composition for all mixed consortia, at the time of privatizations in Argentina. Graph 8 demonstrates that, by value of transaction, the share of domestic investors was only 22%. Unfortunately, 35% of the total value was allocated 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 is very high and the leaders are European companies (20%) and USA and Canadian investors (17%). Latin American firms (4%) and Asian ones (1%) complete the list.

Graph 8 Internal Composition of Mixed Consortia in Argentina, value of transactions, 1990-99



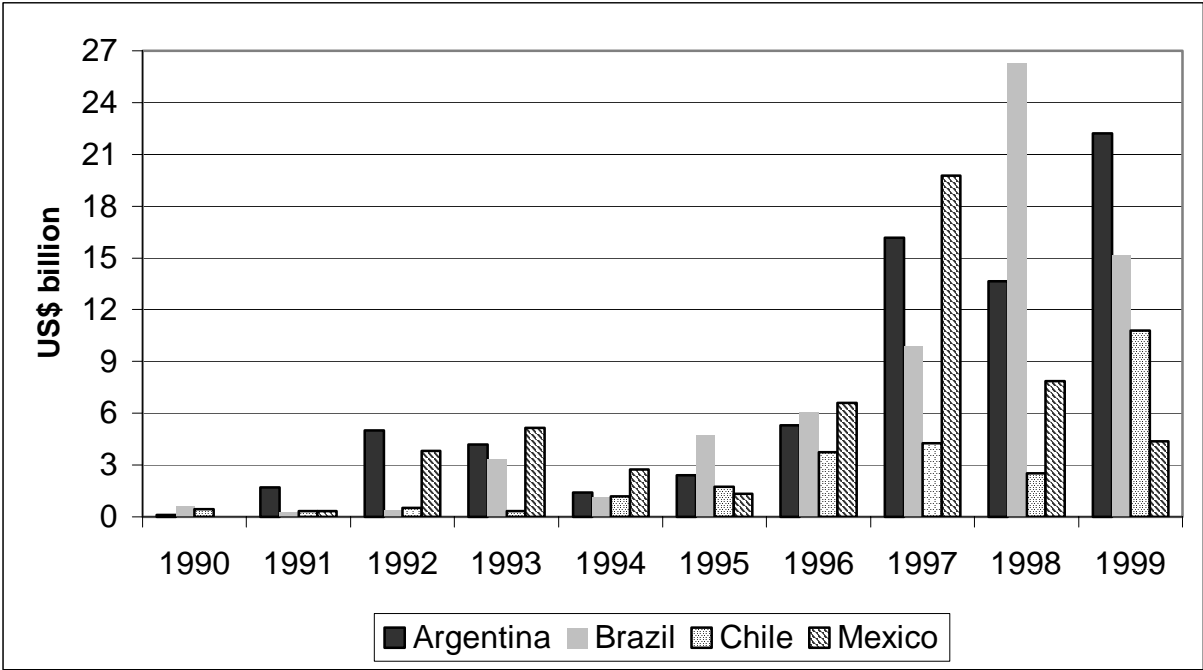
Source: IE-UFRJ Latin America M&A and Privatization Database

Private Mergers and Acquisitions in the 1990s

Overall results

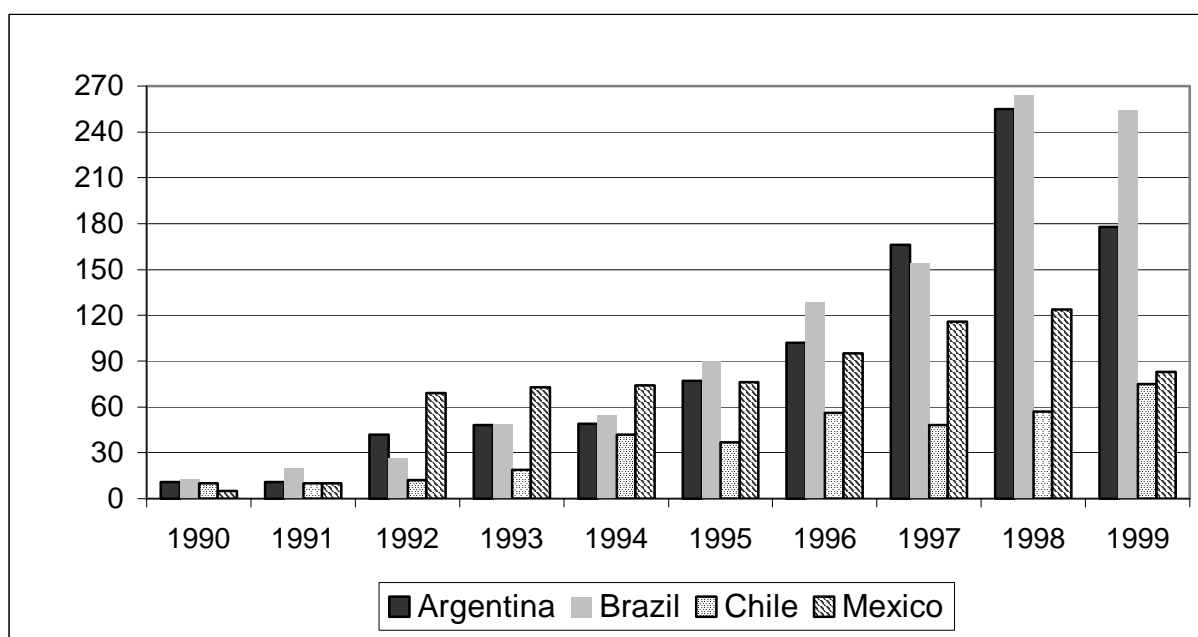
Graph 9 and 10 show the evolution of private M&As along the 1990s, in value and number of transactions in the four countries considered, respectively. The increase of M&A in the second half of the 1990s reflects an international trend and it is also associated with the process of economic liberalization in each one. The opening up of these economies implied changes in the market for corporate control and unprecedented competitive pressure to domestically owned Latin American enterprises. Relatively to international standards, these companies were under-capitalized and lacking the technology necessary to maintain local market share and enter international markets. Under these circumstances, not surprisingly, a large numbers of companies sold participation to foreign investors or surrendered to takeovers.

Graph 9 Private M&As in Latin America, value of transactions, 1990-99



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

Graph 10 Private M&As in Latin America, number of transactions, 1990-99

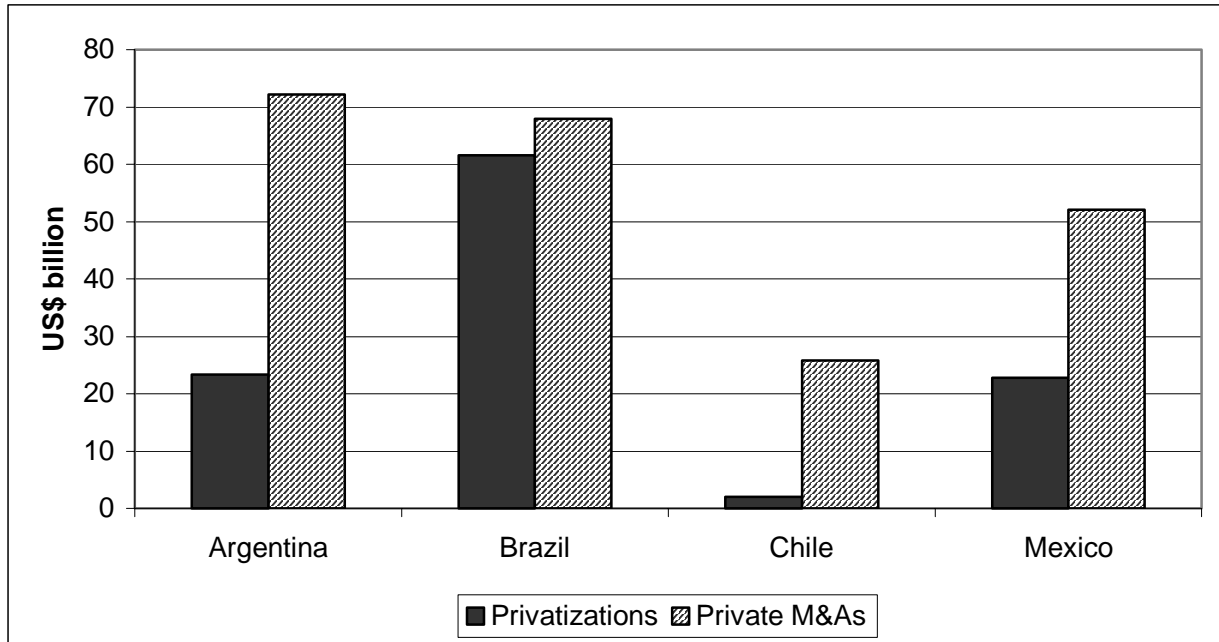


Source: IE-UFRJ Latin America M&A and Privatization Database

As shown in the graphs above, private M&As in Brazil increased steadily along the years, reaching a peak in 1998, when over US\$ 26bn or 260 transactions were registered. In Argentina the period 1997-99 concentrated most transactions, involving an annual average of US\$ 17.4bn. The peak in Mexico is reached in 1997, when acquisitions worth US\$ 19.8bn were registered, falling substantially thereafter. Private M&As in Chile were relatively modest, reaching a peak of just above US\$ 10bn in 1999.

Compared to privatizations, private M&A activities in Latin America have at least three important differences. Firstly, the aggregate value reached US\$ 218bn, practically doubling revenues from privatization along the decade. Secondly, private M&As increased steadily along the decade with a 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 private M&As' leader, with US\$ 72bn in sale values (Graph 11). It was followed by Brazil (US\$ 68bn), Mexico (US\$ 52bn) and Chile (US\$ 26bn). This is quite relevant given the differences in size of each economy. Thus, proportionally, private M&As in Brazil was less important, whereas Chile represented the opposite case.

Graph 11 Privatization and Private M&As in Latin America, target country and value of transactions, 1990-99

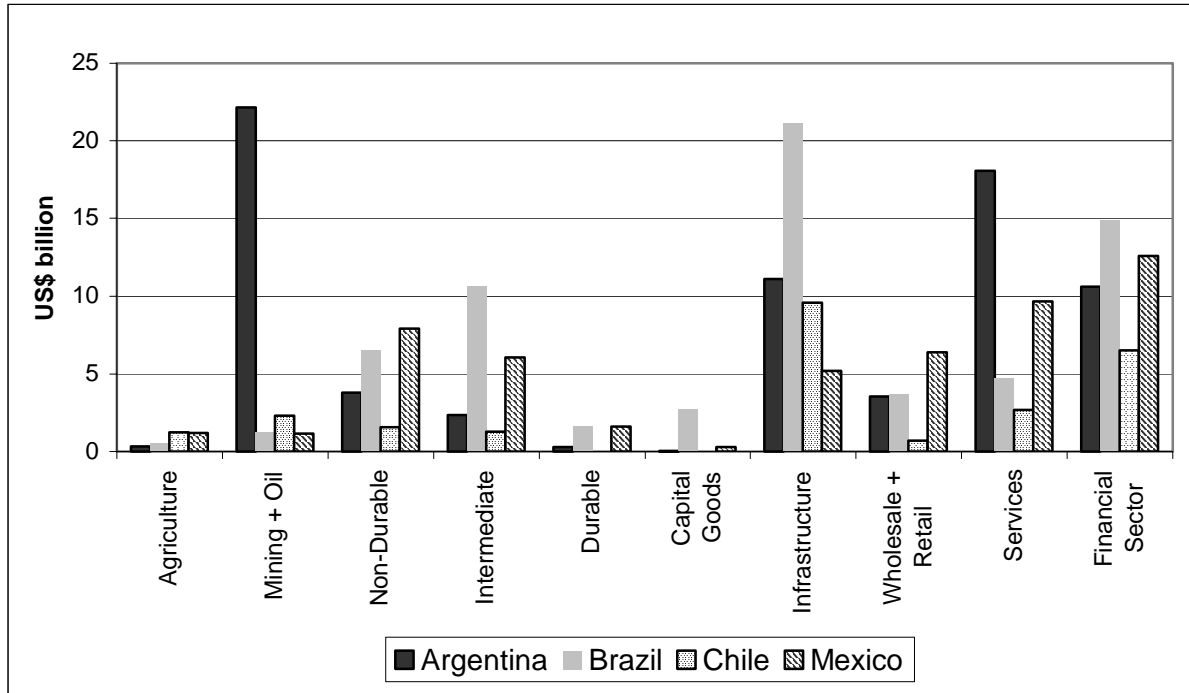


Source: IE-UFRJ Latin America M&A and Privatization Database

Sectoral distribution

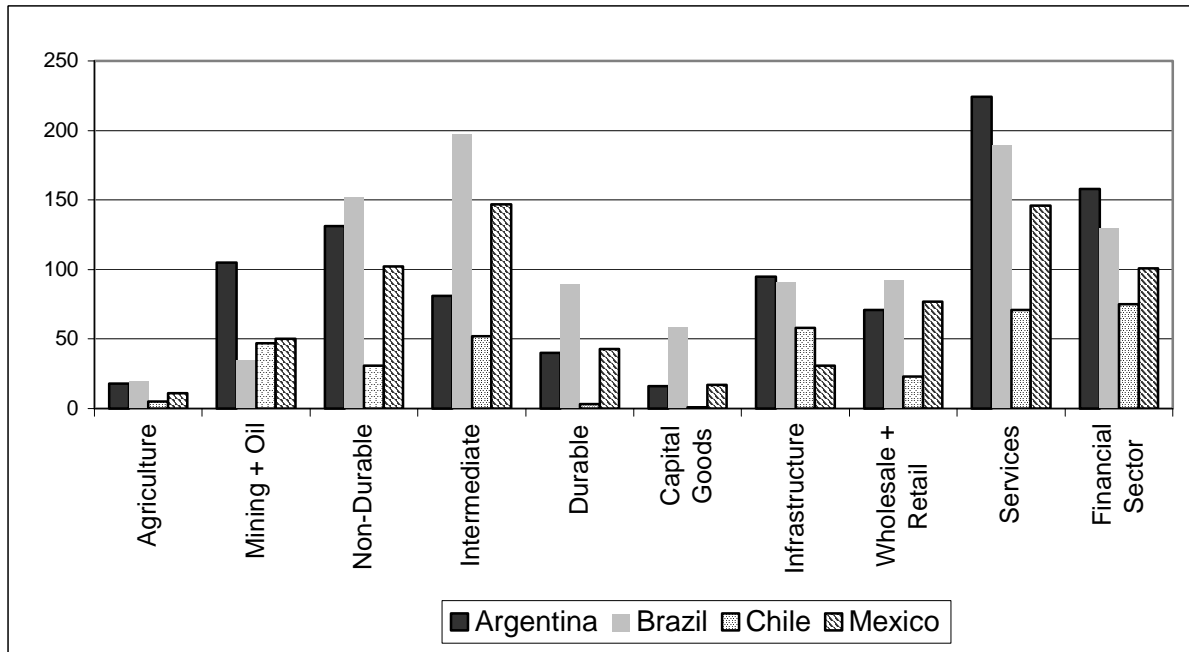
Compared to privatizations, private M&A transactions were carried out in a larger number of economic activities, especially when the number of transactions is considered (Graph 12 and 13). Even so, sectoral concentration was significant, especially in value terms. Of the US\$ 218bn in total private M&A transactions, 42% occurred in two non-tradeable sectors: infrastructure and financial sectors. This localized preponderance of M&A suggests that control over local and specific markets was, among others, a relevant motivation for acquisitions. In infrastructure it must be taken into account that private M&A transactions reveal post-privatization changes in asset holders of mixed consortia, as mentioned above. Transactions in oil, mining and agriculture related sectors, which are export orientated sectors, accounted for a relatively small US\$ 30.1bn or 13.8% of the total value of deals. Almost half of this amount – or US\$ 15.2bn – can be attributed to the purchase of the Argentinean oil company YPF in 1999 by Repsol of Spain (ECLAC, 2001, p.16). In intermediate goods sectors, also an export oriented activity, private M&A activity summed up US\$ 20.4bn or just 9.3% of the total. Finally, transactions in durable and capital goods sectors were even lower, both in value and number of transactions, which can be probably explained by the high preponderance of foreign ownership in these sectors (ECLAC, 2001).

Graph 12 Sectoral Private M&As in Latin America, value of transactions, 1990-99



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

Graph 13 Sectoral Private M&As in Latin America, number of transactions, 1990-99

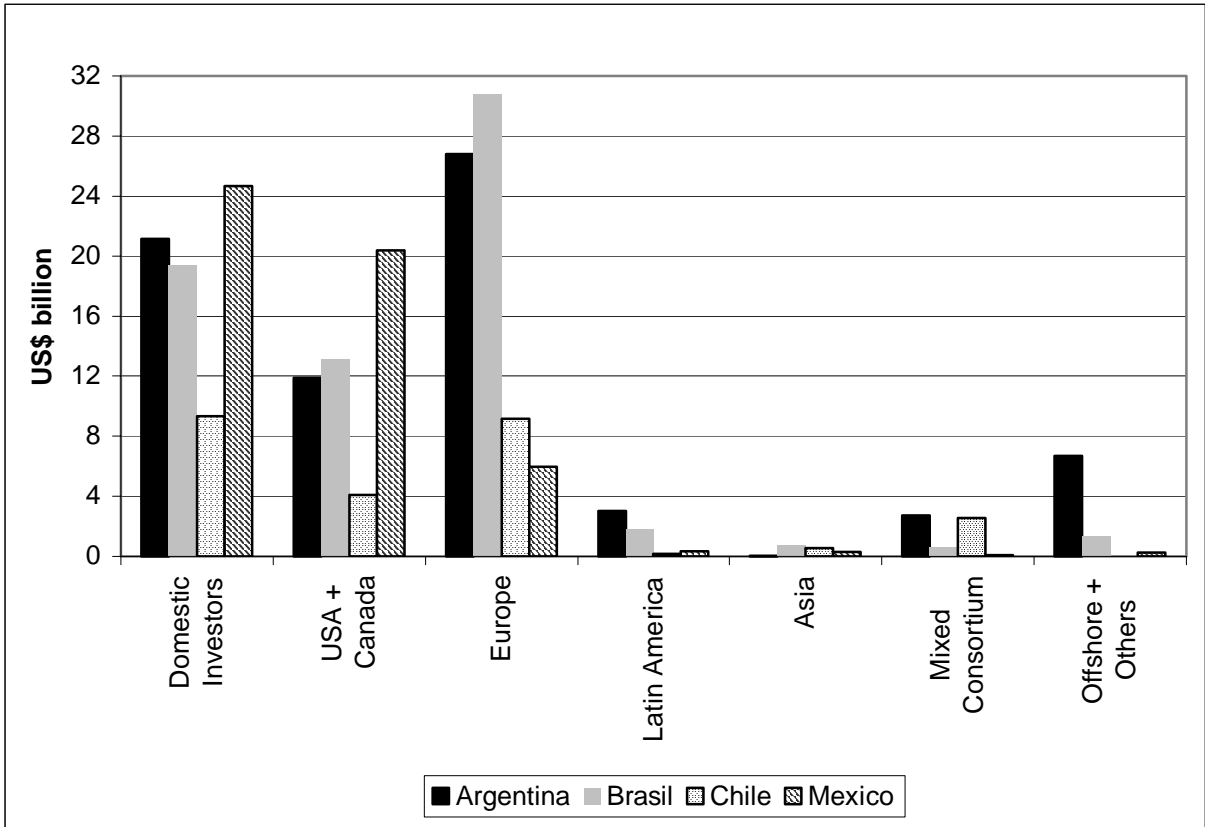


Source: IE-UFRJ Latin America M&A and Privatization Database

Nature of acquiring companies

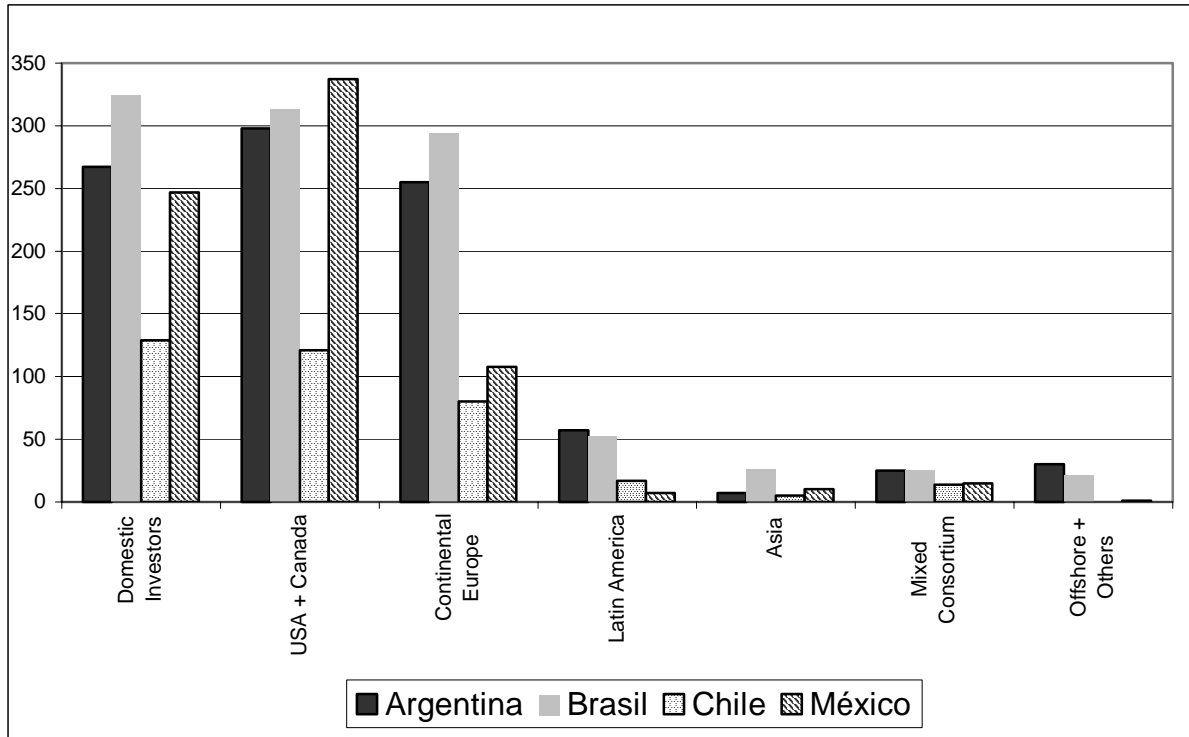
As shown in Graph 14 and Graph 15, contrary to the pattern observed in privatizations, mixed consortia were not relevant actors in private M&As in Latin America. Domestic investors were active players accounting for 34.2% of total value (US\$ 218bn) and 31.3% of the total number (3,085). In value terms they were closely followed by European companies (33.4%), and North Americans (22.7%). As in the case of privatization, Iberian newcomers played a prominent role in M&A, with substantial investment in infrastructure sectors (telecommunications, energy) and banks. But European investors show a marked preference for the three Southern countries. In Argentina and Brazil, Europeans are the leaders in value of transactions, followed by local investors and North Americans. In Mexico, though, the role of European investors is significantly less important, which can be probably explained by the emerging importance of NAFTA and the need of local companies to reposition themselves towards this regional market.

Graph 14 Home Country of Acquiring Companies in Private M&As in Latin America, value of transactions, 1990-99



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

Graph 15 Home Country of Acquiring Companies in Private M&As in Latin America, number of transactions, 1990-99

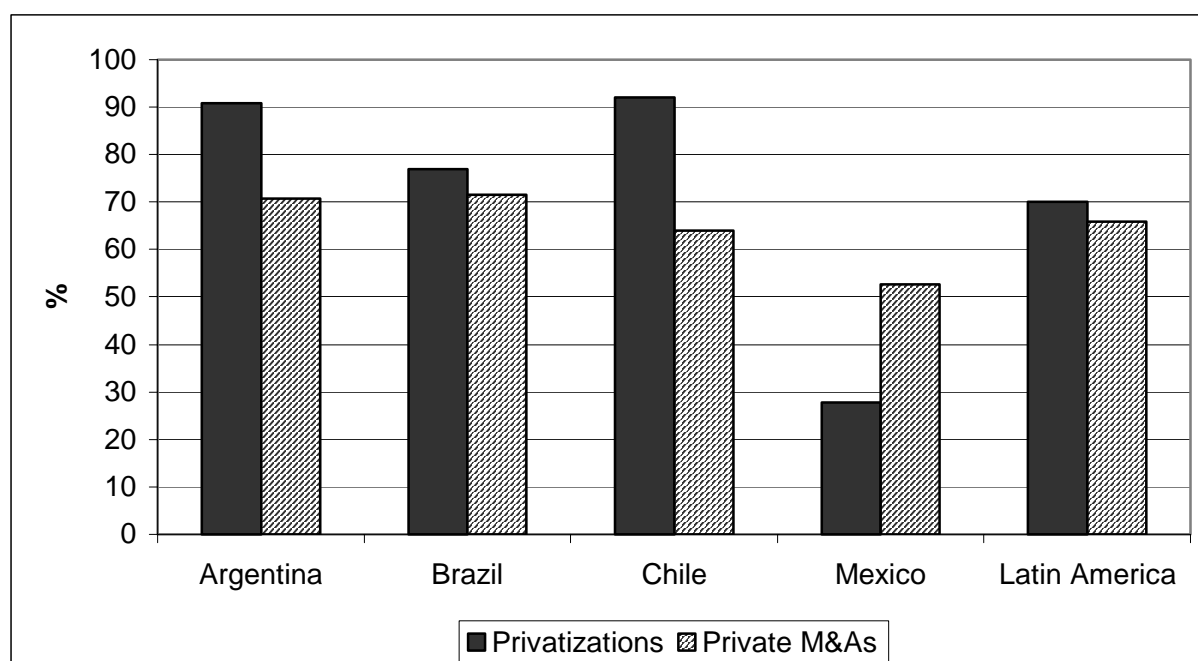


Source: IE-UFRJ Latin America M&A and Privatization Database

As in the case of privatizations, Asian investors demonstrated limited commitment to take advantage of M&A opportunities during the 1990s. The lack of Asian interest is very important, especially in the case of Chile, which is a Pacific Ocean oriented economy. In the 1990-99 period, Asian M&A private activities in Chile amounted only to US\$ 536m, or just 2.1% of the total. Explanation to the low interest from Asian investors should be found in its preferable type of internationalization (greenfield joint ventures) and the strategy to amplify 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 the relative relevance of local companies diminished, but also their willingness to invest abroad remained low. Graph 16 shows the importance of foreign investors in privatizations and private M&As, during the 1990s, in value of transactions. Foreign investors (including all the stakes bought via mixed consortia) were responsible for 70% of all privatizations and 65% of all private M&A transactions in Argentina, Brazil, Chile and Mexico. Mexico is the only exception where the role of foreign investors is less relevant.

Graph 16 The role of foreign investment in privatizations and private M&As in Latin America, percentage over total value of transactions, 1990-99, by target country



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

The impact of this expansion of foreign investment is the decrease in the relative importance of local companies. Table 7 demonstrates that the share of foreign companies in the context of the 500 largest firms in Latin America jumped from 27.4% in 1990-92 period to 43.7% in years 1998-99. Conversely, the domestic firms lost importance, specially state-owned enterprises.

Table 7 Nationality of sales of the 500 largest Latin American firms, 1990-99 (%)

	1990-92	1994-96	1998-99
Foreign Companies	27.4	32.1	43.7
Private Domestic Companies	39.4	41.0	37.2
State-Owned Enterprises	33.2	26.9	19.1

Source: ECLAC (2001)

The last dimension of the process of ownership restructuring to be examined is the intra-regional M&A as an indicator of the willingness of local companies to explore investment opportunities as their counterparts from specific developed countries have done so. It would be expected that the relative success of Mercosur, between 1991 and 1997, when intra-regional trade increased fourfold, from US\$ 10.2bn to US\$ 40.6bn, would have a strong influence on fostering regional internationalization. However, and contrary to the above observed NAFTA pattern, taking into account only intra-regional M&A from Argentinean, Brazilian and Chilean firms, the results are quite disappointing. Table 8 shows that total intra-regional M&A in these three countries summed only US\$ 5.5bn, or 1.7% 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 US\$ 2.2bn, in which M&A were responsible for 40% of the total. Some companies made greenfield investments, others had already been located in the countries and just changed the proportion of production among countries, and others moved plants from one country to another.

Table 8 Intra-Regional M&A Activities, value of transactions, 1990-99 (US\$ 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

The direction of intra-regional private M&A activity is quite interesting, as investments have flown from the smallest to bigger economies. Chilean companies invested US\$ 3bn in Brazil and Argentina, while Argentinean firms invested US\$ 2bn in Brazil. Brazilian companies, however, invested only US\$ 0.5bn in Argentina. Bonelli (2000), using other methodology and database, finds similar results. Chilean investments in Brazil were concentrated in infrastructure (81%), whereas in Argentina non-durable consumer goods (51%) and infrastructure (29%) were the target sectors. Part of these results was derived from the fact that, as Chile pioneered privatization, acquiring companies, especially from 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% was focused on non-durable consumer goods, a trend headed by Bunge y Born and Macri groups. Finally, Brazilian investments were focused on financial services (47%), intermediate goods (20%) and non-durable consumer goods (14%).

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 analysis in this article showed an impressive growth in operations associated with privatizations and private M&As, leading to significant ownership restructuring and changes in corporate control. Main features of this process were:

- Privatizations occurred in batches, concentrated in time and mostly focusing on infrastructure related sectors. National variances were noted. Time-wise, Chile was the pioneer country, followed by Mexico and Argentina. Brazil was the latecomer in this process. Sector-wise, for Argentina the privatization of its oil company was important, as was the case of the Mexican banking sector and the telecommunication sector in Brazil.

- Private M&A transactions were distributed more evenly along the years, but with an important acceleration in the second half of the decade for all countries, following a similar process occurring in international markets. Naturally, sectoral dispersion in M&A was greater than in privatizations but there was an important concentration in non-tradeable sectors, especially infrastructure, 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 is a new mode of business organization, very efficient in submitting proposals for public tenders. However, given the differing objectives of business partners, post-privatization changes in the composition of mixed consortia were likely to occur, with an increase in the importance of foreign sector specialized partners. In private M&As, the role of foreign investors was very important but local firms were also a relevant player, especially in Mexico. It is important to remark the role of new comers, especially from 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.

Is this process going to continue in time? As far as privatization is concerned, the answer is straightforward: opportunities are decreasing and most likely the most attractive businesses have already been sold-off. Private M&A opportunities, on the other hand, do not have a pre-defined limitation even though the movement was strongly correlated with the latest international M&A wave. This seems to have receded after year 2001, with the slow down of the US 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 a process and the beginning of a new one, of long duration and important implications for economic development and public policy. It signifies the entry – and the direction is towards greater internationalization – of new actors in specific markets without adding-up capacity but bringing in new actors, objectives and business orientations. The consolidation of this Latin American wave of ownership change seems to be the process to be seen in the few years to come. It implies introducing and experimenting different management practices at all levels, which is a company specific issue, not open for greater generalization in terms of trends and outcomes.

What is certain, though, is the increasing co-existence, in the region, of firms from diverse origins. The process of inward internationalization was already a feature of the Latin American region; it was reinforced during the last decade and will most probably remain relevant in the future to come. In this sense, Latin American is substantially 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 relevant in Latin America, they have not been able to block M&A and, consequently, inward internationalization. On the contrary, by and large, Latin American opportunities were exploited by foreign companies. Even so, as

also argued elsewhere in this special issue, privatization and private M&As also have been used by some local groups to change business focus and exploit new opportunities for growth.

Given these trends, probably there will be an increase in outward internationalization. Chudnovsky & López (1999) examined Latin American multinationals and concluded that their main motivation of internationalization is market seeking (as was the case of inward internationalization) and, with few exceptions, firms 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 de-regulating and opening markets and privatizing companies, the agenda should be more positive oriented.

Whether these new actors, emerging 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 investment and reliance on pro-competitive strategies, based on innovation and quality job creation remains to be seen. Most probably these are the parameters to be used to evaluate their contribution for 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 remain and are not solved. This may imply low growth rates for the future of Latin American industry. The domain of public policy is closely related to this subject.

During the 1990s, income from privatization and foreign capital inflows were instrumental to reorganize public finances and to finance national current accounts. From a macroeconomic perspective, their contribution was quite relevant. Most privatization and private M&As were carried out in non-tradeable sectors with new actors buying positions into local markets. Given the extension 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 depends on the attractiveness of local markets as destinations of investments but, given the level of ownership internationalization, pressures along this directions are likely to occur.

From a microeconomic perspective, however, the privatization mode, favoring the constitution of mixed consortia, with their associate members coming from various backgrounds and having different objectives have led and is still leading to post-privatization ownership changes. Partially this state of affairs was also favored by the inexistence of a regulatory framework what would provide guidelines for the operation of privatized companies. Contrary to developed countries, the policy-making capabilities to regulate a liberalized economy are still lacking and this is a challenge to be dealt with by all countries of the region, if benefits of privatization are to be accrued. Private M&A activities also imposed pressures on competition authorities but, again, although most countries do have a corresponding legislation the enforcing capabilities are quite limited.

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