PART TWO

CROSS-BORDER M&As AND DEVELOPMENT

Cross-border M&As are playing an increasingly important role in the growth of international production. Not only do they dominate FDI flows in developed countries, they have also begun to take hold as a mode of entry into developing countries and economies in transition. The reasons for, and the full extent of, the world-wide growth of cross-border M&As have not yet been fully explored, nor have the implications of this shift in the preference of TNCs regarding the choice of entry mode for expanding internationally been considered in a systematic fashion.

Against this background, Part Two of *WIR2000* is devoted to an examination of the trends, determinants and performance of cross-border M&As. It then proceeds to examine, most importantly, the impact of FDI through cross-border M&As on development, more specifically as compared with greenfield investment as a mode of entry. In turn, it addresses the question of how to formulate policies in order to maximize the positive effects and minimize the possible negative effects of cross-border M&As.

The concept of cross-border M&As underlying the discussion is introduced in chapter IV by relating the phenomenon to data on FDI and explaining the various ways of classifying M&As. While FDI flows and cross-border M&As have followed parallel paths in the past decade, a straightforward comparison between the two sets of data is almost impossible to make. Factors influencing the link between cross-border M&As and FDI statistics include the method of financing and the timing of a transaction. Chapter IV describes trends in the volume, direction and characteristics of cross-border M&As worldwide, with particular focus on differences between regions, sectors and types of M&As. Whereas cross-border M&As are still primarily concentrated in developed countries, a steady increase of such deals in other regions can also be observed. In some developing countries and many economies in transition, this increase is closely related to the privatization of state-owned enterprises.

The dramatic growth of cross-border M&As raises an obvious set of questions. How do they affect the performance of firms? What drives them? And what can one expect in the future? The initial section of chapter V focuses on a controversial area: how M&As affect corporate performance. It is widely held that most deals produce relatively poor results. How is success measured? Are there differences between the performance of acquiring and acquired firms and between domestic and cross-border M&As? The chapter then asks why firms engage in cross-border M&As. While M&As can be undertaken for many different reasons, the role of speed and the quest for strategic assets are pointed out as being especially important. To explain fully why M&As have become more common as a means by which firms expand their activities internationally, both economic and non-economic reasons need to be considered. These general motivations behind M&As constitute a useful complement to the received FDI literature when analysing cross-border M&As, and “mega mergers” in particular. The current expansion of cross-border M&As, which is seen as part of an upward trend, deserves special attention. It reflects the interaction between the basic driving forces that motivate firms to engage in cross-border M&As and the important changes that have taken place in the economic environment in which firms operate (especially the liberalization of trade, finance and investment, regional integration, deregulation and privatization), technological change and increased global competitive pressure. The concluding section of chapter V explores an intriguing historical parallel between the M&A wave at the end of the nineteenth century in the United States and what one observes on a global scale now.

As cross-border M&As are becoming more common as a mode of entry for TNCs in developing countries, questions arise as to the role of M&As, as opposed to greenfield FDI, in economic development. Indeed, cross-border M&As, particularly those involving large TNCs from developed countries and major reorganizations of economic activities, figure among the most striking features of the globalization process. As with globalization in general, the impact on economic development of M&As differs among countries and industries, and raises concerns. There is a commonly held perception that FDI entry through greenfield investment is beneficial for host economies, while FDI entry through M&As is not. The current M&A wave – especially where it has sometimes taken the form of hostile acquisitions or “fire sales” – has heightened concerns on the part of host governments. Worries include issues such as the denationalization of domestic firms, downsizing of acquired enterprises, employment reduction, loss of technological assets, crowding out of domestic firms and increased market concentration. Chapter VI examines the impact of FDI through M&As on the economic development of host countries as compared with that of greenfield FDI. The effects are analyzed in terms of the impacts on key areas related to development (UNCTAD, 1999a) – external financial resources and investment, technology, employment and skills, export competitiveness and trade, and market structure and competition – as well as broader impacts, including those on economic restructuring, national economic sovereignty and social, political and cultural aspects of development. The main policy implications that can be drawn on the basis of the analysis are considered, and policy options for countries are outlined. As the empirical evidence on the linkages between cross-border M&As and development, and how they may differ compared with other modes of FDI entry, is still very limited, the analysis is largely conceptual and should be seen as a first attempt at assessing the role of cross-border M&As in development.

Finally, the discussion in Part Two is subject to certain limitations. First, unless otherwise stated, throughout the text cross-border M&As refer only to FDI through M&As. Thus, portfolio investment, defined for measurement purposes as an acquisition of less than 10 per cent of the voting shares of an enterprise, is not dealt with in the discussion, although the distinction between portfolio investment and FDI is not always obvious. Second, when examining the impact of cross-border M&As, greenfield FDI is the main alternative with which a comparison is made. Non-internalized modes of international production, such as strategic alliances and various non-equity arrangements, as well as trade and purely domestic alternatives, are not considered explicitly. In practice, the latter are all obviously alternatives, to varying extents, to FDI through cross-border M&As, as well as greenfield FDI, but the control situation examined here is the narrow one of whether the mode of entry makes a difference. It is important to emphasize, however, that, where the greenfield option is lacking, the impact of cross-border M&As (including, especially, privatization to foreign firms) must be evaluated in the light of the non-FDI options open to potential host countries. In any event, it needs to be recalled (UNCTAD, 1999a) that FDI itself, whatever its mode of entry, serves to supplement and complement domestic resources and efforts, which are key for the development process.

Chapter IV Trends in Cross-border M&As

A. Definitions and classifications

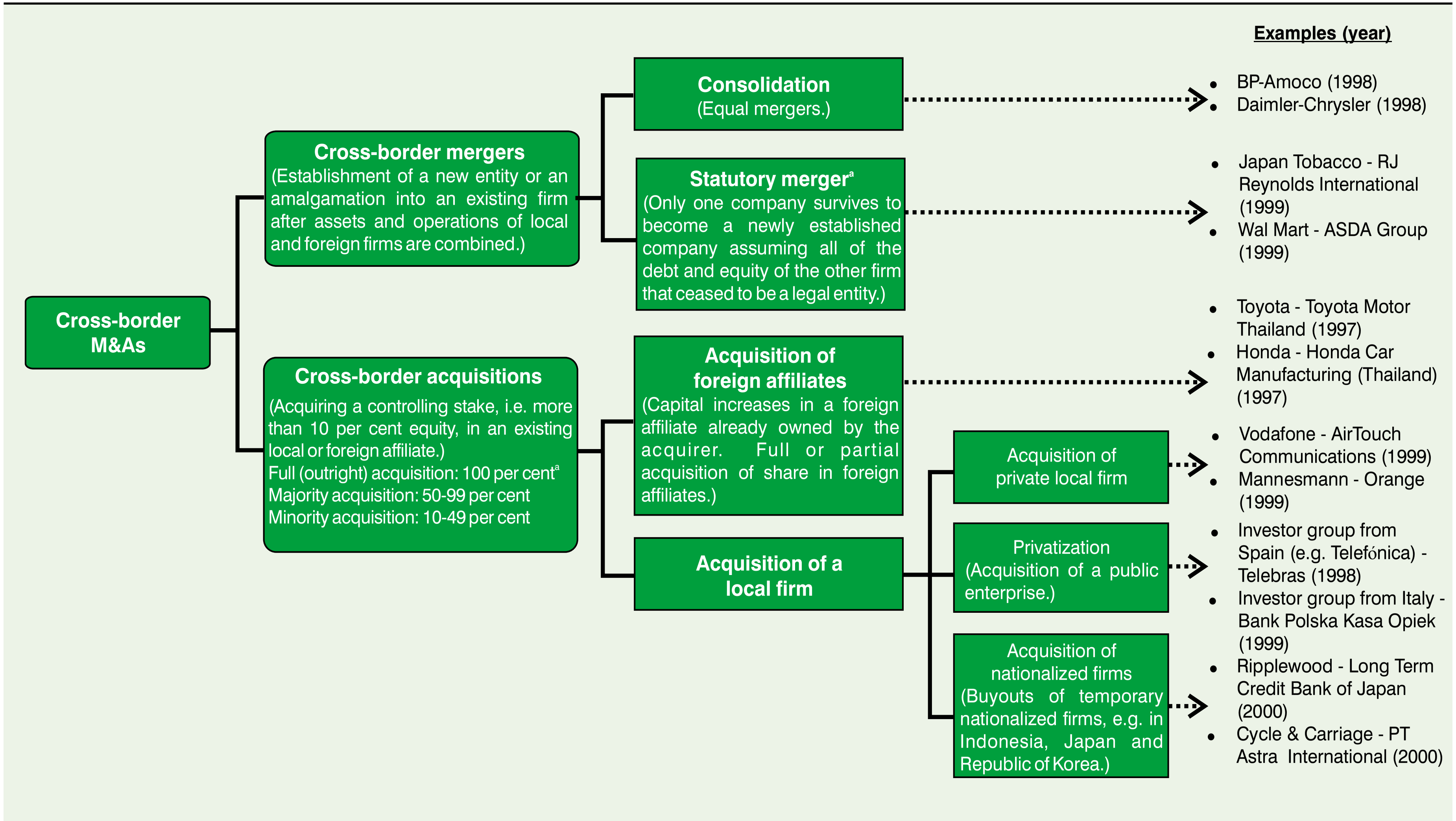
A firm can undertake FDI in a host country in either of two ways: greenfield investment in a new facility, or acquiring or merging with an existing local firm.[1] The local firm may be privately or state owned: privatizations involving foreign investors count as cross-border M&As, which entail a change in the control of the merged or acquired firm. In a cross-border merger, the assets and operations of two firms belonging to two different countries are combined to establish a new legal entity. In a cross-border acquisition, the control of assets and operations is transferred from a local to a foreign company, the former becoming an affiliate of the latter. (For a schematic representation of different types of cross-border M&As, see figure IV.1.)

To the extent that both greenfield investment and cross-border M&As place host country assets under the governance of TNCs — and, hence, contribute to the growth of an international production system — there is no reason to distinguish between them. Both involve management control of a resident entity in one country by an enterprise resident in another. To the extent, however, that the assets placed under TNC control are newly created in the case of greenfield FDI, and existing assets are transferred from one owner to another in the case of cross-border M&As, then there is reason to consider them separately. This is the subject of chapter VI.

The normal definitions of FDI apply to entry through M&As as well. The country of the acquirer or purchaser is the "home country" and the country of the target or acquired firm is the "host country". In mergers, the headquarters of the new firm can be in both countries (e.g. the Netherlands and the United Kingdom, in the case of Royal Dutch / Shell) or in one (e.g. the United Kingdom, in the case of BP-Amoco; Germany, in the case of Daimler-Chrysler).[2] Acquisitions can be minority (foreign interest of 10 to 49 per cent of a firm's voting shares), majority (foreign interest of 50-99 per cent), or full or outright acquisitions (foreign interest of 100 per cent).[3] Acquisitions involving less than 10 per cent constitute portfolio investment and, therefore, are not considered in the present analysis (box IV.1). Consequently, unless otherwise specified, cross-border M&As in Part Two of *WIR2000* refer to FDI through M&As only.

The data on M&As show that acquisitions dominate the scene. Less than 3 per cent of cross-border M&As by number are mergers (table IV.1). In reality, even when mergers are supposedly between relatively equal partners, most are in fact acquisitions with one company controlling the other. The number of "real" mergers is so low that, for practical purposes**,** "M&As" basically mean "acquisitions". Full or outright (100 per cent) acquisitions accounted for more than half of all cross-border M&As in 1999. In developing countries, about one-third of acquisitions by foreign firms were minority (10-49 per cent) acquisitions, compared to less than one-fifth

FIGURE IV.1
The structure of cross-border M&As



Source: UNCTAD.

[a] The key difference between statutory mergers and full acquisitions lies in the fact that a new legal entity is established in the former case, but not in the latter. These two forms, however, may otherwise be treated as identical.

in developed countries. Differences in the equity share of foreign firms largely reflect the nature of government regulations as well as corporate strategies.

Cross-border M&As can be functionally classified as:

- *Horizontal* M&As (between competing firms in the same industry). They have grown rapidly recently because of the global restructuring of many industries in response to technological change and liberalization (see chapter V). By consolidating their resources, the merging firms aim to achieve synergies (the value of their combined assets exceeds the sum of their assets taken separately) and often greater market power. Typical industries in which such M&As occur are pharmaceuticals, automobiles, petroleum and, increasingly, several services industries.

- *Vertical* M&As (between firms in client-supplier or buyer-seller relationships). Typically they seek to reduce uncertainty and transaction costs as regards forward and backward linkages in the production chain, and to benefit from economies of scope. M&As between parts and components makers and their clients (such as final electronics or automobile manufacturers) are good examples.

- *Conglomerate* M&As (between companies in unrelated activities). They seek to diversify risk and deepen economies of scope.

Box IV.1. Portfolio investment

Portfolio investment is usually associated with purely financial investment. Such investment flows are not dealt with in *WIR2000*. However, the distinction between portfolio and direct investments is not always obvious. While FDI involves a long-term relationship reflecting an investor's lasting interest in a foreign company, portfolio acquisitions can also involve management control, e.g. if there are accompanying non-equity arrangements, especially where non-institutional investors are involved. Cross-border portfolio acquisitions (i.e. deals that result in an acquisition of less than 10 per cent of a firm's voting shares) were $105 billion, accounting for about 13 per cent of the total cross-border M&As in 1999.

Source: UNCTAD.

Table IV.1. Cross-border M&As, by percentage ownership, 1987-1999

(Percentage of the total number of deals)

			Cross-border acquisitions			
Year	Total M&As[a]	Cross-border mergers	Total	Full (100%)	More than 50%	10-49%
1987	100	4.2	94.1	70.1	8.7	15.3
1988	100	2.9	95.6	72.4	9.7	13.6
1989	100	3.2	95.6	69.1	10.9	15.6
1990	100	2.1	96.5	67.4	11.8	17.3
1991	100	0.8	98.6	64.1	14.5	19.9
1992	100	0.6	98.6	62.5	16.9	19.1
1993	100	0.5	99.1	61.2	17.2	20.6
1994	100	0.5	98.6	60.4	16.7	21.5
1995	100	1.2	98.0	59.6	17.9	20.5
1996	100	1.1	98.4	61.2	17.2	20.1
1997	100	1.7	97.5	64.8	16.3	16.3
1998	100	1.8	97.5	68.3	14.7	14.5
1999	100	2.3	96.9	65.3	15.4	16.2

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

a Includes the deals in which acquirers acquire the whole remaining interest of their foreign affiliates.

The balance between these types of M&As has been changing over time. The importance of horizontal M&As has risen somewhat over the years (figure IV.2 and annex table A.IV.I): in 1999, 70 per cent of the value of cross-border M&As were horizontal compared to 59 per cent ten years ago. Vertical M&As have been on the rise since the mid-1990s, but staying well below 10 per cent. In the late-1980s M&A boom, conglomerate M&As were very popular, but they have diminished in importance as firms have tended increasingly to focus on their core business to cope with intensifying international competition. They declined from a high of 42 per cent in 1991 to 27 per cent in 1999 (figure IV.2).

The distinction among these three categories, however, is not always clear-cut.[4] Recent developments related to the Internet may make it even more difficult, and could significantly affect formal corporate links (box IV.2).

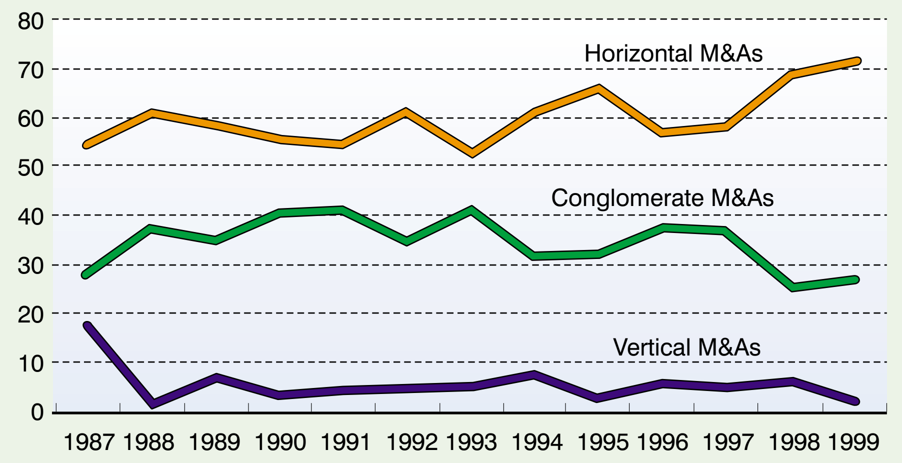
Cross-border M&As may also be classified differently:

- M&As can be driven primarily by short-term financial gains, rather than strategic or economic motivations such as the search for efficiency. Typical examples include deals where buyout firms and venture capital companies acquire other firms. It is not possible to determine what percentage of M&As consists of transactions driven primarily by the quest for short-term financial gains, as available data do not usually allow a determination of motives. If all transactions by finance companies (including commercial banks) involving target firms whose main activity is in non-financial industries are regarded as investment aiming at short-term financial gains, then available data suggest that deals motivated by the quest for such gains are losing in importance in cross-border M&As (figure IV.3 and annex table A.IV.2).[5]

FIGURE IV.2

World cross-border M&As, by type (horizontal, vertical, conglomerate),[a] 1987-1999

(Percentage of the total value)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] For the definition of each type of M&As, see annex table A.IV.1.

Box IV. 2. The impact of the Internet on formal corporate links

In the past year, a number of deals have been concluded between companies, often competing in the same industry, to create internet-based business-to-business exchanges. In such arrangements, companies come together on a functional basis to build internet-based market places without having to establish formal corporate links. Such exchanges enable companies to achieve various objectives, beginning with cost savings, without having those activities housed in the same corporate shell. This applies particularly to internet-based procurement systems, through which, by streamlining the procurement process, companies aim at reducing procurement expenditures.

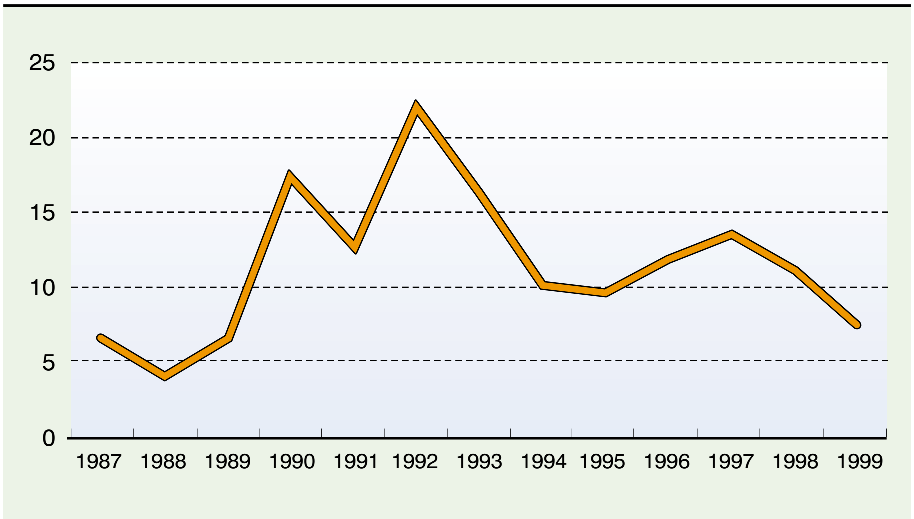
Examples of internet business-to-business exchanges include the tie-up between Hitachi, IBM, LG Electronics, Matsushita Electronics, Nortel Networks, Seagate Technology Selection and Toshiba, known as e2open.com, and the tie-up still under discussion between DaimlerChrysler, Ford and General Motors, known as Covisint. Covisint, for instance, would offer to its members a comprehensive online market place for the procurement of automotive parts and supplies and other services (e.g. catalogue purchasing and Internet bid events). The respective purchasing departments of the member firms would remain separate, using the exchange as a tool to conduct their independent procurement.

The development of such exchanges raises a number of questions, especially as regards their impact on competition. The combined purchasing power of their members also can significantly affect the bargaining position of suppliers.

Source: UNCTAD, based on “The urge to merge takes on a different form”, *Financial Times,* 30 June 2000; “Purchasing: technical hits stalls “Big Three” trading site”, *Financial Times,* 14 June 2000 and, Covisint webpage, www.covisint.com.

- Friendly M&As can be distinguished from those that are hostile. In friendly M&As, the board of a target firm agrees to the transaction. (This does not exclude the possibility that, initially, the management of the target firm was against the transaction.) Hostile M&As are undertaken against the wishes of the target firms, i.e. the boards of the latter reject takeover / merger offers. Regardless of whether hostile M&As involve bidding by several prospective acquirers, the price premium tends to be higher than in friendly transactions.[6] The overwhelming number of M&As, both domestic and international, are friendly. In 1999, according to data from Thomson Financial Securities Data Company, there were only 30 hostile takeovers out of 17,000 M&As between domestic firms. Hostile cross-border M&As that were completed accounted for less than 5 per cent of the total value and less than 0.2 per cent of the total number of M&As during the 1990s (figure IV.4 and annex table A.IV.3). In fact, according to the same source, 1999 saw only 10 hostile cross-border cases out of a total of some 6,200, all in developed countries (annex table A.IV.3).[7] But some, such as the takeover of Mannesmann by Vodafone AirTouch that succeeded in 2000, involve high-profile battles. Over the period 1987-1999, out of the 104 hostile cross-border M&As, 100 targeted developed country firms, four targeted developing country firms,[8] while none targeted firms in Central and Eastern Europe. The number of hostile acquisitions in the late 1980s was somewhat higher, despite the significantly smaller numbers of M&As, than in the late 1990s. Target companies have developed various

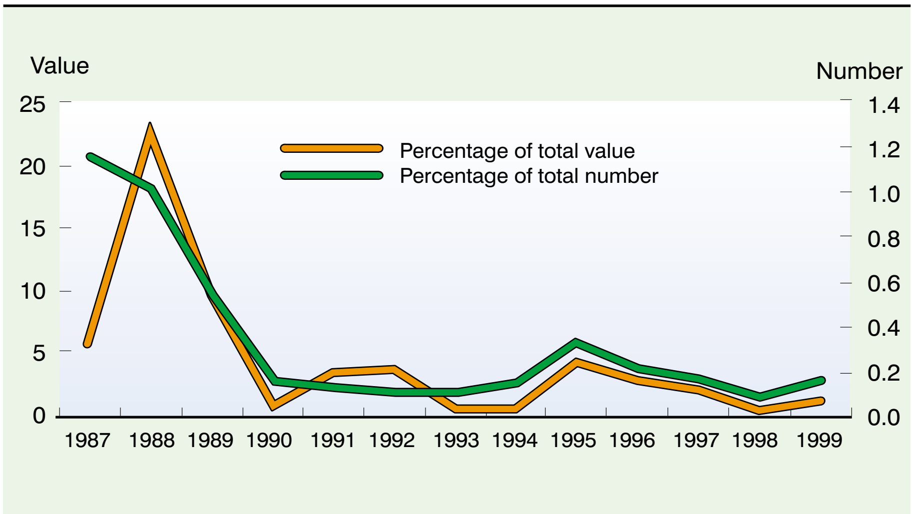
FIGURE IV.3
Share of M&As motivated by short-term financial gains[a] in cross-border M&As, 1987-1999
(Percentage of the total value)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] For the definition of financial motivated cross-border M&As, see annex table A.IV.2.

FIGURE IV.4
Share of hostile take-overs in cross-border M&As, 1987-1999
(Percentage of total)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company); and annex table A.IV.3.

defence mechanisms, including "poison pills", selling off "crown jewels" and calling in "white knights" to avoid becoming a target (box IV.3).

It is difficult to estimate precisely what share of FDI flows is accounted for by cross-border M&As because one cannot compare directly the values of cross-border M&As with FDI flows registered in the balance of payment (box IV.4). If data on the sources of financing of cross-border M&As were separately available, it would be possible to distinguish them from greenfield FDI flows. But they are not. There are also several problems in comparing cross-border M&A data reported by various sources. Similarly, only a few countries provide data on FDI that distinguish greenfield investments from M&As. As a result, it is not possible to get a straightforward and accurate comparison between data series on cross-border M&As and FDI flows and to assess precisely what share of FDI flows in one year is accounted for by cross-border M&As in one country. More specifically:

- The value of cross-border M&As includes funds raised in local and international financial markets; by definition, FDI data do not;

- FDI data are reported on a net basis, using the balance-of-payments concept. For instance, while outward FDI from a given country is reduced by the amount of disinvestment undertaken by firms from that country abroad, data on cross-border M&A purchases report only the total value of purchases abroad (i.e. they do not subtract the amounts received from the sales of foreign affiliates);

- Payments for cross-border M&As are not necessarily made in a single year, but can be phased over several years.

As a result, calculating the value of cross-border M&As as a percentage of FDI inflows in a given year may be quite misleading. Take an extreme case. Foreign M&As in a given country can amount to $10 billion, while FDI inflows are zero; this can happen if the M&As were financed locally — including an existing foreign affiliate using funds other than reinvested earnings — or from international capital markets. The other extreme case, which may well happen, is when the only direct investment activities that take place in a country comprises M&As *and* all of them are financed entirely and during the same year by FDI; then $10 billion in cross-border M&As corresponds to $10 billion of FDI inflows. Calculating the value of cross-border M&As as a percentage of FDI flows proceeds on the basis of the second extreme case, i.e. assuming that all cross-border M&As are financed by FDI flows. In countries where capital markets are poorly developed, cross-border M&As are more likely to be financed by FDI.

Box IV.3. Poison pills and other defense mechanisms

Companies adopt various measures to avoid takeovers. Poison pills are used by companies that fear hostile takeovers to ensure that a bid, if successful, will trigger events that will significantly reduce the value of the firm. For instance, *flip-in* poison pills allow all existing holders of target company shares to buy additional shares at a bargain price. *Flip-over* poison pills allow holders of common stock to buy (or holders of preferred stock to convert into) the acquirer's shares at a bargain price. This defence measure has been installed in many companies, in particular United States companies. Although it is not certain how much poison pills alone have contributed to the low number of hostile takeovers, they have forced raiders to negotiate with the board of target firms to agree to a fair market price for the acquired firms' shares.

Another type of defense mechanism is when a target company warns an acquirer that, in the event of a successful takeover, the entire management team will resign at once, leaving the company without experienced leadership.

Other measures include selling off "crown jewels" (dilute the intention of the acquirer by selling the assets of the target firm to a third party); and calling in "white knights" (find a more preferable firm and ask it to acquire the target firm).

Source: UNCTAD, based on information provided by Thomson Financial Securities Data Company.

Box IV.4. Cross-border M&A data: how to make sense of them

It is conceptually easy to distinguish cross-border M&As from greenfield FDI. However, this distinction is nearly impossible to apply to available statistics. Although M&A data are compiled and reported by a number of providers (including investment banks and consulting firms), there is no common definition of M&As, and the nature and the type of data collected are different. For instance, M&A statistics are compiled either on an announcement basis (recorded when the deals are announced) or a completion basis (recorded when the deals are completed or the definite agreement between the parties of a deal is reached). Different forms of M&As may be included by some sources and not others (e.g. management buyouts, acquisition of properties, and acquisition of convertible stocks that do not have voting control). The treatment of additional acquisitions (further increases in stock holdings by firms that already own more than 50 per cent or increases in stakes in joint ventures in which one party owns a certain share) may differ. Despite all these differences, however, the various sources show rather similar trends.

The available data on cross-border M&As include portfolio investments. It is therefore necessary to extract transactions that correspond to the FDI definition (10 per cent or more foreign control) from the reported M&A data. The data on cross-border M&As used in *WIR2000* are from the UNCTAD database on cross-border M&As, compiled from information provided by Thomson Financial Securities Data Company. These data conform to the FDI definition as far as the equity share is concerned. However, they do include purchases financed via both domestic and international capital markets. Although it is possible to distinguish types of financing (syndicated loans, corporate bonds, venture capital etc.) for M&As, it is not possible to trace the origin or country sources of the funds used. Therefore, the data here almost certainly include funds not categorized as FDI.

FDI is a balance-of-payments concept, i.e. FDI flows are recorded on a net basis (capital account credits less debits between direct investors and foreign affiliates) in a particular year. On the other hand, M&A data are expressed as the total transaction amounts of particular deals, not as differences between gross acquisitions and divestment abroad by firms from a particular country. Transaction amounts recorded in M&A statistics are for the time of the announcement or closure of the deals, and the values are not necessarily for a single year.

The United States provides data on M&As approximating the FDI definition. The data from the United States Department of Commerce are for investment outlays by foreign direct investors to acquire or establish new United States businesses regardless of whether the invested funds are raised in the United States or abroad. (The data cover United States business enterprises that have total assets of over $1 million or that own at least 200 acres of United States land.) A United States enterprise is categorized as “acquired” if a foreign parent firm or its United States affiliate obtains a voting equity interest in an existing business enterprise, or purchases a business segment or an operating unit of an existing United States enterprise that it organizes as a new separate legal entity or merges into the affiliate’s own operations. (The data do not include a foreign parent firm’s acquisition of additional equity in its United States affiliates or its acquisition of an existing United States affiliate from another foreign investor. They do not include expansions of existing United States affiliates. Sell-offs or other disinvestment are not netted against the new investment. Reinvested earnings are not included.) A United States enterprise is categorized as “established” (in this context “greenfield”) if a foreign parent firm or its existing United States affiliate creates a new legal entity that is organized and begins operating as a new United States business enterprise. There are no similar data reported by the United States Department of Commerce for United States outward investments established through M&As or greenfield investments.

A few other countries provide some information on cross-border M&As. For instance, Japan’s Ministry of International Trade and Industry compiles statistics on the establishment form of Japanese affiliates abroad. However, the reported data are only for the number of affiliates creating a new legal entity, and there is no further information

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B. Trends and characteristics

1. Global trends

M&As completed worldwide, between domestic firms or between domestic and foreign firms, have grown over the past two decades (1980-1999) at an average annual rate of 42 per cent, to reach $2.3 trillion in 1999. [9] More than 24,000 such deals took place. There have been two M&A waves in this period: during the late 1980s (1988-1990) and since 1995 (figure I.4). Both periods experienced relatively high economic growth and widespread industrial restructuring.

Although a number of "mega deals" (M&As worth $1 billion or more) have taken place in the latter half of the 1990s, recent M&As are not exceptionally large by historical standards. For example, the creation of US Steel at the beginning of the twentieth century would be worth around $600 billion at today's prices (Smith and Sylla, 1993); this compares to some $200 billion paid by Vodafone AirTouch for the acquisition of Mannesmann in 2000. Overall, the ratio of M&As relative to the country's GDP was some 10 per cent in the United States at the beginning of the twentieth century. [10] By comparison, the value of all M&As (domestic and cross-border) in the world in relation to world GDP in the past two decades rose from 0.3 per cent (1980) to 2 per cent (1990) and to 8 per cent (1999) (figure IV.5). Increases have been particularly dramatic in the last few years.

Within this total, the share of cross-border M&As has remained almost constant, at about one-quarter in terms of both the value and number of deals throughout the 1990s, although the years 1990 and 1999 saw peaks of above 30 per cent (figure IV.6). [11] In value terms, cross-border M&As rose from $75 billion in 1987 to $720 billion in 1999. [12] This period covers the two booms (during the latter half of the 1980s and in the years since the mid-1990s) and an interim period of FDI recession. The two waves were marked by a large number of mega deals. These accounted for about 1.5 per cent of the number of cross-border M&As in both periods, but for 40 per cent of their

Box IV.4 (concluded)

available on such affiliates (Japan, MITI, 1999 and its earlier issues).

The above-mentioned statistical problems make the direct comparison of the magnitude of cross-border M&As with FDI very difficult. To illustrate, if data for privatizations only are taken, FDI inflows to finance privatization-linked acquisitions in Brazil, for instance, amounted to $6 and $8.8 billion in 1998 and 1999, while the total value of privatization involving foreign TNCs amounted to, respectively, $20 and $3 billion in those years (box table IV.4.1).

Box table IV.4.1. Comparison of privatization-related FDI flows and privatization-related cross-border acquisitions in Brazil, 1996-1999

(Billions of dollars)

Year	Privatization-related FDI inflows [a]	Privatization-related cross-border acquisitions
1996	2.6	2.9
1997	5.2	6.0
1998	6.1	19.9
1999	8.8	2.8

Source: UNCTAD, FDI/TNC database and cross-border M&A database.

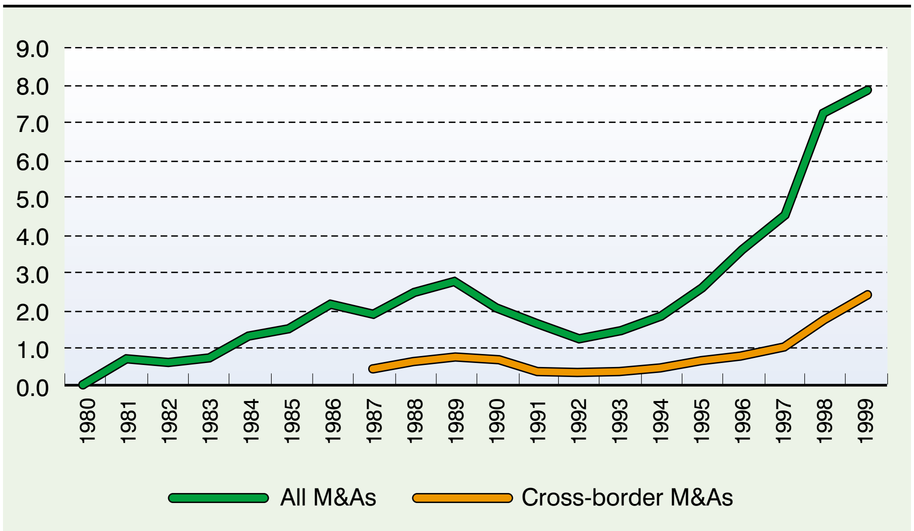
[a] On a balance-of-payments basis.

Source: UNCTAD.

value in the former and 60 per cent in the latter (table IV.2). In 1999, the value of cross-border M&As increased again by 35 per cent (table IV.3); the number of deals exceeded 6,000. Nearly one-fifth of these cross-border M&As involved acquiring and target companies located in the same country, but with different ultimate parent countries. This reflects the fact that foreign affiliates also engage themselves in M&As, largely to purchase other domestic firms (box IV.5). The value of cross-border M&As in 2000 is expected to grow even faster, as several large deals have been announced or completed (e.g. the Vodafone AirTouch acquisition of Mannesmann for some $200 billion; the France Telecom acquisition of Orange for $46 billion) in the first half of that year. Their completed value between January and mid-June 2000 ($508 billion) was more than 80 per cent higher than that during the corresponding period in the previous year.[13] Some 90 per cent of cross-border M&As (by value of sales and purchases) were in developed countries. There were 109 mega deals in 1999 (table IV.2; annex table A.IV.4).[14] Most were among firms from developed countries (table IV.4).

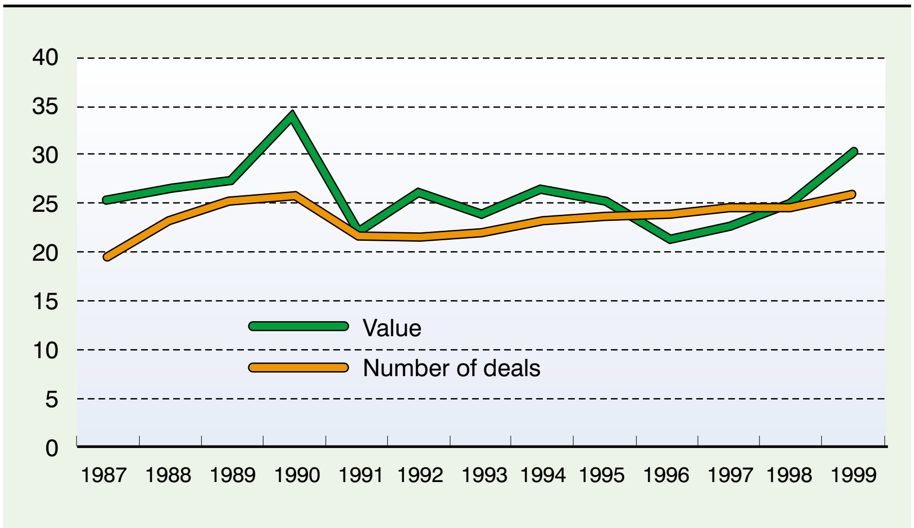
As with FDI flows, outward M&As for developed countries are larger than inward M&As, while the opposite is true for the developing countries and those of Central and Eastern Europe. However, the imbalance between purchases (outflows) and sales (inflows) is smaller for cross-border M&As than for total FDI for both developed and developing countries. This is because the bulk of cross-border M&As takes place among developed

FIGURE IV.5
Value of world M&As as a percentage of GDP, 1980-1999



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

FIGURE IV.6
Cross-border M&As as a percentage of all M&As in the world, 1987-1999



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

countries. In developing countries, most purchases are intra-regional.

If the value of cross-border M&As is put in relation to world GDP, the ratio quadrupled from 0.5 per cent in 1987 to over 2 per cent in 1999 (figure IV.7). Not surprisingly, developed countries have been consistently above this world average as both host and home regions. Developing countries reached the world average in 1993 and 1997 as host region, while, as home region, they gradually increased their ratio until 1997; in both cases, the financial crisis explains this performance. Central and Eastern Europe experienced peaks as a host region in 1995 fairly soon after the region's transition to a market economy began, as well as in 1997-1998; in both cases, privatizations played the key role.

M&A activity has been facilitated by new ways of raising capital. While bank loans are still the most important source for finance for M&As, direct financing by issuing common stocks and corporate debt have gained in importance because of the improved environment for corporate fund-raising. Deals using mainly one of these two types of financing accounted for about one-third of the total value and a half of the total number of the cross-border M&A deals for which information on sources of funds is available.[15] The growth of corporate funds and the broader availability of venture capital have paved the

Table IV.2. Cross-border M&As with values of over $1 billion, 1987-1999

Year	Number of deals	Percentage of total	Value (billion dollars)	Percentage of total
1987	14	1.6	30.0	40.3
1988	22	1.5	49.6	42.9
1989	26	1.2	59.5	42.4
1990	33	1.3	60.9	40.4
1991	7	0.2	20.4	25.2
1992	10	0.4	21.3	26.8
1993	14	0.5	23.5	28.3
1994	24	0.7	50.9	40.1
1995	36	0.8	80.4	43.1
1996	43	0.9	94.0	41.4
1997	64	1.3	129.2	42.4
1998	86	1.5	329.7	62.0
1999	109	1.7	500.8	69.6

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

Table IV.3. Cross-border M&As: sales and purchases, by region, 1990-1999

(Billions of dollars)

Region/economy	Sales					Purchases				
	1990	1995	1997	1998	1999	1990	1995	1997	1998	1999
Developed countries	**134.2**	**164.6**	**234.7**	**445.1**	**644.6**	**143.2**	**173.7**	**272.0**	**511.4**	**677.3**
of which :										
European Union	62.1	75.1	114.6	187.9	344.5	86.5	81.4	142.1	284.4	497.7
United States	54.7	53.2	81.7	209.5	233.0	27.6	57.3	80.9	137.4	112.4
Japan	0.1	0.5	3.1	4.0	15.9	14.0	3.9	2.7	1.3	9.8
Developing countries	**16.1**	**15.9**	**64.3**	**80.7**	**63.4**	**7.0**	**12.8**	**32.4**	**19.2**	**41.2**
of which :										
Africa	0.5	0.2	1.7	0.7	0.6	-	0.1	-	0.2	0.4
Latin America and the Caribbean	11.5	8.6	41.1	63.9	37.2	1.6	4.0	10.7	12.6	24.9
Europe	-	-	-	-	0.3	-	-	-	-	-
Asia	4.1	6.9	21.3	16.1	25.3	5.4	8.8	21.7	6.4	15.9
Pacific	-	0.1	0.3	-	0.1	-	-	-	-	-
Central and Eastern Europe[a]	**0.3**	**6.0**	**5.8**	**5.1**	**10.3**	**-**	**0.1**	**0.3**	**1.0**	**1.6**
World[b]	**150.6**	**186.6**	**304.8**	**531.6**	**720.1**	**150.6**	**186.6**	**304.8**	**531.6**	**720.1**

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

[a] Includes the countries of the former Yugoslavia.
[b] Includes amounts that cannot be allocated by region.

way for new firms and established small and medium-sized enterprises (SMEs) to engage in M&As. The number of small-scale cross-border M&As with a transaction value less than $100 million has steadily increased, accounting for one-third of the total number of deals in 1999. The share of the number of deals with $1 million or less rose from 1.5 per cent in 1990 to about 3 per cent in 1999.

Growth of cross-border M&As has been further facilitated by the availability of the exchange-of-stock options, which has become a popular method of financing M&A deals, particularly big ones (box IV.6). Deals consisting of stock swaps (and no cash) have increased over the years (annex table A.IV.5); 26 of the 109 mega deals in 1999 used this option.

2. Regional trends

As discussed in section A of this chapter, although it is not possible to assess precisely the share of FDI flows that are accounted for by cross-border M&As, it is interesting to compare the trends of these two flows over

Box IV.5. Domestic or cross-border M&As?

As the transnationalization of firms gathers pace, the form and type of FDI have become more complex. In the case of cross-border M&As, nationality is a complex issue. The ultimate parent firm or the ultimate host country may be different from the immediate parent firm or the immediate host country. In FDI statistics, data are usually compiled on the basis of the immediate host and immediate home countries involved. The data on cross-border M&As that the *WIR00* uses include the following combinations of immediate and ultimate countries:

1. A domestic firm in country X acquires (or merges with) a domestic firm in country Y.
2. A domestic firm in country X acquires (or merges with) a foreign affiliate in country X.
3. A domestic firm in country X acquires (or merges with) a foreign firm in country Y.
4. A foreign affiliate in country X acquires (or merges with) a domestic firm in country Y.
5. A foreign affiliate in country X acquires (or merges with) another foreign affiliate in country X.
6. A foreign affiliate in country X acquires (or merges with) a domestic firm in country X.
7. A foreign affiliate in country X acquires (or merges with) a foreign affiliate in country Y.

The M&As that fall under the deal categories 2, 5 and 6 above show the same nationality for immediate home and immediate host countries. The growth of such deals is particularly noteworthy in Latin America and the Caribbean (box table IV.5.1), implying that foreign affiliates established in that region are actively involved in M&As in the region as acquirers and target firms. These deals look like domestic M&As, but in reality the ultimate beneficiaries of such deals are from different countries. The impacts of these seemingly domestic M&As go beyond the country in which the firms involved operate.

Box table IV.5.1. Number of cross-border M&As whose immediate host and immediate home countries are the same

Year	World	Developed countries: Total	Developed countries: European Union	Developed countries: United States	Developing countries: Total	Developing countries: Latin America and the Caribbean	Developing countries: South, East and South-East Asia	Central and Eastern Europe
1987	187	178	43	108	9	2	6	-
1990	497	473	178	222	24	7	16	-
1995	817	723	352	227	83	30	50	11
1999	1044	852	430	262	147	82	58	45
Memorandum: (value in $billion)								
1990	20.7	20.1	6.2	10.8	0.7	0.4	0.3	-
1999	64.9	57.2	37.4	10.9	6.8	2.6	4.2	0.9

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

Source: UNCTAD.

Table IV.4. The top 50 cross-border M&A deals completed during 1987-1999

	Year	Value ($bill.)	Acquiring company	Home economy	Industry of the acquiring company	Acquired company	Host economy	Industry of the acquired company
1	1999	60.3	Vodafone Group PLC	United Kingdom	Telecommunications	AirTouch Communications	United States	Telecommunications
2	1998	48.2	British Petroleum Co PLC{BP}	United Kingdom	Oil and Gas; Petroleum Refining	Amoco Corp	United States	Oil and Gas; Petroleum Refining
3	1998	40.5	Daimler-Benz AG	Germany	Transportation Equipment	Chrysler Corp	United States	Transportation Equipment
4	1999	34.6	Zeneca Group PLC	United Kingdom	Drugs	Astra AB	Sweden	Drugs
5	1999	32.6	Mannesmann AG	Germany	Metal and Metal Products	Orange PLC	United Kingdom	Telecommunications
6	1999	21.9	Rhone-Poulenc SA	France	Chemicals and Allied Products	Hoechst AG	Germany	Chemicals and Allied Products
7	1998	18.4	Zurich Versicherungs GmbH	Switzerland	Insurance	BAT Industries PLC-Financial	United Kingdom	Insurance
8	1999	13.6	Deutsche Telekom AG	Germany	Telecommunications	One 2 One	United Kingdom	Telecommunications
9	1999	13.2	Repsol SA	Spain	Oil and Gas; Petroleum Refining	YPF SA	Argentina	Oil and Gas; Petroleum Refining
10	1999	12.6	Scottish Power PLC	United Kingdom	Electric, Gas, and Water Distribution	PacifiCorp	United States	Electric, Gas, and Water Distribution
11	1998	10.9	Texas Utilities Co	United States	Electric, Gas, and Water Distribution	Energy Group PLC	United Kingdom	Electric, Gas, and Water Distribution
12	1999	10.8	Wal-Mart Stores (UK) Ltd	United Kingdom	Investment & Commodity Firms,Dealers,Exchanges	ASDA Group PLC	United Kingdom	Retail Trade-Food Stores
13	1999	10.8	Aegon NV	Netherlands	Insurance	TransAmerica Corp	United States	Insurance
14	1998	10.2	Universal Studios Inc	United States	Motion Picture Production and Distribution	PolyGram NV(Philips Electrn)	Netherlands	Electronic and Electrical Equipment
15	1998	10.2	Roche Holding AG	Switzerland	Drugs	Corange Ltd	Bermuda	Drugs
16	1999	10.1	Global Crossing Ltd	Bermuda	Telecommunications	Frontier Corp	United States	Telecommunications
17	1999	9.8	ABB AG	Switzerland	Electronic and Electrical Equipment	ABB AB	Sweden	Electronic and Electrical Equipment
18	1998	9.3	Nortel Networks Corp	Canada	Communications Equipment	Bay Networks Inc	United States	Computer and Office Equipment
19	1999	9.1	Deutsche Bank AG	Germany	Commercial Banks, Bank Holding Companies	Bankers Trust New York Corp	United States	Commercial Banks, Bank Holding Companies
20	1999	8.4	Mannesmann AG	Germany	Metal and Metal Products	Ing C Olivetti-Telecom Int	Italy	Telecommunications
21	1999	8.2	Suez Lyonnaise des Eaux SA	France	Electric, Gas, and Water Distribution	Tractebel SA	Belgium	Electric, Gas, and Water Distribution
22	1997	8.0	ICI PLC	United Kingdom	Chemicals and Allied Products	Quest International,3 Others	Netherlands	Chemicals and Allied Products
23	1989	7.9	Beecham Group PLC	United Kingdom	Drugs	SmithKline Beecham Corp	United States	Drugs
24	1987	7.9	BP America(British Petroleum)	United States	Oil and Gas; Petroleum Refining	Standard Oil Co(British Petro)	United States	Mining
25	1999	7.8	Japan Tobacco Inc	Japan	Tobacco Products	RJ Reynolds International	Netherlands	Tobacco Products

/...

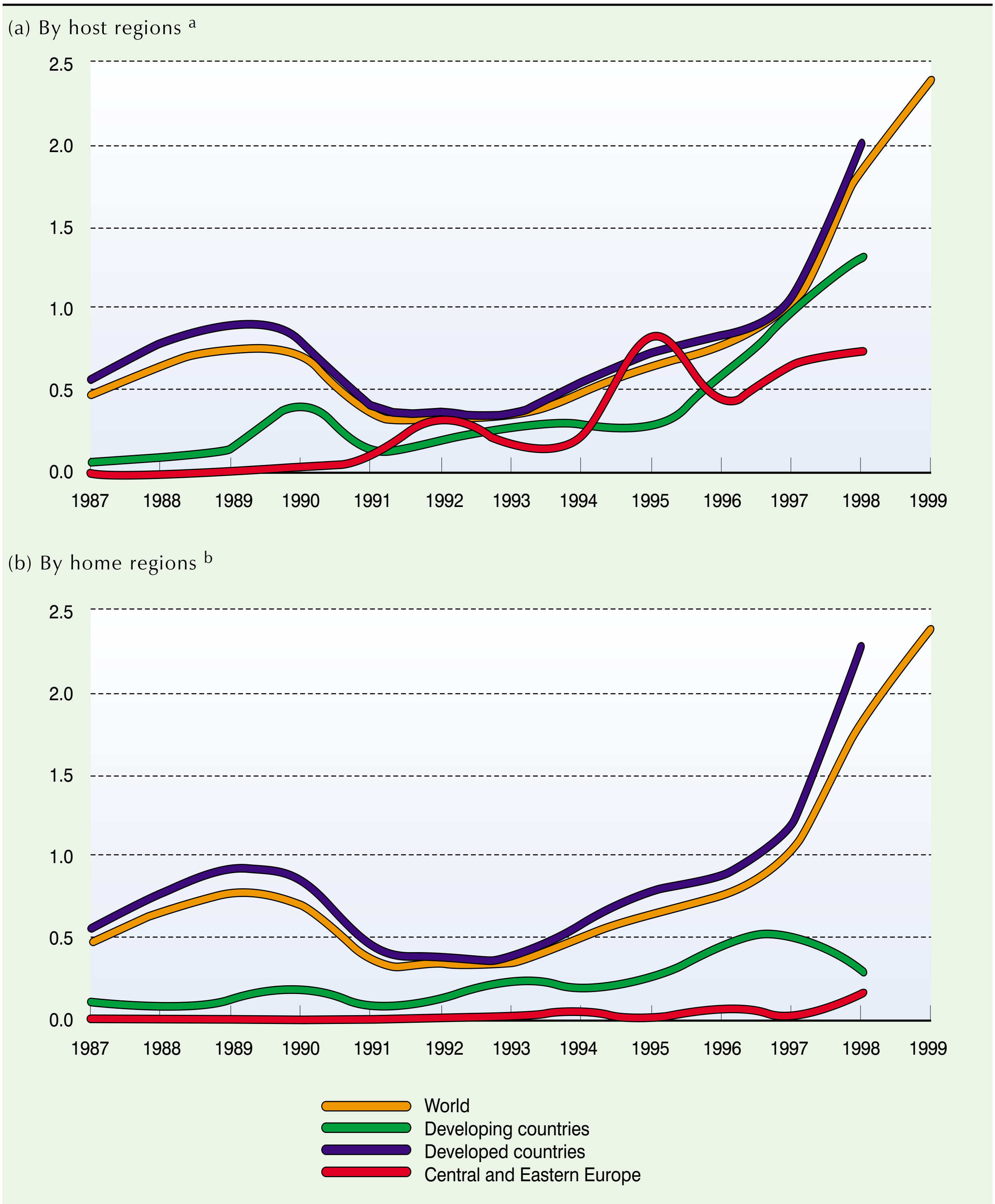
Table IV.4. (concluded)

	Year	Value ($bill.)	Acquiring company	Home economy	Industry of the acquiring company	Acquired company	Host economy	Industry of the acquired company
26	1999	7.7	HSBC Holdings PLC	United Kingdom	Commercial Banks, Bank Holding Companies	Republic New York Corp,NY	United States	Commercial Banks, Bank Holding Companies
27	1999	7.5	British American Tobacco PLC	United Kingdom	Tobacco Products	Rothmans Intl BV(Richemont)	Netherlands	Tobacco Products
28	1991	7.4	Matsushita Electric Industrial	Japan	Electronic and Electrical Equipment	MCA Inc	United States	Motion Picture Production and Distribution
29	1995	7.3	Hoechst AG	Germany	Chemicals and Allied Products	Marion Merrell Dow Inc	United States	Drugs
30	1995	7.0	Upjohn Co	United States	Drugs	Pharmacia AB	Sweden	Drugs
31	1999	6.8	TRW Inc	United States	Transportation Equipment	LucasVarity PLC	United Kingdom	Business Services
32	1999	6.6	General Electric Capital Corp	United States	Credit Institutions	Japan Leasing Corp	Japan	Credit Institutions
33	1988	6.5	Campeau Corp	Canada	Real Estate; Mortgage Bankers and Brokers	Federated Department Stores	United States	Retail Trade-General Merchandise and Apparel
34	1999	6.5	Ford Motor Co	United States	Transportation Equipment	Volvo Passenger Cars	Sweden	Transportation Equipment
35	1998	6.4	Teleglobe Inc	Canada	Telecommunications	Excel Communications Inc	United States	Telecommunications
36	1996	6.3	Metro Vermoegensverwaltung	Malaysia	Construction Firms	ASKO Deutsche Kaufhaus, Deutsch	Germany	Retail Trade-General Merchandise and Apparel
37	1999	6.3	Vivendi SA	France	Electric, Gas, and Water Distribution	United States Filter Corp	United States	Machinery
38	1999	6.2	New Holland(New Holland Hldg)	Netherlands	Machinery	Case Corp	United States	Machinery
39	1999	6.1	Dexia Belgium	Belgium	Investment & Commodity Firms,Dealers,Exchanges	Dexia France	France	Investment & Commodity Firms,Dealers,Exchanges
40	1998	6.1	Astra AB	Sweden	Drugs	Astra Merck Inc(Merck & Co)	United States	Wholesale Trade-Nondurable Goods
41	1989	5.8	Grand Metropolitan PLC	United Kingdom	Food and Kindred Products	Pillsbury Co	United States	Retail Trade-Eating and Drinking Places
42	1995	5.7	Seagram Co Ltd	Canada	Food and Kindred Products	MCA Inc(Matsushita Electric)	United States	Motion Picture Production and Distribution
43	1999	5.7	Sun Life and Provincial	United Kingdom	Insurance	Guardian Royal Exchange PLC	United Kingdom	Insurance
44	1999	5.4	Renault SA	France	Transportation Equipment	Nissan Motor Co	Japan	Transportation Equipment
45	1994	5.3	Roche Holding AG	Switzerland	Drugs	Syntex Corp	United States	Drugs
46	1999	5.3	Total SA	France	Oil and Gas; Petroleum Refining	Petrofina SA	Belgium	Oil and Gas; Petroleum Refining
47	1997	5.3	Tyco International Ltd	United States	Miscellaneous Manufacturing	ADT Ltd	Bermuda	Business Services
48	1988	5.2	BATUS Inc(BAT Industries PLC)	United States	Tobacco Products	Farmers Group Inc	United States	Insurance
49	1998	5.1	Aeropuertos Argentina 2000	United States	Investment & Commodity Firms,Dealers,Exchanges	Argentina-Airports(33)	Argentina	Air Transportation and Shipping
50	1998	5.1	Allianz AG	Germany	Insurance	AGF	France	Business Services

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

FIGURE IV.7

Cross-border M&As as a percentage of GDP, by group of economies, 1987-1999
(Percentage)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Cross-border M&A sales as a percentage of GDP.

b Cross-border M&A purchases as a percentage of GDP.

time, as well as differences across regions. Worldwide FDI flows and cross-border M&As have followed a similar path since the mid-1980s (figure IV.8a). In 1999 the value of world cross-border M&As in relation to that of world FDI flows yielded a ratio of over four-fifths. If all M&As were financed by FDI, this would mean that four-fifths of world FDI flows took the form of M&As. This picture is largely influenced by the performance of the developed countries where the relationship between FDI inflows and cross-border M&As is closer (figure IV.8b). (In the case of the developed countries, it is also quite reasonable to say that the bulk

Box IV.6. Cross-border M&As through the exchange of stocks

Paying for M&As through an exchange of stocks has become increasingly popular in recent years. This option is frequently used to finance large M&A deals in which their sheer size makes cash payment virtually impossible.[a] Most of these deals took place either in 1998 or 1999 (box table IV.6.1). For example, in the case of the Daimler-Chrysler deal with a transaction value of $40 billion in 1998 common shareholders of Chrysler Corp received 0.62 new ordinary shares of Daimler-Chrysler (DC) and shareholders of Daimler-Benz AG received a new ordinary share of DC per share held. Upon completion, shareholders of Daimler-Benz owned 57 per cent of the new company.

Cross-border M&As financed in this manner result in large, but almost entirely offsetting, capital flows in the balance of payments of the two countries involved: the inflow of capital that results from a foreign direct investor's acquisition of stock in an acquired firm is offset by the outflow of capital recorded in the portfolio investment account that results from the distribution to the shareholders in the acquired company of the stock in the newly established foreign company (UNCTAD, 1999a). Thus, there is no direct impact on the balance of payments of the countries involved. This option is used also by firms based in developing countries. For example, in 1999, Corcemar (Argentina) bought Interactive ConEd.com (United States) and Excel Machine Tools (Singapore) purchased GarAgent Garazsipari Keresked (Hungary) using this option.

As actually no funds flow between the countries involved, cross-border M&A deals using the stock-swap option can be distinguished from other deals involving flows of funds in terms of their financial impact on host economies.

Box table IV.6.1. The top 20 stock-swap cross-border M&A deals completed during 1987-1999

Rank	Year	Value in billion dollars	Acquiring company	Home country	Acquired company	Host country
1	1999	60.3	Vodafone Group PLC	United Kingdom	AirTouch Communications	United States
2	1998	48.2	British Petroleum Co PLC{BP}	United Kingdom	Amoco Corp	United States
3	1998	40.5	Daimler-Benz AG	Germany	Chrysler Corp	United States
4	1999	34.6	ZENECA Group PLC	United Kingdom	Astra AB	Sweden
5	1999	32.6	Mannesmann AG	Germany	Orange PLC	United Kingdom
6	1999	21.9	Rhone-Poulenc SA	France	Hoechst AG	Germany
7	1999	12.6	Scottish Power PLC	United Kingdom	PacifiCorp	United States
8	1999	10.8	Aegon NV	Netherlands	TransAmerica Corp	United States
9	1999	10.1	Global Crossing Ltd	Bermuda	Frontier Corp	United States
10	1999	9.8	ABB AG	Switzerland	ABB AB	Sweden
11	1998	9.3	Nortel Networks Corp	Canada	Bay Networks Inc	United States
12	1999	8.2	Suez Lyonnaise des Eaux SA	France	TRACTEBEL SA	Belgium
13	1989	7.9	Beecham Group PLC	United Kingdom	SmithKline Beecham Corp	United States
14	1999	7.5	British American Tobacco PLC	United Kingdom	Rothmans Intl BV(Richemont)	Netherlands
15	1995	7.0	Upjohn Co	United States	Pharmacia AB	Sweden
16	1998	6.4	Teleglobe Inc	Canada	Excel Communications Inc	United States
17	1996	6.3	Metro Vermoegensverwaltung	Malaysia	ASKO Deutsche Kaufhaus	Germany
18	1999	6.1	Dexia Belgium	Belgium	Dexia France	France
19	1997	5.3	Tyco International Ltd	United States	ADT Ltd	Bermuda
20	1998	4.9	Enso Oy	Finland	Stora Kopparbergs Bergslags AB	Sweden

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

Source: UNCTAD.

[a] Obviously if companies have lots of cash and a low debt/equity ratio, they may not use this option. The Unilever-Bestfoods deal is a good example of this.

of FDI inflows enter through M&As.) In developing countries, the value of cross-border M&As has also been growing rapidly since the mid-1990s, but is still below that of greenfield FDI; in this group of countries, at least two-thirds of FDI inflows finance greenfield projects (figure IV.8c). Overall, the ratio of the value of cross-border M&As to FDI inflows in developing countries has risen from one-tenth in 1987-1989 to more than one-third in 1997-1999. Among developing regions this ratio is the highest in Latin America and the Caribbean: it increased from 18 per cent to 61 per cent between these two periods, while in developing Asia it increased from 8 per cent to 21 per cent between the same periods. In the case of Central and Eastern Europe, however, the overall trend indicates that greenfield FDI is becoming increasingly more important than M&As (figure IV.8d).

These data suggest (within the framework of the qualifications made in section A) that, indeed, cross-border M&As account for a very important part of FDI inflows to developed countries and are also becoming more important for developing countries. They also suggest that, in general the more developed a host region (and the more active privatization activity), the higher the share of M&As in FDI inflows (figure IV.9).

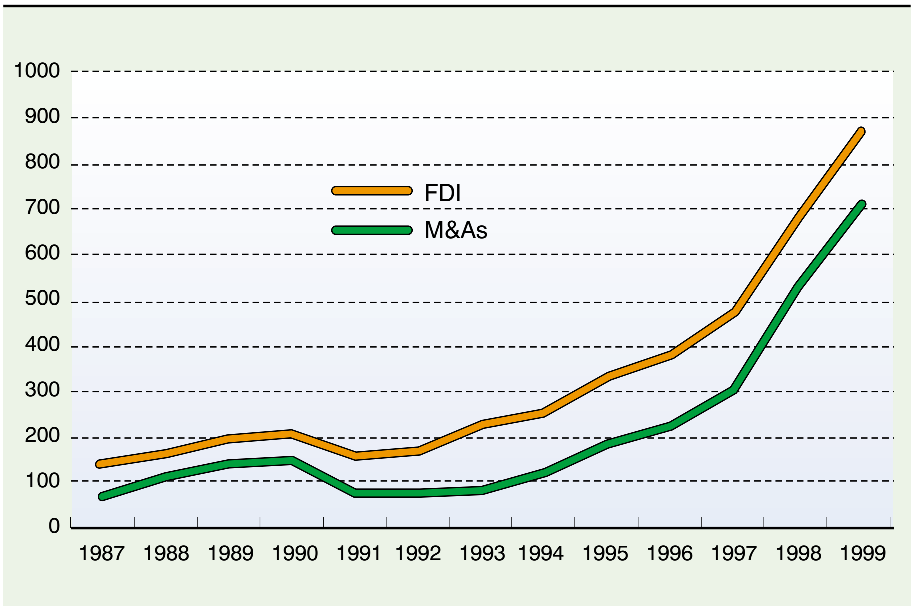
The text below elaborates this picture further for each major region.

a. Developed countries

Between 1987 and 1999, the value of cross-border M&As in developed countries (sales and purchases) grew at an annual rate of 20 per cent. During that period, their share in world cross-border M&As was never below 77 per cent (nearly 87 per cent in the case of purchases), peaking at 98 per cent in the late 1980s. Within this group, the share of the European Union in cross-border M&A sales in developed countries increased markedly — from less than 20 per cent in 1987 to about 65 per cent in 1992, the year of the formation of the single market — and has remained around 50 per cent since then (figure IV.10). A similar trend can be observed as regards the share of the EU in the cross-border M&A purchases of developed country firms. Reflecting large-scale M&A purchases by EU firms during 1998-1999, the EU share increased considerably, to become higher than that at the peak years before the formation of the single market (figure IV.10).

In 1999, *Western European* firms were particularly active, with a total of $354 billion of sales and $519 billion of purchases. Intra-European Union deals accounted for a significant share (figure IV.11). The notable imbalance at times between sales and purchases of cross-border M&As in Western Europe is largely explained by the fact that United Kingdom firms often targeted United States firms. Excluding M&A deals involving United

FIGURE IV.8a
World: FDI inflows and cross-border M&As[a], 1987-1999
(Billions of dollars)



Source: UNCTAD, cross-border M&A database and FDI/TNC database.

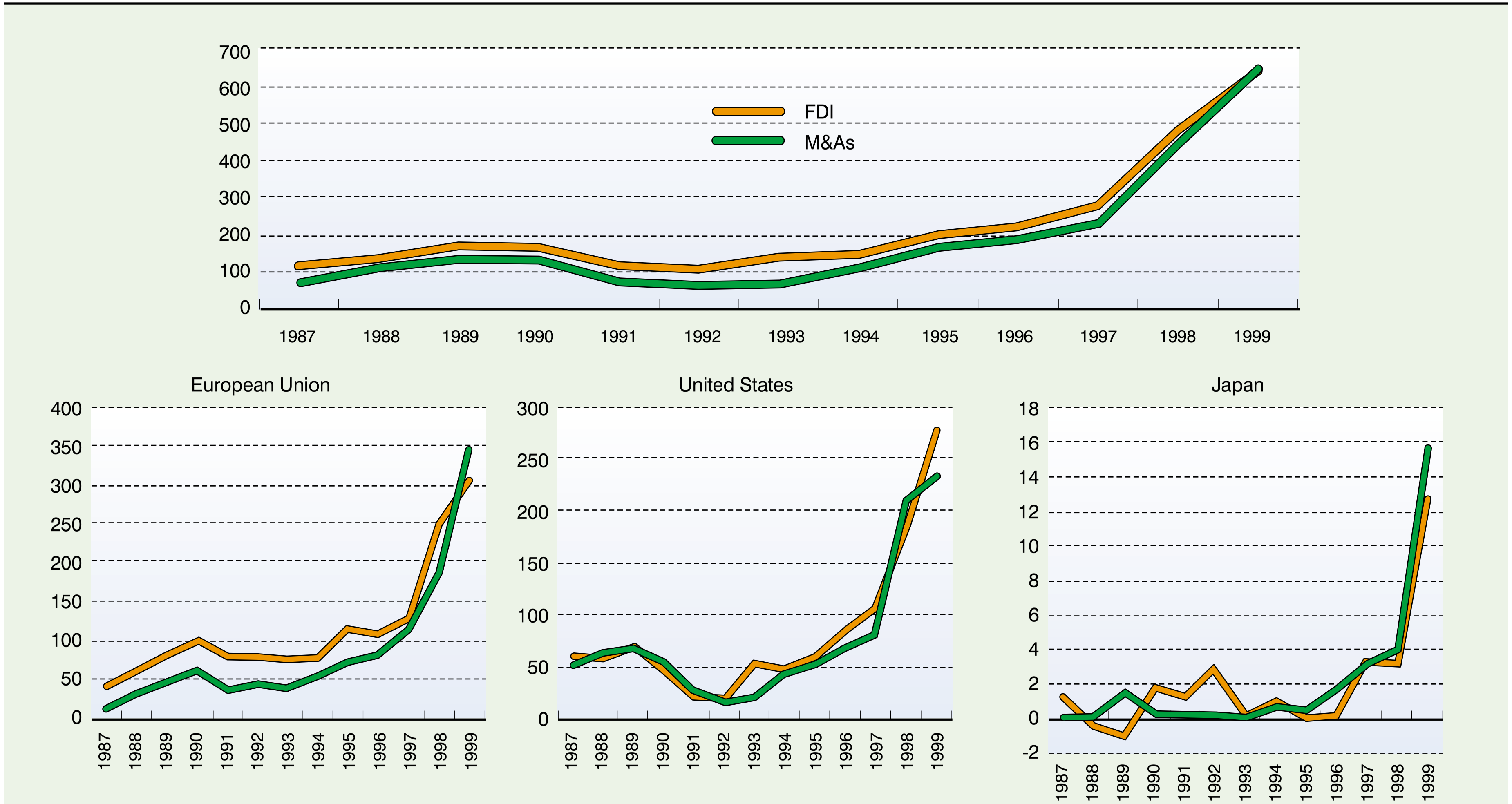
Note: As there is no unique relationship between FDI and cross-border M&As, a direct comparison is not possible.

[a] Cross-border M&As that result in acquiring more than 10 per cent equity share.

FIGURE IV.8b

Developed countries : FDI inflows and cross-border M&As,[a] 1987-1999

(Billions of dollars)



Source: UNCTAD, cross-border M&A database and FDI/TNC database.

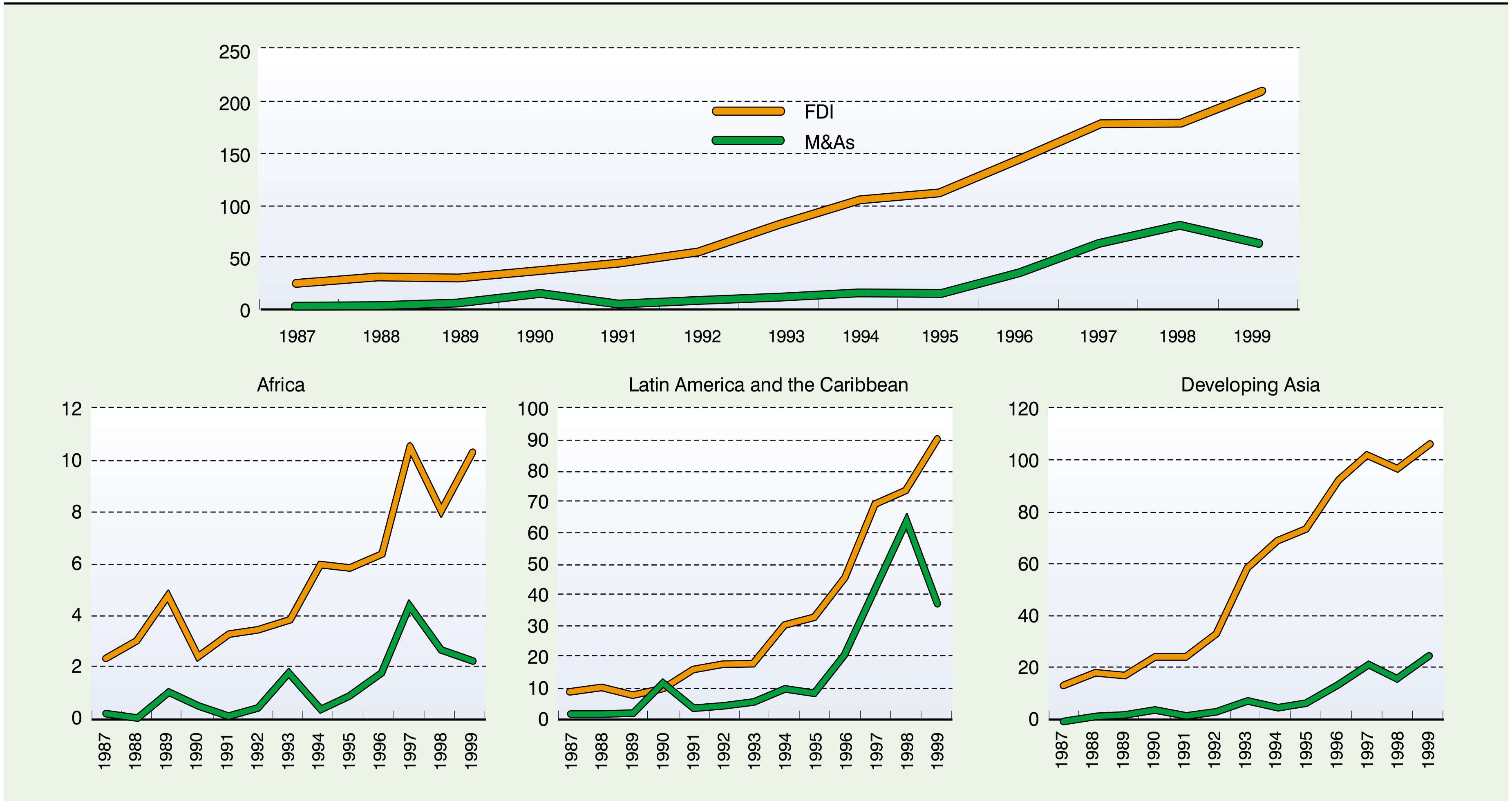
Note: As there is no unique relationship between FDI and cross-border M&As, a direct comparison is not possible.

[a] Cross-border M&As that result in acquiring more than 10 per cent equity share.

FIGURE IV.8c

Developing countries : FDI inflows and cross-border M&As,[a] 1987-1999

(Billions of dollars)



Source: UNCTAD, cross-border M&A database and FDI/TNC database.

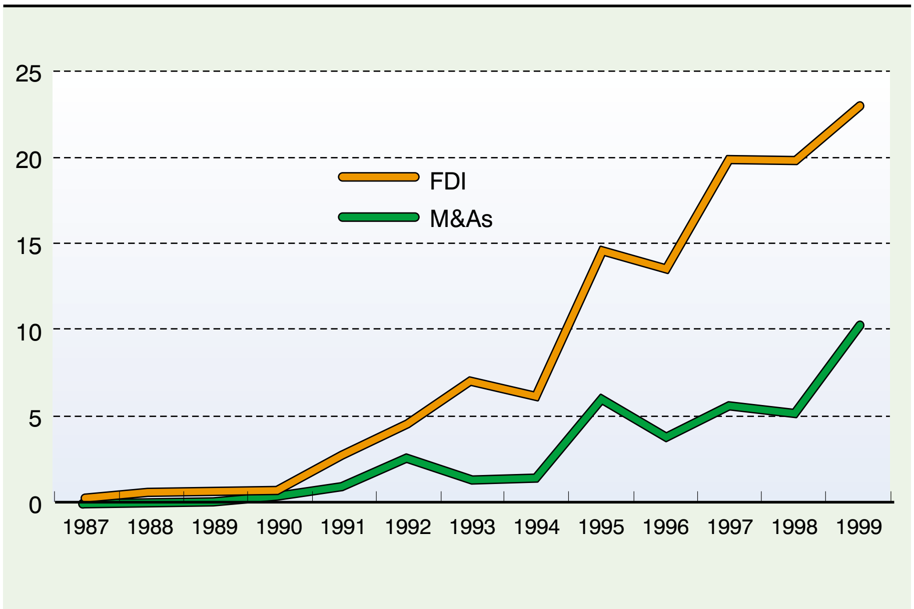
Note: As there is no unique relationship between FDI and cross-border M&As, a direct comparison is not possible.

[a] Cross-border M&As that result in acquiring more than 10 per cent equity share.

FIGURE IV.8d

Central and Eastern Europe[a]: FDI inflows and cross-border M&As[b], 1987-1999

(Billions of dollars)



Source: UNCTAD, cross-border M&A database and FDI/TNC database.

Note: As there is no unique relationship between FDI and cross-border M&As, a direct comparison is not possible.

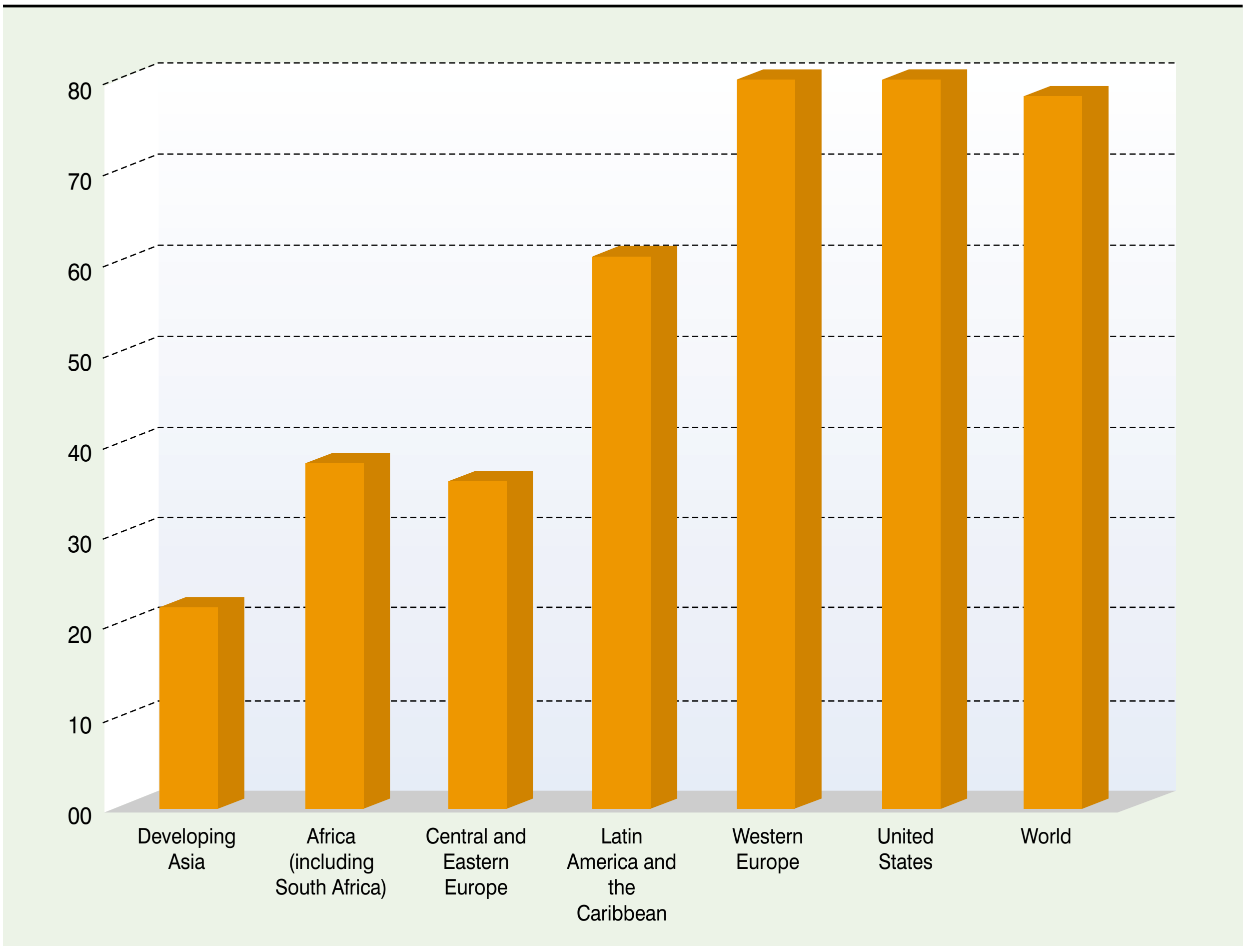
[a] Includes the countries of the former Yugoslavia.

[b] Cross-border M&As that result in acquiring more than 10 per cent equity share.

FIGURE IV.9

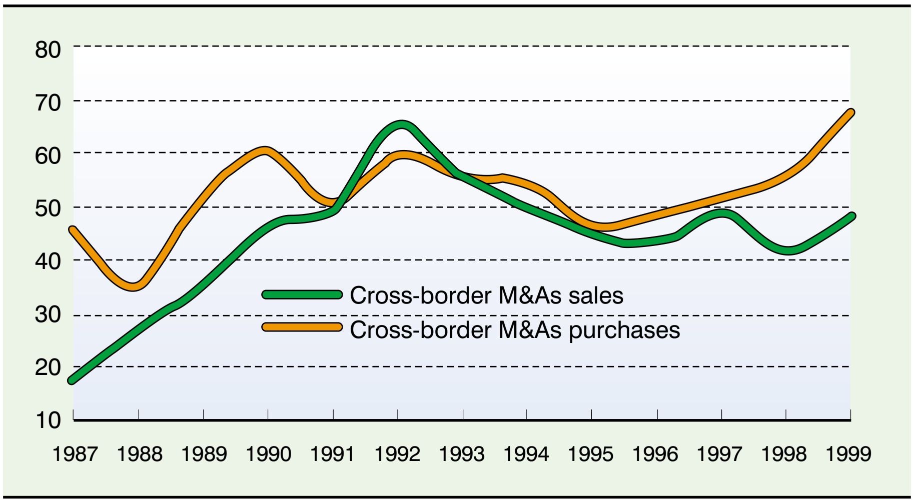
Cross-border M&As as a percentage of FDI inflows, 1997-1999

(Percentage)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

FIGURE IV.10
Share of EU cross-border M&As in developed countries, 1987-1999
(Percentage)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

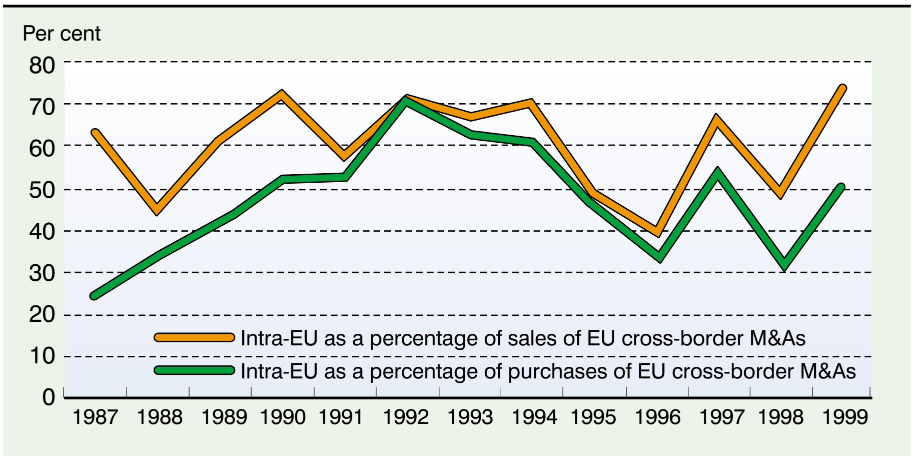
Kingdom firms, European cross-border M&As took place primarily within the region. Consolidation among continental European firms was partly a natural response to deregulation, regional integration and the introduction of the single currency.

The United Kingdom, Sweden, Germany and the Netherlands were Europe's most important target countries in 1999 (figure IV.12). The value of M&A sales in Germany is expected to be high in 2000, given the acquisition of Mannesmann by Vodafone AirTouch. The planned abolition of taxes on the sale of cross-holdings among firms in 2001 is likely to encourage M&A further (see chapter II). The United Kingdom, Germany and France were the largest acquirers (figure IV.13; annex tables A.IV.6 and 7).

The *United States* continued to be the single most important target country, with total cross-border M&As of $233 billion in 1999. Over a quarter of all M&As (both domestic and cross-border) in the United States were by foreign acquirers, compared with 7 per cent in 1997 and 14 per cent in 1998.[16] European firms in particular have become more active in taking over or merging with United States enterprises, driven by the globalization of their industries and attracted by the rapid growth of the United States market. The European Union accounted for four-fifths of cross-border M&A purchases of United States firms in 1999, compared with less than a half before the mid-1990s, when Japanese companies were more active.

Investment expenditures in foreign affiliates in the United States through M&As accounted for 90 per cent in terms of value and 62 per cent in terms of the number of total inward investments in 1998 (annex table IV.8).[17] These shares have risen over the years, from an already high level in the early 1980s, showing that cross-border M&As are not a new

FIGURE IV.11
Intra-EU cross-border M&As, 1987-1999
(Percentage shares in total EU cross-border M&As)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

phenomenon in the United States. The picture for outward United States FDI is similar. The share of affiliates established abroad through M&As has fluctuated over time, but it was already high during the period 1951-1975, ranging from 30 per cent to more than a half (table IV.5).

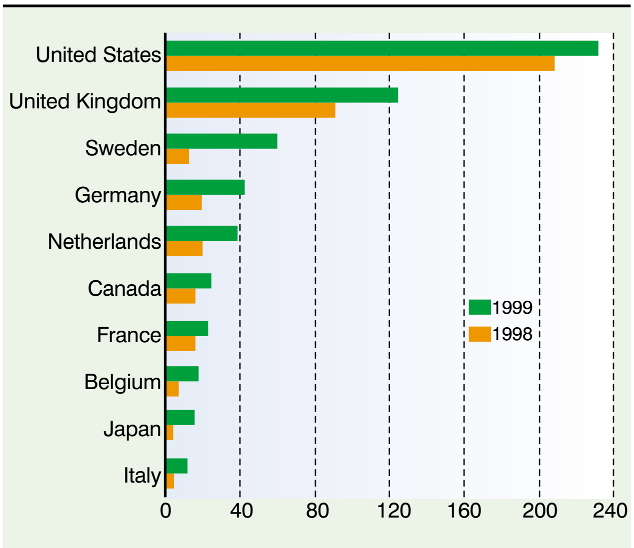
In 1999, United States firms spent $112 billion on acquiring foreign firms, about $100 billion less than United Kingdom firms, and $25 billion less than in 1998. In 1999, four out of the 15 largest cross-border deals were undertaken by United Kingdom firms, while no United States firms entered that list (compared to three in 1998) (annex table A.IV.4). The decline in the value of outward M&As by United States firms reflects the lower involvement of United States companies as acquirers in mega-deals during that year. About 12 per cent of United States cross-border M&A purchases involved developing country firms in 1999.

Japanese overseas M&A purchases increased significantly in 1999, but largely because of the acquisition of the international tobacco business of RJ Reynolds for $7.8 billion, the fifteenth largest cross-border M&A in the world that year (annex table A.IV.4). Although this signals a shift from the traditional Japanese preference for greenfield investment (see chapter II), the latter remains the preferred mode of FDI entry (UNCTAD, 1999a). Japanese

FIGURE IV.12

Developed countries: cross-border M&A *sales*, top 10 countries, 1998 and 1999[a]

(Billions of dollars)



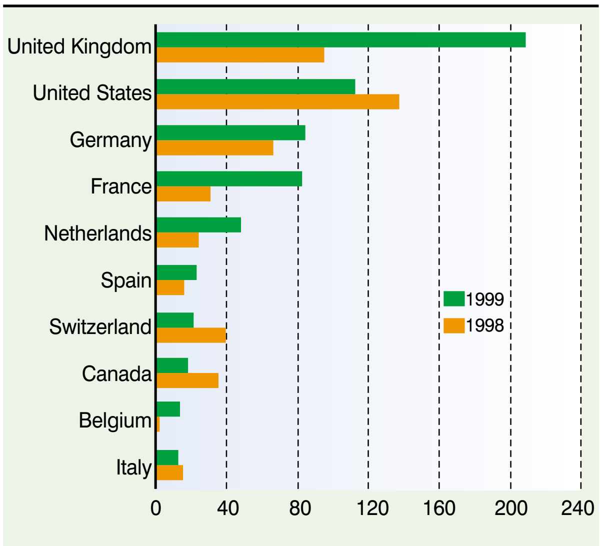
Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Ranked on the basis of the magnitude of sales in 1999.

FIGURE IV.13

Developed countries: cross-border M&A *purchases*, top 10 countries, 1998 and 1999[a]

(Billions of dollars)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Ranked on the basis of the magnitude of sales in 1999.

Table IV.5. Type of United States foreign affiliates established through M&As and greenfield investment, 1951-1975

(Number)

Year	Total	M&As	Greenfield	Share of M&As
1951-55	989	301	507	30.4
1956-60	1 957	645	1 009	33.0
1961-65	3 225	1 314	1 430	40.7
1966	669	309	288	46.2
1967	912	457	366	50.1
1968	1 006	534	423	53.1
1969	945	452	437	47.8
1970	853	403	402	47.2
1971	905	479	388	52.9
1972	646	319	282	49.4
1973	693	354	307	51.1
1974	619	212	365	34.2
1975	376	135	234	35.9

Source: Curhan, Davidson and Suri, 1977.

TNCs tend to use the M&A option more in developed than in developing countries. As of March 1996, about a quarter of Japanese manufacturing affiliates in developed countries were established through M&As, while the comparable figure in developing Asia was less than one-tenth (Japan, MITI, 1998). The purchase value of cross-border M&As in 1999 was lower than in the late 1980s or the early 1990s (annex table A.IV.7), reflecting the fact that Japanese companies had not yet regained the growth dynamism (backed by abundant liquidity) of the early 1990s.

Cross-border M&A sales in Japan rose much faster and were larger than purchases in each year since 1997. The value of inward M&As is now higher than that of outward M&As, which is not true of FDI flows overall.[18] Changing attitudes to M&As are one factor behind this dramatic growth (box IV.7).

b. Developing countries

Developing country firms are still not large players in terms of *acquiring* firms abroad, although they can be important in a regional context, especially in Asia and Latin America. Their share of the value of global M&A purchases reached just over 10 per cent during 1996-1997, but dropped to less than 5 per cent in the period 1998-1999. In contrast to FDI outflows, of which developing countries account for some one-tenth of the world total, firms based in developing countries prefer greenfield FDI to M&As when investing abroad. Nevertheless, in absolute values, cross-border M&A purchases by firms from developing countries nearly doubled in 1999 to record levels, at $41 billion, after dipping in 1998 in response to the Asian financial crisis (table IV.3). This compares to $7 billion in 1990. The ratio of cross-border M&As to FDI outflows

Box IV.7. The cross-border M&A market in Japan

Three principal factors explain the recent growth of cross-border M&As in Japan: changes in business culture, changes in the regulatory framework for M&As and corporate factors. These changes have significantly facilitated M&As in Japan, contributing to make Japan the ninth largest M&A target country in the world in 1999.

Changes in business culture:

Japan's business culture used to be resistant to M&As, mainly for the following reasons: i) a business was considered to be a collection of human resources and not of funds. Human beings cannot be bought nor sold; and ii) a business used to be considered as a family, where workers were loyal to management in return for life-time employment. This business culture has been gradually changing, however, thereby facilitating M&As.

Changes in the regulatory framework:

With changes in the Commercial Law in 1999, a target company can become a wholly owned subsidiary, foreign or domestic, of the acquiring company through exchange of shares. It was previously virtually impossible to purchase all shares of the acquired firms as there were always some shareholders unwilling to sell their shares. With the introduction of the exchange of shares introduced by this law, all shares of the target firm have to be exchanged with the shares of the acquirer. As a result, foreign firms can now establish wholly owned foreign affiliates through M&As. Holders of new shares acquired through an exchange of shares from the acquirer are also allowed to defer tax payments on capital gains until they sell those shares. This tax deferral attracts M&As via exchanges of stocks, which have already become a popular option in other major countries.

Changes in corporate structure:

Pushed by corporate restructuring, which has led firms to dispose of unprofitable shares and to reconsider *keiretsu* relationships, Japanese companies have increasingly released cross-held shares, i.e. shares held by *keiretsu* firms in each other, to the public. The interlocking relationship of firms through the cross holding of shares made it difficult for foreign (as well as domestic) firms to conclude M&As. The sales of such shares to the public at large has greatly facilitated M&As. In 1999, net sales to the public of cross-holding shares (sales less purchases) reached more than 4 trillion yen; this compares to 1.5 trillion yen in 1997. The proportion of cross-holding shares in all shares declined from 21 per cent in March 1998 to 16 per cent in March 1999 for firms listed on the stock exchange.[a] This trend continues.

Source: UNCTAD.

[a] *Nihon Keizai Shimbun*, 28 December 1999, p. 1.

from developing countries also increased from 45 per cent in 1990 to 63 per cent in 1999.

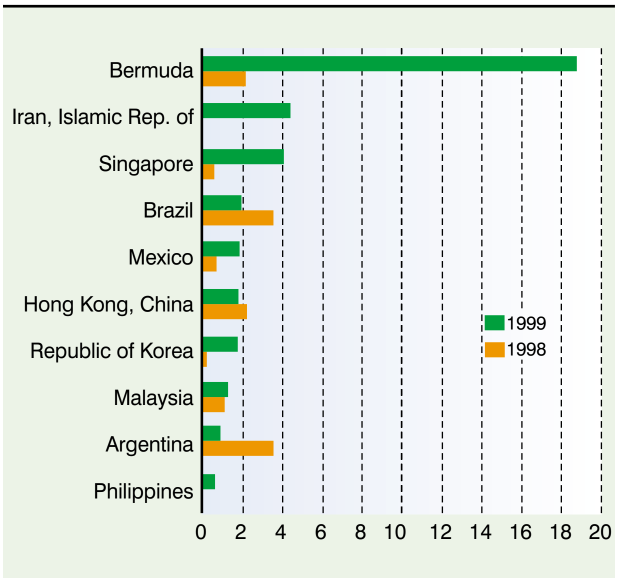
Asian firms are important acquirers in developing countries; Singapore was the main base for acquiring firms, and the targets were primarily firms in developing countries in the Asian region. Firms from the five Asian countries most affected by the financial crisis also increased their cross-border M&A purchases, reflecting improvements in their liquidity situation. Latin America saw significant increases in cross-border purchases of M&A activity; Bermuda was the largest base for acquiring firms in the region, indeed in the developing world as a whole (figure IV.14).[19] Through cross-border M&As, some firms from developing countries have become world leaders in their industries (box IV.8).

On the inward side, it was not until the late 1990s that developing countries emerged as important recipients of FDI in the form of cross-border M&As. Their share in the value of world cross-border M&As was less than 10 per cent almost every year until the mid-1990s. In terms of the number of cross-border M&A

FIGURE IV.14

Developing countries: cross-border M&A *purchases*, top 10 countries, 1998 and 1999[a]

(Billions of dollars)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Ranked on the basis of the magnitude of sales in 1999.

Box IV.8. Cemex: reaching the world's top level through M&As

Cemex S.A. de C.V. is not only Mexico's largest cement giant, but also the world's third-largest cement company, operating 56 cement plants in 30 countries in 2000. Founded in 1906, Cemex went through several domestic M&As until it gained the number one position in Mexico in the late 1980s. In the 1990s, the company repeatedly used cross-border acquisitions to expand its overseas operations.

In less than a decade, Cemex acquired all or part of three entities in developed countries and ten in developing countries outside Mexico. Through these acquisitions, its production capacity more than doubled and its net sales almost tripled. While the company controls about a 60 per cent share of the Mexican market, the domestic sales now account for less than half of the company's total revenues.

As a strategy to strengthen its capital structure, Cemex aims at making effective use of its presence in Spain, whose operation was established through its first cross-border acquisition deal in 1992. Indeed, when comparing its financial results with competitors, Cemex's leverage is comparable to or lower than its European rivals. Nevertheless, the perception of international investors is affected by the fact that Cemex's operations are heavily concentrated in emerging markets. Unlike Mexico, however, Spain has better investment ratings and lower interest rates. Cemex can borrow at much lower interest through its Spanish affiliate than through its Mexican operation.

Over the last few years, Cemex has gradually shifted ownership control of its non-Mexican affiliates (i.e. Cemex USA, Panama's Bayano, the Philippines' Rizal, Venezuela's Vencemos, which consolidates Dominican Republic's Cementos Nacionales, Colombia's Diamante, which consolidates Samper's operations, and Indonesia's Semen Gresik) to its Spanish affiliate, Valenciana. This corporate structure allows Cemex to benefit from lower-interest rates, to improve capital structure and to make a better matching in debt obligations and operating cash flows.

Source: UNCTAD based on information available from Cemex (www.cemex.com).

deals, the developing countries' share increased over the 1990s from 5 per cent in 1987 to almost 20 per cent in the late 1990s (annex table A.IV.2). In terms of value, their share was 2 per cent in 1987 and 9 per cent in 1999.

These relative shares mask, however, that cross-border M&A *sales* in developing countries have grown significantly since 1996. In 1999 there was a 21 per cent decline after three years of rapid growth (table IV.3), mainly caused by the lower volume of cross-border M&A purchases by United States firms. European Union enterprises were the largest acquirers during 1998-1999, accounting for more than two-fifths of cross-border M&As in developing countries, followed by the United States (table IV.6). Japanese M&As in developing countries were marginal.

The Latin American and Caribbean region continued to dominate cross-border M&A sales by developing countries. In the past two years, Argentina and Brazil were the largest sellers (figure IV.15). Privatization was the main vehicle in both countries (discussed below), exemplified by the privatization of Telebras in Brazil (1998) and YPF in Argentina (1999). In Argentina, one of the few countries for which information on the breakdown of FDI by mode of entry is available, the share of cross-border M&As financed by FDI in total FDI inflows (on an approval basis) rose from one-fifth during 1990-1996 to nearly one half during 1997-1999 (Argentina, CEP, 2000).

In Asia a rapid rise in cross-border M&A sales took place in recent years, partly as a result of the financial crisis (chapter II). Acquisitions by foreign firms in the Republic of Korea exceeded $9 billion in 1999, making it the largest recipient of M&A-based FDI in developing Asia. By contrast, M&As played a relatively small role in FDI inflows into China – only at most $2 billion out of total FDI of $40 billion in 1999. In Indonesia, the Republic of Korea and Thailand, foreign acquisitions of some firms temporarily nationalized during the financial crisis took place. For example, 40 per cent of the equity of PT Astra International, the largest car producer in Indonesia, owned by the Indonesian Bank Restructuring Agency since the financial crisis, was sold in 2000 to Cycle & Carriage Ltd. of Singapore for $506 million. In the transition economies of Central Asia, cross-border M&A sales were largely influenced by large privatization deals. Significant M&A sales in Kazakhstan during 1996-1997 are explained by the acquisition of Kaztelekom by Daewoo Corp (with a transaction value of $1.4 billion) (annex table A.IV.6).[20]

In West Asia there have been steady (but small) M&A sales in Turkey since the late 1980s. In other countries in the region, there is

Table IV.6. Cross-border M&As in developing countries, by home region/country, 1987-1999

(Billions of dollars)

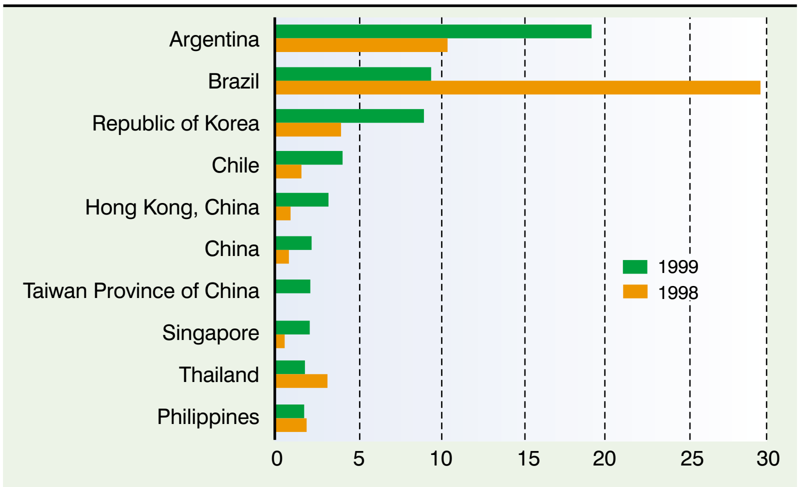
		Developed countries				Developed countries				
Year	World	Total	EU	Japan	United States	Total	Africa	Latin America and the Caribbean	South, East and South-Asia	Central and Eastern Europe[a]
1987	1.7	1.5	0.4	-	1.2	0.2	-	-	0.2	-
1988	2.9	2.7	1.1	0.2	0.3	0.2	-	0.1	0.1	-
1989	5.1	3.9	2.5	0.2	0.6	1.1	-	-	1.1	-
1990	16.1	14.5	9.7	1.6	2.9	1.5	-	0.7	0.8	-
1991	5.8	4.9	1.7	0.2	2.0	0.9	-	0.2	0.7	-
1992	8.0	5.5	1.6	0.6	2.1	2.5	-	0.9	1.6	-
1993	12.8	6.2	1.8	0.2	3.2	6.6	-	1.5	4.9	-
1994	14.8	9.5	3.6	0.3	2.6	5.3	-	1.8	3.0	-
1995	15.9	10.3	4.1	0.5	4.6	5.5	-	1.6	3.4	-
1996	34.6	21.3	9.2	0.8	8.9	13.2	0.1	6.5	6.4	-
1997	64.3	42.4	15.8	0.8	20.4	21.9	-	8.6	13.1	-
1998	80.7	67.6	31.9	0.2	20.8	13.1	-	9.0	4.0	-
1999	63.4	49.5	32.0	0.7	13.7	13.8	-	4.3	8.9	0.1

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

[a] Includes the countries of the former Yugoslavia.

FIGURE IV.15

Developing countries: cross-border M&A *sales*, top 10 countries, 1998 and 1999[a]
(Billions of dollars)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Ranked on the basis of the magnitude of sales in 1999.

generally very little M&A activity, with occasional one-off cases.

In Africa, Egypt, Morocco and South Africa attracted most foreign acquisitions. None of the other African countries attracted more than $1 billion of M&As, though Zambia and Ghana have had some M&A-based inflows since the mid-1990s. The low level of M&A activity is partly explained by the slow pace of privatization programmes.

c. Central and Eastern Europe[21]

While greenfield FDI is increasingly important in Central and Eastern Europe, cross-border M&A sales also rose in 1999 (table IV.3), doubling from $5 billion to $10 billion.[22] As earlier, most were privatization and infrastructure related. Because of the lumpy nature of these sales, cross-border M&As (as well as FDI inflows) into the region have fluctuated widely over the years (figure IV.8d). Poland, the Czech Republic and Croatia were the major target countries in 1999 (figure IV.16), reflecting relatively large privatization programmes.

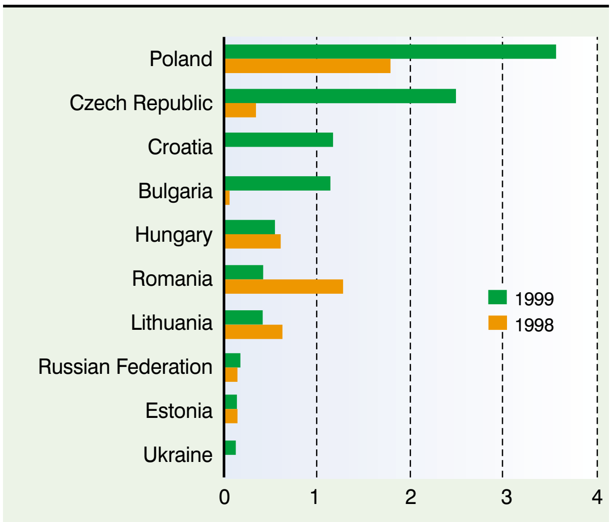
M&As by Western European firms led the field. United States firms gradually got involved through M&As, but the size of their purchases remained small (less than $1 billion). As some countries (e.g. Hungary) have nearly completed their privatization programmes mostly in the manufacturing sector, TNCs are increasingly buying local privately-owned businesses; these deals are generally small compared with those involved in privatization. However, in this region, privatization in the services sector has not yet been completed. For example, the restructuring and rationalization of the banking industry in the Czech Republic and Poland continue to attract cross-border M&As. Cross-border M&As in the Baltic States, in particular in Lithuania, are noteworthy (annex table A.IV.6).

3. Sector and industry trends

The sectoral distribution of cross-border M&As mirrors the development of the pattern of FDI flows in general: there has been a trend towards more services (accounting for 60 per cent in 1999) on a sales basis, with the share of manufacturing declining (to 38 per cent in

FIGURE IV.16

Central and Eastern Europe:[a] cross-border M&A *sales*, top 10 countries, 1998 and 1999[b]
(Billions of dollars)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Includes the countries of the former Yugoslavia.
[b] Ranked on the basis of the magnitude of sales in 1999.

1999) and natural resources becoming negligible (figure IV.17). This trend can be observed irrespective of regions (figures IV.18 and IV.19). In the *manufacturing* sector, the industries with the highest levels of cross-border M&A activity in 1999 were chemicals, electric and electronic equipment and petroleum products. In *services*, the leaders were telecommunications, financial and business services (annex table A.IV.9). At a more disaggregated level, radiotelephone (mobile telephones) communications were by far the most active, followed by pharmaceuticals, life insurance, other telephone communications and electrical power (figure IV.20). Some of these industries have long attracted large-scale

FIGURE IV.17

The sectoral distribution of cross-border M&As in the world, 1987-1999

(Percentages of total value)

Source: UNCTAD, cross-border M&A database and annex tables A.IV.9 and A.IV.10.

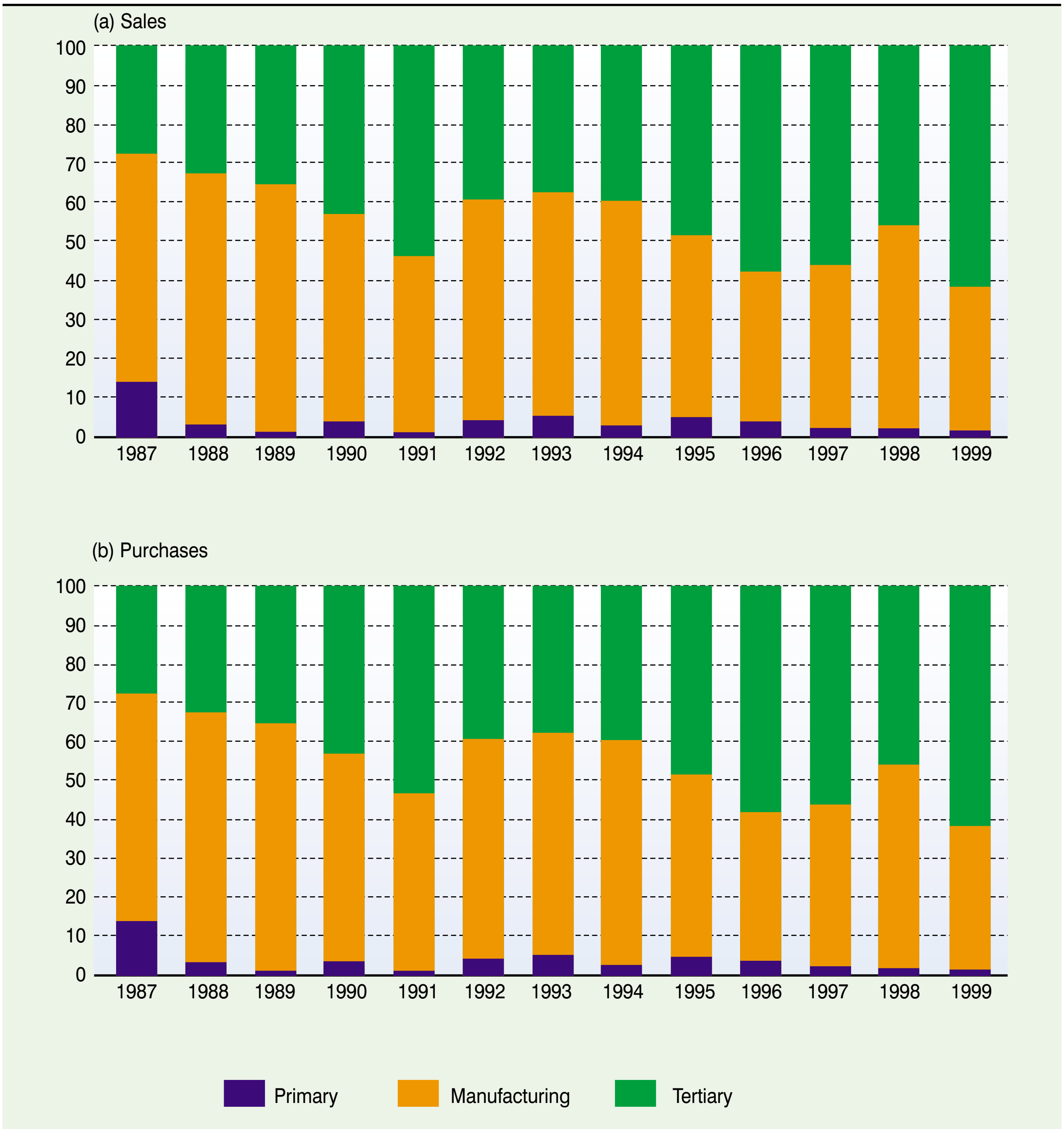
cross-border M&As, partly because of the corporate strategies pursued by main players and partly because of liberalization and deregulation.

The sectoral breakdown of cross-border M&A purchases tends to mirror that of sales, but there are some notable differences at the industry level. In services, for instance, the financial services industry accounted for the highest expenditures in cross-border M&A purchases in 1999 (annex table A.IV.10), while transport, storage and communications were the largest sellers (annex table A.IV.9). Indeed, as this example shows, cross-border M&A deals also take place between different industries. Wholesale and retail trade, as well as business services, sold twice as much as they purchased,

FIGURE IV.18

The sectoral distribution of cross-border M&As in developed countries, 1987-1999

(Percentages of total value)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

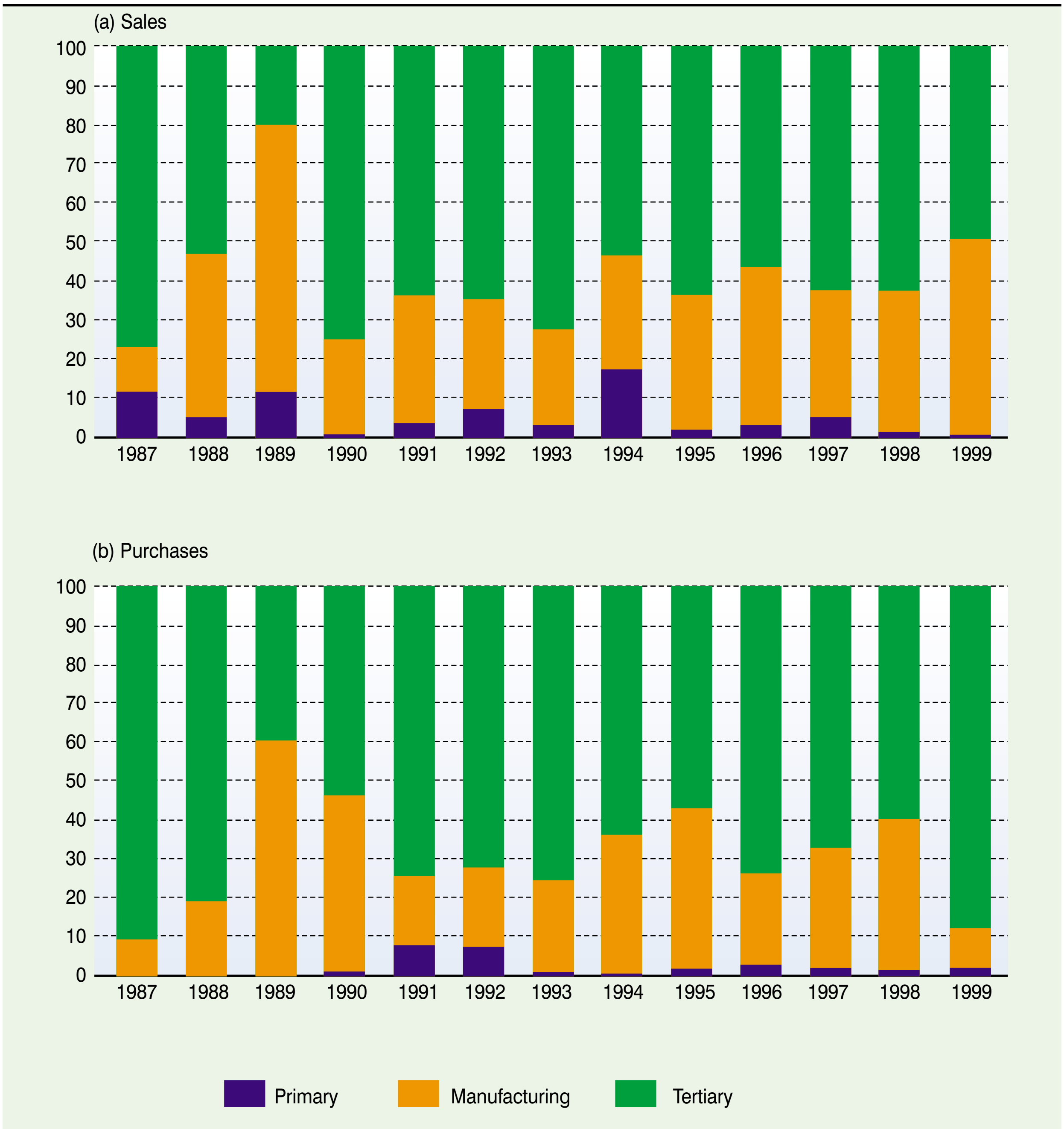
reflecting the fact that the parties involved in cross-border M&As were not from the same industry. In manufacturing, the chemical industry was the largest purchaser, as well as the largest seller.

Horizontal M&As are prevalent in activities like automobiles, defence, pharmaceuticals, telecommunications and banking. In capital and technology-intensive activities, firms may undertake M&As to remain competitive by eliminating excess capacity (e.g. automobiles or defence) and to spread huge investments in information technology and/or R&D (pharmaceuticals, telecommunications and banking). Horizontal M&As also take place in less technology-intensive industries like food, beverages and tobacco, textile and clothing. Economic motivations here seem to be to increase market

FIGURE IV.19

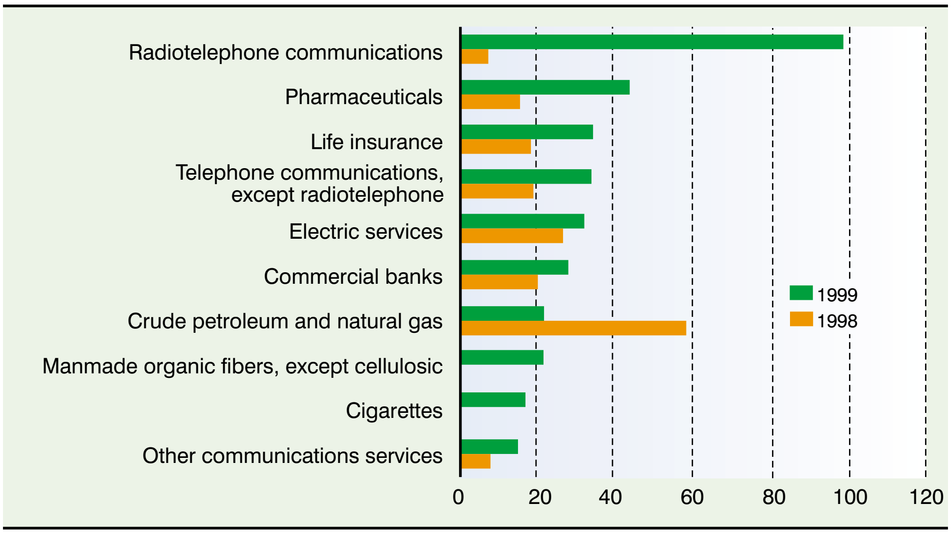
The sectoral distribution of cross-border M&As in developing countries, 1987-1999

(Percentages of total value)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

FIGURE IV.20
Cross-border M&A sales, top 10 industries, 1998 and 1999[a]
(Billions of dollars)



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

[a] Ranked on the basis of the magnitude of sales in 1999.

power by reducing competition, realize scale economies in marketing, distribution and procurement or increase negotiating power vis-à-vis buyer and suppliers as well as financial institutions.

In industries characterizing intense horizontal M&A activity, market concentration is rising. Much of this is driven by the large number of M&As concluded by a few major TNCs. During 1987-1999, the top 10 TNCs concluding the largest cross-border M&A deals accounted for 13 per cent of the total value of deals (table IV.7). Because of mega deals in recent years, this share increased from 15 per cent during 1996-1997 to 31 per cent during 1998-1999. The companies involved in such deals change each year, reflecting the industries that underwent consolidation in a given year. Thus, in 1999, three out of the top 10 TNCs

Table IV.7. The 20 largest TNCs with cross-border M&A activity[a], 1987-1999

Rank	Name	Home	Industry	Value in billion dollars[b]	Number of deals
1	BP Amoco PLC	United Kingdom	Petroleum	65.0	76
2	Vodafone Group PLC	United Kingdom	Telecommunications	60.3	9
3	Mannesmann AG	Germany	Metal and metal products	44.7	44
4	Daimler-Benz/DaimlerChrysler AG	Germany	Transportation equipment	42.9	67
5	ZENECA Group PLC	United Kingdom	Chemicals	35.8	12
6	Aventis SA	France	Chemicals	26.8	13
7	Roche Holding AG	Switzerland	Chemicals	24.7	20
8	Zurich Versicherungs GmbH	Switzerland	Insurance	21.9	36
9	General Electric Co	United States	Electronic and electrical equipment	21.6	183
10	Seagram Co Ltd	Canada	Food and kindred products	20.2	23
11	AXA/AXA-UAP	France	Insurance	19.1	44
12	Suez Lyonnaise des Eaux SA	France	Electric, gas and water distribution	17.8	77
13	News Corp Ltd	Australia	Printing, publishing and allied services	17.4	64
14	Koninklijke	Netherlands	Diversified	17.5	301
15	Aegon NV	Netherlands	Insurance	17.1	22
16	Allianz AG/Allianz AG Holding	Germany	Insurance	16.9	72
17	Repsol SA	Spain	Oil and gas	16.4	24
18	Deutsche Bank AG	Germany	Commercial banks	16.3	57
19	Hoechst AG	Germany	Chemicals	15.9	117
20	Texas Utilities Co	United States	Electric, gas and water distribution	15.7	18
Top 10				363.9	483
Top 20				533.8	1 279
Total				2 821.5	44 583

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

[a] Includes cross-border M&As concluded by their affiliates.
[b] Includes only the deals for which information on transaction values is available.

Box IV.9. Cross-border M&As and concentration in the automotive industry

The automotive industry has gone through substantial restructuring in recent years, partly as a result of weak demand, overcapacity and environmental pressures (e.g. production of "clean cars"). This is an industry where size matters. According to some estimates, an automobile maker has to produce a minimum of 4 million cars to survive (JETRO, 2000). In recent years, a number of automobile makers have either merged, or entered into strategic alliances. For example, General Motors has strategic alliances (with acquisition of shares) with Vauxhall, Opel and Saab Automobile — the latter two now being 100 per cent subsidiaries. Ford Motor Company has acquired Jaguar and Volvo Cars and has a strategic alliance with Mazda.[a] This trend continued in 2000 with the acquisition of a 20 per cent equity of Fiat by General Motors; the acquisition of a 33 per cent equity of Mitsubishi Motors by DaimlerChrysler; and Renault's acquisition of 70 per cent of the shares in Samsung Motor. The impact on concentration has been considerable. In 1999, the 10 largest automobile makers accounted for 80 per cent of the world vehicle production, compared with 69 per cent in 1996 (box table IV.9.1).

Similar developments have characterised the truck industry. After the EU Commission blocked the planned merger between two Swedish firms, Volvo and Scania, for competition reasons, Scania found a new partner in Volkswagen, and Volvo joined up with Renault's truck division, creating the world's second largest truck maker after DaimlerChrysler. There are also numerous strategic alliances involving a small share of equity involvement in the automobile industry. In addition, consolidation, competition and outsourcing in this industry have triggered the restructuring in its supplier industries through M&As.

Source: UNCTAD.

[a] See also UNCTAD, 1999a, chapter II.C.1.

Box table IV.9.1. Automobiles:[a] degree of concentration of the 10 largest TNCs, 1996 and 1999

(1,000 vehicle production units)

TNCs	1996	TNCs	1999
General Motors	8 400	General Motors	8 336
Ford Motor	6 750	Ford Motor	7 220
Toyota Motor	4 756	Toyota Motor	5 401
Volkswagen	3 977	Volkswagen	4 853
Chrysler	2 861	DaimlerChrysler	4 827
Nissan	2 742	Renault[b]	4 720
Fiat	2 586	Fiat[c]	2 596
Honda Motor	2 084	PSA	2 496
Mitsubishi Motor[d]	1 943	Honda Motor	2 423
Renault	1 804	Hyundai Motor	2 081
Total 5 largest	26 744	Total 5 largest	30 637
Share in the world total	49	Share in the world total	54
Total 10 largest	37 903	Total 10 largest	44 955
Share in the world total	69	Share in the world total	80
World total	55 036	World total	56 286

Source: UNCTAD, based on *Automotive News*,1997, 2000.

[a] Includes cars and trucks.
[b] Includes Nissan. Renault purchased a 37 per cent equity share in 1999.
[c] General Motors purchased a 20 per cent equity share in 2000.
[d] DaimlerChrysler purchased a 33 per cent equity share in 2000.

(Vodafone Group, Mannesmann and Deutsche Telekom) were in the telecommunications industry; none of these ranked among the top 10 in the previous years. On the other hand, firms in chemicals and pharmaceuticals appeared almost every year among the top 10 TNCs during 1987-1999, suggesting a prolonged restructuring in this industry.

Concentration has increased in various industries such as automobiles (box IV.9), banking (box IV.10) and pharmaceuticals (box IV.11) because of M&As. Telecommunications, insurance and energy (including petroleum) are other major industries in which concentration has increased with mega cross-border M&A deals contributing significantly (annex table A.IV.4). Liberalization and deregulation have also driven M&As in the services sector (figures IV.17 - IV.19).

There are interesting differences by region and country groups. In developed countries, finance, transport, storage and communications, and chemicals were the largest recipient industries during 1997-1999 (figure IV.21). However, patterns of cross-border M&A sales in the European Union differ from those in the United States even when the values are almost the same (annex tables A.IV.11 and 12). In the European Union, firms in chemicals, and food, beverages and tobacco were the most targeted for M&As by foreign firms. In the United States, the preferred targets were electrical and electronic equipment and chemicals. As acquirers, financial firms were the most aggressive in both the European Union and the United States, accounting for a quarter of total purchases of cross-border M&As (annex table A.IV.13 and 14).

Box IV.10. Cross-border M&As and concentration in the banking industry

M&As, both domestic and cross-border, are changing the structure of the banking industry. Deregulation and liberalization, as well as competitive pressures to cope with mounting information technology costs, have spurred M&A activity. Although the largest banks are still created through domestic M&As, a number of large banks were born through cross-border M&As. Thus, in 1999, Deutsche Bank – Bankers Trust New York, HSBC – Republic New York, HSBC – Safra Republic, and three other cases were all mega deals with a transaction value of more than $1 billion each (annex table A.IV.4). The result is increased concentration among the top banks. For example, the largest 25 banks measured by assets accounted for 33 per cent of the assets of the 1,000 largest banks in 1999, compared with 28 per cent in 1996.[a] The factors driving M&As in the banking industry differ between regions. The abolition of the Glass-Stegall Act in the United States in 1999 dismantled the wall between banking and securities. Deregulation and the introduction of the single currency in the European Union, financial liberalization in Japan (the Japanese "big bang"), and the restructuring of banking in countries affected by the financial crisis all contributed to large-scale M&As.

Source: UNCTAD.

[a] Data from "Top 1000", *The Banker*, July 2000.

Box IV.11. Cross-border M&As and concentration in the pharmaceutical industry

The need to share the costs for expensive R&D and to derive synergies is driving the spate of cross-border M&A activity in this industry. All the largest pharmaceutical companies have grown through M&As rather than organic growth. Most recently two giants, AstraZeneca and Aventis (Hoechst and Rhône Poulenc), were established through cross-border mergers. Those and other consolidations have led to a further concentration of the industry. In 1999, the top five and ten largest TNCs accounted for 28 and 46 per cent of the world sales of pharmaceutical products, respectively, compared to 19 and 33 per cent respectively, in 1995.[a] The ageing population in developed countries, growing demand for pharmaceutical products in developing countries and advances in biology (genomics) have led pharmaceutical firms to reconsider their corporate strategies. As the United States accounts for 40 per cent of global sales and has in many therapeutic areas the leading R&D clusters, it is attracting foreign firms to invest in the country.

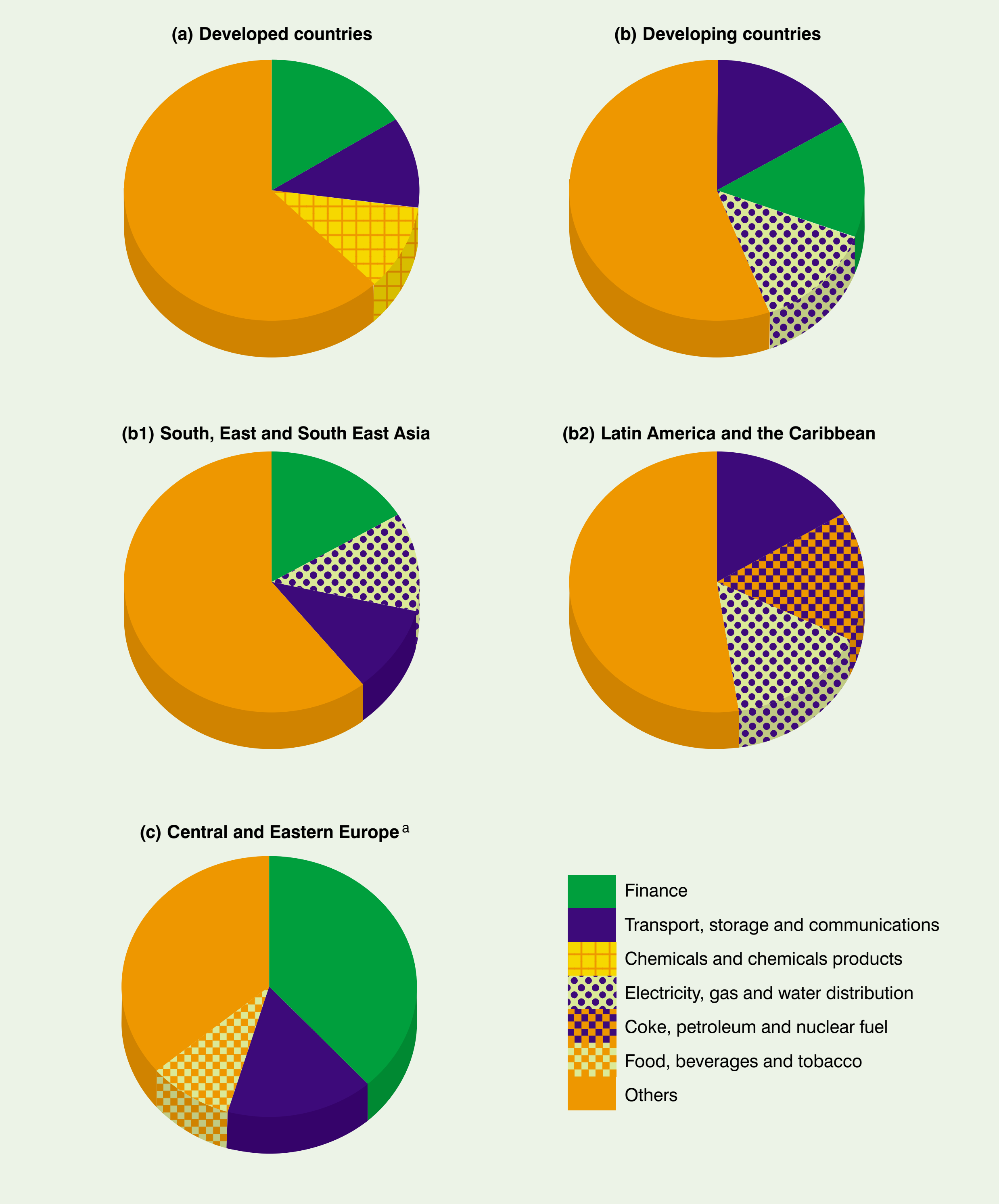
Source: UNCTAD.

[a] "Life sciences & pharmaceuticals", *The Financial Times*, 6 April 2000; and "Pharmaceuticals", *The Financial Times*, 24 April 1997. Pharmaceuticals was a $350 billion industry in world sales in 1999 ($218 billion in 1995).

FIGURE IV.21

Three largest recipient industries in cross-border M&A sales, by region, 1997-1999

(Percentages of total value)



Source: UNCTAD, cross-border M&A database and annex tables A.IV.9 and A.IV.10.

[a] Includes the countries of the former Yugoslavia.

Japan is in a different situation altogether. Although M&As are growing, the values of cross-border sales and purchases remain relatively small. Because of this, a few large M&As strongly affected the industry distribution in individual years. In 1999, the finance industry dominated on the sales side (annex table A.IV.15), while the food, beverages and tobacco industries were predominant on the purchase side (annex table A.IV.16). In previous years, the pattern was quite different.

It is difficult to identify any clear trends in developing countries. In developing Asia the ranking of recipient industries has changed each year (annex table A.IV.17). During 1997-1999, finance, electricity, gas and water distribution and transport, storage and communications, were the largest targeted industries (figure IV.21). In Latin America and the Caribbean, transport, storage and communication, coke and petroleum products, and utilities (electric, gas and water) received sizeable cross-border M&As (figure IV.21 and annex table A.IV.19). The differences between the regions are partly explained by differences in liberalization and deregulation, privatization and investor attitudes.

After the Asian financial crisis, cross-border M&As in the five main crisis-hit countries, accounting for more than 60 per cent of the Asian total in 1998-1999, influenced the level and distribution of M&As by industry in developing Asia. For example, finance became the largest industry for foreign acquisitions after the crisis (annex table A.IV.18). In Central and Eastern Europe, finance was also strongly targeted (figure IV.21). Partly due to large capital requirements, petroleum products and motor vehicles attracted large cross-border M&A deals (annex table A.IV.20). The relatively large volume of cross-border M&As in food, beverages and the tobacco industries is also noteworthy in Central and Eastern Europe.

4. Privatization and cross-border M&As

Privatization is a special form of acquisitions, involving domestic and/or foreign firms taking over a part or the whole of the equity of state-owned firms. Sales to foreign firms constitute cross-border M&As. In Latin America and Central and Eastern Europe, privatization has been an important means of attracting FDI and it is growing in developing Asia.

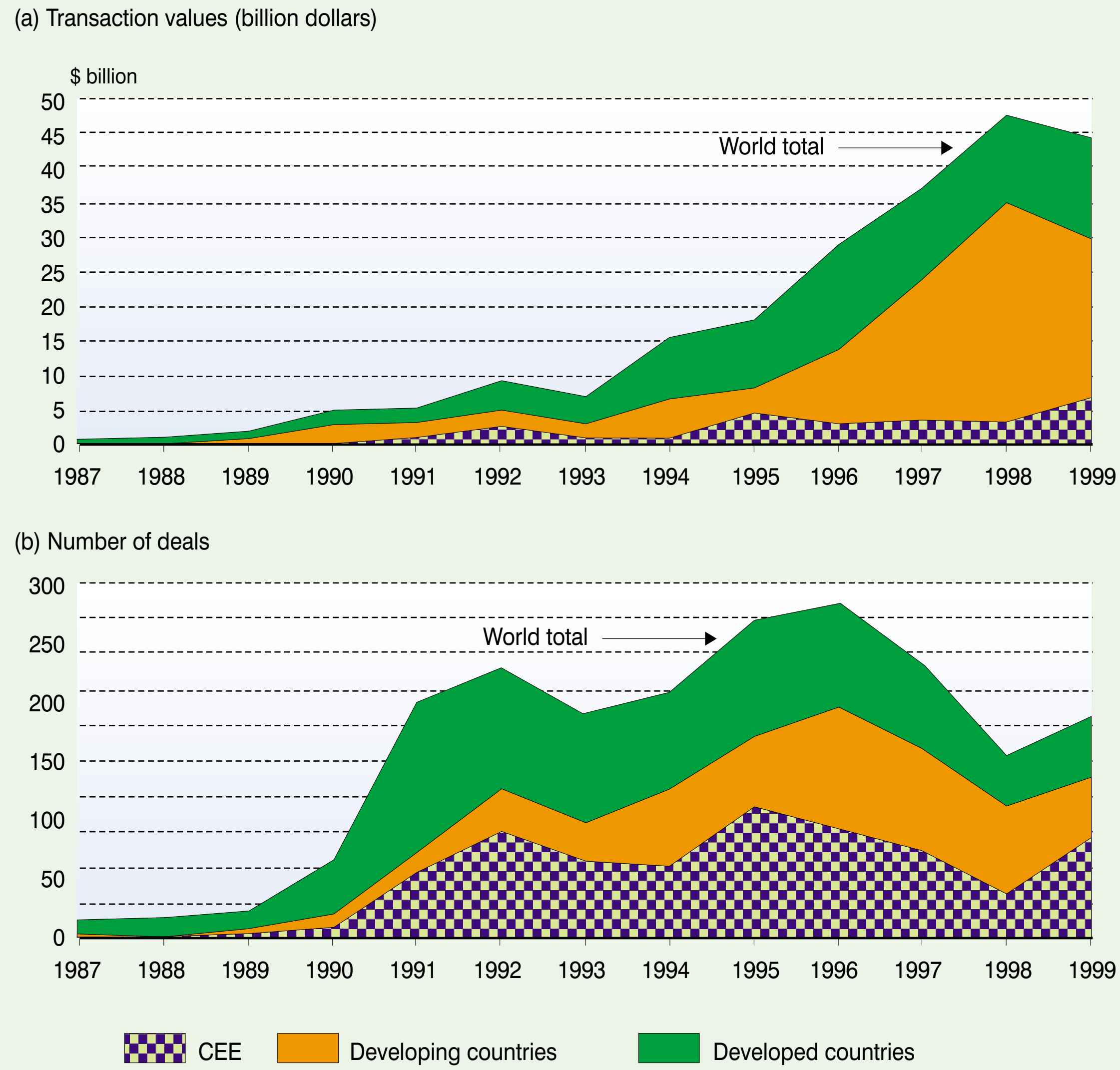
The amounts involved over the years in privatization programmes in developed countries have been larger than those in developing countries. In 1998, for example, only $28.5 billion out of $114.5 billion privatization sales (total, not just cross-border) in the world were in non-OECD countries (OECD, 1999),[23] of which the bulk ($25.5 billion) was in Brazil. In 1998 privatization in developing Asia fell, but remained robust in Latin America, while a sharp decline in Latin America in 1999 led to declining privatization revenues in the developing world as a whole. The increase in sales in the developed world continued. While the value of cross-border M&As through privatization has continued to increase in recent years, the number of deals reached a plateau by the early 1990s (figure IV.22).

Foreign acquisitions of privatized firms as a percentage of the total value of cross-border M&As in the world reached about one-tenth in the mid-1990s, but fell to 6 per cent in 1999. In developed countries, the bulk of privatization is to domestic buyers, while in developing countries foreign participation has been higher than domestic participation.[24] Of the world's 50 largest privatizations involving foreign buyers during 1987-1999, less than half (23) were in developed countries. As a result, the amount raised through privatization to foreign buyers by developing countries sometimes exceeds those achieved by developed countries by a factor of two during 1997-1998 (annex table IV.22). In Central and Eastern Europe, privatization has been an integral part of the transition to a market economy, accounting for a substantial share of cross-border M&As (figure IV.23). Nevertheless the majority of privatized assets has been acquired by or distributed to domestic stakeholders, depending on the methods used when privatizing. Although a number of countries sold state enterprises to foreign firms, foreign acquisitions of state-owned enterprises, on a value basis, were concentrated in a handful of countries: 11 countries sold more than $5 billion each worth of privatized firms during 1987-1999 (annex table A.IV.21). Brazil, Argentina and Australia were the largest sellers, receiving $32 billion, $26 billion and $24 billion, respectively, during that period (annex table A.IV.21).

Privatizations of capital-intensive infrastructure activities such as telecommunications and utilities, and those related to the restructuring of industries such as automobiles and petroleum, have attracted substantial amounts of capital to some countries. In fact, most of the cross-border mega deals in developing countries are privatization-related (see annex table A.IV.4 for 1999). The two largest cross-border acquisitions of privatized firms made in the past were in Latin America: Brazil and Argentina (table IV.8). In Brazil, for instance, in the case of the privatization of the telecommunications company Telebras, more than half of the privatization revenues (about $11 billion) were raised through cross-border acquisitions. The participation of foreign firms in the Brazilian privatization programme continued strongly in 1999, attracting acquisitions of $2.8 billion, just behind Argentina, Germany and Australia (annex table A.IV.21). The removal of restrictions on foreign ownership, as well as the start of a new phase in privatizations in

FIGURE IV.22

Transaction values and the number of cross-border M&As of privatized firms in the world and by region, 1987-1999



Source: UNCTAD, cross-border M&A database (based on data from Thomson Financial Securities Data Company).

Note: CEE includes the countries of the former Yugoslavia.

1995, account for this performance in Brazil. In the case of Argentina the privatization of YPF was a prominent case in 1999.

Examples of other countries with large-scale privatizations of telecommunications through cross-border M&As were Austria, Belgium, the Czech Republic, Mexico, Peru, South Africa and Venezuela. Energy-related and mining (including petroleum) activities also attracted large cross-border M&As for privatization in developed and developing countries (table IV.8).

* * * *

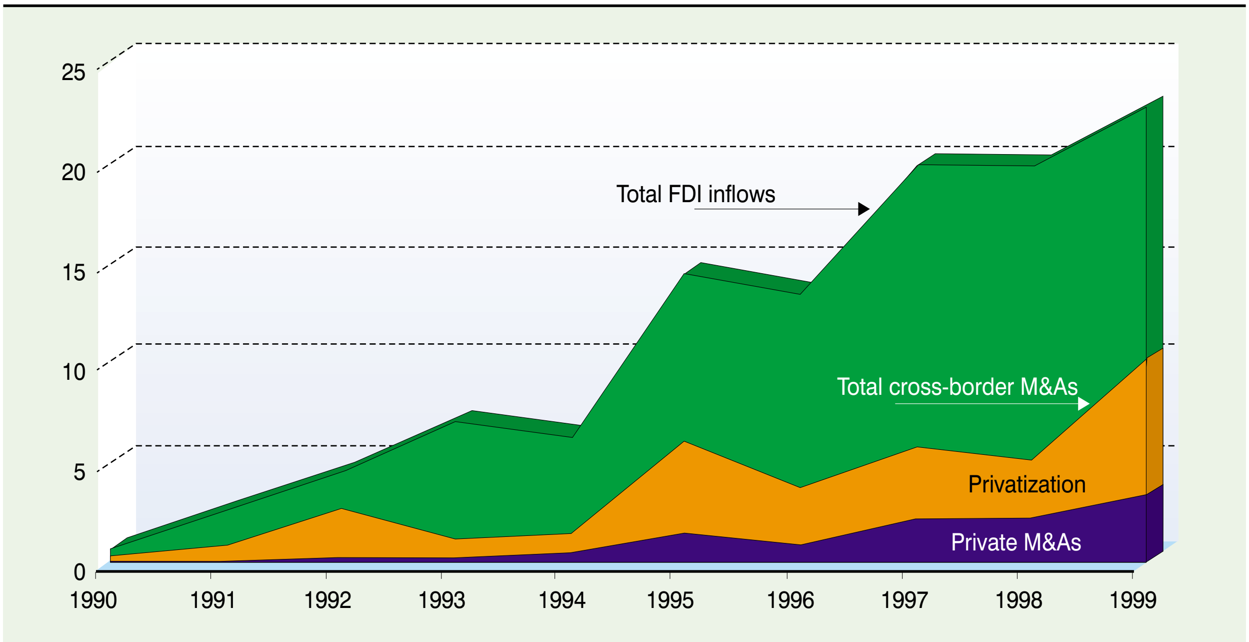
To conclude, cross-border M&As have risen significantly in importance. Given the number, value and spread of the transactions involved, one can now speak of a market for firms, a market that is increasingly global in nature and in which firms are bought and sold, as they merge, acquire or divest. To be sure, most of this market is in and among developed countries and even there not all countries are equally involved. It is also uneven in terms of industries, reflecting differences in economic structure, corporate governance and corporate strategies. But more and more countries, including developing countries and countries in Central Europe, are drawn into it, as are more and more industries and firms, large or small.

Since cross-border M&As have become an important element in the expansion of the international production system, there is a need for a better understanding of what factors drive these transactions and what distinctive impacts they have on host country development. The following chapters address these issues.

FIGURE IV.23

Total FDI and cross-border M&As in Central and Eastern Europe,[a] 1990-1999

(Billions of dollars)



Source: UNCTAD, FDI/TNC database and cross-border M&A database

[a] Includes the countries of the former Yugoslavia.

Table IV.8. The world's 50 largest privatization deals involving foreign firms, 1987-1999

Rank	Privatized firm	Year	Value of acquisition (billion dollars)	Country	Acquiring foreign firm	Acquiring country[a]
1	YPF SA	1999	13.2	Argentina	Repsol SA	Spain
2	Argentina-Airports(33)	1998	5.1	Argentina	Aeropuertos Argentina 2000	United States
3	TELESP(Telebras)	1998	5.0	Brazil	Investor Group	Spain
4	Victoria-Loy Yang A Power	1997	3.8	Australia	Investor Group	United States
5	Energie Baden-Wuerttemberg AG	1999	3.4	Germany	Investor Group	France
6	Telesp Celular Participacoes	1998	3.1	Brazil	Investor Group	Portugal
7	Credit Communal de Belgique SA	1996	3.1	Belgium	Credit Local de France SA	France
8	Nobel Industrier Sweden AB	1994	3.0	Sweden	Akzo NV	Netherlands
9	Coca-Cola Bottlers Philippines	1997	2.7	Philippines	Coca-Cola Amatil Ltd	Australia
10	Belgacom	1996	2.5	Belgium	ADSB Telecommunications BV	United States
11	Telekom Austria	1998	2.4	Austria	Telecom Italia SpA	Italy
12	Embratel(Telebras)	1998	2.3	Brazil	MCI Communications Corp	United States
13	YPF SA	1999	2.0	Argentina	Repsol SA	Spain
14	PowerNet Victoria(GPU Inc)	1997	2.0	Australia	GPU Inc	United States
15	Entel Peru SA,Cia Peruana	1994	2.0	Peru	Investor Group	Spain
16	Stockholm Energi AB	1998	2.0	Sweden	Gullspangs Kraft(Imatran Voim)	Sweden
17	CA Nacional Telefonos de VE	1991	1.9	Venezuela	VenWorld Telecom CA	United States
18	Svyazinvest	1997	1.9	Russian Federation	Mustcom Ltd	Cyprus
19	Yallourn Energy	1996	1.8	Australia	Investor Group	United Kingdom
20	Hazelwood Power Station	1996	1.8	Australia	Hazelwood Power Partnership	United Kingdom
21	Sidor	1998	1.8	Venezuela	Consorico Siderurgia Amazonia	Argentina
22	Telecentro Sul (Telebras)	1998	1.8	Brazil	Investor Group	Italy
23	Light SE	1996	1.7	Brazil	Investor Group	United States
24	Telmex	1990	1.7	Mexico	Investor Group	United States
25	Australia-Dampier to Bunbury	1998	1.6	Australia	Epic Energy Inc	Canada
26	Eastern Energy Ltd	1995	1.6	Australia	Texas Utilities Co	United States
27	Cia de Electricidade do Estado	1997	1.6	Brazil	Investor Group	Spain
28	Powercor Australia	1995	1.6	Australia	Investor Group	United States
29	Elsag Bailey Process	1999	1.5	Netherlands	ABB Transportation	Netherlands
30	SPT Telecom	1995	1.5	Czech Republic	Telsource consortium	Netherlands and Switzerland
31	Ferrocarril del Noreste	1997	1.4	Mexico	Transportacion Ferroviaria	Mexico
32	Cie Centro Oeste	1997	1.4	Brazil	AES Corp	United States
33	Kaztelekom	1997	1.4	Kazakhstan	Daewoo Corp	Republic of Korea
34	Citipower Ltd(Entergy Corp)	1996	1.3	Australia	Entergy Corp	United States
35	Telkom South Africa	1997	1.3	South Africa	Investor Group	United States
36	Ikon Energy/Multinet Gas	1999	1.3	Australia	Energy Partnership	United States
37	Santa Fe Exploration	1996	1.2	United Kingdom	Saga Petroleum AS	Norway
38	Codensa	1997	1.2	Colombia	Investor Group	Spain
39	Retevision	1997	1.2	Spain	Investor Group	Italy
40	OK Petroleum AB	1994	1.2	Sweden	Corral Petroleum Holdings AB	Sweden
41	Telesudeste Celular(Telebras)	1998	1.2	Brazil	Investor Group	Spain
42	FSM	1992	1.1	Poland	Fiat Auto SpA(Fiat SpA)	Italy
43	Ceskoslovenska Obchodni Banka	1999	1.1	Czech Republic	KBC Bancassurance Holding NV	Belgium
44	Tengizchevroil	1996	1.1	Kazakhstan	Mobil Corp	United States
45	Bank Polska Kasa Opieki SA	1999	1.1	Poland	Investor Group	Italy
46	ASLK-CGER Insurance,ASLK-CGER	1993	1.1	Belgium	Fortis International NV	Netherlands
47	Cemig(Minas Gerais)	1997	1.1	Brazil	Southern Electric Brazil	United States
48	Cellulose du Pin-Paper & Pkg	1994	1.0	France	Jefferson Smurfit Group PLC	Ireland
49	Cia Riograndense de Telecomun	1998	1.0	Brazil	Investor Group	Spain
50	Kinetik Energy/Westar	1999	1.0	Australia	Texas Utilities Australia Pty	Australia

Source: UNCTAD, cross-border M&A database, based on data from Thomson Financial Securities Data Company.

[a] For deals whose host and acquiring countries are the same, the ultimate parent country is different. For details, see box IV.4.

Notes

1 In addition to these two modes of entry, the concept of "brownfield investment" can also be found in the literature. It denotes a hybrid situation, between greenfield and acquisition, where investments that are formally an acquisition resemble greenfield projects. In such "brownfield projects", the foreign investor acquires a firm, but almost completely replaces plant and equipment, labour and product line (Meyer and Estrin, 1998). This concept has been applied in particular in cases of acquisitions in transition economies.

2 There are also some cases in which the headquarters are placed in a third country (e.g. the United Kingdom in the case of Pharmacia (Sweden) and Upjohn (United States).

3 In the case of full (100 per cent) acquisitions, deals may also be referred to as (statutory) mergers, though there is a distinction between these two forms (figure IV.1).

4 In addition, the classification of M&As into horizontal, vertical and conglomerate types may lose some of its relevance as a new type of M&A seems to be emerging. Internet companies, or internet holding companies, are investing in a large number of other internet companies, taking usually minority shares. For example, Softbank of Japan has invested in more than 100 internet firms, both at home and abroad, taking less than 30 per cent shares of the companies. Since these internet firms are engaged in many different segments of the internet industry, they are not vertical investments. They could be related with each other in business, making them difficult to be classified as "conglomerate". They can be horizontal, but not exactly in the same line of business. What some of these internet holding companies are trying to do with a series of minority acquisitions is to create an "econet" or economic network, in which various firms linked through minority equity holdings formulate a loose network of affiliated firms and have influence (in such activities as setting standards) in shaping the future of the industry. This would be a new concept of business in the sense that the firms involved are not interested in "control" *per se*, i.e. in formulating a hierarchical organization, but organizing a horizontal network of like-minded companies (Jung, 2000).

5 It should be stressed that the data in figure IV.3 and annex table A.IV.2 are just indicative of the trend. The share of financially motivated deals may well be underestimated as short-term financial gains can be important motives also in the case of cross-border M&As by non-financial firms.

6 This, in turn, can have implications for how M&As are implemented, not only because the target firms may be less prepared to proceed, but also because the acquirers may have to recoup some of the premiums paid by selling some assets.

7 On a completion basis the value of hostile cross-border takeovers accounted for 1 per cent in 1999 for all cross-border M&As (figure IV.4), compared with 3 per cent for domestic hostile takeovers. In that year, however, a number of high-profile hostile M&As were *announced*, including Vodafone AirTouch's bid for Mannesmann (which succeeded in 2000). Therefore, in terms of announced value, hostile M&As accounted for 14 per cent of *all* M&As (cross-border and domestic) in 1999. "The world is not enough ... to merge", press release by Thomson Financial Securities Data Company, 5 January 2000.

8 One case in Chile (Banco Santiago) in 1995 by a Spanish bank (Banco Central Hispanoamericano), two cases in Cayman Islands (GT Chile Growth Fund) by a firm based in the United Kingdom (Regent Kingpin) in 1995 and 1996, and one case in Papua New Guinea (Highlands Gold Ltd.) by a Canadian firm (Placer Dome) in 1997.

9 Unless otherwise noted, *WIR2000* uses data on a completion basis. In addition, transaction values are used in *WIR2000*. They do not, therefore, take into account the value of any liabilities of target firms.

10 "20th century: survey", *The Economist*, 11 September 1999, p. 39.

11 Data for cross-border M&As are systematically collected only from 1987 onwards.

12 KPMG reports $787 billion in cross-border M&As for 1999 (including portfolio M&As), of which $659 billion were majority-owned M&As. Data provided by KPMG Corporate Finance in the Netherlands. The differences between the data reported by KPMG and the data used in the present report essentially lie in the different treatment of cross-border M&A data. While the former do not include increases in stakes in joint ventures in which the target firm remains as a joint venture, the latter do.

13 The data are provided by Thomson Financial Securities Data Company. The period is between 1 January and 13 June. They refer to all cross-border M&As (including portfolio cross-border M&As).

14 Since 1998, 16 deals have had a value of

more than $10 billion: six in 1998 and ten in 1999. There were no such deals before (table IV.4).

15 Based on about 200 deals for which information on sources of funds is available (UNCTAD, cross-border M&A database).

16 Reported by J.P. Morgan, quoted in "International mergers and acquisitions", *Financial Times*, 22 September 1999.

17 In this calculation of investment expenditures, invested funds include those raised in the United States and abroad. For details, see box IV.3.

18 This reflects the fact that greenfield FDI is still dominant in outward FDI even though M&As have been rising.

19 There is also one large acquisition from the Islamic Republic of Iran – a 50 per cent acquisition of Telecom Eireann (Ireland) for $4.4 billion.

20 However, this investment proved to be short-term. In 1998, Daewoo sold its shares to portfolio investors and back to the Government.

21 Includes the countries of the former Yugoslavia.

22 The figures for Central and Eastern European cross-border M&A sales may significantly underestimate the real volume of such sales because a number of deals, especially at the local level, go unreported.

23 Data for the Czech Republic, Hungary, Republic of Korea, Mexico, Poland and Turkey are included in the OECD total as they are OECD member States. The World Bank reports $49.3 billion in privatization revenues in 1998 for developing countries (including Central and Eastern Europe) (World Bank, 2000a).

24 For example, during the period 1990-1998 in Brazil, three-quarters of privatizations involved foreign buyers, while in Poland nearly 80 per cent of privatization sales involved foreign firms. The data on privatization revenues are from World Bank, 2000.