

# **THE PATTERN OF FOREIGN ENTRY IN THE FINANCIAL MARKETS OF EMERGING COUNTRIES<sup>1</sup>**

## **1. Introduction**

This study provides an overview of the pattern of entry of foreign investors in emerging-country financial sectors through mergers and acquisitions (M&As) between 1990 and 2002. Nearly 100 emerging countries are included in this study (30 are countries in Africa and the Middle-East, 17 in Asia, 26 in Eastern Europe, and the rest in Central and South America). Strong focus is placed on deals in which the bidders are financial institutions of the 13 main industrial countries, here defined as the G10 countries, Spain and Australia.

The data on mergers and acquisitions used in this work have been taken from Thomson Financial-Security Data Company Platinum, an international data set on corporate finance operations for a very large number of companies and countries. Two methods of consolidation are considered, namely mergers and acquisitions of majority interest (i.e. after the transaction the acquirer owned more than 50% of the target). In both cases, two formerly independent firms become commonly controlled.

The remainder of this study is organized as follows. Section 2 presents extensive data and broad discussion of merger and acquisition activity in emerging countries. Section 3 focuses on cross-border deals. Section 4 analyzes regional patterns. The study ends with a brief conclusion.

## **2. Global Patterns**

According to Thomson Financial, between 1990 and 2002 there were nearly 13,500 deals in which a financial firm was acquired by another financial firm (Table 1).<sup>2</sup> The total value of transactions for which the terms are known was \$2,500 billion,<sup>3</sup> with an average value (based on the number of deals with an associated value) of \$340 million.

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<sup>1</sup> This study has been prepared by Dario Focarelli who thanks Gerard Dages for his comments.

<sup>2</sup> Transactions announced between 1990 and 2002 were included in the analysis. The announcement year is used as the year of the deal. Only deals that were completed or pending in January 2003 were included in the sample. Transactions that were cancelled after being announced were excluded.

<sup>3</sup> In 45% of the cases included in the analysis, SDC was not able to collect data on the value of the deal. Consequently, that information is not included in the analysis for those transactions, even though the transactions

Mergers and acquisitions increased sharply in both number and value in the late 1990s, when stock market valuations were extremely high. Between 1997 and 2000, 1,325 mergers and acquisitions took place each year in the financial sector, compared with 872 between 1990 and 1996. The total value of transactions per year rose from \$78 billion to \$408 billion, partly owing to a threefold increase in the average deal value per year (up from \$168 million to \$530 million). M&A activity fell off considerably in 2001-2002 as share prices slumped. The annual number of M&As between 2001 and 2002 decreased by nearly 20% with respect to the 1997-2000 period, and their total value per year fell from \$408 billion to \$167 billion.

Table 1

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Financial Sector Mergers and Acquisitions</b>														
	#	380	707	755	834	970	1226	1232	1229	1309	1373	1390	1175	899
<b>TOTAL</b>	\$bn.	41.7	48.4	48.3	72.4	59.2	168.2	110.2	313.0	531.1	397.3	392.5	226.9	106.4
	Avg\$mn	215	150	138	153	102	250	167	416	651	541	512	383	222
	#	324	549	616	682	773	856	842	901	874	887	823	674	466
<b>Leading Countries</b>	\$bn	38.0	38.2	38.4	65.3	53.4	151.6	97.0	293.0	495.1	353.2	346.4	187.5	89.1
	Avg\$mn	228	157	135	165	111	315	202	503	827	675	714	512	335
	#	32	94	70	102	148	306	349	297	388	407	497	443	401
<b>Emerging Countries</b>	\$bn	2.3	7.9	8.4	6.3	3.3	8.5	10.2	11.7	27.3	20.9	23.7	36.4	15.7
	Avg\$mn	176	130	178	112	41	52	61	74	138	122	98	177	78

Source: Thomson Financial, SDC Platinum

The vast majority of the M&A activity involved firms from leading countries. Those transactions accounted for 90% of total activity measured in terms of the value of deals and for 70% in terms of their number. A comprehensive overview of the patterns of consolidation in the financial services sector of the leading countries during the 1990s is provided by a report of the Group of Ten (2001, *Consolidation in the Financial Sector*). The most important empirical findings of that study are:

themselves are included. This means that in the mergers and acquisitions tables, reported figures for the total value of transactions actually refer to the total value for the subset of transactions for which values were reported. As a result, reported figures should understate the true total value, although probably by only a small amount as values should be available for most large deals.

- (1) There was considerable merger and acquisition (M&A) activity in the 1990s among financial firms in the 13 countries studied. In addition, the level of activity increased over time, with a noticeable acceleration in the last three years of the decade. A significant number of large, and in some cases increasingly complex, financial institutions have been created as a result.
- (2) Most mergers and acquisitions involved firms competing in the same segment of the financial services industry and in the same country, with domestic mergers involving firms in different segments the second most common type of transaction.
- (3) Cross-border M&As were less frequent, especially those involving firms in different industry segments. However, cross-border activity was fairly strong among insurance companies.
- (4) Most M&A activity in the financial sector during the 1990s involved banking firms. Acquisitions of banking firms accounted for 60% of all financial mergers and 70% of the value of those mergers.

An increasing share of M&A activity involved financial institutions from emerging countries as target firms. The proportion of such deals increased in terms of number from 18% in 1990-1996, to 30% in 1997-2000 and to 41% in 2001-2002. The picture is somewhat different when M&A activity is measured according to the total value of transactions, given the much smaller size of financial system and individual institutions in emerging countries. In this case, the proportion of deals involving emerging countries equals 16% of the total in the last two years, compared with 9% in 1990-96 and 5% in 1997-2000.

In the next paragraph we analyze in detail deals in the emerging countries, with a special emphasis on cross-border transactions.

### **3. Emerging Countries' Patterns**

Compared with total M&As, the number and total value of cross-border operations in the financial sector are much higher for emerging countries than for industrial countries, in many cases reflecting the need for outside capital in the wake of local banking difficulties. The cross-border proportion of M&A activity between 1990 and 2002 was 33% in the emerging countries (Table 2),

compared with 13% in the leading countries. In terms of the value of transactions, the difference was even more pronounced (respectively, 42% and 14%).

**Table 2**

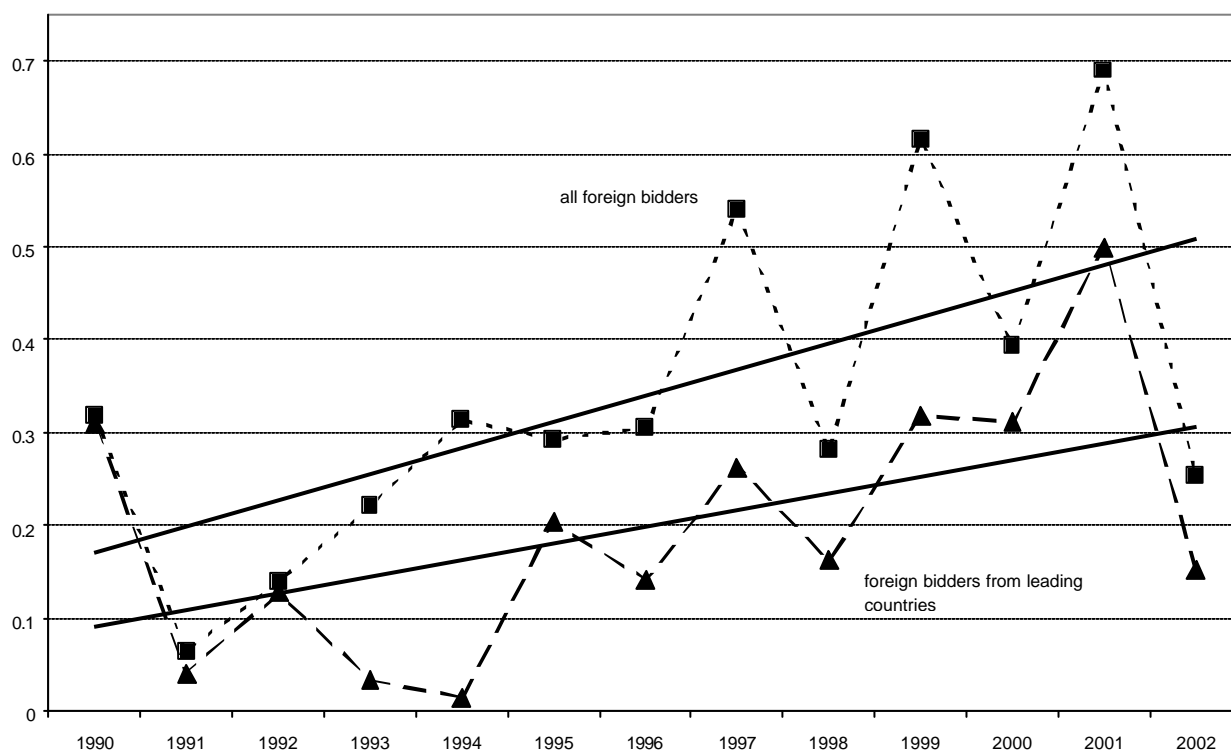
**Financial Sector Mergers and Acquisitions in Emerging Countries**

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Domestic</b>	#	13	72	45	63	91	208	235	187	244	254	324	298	289
	\$bn.	1.6	7.4	7.2	4.9	2.2	6.0	7.1	5.4	19.6	8.1	14.4	11.3	11.8
	Avg\$mn	260	149	206	119	41	54	59	55	162	80	92	84	85
<b>Cross-border</b>	#	19	22	25	39	57	98	114	110	144	153	173	145	112
	\$bn	0.7	0.5	1.2	1.4	1.0	2.5	3.1	6.3	7.7	12.8	9.3	25.1	4.0
	Avg\$mn	104	46	97	92	41	48	66	105	100	183	107	353	64
<b>Bidder from Leading Countries</b>	#	12	11	12	17	24	50	47	43	67	74	75	60	31
	\$bn	0.7	0.3	1.1	0.2	0.0	1.7	1.4	3.1	4.5	6.7	7.4	18.2	2.4
	Avg\$mn	177	108	179	35	8	82	103	154	121	175	194	505	140

Source: Thomson Financial, SDC Platinum

**Figure 1**

**Incidence of cross-border M&As in the financial sector of emerging countries  
(value of transactions)**



The incidence of cross-border M&A in the financial sector of the emerging countries was fairly stable over the years in terms of number of deals. By contrast, in terms of value it was quite volatile around an upward trend (Figure 1). However, high volatility suggests that the sharp decline observed in the incidence of cross-border M&As in 2002 may not represent a break in the historical trend. Nevertheless, the magnitude of this reduction (the percentage declined from 69% in 2001 to 25% in 2002) should be seen as a warning and it needs a careful examination. The issue is analyzed in greater detail in the following paragraph, looking at different regions and individual countries. In the majority of cross-border M&A activity in emerging countries the acquirers are financial institutions from leading countries.

Most of the cross-border M&A activity between 1990-2002 involved banking firms, which accounted for 77% of the value of all deals. Insurance and securities/other firms acquisitions represented only about 11% each. Interestingly, only 45% of deals involved the acquisition of a banking organization<sup>4</sup>: the average size of banking deals (\$195 million) was in fact almost three times larger than in the insurance markets.

Same-industry M&As represented the largest share of cross-border activity, accounting for 73% of all cross-border deals and for 57% of their total value. This difference is due to the fact that a fairly large share of bank acquisitions was made by foreign insurance companies (25% of the value of all cross-border deals) and foreign securities/other firms (24 per cent).<sup>5</sup>

#### **4. Regional Patterns**

Patterns in M&A activity for the emerging countries are now examined more closely on a regional basis. Nations are placed into one of five geographic regions – Africa/Middle-East, Asia (excluding Japan), Eastern Europe, Central America (including Caribbean countries), and South America.

Deals involving Central American firms, classified by the target's country, accounted for 32,6% of all cross-border financial deals in emerging countries in 1999-2002 in terms of the total value of transactions (Figure 2). The picture was dominated by firms located in Mexico: roughly 80% of Central American deals involved Mexican firms (the merger/takeover of Banacci by

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<sup>4</sup> Securities/other firms were targets in about a third of deals, and acquisitions of insurance firms constituted about a quarter of transactions.

Citigroup in 2001 alone accounted for more than half of total cross-border deals in Central America). Overall, cross-border deals in the region accounted for 56% of total transactions (Figure 3): the unweighted average of this indicator for the last two years is 99%.

Deals involving Eastern European firms accounted for 15.5% of all cross-border deals. Roughly one-third of these deals involved firms located in Poland, and one-fifth Czech Republic institutions. Croatia and Hungary each accounted for about 8%. Eastern Europe is the region with the highest proportion of cross-border deals (86%, Figure 3). As in Central America, there is no sign of the incidence declining in the last two years.

**Table 3**

**Cross Border M&As in Selected Regions**

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Africa/</b>	\$bn.		1		177	51	201	103	553	1518	2591	269	158	125
<b>Mid-East</b>	cross		0.1		44.6	10.0	25.9	19.5	49.2	10.5	41.1	22.0	14.9	40.6
<b>Asia</b>	\$bn.	303	146	109	1007	782	479	312	779	1806	3130	1327	6894	1005
		18.5	18.1	5.9	27.2	40.6	16.8	6.2	33.2	47.3	45.2	15.6	44.7	9.4
<b>Eastern Europe</b>	\$bn.	425		125	151		319	240	543	695	3833	1946	2447	940
		100.0		79.2	41.3		89.0	40.5	57.8	64.8	98.7	98.1	95.2	85.1
<b>Central America</b>	\$bn.		302	915	1		643	846	496	131	2485	2037	14948	1793
			4.7	15.6	0.1		69.7	38.8	72.8	4.0	93.3	56.2	98.5	100.0
<b>South America</b>	\$bn.		59	17	43	196	842	1612	3932	3523	805	3485	626	127
			48.7	100.0	7.4	27.5	23.5	87.4	59.6	74.4	70.7	56.2	29.4	6.8
<b>Total</b>	\$bn	727	507	1166	1379	1030	2484	3113	6304	7674	12844	9064	25073	3990
		31.8	6.4	14.0	22.1	31.4	29.3	30.6	53.9	28.1	61.4	42.1	68.9	25.3

Source: Thomson Financial, SDC Platinum

<sup>5</sup> In the insurance sectors, same-industry M&As represented 82% of all cross-border deals and 86% of their total value, compared with 71% and 66%, respectively, for securities/other firms.

Figure 2

Cross-border M&As in the financial sector of emerging countries  
(value of transactions)

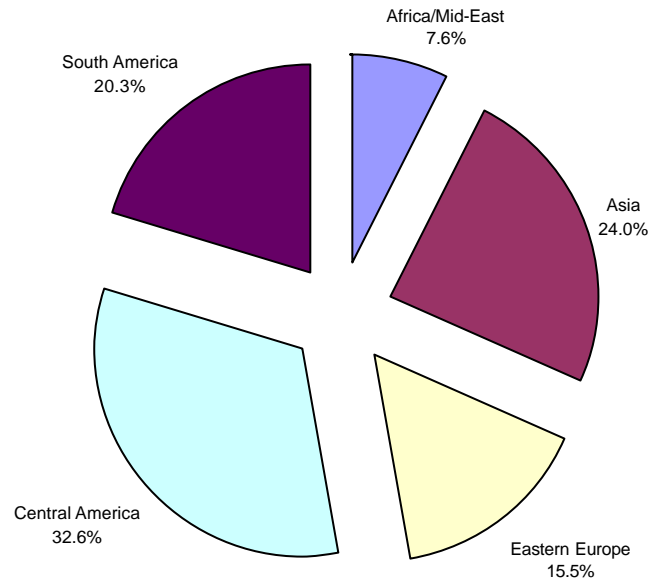
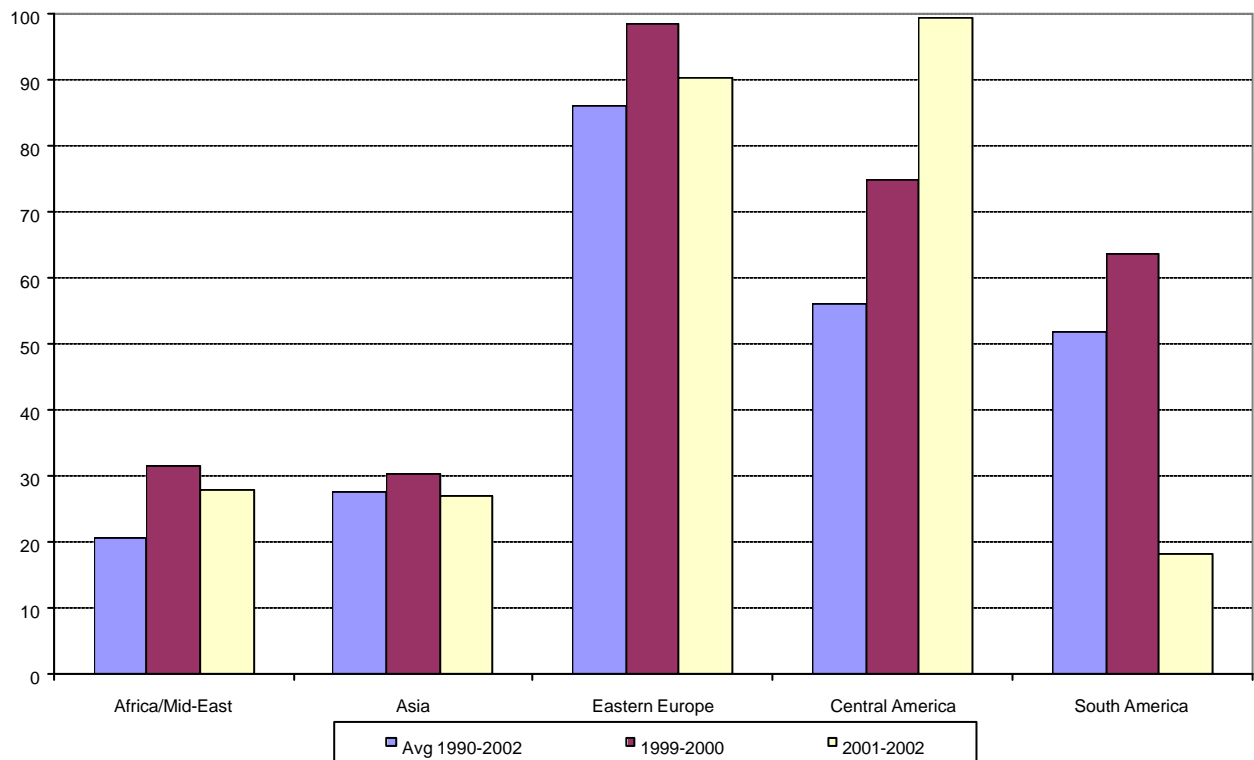


Chart 3

Incidence of cross-border M&As in the financial sector of emerging countries  
(value of transactions)



Deals involving South American financial institutions accounted for 20.3% of all cross-border deals, in terms of total value. Brazil was home for half these deals (Argentina accounted for 16.4% of these deals, Chile for 13.6% and Venezuela for 7.7%). Cross-border M&As represented about half of the total deals in the region during the period. The percentage decreased considerably in 2001 (29.4%) and was negligible in 2002 (6.8%). In Argentina there was no foreign entry in 2001-2002, while in Brazil there were only domestic deals in 2002.

Deals involving Asian financial institutions accounted for 24% of all cross-border deals. Most cross-border M&As involved firms from Hong Kong (53.4%). Thai financial institutions were a target in 14% of these deals and South Korean in 11.7%. Asia has a fairly small incidence of cross-border deals (27.6%) and very few acquirers from G10 countries (28% of total cross-border deals).

Finally, Africa and the Middle-East are the regions with the least cross-border M&As either as a percentage of total cross-border deals or as a ratio of total domestic transactions.

## **5. Conclusion**

Mergers and acquisitions in the financial sector increased considerably during the 1990s, in both number and value. M&A activity fell off considerably in 2001-2002 as share prices slumped.

This study documents that an increasing share of that M&A activity involved financial institutions from emerging countries as target firms, often reflecting the need for outside capital in the wake of local banking difficulties. The proportion of such deals increased in terms of number from 18% in 1990-1996, to 30% in 1997-2000 and to 41% in 2001-2002.

Compared with total M&As, the number and total value of cross-border operations in the financial sector are much higher for emerging countries than for industrial countries. In terms of value, the incidence of cross-border deals was quite volatile around an upward trend. However, their incidence declined from 69% in 2001 to 25% in 2002. The sharp reduction was concentrated in South America, especially in Argentina and Brazil, and there has been no sign of decline in the other regions.



## APPENDIX

### Table A1

#### List of Cross-Border M&As with a value > \$300 million

Year	Bidder	Target	Bnat.	Tnat.	Value	Bsect	Tsect	Type
1990	Deutsche Bank AG	Deutsche Bank Kreditbank	WG	GD	424.8	1	1	Acq. Maj. Int.
1992	Franklin Resources Inc	Templeton Galbraith & Hanberge	US	BH	913.0	3	3	Merger
1993	Rovtec Investments	World Trade Center Group	HK	HK	464.1	3	1	Merger
1994	CITIC Pacific(CITIC Hong Kong)	Hong Kong Resort Co(HKR Intl)	HK	HK	439.9	1	1	Acq. Maj. Int.
1995	Banco Bilbao Vizcaya SA	Grupo Financiero Probusa	SP	MX	350.0	1	1	Acq. Maj. Int.
1996	Banco Osorno y la Union	Banco Santander Chile	CE	CE	880.7	1	1	Merger
1996	Banco de Santander SA	Banco de Venezuela SAICA	SP	VE	338.4	1	1	Acq. Maj. Int.
1996	Banco de Santander SA	InverMexico(Banco de Santande)	SP	MX	378.5	1	3	Acq. Maj. Int.
1997	American International Group	Unibanco Seguros SA	US	BR	499.1	2	1	Acq. Maj. Int.
1997	Assicurazioni Generali SpA	Leumi Insurance Holdings	IT	IS	375.6	2	2	Acq. Maj. Int.
1997	Banca Commerciale Italiana SpA	Central-European Intl Bank	IT	HU	365.8	1	1	Acq. Maj. Int.
1997	Banco Industrial Colombiano SA	Banco de Colombia SA	CO	CO	418.1	1	1	Acq. Maj. Int.
1997	CorpBanca SA	Banco Union Comercial e Indust	VE	AR	347.5	1	1	Merger
1997	HSBC Holdings PLC	Roberts SA de Inversiones	UK	AR	688.0	1	1	Merger
1997	Hongkong & Shanghai Banking	Banco Bamerindus do Brasil	HK	BR	999.8	1	1	Merger
1998	Banco Bilbao Vizcaya SA	Banco Excel Economico SA	SP	BR	878.0	1	1	Merger
1998	Banco Bilbao Vizcaya SA	Banco Hipotecario de Fomento	SP	CE	350.0	1	1	Acq. Maj. Int.
1998	CS First Boston	Banco de Investimentos Garanti	US	BR	675.0	3	1	Merger
1998	DBS Bank	Kwong On Bank	SG	HK	459.9	1	1	Merger
1998	Gebel South Africa Ltd	SANLAM Asset Management (Pty)	SA	SA	1386.7	3	3	Acq. Maj. Int.
1998	Newbridge Capital Ltd	Korea First Bank(South Korea)	US	SK	415.0	3	1	Acq. Maj. Int.
1999	AIB European Investment Ltd	Bank Zachodni SA(Poland)	IR	PL	583.1	3	1	Acq. Maj. Int.
1999	Allianz AG	First Life Insurance Co Ltd	WG	SK	400.0	2	2	Merger
1999	Banca Commerciale Italiana SpA	Privredna Banka Zagreb	IT	CT	307.5	1	3	Acq. Maj. Int.
1999	Erste Bank Der Oesterreichisch	Ceska Sporitelna Savings Bank	AS	CC	517.6	1	1	Acq. Maj. Int.
1999	Hongkong & Shanghai Banking	Bangkok Metropolitan Bank PCL	HK	TH	1039.2	1	1	Acq. Maj. Int.
1999	Investor Group	Bank Polska Kasa Opieki SA	IT	PL	1082.0	3	1	Acq. Maj. Int.
1999	KBC Bancassurance Holding NV	Ceskoslovenska Obchodni Banka	BL	CC	1110.1	1	1	Acq. Maj. Int.
1999	Markel Corp	Terra Nova(Bermuda)Holdings	US	BE	1079.4	2	2	Merger
1999	Nedcor Ltd(Old Mutual PLC)	Stanbic	SA	SA	2389.0	1	1	Merger
1999	Standard Chartered Bank PLC	Nakornthon Bank PCL	UK	TH	319.3	1	1	Acq. Maj. Int.
1999	UBS AG	Global Asset Management GAM	SZ	BE	675.0	1	3	Merger
1999	United Overseas Bank Ltd	UOB Radanasin Bank Plc	SG	TH	382.5	3	1	Acq. Maj. Int.
2000	Banco Santander Central Hispan	Banco Bozano Simonsen SA	SP	BR	1000.0	1	1	Acq. Maj. Int.
2000	Banco Santander Central Hispan	Banco Meridional Do Brasil SA	SP	BR	835.0	1	1	Merger
2000	Banco Santander Central Hispan	Banco do Estado de Sao Paulo	SP	BR	1161.8	1	1	Acq. Maj. Int.
2000	Banco Santander Central Hispan	Grupo Financiero Serfin SA de	SP	MX	1542.7	1	1	Merger
2000	Citigroup Inc	Bank Handlowy SA	US	PL	610.9	2	1	Acq. Maj. Int.
2000	Erste Bank Der Oesterreichisch	Slovenska Sporitelna(Slovak)	AS	SV	367.3	1	1	Acq. Maj. Int.
2000	Investor Group	Bulbank AD	IT	BU	316.2	3	1	Acq. Maj. Int.
2000	Prudential Insurance Co	CJ Investment Trust & Sec	US	SK	400.0	2	3	Acq. Maj. Int.
2001	Banco Bilbao Viz Argent{BBVA}	Grupo Financiero BBVA Bancomer	SP	MX	1094.4	1	1	Acq. Maj. Int.
2001	CITIC Ka Wah Bank Ltd	HKCB(CH Resources(Hldgs)Ltd)	HK	HK	538.4	1	1	Merger
2001	CNP Assurances	Caixa Seguros SA	FR	BR	536.0	2	2	Acq. Maj. Int.
2001	Citigroup Inc	Banacci	US	MX	12821.0	2	1	Merger
2001	DBS Group Holdings Ltd	Dao Heng Bank Group(Guoco)	SG	HK	5679.7	3	1	Merger
2001	Eureko BV(Topdanmark,6 others)	PZU(Poland)	NT	PL	652.3	2	2	Acq. Maj. Int.
2001	ING Groep NV	Seguros Comercial America SA	NT	MX	791.0	2	2	Acq. Maj. Int.
2001	Investor Group	Zagrebacka Banka	IT	CT	404.7	3	1	Merger
2002	Erste Bank Der Oesterreichisch	Ceska Sporitelna Savings Bank	AS	CC	679.1	1	1	Acq. Maj. Int.
2002	HSBC Holdings PLC(HSBC)	Grupo Financiero Bital SA	UK	MX	1134.7	1	1	Merger
2002	Lone Star Fund	Hanvit Leasing & Finance Co	US	SK	324.0	3	1	Acq. Maj. Int.

Source: Thomson Financial. Sectors: banks=1; insurance=2; others=3.

Table A2

## Cross border M&amp;As in Emerging Markets 1990-2002

Destination Country	Acquirer's Country															Total
	Aus- tralia	Bel- gium	Can- ada	Franc e	Ger- many	Italy	Ja- pan	Neth- er- lands	Spain	Swe- den	Swit- zer- land	U.K.	U.S.	G10	Oth- ers	
Mexico			105			0		1026	3651		123	1176	13405	19485	366	19851
Hong Kong	186		0	1			0	74	6	177	0	85	268	797	8851	9647
Brazil			0	560		23		182	3875			0	1370	6009	1603	7612
South Africa				0	0			1			0	83	29	113	4052	4165
Poland		252		301	129	1082		820		64		12	611	3270	684	3953
Bermuda			248							0	975	0	1348	2570		2570
Thailand		0	0	79	13		7	192			2	329	265	887	1647	2533
Argentina	0		4	79		1			435			688	302	1509	987	2496
Czech Republic	0	1110			0	0		0			70	6		1186	1241	2427
South Korea	0		0	57	400		0					28	1424	1909	198	2107
Chile				0	98			120	808		24	28	101	1179	904	2084
Venezuela					12				368		0	169	42	591	577	1168
Malaysia	0		0	20	93		0					50		163	841	1004
Croatia					49	758		0				0	50	857	118	975
Colombia				0					225			0	0	225	743	968
Bahamas													913	913	17	930
Hungary		37	0	0	50	366		242	0		0	0	89	783	122	906
China		0					0					0	0	0	773	773
Peru				24		0			144			33	1	201	455	656
Bulgaria				39	0	316		4				0		359	296	655
Singapore	0			0			5				0	252	80	337	287	624
Slovak Repub.	0	0			127	27								154	436	590
Israel			0			376						0	97	473	99	572
Egypt				0				0				163	18	182	283	465
Philippines							3		13				4	19	433	452
Romania	0			400	0	28							6	434	10	444
Taiwan				0	0			0			0	263	95	358	76	433
East Germany					425									425		425
Indonesia	0			20	5		34					0	50	109	264	372
Cayman Islands												160	122	282	85	367
Neth. Antilles								291			0			291	0	291
Czechoslovakia					0									0	286	286
Slovenia				134		102								236	31	267
Lithuania					18					116			0	134	128	262
Lebanon				12								0		12	207	219
Jamaica			214											214		214
Bolivia									180		0			180	23	203
Panama					0				60		130			190		190
Turkey				181		0								181	0	181
Br. Virgin I.												31	0	31	51	82
Tunisia				74		0								74		74
India			0		7							0	15	22	49	71
Yugoslavia															62	62
Lesotho															56	56
Uruguay									56				0	56	0	56
Latvia					5					14				18	35	54
Dominican Rep.									51				0	51		51
Morocco				50					0					50	0	50
Macedonia	14													14	30	44
Russia					0							24	18	42	1	43

Kazakhstan																		31	31	
Estonia						4	0			0								4	26	30
El Salvador		24												0	24			5	29	
Jordan														26	26				26	
Malawi																		24	24	
Macau																		23	23	
Bosnia						1												1	22	22
Mozambique																			21	21
Uganda																			20	20
Gabon																			19	19
Tanzania																			19	19
Sri Lanka		7						0										7	8	15
Nepal																			12	12
Ecuador																			11	11
Nicaragua														11	11			0	11	
Zambia																			11	11
Paraguay								0		11								11		11
Vietnam																			10	10
Ivory Coast		9																9		9
Cuba																			8	8
Albania																			6	6
Surinam		3																3		3
Grenada																			2	2
Uzbekistan															0	0			2	2
<b>TOTAL</b>		200	1410	601	2029	1434	3079	50	2952	9870	370	1335	3581	20759	47669	27684		75352		