

Discussion on **"Fire-Sale FDI or Business as Usual?"**  
by **Ron Alquist**, Rahul Mukherjee, Linda Tesar

Ramona Jimborean

Banque de France

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- 1 Cross-border M&A ; "fire-sale FDI"
- 2 Alquist, Mukherjee and Tesar's paper
  - Motivation
  - Findings
- 3 Questions &remarks

# Outline

- 1 Cross-border M&A ; "fire-sale FDI"
- 2 Alquist, Mukherjee and Tesar's paper
- 3 Questions &remarks

- empirical literature on cross-border M&A - limited to developed country capital markets
- emerging markets :
  - M &A activity in East Asia, during the 1997-1998 crisis
    - => tightening of liquidity conditions for domestically owned firms
    - => buyout of domestic firms by foreign firms (increase in foreign acquisitions of liquidity- constrained firms)
  - fire-sale FDI associated with a flipping of acquired firms back to domestic owners once the crisis abates

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## Motivation

- establishing evidence of fire sales in emerging markets is challenging
- **the paper completes the existing (scarce) literature on cross-border M&A in emerging markets**
- large panel of corporate transactions in emerging markets over a long period of time (32,000 foreign and domestic acquisitions, over 1990-2007, in 16 emerging markets)



## What the paper does...

- analyses whether transactions undertaken during crisis periods differ in fundamental ways from those undertaken during more tranquil periods
- **the first to examine the post-acquisition dynamics of firm ownership in emerging markets**
- fire-sale FDI and asset flipping by foreign firms appear to have been "business as usual"



## Main findings

- 1) increase in frequency of foreign acquisitions during banking and currency crises (in line with **Aguiar and Gopinath, 2005**)
- 2) no correlation between the external finance dependence of sectors and the incidence of a banking and currency crisis
- 3) no evidence of an increase in the frequency of a controlling stake being acquired by foreign firms (contrary to **Acharya et al., 2011**)



## Main findings (2)

- 4) little evidence of crisis-time acquisitions having a higher turnover rate
- 5) no evidence of a significant relationship between the degree of external finance dependence and the turnover rate of acquisitions
- 6) no evidence of flipping of crisis-time asset purchases to domestic firms by foreign acquirers

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## Q1 : the change in the composition of transactions during crises...

- only macroeconomic controls...what about **industry-level controls** other than size (liquidity, growth potential) ? ?

**Aguiar and Gopinath (2005)** : liquidity impacts the probability of being acquired

- What about **regulatory changes** (at the industry level) and their role in raising the aggregate number of foreign acquisitions during the crisis ?

## Q2 : corporate control changing during crisis...

- controlling for industry-level characteristics .. ?
- does the **cost of capital** (sovereign bond spreads) affect the controlling stake ?

**Chari, Ouimet and Tesar (2004)** : during the financial crisis, the increase in the cost of capital determines an increase in the acquirer returns