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Article

The integration of stock exchanges: The case of the Latin American Integrated Market (MILA) and its impact on ownership and internationalization status in Colombian brokerage firms

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ABSTRACT

This paper describes the changes in ownership and internationalization of the brokerage firms in Colombia as a result of the regional integration process of its stock exchange market through the Latin American Integrated Market (MILA). It proposes that the integration of stock exchanges generated transformations within the brokerage sector, and affected companies in response pursue different strategies to remain competitive in the current state of affairs. In the case of Colombia, stock exchange integration through MILA has resulted into mergers between local brokerage firms, acquisitions from both national and international companies and changes in ownership.

Integración de las bolsas de valores: el caso del Mercado Integrado Latinoamericano y su impacto sobre el estatus de titularidad e internacionalización de las compañías de corretaje colombianas

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RESUMEN

Este artículo describe los cambios de titularidad y la internacionalización de las compañías de corretaje colombianas, como resultado del proceso de integración regional de su mercado bolsista, a través del Mercado Integrado Latinoamericano (MILA). El documento propone que la integración de las bolsas ha generado transformaciones dentro del sector de los corretajes y que, en respuesta, las empresas afectadas persiguen diferentes estrategias para seguir siendo competitivas dentro de la situación actual de los negocios. En el caso de Colombia, la integración de la bolsa a través del MILA ha originado fusiones entre los corretajes locales, adquisiciones por parte de empresas nacionales e internacionales y cambios de titularidad.

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1. Introduction

The recent intensification of movement of goods and services, financial capital, and knowledge around the world has increased economic interdependence between countries (Hitt, Ireland & Hoskisson, 2012). This is proven by the fact that currently there are 258 regional trade agreements in place (World Trade Organization, 2014) accounting for more than half of international trade (OECD, 2014).

As an answer to this interdependence, countries, sectors and even companies around the world have recognized the need to leave behind their traditional schemes of operation and immersing themselves on the global market by integrating its operations, by reaching out to its neighbors to create alliances that allow them to be more competitive in the international environment. As a result, agreements have been signed between developed countries —as is the case of the European Union and the Canada-United States Free Trade Agreement— developed and developing countries, such as the Euro–Maghreb Agreement and the NAFTA; and developing countries —APEC, Andean Community, CARICOM, SADC, and SACU— (Schiff, 2003), and more recently the Pacific Alliance (Gutiérrez-Viana et al., 2013). This is also a reality for the financial sector where stock exchanges and its various stakeholders have followed the trend of integrating to participate more competitively in foreign markets (Cornelius, 1994; De Smidt & van Rietbergen, 2002; Robinson, 2006; Stoltenberg, George, Lacey & Cuthbert, 2011).

In this context, it is important to understand (1) how the integration of stock exchanges through MILA has affected firm level variables, such as ownership structure and internationalization, within the brokerage firms of the countries involved; (2) what have been the motivations for changing those structures; and (3) what have been the benefits for the parties involved and the barriers they need to overcome, in order to make the Latin American Integrated Market —hereinafter MILA— a reality. This initiative aims to create the first cross border integration of equities markets in Latin America through the harmonization of regulations regarding capital markets trades, the custody of securities of the parties involved (Chile, Peru, Colombia) and the use of technological tools (MILA, 2010). Furthermore, taking into consideration that the worldwide trend of the sector is to react to integration through mergers and acquisitions as a way to internationalize, it is relevant to provide information on how this process has influenced the current situation of brokerage firms, regarding ownership and the internationalization strategies that these organizations may need to pursue in response to this integration. The research was conducted in Colombia; a country that has become one of the leading examples in Latin America for dynamic and growing economies, with a GDP growth rate of 3.6% in 2012 (Global Insight Colombia, 2013) and of 5.1% in 2013 (Revista Semana, 2013), Colombia, has also been a promoter of regional integration, enhancing initiatives such as the Pacific Alliance and MILA itself, and it offers the proper scenario for the study since the number of brokerage firms participating in MILA are 12, the same number present in Chile and overcoming Peru. Furthermore, this country is selected as the center of the analysis taking into consideration the access to qualitative information derived from contacts with personnel working within the sector, that may provide a vision relevant to answer the described problematic.

Consequently, this paper aims to answer the following question: what changes have occurred in Colombian brokerage firms in terms of ownership and internationalization status as a result of the integration process of the stock exchange markets of Colombia, Peru and Chile, through MILA?

In order to do so, this paper provides a theoretical and conceptual framework that supports the integration of stock exchange markets. This will be developed first by addressing and explaining the concepts of economic integration and regional agreements that may take the form of integration of stock exchanges. Then, information will be provided about MILA and Colombia's stock exchange as a member of this agreement. Finally, it describes the situation of brokerage firms in Colombia in terms of ownership and internationalization status as a result of MILA.

1.1. Literature review

Since its origins, both international divisions and international integration have marked world history; however, it was only after the Second World War that economic, social and environmental aspects were included in the international scenario (Buzan & Little, 2002). From that point on, and considering the increased importance of economic issues, states started to develop alliances and agreements that contributed to the attainment of its objectives in terms of social and economic welfare (Whalley, 1998), through the creation of trade blocks, the elimination of trade barriers and the liberalization of the economy (Mirus & Rylska, 2001).

Economic integration is analyzed in this review, from a theoretical perspective, using an evolutionary framework, in which several stages are stated taking into consideration the degree of the economic process (Balassa, 1974). These stages described several steps that start from the elimination of barriers to trade, called 'trade integration', passing through 'factor integration' understood as the liberalization in the movement of economic factors; 'policy integration' defined as the harmonization of economic policies and finally, a total unification of these economic policies, known as 'total integration' (Balassa, 1974).

Frequently, countries located in the same region or geographically concentrated engage in this type of integration with the objective of fostering regional trade and improving economic conditions of a particular region (Baldwin & Venables, 1995). These agreements are called Regional Integration Agreements (RIAs) or Preferential Trading Arrangements, and look for the establishment of a "geographically discriminatory trade policy, which denotes a region with reduced tariffs" (Baldwin & Venables, 1995).

RIAs bring some benefits for the signatory countries, which make these agreements attractive tools for states that want to enhance its international competitiveness (Mukhopadhyay, Thomassin & Chakraborty, 2012). For instance, when pursuing commerce activities within a regional agreement, the signatory parties get internal advantages that exclude external parties, i.e. tariff reduction, free movement of capital, labor, and common investment policies, among others (Birdsall & Lawrence, 1999; Baldwin & Venables, 1995). The above, contributes to strengthen the region and allow countries to negotiate strategically as a block (Whalley, 1998). Additionally, RIAs are used by smaller nations to strengthen its negotiation power when conducting block discussions in order to get benefits in the final arrangements that otherwise would not have been achieved (Whalley, 1998).

Furthermore, this type of agreements creates a scenario to enhance further multilateral trade agreements, since the gains obtained from the treaty can highly influence the establishment of new multilateral agreements looking for economic and social improvements (Levy, 1997).

Another general benefit of these treaties is the promotion of trade around the world (Birdsall & Lawrence, 1999). This can be evidenced, as previously stated, in the current existence of more than 200 Regional Agreements in force, (WTO, 2014) that account for more than half of international trade (OECD, 2014). As mentioned, RIAs promote international trade; however they can also create trade diversion by fostering international activities between signatory countries, which can sacrifice better trade opportunities with external parties (Newfarmer, 2006; Robertson & Estevadeordal, 2009).