

Do all networks facilitate international commerce?

US law firms and the international market for corporate control

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Abstract:

This paper estimates the impact of global networks of American law firms on overseas mergers and acquisitions (M&A) by US corporations. Now that many nations can review proposed mergers, US law firms can help clients overcome regulatory hurdles abroad, effectively greasing the market for corporate control. However, they can also oppose transactions that are inimical to their clients' interests. I present evidence that suggests that Baker & McKenzie—the US law firm with the most overseas offices—has facilitated such transactions, whereas the combined effect of five smaller global US law firms has tended to reduce outward US M&A.

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1. Introduction

In recent years there has been considerable interest in the ways in which groups of market participants interact so as to facilitate international trade. Particular emphasis has been given in this research program to mechanisms to locate potential buyers and sellers and to overcome contract enforcement problems (Rauch, 2002; and Rauch and Casella, forthcoming). Given the considerable growth in international trade flows since 1985, especially in the pan-Pacific region where Chinese business groups operate extensively, it is perhaps not surprising that research into such mechanisms has gathered pace (see, for example, Rauch and Trindade, 2002.)

The late 1990s did witness a surge in one form of international commerce that has received considerably less attention from international economists: a global wave of mergers and acquisitions (M&A).² What is more, since the 1980s—that is, well before the latest M&A wave—leading law firms have been expanding their presence outside their home jurisdictions, creating networks of legal professionals to advise corporations as they take advantage of the opportunities presented by the current era of international market integration. This paper explores whether there is a connection between these two phenomena; that is, whether the formation of such global law firms has helped contribute to overseas US M&A activity during 1999, one of the boom years in the latest wave of international M&A.

The causal links between the presence of global legal networks and transactions in the international market for corporate assets are potentially different from those traditionally emphasized in studies of international trade flows; the latter being search costs, asymmetries of information, and contract enforcement costs. A feature of transactions in the market for corporate control is that the purchase

² See, however, Evenett (2002) for a detailed overview of the composition and scale of this international wave of M&A; and an econometric analysis of the impact of such transactions on the banking sector in selected OECD nations.

and sale of firms often involves review and approval by national competition policy or antitrust authorities. Such review processes can erect a barrier to actual or potential M&A transactions but also creates demand for the very services of intermediaries—such as law firms and economic consultancies—to influence the outcome of these merger review procedures.

In a multi-country world a merger of two firms may require the approval of many national authorities. For example, the merger between Price Waterhouse and Coopers and Lybrand, announced on September 17, 1997, required approval in the United States, by the European Commission, in Canada, Australia, New Zealand, and Switzerland—to name some, and by no means all, of the jurisdictions involved (Kolasky, 2000). Law firms with a global imprint can help clients obtain clearance from national antitrust authorities for a merger with or takeover of foreign firms. Familiarity with both the clients needs and with overseas merger review procedures are the means by which global law firms can add grease to the international market for corporate assets.

Another feature of merger review is that some jurisdictions appear to give rival firms a greater role in presenting evidence against a proposed merger than others. It is often claimed that the European Commission's merger review procedure gives opponents to a proposed merger a greater role than in comparable U.S. proceedings (Boeder, 2000; Venit and Kolasky, 2000). To the extent that this is true, global law firms can throw sand into the wheels of this form of global commerce by presenting evidence against proposed transactions that are inimical to their clients' interests. A priori, then, it is unclear whether the spread of global legal networks has facilitated or retarded overseas mergers and acquisitions.

A dataset of the overseas presence of 100 US law firms in 1997 is employed here to examine whether their geographical reach across national borders correlates with the pattern of overseas M&A by US corporations in 1999.

Controlling for the other plausible determinants of international M&A activity (such as distance from the United States, national income and corporate tax rates of the overseas jurisdiction), I examine whether the presence of six US law firms, which together account for 60 percent of the employment of US lawyers abroad in the countries considered in my sample, have contributed to the observed level of overseas M&A activity by US corporations in 1999. In addition, as merger notification requirements and reviews tend to apply more strictly to relatively larger M&A transactions, I examine whether the presence of these six US law firms increases the mean size of recorded cross-border M&A transactions.

The principal finding is that presence in a country of the US law firm with the greatest footprint overseas (Baker & McKenzie) substantially raises the total value and mean value of US M&A activity in that country. In contrast, the presence in an economy of five other US law firms with large overseas operations tends to reduce both the total value and mean size of M&A transactions in that economy. On net, however, the geographical allocation of these six law firms' offices are such that US M&A activity into many non-G7 economies, including several relatively fast growing developing economies, is double what would have otherwise occurred. This implies that the global presence of at least one major US law firm has brought additional pressure on (in particular publicly traded) firms in developing economies to improve their performance. My regression results also imply that nations with merger review procedures tend to receive half the total value of US overseas M&A than would have otherwise been the case, suggesting that such legal requirements have considerable bite.

This paper is organized as follows. In the next section I summarize the key aspects of the boom in global M&A activity in the mid-to-late 1990s, and the growth of US law firms overseas operations since 1985. In section three, the econometric strategy and data employed are described, as are the estimation

results. A discussion of these findings, with suggestions for future research, is presented in section four.

2. The late 1990s boom in cross-border mergers and acquisitions and the international expansion of US law firms

The 1990s saw a ten-fold real increase in the value of cross-border mergers and acquisitions. According to OECD (2001), over a trillion US dollars of corporate assets were involved in cross-border M&A in the year 2000. Unlike the surge in cross-border M&A in the late 1980s, the latest wave was not confined principally to transactions between British and American firms. Continental European, Japanese, Korean, Latin American, and South East Asian firms played significant roles in what has been termed by some as the first truly global wave of mergers and acquisitions (Black, 2000). Figure 1 provides evidence on the extent of US outward M&A activity, and shows that US purchases of corporate assets abroad trebled in real terms between 1995 and 1999.

Many factors are said to be responsible for this global wave of M&A. Deregulation and privatization (especially in the utilities sectors) are important explanations in Europe and in many developing economies (UNCTAD, 2000; OECD, 2001). Changes in corporate strategy, which have emphasized both the concentration on so-called core competencies and attaining global reach, is a contributing factor in manufacturing industries in particular (OECD, 2001). And liberalization of foreign direct investment regimes has no doubt played a role in facilitating overseas acquisitions of corporate assets, as has the ease with which firms were able to raise funds cheaply on stockmarkets in the late 1990s.

The developments have, of course, not gone unnoticed by antitrust officials around the world. As Table 1 makes clear, an increasing share of overseas US M&A activity involved the acquisition of a majority controlling interest in a foreign firm. In fact, in 1999 nearly two thirds of such M&A transactions involved

acquiring such a controlling stake. To the extent that these transactions reduce the number of competitors in a given market, antitrust officials may be concerned about the potential exercise of monopoly power by the remaining firms.³ This has undoubtedly contributed to an increase in the number of nations with active programs for merger notification or review. According to an advisory committee to the US government on international competition policy matters, by 2000 sixty jurisdictions had some form of mandatory merger notification scheme (ICPAC, 2000, Annex 2-C).⁴ Such schemes are often complemented by review procedures to assess the likely impact on a nation's markets of a proposed or actual transaction. In principle, therefore, a cross-border merger could be reviewed by many national antitrust authorities; and depending on the statutes governing these authorities' actions, the latter can reject such a proposed merger outright or can demand divestitures or other commitments from the parties involved. In some countries, in particular those with federal constitutions such as the United States, sub-national antitrust authorities may add to the number of reviewing entities. One might suspect that the cumulative effect of these reviews is to erect a considerable barrier to international mergers and acquisitions, that is, to the international trade in corporate assets.

Multi-jurisdictional merger review has considerably expanded the demand for legal services on two accounts. First, firms seeking approval for their proposed M&A transactions need specialized counsel in (at least) each of the major jurisdictions, and need to coordinate their counsel's responses so that any concessions (or agreements reached with antitrust authorities) do not jeopardize the commercial viability of the transaction. Second, firms opposed to a rivals' announced plans to merge or acquire assets abroad can hire legal counsel to

³ It would be wrong to assume that all antitrust authorities analyze the economic impact of mergers in the same way, as disagreements across the Atlantic between US and European antitrust officials can attest (see the contributions in Evenett, Lehmann, and Steil, 2000). This further adds to the demand for legal intermediaries and puts at a premium the ability to coordinate in a coherent manner merger clearance procedures across many jurisdictions.

⁴ The spread of such merger review laws is now so pronounced that one leading U.S. law firm, White & Case, prepares an annual compilation of national merger review procedures; extensively commenting on the latest developments. See White & Case (2001).

present evidence to selected antitrust authorities that casts the proposed transaction in a poor light. Some antitrust legal practitioners refer to this practice as “forum shopping;” the pursuit of a jurisdiction that is sympathetic to firms opposed to a merger. Again, such practices often need to be coordinated so as to maximize the probability that leading antitrust authorities take steps to oppose enough components of a proposed deal that it is eventually abandoned. As noted earlier, the receptiveness of antitrust authorities to evidence presented by rivals considerably across jurisdictions and may be greater in jurisdictions with nascent or younger merger review procedures.

The supply side response to this increased demand for specialist antitrust counsel in many jurisdictions has included the formation of global law firms. Such firms almost always started out serving either the US or the British national market. As far as US law firms are concerned, Spar (1997) identifies two waves of overseas expansion: 1965-85 and after 1985. The first wave saw US law firms follow their multinational clients abroad. For example, Shearman & Sterling opened a Paris office in 1967 just as its client Citibank was expanding vigorously overseas. Spar argues that:

“Some of the US firms that went abroad matured past their initial clients, building sizeable independent practices in their new found locations. Most of them, though, did not, and left their overseas posts once their clients’ work was completed.” (Spar, 1997 page 13)

The second wave was, however, on a different scale and at the initiative of the law firms themselves. For example, Morrison & Forrester, a San-Francisco-based US law firm, opened a practice in Hong Kong in 1982 without having a single client in the region (Spar, 1997). In this wave, supply tended to lead demand, as Spar notes

“Once a few firms established sizeable international practices, they achieved a critical mass that made them attractive to multinational

clients. Rather than asking multinationals to spread their legal advising among a number of far flung firms, multinational law firms could offer coordinated and consolidated service.” (Spar, 1997 page 14)

These large global law firms were in place well before the global merger wave took off in the late 1990s. By 1989, the 250 largest US law firms had 180 overseas offices (Spar, 1997). This growth continued through the 1990s. A recent analysis revealed that in 1997 the top 100 US law firms had 363 overseas offices employing 4214 lawyers (Beaverstock, Smith, and Taylor, 2000). One firm alone, Baker & McKenzie, accounted for 1802 of these lawyers and had 48 overseas offices, far exceeding (on these metrics) the global reach of any rival law firm.⁵

While accepting the argument that the overseas offices of US law firms have been established to supply a wide range of services, meeting clients needs for advice on mergers and acquisitions has been a prominent rationale for overseas expansion. For example, the law firms of Coudert Brothers; Shearman & Sterling; Jones, Day, Reavis & Pogue; Kaye, Scholer, Fierman, Hays & Handler; and While & case are said to have established offices in China during 1993-2000 with mergers and acquisitions stated as important practice areas.⁶

To summarize the some of the main arguments of this section: Global legal networks expanded before the latest wave of cross-border M&A. The presence of a man-made impediment to trade in corporate assets—merger review procedures—provides these networks with a means to hamper or facilitate cross-border M&A, and distinguishes these networks from the existing literature on business networks which emphasizes the latter’s role in promoting international

⁵ For an account of the growth of Baker & McKenzie see Bauman (1999).

⁶ See “Through the Open Door: Top China Outposts,” accessed at http://www.law.com/special/professionals/amlaw/global_50/China_chart.html on October 15, 2001.

trade in goods and services. The remainder of this paper is devoted to examining whether there is any empirical evidence that the global footprint of several leading US law firms facilitated or reduced US overseas M&A activity in 1999, a year when the latest wave of global M&A was in full swing.

3. Econometric strategy and data employed

Given that many factors which are unrelated to legal intermediaries can influence the amount of US cross-border M&A in a foreign country, the objective here must be to adequately control for these determinants and to examine how much of the remaining variation is associated with the presence of global legal networks. The first step taken was to assemble the largest possible dataset of economies which had received US cross-border M&A in 1999. Several financial companies track announcements of proposed (and completed) US cross-border M&A, and here I used the data reported in the *2000 Mergerstat Review*. This source reports that 52 overseas economies or territories received US cross-border M&A in 1999, with a total value of such transactions equaling \$173.5 billion. Three smaller territories (Bermuda, St. Kitts and Nevis, and Puerto Rico) were excluded from the dataset assembled here because they were in fact either U.S. territories or where the reported M&A data may well be misreported financial transfers (with no corporate assets changing hands.)⁷

I have modified the traditional gravity equation approach to estimating the determinants of international trade flows to estimate the factors responsible for US cross-border M&A in 1999. As cross-border mergers and acquisitions are a form of foreign direct investment (FDI), my approach is not too different to the many gravity-based studies of FDI flows; see, for example, Levy, Stein, and

⁷ Eliminating these three territories leaves 49 economies in my dataset. The 49 economies are: Argentina, Australia, Austria, Bahrain, Belgium, Brazil, Canada, Chile, China, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Egypt, El Salvador, Finland, France, Germany, Ghana, Hong Kong PRC, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Lithuania, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, and Venezuela.

Daude (2002). However, as will become clear, I include many more merger-specific variables in my econometric analysis than are typically found in FDI studies.

The gravity equation approach assumes that the value of the economic transactions between two entities depends on their economic mass and the distance between them (Anderson, 1979, Deardorff, 1998, and Evenett and Keller, 2002.) In this context, this amounts to assuming that the distance between a foreign nation and the United States and the former's national total income are candidate determinants of the total value of US cross-border M&A received by that nation.⁸ The intuition is that a larger foreign market provides, other things being equal, greater opportunities for the US acquisition of foreign corporate assets; and that greater distance from the United States makes running a foreign subsidiary or acquisition more difficult and detracts from the desirability of buying or merging with that nation's corporate assets. Data on the 49 economies' gross domestic products was taken from the World Bank's *World Development Indicators* CD-ROM. Following standard practice, the distance from Washington, D.C., to the administrative capital of each economy was used as the proxy for distance from the United States.

Three other control variables were employed. The first is a proxy for the retained corporate profit rate (that is, the proportion of its profits a firm can expect to keep after paying taxes and other government-assessed fees and levies.) Economies which have higher retained profit rates are hypothesized to be more desirable places to undertake cross-border M&A. I proxy for this rate with one minus the maximum corporate tax rate charged in an economy, which too is available in the *World Development Indicators* database. The second control variable is the

⁸ Strictly speaking the gravity equation approach suggests that the level of US national income is a determinant too of the value of outward US cross-border M&A. However, the fact that my dataset contains information on such cross-border M&A transactions for one year (1999) means that the level of US national income cannot account for the variation in the value of M&A received across different foreign economies. Consequently, I do not include US national income as an explanatory variable in my econometric analysis.

foreign economies' tariff rate. The logic here is that higher tariffs reduce the profitability of exporting to an economy and enhance the attractiveness of establishing local subsidiaries. However, an alternative hypothesis is that national tariff rates proxy for the degree of policy-induced *internal* and *external* distortions to an economy, and to the extent that such internal distortions reduce the profitability of firms, this will discourage cross-border M&A.⁹ I took the average tariff rate as the proxy for the restrictiveness of a nation's trade barriers, data which too is available on the *World Development Indicators* CD-ROM. The final control variable is whether a country has a British colonial heritage. This is thought to be important for two reasons. First, in such economies English is more likely to be the language of business, making it easier for a US firm to run any firm it acquires in that economy. Second, the likelihood that an economy employs a common law system is greater with if it was at some point a British colony—and this is precisely the system that operates in the United States and is familiar to US lawyers. Both conjectures suggest that having a British colonial heritage will raise the amount of US cross-border M&A. A dummy variable is introduced to capture this effect (taking the value of one if the economy has such a heritage.)

The first antitrust-related variable employed in the empirical analysis is whether the foreign economy has a merger notification scheme or merger review procedure. As argued in the last section, such schemes and reviews are likely to reduce the amount of cross-border M&A, especially for larger transactions. Although merger notification regimes and review procedures vary considerably across nations, I employ a dummy variable to indicate whether a nation has such a regime or not. The list of economies taken to have such regimes in 1999 was assembled from ICPAC (2000, Annex 2-C) and from evidence on the web pages of the U.S. Department of Justice's Antitrust Division and the Competition Directorate-General of the European Commission. In our sample of 49 economies, the following were found not to have some form of merger review

⁹ In the context of the cross-country growth literature, Xavier Sala-i-Martin has forcefully argued that national tariff rates can proxy for both internal and external barriers to economic exchange.

regime in 1999: Ghana, Pakistan, Egypt, El Salvador, China, Indonesia, Malaysia, the Dominican Republic, Singapore, and Hong Kong PRC.

Before describing the first econometric specification employed it will be helpful to introduce the following notation:

MA_i	Denotes the total value of US cross-border M&A into economy i in 1999.
ma_i	Denotes the mean value of US cross-border M&A into economy i in 1999.
GDP_i	Denotes the value of gross domestic product of economy i in 1999, measured in US dollars.
$DIST_i$	Denotes the distance of economy i 's capital from the Washington, D.C., in kilometers.
π_i	Denotes the retained corporate profit rate in economy i .
$(1+t_i)$	Denotes one plus economy i 's average tariff rate on imported goods
$BRIT_i$	Denotes a dummy variable which equals one if economy i has a British colonial heritage.
MN_i	Denotes a dummy variable which equals one if economy i has a mandatory merger notification regime or a merger review procedure in 1999.
e_i	Denotes a random error term, assumed to have zero mean and finite variance
c	Denotes a constant

The first two specifications estimated were:

$$\ln(MA_i) = c + \beta_1 \ln(GDP_i) + \beta_2 \ln(DIST_i) + \beta_3 \ln \pi_i + \beta_4 \ln(1 + t_i) + \beta_5 BRIT_i + \beta_6 MN_i + e_i$$

$$\ln(ma_i) = c + \beta_1 \ln(GDP_i) + \beta_2 \ln(DIST_i) + \beta_3 \ln \pi_i + \beta_4 \ln(1 + t_i) + \beta_5 BRIT_i + \beta_6 MN_i + e_i$$

where $\ln(..)$ are natural logarithms and β_1, \dots, β_6 are parameters to be estimated.

The first specification takes the total value of US cross-border M&A as the dependent variable, and the second specification takes the mean value of US cross-border M&A as the dependent variable. Concerns about heteroskedacity, which are common in cross-sectional samples such as the one used here,

resulted in a two step estimation procedure being employed. In the first step, each specification was estimated using ordinary least squares and the absolute value of the regression residuals $|e_i|$ were recovered. The latter were used to weight each observation and the specifications were re-estimated. The full set of parameter estimates and their associated p-values are reported in Table 2 in for the regression with the total value of M&A activity as the dependent variable, and in Table 3 for the specification where the mean value of M&A transactions was the dependent variable.

Examining the two tables it is clear that the controls have, by and large, their expected signs. Richer economies that are closer to the United States, which have lower corporate tax rates and a British colonial heritage, tend to attract more US M&A. The large negative estimated parameter on the tariff terms suggests that they are indeed proxying for the extent of internal as well as external distortions to an economy and, on net, repel US M&A. As these control variables have little bearing on the main question at hand, and because their estimated parameters do not vary much across the specifications discussed below, I shall not discuss them further. In specification 1, the presence of a merger notification regime does not appear to influence the total value and mean value of US cross-border M&A. I will return to this finding later.

To examine the effect of US legal networks on US cross-border M&A in 1999, I exploited Beaverstock, Smith, and Taylor's (2000) dataset of the overseas activities of the top US law firms in 1997. Their database indicates that there were 4066 lawyers working overseas for these law firms in the 49 economies in my sample. Further analysis revealed that 60 percent of those lawyers worked in just six US law firms: Skadden, Arps, Slate, Meagher & Flom; Jones, Day, Reavis & Pogue; Shearman & Sterling; Coudert Brothers; White & Case; and Baker & McKenzie (see Table 4.) Again, the scale of Baker & McKenzie's overseas operations is apparent—this US law firm operates in 30 of the 49 economies in my sample and employs 1743 lawyers (see Table 4 and Figure 2).

For the purposes of exposition I refer to these six US law firms as the “Big 6” firms, and the goal of the remaining empirical analysis is to examine what, if any, is contribution to an economy’s receipt of US cross-border M&A of the presence of these six legal networks within its jurisdiction.

It is important to differentiate between the presence of these six law firms and the number of lawyers employed by US firms in a foreign economy. Although there may be a positive correlation between the former and the latter, the latter may not be a good proxy for the former as many lawyers may be hired by smaller US law firms that do not have the global footprint of the Big Six. To sort out the independent contribution of the Big Six, I proceeded as follows. First, I computed the total number of lawyers hired by US firms in each of the 49 economies in my sample, and the number of Big Six firms that had over 10 lawyers in any given economy. (Requiring that there be 10 or more lawyers hopefully rules out smaller overseas offices which are unlikely to have sizeable M&A practice areas.¹⁰) Specifications 2 and 3 in Table 2 and 3 report the parameter estimates when the (natural logarithm) of the number of US lawyers and the number of Big Six firms are included as independent variables. And consistent with the hypothesis that the effect of such lawyers and legal networks on cross-border M&A is only due to the presence of merger notification requirements and review procedures, I interact these two new independent variables with the dummy variable indicating the presence of a merger notification regime (MN_i). Including the number of Big Six firms causes the estimated parameter on the number of US lawyers to turn negative and statistically significant (at the 10 percent level)—suggesting that the net effect of having more lawyers employed by US firms in a foreign economy is to reduce the sale of that economies’ assets to US corporations. As both tables makes clear, the number of Big Six firms in an economy does not independently appear to influence either the total value or the mean value of US cross-border M&A.

¹⁰ I relaxed this requirement to five lawyers with no substantial bearing on the estimated results or qualitative findings.

One objection to specification 3, which included both the number of US lawyers and Big Six firms as independent variables, is that the former is likely to be larger in precisely those economies where the Big Six firms are present. And so the independent variable for the number of US lawyers may well be absorbing some of the explanatory power of the variable measuring the number of Big Six firms present. To address this problem, I purged the former variable of any variation accounted for by the latter, effectively creating an instrument for the number of US lawyers in an economy that is, by construction, orthogonal to the number of Big Six legal firms. Specification 4 reports the parameter estimates which result from doing so. Interestingly, the number of US lawyers still has a negative and statistically significant effect on the amount of US cross-border M&A received. The number of the Big Six law firms in an economy is found to depress the mean value of cross-border M&A but not the total value of such M&A—suggesting that these firms are successful in blocking larger cross-border M&A transactions (or deterring their announcement in the first place.) Another interesting finding in specification 4, is that the estimated coefficient for the presence of a merger notification regime turns negative (but is not statistically significant at any recognized level.)

Given the difference in scale of Baker & McKenzie’s global network from the other members of the Big Six, a question arises as to whether the effect of the former’s network differs from that of the other five networks that I have identified. To investigate this I have dropped the number of Big Six firms as an independent variable, and included a separate dummy variable for the presence of a Baker & McKenzie office in an economy (again with 10 or more lawyers) and an independent variable for the number of the other Big Six firms in an economy.¹¹ The results are reported as specification 5 in Tables 2 and 3. Interestingly, the

¹¹ One alternative approach I considered was to include separate dummy variables for the presence of each of the Big Six firms. It turns out that there is significant collinearity between the dummy variables for the five smaller members of the Big Six, which means the estimated effect for each dummy variable would have been identified off at most a handful of countries—a highly unsatisfactory basis upon which to make inferences.

inclusion of these terms produces—for the first time—negative and statistically significant coefficients for the presence of a merger notification scheme. These results imply that such schemes and review procedures reduce the mean value of US M&A transactions by approximately 50 percent, a sizeable economic impact.

The inclusion of these two network terms in specification 5 does suggest that these global legal networks significantly affect the extent of US cross-border M&A. It appears that having a large Baker & McKenzie office in a country substantially boosts the total value of US cross-border M&A in that country, and goes a long way (if not entirely) to offset the effect of the presence of the other Big Six firms—each one of which reduces such M&A by 32 percent. Perhaps the latter firms' strategy has been to earn their spurs by frustrating the expansion plans of their US clients' rivals. An alternative explanation is that to sustain their large overseas offices, these US firms have begun to defend local firms against US takeovers. In unreported results, these findings appear to be robust for other corrections for heteroskedacity and to sample composition (outliers.)

A better sense of the net effect of these six legal networks on US cross-border M&A can be found in Table 5. Using the estimated parameters in specification 5, and taking account of the appropriate covariances, I recovered the combined effect on each economy's receipt of US cross-border M&A of the presence of all six networks. At the 10 percent level (with one tailed tests), I found that all of the statistically significant estimates are positive—suggesting that on net these networks grease international transactions in corporate assets. What is more, the effects to be particularly pronounced in non-G7 economies, including developing economies such as Brazil, Chile, Hungary, the Philippines, Thailand, and Venezuela—and reflects the fact that such nations have Baker & McKenzie offices and few (or no) large offices from the other Big Six firms. To the extent that such overseas M&A brings pressure to improve performance on domestic

firms in these economies, then this may well be a positive development.¹² Of course, to the extent that such M&A reduces competition in those nations' markets then the effects may not be so benign.

4. Summary and implications for future research

Much of the existing literature on the effects of networks on trade has emphasized the trade-facilitating aspects of network formation. In this paper I have considered the growth of legal networks where *a priori* one cannot be certain that their spread has greased the wheel of one form of international commerce, cross-border mergers and acquisitions. The existence of merger notification requirements and merger reviews provides law firms with an opportunity to present evidence that might go some way in convincing antitrust authorities to oppose or demand changes to a transaction proposed by a rival to the law firms' US clients. I have presented evidence to suggest that for five US law firms with sizeable global reach this is, on net, exactly the consequence of their overseas expansion.

There are a number of important caveats to my analysis which should be borne in mind when interpreting the results. First, I am dissatisfied with the use of a single dummy variable to estimate the effects of merger reviews and notification procedures. Obviously these procedures differ across economies and, in future research, it would be desirable to explore which attributes of such reviews have the greatest effect on cross-border M&A. Second, given that not every overseas office (even those with 10 or more lawyers) of a US law firm is likely to be engaged in advising clients on cross-border M&A, my measure of each of the Big Six's global reach could probably be improved upon. Third, the cross-sectional analysis presented does not shed any light on how the impact of these global legal networks has changed *over time*—a deficiency that could be remedied by

¹² And, incidentally, would reinforce the case for liberalizing any restrictions on the entry of foreign legal firms.

future research. Finally, it is worth reiterating that there is no clear mapping from the value of US M&A a nation received as that nation's economic well-being. As discussed at the end of the last section, cross-border M&A can enhance or worsen the allocation of a nation's resources. The goal of this paper was, however, far more modest—to examine the positive (rather than normative) impact of the presence of six large US legal networks.

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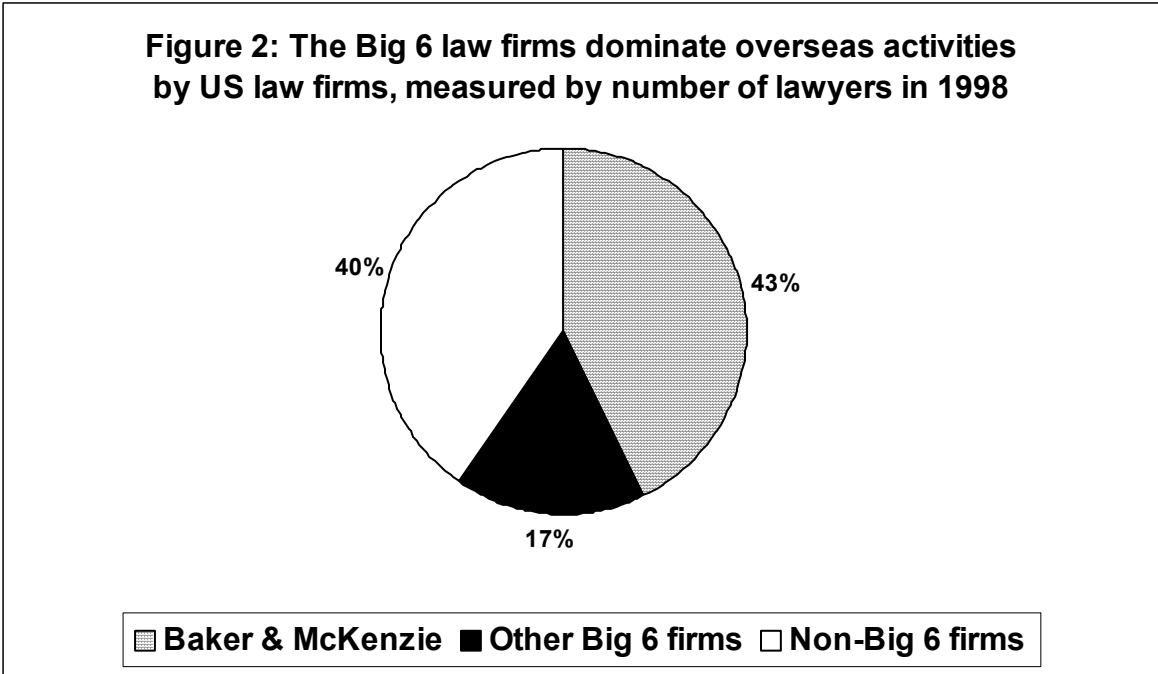
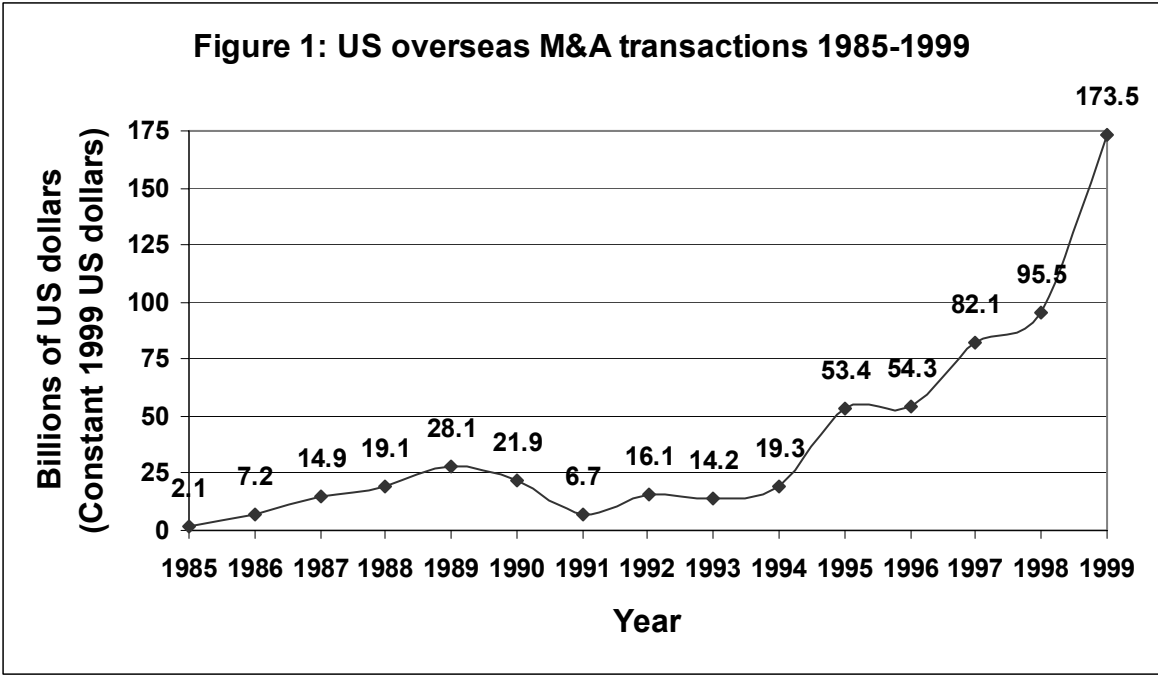


Table 1: Types of U.S. overseas mergers and acquisitions

Year	Acquisition of controlling interests	Acquisition of minority interests	Divestitures of foreign-based units	Divestitures of US-based units	Total
<i>Number of deals</i>					
1990	128	23	57	58	266
1995	254	54	94	81	483
1999	882	48	309	159	1398
<i>Percentage of deals</i>					
1990	48.1	8.6	21.4	21.8	100.0
1995	52.6	11.2	19.5	16.8	100.0
1999	63.1	3.4	22.1	11.4	100.0

Source: Mergerstat (2000).

Table 2: Estimation results when total value of bilateral U.S. M&A transactions is the dependent variable.

Regressors		Specification 1		Specification 2		Specification 3		Specification 4		Specification 5		
Independent variable	Expected sign	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	
Constant	?	0.151	0.460	0.155	0.436	0.109	0.638	0.109	0.638	0.038	0.866	
Controls	National Income	+	1.023	0.000	1.044	0.000	1.023	0.000	1.022	0.000	1.018	0.000
	Distance from U.S.	-	-0.424	0.000	-0.477	0.000	-0.437	0.000	-0.437	0.000	-0.414	0.000
	Retained profit rate	+	5.292	0.000	5.250	0.000	4.376	0.000	4.376	0.000	4.816	0.000
	Tariff rate	?	-13.142	0.000	-13.630	0.000	-14.647	0.000	-14.647	0.000	-13.966	0.000
	British colonial heritage	+	1.681	0.000	1.638	0.000	1.622	0.000	1.622	0.000	1.759	0.001
Merger notification regime	-	-0.025	0.758	0.044	0.686	0.092	0.437	-0.131	0.310	-0.693	0.001	
Interaction between merger notification regime and	Number of lawyers in US legal firms	?			0.039	0.123	-0.137	0.060				
	Number of Big Six US law firms	?					0.204	0.578	0.047	0.561		
	Instrument for number of lawyers in US legal firms	?							-0.137	0.060	-0.558	0.000
	Presence of Baker & McKenzie	?									1.601	0.000
	Number of Big Six US law firms, other than Baker & McKenzie	?									-0.383	0.008
R-squared		0.752		0.750		0.742		0.742		0.723		

Table 3: Estimation results when mean value of bilateral U.S. M&A transactions is the dependent variable.

Regressors		Specification 1		Specification 2		Specification 3		Specification 4		Specification 5		
Independent variable	Expected sign	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	
Constant	?	0.52	0.137	0.383	0.101	0.307	0.200	0.307	0.200	0.402	0.106	
Controls	National Income	+	0.706	0.000	0.792	0.000	0.792	0.000	0.792	0.000	0.714	0.000
	Distance from U.S.	-	0.150	0.052	0.034	0.656	0.073	0.371	0.073	0.371	0.194	0.066
	Retained profit rate	+	3.324	0.016	3.838	0.000	4.501	0.000	4.501	0.000	3.018	0.002
	Tariff rate	?	-5.292	0.000	-9.588	0.000	-9.783	0.000	-9.783	0.000	-9.132	0.000
	British colonial heritage	+	0.623	0.000	0.662	0.000	0.708	0.000	0.708	0.000	1.025	0.000
Merger notification regime	-	0.190	0.527	-0.025	0.896	-0.087	0.696	-0.337	0.114	-0.600	0.043	
Interaction between merger notification regime and	Number of lawyers in US legal firms	?			-0.172	0.000	-0.157	0.000				
	Number of Big Six US law firms	?					-0.046	0.230	-0.226	0.000		
	Instrument for number of lawyers in US legal firms	?							-0.157	0.000	-0.474	0.011
	Presence of Baker & McKenzie	?									0.806	0.154
	Number of Big Six US law firms, other than Baker & McKenzie	?									-0.459	0.002
R-squared		0.942		0.810		0.801		0.801		0.803		

Table 4: The Big Six US law firms in the sample

Big 6 US law firm	Total number of lawyers based in overseas offices	Total number of overseas offices	Number of overseas offices with...			Overseas offices in...	
			0-4 lawyers	5-9 lawyers	10+ lawyers	G7 nations	non-G7 nations
Skadden, Arps, Slate, Meagher & Flom	93	12	5	4	3	5	7
Jones, Day, Reavis & Pogue	94	9	3	1	5	4	5
Shearman & Sterling	133	8	2	2	4	5	3
Coudert Brothers	158	11	2	4	5	4	7
White & Case	203	12	2	3	7	3	9
Baker & McKenzie	1743	30	0	1	29	6	24

Source data: Beaverstock, Smith, and Taylor (2000).

Table 5: Implied combined effects of all six legal firm networks on cross-border M&A

Parameter estimates from specification 5 in Tables 2 and 3 were used to calculate these forecasts

Economy	Change in mean value of bilateral US cross-border M&A				Change in total value of bilateral US cross-border M&A			
	Implied percentage change	Point estimate	Standard error	Ratio of point estimate to standard error	Implied percentage change	Point estimate	Standard error	Ratio of point estimate to standard error
France	-77.472	-1.490	1.054	-1.414	-27.065	-0.316	0.683	-0.462
UK	-77.472	-1.490	1.054	-1.414	-27.065	-0.316	0.683	-0.462
Belgium	-10.640	-0.113	0.793	-0.142	130.297	0.834	0.503	1.658
Germany	-10.640	-0.113	0.793	-0.142	130.297	0.834	0.503	1.658
Japan	41.453	0.347	0.684	0.507	237.873	1.218	0.427	2.855
Mexico	41.453	0.347	0.684	0.507	237.873	1.218	0.427	2.855
Poland	41.453	0.347	0.684	0.507	237.873	1.218	0.427	2.855
Taiwan	41.453	0.347	0.684	0.507	237.873	1.218	0.427	2.855
Argentina	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Australia	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Brazil	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Canada	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Chile	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Hungary	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Italy	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Netherlands	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Philippines	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Spain	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Sweden	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Switzerland	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Thailand	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811
Venezuela	123.916	0.806	0.554	1.454	395.650	1.601	0.333	4.811

Implies estimate is positive and statistically significant (at 10 percent level, one tail test)

Implies estimate is negative