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THE IBERIAN MARKET: CROSS-BORDER M&A AS A DRIVER FOR FURTHER INTEGRATION

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Abstract

Due to the close ties developed between Spain and Portugal since the joint entry in the European Union, this paper studies the feasibility of further economic integration. For that purpose, I analyzed the trends of commercial and investment flows, and M&A transactions during the period between 1985 and 2017. The findings seem to suggest that this further integration could be achieved through cross-border M&A, preferably with non-horizontal acquisitions. This would position Iberia as a powerful market capable of coping with the different economic cycles, strengthening the performance of its SMEs and enhancing their international expansion.

Keywords: cross-border M&A; Iberian market; integration; economic growth

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I. Introduction

The European Union (hereafter "EU") defines that the objective of the common area is "to ensure Europe's sustainable and steady development. It means balanced economic growth and stable prices, seeking to create a competitive market economy which takes into account people's wellbeing and social needs". The countries that joined the EU expected as such the benefits of belonging to an economic union as the creation of synergies and common frameworks in a variety of fields, being applicable to country, company and individual level.

The trajectory of Spain and Portugal after the adhesion in 1986 is the exemplification of European integration evidenced by the development of projects that would not be feasible separately, the acquisition of bargaining power with respect third parties and the access to new markets, among others.

Clearly, the Iberian countries have been achieving great results and so, it is believed that further integration between them under the same rationale as the EU project is possible to foster these gains. This scenario would maximize their presence in the international arena as a powerful economic area, accelerating the process of convergence. Also, it would ease the impact of issues as the rise of extreme political parties, regional separatism and the effect of global markets' volatility.

In addition to the above-mentioned factors, the recent mergers and acquisitions (hereafter "M&A") activity has increased in both absolute and relative terms globally in the last decades. Thus, taking advantage of this climate, I suggest the integration of Iberia through cross-border transactions as the best method to consolidate the latter progress and economic efforts of Spain and Portugal. The expected outcome is the transformation of Spanish or Portuguese enterprises into Iberian groups and corporations qualified to compete in a global scale, improving their performance and therefore, bringing a brighter macroeconomic outlook to the national market.

On this basis, commercial and investment flows between Spain and Portugal have been analyzed, as well as the legal and regulatory frameworks in order to demonstrate the strong ties stablished up until now. Moreover, the domestic markets individually, the current Iberian cross-border M&A market as a whole and its trends are studied to exhibit the favorable circumstances to move towards further integration. Detailed information on the number of M&A deals is obtained from the Thomson Reuters Global *Mergers and Acquisitions* database, in addition to statistics from national and international databases. This information was used to construct a comprehensive dataset for the period 1985-2017.

Despite few studies that examine the Iberian market, to my best knowledge, there have been no investigations about the integration of both countries through M&A deals, since the motivations that underlie this paper are ongoing concerns.

The remainder of the paper proceeds as follows. Section II introduces the theoretical considerations. Section III describes the database and its specifications. Section IV develops the analysis of the markets individually from a macroeconomic perspective and Section V elaborates on the Iberian M&A market. Section VI concludes.

My conclusions contribute to the discussion on the degree of international capital markets integration as well as on the factors of value creation in cross-border transactions, with a special emphasis on the Iberian perspective.

II. Theory development

The literature review has been carried out looking for authors that studied separately commercial trade, Foreign Direct Investment (hereafter "FDI") and M&A transactions, both domestic and cross-border, and the effect of those in the economic growth of a country or company. Having said this, there has been a long tradition in international economics of analyzing the determinants of FDI. This literature generally does not distinguish between FDI through M&A or greenfield investment. Instead, FDI has been explained by the "tariff-jumping" argument, meaning exporting and investing abroad are alternative modes to enter foreign markets. As trade costs increase and exporting becomes more costly, firms are more likely to choose investing abroad. Furthermore, high trade costs not only encourage tariff-jumping mergers, but also increase the incentives for domestic mergers as they reduce the degree of competition in the domestic market. However, analyzing the current atmosphere, one can believe that markets have become more integrated, i.e. trade costs have fallen, and so the fact that cross-border deals have become more important goes at first sight against the tariff-jumping argument. According to Hijzen et al. (2008), the reason is that the role of trade costs differs across horizontal and non-horizontal mergers. The term "horizontal mergers" refers to mergers in the same industry while "non-horizontal mergers" involve firms that do not operate in the same market. The first ones are typically assumed to be driven by market access considerations while the second ones may be more frequent in an international context as incentives for them are likely to be stronger, namely economies of scale and scope, network and diversification of products, among others, and are the ones more affected by trade costs.

Coming back to FDI in more detail, Wang et al. (2009) examine how the two major components, greenfield investment and cross-border M&A, affect economic growth in the host country. Greenfield investment can create additional employment and increases the level of competitiveness, having a positive impact in the economic growth in the host country while M&A may transfer ownership and control from domestic to foreign hands which add no production capacity, positively affecting economic growth only when the host country reaches a sufficient level of human capacity. In contrast, Bertrand et al. (2008) claim the multiple benefits as consequence of cross-border M&A. However, it might facilitate collusive pricing behavior across markets by increasing market concentration. At company level, comparing target firms with other firms in the same sector and period that are not acquired they found efficiency gains as reallocation of production across firms, decrease in average costs with higher total output, diffusion of know-how, increasing R&D incentives and lower managerial and input costs. This result questions the usual fears about foreign takeover, leading to analyze other factors such as national cultural distance.

In the context of cross-border M&A, national cultural distance represent distance in the norms, routines and repertories for organizational design, new product development, and other aspects of management that are found in the acquirer's and the target's countries of origin (Kogut and Singh, 1988). Following this approach, the measurement of national cultural distance between countries has been done following Hofstede's (1980) four cultural dimensions. A cross-border acquisition might be interpreted as a mechanism for the acquiring firm to access different routines that are missing in its own national culture, and which have the potential to enhance the combined firm's competitive advantage and performance over time. Even though these unique routines and repertories are often seen by managers of other firms as valuable, they may not be easily replicated by companies other than the advantaged firm if they have followed a similar path of historical development, of if they have not been present in the same institutional environment (Barney, 1991). Also, the cultural distance itself and trust between countries influence the depth of the due diligence phase, resulting in an extensive analysis and successful post-merger integration.

Deepening into specifications, William Chislett in his paper about the relationship of Spain and Portugal[1] concludes that the degree of integration of both economies is already high taken as an example MIBEL[2] and the banking sector. Also, he points out the mutual need of the two countries in order to counterbalance the EU's expansion to the East and finally stresses the economically sense for Iberian companies to forge closer links although the political perspective is another matter. As stated by Iva Miranda Pires (2006), the process of Iberian market integration will tend to deepen with the intensification of trade and cross-border investments and the reorganization of production while strategic alliances and joint ventures might be relevant when it comes to participating in the global economy. Finally, Sebastián Royo (2006) remains that integration is a complex process which brings challenges and opportunities drawing some lessons from the path followed by Spain and Portugal in the adhesion to EU. The countries involved should be prepared to exploit the benefits of integration and contemplate that success is not automatic and there are no guarantees but the effort would be worthwhile.

[1] Spain and Portugal: from distant neighbors to uneasy associates (Chislett, 2004)
[2] MIBEL is the name given to the Single Iberian Electricity Market. The start-up date was in June 2005 and the rationale is achieving a competitive and well supplied power market to realize the full economic potential.

III. Data description

The data sample includes all M&A transactions that were registered by an official authority and that were announced between January 1985 and December 2017. The data stem from two sources - the M&A transaction data were retrieved from Thomson Financial SDC database, and the macroeconomic statistics from diverse economic databases. For the period of investigation, the SDC database recorded 29.695 Iberian transactions that fulfill the following conditions:

- the transaction was announced,
- the transaction was a control transaction, meaning that the acquirer held less than 50 percent of the target before the deal was announced and more than 50 percent thereafter
- the transaction was not a minority stake acquisition, repurchase program, self-tender offer, recapitalization or exchange offer

When referring to Iberian transactions, it is considered Spanish or Portuguese M&A deals to include any acquisition of shares, both of public or private companies headquartered in Spain or Portugal, where a Spanish or Portuguese entity is involved as seller.

To construct the final sample, I focused in deals which the target country was Spain or Portugal, regardless of the origin of the acquirer except if it was also Iberian. It includes 22.083 and 3.812 transactions with Spanish and Portuguese targets, respectively, of which 14.119 and 2.137 are domestic, respectively, and 599 Iberian cross-border transactions. The M&A activity in the early years of the sample is not the same for both the two countries, since the first transaction recorded in the SDC database involving a Spanish company was in 1981 while the first one involving Portugal was in 1985. To homogenize the results, the analyzed sample comprises data from 1985 to 2017, same period that the existence of the EU. In order to extract the peculiarities of cross-border and domestic transactions, I analyze the M&A activity in a range of industry and timespecific factors. The economic cycles and factors like the global crisis or the entry into circulation of the Euro agitated the M&A market, reaching the peak in 2008 (both countries combined) and reflecting various M&A waves along the 33 years of analysis.

Regarding activity sectors, the Standard Industrial Classification (hereafter “SIC”) codes of the target have been used to standardize the sample in order to easily compare and understand the statistics. In table 1, the description of the industries and respective SIC codes that have been used help to define the industries usually involved in transactions in Iberia.

Table 1: description of SIC codes

Industry	SIC CODE	Description
Agriculture, Forestry,Fishing	**100** **900**	Agricultural prod livestock, Agricultural production / crops, Fishing, Hunting and Forestry
Mining	**1000** **1400**	Metal mining, Nonmetallic minerals and Oil & Gas extraction
Construction	**1500** **1700**	Building and General contractors
Manufacturing	**2000** **3900**	Fabrication and processing of products from raw materials and commodities, including all foods, chemicals, textiles, machines, and equipment
Transportation - Public Utilities	**4000** **4900**	Communications, Electric/Gas/Sanitary services, Railroad/Water/Air transportation, Postal services, Pipeline natural gas
Wholesale trade	**5000** **5100**	Durable and nondurable goods
Retail Trade	**5200** **5900**	Apparel & accessory stores, Food stores, , Eating and drinking places, Furniture stores, General merchandise stores, Miscellaneous retail
Finance, Insurance, Real Estate	**6000** **6700**	Depository institutions, Insurance carriers/agents, Holding & other investment offices, Real estate, Nondepository institutions
Services	**7000** **8900**	Amusement & recreation services, Business Services, Educational services, Hotels, Museums/Botanical/Zoological gardens, Private households
Public administration	**9100** **9900**	All public institutions depending on the State

Source: Securities and Exchange Commission (SEC)

Finally, the macroeconomic statistics have been gathered from the database of the World Bank *World Development Indicators (WDI)* for the same period as the M&A transactions, i.e. from 1985 to 2017. Following closely the empirical specification in Wang et al. (2009) which is derived from Borensztein et al. (1998) and the theoretical arguments in Barro and Sala-i-Martin (1995), I chose GDP annual growth per capita as proxy of economic growth of the target country;

FDI net inflows relative to the target's country GDP as proxy of M&A transactions; population growth represents the growth rate of population; GDP per person employed as proxy of productivity; exports and imports of goods and services; and trade defined as the sum of exports and imports relative to GDP as a proxy of the economic openness. This dataset is the base of the Iberian historical trends analyzed in the next Section.

The limitations of this paper are related to the data described above. The transactions included were announced and not all of them have disclosed the value. Also, an empirical proof has not been practiced, since the sample is not large enough to obtain conclusive findings.

IV. Analysis of the Iberian markets

Independent analysis of the markets has been conducted with the aim of identifying historical trends that verify the consequences of the EU membership and support further integration.

In spite of being neighbors, the economic relations between Spain and Portugal were irrelevant until the entry in the EU. Since then, both countries have cooperated and opened their borders looking for opportunities in the neighboring country. The business cycles of Spain and Portugal are more sync with one another, impacting on the competitiveness of both of them and changing gradually their fears towards the adjacent country. The unequal dimension of the neighboring country as exhibited in Table 2 is the main reason of the distrust created during the years.

Table 2: macroeconomic outlook

2017	**Spain**	**Portugal**
GDP per capita ($ million)	0,03	0,02
Population (million)	46,57	10,29
Trade (% GDP)	65,5%	85,2%
No. Companies (million)	3.282	1.214
FDI, net ($ million)	22.400	-9.300

Source: World Development Indicators (WDI) database

Spain has a much larger economy and generally has performed better, having the advantage of a more dynamic private sector than Portugal. Private consumption, net investment and exports have been the main drivers of the Spanish economic growth model, besides the initiatives taken by Small and Medium Enterprises (hereafter "SMEs") that locate the country in an initial better position. Conversely, Portugal has a less diversified economy, being tourism the main driver of employment growth nowadays and therefore, a lack of sustainability. Also, Portugal's labor costs are still substantially lower than Spain's as well as the unemployment rate, partly because of its more flexible labor market, creating a wedge between countries that influences directly the economies. However, this factor is becoming less important since an increasing number of companies are outsourcing or moving part of the business to East Europe for the same reason they were present before in Iberia: lower labor costs and regulation.

Table 3: bilateral commercial trade

(billion $)	2013	2014	2015	2016	2017
Spain					
Exports	438,8	450,4	394,6	407,6	447,1
% of total to Portugal	*3,9%*	*3,9%*	*4,5%*	*4,5%*	*4,4%*
Imports	394,4	417,0	367,4	370,3	412,1
% of total from Portugal	*2,5%*	*2,4%*	*3,0%*	*2,9%*	*2,7%*
Portugal					
Exports	89,3	92,0	80,6	82,3	93,8
% of total to Spain	*11,1%*	*11,1%*	*13,5%*	*12,9%*	*11,7%*
Imports	87,1	91,6	79,4	80,0	91,6
% of total from Spain	*19,8%*	*19,4%*	*22,5%*	*22,7%*	*21,7%*

Source: Author's calculations from World Development Indicators (WDI) database

Regarding trade flows, the principal commercial partners of Spain differ from the ones of Portugal. Germany and France take the first positions in the exports and imports of Spain, accounting for more than 20% of the total foreign trade in both cases. In the case of Portugal, the main trading partner is Spain, leaving Germany and France in a second place. In the last five years, the annual growth of the Spanish trade has been higher than the Portuguese trade although the turning point was in 2017, when Portugal achieved 14% growth rate versus 10% of Spain.

When it comes to bilateral trade, Portugal was Spain's fourth largest export market in 2017, taking 4,4% of its total exports and supplying 2,6% of Spain's imports (see Table 3). The relative significance of these figures is more dramatically emphasized when looking at Portugal's overall trade showing a greater reliance. Spain took more than 11% of Portugal total exports in 2017 and supplied over 21% of its imports, according to ICEX[3],

The analysis of the bilateral commerce by sector indicates that the group of machinery, included within manufacturing, is the most traded, followed by chemicals and agricultural products. These categories amount by circa 40% of the total bilateral trade. Simultaneously, the activity sectors with more registered enterprises, both in Spain and Portugal, are wholesale trade and retail trade followed by construction in the case of Spain and agricultural, forestry and fishing in the case of Portugal. The sectors with more trade activity and the amount of companies in each of those sectors give hints of which would be the usual targeted industries in the Peninsula.

With respect to FDI, which the main indicator as it includes M&A, overall both net inflows and outflows of Spain have decreased dramatically during the last year as a result of political turmoil and therefore, economic uncertainty leading to a slight slowdown from which is still recovering. The net outflows of the neighboring country have decline too while, on the other hand, the net inflows are increasing due to the growing interest of international investors. This fact proves the significant improvement of Portugal lately, returning to economic growth and certain stability.

By comparing historic macroeconomic data on the charts (see Figure 1), based around mapping different indicators, specifically GDP per capita, productivity, trade and FDI net inflows, one can

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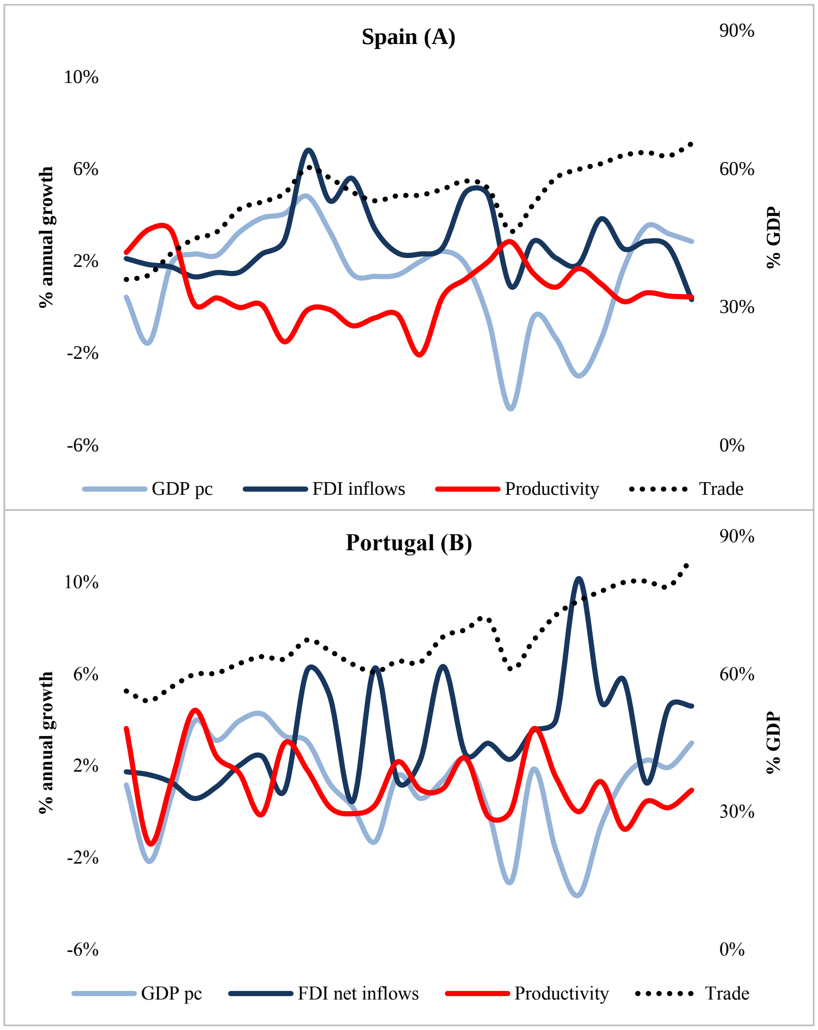
[3] ICEX is a Spanish public entity whose objectives are the internationalization of Spanish companies. (https://www.icex.es/icex/es/index.html)

observe the correlation between GDP and trade. The top chart corresponds to Spain (A) and the bottom one to Portugal (B) during the period between 1985 and 2017.

Figure 1: macroeconomic performance (1985-2017)



Source: Author's calculations from World Development Indicators (WDI) database

The concept of collaboration as a driver of growth and the exposure to international markets as the advantage of a high degree of openness translate to innovation, competitiveness and economic flexibility. The widespread availability of goods and services, as well as the ease of doing business may contribute to prosperity and sustainable development. Portugal is ranked as the second most open foreign investment regime among OCDE member states in 2017, after Luxemburg, while Spain falls behind to the eleventh position after mostly East European countries. Likewise, GDP moves in accordance to FDI net inflows having a positive relationship in the long run, which is also supported by both qualitative and quantitative studies as Wang et al. (2009) proves. Concerning productivity, Portugal reflects a positive correlation with the GDP growth while Spain displays the opposite due to wage moderation and adjustments of unit labor costs.

Table 4: bilateral FDI

(billion $)	**2013**	**2014**	**2015**	**2016**	**2017**
Spain					
Outflow	27,5	42,2	65,2	50,5	26,7
% of total to Portugal	*0,4%*	*1,8%*	*0,3%*	*0,4%*	*2,2%*
Inflow	52,3	34,9	34,3	32,1	4,3
% of total from Portugal	*0,1%*	*0,3%*	*1,1%*	*0,9%*	*-17,0%*
Portugal					
Outflow	6,9	9,6	1,2	5,8	0,7
% of total to Spain	*0,4%*	*1,2%*	*32,1%*	*4,9%*	*-100,8%*
Inflow	10,8	13,2	2,5	9,4	10,0
% of total from Spain	*1,1%*	*5,7%*	*8,4%*	*2,1%*	*5,9%*

Source: Author's calculations from World Development Indicators (WDI) database

In Table 4 the bilateral FDI between Spain and Portugal is displayed. The investment outflows of Portugal decreased 43% on average over the last five years and particularly sharply during 2017, impacting the investments directed to Spain. Although the total net outflow of Spain has decreased as well, the decline was by 0.8% on average over the five years, and contrary to expectations, the investments in Portugal amounted by 2,2% of total outflows compared to 0,4% the previous year.

The increasingly Spanish presence in the context of a single market is a very sensitive issue as it seems that Portugal would be restrained and invaded. Many Portuguese newspapers have been released with headlines like "Spanish Armada", whenever there was a major Spanish acquisition and magazines fostered the feeling of being swallowed up by the neighbor. The main problem to achieve further integration seems to be the lack of participation of Portuguese SMEs in the

Spanish market which contributes to consolidate the position of the Portuguese larger companies in the Iberian market.

Bearing in mind that the figure of micro companies includes freelancer, around 95% of the Spanish and Portuguese companies belong to this group. Also, it is important to remind that over 31% of the employees registered in the Spanish Social Security work for SMEs according to the Ministry of Economy and Finance. In the case of Portugal, these statistics are more pronounced, having employed over 36% of the Social Security contributors. The weight of the SMEs in the Spanish and Portuguese economies is 35% and 45% of the total Gross Value Added (hereafter "GVA"), respectively. Consequently, the governments have acknowledged the fact offering subsidies and aid to boost their competitiveness and internationalization since more dynamic companies become more efficient and ultimately more prepared to compete in global markets.

Increasing competition is one of the results of the EU project and has been pushing the enterprises to look for modernization and automation and develop creative strategies of internationalization to get a better positioning in the market. The strategies followed by Spanish companies created a more competitive market, being one step forward and well present in Portugal. So that, challenges are bigger for Portuguese SMEs but if they embrace M&A as driver of integration, they will benefit from access to a larger and contiguous market that can work as a rehearsal market of internationalization processes, progressive professionalization of the practices and financial improvement.

V. M&A activity in the Peninsula

The worldwide M&A activity is increasing through the years, registering in 2017 the fourth consecutive year of annual growth. Mirroring the trend seen throughout Europe, private equity activity was fundamental to Iberian M&A growth, as well as the consolidation and privatization of diverse sectors. After a flat 2015 and a decline in 2016, the Spanish M&A market also came roaring back in 2017: there were over 1,000 announced M&A deals for Spanish targets in 2017, a 9% increase versus 2016 in opposition to the Portuguese one that has experienced an annual growth of 20% over the last four years, on average.

Table 5: descriptive statistics of the M&A volume, in $ million (1985-2017)

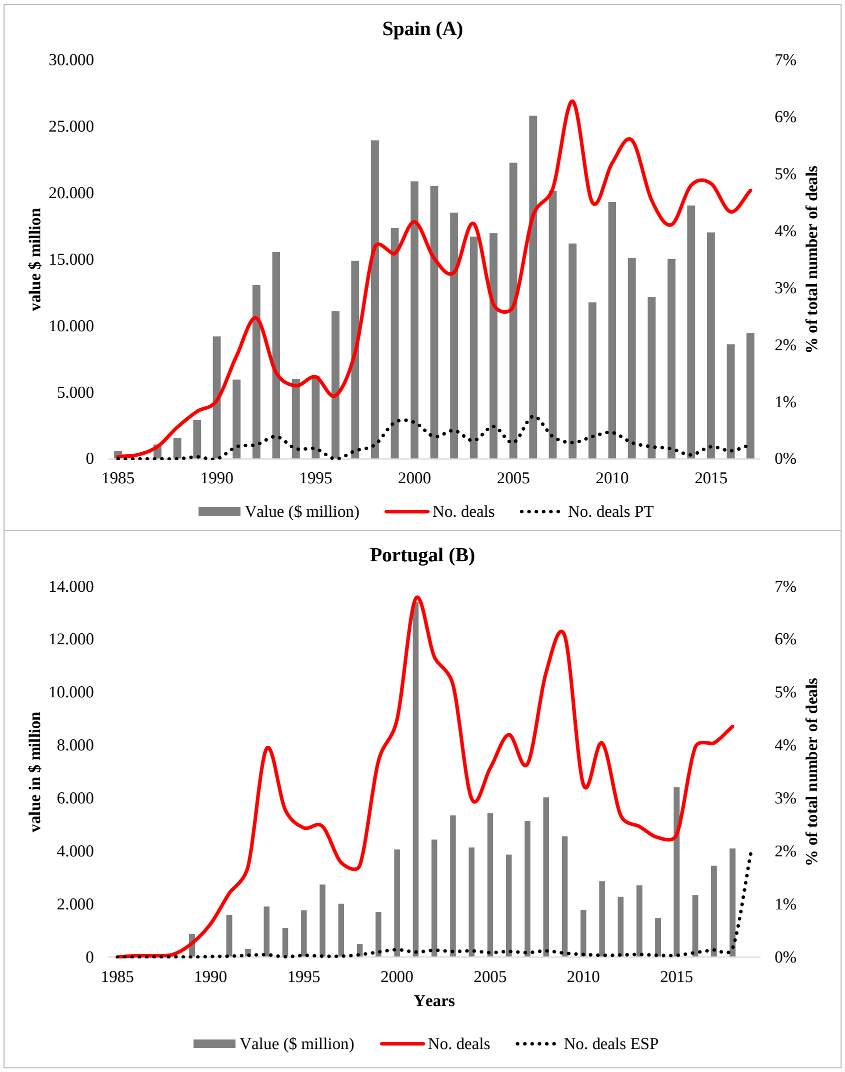
($ million)	**Spain**	**Portugal**
Mean	149,21	141,17
Median	44,35	51,23
Maximum	999,84	977,26
Minimum	0,01	0,02
Skewness	1,98	2,03
Iberian cross-border (% of total)	8,62%	2,00%

Source: Author's calculations from Thomson Financial SDC database

The attractiveness to invest in the countries is measured as the number of acquisitions made by a non-Iberian country during the period of analysis and due to the size of the Spanish economy it is subject of investments more often than Portugal. Yet, the descriptive statistics of the sample (see Table 5) show overall the similarity of Spain and Portugal regarding relative size of transactions. Considering Iberia as a whole, the type and size of acquisitions, and the targeted sectors are homogeneous. Besides that, the distance between mean and median and positive skewness is interpreted as large volume of mega deals and growing median deal size applicable to both countries.

Regarding cross-border M&A in Iberia, the willingness of Portugal to acquire Spanish companies versus Spain it can be extracted from the data. The interest in acquiring companies from the neighboring country in relative terms is higher when looking to Portugal, corresponding to 8,6% of its acquisitions, while only 2% of the historic acquisitions of Spain are Portuguese companies. Nevertheless, it is clear the recent sympathy of Spanish investors for the adjacent country intensifying the activity 21% in 2017 respect the previous year. The activity of Portugal is volatile but also increasing, acquiring seven Spanish companies in 2017 versus four the previous year. Figure 2 represents the annual volume of M&A in million $ and both the total deals and the share of the total that is Iberian cross-border per year.

Figure 2: number of deals and total value by year (1985-2017)

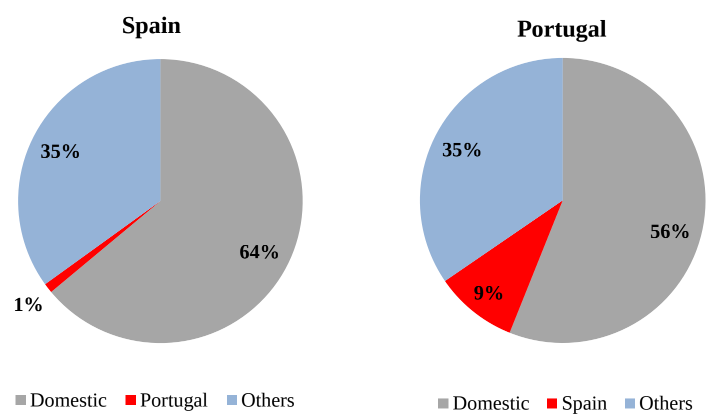


Source: Author's calculations from Thomson Financial SDC database

The difference of M&A volume between Spain (A) versus Portugal (B), as explained previously, is consequence of the market size; however, the relevant finding is about the number of Iberian cross-border transactions. It would be expected for the same reason that Spain had more activity in Portugal than the opposite. Following the comment stated above, the investments of Portugal are higher relative to its total transactions but spreading them through the historical sample the activity is even decreasing the last years in comparison with the period between 1998 and 2006 while Spanish investments were insignificant relative to the total transactions and were made regularly until the end of 2016 when the cross-border activity has boomed. The interest of Spanish investors in the neighboring nation is on the rise, naming themselves as Iberian investors or companies rather than their own nationality and embracing the idea of integration.

Segmenting the M&A by origin of acquirer, domestic transactions correspond to 64% and 56% in Spain and Portugal, respectively (see Figure 3). The transactions involving countries outside of Iberia as a share of the total is the same in both cases as well as the share of Iberian cross-border deals added to domestic ones. This overview indicates that the international markets targeted historically Spain and Portugal equally, on average, while Spain showed a nationalistic sentiment being involved in acquisitions by Portugal only 1% of the total transactions and 9% on the reverse.

Figure 3: total transactions by segment, (%)

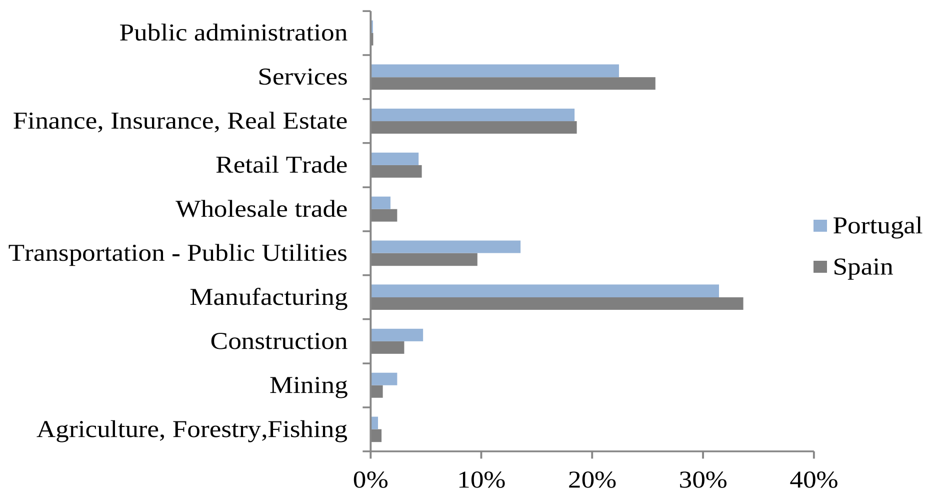


Source: Author's calculations from Thomson Financial SDC database

The domestic activity in Spain is explained as a result of a stronger private sector that participated in the deregulation and consolidation of diverse industries in the last years, as financial institutions and utilities.

Cross-border transactions impact the productivity of the target company due to efficiency gains and may lead to a higher market power although it is not proven empirically; domestic transactions reduce the degree of competition in the domestic market, thereby more control over the market and the negative effect in the target company, if any, is less evident than in the cross-borders according to researchers. Nevertheless, the integration in the EU reduces the impact of cross-border transactions when analyzing European companies, being similar to the outcome of domestic ones.

Figure 4: total transactions by activity sector, (%)



Source: Author's calculations from Thomson Financial SDC database

The industry to which the target and acquirer belong, even so, could alter the development of the transaction. In general, the sectors more demanded to acquire companies are manufacturing and services coinciding with the ones that have more companies registered as can be expected. However, in relative terms Spain made more acquisition in agriculture, forestry and fishing, finance, insurance and real estate, and construction. Most of the acquisitions are non-horizontal incentivized by the gain of equipment that is either further upstream from the end client or further downstream towards the end client, as Inditex, the Spanish fashion retailer. This gives the acquiring company more control over production. Portugal has been more present in agriculture, forestry and fishing; manufacturing; and retail trade, corresponding to horizontal transactions. The benefits of this type of transactions are better competitive position due to increased market share or scalability and expansion of the capacity, as Cimpor, the Portuguese cement group. Overall, M&A processes help to gain dimension either if is horizontal or non-horizontal.

VI. Conclusion

The relation forged between Spain and Portugal since the adhesion to the European Union in 1986 sets an example of achieved integration across different levels, including a successful transition from dictatorship to democracy. Spain and Portugal have much in common and the opportunities that merge from that have to be explored to set strategic alliances and joint projects. The commercial exchange as expected between adjacent countries is positive being main partners from each other, although Portugal has stronger trade dependence. The sectors involved are mostly manufacturing, wholesale trade and agriculture, coinciding with those that comprised the majority of the registered enterprises, and consequently are also targeted more frequently in acquisitions, and this fact is going to impact in the type of transactions.

In line with the empirical study of Wang et al (2009), the economic growth of Iberia is directly associated to FDI net inflows, having a positive relation in the long run. The openness of the countries in addition to the productivity is also linked to these investments and thus, M&A as well, since is part of it. The difference between the effect of cross-border and domestic transactions at country level is decreasing as the European integration goes forward, implying that further integration in Iberia could lead to less added value in cross-border M&A. However, this only applies to horizontal acquisitions. In general, cross-border acquisitions by Spanish investors are non-horizontal, seeking for economies of scale and scope and diversification of products while the rationale of Portuguese transactions is the access to new markets being horizontal acquisitions. The value creation at company level in this case would emerge from other type of synergies like increase of competitiveness, professionalization and financial growth.

During the last years, not only the M&A activity as a whole has increase but also, the interest of Spanish investors in Portugal. The trends point to an expansion, entailing the rise of Iberian players that embrace the idea of integration and facilitating the interrelationship of Spain and Portugal.

This scenario shows favorable circumstances to pursue further integration. The existence of an Iberian market versus the individual markets would boost the economic growth, the productivity and scope of the enterprises and it would become an important piece of the international scheme, all of which are not the actual reality. It should also be added that the synergies created could be maximized exploiting the benefits of the opportune location of Iberia. Historically, this fact has set both countries in a dominant position due to the respective relations with African and Latin American countries. A strategic hub opened to the Mediterranean, South America and North Africa, as is nowadays for the energy market, would bring access to new markets and bargain power with respect third parties that otherwise, individually would be impossible.

It requires a greater commitment from Portugal due to the market size but if they embrace M&A as driver of integration given the advantages and opportunities complementing each other, the benefits that arise from that are numerous. These synergies from where added value can be generated have been noticed when looking to the current activity of private equity firms, besides family offices and other type of investors that are not corporations. It has increased drastically resulting in higher productivity and competitiveness of the enterprises, enabling the creation of Iberian groups, more powerful and prepared for international competition. The break into the market of these players could be the main connection between both countries, leading to successful transactions and global presence.

Future research on the different effect of domestic and cross-border M&A in the growth of Iberia and the influence in the performance at company level when acquired by Iberian private equity firms is suggested.

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