New Characteristics and Countermeasures of Chinese Company Overseas Mergers and Acquisitions

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Abstract. In recent years, global mergers and acquisitions is keep expanding in its overall scale. China's overseas mergers and acquisitions scale is also in stable growth. In the first quarter of 2016, China has become the world's largest overseas mergers and acquisitions country in terms of scale. The regional trend of Chinese companies’ overseas mergers and acquisitions are increasingly flow to developed countries, where Europe and the North America are the major regions; industry trends are increasingly to the electronics, machinery and financial services. Regional and industrial capital flows change, reflecting the Chinese companies’ overseas mergers and acquisitions new strategy: in the global industrial restructuring process, Chinese companies try to obtain advanced technology or to occupy high-end consumer market, and pay more attention to the higher end global industrial value chain. However, due to the relatively short formation time of Chinese multinational companies, the overall competitive strength is not strong, thus the ability to avoid overseas risks is weak. We need to pay attention to quantitative assessment on overseas mergers and acquisitions risks, establish overseas mergers and acquisitions right and interests protect mechanism to support the continuous development of Chinese companies’ overseas mergers and acquisitions.

1. Recent Chinese Company Overseas Mergers and Acquisitions Characteristic

1.1 Overseas Mergers and Acquisitions Scale Keeps Expanding In recent years, China is becoming one of the leading forces influencing the development of global mergers and acquisitions market. On the one hand, because China is one of the countries with the largest number of foreign direct investment in the world, the acquisition of foreign mergers and acquisitions and domestic companies makes the Chinese mergers and acquisitions market an important part of the global mergers and acquisitions market. On the other hand, China as the world's second largest economy and the largest emerging economy, more and more Chinese companies are "going out", and in a wider range making transnational investment. Especially after the 2008 international financial crisis, Chinese companies is more active in the global corporate mergers and acquisitions market, and become a important driving force in the global companies mergers and acquisitions development. From 2005 to 2015, China's foreign direct investment (FDI) achieved a leap-forward development. In 2005, the amount of foreign direct investment was only US $12.3 billion, and then increased rapidly. The amount of foreign direct investment in 2008 exceeded 50 billion US dollars. In 2014, China's foreign direct investment exceeded 100 billion US dollars mark, reaching 102.9 billion US dollars. In 2015, China's foreign direct investment continued to maintain steady growth tp US $128 billion(see chart 1). China has become the world's third largest foreign direct investment country for three consecutive years. In 2015, the size of overseas mergers and acquisitions in China has reached US $61 billion. According to Reuters Thomson, the first quarter of 2016, the size of overseas mergers and acquisitions of Chinese companies have exceeded the size of overseas mergers and acquisitions of US companies to become the world's largest overseas mergers and acquisitions country.
CHART I. 2005-2015 China Foreign Direct Investment Scale

Note: Source from China’s Ministry of Commerce

1.2 Company Overseas Mergers and Acquisitions Focus on North America and Europe Market In 30 years of reform and opening-up, China's foreign direct investment has spent easy-to-difficult three stages development process. The first stage (the 1980s): majorly in the developing countries (regions), especially in Southeast Asia; the second stage (the 1990s to around 2005): started to go to the United States and Europe and some developed economies to try small-scale investment; The third stage (before and after the 2008 financial crisis): began to actively engage in developed countries, and large-scale investment. Changes in the selection of overseas mergers and acquisitions of Chinese companies show that Chinese companies have improved their strength in international investment fields, both in capital, technology and corporate culture. At present, China's mergers and acquisitions in developed countries (mainly in the United States, Europe and Australia) account for about two-thirds of the total size of China's overseas acquisitions. In 2015, China to the United States FDI scale hit a record new $ 15.7 billion, an increase of 30%. Among them, 103 mergers and acquisitions transactions, the total transaction size of 14 billion US dollars, accounting for 23% of the total size of Chinese company’s overseas mergers and acquisitions. Similarly, China's mergers and acquisitions activity in Europe is becoming increasingly active. Ernst & Young's research report shows that in 2009, Chinese companies in Germany only achieved 2 corporate mergers and acquisitions projects, but by 2015, Chinese companies’ mergers and acquisitions of German companies has reached 36 projects. At the same time, from 2009 to 2011, China's direct investment in the UK grew by an average annual rate of 85%. By 2015, the number of Chinese companies merged with British companies has reached 34 projects.

1.3 Diversified Company Overseas Mergers and Acquisitions Structure Established For a long time, natural resource investment in China's foreign direct investment occupies a prominent position, while the other areas of investment, especially in developed countries, corporate mergers and acquisitions are much less. KPMG statistics show that in 1995, Chinese companies overseas mergers and acquisitions only cover energy and other four industries. At the same time, the two characteristics of overseas investment of Chinese companies in the field of natural resources are the large-scale investment and the main force involved in overseas mergers and acquisitions transactions are state-owned companies. However, in recent years, the pattern of overseas mergers and acquisitions of Chinese companies has changed significantly, mainly as follows: Chinese companies’ overseas mergers and acquisitions in high-end manufacturing, finance, internet, real estate, health and other fields are very active, diversified investment areas pattern has been basically formed. For example, in 2015 China's corporate mergers and acquisitions in Europe cover almost 30 industries.

1.4 Overseas Mergers and Acquisitions Show Obvious Upward Trend in Value Chain In recent years, Chinese companies reduced investment in the lower end of global value chain mergers and acquisitions activities, instead intention is more about the European and American industries in the high-end value chain projects, pay great attention to generate high value-added creative properties. Especially the motivation to obtain creative properties and assets in the high-tech manufacturing,
financial services, internet and other areas is significant. For example, as the famous domestic auto parts brand, Wanxiang Group not only acquired US A123 system car business assets, its hardware facilities, also all its technologies, products and customer contracts. Another example is that in the 2016 Midea Group acquired KUKA group, which is one of the "four global industrial robot manufacturers". This is a promote to the deep cooperation between "Made in China 2025" and Germany "Industrial 4.0", and a powerful proof that the Chinese companies’ M&A is heading toward a higher level in value chain.

1.5 Private Companies Become a Big Force in Overseas MERGERS AND ACQUISITIONS In recent years, the participation of Chinese companies’ overseas mergers and acquisitions is showing a phenomenon of state-owned companies and private companies go hand in hand. The reasons are that firstly, the continuous development of the domestic market economy and the continuous reform of state-owned companies, provide state-owned companies a strong support for overseas mergers and acquisitions. Secondly, the countries being invested are worried about the investment of Chinese state-owned companies, which intensify the scrutiny and regulation. So that provide a larger investment space for private companies from China. Thirdly, the rapid development of Chinese private companies, make companies become dynamic, innovative and competitive, and gradually become one of the important forces of China's foreign investment. Finally, the continuous reform of China's foreign investment system, provide an increasingly relaxed policy environment and service support for private companies to "go out".

2. Chinese Companies Overseas Mergers and Acquisitions Challenges

2.1 Private Multinational Companies Lack of Overall Strength At present, Chinese private multinational companies with capital, technology or brand advantages, such as Huawei, ZTE, etc., are still numbered in the international. In general, the strength gap between Chinese and Western multinational corporations is still obvious, which can be informed from the last year the world's top 500 companies ranking. China's top 500 companies are mainly state-owned companies; private companies are hard to find in it. At the same time, China's private multinational companies are far behind the developed countries’ multinational corporations in terms of the per capita number of assets, sales, the degree of internationalization, etc. Therefore, to encourage and support more private multinational companies rise and development for their overseas mergers and acquisitions, the provision of financing, foreign aid and other aspects of support are important strategic initiatives to the development of overseas mergers and acquisitions of Chinese companies.

2.2 Inadequate Right and Interests Protection in Overseas Mergers and Acquisitions In recent years, Chinese companies’ overseas mergers and acquisitions encountered many cases of thwart and obstruction, which reflect the corresponding increase of national risk with a faster pace in Chinese companies’ "going out" strategy. In 2015, Mexico halted the project of Chinese commercial trade center in Cancun; CFIUS vetoed the $ 2.8 billion acquisition of Philips' LED lighting business in Lumileds, and so on. In the face of emerging foreign defaults, although Chinese companies are arguing and struggling with the host countries, in consideration of that they still have business in the host country, and should maintain good business relationship with the them. Often Chinese companies chose to make concessions after get a slim of liquidated damages. Therefore, how to better protect the rights and interests of Chinese companies in overseas mergers and acquisitions is a very urgent practical problem.

2.3 Companies Soft Power in Overseas Mergers and Acquisitions Needs Futher Development Practice has proved that the reasons that host country refused to approve certain Chinese companies’ merger and acquisition projects are from companies themselves, including the enterprise's government background, governance structure, operating transparency, corporate culture, and so on. Most of these problems belong to the soft power of companies. For example, corporate culture is the necessary and sufficient condition for international business. Abide by social morality, trustworthiness, respect to intellectual property rights, emphasis on efficiency and unity, are important manifestations of corporate soft power. At present, Chinese companies has a certain advantage in the capital and other hard power to carry out overseas mergers and acquisitions,
but in the corporate governance structure, corporate culture and other soft power remains to be further enhanced. The real success of overseas mergers and acquisitions is often reflected in the effective integration within the firm determined by the soft power.

3. Suggestions on Future Development of Overseas Mergers and Acquisitions

For the next period, in the international background, the global mergers and acquisitions market scale will basically keep expanding, the transactions will continue to be active. Although it is unlikely to reproduce the rapid development of 2015, because of the prudent investment of multinational companies in recent years, it has enough time and ability to grasp better investment opportunities. At the same time, coupled with the global banks low interest rate, low capital costs for Chinese companies provide financial support for the implementation of overseas mergers and acquisitions. From the perspective of domestic environment, promote Chinese companies’ overseas mergers and acquisitions is in line with the domestic economic restructuring and the domestic industrial structure adjustment. Therefore, in the context of this domestic and international economic situation, it is a inevitable tendency that the Chinese companies’ overseas mergers and acquisitions continue to expand, the number of mergers and acquisitions continue to increase, the investment area continues to broaden. In view of this development trend and the existing shortcomings, we make the following suggestions:

3.1 Pay Attention to Quantitative Assessment on Overseas Mergers and Acquisitions National Risks In recent years, a series of Chinese companies’ overseas mergers and acquisitions investment experienced frustration, which alarm Chinese companies that trying to "going out". The threshold of overseas mergers and acquisitions is not a key factor affecting certain investment projects. It is important to pay attention to the economic and financial situation of the host country, the state of debt default and the legal environment of foreign investment. Therefore, in assessing these important factors, Europe and the United States investment level is clearly higher than Africa, Latin America and other countries and regions. In view of factors like host countries’ security on investment funds and personnel, ability to implement contract, internal integration after mergers and acquisitions, degree of corruption in the host country and degree of intervention from local labor organizations, and so on. At present, more and more Chinese companies, especially those who try to develop in high-end industrial value chains, tend to invest more in Europe and the United States. And invest in highly legalized countries is becoming a global trend in foreign direct investment. Currently, China has established a national risk rating agency and regularly publishes its national risk rating report, which is based on the political, economic, social and multilateral relations among countries in the world. These quantitative and qualitative analysis provide a valuable reference for Chinese companies’ overseas mergers and acquisitions. In the future, should pay more attention to the construction of national risk assessment agencies and improve the quality of their reports, thereby reducing the risk of overseas mergers and acquisitions of Chinese companies.

3.2 Establish Overseas Mergers and Acquisitions Right and Interests Protect Mechanism In the face of frequent host countries’ defaults and subsequent substantial financial losses for Chinese companies’ overseas mergers and acquisitions, protect Chinese companies’ rights and interests relying solely on the power of their own are often insufficient to solve the pressure from the host government or civil organizations. It is urgently needed for Chinese companies abroad to get diplomatic, legal, technical and other aspects support and help from each domestic government department. At present, China adopted the "one issue one discussion" attitude, which lack of systematic, standardized, institutional service system. Therefore, it is imminent for the establishment of overseas mergers and acquisitions rights protection mechanism for Chinese companies to get equity investment help overseas.

3.3 Actively Use Investment Opportunities Provided by TPP Once TPP comes to be effective, it will have a great impact on international investment in the Asia-Pacific region. Although some Chinese companies have taken precautions for this and have invested in the relevant countries in advance, it is a major event involving economic integration in the Asia-Pacific region, and its impact on China's overseas investment will be huge and lasting. Although China is not a member of the Trans-Pacific Partnership Agreement, but it forces more and more domestic companies, including large state-owned companies, to actively search for favorable “work for me” conditions
and cooperation opportunities in this region, and make investment based on mutual benefits and win-win result.

References


