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Chen, Chien-Hsun

Chung-Hua Institution for Economic Research

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Chien-Hsun Chen
(Corresponding author)
Chung-Hua Institution for Economic Research
75 Chang Hsing St., Taipei, Taiwan 10672
Tel: 886-2-2735-6006 ext 4341, Fax: 886-2-2739-0610
E-mail: chchen@cier.edu.tw

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Abstract

In China, mergers and acquisitions (M&As) have had a long-run impact on companies' operational and financial rearrangements in the process of the country's economic restructuring and rebalancing. The vibrancy of China's M&A market is reflected in the gradual maturity of Chinese companies and the massive commercial opportunities that arose following the phenomenal growth of China's economy. The initial motives behind Chinese domestic M&As were to save poorly governed state-owned enterprises in what may be termed the "rescue mission". Most M&As involve state-owned enterprises that play a dominant role in China's capital markets. The success of Japanese *keiretsu* and South Korean *chaebols* has prompted China to develop business groups in its economy to enhance the competitive advantage of Chinese companies through economies of scale and improved company performance. Foreign inbound M&As can monopolize positions in certain industries and destroy a fair competitive environment. This in turn has seriously threatened the existence and growth of Chinese companies.

Keywords: China; mergers and acquisitions; business strategies; state-owned enterprises

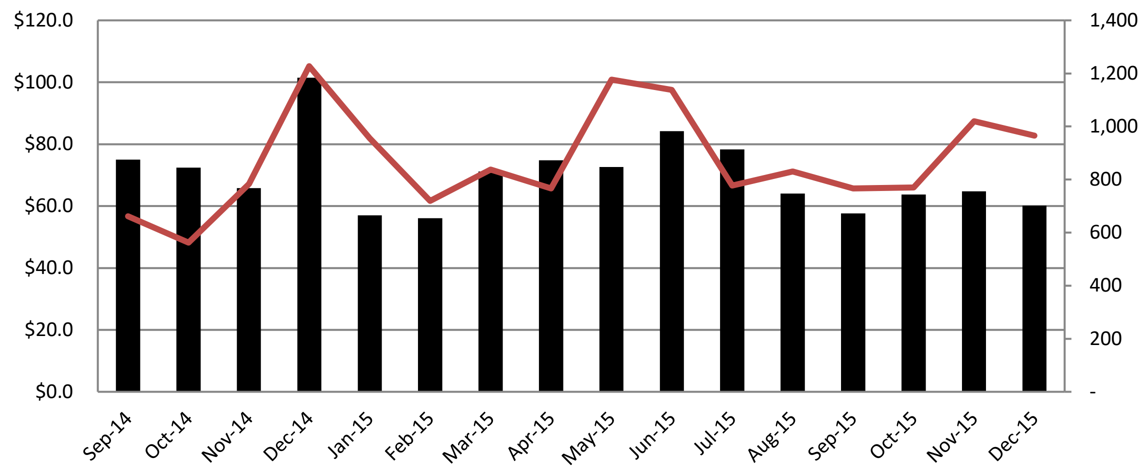
JEL Classification Nos: M10, M31, M38

1. Introduction

Foreign direct investment (FDI) is one of the most important strategies for multinational companies in the case of fragmented production. In China, traditional FDI modes such as greenfield investments and joint ventures have governed FDI inflows. Nevertheless, foreign inbound merger and acquisition (M&A) activities have increased in recent years. In business activities, M&As have been used to acquire and reorganize business operations which have become a major strategy for integrating global business. They also have had a long-run impact on companies' operational and financial rearrangements during China's economic restructuring and rebalancing.

Since 2003, following a recovery in the global economy and financial markets, there has been a resurgence of M&A activities, albeit with a shift from the United States and Europe to Asia. As shown in Figure 1, the deal volume in the Asian M&A market in the fourth quarter of 2015 was 2,202 announcements compared to 2,334 in the third quarter of 2015, representing a decrease of 5.66%. However, the aggregate M&A deal value witnessed an increase from US$$203.5 billion in the third quarter of 2015 to $236.1 billion in the fourth quarter of 2015, up by 16.0%.[1] In Asia, China's M&A market has seen rapid growth in the past few years, drawing much attention in the global M&A market. Since its accession to the WTO, China has further opened up its markets, thereby reinforcing this trend. The gradual maturity of Chinese companies and the massive commercial opportunities that have arisen following the phenomenal growth of the China economy demonstrate the vibrancy of its M&A market.

[1] FactSet, "Asia M&A News and Trend", at <www.factset.com> (accessed 24 February 2016).



	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Deal Volume	875	845	768	1,184	665	654	831	873	847	983	914	747	673	744	756	702
Aggregrate Deal Value(billion)	$56.7	$48.2	$67.1	$105.2	$81.9	$61.7	$71.8	$65.7	$100.9	$97.5	$66.6	$71.2	$65.7	$66.0	$87.4	$82.8

Source: FactSet, "Asia M&A News and Trend", at <www.factset.com> (accessed 24 February 2016).

Figure 1 Asia Mergers & Acquisitions Market Index

In recent years, in particular, China has attracted investors' attention while countries around the world have entered a stage of slower economic growth in varying degree. As Table 1 shows, the number of M&As in China has surpassed that in Australia, India and Japan to become Asia's largest M&A market. Although the involvement of Chinese companies in M&A activities has been short, such M&A activities have gradually changed from purely assimilating poorly performing enterprises to becoming a strategic driver for growth in Chinese enterprises .

Table 1 M&A Deal Volume by Country

	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Australia	299	244	325	352	319	252	313	349	347
China/HK	1,038	843	918	1,016	1,259	837	1,265	884	868
India	144	167	170	204	228	250	239	258	225
Japan	443	418	367	405	434	423	393	361	352

Source: FactSet, "Asia M&A News and Trend", at <www.factset.com> (accessed 24 February 2016).

Following the formulation of the Resolution on Economic System Reform during the Third Plenum of the 12th Central Committee of the Chinese Communist Party (CCP) in 1984, the Chinese government has begun to explore channels to consolidate corporate profits in the face of an irrational corporate structuring of state-owned enterprises and low productivity. Under the 'Two Rights Separated' policy, the Chinese government promoted corporate contracting and lease operating, and began Chinese domestic M&As. The first domestic M&A activity was in Baoding and Wuhan, involving the transfer of poorly run state-owned enterprise property rights to companies with excellent management, with a view to achieve greater economic effectiveness.

In November 1993, the Decision of the Central Committee of CCP on Some Issues Concerning the Construction of a Socialist Market Economy of the Third Plenum of the 14th Central Committee of the CCP clearly indicated that property rights must be clarified and the circulation and reorganization of such rights allowed. China Ocean Shipping Group acquired Shanghai Zhong Cheng Industrial Co. Ltd. and Zhu Hai acquired state shares in Shanghai Lengguang; these companies acquired stocks in large-scale state-owned enterprises with comparatively little capital, thereby facilitating the circulation and reorganization of property rights.

In the reform era, state-owned enterprises had been privatized to transform China into a market economy. A wave of management buyouts and private purchases of state-owned enterprises had gained momentum. In 1997, the Chinese government began to sell off shares in state-owned enterprises. On 2 June 2010, the Chinese government further promulgated the "Notice of the State Council on Further Strengthening the Elimination of Backward Production Capacities" to restructure enterprises with obsolete production capacity.

Since 1997, Chinese companies with their gradual maturity, coupled with pressures to open up their markets, have led to a gradual warming in the tide of domestic M&As. With the emergence of large-scale M&A cases, such as Lenovo with Yestock, Sohu with ChinaRen and Hisense with Langchao, China has formally entered a period of strategic M&As.[2] This wave of domestic M&A activities is no longer a case of the strong

[2] See Luo, Y. (2007). "From Foreign Investors to Strategic Insiders: Shifting Parameters, Prescriptions and

swallowing the weak, or the large eating the small, but the 'strong working together'; the aim of the M&A is not a political attempt to support state-owned enterprises, but rather a long-term development strategy for an enterprise.

The key point of a domestic M&A is the exchange of high technology and cooperation in an attempt to gain a 'complementary advantage'. More importantly, the government no longer plays the role of policymaker in domestic M&As, leaving the decision-making rights to the enterprises via a freely competitive mechanism. In November 2013, the Third Plenum of the CCP's 18th Congress also emphasized the development of a mixed ownership economy by reducing and marketizing the public sector and encouraging the development of the non-public sector by means of better property rights and fewer market barriers.[3] Therefore, this study uses the case study of China to explore the emergence of mergers and acquisitions market in China. The remainder of this paper is organized as follows. The next section presents the market competition of M&A activity. The third section describes the domestic M&A. The fourth section describes foreign inbound M&A. The fifth section presents the impact of foreign inbound M&A, and the final section presents the conclusion drawn from this study.

2. M&A Activity Driven by Market Competition

Since the adoption of reforms and market-opening policies, China's various industries have entered the phase of full-scale competition. Such fierce competition has led enterprises to lower their costs through an expansion of their production scale. They are constantly looking for new profitable areas, a key benchmark for enterprise operations. At the same time, inter-industry integration and expansion have become an inevitable trend.

Meanwhile, China's government is planning to develop internationally competitive enterprises and enterprise groups in some key industries through initial public offerings (IPOs), acquisitions, mergers and restructuring. Multinationals in various industries

Paradigms for MNCs in China", *Journal of World Business*, 42 (1), pp. 14–34.

[3] See *China Daily*, 16 November 2013.

worldwide are aggressively acquiring Chinese enterprises, indicating more takeovers in China in the foreseeable future.

Table 2 shows that the weak global economic recovery and slower growth in China's economy in 2012 drove domestic and foreign inbound M&A activity in China downward to a five-year low (2008–2010). China's domestic M&A deals in terms of volume had decreased by 18.24% and in terms of value by 25.25% compared to that in 2011. Meanwhile, foreign inbound M&A had decreased by 47.40% in value terms (US$9.1 billion, 286 deals) compared with that in 2011 (US$17.3 billion, 482 deals). In 2013, China's M&A activity regained its momentum from a five-year low. Compared to a year earlier, China's domestic M&A deal values grew by 65.31% and foreign-inbound M&A values increased by 63.74%. In 2013, the Diaoyu Islands dispute caused the number of deals involving Japanese investors to tumble by 43.94% from 2012. Surprisingly, the number of deals involving US investors also decreased by 43.48% from that in 2012 (see Table 2).[4] China closed the door to IPOs in October 2012, making it difficult to value companies and in turn hurt foreign inbound M&A activities. Nevertheless, China brought the IPO freeze to an end with a new approval process in December 2013.[5]

Table 2 Total M&A Deal Volume and Value in China, 2011–1015

	2011		2012		2013		2014		2015		% Diff Volume 2015 vs. 2014	% Diff Value 2015 vs. 2014
	Volume	Value (US$ bn)	Volume	Value (US$ bn)	Volume	Value (US$ bn)	Volume	Value (US$ bn)	Volume	Value (US$ bn)		
Strategic buyers												
Domestic	3,262	118.0	2,667	88.2	2,704	145.8	4,180	238.0	4,819	445.3	15%	87%
Foreign	482	17.3	286	9.1	275	14.9	354	23.4	318	14.3	-10%	-39%
Total Strategic Buyers	3,744	135.3	2,953	97.3	2,979	160.7	4,534	261.4	5,137	459.6	13%	76%

Source: Brown, D. (2014). *PwC M&A 2015 Review and 2016 Outlook*, at <www.pwccn.com> (accessed 7 February 2016).

[4] See Brown, D. (2014). *PwC M&A 2013 Review and 2014 Outlook*, at <www.pwccn.com>, (accessed 7 February 2016).

[5] See *China Daily*, 17 December 2013.

In 2015, due to economic restructuring, China's domestic M&A in terms of volume and value increased by 37% and by 84% compared to those in 2014, respectively. Due to uncertainty in the global markets, foreign inbound M&A volumes decreased by 10.17% and values to plunge to 38.89% from that in 2014. Table 3 shows that in 2015, in terms of industry sector deal volume, high technology reached US$77.4 billion, followed by financial services with US$71.2 billion and real estate with US$58.0 billion.

Table 3 Strategic Buyer Deal Value by Industry Sector in China, 2011–2015

Unit: US$ billion

	2011	**2012**	**2013**	**2014**	**2015**
High Technology	12.3	16.2	21.1	36.4	77.4
Financial Services	16.1	13.8	12.8	33.9	71.2
Others	31.1	16.5	39.0	60.6	52.3
Industrial	18.1	10.6	20.5	30.3	58.0
Energy and Power	9.5	6.3	12.4	17.0	51.8
Materials	22.1	16.7	20.1	26.6	44.0
Real Estate	22.2	12.5	29.5	43.3	42.0
Health care	4.8	5.3	6.4	13.5	32.1
Consumer-related	11.1	8.6	18.9	19.7	30.8

Source: Brown, D. (2014). *PwC M&A 2015 Review and 2016 Outlook*, at <www.pwccn.com>, (accessed 7 February 2016).

3. Domestic M&A in China's Economy

Restructuring of state-owned enterprises

Chinese domestic M&As were initially "rescue missions" to save poorly governed state-owned enterprises. Most M&As involve state-owned enterprises that play a dominant role in China's capital markets. Indeed, the majority of shares acquired during M&As are legal person shares.[6] Chinese listed companies usually use cash as a means of payment in M&A

[6] See Chi, J., Sun, Q. and Young, M. (2011). "Performance and Characteristics of Acquiring Firms in the

activities.[7] Through corporate M&As, the merged enterprises reorganize existing state-owned assets and abandon duplicated investment projects facing major losses that cannot be salvaged; by using leading technologies and enterprise management methods of the superior enterprises, reorganizing the operations of the target enterprise and expanding production by centralizing the superior projects,[8] optimal allocation of resources could be attained.

Corporate expansion

M&A transactions are regarded as opportunities bearing considerable risk. M&As that seek to maximize profits and relieve competitive pressure do so firstly to achieve operating synergy, the chief economic benefit of M&As. Secondly, through M&As, firms seek financial synergy mainly to enlarge the tax avoidance space (in tax revenue terms) and achieve a positive effect on the company's share price. Thirdly, through the expansion of new operational space, firms engaging in M&A activity mainly aim to enter new realms and industries, and lower the risks and costs of an enterprise's development. Fourthly, firms seek to expand market shares of their products to enable the enterprise to obtain a level of monopoly while maintaining a competitive advantage so as to generate extra profits in the market. Fifthly, enterprises seek to realize their development strategy.[9]

Expanding production scale and raising corporate competitiveness

Chinese companies can expand their production scale and lower their unit production costs through M&A; after the merger, the internalization of the external market lowers the excessive costs brought about by external competition. The concentration of scientific

Chinese Stock Markets", *Emerging Markets Review*, 12 (2), pp. 152–170.

[7] See Bhabra, H. S. and Huang, J. (2013). "An Empirical Investigation of Mergers and Acquisitions by Chinese Companies, 1997–2007", *Journal of Multinational Financial Management*, 23 (3), pp. 186–207.

[8] See Rao, J. (2005). "Comparison of the Motives of Foreign and Chinese Corporate M&A and Its Existing Problems", *Qiye Jingji* (*Enterprise Economy*), 8, pp. 70–72.

[9] See Zhang, H. (2006). "Characteristics, Motives, and Existing Problems Concerning Corporate M&A in China", *Ningxia Shehui Kexue* (*Social Sciences in Ningxia*), 6, pp. 38–40.

research expenses of enterprises involved in the M&A activity and the increasing investment in the development of new products raise the competitiveness of such products in the market.[10] Chinese companies with political connections have a greater probability of engaging in M&A activities and on a larger scale.[11]

Industry transformation and developing new competitiveness

Conducting industry transformation, developing new competitiveness and investing in unrelated or less related projects through the process of M&A can help enterprises avoid internal expansion risks, reduce dependency on a single product market and lower the adverse effects of seasonal fluctuations and business cycles. Chinese companies are generally small in size, overlapping in business types and sharing similar structures. Enterprises, in particular state-owned enterprises, lack competitiveness. M&As hence become more commonplace. These takeovers will encounter obstacles that are unique to the Chinese market. However, as China's market economy gains momentum, these obstacles will likely be removed. In the future, China is expected to have a very active corporate takeover market. In November 2013, China pledged to allow markets to play a "decisive" role in resource allocation. Mergers, acquisitions and restructuring in China are hence expected to peak in the next five to 10 years.

Short-term abnormal returns

M&A reorganization between Chinese enterprises will generate short-term abnormal returns such as obtaining government and local credit and tax advantages, profiting from window dressing various assets, highlighting M&A reorganization to encourage speculation on listed companies' stock prices and purchasing listed companies at low cost

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[10] See Fang, L. (2006). "Analysis of the Motives and Effects of Corporate Multinational M&A in China", *Keji Chuangye Yuekan* (*Pioneering with Science & Technology Monthly*), 12, pp. 44–45.

[11] See Lu, N., Wang, L. and Zhang, M. (2013). "Corporate Ownership, Political Connections and M&A: Empirical Evidence from China", *Asian Economic Papers*, 12 (3), pp. 41–57.

by 'going public listing through buying a shell'. According to Chinese corporate tax laws, outstanding companies that merge and acquire loss-making enterprises can pay little or no income tax after offsetting the loss-making enterprise's losses. When the acquiring enterprise acquires the target enterprise, it can change the target enterprise's shares at a specified rate based on the acquiring enterprise's shares. As there is no cash transfer or profit, the entire process is tax free. Indeed, Chinese acquirers overall have positive abnormal returns.[12]

4. Restructuring Industry via Foreign Inbound M&A

After joining the WTO in 2001, China experienced a quantum leap in foreign investments with its policy to attract the participation of foreign enterprises in the reform and reorganization of large-scale state-owned enterprises by undertaking M&A investment. Multinational companies with higher relocation costs and greater post-acquisition restructuring experience prefer acquisitions to greenfield investments.[13] China has become a new frontier for foreign inbound M&A as multinational companies are undertaking M&A in the various Chinese markets and industries.[14]

An important factor in acquisitions within the Chinese market is the integration of processing, production and manufacturing. Companies wishing to expand their operations on a global scale would do well to consider cooperating with China. China is gradually becoming an indispensable market for many industries and products because of the role it plays in the global production network. In its 12th Five-Year Plan (2011–2015), China encouraged foreign companies to invest in strategic emerging industries (SEIs), such as biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials and next-generation information technologies. These SEIs could contribute 8% of GDP by 2015. The off-limit

[12] See Song, X., Tippett, M. and Vivian, A. (2012). "Assessing Abnormal Returns: The Case of Chinese M&A Acquiring Firms", *Working Paper,* Loughborough University, UK.

[13] See Cheng, Y. M. (2006). "Determinants of FDI Mode Choice: Acquisition, Brownfield, and Greenfield Entry in Foreign Markets', *Journal of Administrative Science*, 23 (3), pp. 202–220.

[14] See Li, S. and Li. C. (2013). "Cross-border M&A or Greenfield Investment: What Affects Choices between the Two FDI Entry Modes', *Jingi Yanjiu* (*Economic Research Journal*), 12, pp. 134–147.

areas were energy- and resource-intensive industries, and high-pollution industries.[15]

For the 13th Five-Year Plan (2016–2020), China planned to boost the development of SEIs in advanced semiconductor, robotics, additive manufacturing, intelligent system, new generation of aviation equipment, space technology integrated service systems, intelligent transportation, precision medicine, efficient energy storage and distributed energy systems, intelligent material, efficient energy saving and environmental protection, and virtual reality and interactive television.[16] The share of SEIs' total value-add to GDP increased to 15% by 2020.

Foreign inbound M&A activities are likely to first, encourage China to become more integrated within the international economic system, changing the competitive setup of China's domestic industry. These enterprises would then be introduced to the international labor-division and organization systems and become a valuable component within the global economy to deepen China's participation in the international economic system. Second, improve the level of industry concentration. Based on the successful experiences of Japanese *keiretsu* and South Korean *chaebols*, China has begun to encourage the development of business groups in China that enhance the competitive advantage of Chinese companies through economies of scale and improved company performance.

In overly competitive industries, foreign inbound M&A can help reduce the number of firms and bring about scale effects, thereby raising the level of industry concentration;[17] in over-monopolized industries, foreign investment can help reduce the number of firms and counter unreasonable levels of industry concentration. An example is the house household appliances manufacturing industry. Conversely, allowing foreign investment access to the telecommunications industry can increase the number of enterprises, break down price monopolies and lower the current overly concentrated market structure.

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[15] See *CBI China*, at <www.cbichina.org.cn> (accessed 1 February 2016).

[16] See *Commercial Times*, 6 March 2016.

[17] See Xu, Bo. (2006). "Foreign Investment Acquisitions in China and Its Effect on Chinese Enterprises', *Xiandai Guanli Kexue* (*Modern Management Science*), 10, pp. 37–39.

However, there are also adverse effects inherent in foreign inbound M&As. First is the ‘crowding-out effect’, which in the short term can lead to a marked reduction in the market shares of Chinese companies. Second is the monopoly effect. Foreign investment organizations possess technical, capital and information advantages; after acquiring Chinese companies, they strengthen their competitiveness, further expand their market influence and possibly develop an industry monopoly.[18] Third is the demise of Chinese brands; during the process of foreign acquisition, Chinese domestic brands are replaced by foreign brand names or completely bought over by foreign investors, for example, ‘Xiafei’ cosmetics, ‘Xiangxuehai’ electrical appliances and ‘Zhonghua’ toothpaste.

5. Boosting the Growth of China’s Enterprises through Foreign Inbound M&A

The influence of foreign inbound M&A on Chinese companies can be principally seen in capital/funds, technology, employment, markets, management and governance structure. With large amounts of foreign capital and high success rates, it can meet the needs of Chinese companies in industry adjustment and technical renewal, thereby benefiting the speedy development of Chinese companies.[19] The foreign equity share has a positive impact on domestic sales growth.[20]

The acquisition of Chinese companies would also necessitate their inclusion in the parent company’s global organizational and labor division systems and the transfer of core technologies to Chinese companies for production. The technological advantages that foreign investment organizations possess can, to a certain extent, be absorbed and utilized by Chinese companies to spur technological advances in related industries, particularly in

[18] See Lebedev, S., Peng, M. W., Xie, E. and Stevens, C. E. (2015). “Mergers and Acquisitions in and out of Emerging Economies’, *Journal of World Business*, 50 (4), pp. 651–662.

[19] See Cai, Z. (2006). “SWOT Analysis of Multinational M&A and China’s Corporate Development”, *Kexji Chuangye Yuekan* (*Pioneering with Science & Technology Monthly*), 12, pp. 46–47. Li, J. (2006). “Discussions on the Effect of China’s Microeconomy on Multinational M&A’, *Jingji Wenti* (*Economic Issues*), 8, pp. 33–34. Chang, S. J., Chung, J. and Moon, J. J. (2013). ‘When Do Foreign Subsidiaries Outperform Local Firms?”, *Journal of International Business Studies*, 44 (8), pp. 853–860.

[20] See Du, J. and Girma, S. (2007). “The Effects of Foreign Acquisition on Domestic and Export Markets Dynamics in China’, *The World Economy*, 32 (1), pp. 164–177.

the high-technology industry.[21] An influx of foreign inbound M&A capital can also lead to the creation of new jobs,[22] improve the quality of staff, cultivate international talent, blend Chinese and foreign markets and boost the global sales of a portion of Chinese domestic products. Indeed, foreign acquisitions of Chinese state-owned enterprises have boosted employment growth in the post-acquisition period.[23]

Foreign inbound M&A capital can also lead to an improvement in corporate governance structure[24] and bring in the 'family-style' management of private enterprises. For example, after the foreign acquisition of Shenzhen Development Bank in 2004, the bank performed better than its rival financial institutions over a period of 19 months.[25] However, such foreign investment is likely to maintain control rights over core technologies. While this affects only the R&D division of the Chinese party, foreign inbound M&A can also hinder the business expansion of the acquired company, or exert pressure on enterprises in the same industry and lead to a fall in the productivity of some enterprises and to lay-offs.

6. Conclusions

Foreign inbound M&A can initiate turning points in China's economic growth and generate considerable economic benefits. First, it draws in considerable amounts of capital, advanced technologies and management experience, and to a certain extent mitigates the problem of capital shortages in enterprises and backward management. Second, it can help

[21] See Liu, X. and Buck, T. (2007). "Innovation Performance and Channels for International Technology Spillovers: Evidence from Chinese High-tech Industries", *Research Policy*, 36 (3), pp. 355–66.

[22] See Liu, Q., Lu, R. and Zhang, C. (2015). "The Labor Market Effect of Foreign Acquisitions: Evidence from Chinese Manufacturing Firms", *China Economic Review*, 32, pp. 110–120.

[23] See Gong, Y., Gorg, H. and Maioli, S. (2007). 'Employment Effects of Privatization and Foreign Acquisition of Chinese State-owned Enterprises', *International Journal of the Economics of Business*, 14 (2), pp. 197–214.

[24] See Jiang, C., Yao, S. and Zhang, Z. (2009). "The Effects of Governance Changes on Bank Efficiency in China: A Stochastic Distance Function Approach", *China Economic Review*, 20 (4), pp. 717–731.

[25] See Lian, Y. and Zhang, Y. (2012). "Foreign Institutional Investors and China's Financial Service Industry: The Intra-industry Effects of the Foreign Acquisition of Shenzhen Development Bank', *Banks and Bank System*, 7 (4), pp. 32–42.

lead a number of Chinese companies, even those in critical condition, on to a new path, setting an example for corporate reform in China and helping them accumulate experience. Third, it can spur listed companies to transform their mechanisms and establish modern corporate systems, thus comprehensively raising the quality of such listed companies and further promoting the healthy development of China's securities markets. On the other hand, it may negatively impact China's economic development when it monopolizes positions in certain industries thereby destroying a fair competitive environment.

When 'control rights' go to the foreign investor, it may lead to a loss in the disposition of human resources and the Chinese party's self-governing ability to develop technology, which may seriously endanger the existence and development of Chinese companies. As China's current securities laws are still imperfect, the foreign capital M&A of Chinese listed companies will, to a certain extent, impact China's securities markets. Well formulated policies and laws on foreign inbound M&A are hence necessary. The greater competition from such foreign investments has spurred discussions about the indigenous development of Chinese industries. The industrial security issues have caught the attention of the Chinese government, which is acting to limit M&A activities in China.

In 2011, the Chinese government established a Security Review Committee led by the National Development and Reform Commission and the Ministry of Commerce for reviewing the national security implications of foreign investments in Chinese companies. China's Anti-Monopoly Law, which is based on the same conceptual framework employed in advanced economies, went into effect on 1 August 2008. Under Article 31, foreign inbound M&A is subject to both national security and anti-monopoly reviews.[26] A graphical illustration of US, European and Chinese merger control systems is presented in Table 4.

The Ministry of Commerce, China's merger control authority, had reviewed 78 cases in 2009, 109 cases in 2010, 171 cases in 2011[27] and a record high of 312 cases in

[26] See Heinemann, A. (2012). "Government Control of Cross-border M&A: Legitimate Regulation or Protectionism?" *Journal of International Economic Law*, 15(3), pp. 843–870. Lin, P. and Zhao J. (2012). "Merger Control Policy under China's Anti-monopoly Law", *Review of Industrial Organization*, 41 (1–2), pp. 109–132.

[27] See Charles River Associates (CRA), *CRA Insight: China Highlights, January 2013*, at <www.crai.com>

2015. In 2008, the proposed US$2.5 billion bid by Coca-Cola Enterprises, Inc. for China's top domestic juice-maker, China Huiyuan Juice Group Limited, was blocked.[28] In 2014, the ministry also blocked the proposed P3 Network shipping alliance between Denmark's AP Møller-Maersk A/S (Maersk Line), Switzerland's Mediterranean Shipping Company (MSC) and France's CMA CGM,[29] claiming that the alliance would restrict competition.

Table 4 Differences in Merger Controls Across the United States, Europe and China

	United States	**Europe**	**China**
Welfare Standard Utilized by the Agencies	Consumer Welfare	Consumer Welfare	Mix Between Consumer and Total Welfare
Political Factors Within Merger Control	No	Only in the Form of Competitor Complaints	Yes
Industrial Policy	No	No (Although Yes at the National Competition Authority Level)	Yes
Other Parts of Government Active in Antitrust Merger Analysis	No	No	Yes
Transparency in Process	Yes	Somewhat (Transparent after the fact but less so to the Parties)	No
Delay	No	Somewhat	Yes

Sources: Sokol, D. D. (2011), "Merger Control under China's Anti-monopoly Law", *Journal of Law and Business*, 10 (1), pp. 1–36.

Nevertheless, in October 2002, China's nine state-owned airlines merged to form three airline groups, namely, Air China Group, China Eastern Group and China Southern

(accessed 2 February 2016).

[28] See Zhang, X. and Zhang V. Y. (2009). "Chinese Merger Control: Patterns and Implications", *Journal of Competition Law & Economics*, 6 (2), pp. 477–496.

[29] See Skadden, "Navigating Chinese Merger Control: MOFCOM Prohibits P3 Shipping Alliance, available at <www.skadden.com> accessed 24 February 2016.

Group. Due to the absence of effective anti-trust laws in 2002, these mergers faced no antitrust challenges. Since the post-merger airfares were not remarkably higher than that of 2002, passengers on those routes were not adversely impacted.[30] While Chinese enterprises enjoy special advantages in the Chinese market because of certain market laws and regulations, and the systems in place in China, these advantages are obstacles to foreign inbound M&A activities and the development of their operations.[31]

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[30] See Zhang, Y. (2012). "A Retrospective Analysis of the Effects of Airline Mergers on China Eastern's 'Lifeline' Routes: A Difference-in-differences Approach", *Journal of the Asia Pacific Economy*, 17 (3), pp. 464–475.

[31] See Guo, L. (2011), "Entering the Chinese Market through Takeovers – A Glimpse on the Current Legal and Regulatory Regime", *Working Paper*, Peking University Law School, China.

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