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Introduction

It is our great pleasure to deliver another volume of Research Papers on Asia-Pacific economic issues. Each year we present you multiple points of view on that topic, trying to show how much the processes in Asia & Pacific affect the world economy. After nine years of hosting international scientific conference dealing with that region's affairs, we are still confident that these issues are important not only for the countries of the region, but also for economies worldwide.

This year we have chosen for you 15 articles. All of them were submitted for this year's conference entitled "Asian Economies in the Context of Globalization". Seeing that some authors describe the issues of countrywide importance and others of those having regional or global meaning, we have decided to group them according to the criterion of impact range.

The first chapter – Asian Economies in the Global Context – is a collection of papers on general regionalization or globalization issues. T. Sporek is trying to refresh the view of the globalization processes occurring at the crossroads of economy and politics. M. Bartosik-Purgat is analyzing sources of information about products and services in the light of cross-cultural research. E. Majchrowska is using Regional Comprehensive Economic Partnership case to show the importance of mega-regional blocks in global trade. In addition, we decided to add to this part the articles the subject of which is not so general, but it applies to trade relationships of a global nature. This will be the EU-India trade and investment agreement (G. Mazur), Poland-ASEAN agri-food products trade (K. Kita) or anti-dumping procedures against China under WTO rules (J. Skrzypczyńska).

Articles in the second chapter are – as the title implies – embedded in a regional context. P. Pasierbiak deals with trade regionalization in East Asia. S. Bobowski offers an insight into ASEAN-Japan Economic Partnership. A. Kuropka and A.H. Jankowiak analyse the impact of natural disasters on production networks in the region. As the last in this section we have placed the article about Singaporean Competitiveness Model applied in European economies (M. Żmuda). It may be not strictly connected with Asia & Pacific, but its concept is to transfer Asian experience to Europe at the regional level.

The last chapter – Asian Economies in the Local Context – is mostly about domestic matters of Asian countries. You will find there three articles about China (J. Bogołębska writing about Chinese monetary policy, A. Klimek describing cross-border mergers and acquisitions by Chinese state-controlled enterprises, S. Stępień and A. Sapa showing Chinese pork sector), one about Indonesia (*Development of Islamic banking in Indonesia* by I. Sobol) and one about North Korea (M. Kightley applying game theory in prediction of political changes in that state).

We think it is an interesting set of papers you will find valuable in your studies. We also hope that your scientific interests will continue to be associated with Asia and that is why we invite you to the 10th anniversary conference which will be held at the Wrocław University of Economics in November 2017.

We appreciate your time and consideration, as also time and effort of our peer reviewers. We look forward to the further submissions of interesting papers on Asia & Pacific. Thank you!

Bogusława Drelich-Skulska, Anna H. Jankowiak, Szymon Mazurek

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CROSS-BORDER MERGERS AND ACQUISITIONS BY CHINESE STATE-CONTROLLED ENTERPRISES

FUZJE I PRZEJĘCIA ZAGRANICZNE PRZEPROWADZONE PRZEZ CHIŃSKIE PRZEDSIĘBIORSTWA PAŃSTWOWE

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Summary: The paper presents the results of in-depth analysis of the expansion pattern of Chinese state-owned enterprises (SOE). The main aim of the paper was to define motives and influence of institutional environment on the foreign operations of those firms. The method applied in this paper was the quantitative analysis of the Chinese state controlled firms that invested abroad in the form of mergers and acquisitions in the period 2013–2015. The main conclusion of the paper is that foreign investment by Chinese SOEs (or private companies in close relations with the government) are meeting the objectives of the Chinese authorities and the strategy of development in coming years. The most important motive of outbound acquisitions was to bring strategic assets to the headquarters and at the same time to home economy. The investment projects were also designed to internationalize operations of the Chinese SOEs, but at the same time to increase global position of the China's economy.

Keywords: China, cross-border mergers and acquisitions, state-owned enterprises.

Streszczenie: Artykuł przedstawia wyniki analizy ekspansji zagranicznej chińskich przedsiębiorstw państwowych. Celem badawczym było określenie motywów oraz wpływu otoczenia instytucjonalnego na działalność zagraniczną tych przedsiębiorstw. Metodą zastosowaną w niniejszym opracowaniu jest analiza ilościowa danych dotyczących fuzji i przejęć zagranicznych przeprowadzonych przez chińskie przedsiębiorstwa państwowe w latach 2013–2015. Dominującymi motywami przejęć zagranicznych były pozyskanie aktywów strategicznych i ich transfer do centrali przedsiębiorstwa, a tym samym do rodzimej gospodarki. Główna konkluzja brzmi: zagraniczne inwestycje chińskich przedsiębiorstw państwowych (lub firm prywatnych w bliskich stosunkach z rządem) są zgodne z celami władz chińskich i strategią rozwoju gospodarki w najbliższych latach. Fuzje i przejęcia zagraniczne miały również na celu zwiększenie poziomu umiędzynarodowienia chińskich przedsiębiorstw, a tym samym umocnienie pozycji Chin w gospodarce globalnej.

Słowa kluczowe: Chiny, fuzje i przejęcia transnarodowe, przedsiębiorstwa państwowe.

1. Introduction

Year 2015 was noticeable for the global economy with respect to the value of cross-border mergers and acquisitions (M&A). It totalled at around 644 billion USD and was higher by 61% comparing to the previous year [UNCTAD 2016]. Importantly, this was the highest value since the peak in 2007 and indicated the importance of this type of transactions in the expansion strategies of multinational enterprises (MNE). Significant role in the process was played by Chinese firms.

Recent economic growth of China has slowed down and it is expected that it will negatively influence the performance of the global economy. The slowing down of the Chinese economy has not dragged down the number and size of cross-border M&As. Indeed, in the year 2015 the record value of the transactions by Chinese firms was announced. According to PwC, Chinese enterprises conducted more outbound deals (257) in the first three quarters of 2015 than in the entire year 2014. Most of the transactions were conducted by private firms, however around a third of the deals were by state-owned firms [*Record 257 overseas... 2015*].

The paper presents the expansion pattern of Chinese state-controlled enterprises. This term is intentionally used next to the state-owned enterprises (SOE) in order to encompass not only firms directly owned by the Chinese state, but also quasi-private firms with large influence of the government. The company Haier is private enterprise, but it was built on the state-owned firms. Moreover, it does not resemble many ill-managed firms that are owned by the Chinese government.

The novelty of the paper lays in focusing predominately on state-related enterprises. The main goal is to investigate motives and execution of deals by selected companies. Important advantage of the study is focusing on recent transactions with respect to the situation in the Chinese economy.

The method applied in this paper is the analysis of the Chinese state-controlled firms that invested abroad in the form of M&As. The last wave of large transactions for foreign firms in the period 2013–2015 was taken into consideration. The country pattern, volume of the transactions, and industry were analysed. But the most important was establishing the motivation of the transaction. The research hypothesis is that the main motive of outbound transactions by Chinese SOEs is to acquire strategic assets which are essential in modernization of businesses and the economy.

It is also important to investigate the changes in the attitude of authorities regarding foreign purchases by the firms. Year 2015 was also essential because of large changes in the value of foreign exchange reserves. China remained the largest holder of foreign reserves. However, the decrease of around 700 billion USD is the largest in the history and in such a short time. Among reasons of the decrease we can list the outflow of capital in the form of M&As by Chinese firms abroad.

The rest of the paper is organised as follows: Section 2 provides an overview of recent literature on cross-border mergers and acquisitions by Chinese state-controlled companies; Section 3 contains results of the analysis of transactions by selected

Chinese enterprises in the period of 2013–2015. Section 4 contains results of the analysis of transactions by selected Chinese enterprises in the period of 2013–2015. Section 5 contains concluding remarks.

2. Theoretical background and literature review

This part of the paper will be devoted to the presentation of recent findings regarding cross-border mergers and acquisitions by Chinese firms and will also draw a theoretical framework for the empirical analysis.

There are four general motives of foreign expansion: market seeking, resource seeking, strategic assets seeking and efficiency seeking [Dunning 1993]. According to the research on limited number of cases, the main motive of cross-border M&As by Chinese state-owned firms in developed countries is to access strategic assets [Zheng et al. 2016]. This is motivated by weaknesses of competitive advantages and status of latecomer into international business. However, accessing resources and foreign markets is crucial for many Chinese enterprises [Ström, Nakamura 2014]. It must be underlined that all motives are in line with the government priorities, even among private-owned enterprises. We assume that most of the transactions by SOEs were motivated by acquiring strategic assets and natural resources. The acquired assets will not be only used for the purpose of particular enterprises, but are meeting wider political and social targets. Anyhow, even if there is a major motive of the foreign expansion, the bundle of motives is taken into consideration by decision makers on the firm or governmental level.

The important issue in the transactions of Chinese enterprises is the price paid for foreign targets. The price is also an indicator of efficiency of foreign expansion. The problem is that Chinese firms paid almost double premium for European companies in comparison to European firms [Urbšienė et al. 2015]. This fact is particularly important among SOEs because one of the reasons for higher premiums was government support.

The proposition that Chinese SOEs pay higher than average prices should be disastrous for minority investors and even more generally investors' wealth. This finding is inconclusive. Empirical research delivers confirmation that impact of government ownership of acquiring company provides abnormal returns to investors [Du, Boateng 2015]. The explanation of the results lays in the fact that government creates favourable conditions for business development of the firms and also treats the industries in which transactions are undertaken as strategic ones.

Similar results were obtained by B. Zhou et al. [2015]. SOEs outperformed private peers in terms of stock returns and operating performance. The reasons for better results of SOEs lay in government interventions compensating negative effect of state ownership.

SOEs proved to be similar to private companies in the financing of their foreign transactions. Using the large database of around 6,000 mergers and acquisitions

L. Gu and W.R. Reed [2016] did not find any support for the proposition that SOEs use more cash financing because of their privileged access to government funds. However, in the case of Chinese domestic enterprises there was a positive correlation between state ownership and financing transactions with cash [Boateng, Bi 2014]. It is explained by the fact that cash payment diminishes negative dilution of ownership and helps the government to consolidate enterprises.

The review of earlier studies concerning outbound acquisitions by Chinese SOEs delivered information regarding motivations of the transactions and also operation performance of acquirers. Important conclusion from this part of the analysis is that Chinese government compensated negative factors associated with the state ownership.

3. Institutional aspect of outbound investment by Chinese state-controlled enterprises

“Go global” strategy is the key to understanding recent expansion of Chinese enterprises. It is particularly relevant to companies with government links. The strategy also enhances the framework for analysing Chinese M&As abroad. “Go global” was introduced in 1999. However, the effective implication of the idea started when incorporated in the Tenth Five-year Plan for the years 2001–2005.

The crucial element of the strategy was promoting foreign expansion of Chinese firms by providing incentives and reducing barriers to outflow of capital.¹ Two areas were of particular importance: natural resources and manufacturing industries [Hagirawa 2006]. They were selected for the detailed analysis in the empirical part of this paper.

The five-year plan for the Chinese economy for the years 2011–2015 indicated the direction of expansion of some industries. Chinese authorities encouraged companies to construct iconic buildings abroad, and deepen cooperation in the area of energy, resources, equipment manufacturing, and emerging industries [*Report on China's...* 2015]. Additionally, Chinese SOEs in their acquisitions were required to focus on foreign firms possessing unique technologies. Therefore seeking strategic assets was the most important element of the foreign expansion. For example, chemical firms should focus on advanced products. Thus SOEs representing aforementioned industries should be especially prone to foreign expansion.

In the end of 2015 Chinese Communist Party discussed the “Proposal on Formulating the Thirteenth Five-year Plan on National Economic and Social Development”. This is a blueprint for a new 13th Five-year Plan for the years 2016–2020. Among many areas crucial for the development of China, there are also important elements from the point of view of SOEs and their international

¹ Detailed evolution of legal environment in China regarding outward foreign direct investment can be found in [Klimek 2014].

expansion. The role of outward FDI by Chinese firm, irrespective of the ownership, was explicitly mentioned. Chinese firms should invest abroad and increase deliveries of Chinese equipment and services for the foreign projects. It is also expected that Chinese firms will increase cooperation with foreign partners in order to acquire technology.

Important element of foreign economic policy of China is the programme “One Road, One Belt”. It is designed to boost cooperation between countries along the Silk Road. One of the activities to achieve the goal of closer cooperation is to build offshore industrial clusters. The role of SOEs will be crucial here.

On the one hand, the authorities expect bigger engagement of SOEs in strategic industries for national security and development. On the other hand, it is desired to reduce government intervention in business and invite private companies to important industries. Some private companies have already taken advantage of the government policies towards energy and acquired foreign energy assets in order to deliver oil or gas to homeland. The example may be Rongsheng Heavy Industries which bought a controlling stake in a Kyrgyz oil company.

It is also expected to increase development of SOEs through mergers and acquisitions. To achieve this goal the government plans to improve the supervision over the enterprises through capital management. Very important role in foreign activities of Chinese state-owned enterprises belongs to China’s State-Owned Asset Supervision and Administration Commission (SASAC). Important element of Chinese effort to expand the economy internationally is the sovereign wealth fund – China Investment Corporation.

4. Empirical study

The empirical part of the paper is based on quantitative analysis of outbound acquisitions by Chinese SOEs in the period 2013–2015. This was the period after rising to power by Chinese multinational corporations. They were especially active in the aftermath of the great financial crisis, that is, in the years 2009–2012. This period was especially active for Chinese oil companies. The three largest ones completed 54 transactions (Sinopec – 23, PetroChina – 21, CNOOC – 10) [Wei 2014]. The source of data was individual research of transactions. This is a unique feature of the paper, because the database was created solely for the purpose of the analysis. The author gathered information from several business and financial sources. The task was difficult because the ownership of the acquirer was rarely revealed. In some cases the ownership of the acquirer was misleading. For example, the state-owned giant PetroChina is using several investment vehicles to purchase the assets abroad. One of the vehicles was Phoenix Energy Holdings Ltd engaged in the large transaction of taking over oil assets in Canada for over 1 billion USD.

Frequently, even if the deal was not directly conducted by the state-controlled firms, there was a significant support from e.g. China Investment Corporation

(Chinese sovereign wealth fund) or state-owned banks. The important element of the database was also including comments on the details of transaction allowing for assignment of motives.

The final sample of the analysed transactions contained 52 entries. For such number of deals enough information was collected. It is important to underline that Chinese SOEs do not need to reveal to public any details of the transactions. As a result more information was obtained from target companies, especially when they were publicly traded entities.

The key research question of the paper is about the motivations of Chinese SOEs to conduct outbound acquisition (Table 1). The motives were determined using comments of the involved parties. Frequently, there were several motives of a transaction, however a dominating one had to be found.

The analysis has revealed that the most important was to acquire strategic assets like technology, patents or trademarks. Almost half of the transactions were designed to boost technological base of the acquirer.

The second most important motive was acquisition of resources. Chinese SOEs were particularly active in obtaining access to oil, gas and metals abroad. The motive became less important due to the slowdown in the Chinese economy.

The third important element of the transactions by SOEs was looking for a market abroad. This is directly associated with the overcapacity in many Chinese enterprises. Therefore among target firms we can find international trading firms in minerals or agriculture. Control over such firms gives access to thousands of potential customers.

Table 1. Motives of outbound acquisitions by Chinese SOEs

Motive	Number of cases
Strategic assets	19
Resource	14
Market	13
Efficiency	6

Source: own elaboration.

Confirmation of the importance of resource-seeking motivation is delivered by the value of transactions in oil, gas and energy (Table 2). Transactions in automotive industry, consumer electronics, and information and communication technology (ICT) were significantly lower than those in energy, however it is associated with the fact that mostly medium-sized firms abroad were bought.

Chinese enterprises in natural resources prefer the obtaining of controlling stake in the foreign enterprise to acquiring the whole entity [McIntyre 2013]. They prefer to secure over 50% of shares or votes and maintain the foreign entities still publicly traded. Such situation is quite positive from the point of view of transparency of

the deals in sensitive industries, like mining in developed countries. This is also the effect of some Chinese projects being blocked by host country governments.

The foreign expansion of Chinese government-linked companies is a part of the strategy of food safety of the country. It is important to note that several decades ago an issue was to provide enough food for the entire population. The biggest tragedies in the history of China were associated with the big hunger during Mao's reign. People still keep in mind the difficult time. Therefore it is not a surprise that it is underlined by Chinese authorities in the expansion of firms abroad. Chinese companies, especially those linked to the government, are looking for arable land abroad. There are several locations with favourable climate conditions – Africa and Australia. The advantage of the latter location is the proximity to Mainland China and high quality business environment.

During auctions for farmland in Australia a rivalry between Chinese or Hong Kong based firms became evident. Even if they are of private ownership, it is impossible to separate their activities from government imperatives. The example is Shanghai Pengxin Group. According to recent information, the company will be successful in their efforts to buy the largest Australian farm company – S. Kidman & Co. The deal was initially blocked by Australian government on the security concerns, however, several months later the consent was obtained. This deal is important because it concerns the farm company with land equal to 2.5% of total arable land in Australia [Wen, Lynch 2016]. Such deals are not only concern for Australian authorities. New Zealand's government banned the sale of Lochinver Station to the same Chinese company.

Table 3. Target countries of cross-border acquisitions by Chinese SOEs

Country	Number of cases
Australia	8
United States	6
Canada	5
Italy	4
Germany	4

Source: own elaboration.

Table 2. Value of cross-border mergers and acquisitions by Chinese SOEs in top industries (billion USD)

Industry	Value
Oil and gas	20.96
Energy	12.34
Automotive	8.03
Consumer electronics	5.40
Trade	4.67
ICT	4.03
Services	3.42
Banking	1.88
Agriculture	1.50
Property	1.48

Source: own elaboration.

Again, the search for strategic assets and resources is confirmed by the importance of particular target countries (Table 3). Australia and Canada are important sources of natural resources. The United States, Italy and Germany are locations, where engineering or high technology firms were acquired. General conclusion on the activities of Chinese SOEs is that they are predominantly directed to the developed countries.

The focus on developed countries was also confirmed by other sources. For example, in the United States there were 113 transactions in 2013, 161 in 2014, and 171 in 2015. The large part of the projects was conducted by state-controlled firms – 20 in 2013, 37 in 2014, and 28 in 2015 [Rhodium Group 2016]. The importance of the government-controlled firms is even more evident when the value of transactions is analysed. It can be interpreted that state-controlled firms undertake lesser number of transactions, but focus on larger targets. Industries that were of particular interest to Chinese government-controlled firms are the following: automotive, real estate, metals and minerals, and electronics. State-owned enterprises may take more risk. The example may be the purchase of 33% of assets in Egyptian oilfield by the China Petrochemical Corp. (Sinopec).

There are also serious issues regarding outbound investment by Chinese firms. According to some estimates around 95% of cross-border M&As by mining companies from China fail to survive [Xinhua 2014]. The failure rate concerns all Chinese mining firms irrespective of the ownership. However, most of mining firms are state-controlled. This is also important because mining industry belongs to the strategic activities promoted by government. Moreover, the sums spent by Chinese firms in this industry are equal to tens of billions of dollar. In other words, this is a large waste of Chinese public capital. Additionally, it confirms that many transactions are badly prepared and companies are ill-equipped for the foreign expansion.

Additionally, there were also failed attempts. Tsinghua Unigroup (spin-off from Tsinghua University) offered 23 billion USD for Micron (a memory chip manufacturer), however it was not approved by the board of the targeted company.

5. Conclusions

This paper presented the results of the analysis of recent wave of cross-border mergers and acquisitions by Chinese SOEs. The relevance of the research topic was confirmed by the volume and objectives of the deals.

The main conclusion of the paper is that foreign investments by Chinese SOEs (or private companies in close relations with the government) are meeting the objectives of the Chinese authorities and the strategy of development for coming years. The most important motive of outbound acquisitions was to bring strategic assets to the headquarters and at the same time to the home economy. This confirms the research hypothesis of the paper. The main motivation cannot be separated from the remaining motives of foreign expansion, which is the result of bundle of factors. The investment projects were also designed to internationalize operations of the Chinese SOEs, but at the same time to increase global position of the Chinese economy.

This paper also provides policy observations. The main objective of Chinese SOEs was to acquire companies possessing valuable assets headquartered in developed economies. Thus the target economies may lose control over important

advantages in the global competition. The cross-border mergers and acquisitions are important tool of MNCs to consolidate their global position or to acquire strategic assets. However, Chinese case is different due to very significant role of the government. Additionally, vast subsidies to industry by Chinese government may distort competition in the global market.

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