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Foreign Investment Strategy and Its Relationship with Transnational M&A Shares

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Abstract. Since joining the WTO in 2001, the Chinese market has become one of the fastest growing markets in the world, and the competitive situation in China's domestic market has shown a "nationalization level" of competition. Chinese companies' competitors in the domestic market are not only competitors in the domestic industry, but also competitors in the same industry in the domestic market. Cross-border mergers and acquisitions have gradually become one of the most important ways for Chinese companies to internationalize and enhance their international competitiveness. In recent years, the number and number of cross-border mergers and acquisitions have surged. In 2003, the actual transaction volume achieved by Chinese companies through mergers and acquisitions was US$ 834 million. The actual transaction amount in 2016 reached $107.2 billion. However, under this craze, the strategic issue of the proportion of cross-border M&A shares did not attract enough attention.

Keywords: Foreign investment, Policy, strategy, International trade, Cross-border mergers and acquisitions, Equity.

1. Introduction

In the context of globalization, the flow of foreign direct investment (FDl) has surpassed any historical period in the past, and attracting foreign investment has become one of the main ways for developing countries to achieve development. In the past 30 years of China's reform and opening up, FDI flowing into China has greatly promoted the rapid development of China's economy. In recent years, with the continuous development of China's economy, China's foreign investment has also grown rapidly. With the rapid development of China's foreign investment, the environmental problems caused by overseas investment have attracted more and more attention. In general, there is no substantial difference between overseas investment and domestic investment in terms of environmental impact. However, the environmental impact of overseas investment is characterized by complexity, sensitivity and comprehensiveness. The concentrated expression is that the source country and the flow country face different political, economic, legal and diplomatic backgrounds, and the environmental standards, environmental management and protection awareness are different. The environmental problems caused by investment behavior are more likely to cause investment. The attention of the state, the people and even the international community while the poor handling of these issues will not only affect the sustainability of investment, but also affect the relationship between countries and even cause great concern and responsibility from the international community.

In recent years, Chinese companies are facing more and more environmental risks in their overseas investment. On the one hand, in the absence of supervision and management, some Chinese companies have experienced pollution and damage to the local environment during foreign investment and development. On the other hand, some countries, organizations and individuals exaggerate the environmental impact of Chinese overseas investment for various reasons or considerations. The traditional internationalization theory holds that the specific advantages of multinational corporations are the premise and conditions for their international expansion. The reason why multinational corporations can successfully conduct cross-border mergers and acquisitions is because their own resources and capabilities can change with the boundaries of their business boundaries. And the flow is realized internally. However, we find that Chinese companies have acquired more developed countries in different countries. Compared with developed countries, the technology, brand, capital and management of Chinese companies are often inferior.

2. The Proposed Methodology

2.1 Basic Characteristics of China's Foreign Direct Investment.

According to the statistics of the Ministry of Commerce, as of the end of 2012, China has established 22,000 foreign direct investment enterprises abroad, distributed in 179 countries and regions around the world. In 2012, China's foreign direct investment flow was US$78.80 billion, ranking third in the world and the first in developing countries. In 2012, China's accumulated non-financial foreign direct investment reached US$77.73 billion (flow), and foreign investment flows reached a record high. From 2002 to 2012, China's foreign direct investment grew at an average annual rate of 416%. According to the statistics of the Ministry of Commerce, in 2013, Chinese domestic investors made direct investment in 5 090 overseas enterprises in 156 countries and regions, and realized non-financial direct investment of 90.17 billion US dollars. From January to May 2014, Chinese domestic investors made direct investments in 2,766 overseas enterprises in 146 countries and regions, accumulating non-financial foreign direct investment of US$30.81 billion.

We find that the cross-border M&A behavior of Chinese companies, whether from institutional factors or economic factors and market conditions, both belong to the national level to seek explanation, while the OLI paradigm is mainly from the enterprise Interpreted at the organizational level. In fact, the analysis of the factors at the national and organizational levels is also two aspects of the source of the internationalization of the enterprise - the country-specific advantages and the specific advantages of the enterprise. The country's specific advantages are rooted in the national environment in which the company is located. The specific advantages of the company are rooted in the organization, which is the core competitiveness of the enterprise.

2.2 Cross-border M&A is an Extension of Domestic M&A.

Both the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD) have conceptualized cross-border mergers and acquisitions. The former defines “transnational mergers and acquisitions” as “acquiring a certain proportion of the equity of a foreign company or company to obtain control of the enterprise, thereby obtaining the company’s long-lasting production and management benefits”, which divides cross-border mergers and acquisitions into transnational mergers and acquisitions. And cross-border acquisitions, in which cross-border mergers refer to the merger of local and foreign corporate asset businesses, forming a new business or incorporating into an existing business, usually by one dominant company to absorb another or more companies. A cross-border acquisition refers to the acquisition of a controlling share of an existing local company or a foreign subsidiary, that is, more than 10% of the equity, which transfers the control of the assets and operations of the host country's enterprise to the foreign enterprise.

2.3 Chinese Company's Shareholding Structure.

The shareholding structure of a Chinese company's cross-border M&A is the shareholding ratio of the shareholding enterprise held by the main and the enterprise, that is, the proportion of the equity of the acquired company, and the amount of capital invested by the main and the enterprise. The existing literature on the ownership structure is not uniform, but the connotation of expression is basically the same. For example, the study of the influence of multinational corporations on the performance of overseas subsidiaries' equity structure, scholars mainly use "Equity ownership" to express the connotation of the proportion of equity held by multinational corporations to overseas subsidiaries.

According to the theory of resource-based view, enterprises are a collection of resources and capabilities. However, there are certain differences and connections between the resources and capabilities of enterprises. In essence, in the original views of Barney (1991) and Werner felt (1984), there is a distinction between resources and capabilities. Makadok (2001) makes a clear definition that resources are observable assets (not necessarily tangible) that can be priced and traded, such as brands, patents, land, and so on. Capabilities are intangible assets that are difficult to price or trade.

However, in terms of the resource school, resources in a broad sense actually include capabilities, and resources and capabilities cannot be separated.

Corporate capabilities are more able to explain the heterogeneity of firms (Yu Yihong, 2001). The stock of enterprise capabilities constitutes the foundation of the company's expansion and growth, and determines the depth and breadth of the company's products/industries/regions. For example, the ability of enterprises to influence the horizontal and vertical integration of enterprises, especially when enterprises enter the off-market. From the perspective of the industry chain, the capabilities of the enterprise include strategic decision-making and organizational coordination capabilities, production and manufacturing capabilities, research and development capabilities, resource integration capabilities, marketing capabilities, relationship capabilities, learning capabilities, etc., which have mutually reinforcing roles.

2.4 Environmental Risks of China's Foreign Investment.

The regional distribution of China's foreign direct investment is uneven, with Asia and Latin America being highly concentrated stocks. As of 2012, China's investment in Asia accounted for 68.5% of the total global investment, mainly in Hong Kong, Singapore, Macau, Kazakhstan, Pakistan, Mongolia, South Korea, Myanmar, Indonesia, Vietnam, Saudi Arabia. Japan, Cambodia, Laos, Thailand and other countries (regions). The direct investment stock of the EU was 36.88 billion US dollars, accounting for 7%; Oceania was 15.11 billion US dollars, accounting for 2.8%. The total investment in the African region accounted for 4.1%.

In addition, the Chinese government and relevant departments have issued a series of related policies on foreign investment behavior to guide and regulate corporate foreign investment behavior. In 2006, the State Council issued regulations urging Chinese companies to “pay attention to environmental resource protection” and “maintain local communities and people's livelihoods” overseas. In 2007, the State Forestry Administration and the Ministry of Commerce jointly issued the “Guidelines for Sustainable Cultivation of Overseas Chinese by Chinese Enterprises”, which pioneered the industry guidelines for the first enterprise to engage in forest cultivation activities outside the country. However, in these norms and guidelines, although there is a mention of environmental protection in the investment activities of overseas enterprises, it only stays at the level of principles and basic requirements, the symbolic meaning is far greater than the actual meaning, and the pertinence and operability are weak, resulting in Chinese enterprises face enormous environmental risks in the process of foreign investment.

2.5 Research on the Resource Basis of Strategic Management in the Transnational M&A Motivation.

According to the theory of resource-based view, cross-border M&A is mainly to obtain resources and technology, and to obtain important tangible and intangible resources to reduce transaction costs. According to the direction of resource and technology transfer, the motives of cross-border M&A can be further divided into the utilization and development of resources, development or seeking resources.

Institutional theory mainly studies the entry mode of enterprises entering foreign markets from internal legitimacy and external legitimacy. When companies adopt multi-country strategies, large-scale transactions or have international experience, they are more inclined to adopt the entry mode of cross-border mergers and acquisitions. When the company's R&D density is high and the cultural distance is large, it is more inclined to adopt a new mode to enter. Scholars and other scholars have found that when the parent company has a high degree of centralization of strategic business units, it is more likely to adopt a wholly-owned model to enter foreign markets. When the company's strategic business unit is greatly affected by the environment of the host country, it is more likely to enter the foreign market by means of export.

The shareholding structure is the core issue that needs to be resolved in the “M&A” process in the process of cross-border M&A. In the bargaining in mergers and acquisitions, the M&A parties compete for ownership and start bargaining, because equity ownership represents asset control to a certain extent and has an important impact on the integration process after mergers and acquisitions. Although Geringer and Hebert (1989) emphasize that control rights include three aspects: the degree of control, the scope of control, and the control mechanism.

Taking into account the situationality of decision-making experience, this study divides M&A experience into home country M&A experience and cross-border M&A experience. This is because China is an emerging market country with economic transition. The institutional environment is unique and unique. Not only is the strategic decision-making behavior unique, but the market economy environment such as the domestic capital market is still immature, and cross-border M&A and home country M&A There are significant differences in the decision-making process, so the experience of cross-border M&A is both related to the experience of M&A in the home country and has sufficient discrimination. Enterprises gaining rich M&A knowledge and skills in the process of M&A in the home country, such as negotiation, negotiation, finance and integration, will have a positive guiding role for cross-border mergers and acquisitions. Some scholars believe that when a company conducts cross-border mergers and acquisitions, its home country M&A experience can serve as a “touchstone”, and acquirers who lack such experience may not understand the complexity of the acquisition process. However, the experience of cross-border M&A is different from that of its home country M&A. It is only the experience of M&A in the home country that it may be difficult to understand international environmental issues such as exchange rate, host government and system, international legal system, as well as due diligence, cross-border integration, etc. The complexity is underestimated.

Specifically, the home country M&A experience did not produce a significant effect when the R&D capabilities of the parent company's home country were not considered. When considering the R&D capabilities of the main and enterprise home countries, among the Chinese companies with much experience in M&A in the home country, companies with low R&D capabilities tend to choose a higher proportion of cross-border M&A.

3. Conclusion

Promote innovation in institutionalized management methods and introduce green credit concepts. The international community has paid close attention to China's bank foreign investment and loan projects, and even criticized the Bank of China for its external investment without considering environmental impact. In view of this, the Chinese government should fully guide and improve the existing laws and appropriately join the green credit content of non-enforced foreign economic cooperation projects. Under the background of the dispute between the experience and the equity level of the entry method, this study takes the cultural distance and the research and development ability of the main parent enterprise as the adjustment variables. This paper examines the relationship between experience and the proportion of cross-border M&A under specific conditions, and provides new contextual evidence for academic disputes.

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