

Analysis of Economic Nationalism in the Success or Failure of Chinese Enterprises' Cross-border M&A

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Abstract: Cross-border acquisitions have gradually become one of the main ways for Chinese companies to go global. However, compared to the global average, the rate of successful completion of acquisitions by Chinese companies is relatively low. At the same time, all parts of the world are at the stage of the rise of economic nationalism, which has become one of the major problems facing the world. Starting from a novel perspective of economic nationalism, this study studies economic nationalism in the cross-border M&A of Chinese firms from the national level, industry level and the public level, analyzes the determinants behind it and the influence on the failure or success of cross-border M&A. It also puts forward countermeasures for Chinese enterprises to deal with the pressure of economic nationalism in cross-border M&A. Measures include active bargaining, clever use of evasion policies, and the promotion of China's cross-border M&A industry diversification.

1. Introduction

As the economy becomes globally integrated, transnational M&A are becoming increasingly important for the growth of enterprises, especially internationalization. Against the background of the prosperity of the national economy and the increasing strength of domestic enterprises, Chinese enterprises' cross-border M&A are very active, and the number and value of transactions have increased year by year, playing a pivotal role in China's FDI [1]. Although the cross-border M&A by Chinese firms have made great progress in recent years, they started late, lacked experience, and lacked a mature system construction. There were various degrees of constraints in technology, management, law, and culture. At the same time, the rise of nationalism has also been witnessed around the world, which has become one of the major problems facing the world [2]. Economic instability brings economic nationalism. At the same time, economic nationalism has significantly affected the market access and operation of foreign companies. Facing with the current high failure rate of China's overseas acquisitions and the rise of economic nationalism that has not yet been fully explored, we need to think about: What are the determinants behind economic nationalism? How do they affect the success or failure of China's cross-border M&A? How does China deal with the pressure of economic nationalism in cross-border M&A? This article will explore these issues.

Previous research on cross-border M&A is often according to RVB and TCA, focusing on the characteristics of the transaction and the investors, especially their capabilities and resources, so that they can lower the cost and obtain long-term competitive advantage [3, 4, 5]. Economic nationalism as an important factor affecting the completion of overseas acquisitions, is still under-researched in Economics and Political Science [6]. In addition, the traditional OLI theory mainly focuses on how countries use the location advantages of specific countries or regions to make location choices for cross-border M&A [7, 8]. Our research enriches the analytical perspective of the influence of economic nationalism on the failure or success of cross-border M&A transactions, enriches the theory of eclectic international production, and takes economic nationalism as one of the considerations for the choice of location for cross-border M&A.

2. The status of Chinese enterprises' cross-border M&A

Chinese enterprises' cross-border M&A are considerable in both quantity and amount. As can be seen from Figure 1, since 2008, the trend of cross-border M&A of our companies has continued to rise, especially in 2015 and 2017, when the number of M&A was over 400. Chinese companies' cross-border M&A have reached an average of 100 million US dollars. However, from 2008 to 2011, the amount of M&A continued to increase. In 2013, the amount of M&A reached a record low in recent years, and then began to increase. It reached 1 trillion yuan annually, and it is showing a downward trend in 2018. In comparison, although China's cross-border M&A development speed is considerable, the overall level still has a gap compared with many developed countries.

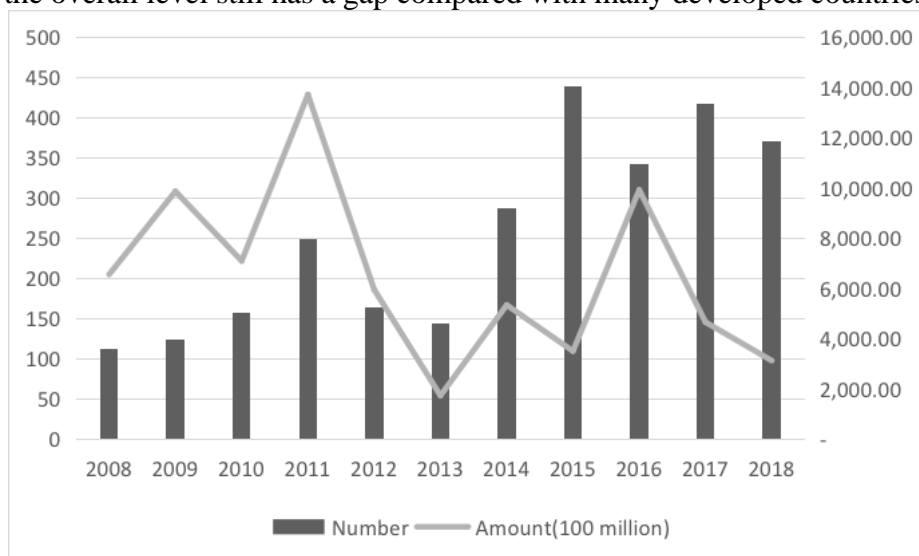


Figure 1. The number and amount of cross-border mergers and acquisitions of Chinese enterprises from 2008 to 2018

Data source: Wande database

The scale of cross-border M&A by Chinese companies is also different, and the transaction scale is divided into seven categories: <0 million, 0-100 million, 150 million, 5 billion, 1 billion, 5 billion, and 5 billion, undisclosed. The statistics of the number of companies acquired and the total amount of M&A in each year are shown in the following table:

Table.1. Statistics on the number of transnational mergers and acquisitions of Chinese enterprises from 2008 to 2018

Transaction size	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<0 Billion	0	0	0	1	0	0	0	2	3	9	8
0-1 Billion	15	18	30	48	44	64	103	208	136	168	177
1-5 Billion	8	21	25	30	38	35	73	117	78	106	87
5-10 Billion	8	5	10	19	11	13	24	28	30	31	25
10-50 Billion	17	13	23	35	20	16	36	36	46	57	25
>50 Billion	18	34	30	41	26	9	27	19	32	24	16
Undisclosed	52	39	45	82	31	13	30	35	23	29	39

Data source: Wande database

From Table 1, it can be seen that from 2008 to 2018, the number of companies with M&A transaction amounts ranging from 0 to 100 million was the largest, especially since 2012, it ranked first every year. The number of companies with M&A transaction amounts ranging from 1 to 100 million is the second. Although it is not as many as the number of companies with a range from 0 to 100 million, it far exceeds the number of other M&A transactions. Except for these two M&A amounts, there are relatively few other companies with transaction sizes. Therefore, it can be seen

that there is still a certain gap between the transaction scale of cross-border M&A activities by Chinese companies and that of developed countries, and there is still a lot of development space.

3. The theory of economic nationalism

3.1 The concept of economic nationalism

At present, the definition of the concept of economic nationalism abroad is mainly represented by Robert Gilpin, a famous American economics professor, Robert Lake, a famous scholar, and Shosana. B. Tanar, a doctor of economics in the United States. Gilpin believes that economic nationalism is an ideology, which means that economic activities should serve the overall interests of the country and the general goal of national construction, and it should fight for economic resources [9]. Lake defines economic nationalism as a certain identity, value, and concept inspired by the economic achievements of his country [10]. Tansai believes that economic nationalism is a common aspiration for the people to work for, to grasp its own economy in the torrents of the world, implement good resource allocation in the country, and maintain sovereignty and integrity. She emphasized that economic nationalism is not simply a rejection of outsiders, and its implementation methods and expressions are different in different countries and historical stages [11]. It can be seen that despite various definitions, economic nationalism is often defined as a program, ideal, doctrine, or movement based on national feelings and national consciousness [12]. Synthesizing the above viewpoints and referring to Song Guodong's definition of economic nationalism [13], this article believes that economic nationalism is based on loyal national consciousness and national feelings, and chases the power and wealth that promote national interests on a global scale. A mental state and behavioral orientation that requires state power to formulate and implement economic strategies and economic policies that meet this consideration, to protect and strengthen the national economy, and to win markets and resources for the external expansion of the national economy.

3.2 Types of economic nationalism

Contemporary economic nationalism has the duality of mercantilism and liberalism in terms of expression. In the past, the concept of economic nationalism was often confused with protectionism. In fact, these are two different ideologies. Economic nationalism has a dual nature. Its core idea is to protect national sovereignty and national interests and develop the national economy. In order to summarize and summarize the basic points of contemporary economic nationalism, Pang Zhongying divided economic nationalism into three types: First, mercantilistic economic nationalism. Mercantilism emphasizes the control, intervention, and protection of economic activities by nation states. Economic activities, including production and export trade, are the fundamental goals of service and submission to the state. Second, liberal economic nationalism. In international economic relations, economic freedom is required, and free trade and investment are required. Third, economic nationalism is a combination of mercantilism and liberalism. On the one hand, nation-states protect their national industries and national economies from being threatened, and on the other hand they improve the international competitiveness of national industries and participate in international competition [14].

Economic nationalism is not equal to mercantilism, and economic liberalism is also a form of economic nationalism. Mercantilism and economic liberalism are both nationalistic thinking. Economic liberalism is not a denial of the connotation of mercantilism and the nationalism in its breeding, but rather the development and magnification of the gradually nationalistic nature of it, and when liberal economic policies are unsustainable, it will be used without any time Mercantilism. The spokespersons of the superior sectors, industries and countries advocate and implement free trade, while the disadvantaged sectors, industries and countries advocate and implement the history of protective trade. For example, the United Kingdom abolished the Grain Act and the Navigation Regulations in 1846 and 1849, respectively, because the British government at the end of the industrial revolution believed that free trade could bring higher profits to the British Empire. Between the two world wars, the British government pursued a high-intensity trade policy, set up a

pound group, and waged a tariff war. This is because after the world economic crisis in 1929, the Western European countries first focused on the economic stability of their countries. It is not the improvement of the world economic situation, even if such selfish behavior will cause serious turbulence in the world security situation.

4. Determinants behind economic nationalism in Chinese companies' cross-border M&A

Peter (2011) proposed that the main sources of pressure for economic nationalism are diverse, including national leaders, industry agencies, employees and consumers [15]. In this article, we divide the determinants behind economic nationalism into three levels: national, industry, and public, and analyze how they affect the failure or success by Chinese companies' cross-border M&A.

4.1 National level

(1) Relative competitive advantage of the country

Harvard Business School professor Michael E. Porter first proposed the "diamond model" of the theory of national competitive advantage in his representative book "National Competitive Advantage". The theory of national competitive advantage attempts to explain how sustainable comparative advantage can be created and maintained. When the country's relative economic destiny is unstable, hostility to the outside world may increase. Under the condition of threats, "foreign" has a negative meaning, nationalism increases, and the pressure of unity within the group increases. In this case, people may be willing to give up absolute gains in order to prevent their competitors from gaining greater gains [16], thereby preventing the entry of foreign companies. Jackson (1993) studied nationalism from the perspective of social psychology, and pointed out that prejudice and discrimination within groups were caused by obvious external threats or actual threats to the group's institutional, social, or economic health [17]. In order to reduce such threats, groups limit opportunities for outside groups and develop negative stereotypes of outside groups to achieve discrimination [18]. Therefore, we believe that the competitive advantage of the home country compared to the host country is more likely to cause mercantilism, which is not conducive to the success of cross-border M&A by Chinese companies.

(2) Host country openness

A country often initially adopts an open-door policy to promote social efficiency, economic growth and technological progress, which is the embodiment of economic liberalism. When foreign direct investment reaches a certain level in the country, nationals will oppose foreign acquisitions because they are worried about foreigners occupying the domestic market, preventing the industrial structure of the national economy from being damaged [19]. This will make the original liberalism no longer practise, and will turn into a mercantilist-based economic nationalist policy. This means that beyond a certain level of FDI, the possibility of cross-border M&A has greatly increased. Therefore, we believe that, as an important determinant, the host country's low degree of openness to China leads to liberalism, which is conducive to the success of Chinese companies' cross-border M&A. After the host country's level of openness to China has reached a certain high level, it will lead to Mercantilism, have no good impact on Chinese companies' overseas acquisitions.

4.2 Industry level

(1) National security

Many countries maintain national security for the purpose of protecting national interests and even oppose foreigners' acquisition of domestic companies even with shareholder support. When an acquisition threatens the national interests or national security of the host country, such as infrastructure, military, semiconductor, energy or other sensitive industries, the host government often implements mercantilistic economic nationalism, and the possibility of cross-border M&A is greatly increased. For example, in 2005, the US Congress rejected CNOOC's bid for Unocal on the grounds of national security, which hit China's "going global". SyedH. Akhter (2007) 's economic nationalism expectation model states that national security has always been a convincing argument for economic nationalism [20]. People's beliefs and fears of foreign companies raise concerns about

security. Compared with foreign companies, local companies are more committed to achieving domestic goals and ambitions. This belief, coupled with an unknown fear of foreign company behavior, reinforces expectations of protecting the domestic economy from foreign companies. It can be seen that key or sensitive industries related to national security in M&A are likely to lead to mercantilism, which is not conducive to the success of overseas acquisitions by Chinese companies.

(2) National champion

In recent years, in order to protect domestic companies from the pressure of foreign acquisitions and maintain the international status of domestic companies, governments in many countries have adopted a "national champion" strategy. Through government oversight, financial allocations and M&A support, regulatory privileges and protection, they have promoted enterprises in industries deemed important to economic security. This industry is often a state-controlled or monopoly industry. For example, France's mistrust of globalization focuses on cultivating "national champions" and protecting domestic companies from acquisitions by supporting the merger of two domestic companies and establishing a new company that is too large to be taken over by foreign companies. Target company size is often a good deterrent to foreign acquisitions, and such preemptive moves are common. This highly selective focus of protectionism shows that pragmatism is superior to ideology. From this point of view, if the industry of the host country's enterprise is a monopoly industry or a state-controlled industry, it will lead to mercantilism and will not be conducive to the success of overseas acquisitions by Chinese companies.

(3) Resource endowment

Zhang Jianhong (2010) and others, when studying the institutional barriers for Chinese companies to go global, proposed that many countries have regulations in addition to competition laws that restrict foreign investors from investing in sensitive industries [21]. These industries mainly involve energy and other scarce resource products. Therefore, due to the consideration of various non-market factors, the approval department often prevents the continued or completion of M&A on the grounds of protecting local enterprises. For example, the Russian government has established laws and regulations to protect domestic natural resources such as oil and gas from foreign acquisitions, and there have been instances where foreign investors have been squeezed out of existing businesses. Venezuela's more comprehensive national strategic initiative for the oil industry has been proposed to protect domestic natural resources. It can be seen that in the process of Chinese companies "going global", when purchasing resource-based industries, the host congress is protecting domestic resources as a reason to prevent the acquisition of foreign companies, which is not conducive to the success of Chinese companies' overseas acquisitions.

(4) Industry development level

Host countries can benefit from FDI by increasing the efficiency of certain traditional industries. In order to increase employment and maintain social stability, selling backward companies with low domestic production capacity to foreign countries and learning advanced working models and technologies is an effective way to support domestic industries. Driven by the nationalist ideology of national interest not only allows foreign direct investment, but also encourages foreign direct investment to participate in the restructuring of poor companies. This is also a common way for the country to develop vulnerable industries. Under the guidance of this liberal policy, Chinese companies' cross-border M&A will have more opportunities to succeed.

4.3 Public level

(1) Public preference

Behind the economic nationalism that affects the failure or success of cross-border M&A, there is a strong nationalist sentiment. Jakobsen (2011) and others, when researching the influence of public opinion on cross-border M&A, emphasized that in a society dominated by nationalism, the public's preference for well-known domestic companies will cause government authorities to restrict investment rules, and ultimately prevent foreign direct investment [22]. When the public in the host country has a strong national pride and is committed to maintaining the national brand's international

reputation and status, the government will restrict foreign acquisitions to prevent domestic high-quality brands from falling into the hands of other countries. Due to the influence of this public national sentiment, the host country's public has a high preference for well-known domestic companies, which may easily trigger government mercantilism and lead to the failure of cross-border M&A by Chinese firms.

5. China's Countermeasures to Deal with Economic Nationalism

5.1 Active bargaining

With the acceleration of regional economic integration and economic globalization, economic, political and other ties between countries around the world have been continuously strengthened. China and the US are complementary in many industries. These complementarities have become an important basis for the final bargaining between our country and relevant parties, and also an important bargaining chip in how China responds to the economic nationalist renaissance. For example, the ultimate goal of exchanges and cooperation in economic, trade, political and cultural aspects between countries is to achieve mutual benefit. For example, the proportion of GDP in early American manufacturing was significantly lower, which means that if the United States wants to continuously develop and promote the prosperity and stability of the production and living sectors of society, it must import a large amount of production and living materials related to daily consumer goods [23]. And China obviously has certain advantages in the manufacturing industry and can vigorously meet the market demand of the United States. This so-called economic complementarity also determines the reciprocity of China and the US in the economic and trade field. These are important chips for China to deal with the moment of economic nationalism crisis.

5.2 Clever use of evasion policies

When Chinese companies implement cross-border M&A strategies, when they have issued some economic and trade bills and related regulations against our country, and in the case that they cannot make the other party make compromises and concessions, we should not be passive in this regard. Instead, we should take flexible and effective evasion measures to actively respond. For example, China has taken proactive measures against the EU's anti-dumping sanctions. That is, some domestic enterprises in China have expanded their foreign investment by establishing branches in foreign countries, and thus occupied the EU's international market. Good coping strategies. However, from the current point of view, the EU's anti-circumvention law has begun to restrict China's foreign trade. We must thoroughly study the relevant provisions of this law in order to finally come up with clever response strategies [24].

5.3 Promoting China's Multinational M&A Industry Diversification

It is necessary to actively carry out industrial restructuring, vigorously train various types of professional and technical personnel, and continuously promote the diversification of China's foreign investment products. When the United States and Europe and other countries or regions implement protectionist policies, they usually target certain types of products, such as steel products in the US economic stimulus package, EU-produced textiles in China, and India-produced toy products in China. If we can adjust the industrial structure in time and realize the upgrading of industries and products in time, then we will have more initiative in dealing with economic nationalism. At present, most of the internationally restricted trade products are labor- and resource-intensive products. Facts have proved that the era of relying on cheap labor and cheap natural resources for international competition is passing. From the perspective of resources, China is a country with a shortage of resources and a large number of export of resource products. Although it can promote the inflow of foreign funds in the short term, it will lead to excessive development of resources and great damage to the environment in the long run, thereby hindering our economy and society's sustainable development. Although the current problem of unskilled or low-skilled labor surplus will still plague the employment and stability of our society for a long time to come, the development of

labor-intensive industries is still an economic option that cannot be ignored in the short term. Competition will be increasingly suppressed by the international community. And from the perspective of enhancing the country's core competitiveness, China must gradually develop a large number of cheap surplus labor forces into high-quality talent resources with various professional skills through vigorous development of education, especially through vocational and technical education. It is also the only way to realize the dream of a great country.

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