

Research on the Transformation and Upgrading of Private Enterprises from the Perspective of Cross-Border Mergers and Acquisitions

-- Taking Wenzhou as an Example

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Abstract

Cross-border mergers and acquisitions are an important way to help companies quickly increase their scale and achieve industrial chain integration and upgrade, and are of great significance to promoting the transformation and upgrading of enterprises. Wenzhou has the advantages of a solid industrial foundation, a huge Wenzhou business network, abundant private capital and active overseas investment, but it also has problems such as lack of awareness of mergers and acquisitions and poor financing channels. It needs to be improved in terms of policy system, service platform and corporate governance. To promote the implementation of cross-border mergers and acquisitions by private enterprises in an orderly manner to achieve transformation and upgrading.

Keywords

Wenzhou; Private Enterprises; Cross-Border Mergers and Acquisitions; Transformation and Upgrading.

1. Introduction

Since the "One Belt One Road" strategy was proposed by General Secretary Xi Jinping in September 2013 to the grand convening of the "One Belt One Road" Global Summit in May 2017, more than 100 countries and international organizations around the world have participated, and more than 40 countries and international organizations have joined hands with each other. China signed a cooperation agreement. At present, the "One Belt One Road" strategy has formed a broad consensus on international cooperation, providing a once-in-a-lifetime opportunity for domestic enterprises to participate in the international division of labor and obtain high-end elements. Driven by policies and strategies such as "further opening up", "industrial upgrading", "dual cycle", and "regional economic integration", domestic companies have adopted the method of acquiring overseas assets to obtain international markets and enhance their industrial competitiveness.

2. Current Status of Cross-Border Mergers and Acquisitions by Domestic Companies

2.1. The Overall Situation in China

According to the "Review of China's M&A Market in 2020 and Prospects for 2021" released by PricewaterhouseCoopers, the value of M&A activities in China in 2020 has increased by 30% to US\$733.8 billion. Calculated in terms of transaction volume and transaction value, China accounts for about 15% of the global M&A market, and Chinese companies have become an important force in global M&A transactions. However, due to the raging epidemic abroad, it has

severely affected the cross-border M&A activities of Chinese companies, making cross-border transactions extremely difficult, especially in developed markets in the United States and Europe. According to statistics, although the value of cross-border M&A transactions in 2020 is US\$42 billion, the number of M&As is only 403, the lowest value since 2015. Judging from the data released by A-share listed companies in 2020, cross-border mergers and acquisitions generally present three major characteristics: First, the value of the target is declining: in 2020, the number of cross-border mergers and acquisitions with a target value of less than US\$50 million will reach 75%; medium-scale (Tens of millions to 100 million US dollars) and large-scale (100 million to 1 billion US dollars) cross-border mergers and acquisitions accounted for 38.1% and 15.48% of the total, respectively. There is only one super-large cross-border M&A with a transaction value exceeding one billion U.S. dollars. Second, the direction of mergers and acquisitions has shifted from energy resources to high-end industrial chains. For example, Midea Group spent 29.2 billion to acquire 94.55% of the German KUKA company and entered the field of intelligent robots. Shaoxing Wanfeng Auto spent 2 billion to acquire Paslin, a benchmarking company in welding robots in the United States. company. Third, the nature of mergers and acquisitions is still dominated by private enterprises, with a relatively stable proportion. Among cross-border M&A transactions in 2020, there are 11 state-owned enterprises, 10 Sino-foreign joint ventures, 67 private enterprises, and 1 other. The number of M&A transactions conducted by private enterprises accounted for 75.28%, which is still far more than other enterprises.

2.2. The Situation in Zhejiang

Zhejiang is the main force in cross-border mergers and acquisitions, and mergers and acquisitions activities are very active. From January to November 2016, Zhejiang achieved 162 overseas direct investment projects in the form of mergers and acquisitions, an increase of 30% year-on-year, and the value of mergers and acquisitions was US\$8.23 billion, an increase of 1.3 times year-on-year, accounting for 49.0% of the province's total foreign investment. Zhejiang cross-border mergers and acquisitions present three characteristics: First, private enterprise mergers and acquisitions are the absolute main force. According to statistics, 90% of cross-border mergers and acquisitions are initiated by private enterprises, and Hangzhou, Ningbo, and Shaoxing are among the top three in terms of the number of mergers and acquisitions by private enterprises. Second, the M&A targets are highly related to the Zhejiang industrial cluster industrial chain. More than 60% of M&As are concentrated in high-end manufacturing, 70% of M&A targets are Europe and the United States, and technology M&As are frequent. The third is the outstanding effect of mergers and acquisitions. In recent years, enterprises such as Wanxiang Group, Wanfeng Auto, and Cixing Co., Ltd. have rapidly made large-scale acquisitions through cross-border mergers and acquisitions and obtained pricing power in the international market, and have achieved very impressive results.

2.3. The Situation of Wenzhou

Compared with advanced cities in the province, cross-border mergers and acquisitions of private enterprises in Wenzhou are obviously lagging behind. According to relevant departments in Wenzhou, there have been very few cross-border mergers and acquisitions by Wenzhou enterprises in the past ten years. Two of the more successful ones are the two mergers and acquisitions initiated by Chint Group. They were the acquisition of the Frankfurt module business under the well-known German photovoltaic company Conergy in 2013 and the investment in 2016. The acquisition of 10% of Spanish graphene company GRABAT ENERGY for RMB 126 million. These two mergers and acquisitions have played a positive role in promoting Chint's extension to the high-end of the value chain. But on the whole, cross-border mergers and acquisitions of private enterprises in Wenzhou are still in a sporadic and primitive stage, and the types of mergers and acquisitions still have problems such as low level,

small scale, and small role in industrial chain integration, and they urgently need guidance and support. Therefore, it is necessary to fully understand the opportunities brought by the national "One Belt, One Road" strategy to the transformation and upgrading of Wenzhou's traditional industries, and implement precise measures to address the problems existing in Wenzhou's private enterprises' cross-border mergers and acquisitions, and create conditions for the promotion of Wenzhou's traditional industries.

3. Four Advantages of Wenzhou Private Enterprises in Cross-Border Mergers and Acquisitions

3.1. A Solid Industrial Foundation

After more than 30 years of development, Wenzhou has formed an industrial cluster with electrical, shoe leather, clothing, pump valves and auto parts as its pillars. It not only has a strong domestic competitive advantage, but also has a certain influence in the global market. These industries have high maturity, complete industrial supporting facilities, and extensive market networks, but there are still problems such as relatively low level of industrial value, insufficient brand effect, and weak market control capabilities. At present, due to the continuous upgrading of industrial structure in developed countries, some resources such as assets and technology have become idle. This part of resources can just connect with Wenzhou's existing industries and play a key role in the promotion of Wenzhou's traditional industrial clusters. Therefore, Wenzhou has a solid industrial foundation for establishing a cross-border merger and acquisition platform for private enterprises to promote industrial chain integration and acquisition.

3.2. A Huge Overseas Wen Business Network

At present, there are 688,400 Wen-born overseas Chinese in 131 countries and regions, and 380,000 in 57 countries along the "Belt and Road". Among them, Italy is one of the countries with the largest number of Wenzhou overseas Chinese. More than 60% of the more than 300,000 Chinese are Wenzhouese. Among the three pillar industries of the French Chinese economy, the catering, leather and clothing industries, the leather industry and the clothing industry The wholesale is basically controlled by Wenzhou people. The number of overseas Wen businessmen is not only large, but also a relatively complete social network, business network and intellectual network have been established in the country where they are located. According to statistics, "Wenzhou goods" have entered 193 countries and regions through the marketing network of overseas Wenzhou merchants, and 80% of Wenzhou's foreign trade volume is promoted by overseas Wenzhou merchants. Therefore, the network advantage of overseas Wenzhou merchants has become Wenzhou's unique advantage for establishing a platform for cross-border mergers and acquisitions of private enterprises.

3.3. Abundant Private Capital

With the gradual improvement of the financial environment, the accumulated deposits of residents in Wenzhou, industrial capital, and the return of Wenshang capital from outside the region have combined into a huge private capital pool. According to data, as of the end of June 2021, the city's domestic and foreign currency deposit balance was 1,631.92 billion yuan, a year-on-year increase of 9%. Although the current market investment risks are increasing, Wenzhou private capital still maintains a strong willingness to invest. From January to November 2020, the investment growth rate among citizens is 11.3%, which is in sharp contrast to the national growth rate of 3.2%. The financial sector is The focus of Wenzhou private capital grabbing the beach. According to statistics, the scale of Wenzhou's private capital entering the financial sector in 2020 will exceed 45 billion yuan, of which the proportion of funds transferred to Wenzhou through P2P channels has increased year by year, and has

exceeded the amount used within the jurisdiction. The advantages of Wenzhou Capital Corps and its rich investment experience have laid a capital advantage for the creation of a cross-border M&A platform.

3.4. Active Overseas Investment

In order to accelerate the integration of international production capacity, seize the layout of the "Belt and Road" and improve the low-end dilemma of the value chain, Wenzhou private enterprises have implemented overseas investment activities more and more frequently. Wenzhou people have built 3 national and 1 provincial-level overseas economic and trade cooperation zones along the "Belt and Road". Wenzhou has become the prefecture-level city with the most national-level overseas parks in the country. Wenzhou natives have built 18 overseas commodity cities and 261 overseas marketing agencies to build an overseas marketing network for Unicom's "One Belt One Road" initiative. In addition, traditional industries such as Chint and Semir have begun to try to integrate the global industrial chain by means of "mergers and acquisitions, additions, and transfers", and have accumulated advanced experience in overseas investment. The soaring overseas investment and mergers and acquisitions activities have accumulated certain experience for Wenzhou private enterprises in cross-border mergers and acquisitions.

4. Problems in Cross-Border Mergers and Acquisitions of Private Enterprises in Wenzhou

4.1. The Awareness of Cross-Border Mergers and Acquisitions Needs to be Strengthened

In the past 30 years, Wenzhou's development has basically been accomplished by relying on its own accumulation, forming a spontaneous industrial system and an endogenous industrial chain system. This endogenous economic development model has made local enterprises less aware of cross-border mergers and acquisitions. In addition to extending the market, they are too conservative in integrating overseas technologies and brands, business owners have weak cross-border mergers and acquisitions awareness and capabilities, and the level of cross-border mergers and acquisitions is not high.

4.2. The Policy to Promote Cross-Border Mergers and Acquisitions is Unclear

In recent years, with the decline in the valuation of overseas assets, the Chinese government has begun to introduce favorable policies to encourage domestic companies to go out and purchase overseas assets. A series of policies have been introduced from the central to the local level. At the beginning of 2017, Zhejiang Province issued the "Three-Year Action Plan for Accelerating the Cultivation of Local Private Multinational Companies in Zhejiang (2017-2019)", but Wenzhou lacks a corresponding policy supporting system, and business owners do not know much about this policy. Although Wenzhou issued the "Several Opinions of the Wenzhou Municipal People's Government on Promoting the Development of an Open Economy" three years ago, the policy was difficult to implement in its implementation and the implementation effect was not good.

4.3. The Financing Channels for Cross-Border Mergers and Acquisitions are not Perfect

Cross-border mergers and acquisitions require a large amount of capital investment, especially the mergers and acquisitions of well-known overseas companies require huge amounts of funds. Take Shaoxing Xinchang's Wanfeng Auto Company as an example. The company introduced a strategic investment fund and initiated two mergers and acquisitions in 2013 and 2016. The targets of the mergers and acquisitions were the global leaders in the field of

magnesium alloys-Magnesium and Reading. Paslin, a benchmarking company for welding robots in the United States, cost 1.53 billion yuan and 2 billion yuan respectively. Wenzhou enterprises have long preferred financing methods such as banks and private companies, and their financing channels are narrow. With the current industrial scale of Wenzhou enterprises, it is difficult to meet the capital needs of cross-border mergers and acquisitions only by relying on their own capital status.

4.4. The Scale of Local Private Enterprises is Relatively Small

The targets to be acquired are all high-end companies in the value chain with brand, technology or market advantages. For the initiating company, it must have a strong ability to integrate resources and have a standardized operating mechanism. Therefore, well-known mergers and acquisitions in Zhejiang Province The cases are basically initiated by the superior company. However, Wenzhou is dominated by small, medium and micro enterprises, with only more than 20 listed companies, few leading industrial companies, and large corporate groups that have not yet formed, making it difficult to initiate cross-border mergers and acquisitions alone.

4.5. The Cross-Border M&A Experience is not Strong

Cross-border mergers and acquisitions are an extremely complex strategic act. Successful acquisitions not only lie in the strong strength of the acquired company, but also require a huge think tank system and rich experience in mergers and acquisitions. At present, Wenzhou private enterprises are also tentatively carrying out cross-border mergers and acquisitions. There have been some overseas acquisitions by companies sporadically. However, the targets of these acquisitions are not typical and the targets are relatively small. The key is that the actual effect of the acquisition is still To be verified. Under such circumstances, the cross-border mergers and acquisitions of private enterprises in Wenzhou lacked local samples and lessons to be copied and used for reference.

5. Strategic Recommendations for Promoting Cross-Border Mergers and Acquisitions of Private Enterprises in Wenzhou

In the tide of cross-border mergers and acquisitions, Wenzhou has fallen behind, but if appropriate measures are taken, Wenzhou can fully rely on the advantages of existing industrial clusters and industrial chains, make full use of the “Belt and Road” policy dividends, and play the role of the global Wenzhou business network. Make a difference in mergers and acquisitions. The relevant countermeasures and suggestions on how to promote cross-border mergers and acquisitions of private enterprises in Wenzhou are as follows:

5.1. Unify Thinking and Understanding, and Enhance the Urgency of Cross-Border Mergers and Acquisitions

The shortage of high-end elements such as technology, R&D, and brand makes the transformation and upgrading of Wenzhou's traditional industries difficult. Currently, other regions with the same industry structure as Wenzhou, such as Shaoxing, Ningbo, Quanzhou and other cities, are stepping up overseas acquisitions, posing a serious threat to Wenzhou's industrial development. If we can seize the opportunity to acquire and integrate overseas targets, it will greatly accelerate the high-end development of Wenzhou's industry and enhance the competitiveness of Wenzhou's industry in regional competition.

5.2. Create a Service Platform to Improve the Efficiency of Cross-Border Mergers and Acquisitions

Cross-border M&A activities need to coordinate multiple relationships and integrate resources from the government and industry. Therefore, the government can optimize the service process

related to cross-border mergers and acquisitions, integrate the forces of commerce, economics and information, development and reform, foreign management, banking, foreigners and other departments to establish a comprehensive service organization. In addition, it may consider promoting the establishment of cross-border mergers and acquisitions alliances for private enterprises. Enterprises implement cross-border mergers and acquisitions to provide one-stop services.

5.3. Improve the Policy System to Stimulate the Enthusiasm of Enterprises for Cross-Border Acquisitions

Ningbo, Hangzhou, Fujian Quanzhou and other places have issued relevant policies to encourage cross-border mergers and acquisitions, which have played a very important role in promoting cross-border mergers and acquisitions. Based on the "Several Opinions of the Wenzhou Municipal People's Government on Promoting the Development of an Open Economy" issued in 2014, our city can increase incentives and guidance on the one hand, and review industrial safety on the other, in conjunction with relevant national and provincial policies, Foreign exchange control, capital operation and other aspects of innovation and optimization, to provide strong policy support for cross-border mergers and acquisitions.

5.4. Give Full Play to the Role of Overseas Warm Businessmen to Reduce Cross-Border M&A Risks

The huge group of overseas Wenzhou businessmen is the most distinctive resource for Wenzhou private enterprises' cross-border mergers and acquisitions. At present, there are more than 200 overseas Chinese groups that are mainly Wenzhou people, have close contacts with Wenzhou people, or are mainly responsible for Wenzhou overseas Chinese. Wenzhou overseas Chinese business groups can be used to build a contact and service center for Wenzhou private enterprises' cross-border mergers and acquisitions, which will play a role in the collection, docking and integration of projects, and build a bridgehead for Wenzhou private enterprises to implement cross-border mergers and acquisitions, reducing the number of mergers and acquisitions. Transaction costs.

5.5. Give Full Play to the Role of M&A Capital and Build a Diversified Financing System

On the one hand, various government funds at the central and provincial levels must be used. According to incomplete statistics, various overseas investment funds arranged at the national level are close to 300 billion yuan. Zhejiang Province has also established the Silk Road Industry Fund, with the first phase of 5 billion yuan. Wenzhou City should make good use of these policy financing methods. On the other hand, local governments should set up cross-border mergers and acquisitions guidance funds to guide Wenzhou's strong private capital to intervene in cross-border mergers and acquisitions. In addition, it is necessary to actively guide the establishment of syndicated cross-border M&A loans in Wenzhou financial institutions. In terms of fund management, actively introduce domestic and foreign professional and mature industrial M&A fund management teams to reduce the policy and technical risks of cross-border M&A.

5.6. Promote the Improvement of Corporate Governance and Accelerate the Pace of Corporate Listing

Some problems that private enterprises have in cross-border mergers and acquisitions, such as backward management capabilities and insufficient technical capabilities, will become obstacles to mergers and acquisitions. Therefore, when the government guides companies to implement cross-border mergers and acquisitions, they must actively promote self-improvement through atmosphere creation and policy assistance, such as solving corporate

governance and capital issues through corporate listings, and improving technological capabilities through research and development.

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