

Cross-border Mergers and Acquisitions (M&As) in Developing Asia: The Role of Financial Variables

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Summary

Developing economies have experienced a surge in cross-border mergers and acquisitions (M&As) over the last two decades. These cross-border M&A flows have deepened the economic integration of developing Asia with the global economy. Despite the rising prominence of M&As, the literature on the subject remains rather limited in general, but particularly with regard to developing Asia. What are the main drivers of M&As in the region with particular emphasis on the role of finance, including financial risks (market risk and liquidity risks)? Are there differences between developing Asia's M&A transactions with the rest of the world versus intra-regional M&As? These are some of the issues explored in this paper.

Between 1990 and 2006 cross-border M&A sales and purchases involving developing Asia grew significantly. There was a marked jump in purchases within Asia post-1997-98 crisis, with Korea, Thailand, Indonesia and Hong Kong being the greatest beneficiaries. Singapore, Hong Kong and China have been the top developing economy sources of M&A in recent years. Interestingly, almost 50 percent of M&A purchases appear to be from other developing Asian economies. This seems like a fairly large number, but is primarily due to purchases of Hong Kong assets by enterprises in Mainland China which then reinvest mainly in Greenfield activities in the Mainland (i.e. round-tripping). Apart from China and Hong Kong, Singapore has been both a source and target of intra-regional M&A.

In order to better understand the main drivers of M&A, this paper estimated an augmented model using panel data comprising almost 3000 source-host country pairs from 2000 to 2007 involving both developed and developing economies. The aim was to develop a relatively parsimonious model which includes commonly-used determinants as well as a focus on specific financial risk variables. To this end we followed the basic gravity type framework which argues that market size and distance are important determinants in the choice of location of direct investment's source countries. The model fits the data quite well. In addition to the usual gravity variables, we find that certain financial liquidity and risk variables along with the financial openness in the host countries appear to be important in determining of M&A flows, particularly with regard to intra-(developing) Asian M&A flows. In this regard, the ongoing global financial crisis is likely to sharply curtail the extent of cross-border M&A transactions, at least temporarily. Beyond attempts by governments to ease domestic liquidity sharply, at a time of depressed macroeconomic conditions, they would be well-advised to focus on reviewing possible microeconomic and regulatory factors that might hinder cross-border M&A transactions.