

Economic and security issues in foreign mergers of large state-owned enterprises

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Abstract—Business week asserts: China is into acquisitions era. According to the Price Waterhouse Coopers released data show, Chinese enterprises overseas mergers and acquisitions growth the trend is very striking. In 2010, the number of overseas mergers and acquisitions grew by more than 30%, to a record 188 cases, already disclosed trading amount total about \$38 billion. By contrast, in 2009 announced the 144 cases of overseas mergers and acquisitions, disclosure of the amount of about \$30 billion. The pace of overseas merger and acquisition is quickening for Chinese enterprises. Large state-owned enterprises are the mainstay of our country's enterprises in foreign mergers and acquisitions. However, Economic security problem is indispensable in large state-owned enterprises merger, especially the risk prevention. Therefore, research on this problem has the vital significance for China's large state-owned enterprise foreign merger.

Keywords—large state-owned enterprise; foreign mergers and acquisitions; economic security; risk prevention

1. Introduction

The multinational merger of large state-owned enterprise it means that a large state-owned enterprise through acquisitions or capital injection of foreign companies, in order to achieve the control of foreign companies.

Risk prevention refers to pre expect the action of the large state-owned enterprises can produce what the consequences, and thus well prepared to deal with the behavior. Through the assessment of possible consequences of the action and develop good strategy to cope with the spread and transfer risk.

2. The background and significance of large state-owned enterprises speeding up the pace of merger and acquisition

2.1. Background

The merger and acquisition of large state-owned enterprise, from 2002 after, the pace speed up significantly and the effort is increased. This has profound historical background, mainly in the following areas:

First, the large state-owned enterprises speed up foreign mergers and acquisitions, which is a concrete manifestation of the implementation strategy of going out. With the deepening of reform and opening, strategic layout has also been adjusted, conditional large state-owned enterprises have implemented the strategy of going out

Second, the state-owned enterprises speed up foreign mergers and acquisitions, which is the specific performance of the state-owned enterprise reform. After the reform of state-owned enterprises going through the labor pains of the last century, the state has proposed the deepening reform and opening up, to further accelerate the task of adjustment of state-owned enterprises' strategic layout.

Third, the state-owned enterprises speed up foreign mergers and acquisitions, which is the inevitable requirement for China's integration into the world economic development. Joining the WTO bring challenges and opportunities for Chinese enterprises. China's total economic output has gone beyond Canada, Italy, France, the United Kingdom, Germany and Japan, currently ranked second in the world. The state-owned enterprises speed up foreign mergers and acquisitions, which is both the reflection of China's rapid economic development, and also the inevitable requirement of China's rapid economic development.

2.2. Significance

Foreign mergers and acquisitions are an important way to expand enterprise scale, foreign enterprises through mergers and acquisition are conducive to the formation of economies of scale, reduce costs. Foreign mergers and acquisitions is the effective way for enterprises to obtain strategic resources. Difficult to meet the needs of rapid economic growth, due to the limited amount of strategic resources, such as mineral, energy and timber, and to find the resources in worldwide to support China's sustained and stable development has become a necessity. Foreign mergers and acquisitions enterprises have access to advanced technology and brand ,China has many large enterprises have been involved in overseas business, and also has made some achievements in terms of technology and brand. For example; TCL acquired France Thomson, Alcatel's handset business, get the other patents, technology and brand of color TV and phone; Lenovo's acquisition of IBM's PC business, access to the leading technology in the notebook manufacturing.

3. Economic and security issues in foreign mergers of large state-owned enterprises

3.1. Meaning and significance

Economic and security issues in the so-called foreign mergers and acquisitions (M&A) of large state-owned enterprises, mainly include two aspects:

(1) China's large state-owned enterprise funds security issues and technical security issues; due to the impact of the economic benefits, people may resort to deception or intentionally concealed many important information. This will cause serious problems to inject liquidity into the M&A business. At the same time, due to a number of key industries and fields of technology, is an important part of the overall competitive strength in a country and determines the degree of a country's leading. Therefore, in the acquisition of such companies, the multinational mergers and acquisitions involving these technologies is often difficult to pass.

(2) The economic security problem due to the impact of M&A business country. M&A business companies generally have a long history and deep background, such mergers and acquisitions is even more difficult. CNOOC acquisition of Unocal is a typical representative. Only consider economic factors, the Unocal will definitely agree with this acquisition. In fact, Unocal also do agree with this acquisition. Later, however, the U.S. government exempt CNOOC acquisition of Unocal would affect the economic security of the United States, and CNOOC behavior of such mergers and acquisitions as a way of economic expansion in China, leading to the final acquisition of bankrupt. Therefore, always risk prevention through foreign acquisitions of large state-owned enterprises, foreign acquisitions of large state-owned enterprises must be important to consider.

3.2. Existing problems

At present, the global multinational mergers and the failure rate is 70%, in recent years, we received fruitful results of the foreign mergers and acquisitions of large state-owned enterprises in China, but also suffered a severe defeat. The main reason contains:

(1)The lack of clear merger and acquisition strategy is an important reason for the failed foreign mergers and acquisitions of Chinese enterprises in the foreign mergers and acquisitions, while the estimated acquisition facing difficulties often not comprehensive enough.

(2)China's large state-owned enterprises acquired companies are mostly the brink of bankruptcy or closure of the loss .so although the purchase price is relatively low. However, the difficulty of companies to achieve profitability is also huge. TCL costs 8.2 million (EUR) to acquire German Schneider, but because of Germany's high labor costs, the mergers and acquisitions is far from ideal.

(3)Although foreign mergers and acquisitions from an economic issue essentially, many Western developed countries are in contravention of the mergers and acquisitions of domestic enterprises by foreign enterprises to implement attitude, some even in the clear provisions on the legislation. The dual constraints result in the defeat of foreign mergers and acquisitions.

(4) Error in terms of specific strategic implementation. Mainly including the four aspects: First, after the acquisition of foreign enterprises, their business still receive the specific constraints of the laws of these country;. Second, the RMB is not a global currency, which in a certain extent restricted the mergers and acquisitions enterprises development. Once again, the state-owned property rights of vacuum led to a lack of power of foreign mergers and acquisitions of state-owned enterprises. Finally, the high labor costs abroad and foreign cultures become an important factor of mergers and acquisitions fail.

(5)The contempt of risk prevention is an important reason for the failure of many acquisitions. Awareness of risk prevention, including two security issues: one is the state-owned funds, the other is business. China's large state-owned enterprises is a state-owned enterprise nature and not to worry about the safety of funds. In addition, even if on the acquisition of the business strategy, many companies also underestimated partial acquisition faced losses, bankrupt enterprises, considering that picking a cheap, actually down the pit dug for themselves.

4. The maintenance measures of economic security in foreign mergers and acquisitions of large state-owned enterprises

As described above, the foreign mergers and acquisitions of state-owned economic enterprises have an important role, but there are some problems, thus maintaining the economic security in the foreign mergers and acquisitions of large state-owned enterprises is imperative, I think we should start from several angles:

(1) From the point of view of the capital maintenance of China's state-owned enterprises, to develop an appropriate corporate acquisition strategy and collect the detailed business information, and make the appropriate decision-making of corporate mergers and acquisitions. The funds security issue is an important issue of China's state-owned enterprises. Do not pay attention to collect information in the foreign mergers, the TCL acquisition AIRFACT mobile phone business at least lost 1 billion(EUR), the Shougang Group Peru, an iron ore acquisition because the other strike direct loss of \$ 5,000,000. SAIC British Rover originally intended acquisition, but after the collection of details information, decided to give up, it is very lucky.

From the comparison of both positive and negative, in order to safeguard the financial security of foreign mergers and acquisitions in China's large state-owned enterprises, it is necessary to develop an appropriate acquisition strategy and gather detailed information and make the right decisions.

(2) In order to maintain the safety of China's large state-owned enterprises, it is necessary to pay attention to the technical security issues in the foreign mergers and acquisitions. In fact, foreign human resources cost is relatively high, but it is necessary to retain the core of the R & D team. Especially in the introduction of advanced technology, we must make great efforts, while paying attention to economic costs.

(3) Legal and political issues as well as the series of foreign mergers and acquisitions questions are the core content of the economic security. First, the political issues in economic security, although the merger of China's large state-owned enterprises is an economic problem, but in the era background of the rise of the country, many foreign countries easily take the economic expansion connected the foreign mergers. At the same time, many enterprises in the merger project are involved in the enterprise of the country's economic security. Therefore, many countries are prone to examine the qualifications of the large state-owned enterprises in China. Since China adopted the socialist market economic system, many countries excuse for the contact of enterprises and government, and they will obstruct the merger project.

To solve this problem, it should be possible to reduce unnecessary behavior of the government in the mergers and acquisitions of large state-owned enterprises. Although China's state-owned enterprise is by the state holding company, but in the final analysis it is just an economic behavior.

In addition, more than sixty countries in the world have antitrust laws, foreign mergers and acquisitions of Chinese enterprises are faced to legal obstruction by the antitrust laws in many countries. Thus, it is an important way to Knowledge and understanding of the relevant laws of the foreign to protect ourselves rights.

Foreign mergers also brought a series of problems that will affect the success or failure of the foreign mergers of large state-owned enterprises in China. For example, the foreign high cost of human resources as well as foreign culture is also an important factor for China's large state-owned enterprises mergers failure. Due to our enterprises carry out Localization strategy

.Therefore, we must to change the low human resource cost competitive strategy. From the reality of foreign mergers host country, to develop an appropriate development strategy and achieve profitability based on achieving the fit of the local culture and foreign culture, which is a necessary condition for the success of large state-owned enterprises.

(4) We must strengthen the prevention of risk awareness. Enhance risk awareness prevention should be from two aspects: one is to strengthen the emphasis on the security of the state-owned economy, and strengthen supervision; another is to strengthen the transformation of business strategy, come out from the localization strategy to adapt to the acquired company's regional strategy operations.

5. Conclusions

With the development of China's economy, foreign mergers of large state-owned enterprises of China's will surely become more and more. Although China's large state-owned enterprises overseas mergers there are still some problems, these mergers and behavior is intentional reference and lessons learned for the subsequent mergers behavior of the large state-owned enterprises in China. Risk prevention awareness prevention is not enough, which also caused a series of problems. Therefore, to strengthen the study of economic and security issues in foreign mergers and acquisitions, which not only has theoretical significance also great significance on the practice.

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