Proceedings of ICEMGD 2025 Symposium: Innovating in Management and Economic Development
DOI: 10.54254/2754-1169/2025.LH25876

Factors Affecting Chinese Companies' Overseas Mergers and Acquisitions

Man Wu

Macau University of Science and Technology, Macao, China
caroline102804@gmail.com

Abstract. With the development of economic globalization, Chinese enterprises have significantly increased their activities in the global capital arena, and overseas mergers and acquisitions have become an important strategic choice for them to participate in international competition. This paper adopts the literature review method to systematically deconstruct the mechanisms of political, economic and social dimensions on M&A performance. It is found that from the political dimension, reports of negative politics in the host country, political uncertainty, tensions in bilateral diplomatic relations and legal and regulatory constraints (e.g., antitrust scrutiny) significantly increase M&A resistance. At the economic level, differences in accounting standards lead to information asymmetry, exchange rate volatility affects cost-effectiveness, and the financing environment constrains access to capital. On the societal plane, the outsider disadvantage erects formidable barriers to cultural integration. Meanwhile, corporate social responsibility initiatives and the degree of social legitimacy enjoyed by enterprises wield a direct and profound influence on public acceptance. These factors, through risk transmission and resource integration paths, jointly play a role in the success rate of M&A as well as subsequent performance.

Keywords: Chinese companies, overseas mergers and acquisitions, deal motivation, political economy and society

1. Introduction

In recent years, propelled by the rapid growth of China's economy and the intensifying pace of globalization, Chinese enterprises have witnessed a remarkable surge in overseas merger and acquisition (M&A) endeavors. Since China's accession to the World Trade Organization (WTO) in 2001, China's outward foreign direct investment has shown a rapid growth trend, especially after the financial crisis in 2008, when the rapid rise of Chinese enterprises set off a wave of overseas mergers and acquisitions. At the same time, with the implementation of national strategies such as "Going Global" and "Bringing in" as well as the "Belt and Road Initiative", China has rapidly strengthened its position and influence in the international market and has become an important player in the international investment market [1].

Based on this, this paper will use the literature review method to explore the influence factors of Chinese enterprises' overseas M&A performance in multiple dimensions, specifically from the political, economic and social aspects to carry out in-depth research. From the practical level, the

DOI: 10.54254/2754-1169/2025.LH25876

comprehensive analysis of the influencing factors in this paper provides a reference for the future overseas M&A of Chinese enterprises, which can better assess the risks and opportunities of overseas M&A. Meanwhile, at the theoretical level, this study enriches the existing overseas M&A - related literature more comprehensively, lays a solid foundation for further research on overseas M&A by Chinese enterprises, and can provide a hypothesis basis for subsequent empirical tests

2. Classification of the characteristics of overseas mergers and acquisitions

2.1. Types of mergers and acquisitions

Overseas mergers and acquisitions (M&A) are of various types, mainly classified into horizontal, vertical and mixed M&A. Horizontal M&A refers to the merger and acquisition of competitors in the same market level by enterprises, aiming at expanding economic scale and enhancing market share, for example, Mercedes-Benz's merger and acquisition of Chrysler, which realizes the expansion of economic and market scale through the integration of resources in the same industry. Vertical mergers and acquisitions involve the integration of enterprises upstream and downstream of the industrial chain, forming vertical production integration, which can reduce transaction costs and ensure the stability of the supply chain, such as the deep cooperation between Apple and Dialog Semiconductor, the acquisition of the British and German chip makers and other control of the chip supply chain. Mixed mergers and acquisitions, as cross-industry integration initiatives, facilitate corporate diversification and risk dispersion. However, they entail higher risks. Take the acquisition of Nanfu Battery by Anfu Technology as an example: the traditional retail sector acquired a leader in the battery industry, achieving a cross-industry transition to consumer electronics and enhancing market competitiveness.

2.2. Transactional motives

Overseas mergers and acquisitions generate trading behaviour for several main reasons

2.2.1. Product diversification

Enterprises can consider cross-industry development when mergers and acquisitions, the introduction of high-quality products to increase product variety, meet the increasing market demand of consumers, expand market share, improve product competitiveness to play to their own advantage.

2.2.2. Brand value

Some domestic enterprise brands have little influence overseas, with insufficient visibility, and their overseas market expansion is not well - developed. In order to enhance brand awareness, many Chinese companies will conduct overseas mergers and acquisitions. Mergers and acquisitions with outstanding enterprises in other parts of the world, leverage the value of overseas brand image and market recognition, reduce market barriers, enhance consumer trust, formation of new brand competitiveness, faster capture the market, synergistic development.

DOI: 10.54254/2754-1169/2025.LH25876

2.2.3. Market expansion

Enterprises enter new markets through mergers and acquisitions to gain quick access to local resources and customer bases, break down market barriers, enter the target market in a short time, enhance the core competitiveness of the enterprise, and realize economies of scale and sales increases. For example, Wal - Mart accelerated its internationalization process by entering new markets through the mergers and acquisitions of local retail enterprises and establishing branches in Mexico and Canada in the initial stage.

2.2.4. Innovation and acquisition of technology

Enterprises merging and acquiring a target company with technological advantages or research and development capability can quickly acquire the company's products and technologies, as well as absorb the latest innovations to further enhance their own innovation capabilities and product competitiveness. Especially in the high-tech industry, technology acquisition is an important motivation for M&A [2]. For example, Google's acquisition of DeepMind is a strategic M&A by the tech industry to acquire cutting-edge AI technology and innovative talent.

2.2.5. Reduction of production costs

Through mergers and acquisitions, firms can achieve cost optimization by moving production to countries with lower labour costs or more abundant resources. At the same time, the integration and reshaping of supply chains and resource synergies can also reduce costs and achieve economies of scale. For example, China's Geely Holding Group acquired Sweden's Volvo Cars, supporting this supply chain and setting up production bases in emerging markets to reduce total costs.

3. Factors affecting overseas mergers and acquisitions

3.1. Political

3.1.1. Negative coverage of politics

Academic research has demonstrated that negative political media coverage exerts a significant impact on the success rate of overseas mergers and acquisitions (M&A). Specifically, for emerging market enterprises, an increase in negative political coverage is directly correlated with a decline in their overseas M&A success rates [3]. Long-term negative publicity can damage a company's international reputation, create distrust and resistance among local consumers, increase operational resistance, and pose challenges to subsequent M&A and business expansion. At the same time, it may strengthen the host country's M&A review and approval process and increase the number of unfavorable policies, delaying the M&A process, and may even lead to the failure of the M&A.

3.1.2. Political uncertainty

Political uncertainty stems from factors such as frequent changes in policies imposed by Governments, tightened controls in the regulatory environment and the complexity of international relations. Political changes within the host country can impact projects. For example, political turnovers and policy shifts, as well as changes of political parties in the host country, may overturn foreign investment policies. New governments may also overturn previous project agreements to

DOI: 10.54254/2754-1169/2025.LH25876

fulfill election promises. For example, after Sri Lanka's new president Sirisena came to power in 2015, he suspended China Communications Construction Group's Colombo Port City project on the grounds of ‘opaque procedures’ and ‘lack of approvals,’ resulting in a loss of hundreds of millions of dollars. At the same time, political uncertainty can disrupt supply chains or curtail investment by major players in the target country, such as high-tech companies. Therefore, companies need to incorporate political risk into the core of their strategies, monitor real-time political developments, and adjust their strategic plans to reduce the impact of risk on M&A, safeguard asset and business continuity, and respond quickly to crisis situations.

3.1.3. Diplomatic relations and bilateral political environment

The political relationship of cross-border M&As is not only affected by the target country's own political factors, but also constrained by the diplomatic relations and bilateral political environment between the home country and the target country. Good diplomatic relations can promote political coordination, reduce political interference and administrative obstacles, and help the smooth promotion of M&A projects and subsequent cooperation. For example, research has shown that the trade friction between China and the United States has had a significant impact on the outbound investment of Chinese enterprises, which has strengthened U.S. regulation of Chinese enterprises, raised the threshold of investment, and delayed or even rejected a number of M&A projects of Chinese enterprises in the U.S., which has created a strong resistance to the overseas M&A of Chinese enterprises [4]. At the same time, political tensions can lead to a cautious attitude towards Chinese companies in the target country markets, higher investment costs for companies, and higher political risk premiums. As well as higher market - entry barriers, it will make the local market and consumers resistant to the enterprise brand and increase the operational risk

3.1.4. Limitations of policies and laws and regulations

Host countries may implicitly protect the rights and interests of local industries and promote autonomous economic development through a variety of restrictions, such as antitrust laws, foreign investment control laws, and industry entry thresholds, and these policies constrain the freedom of investment of multinational firms to a certain extent, leading to an increase in the cost of mergers and acquisitions and the risk of uncertainty. For example, the U.S. HSR law, the Hart-Scott-Rodino Antitrust Improvements Act, requires pre-M&A filings to facilitate the blocking of anticompetitive M&As at an early stage. At the same time, its long and complex filing cycle greatly increases the cost of M&A, as in the case of Haier's acquisition of Maytag, which was delayed by a competitor's preemptive acquisition. Similarly, China has implemented ‘negative list management’ in strategic industries such as energy and transport, prohibiting or severely restricting foreign investment, reflecting a high level of political concern for the security of key industries. Enterprises need to study the target policy environment in advance and design flexible and diverse investment strategies; ignoring policy constraints may result in the inability of the M&A programme to proceed. Meanwhile, enhancing engagement with regulatory authorities is crucial to deepen policy comprehension and secure support, thereby streamlining project approval efficiency and elevating the success rate

DOI: 10.54254/2754-1169/2025.LH25876

3.2. Economic factors

3.2.1. Differences in accounting standards

Accounting standard differences have an extremely significant impact on the efficiency of overseas mergers and acquisitions through the mechanism of information asymmetry. The theory of information asymmetry is widely used in economics, in which all kinds of people in a transaction do not have the same information, and when one party has better decision-making information than the other, it will lead to an imbalance of power in the transaction, and the party that lacks more information will suffer. In overseas mergers and acquisitions (M&A), different countries and regions are involved, and the accounting standards of each country may differ in many aspects. The information asymmetry factor may lead to bias in the valuation or pricing of the target company's assets, resulting in financial risks that may be faced in subsequent acquisitions [5]. In the case of TCL's acquisition of Thomson, for example, TCL failed to adequately identify Thomson's patents due to differences in accounting standards, and technological bias led to strategic errors.

3.2.2. Exchange rate fluctuations

Exchange rate fluctuations play an important role in the performance of overseas M&As, affecting enterprises' overseas investment decisions and cost-effectiveness. An appreciation of the renminbi against the US dollar promotes domestic M&A, while an appreciation of the real effective exchange rate favors overseas M&A [6]. An increase in the exchange rate brings about an 'investment effect' and a 'hedging effect', while the expectation of depreciation increases the propensity for overseas M&A and moderates the corresponding relationship through a 'substitution effect'. When overseas M&A projects entail lengthy timelines, exchange rate volatility poses significant challenges for enterprises in forecasting future returns, thereby escalating decision-making risks and operational uncertainties

3.2.3. Financing environment and access to capital

Enterprises often need financial support when engaging in cross-border M&As, and the financing environment is an important economic basis for influencing cross-border M&A behaviour. Whether enterprises can have sufficient M&A funds and whether they can obtain capital at a reasonable cost directly determines the M&A capability and execution efficiency. Usually loose financing environment, lower interest rate level and diversified capital channels are favourable for enterprises to obtain capital support through loans, bonds and other means. On the contrary, in the case of limited financing ability or restricted cross-border flow of capital control, it will lead to M&A plans facing delay or cancellation. For example, when Chinese companies engage in overseas M&A, they often face strict restrictions under the foreign exchange approval system. Particularly after 2016, China's regulator's urgent control of 'irrational outbound investment' has inhibited some M&A deals. In addition, fluctuations in the international financing environment can have an impact, with companies being forced to suspend acquisitions during the global financial crisis of 2008 or the Russo-Ukrainian war, when international capital liquidity was reduced. At the same time, policy financial institutions (China Development Bank, Export-Import Bank of China, etc.), in providing long-term, low-interest loans or special credit lines in strategic outbound investment projects, provide a strong guarantee of financing and reduce the cost of capital and the level of risk for enterprises.

DOI: 10.54254/2754-1169/2025.LH25876

3.3. Social factors

3.3.1. Liability of Foreignness(LOF)

The Liability of Foreignness denotes the inherent disadvantages multinational corporations (TNCs) face, entailing additional costs arising from their unfamiliarity with the host country's institutional frameworks, cultural norms, market dynamics, and other contextual factors, when compared to local enterprises [7]. The two core mechanisms of this disadvantage are information asymmetry and lack of legitimacy, for example, when a foreign enterprise enters a new market, due to a lack of understanding of the local culture and other biases in the subsequent positioning and promotion of its products, it may face high market barriers and find it difficult to integrate into the local business environment in order to obtain resources and market information. At the same time, when multinational enterprises enter the local market, because of the cultural differences between the two sides, there may be a lack of understanding of the local culture and the company's operations, which may lead to the conflict between the employees‘ own values and the corporate culture triggering employees' resistance and dissatisfaction, which will reduce the efficiency of the operational integration, affecting the expected results of the mergers and acquisitions.

3.3.2. Corporate Social Responsibility (CSR)

With the development of globalisation, society's concern for the sustainable development of enterprises is increasing, and the impact of corporate social responsibility on cross-border mergers and acquisitions (M&A) is gradually increasing. The impact of CSR on overseas M&A is more complex, with a subtle relationship between market reaction and M&A performance. Enterprises with good CSR performance are more likely to gain the support of the host government or the public and reduce the political and social risks in M&A. Research has shown that CSR performance is positively correlated with the success rate of cross-border M&A, especially in countries with large institutional distances, where the role of CSR is more prominent [8]. For instance, in Minmetals Group's Las Bambas copper mine project in Peru, recurring disputes arose from local ecological conservation concerns and community interest conflicts. Members of the Fuerabamba indigenous community alleged the company had failed to honor its social investment commitments, prompting strikes and a forced shutdown of the copper mine. Following subsequent negotiations with the community, the blockade was lifted, and production output resumed its upward trajectory. This illustrates how CSR can enhance legitimacy and reduce operational risks after an M&A through environmental governance and benefit-sharing, and can also serve as a 'lubricant' for cross-cultural integration, helping companies establish an image as 'responsible investors'. Huawei, for example, has actively invested in local education and job training programmes and 'seed programmes' after acquiring European ICT companies (Caliopa and M4S), effectively increasing social recognition. At the same time, depending on the host country, there are obvious deviations in CSR concerns, and the impact of CSR on M&A valuation varies depending on the host country's system and culture.

3.3.3. Social legitimacy and public acceptance

Social legitimacy refers to whether the enterprise's behaviour is in line with the host country's culture, laws, values, etc, and is regarded as a legitimate and trustworthy economy, which has a direct impact on whether the M&A project can be successfully promoted and its operations landed. In politically or socially sensitive industries, the attitudes of the public, the media and nongovernmental organisations (NGOs) exert direct pressure on M&A through social opinion and public opinion, and the degree of acceptance of foreign investment greatly affects the M&A process. For example, China National Offshore Oil Corporation (CNOOC) attempted to acquire the US-based Unocal Petroleum Corporation in 2005, but the deal was abandoned due to social and political pressure from the US political class and the public, who were generally sceptical and distrustful of Chinese companies and worried that they would threaten the security of the US. Research has shown that when M&A behaviour is perceived as a 'political tool' or 'predatory capital' by the host country, it is very likely to lead to social backlash and regulatory escalation [9]. On the contrary, it is easier for an enterprise to complete an M&A if it can obtain positive local social recognition, policy assistance, media support and mass acceptance. Therefore, companies need to clarify their social communication strategies at the early stage of M&A, localise their commitment and communicate transparently, build credible social relationships, enhance social legitimacy, and reduce external resistance to enhance the integration effect.

4. Conclusion

This paper explores the core barriers affecting Chinese firms' overseas M&A based on three dimensions: political, economic, and social. At the political level, negative public opinion in the host country, policy uncertainty due to regime change, fluctuations in bilateral diplomatic relations, and legal and regulatory restrictions (e.g. Antitrust scrutiny and industry entry barriers) constitute key obstacles. On the economic front, differences in accounting standards exacerbate information asymmetry, leading to asset valuation bias and financial risk. Exchange rate fluctuations affect investment decisions and return expectations through mechanisms such as the 'investment effect' and the 'hedging effect', while the ease of the financing environment and the efficiency of cross-border capital flows directly determine the financial viability of M&A. At the social level, the outsider disadvantage theory reveals that the lack of legitimacy of multinational enterprises due to institutional and cultural barriers is manifested in the difficulties of market integration and the inefficiency of internal integration, the differential impact of the level of Corporate Social Responsibility (CSR) fulfilment on the construction of legitimacy, as well as the degree of social legitimacy and public acceptance, which together shape the sustainability of the integration stage of M&A. However, this paper has certain limitations. In terms of research methodology, only the literature review method is adopted, which lacks empirical data support and makes it difficult to quantify the degree of influence of individual factors on M&A performance. And the breadth of case coverage is insufficient, the number of research cases and literature combined is limited, and some of the influencing factors are insufficiently explored. In the future research, we can adopt empirical research methods to deeply analyze the role of each factor on overseas M&A performance. At the same time, we should pay attention to the influence of the development trend of emerging industries on overseas M&A, so as to provide more targeted theoretical guidance and practical participation for Chinese enterprises' cross-border investment.

References

[1] Guo, L. W., Lu, J. Y., & Guo, S. W. (2018). Review and prospect of China's outward foreign direct investment in the 40 years of reform and opening up. Asia-Pacific Economic Review, 4, 111–121.
[2] Chatterjee, S. (1986). Types of synergy and economic value: The impact of acquisitions on merging and rival firms. Strategic Management Journal, 7(2), 119-139.
[3] Hu, Y. L. (2023). A study on the impact of political negative reports on the success or failure of overseas mergers and acquisitions by emerging market enterprises (Unpublished master's thesis). Chongqing Technology and

DOI: 10.54254/2754-1169/2025.LH25876

Business University. https: //kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202401& filename=1023069322.nh

[4] Zhang, W. (2023). The impact of Sino-US trade friction on overseas mergers and acquisitions by Chinese enterprises (Unpublished master's thesis). Southwest University of Finance and Economics. https: //kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202401& filename=1023619681.nh

[5] Liu, Y. (2022). A study on the performance and influencing factors of overseas mergers and acquisitions in the health products industry (Unpublished master's thesis). Xi'an University of Science and Technology. https: //kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202401& filename=1023757455.nh

[6] Meng, W. (2018). A study on the impact of exchange rate fluctuations on overseas mergers and acquisitions by Chinese enterprises (Doctoral dissertation). Beijing Jiaotong University.

[7] Zaheer, S. (1995). Overcoming the liability of foreignness. Academy of Management journal, 38(2), 341-363.

[8] Gao, H. B., & Wang, Q. R. (2023). Crossing the gap of legitimacy: The impact of social responsibility information disclosure on overseas M& A. Management Modernization, (3), 56–63. https: //doi.org/10.19634/j.cnki.11-1403/c.2023.03.007

[9] Zhang, J., Zhou, C., & Ebbers, H. (2011). Completion of Chinese overseas acquisitions: Institutional perspectives and evidence. International Business Review, 20(2), 226–238.