

CROSS-BORDER MERGERS & ACQUISITIONS:

**CASE STUDIES OF KOREA; CHINA;
AND HONG KONG, CHINA**



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ABSTRACT

This paper explores the impact of cross-border M&As on host economies of Korea ; China; and Hong Kong, China. For an intensive analytical research on this topic, this paper presents a comprehensive framework for analyzing the various impacts of cross-border M&As on the competitiveness of the host economies. We apply this framework to the data from five outstanding and considerable cases of each host economy. Differences in impact of cross-border M&As are shown along four dimensions (Porter 1990, Dunning 2003): Factor Conditions, Demand Conditions, Related & Supporting Sectors, and Strategy, Structure & Rivalry. The results of this study give a better understanding of cross-border M&A impacts, and provide strong support for positive impacts on host economies.

Key Words: Cross-border M&A, APEC, Korea; China; Hong Kong, China, diamond model, competitiveness.

INTRODUCTION

Gross production associated with foreign direct investment (FDI) has been increasing faster than global GDP or global exports. It should also be noted that cross-border mergers and acquisitions (M&As) have become more important than greenfield investments in entering foreign economies.

The proportion of cross-border M&As in world FDI is now over 80 percent (For more information of FDI data, see various issues of the World Investment Report). The increasing significance of cross-border M&As has given rise to new policy changes.

The purpose of this paper is to enhance the understanding of cross-border M&As in the APEC member economies. A deeper analysis of this issue through various case studies is critical in order to understand benefits and costs of cross-border M&As for host economies. This paper will hypothesize that overall cross-border M&As have a positive impact on host economies. This perspective will have two positive effects towards investment liberalization and facilitation among the APEC member economies. First, it will enable member economies to expedite cooperative policies related to M&As through lowered barriers. Second, it will help evoke favorable responses towards M&As from the general public of member economies, lowering the emotional entry barriers to member economies' markets.

In particular, the Korean experience is interesting. Considering its relative importance in the world economy, Korea recorded a very low level of inward FDI in the past, but the situation has significantly been changed since the 1997 economic crisis. According to the World Investment Report (2002), the average annual flow of inward FDI amount from 1990 to 1995 was US\$978 million, and has surged up to US\$9.3 billion in 2000. Regarding the inflow as a percentage of gross fixed capital formation, the increase is distinct for the same time period above: 1.1 percent and 7.1 percent, respectively (Table 1). Korea is now one of the largest recipients of M&A-associated FDI in Asia. The sales amount (the sold price of the target firm in a transaction) of cross-border M&As was US\$ 192 million in the year 1995, but has risen up to US\$10.1 billion and US\$6.4 billion in the years 1999 and 2000, respectively (Table 2). Indeed, cross-border M&As have held an important part of Korea's open door policy.

China and Hong Kong, China have also been major players regarding FDI and cross-border M&As. Regardless of the Asian economic crisis of 1997, the two economies have shown a steady increase in the recent decade in terms of both average annual flow of inward FDI amount and sales amount of cross-border M&As (Tables 1 and 2). In terms of inflow as a percentage of gross fixed capital formation, Hong Kong, China has shown a tremendous 144.9 percent (Table 3). Considering the increasing level of inward FDI and trend changes from greenfield FDI to cross-border M&A in Korea; China; and Hong Kong, China, it would be very interesting to compare and contrast the three economies.

A similar study, supported by APEC, has been conducted by Chen and Findlay (2002). This study, as its title (A Review of Cross-border Mergers and & Acquisitions in APEC) indicates, is an exploratory study of cross-border M&As in APEC member economies. This is a very important study because few studies have attempted to do so. It uses Dunning's (2000) OLI paradigm as a main analytical framework in explaining cross-border M&As. This again is in the

right direction. However, it is basically an exploratory study of summarizing various impacts of cross-border M&As. Collecting data from cases and giving a comprehensive analysis based on a new framework, this paper will show the different impacts among Korea; China; and Hong Kong, China, and derive important implications.

Table 1. FDI Inflows: Korea; China; and Hong Kong, China, 1990-2000

(Millions of US dollars)

<i>Year</i>	<i>1990-1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Korea	978	2,325	2,844	5,412	9,333	9,283
China	19,360	40,180	44,237	43,751	40,319	40,772
Hong Kong, China	4,859	10,460	11,368	14,770	24,596	61,938

Source: UNCTAD, 2002

Table 2. Cross-border M&A Sales: Korea; China; and Hong Kong, China, 1995-2000

(Millions of US dollars)

<i>Year</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Korea	192	564	836	3,973	10,062	6,448
China	403	1,906	1,856	798	2,395	2,247
Hong Kong, China	1,703	3,267	7,330	938	4,181	4,793

Source: UNCTAD, 2002

**Table 3. Inward FDI Flows as a Percentage of Gross Fixed Capital Formation:
Korea; China; and Hong Kong, China, 1990-2000**

(Percent)

<i>Year</i>	<i>1990-1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Korea	0.8	1.2	1.7	5.7	8.3	7.1
China	9.8	14.3	14.6	12.9	11.3	10.5
Hong Kong, China	15.3	21.7	19.8	30.0	60.2	144.9

Source: UNCTAD, 2002

CONCEPTUAL FRAMEWORK

FDI by multinational corporations (MNCs) can be divided into two main types based on entry mode, namely, greenfield investment and cross-border M&A. While various studies explain the motivations of FDI and its impacts on host economies, this paper highlights the studies of FDI motivations by Dunning (2000), the World Investment Report (2000, 2001), Moon and Roehl (2001), and the studies of FDI impacts by the World Investment Report (2000, 2001) and Dunning (2003), as shown in Table 4. It is meaningful to scrutinize the motivations of cross-border M&As in relation with the impacts, especially regarding the fact that there may be unintended results affecting the host-economy. The importance of the relation between motivation and impact is mentioned in the World Investment Report (2001). Furthermore, it is important to provide a consistent framework that is able to incorporate and evaluate the motivations and impacts of cross-border M&As in order to fully understand the phenomenon in one picture. Therefore, this paper will use a new model to show the impacts of cross-border M&As in consideration with the motivations.

Table 4. A Summary of Studies Explaining FDI Motivation and Impact

FDI motivation	FDI impact
- Dunning (2000)	- World Investment Report (2000, 2001)
- World Investment Report (2000, 2001)	- Dunning (2003)
- Moon and Roehl (2001)	

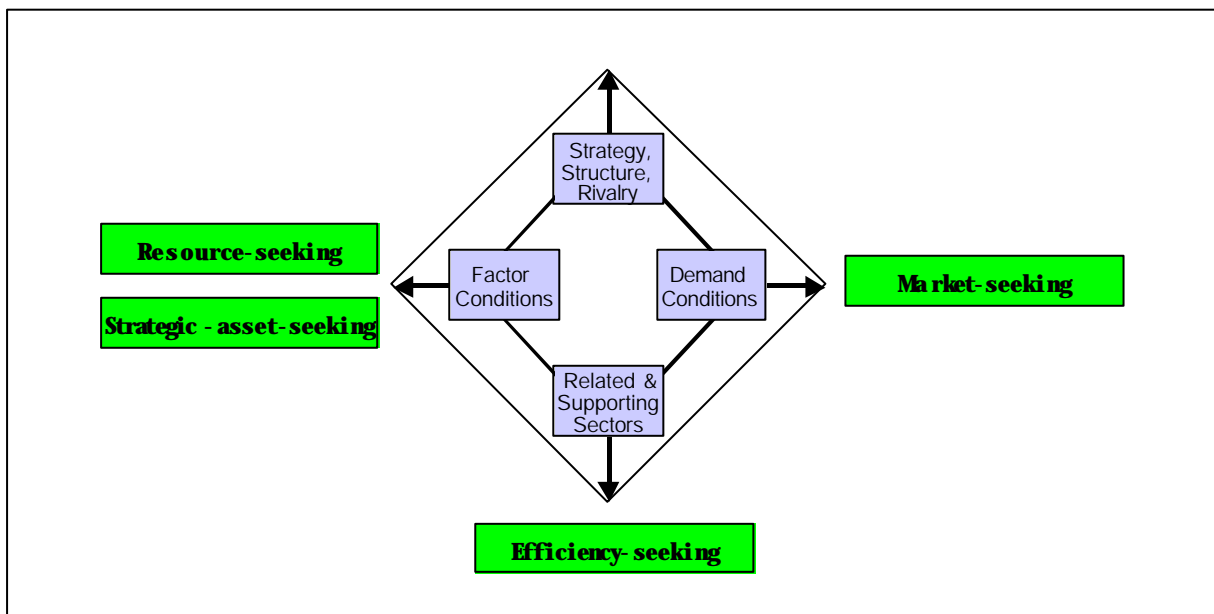
So far, the most popular theory of FDI is Dunning's (2000) OLI or Eclectic Paradigm. Dunning's theory itself has experienced an evolution throughout the past decades (1958, 1977, 1981, 1988, 1993, 1995), and is still regarded among the scholars of this field as the most comprehensive paradigm explaining FDI. Dunning's contribution is an identification of three variables, i.e., Ownership (O), Location (L), and Internalization (I), but the proposition of O has its limits and the role of L is not well defined in Dunning's model. The limitation of the O factor is that it does not regard unconventional FDI, namely, strategic investments and FDI from less developed countries to more developed countries (Moon and Roehl 2001). According to Dunning (2000), locational decisions for foreign activities are made by multinational enterprises based on the purpose of augmenting or exploiting their already existing O specific advantages. Meanwhile, regarding the role of L, Dunning (2000) has identified foreign-based multinational activities by four main types: market-seeking, resource-seeking, efficiency-seeking, and strategic-asset-seeking FDI.

The imbalance theory (Moon and Roehl 2001) modifies and extends the OLI paradigm, explaining the motivation for FDI of MNCs with either ownership advantages or disadvantages. Namely, it explains the motivations of unconventional FDI. The motivations acknowledged by Moon and Roehl (2001) are market-seeking, factor-seeking, oligopolistic reaction, risk diversification, and country of origin.

Regarding cross-border M&A, in particular, the World Investment Report (2001, 2002) has also summarized its motivations into eight main categories: new markets, greater size, personal motive, strategic assets, financial motive, speed, diversification, and synergy. It is noticeable that this is also a comprehensive typology, regarding that Dunning is the Senior Economic Adviser to the Director of the Division on Transnational Corporations and Investment of UNCTAD, and that the World Investment Report benefited from him for overall advice.

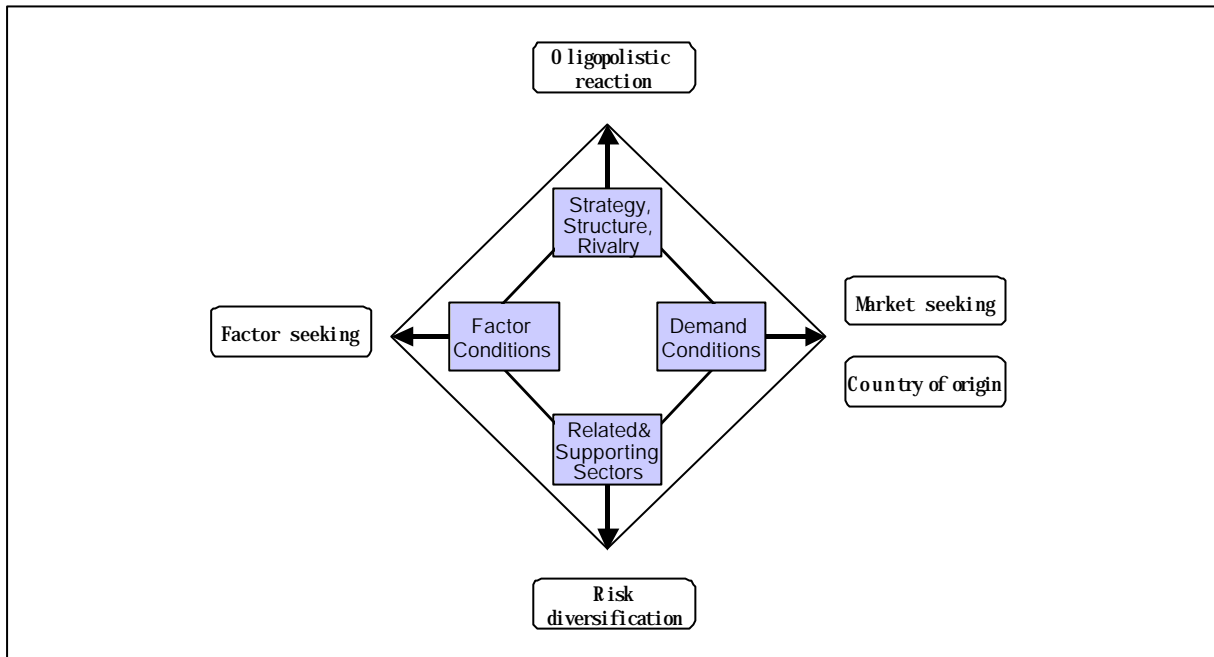
However, compared with the diamond dimensions of Porter (1990), all three typologies mentioned above, namely, Dunning (2000), Moon and Roehl (2001), and the World Investment Report (2000, 2001), still have limitations in the sense that there is still more room to consider other dimensions, regarding the motivations of FDI and cross-border M&A in particular as shown in Figure 1, Figure 2, and Figure 3, respectively.

Figure 1. Dunning (2000) and the Diamond Model



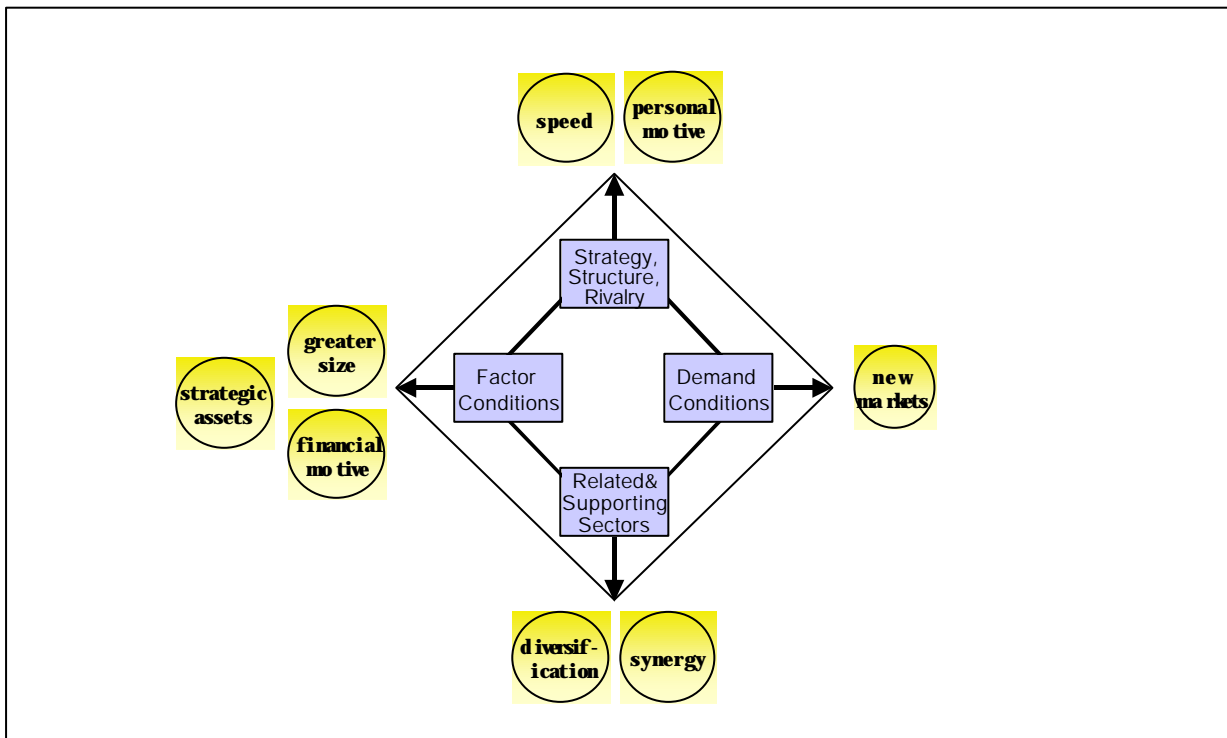
Source: Dunning (2000)

Figure 2. Moon and Roehl (2001) and the Diamond Model



Source: Moon and Roehl (2001)

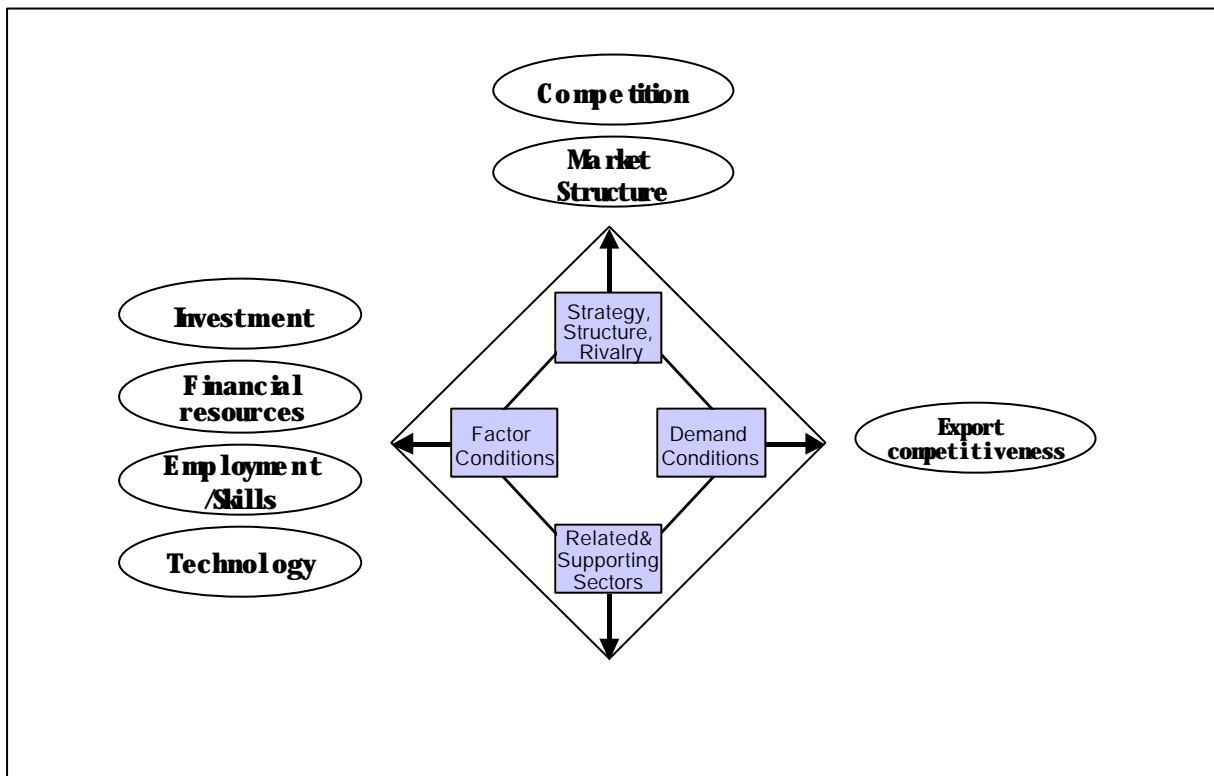
Figure 3. World Investment Report (2000) and the Diamond Model



Source: UNCTAD (2000)

Meanwhile, in regard with the impacts of cross-border M&As, the World Investment Report (2000, 2001) acknowledges seven determinants: investment, financial resources, employment/skills, technology, export competitiveness, market structure, and competition. Chen and Findlay (2002) already gives an extensive explanation of the determinants of this typology in their report. However, this typology too has its limitations compared with the diamond model (Figure 4).

Figure 4. World Investment Report (2001) and the Diamond Model

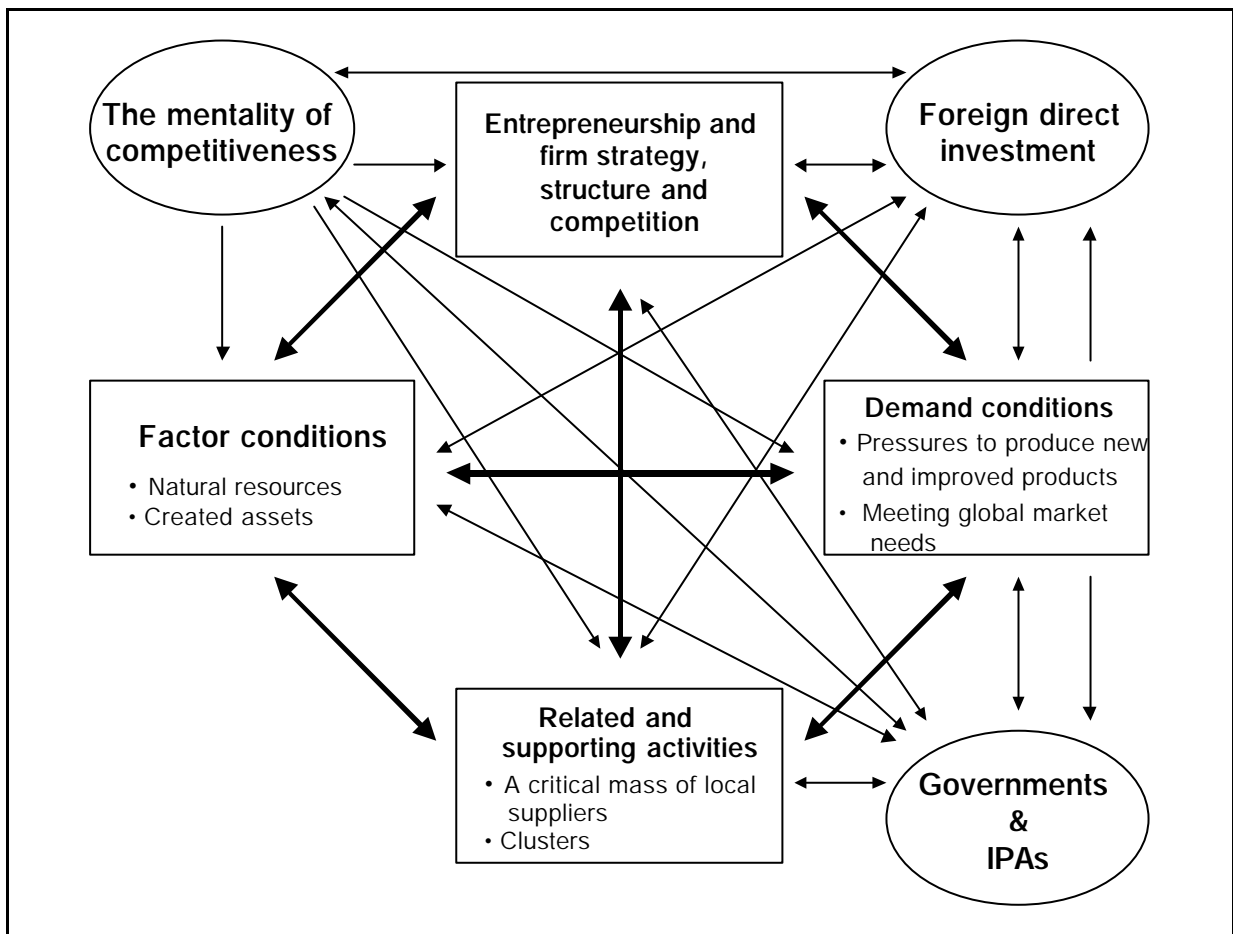


Source: UNCTAD (2001)

Also, Dunning (2003) has recently suggested a need to integrate Porter's (1990) diamond model in his OLI paradigm to have a better understanding of the L factor, as depicted in Figure 5. This revised model cleverly integrates the important variables determining a nation's competitiveness (Cho and Moon 2000). However, Porter's diamond is somewhat ambiguous in explaining the utilization of multinational activity among nations to enhance their competitiveness. Therefore, Porter's single diamond model has been extended to the generalized double diamond model (Moon, Rugman, and Verbeke 1995, 1998), including multinational activity as an indigenous variable rather than an exogenous variable (Bark and Moon 2002,

Figure 6). This also supplements Dunning’s (2003) revised model, in which FDI is still regarded as an exogenous variable (Figure 5). Thus, the current study will introduce a comprehensive framework of combining Dunning (2000, 2003), Moon and Roehl (2001), Porter (1990), and Moon, Rugman, and Verbeke (1995, 1998).

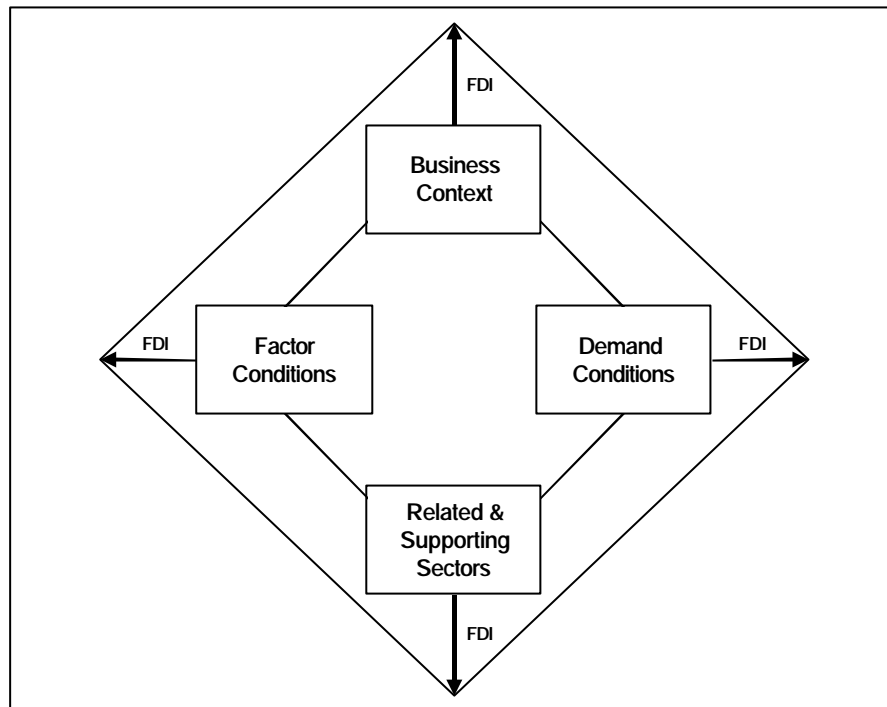
Figure 5. The Diamond of Competitive Advantage



Source: Dunning (2003)

Thus, the new framework easily discerns the limitations of existing literature mentioned above in terms of the motivations and the impacts of cross-border M&As, and this is summarized in Table 5. The paper will use this new framework to explain various cases of cross-border M&As.

Figure 6. The Generalized Double Diamond Model



Source: Bark and Moon (2002) and Moon, Rugman, and Verbeke (1995, 1998)

Table 5. Explanatory Variables for Cross-border M&A

The Diamond Model		Dunning (2000)	WIR (2000)	WIR (2001)	Moon & Roehl (2001)	*Dunning (2003)
Factor Conditions	Basic	v	v v	v v	v	v
	Advanced	v	v	v v	v	v
Demand Conditions	Size	v	v	v	v	v
	Quality				v	v
Related & Supporting Sectors		v	v v		v	v
Strategy, Structure & Rivalry	Strategy					v
	Structure		v v	v		v
	Rivalry			v	v	v

*FDI regarded as an exogenous variable

CASE STUDIES

Methodology

The cases for cross-border M&As were selected evenly among the three economies of Korea; China; and Hong Kong, China. Five major cases were selected by the following criteria. First, we included cases that are noticeable and publicized in the media, namely, the newspapers or on the Internet. Usually, the entities involved in the cross-border M&As are sensitive to giving information out to the public, especially when the M&As are in progress over a period of time. Therefore, any information was collected through official announcements in the media. Second, we included cases of both manufacturing and service sectors. All of the three economies have experienced a major inflow of FDI including cross-border M&As in the manufacturing and service sectors, especially after the economic crisis of 1997. Third, we included only recent cases from 1999 to 2002. Fourth, cases include those of large amounts with a span from US\$16 million to US\$5.9 billion.

Motivations by investors and recipients

Followed is a summary of the cases including characteristics of the transactions and motivations by investors and recipients in each economy of Korea; China; and Hong Kong, China.

Korea

1. Fairchild Semiconductor purchased a power semiconductor plant from Samsung Electronics (1999).

The US-based semiconductor company Fairchild Semiconductor purchased the plant at US\$455 million, with a share holding of 100 percent, which is composed of all of the power device division. Fairchild Semiconductor's goal was to expand into the Asian market, by supplying Fairchild's applications into Samsung's products. Also, it would add Samsung's products to Fairchild's sales portfolio. For Samsung, while the power semiconductor plant was profitable and generated 15 percent of Samsung's total sales, the acquisition would give an opportunity to sell a business division that was no longer a priority, and to focus on other divisions. "We will use the funds to focus on system LSIs." said Chin Daeje, vice president and CEO of Samsung's system LSI division. System LSI is a term used in Korea and Japan, which is synonymous with system chip (www.eb-asia.com).

2. eBay Inc. acquired a majority stake in Internet Auction Co. Ltd. (2001).

The US-based eBay Inc., the world's largest online trading community with local sites in 60 markets worldwide, has signed an agreement to acquire a majority stake in Internet Auction Co. Ltd., Korea's largest auction-style web site. The amount was US\$120 million in cash, and the share holding transaction was 50 percent plus 10 shares. This strategic acquisition establishes eBay in Korea, the second largest online market in Asia, and will open eBay's global marketplace to Internet Auction's thriving community of 2.8 million registered users. The deal combines two Internet pioneers committed to expanding online trading throughout Asia. eBay wants to establish its market place in high revenue countries, and Korea is an adequate target. On Internet Auction's part, the transaction gives directions to expand its business throughout Asia. "We have built Internet Auction into Korea's number one auction web site," said Keum Ryong Lee, co-CEO of Internet Auction Co. "Our users, in particular, should gain tremendous value from the ability to trade globally that this deal guarantees." (www.shareholder.com)

3. General Motors acquired Daewoo Motors (2002).

The US-based automobile company General Motors acquired Daewoo Motors at US\$251 million, including two plants in Korea, one plant in Viet Nam, and sales offices in Europe and Puerto Rico. GM now holds 42 percent of the shares, Suzuki Motor Corp. 15 percent, and Shanghai Automotive Industry Corp. 10 percent. Bringing Daewoo cars to the U.S. would help GM fight low-cost Korean imports," said John Smith, GM group vice president for vehicle sales, service and marketing (Automotive News, Jan 20, 2003). GM intends to utilize Daewoo as a production base of small-sized cars, and also take advantage of its existing network in Asia and Eastern Europe. For Daewoo, having sold 1.14 million cars in 1999, and being one of the largest automobile manufacturers in Korea, was bankrupt and was desperate of cash.

4. Norway's Wilhelmsen and Sweden's Wallenius Lines acquired Hyundai Merchant Marine Co.'s car transportation operations (2002).

A consortium led by Scandinavian shipping companies Wilhelmsen ASA and Wallenius Lines acquired Hyundai Merchant Marine Co.'s car transportation operations at US\$1.5 billion with a shareholding of 80 percent. Wilhelmsen and Wallenius Lines will create a company, to be called RoRo Korea, out of the South Korean shipper's car transport unit. Under the terms of the deal, the new company has exclusive rights to carry auto exports of Hyundai and Kia for the next five years, and 80 percent of their cars for the following two years. Wilhelmsen and Wallenius Lines, the world's largest provider of vehicle transportation services will increase its business overseas by the transaction. For Hyundai Merchant Marine, the leader in Korea in car transportation

services on deep-sea vessels, had a total of US\$5 billion in debt during the Asian financial crisis, and was in need of funds. "The fresh loans will make the new company able to create great shipping operations," boasted Roh Yunggi, a loan officer at Korea Development Bank. He added that an additional US\$100 million would be loaned to the consortium for daily operating expenses (The Daily Deal, Nov. 1, 2002).

5. The WPP Group in London acquired shares of LG Ad, an advertisement agency (2002).

The WPP Group in London acquired a controlling stake of 35.2 percent in LG Ad in Seoul, South Korea, which creates campaigns for an affiliate, the LG Group, and other companies like Korean Air and Nike. LG Ad, which has more than 500 employees and billings estimated at US\$47.1 million, will be managed by two WPP agencies, Ogilvy & Mather Worldwide and Young & Rubicam Advertising. The WPP Group, a global advertising, branding and market research conglomerate, was motivated by Korea's growth prospects and internationalization. Korea has the world's 10th-largest advertisement market. The sale of LG Ad was part of a restructuring process of LG Group. Until recently, the biggest Korean agencies were owned by powerful conglomerates, known as chaebols, which are now under pressure from the government and banks to focus on their core businesses and divest other assets like in-house ad agencies. LG Ad was also interested in WPP because of its reputation and possible opportunities of knowledge transfer (Advertising Age, Sept. 30, 2002).

China

1. Emerson Electric acquires Avansys, a subsidiary of Huawei Technologies (2001).

The US-based Emerson has paid US\$750 million in cash to buy 100 percent of Avansys Power, a unit of Shenzhen-based Huawei Technologies. This transaction was announced "Best cross-border M&A of the Year 2001" by Finance Asia. Emerson Electric, the biggest player in manufacturing telecom power equipment, was searching for a low cost production base for its products. Meanwhile, Huawei realized that Avansys, although being China's biggest manufacturer of power supplies for telephone networks, was a non-core business for the company. Also, Huawei needed cash to expand throughout China. "With the emerging trend of globalization, it's important that we focus resources on our core business - designing, producing and selling the highest quality telecommunications and data communications equipment," said Huawei's spokesman (World IT Report, Apr. 9, 2003).

2. Alcatel increased stake in Shanghai Bell (2001).

French telecommunications equipment firm Alcatel has taken a majority stake in Chinese telecoms firm Shanghai Bell, boosting its shareholding from the previous 31.65 percent. The firm paid 312 million yuan (US\$37.8 million) to buy a stake of 8.35 percent from the Belgian government and 10 percent plus one share from Chinese shareholders. This would give Alcatel 50 percent plus one share in the firm, to be renamed Alcatel Shanghai Bell. Alcatel, building next generation networks and delivering voice and data solutions to carriers, wanted to expand activities in Asia. On the other hand, Shanghai Bell, a telecom technology leader with the most extensive sales and support network in China, wanted to attain state-of-the-art network technology from Alcatel.

3. HSBC Insurance Holdings Ltd. acquired share in Ping An Insurance Company of China, Ltd (2002).

The Hong Kong and Shanghai Bank (HSBC) Insurance Holdings Ltd. has taken a 10 percent stake in Ping An Insurance, China's second largest insurer for US\$600 million. The wholly owned subsidiary of the HSBC Group was attracted to potential growth of the insurance and asset management sectors in China. Meanwhile, Ping An was in the process of restructuring and needed funds. Also, with the transaction HSBC could play the role of a strategic partner providing technical assistance and various service products (Hong Kong Bank, Oct. 8, 2002).

4. AB (Anheuser-Busch) purchased Tsingtao Brewery share (2002).

The US-based AB (Anheuser-Busch) increased Tsingtao Brewery's share from 4.5 percent to 27 percent at US\$182 million. AB, the world's largest brewer and maker of Budweiser, Bud Light, and Michelob, was searching for the opportunity to tap in China's growth. "To invest in the growth of China, you really need to do it through the mainstream companies," said Patrick Stokes, AB chief executive (International Herald Tribune, Oct. 22, 2002). As for Tsingtao Brewery, the largest Chinese brewer (12.8 percent market share, more than 50 percent of total beer export from China) was interested in the potential of increasing its sales in the US market. "We have been eyeing the U.S. beer market, but our sales there have been hampered by high transportation costs," said company secretary, Zhang Ruixiang (International Herald Tribune, Oct. 22, 2002).

5. Ford increased stake in Jiangling Automobile Co., Ltd (2002).

Ford Automobile purchased additional shares of Jiangling Automobile from 20 percent to 30 percent at US\$55 million. Ford wanted to expand its business in the Chinese automobile market and establish strategic ties with Jiangling in the long run. Jiangling Automobile Co., Ltd, which is part of one of China's major enterprises, Jiangling Automobile Group, started out as Ford's first auto joint venture in China. Jiangling Automobile Group, the parent company of Jiangling Automobile Co., Ltd., is one of China's 520 major enterprises and is capable of manufacturing 60,000 automobiles per year. From the transaction, the company prospects are attaining further technological support from Ford (People's Daily, Oct. 31, 2001).

Hong Kong, China

1. Standard Chartered acquired Chase Manhattan Card Company Ltd (2000).

Standard Chartered acquired 100 percent of Chase Manhattan Corporation's Hong Kong based retail banking business for US\$1.32 billion. The acquisition includes the Chase Manhattan Card Company, which has 700,000 cards on issue in Hong Kong. This brings Standard Chartered's share of the territory's credit card market to 25 percent, making it the largest credit card operator in Hong Kong. It is targeted at the young professional market where the brand is particularly strong. Chase Manhattan is now more focused on investment banking and asset management rather than consumer banking, and looks forward to offering a wider range of financial services (Finance Asia, Sept. 4, 2000).

2. NTT Communications acquired HKNet (2000).

NTT Communications, the long-distance unit of Nippon Telegraph and Telephone, has paid HK\$125 million (US\$16 million) to purchase 26 percent of HKNet from CCT Telecom Holdings, adding to its original 49 percent stake in the Internet Service Provider (ISP). In addition to the existing shares, HKNet has also issued HK\$142 million in new shares, of which CCT acquired HK\$12 million and NTT Communications HK\$130 million, bringing the Japanese company's total stake to 79 percent. NTT Communications, the long-distance unit of Nippon Telegraph and Telephone, provides long distance and international telecommunications reaching over 200 countries worldwide. From the transaction, the company could act as a provider of international bandwidth to HKNet. It could also benefit from HKNet's services including its portal service. As for HKNet, the acquisition has enabled HKNet to expedite the expansion of its IP business, and could be used as a gateway to the market of mainland China (Finance Asia, Oct. 4, 2000)

3. AOL Time Warner acquired CETV (2000).

AOL Time Warner acquired 85 percent of China Entertainment Television Broadcast Ltd., investing in facilities and entertainment programming geared toward Chinese audiences. The US media giant will also receive broadcasting rights for distributing channels to local cable operators. CETV is the first major foreign-owned broadcaster allowed with direct access to viewers in mainland China. Their prospect from the transaction is broadcasting programs in the US (New York, Los Angeles, and Houston) from swapping programs with AOL Time Warner (Cableoptics Newsletter, Nov. 2001).

4. DBS acquired HK-based Dao Heng Bank (2001).

Singapore-based DBS Bank acquired Hong Kong, China based Dao Heng Bank for US\$5.9 billion. DBS Bank wanted to achieve economies of scale through a vast network to spread costs from spending on IT. Also, its goal from the transaction was to integrate Singapore and Hong Kong banking. On the other hand, one of Hong Kong, China's leading financial institutions, Dao Heng Bank, had a fine credit card business along with a vast overseas network, but was in the process of restructuring. Philippe Paillard, CEO of DBS, said, "Dao Heng is one of the premier consumer franchises in Hong Kong, China and we are proud to have it as a key part of the DBS family. Dao Heng and DBS together will effectively create the first Asian regional bank, one with a strong presence in Hong Kong, China; and Singapore, the two key banking Asian centers. We will combine knowledge, know-how, and technology and continue to have a firm focus on serving banking customers, individual and corporate, locally and across borders (DBS Bank, June 29, 2001)."

5. Telstra Corp. acquires CSL (2002).

Australian telecommunications giant Telsra Corp. was searching for an opportunity to expand abroad and also searching for high quality assets. The result was a US\$475 million cash-and-debt deal between the two companies which will allow Telstra to take full control of Hong Kong, China's most profitable mobile phone company, CSL Ltd. (whole asset of PCCW), in turn giving PCCW (Pacific Century Cyber Works Ltd.) the means to reduce its debt from HK\$38.2 billion (US\$4.9 billion) to HK\$32.4 billion. The Australian government-controlled Telstra, which held a 60 percent stake in CSL, bought out its 40 percent joint venture partner, PCCW. For Telstra, the deal is another step into the Pacific Rim telecom markets. Telstra chief executive Ziggy Switkowski, said that its interests "go beyond Hong Kong, China and into the greater China area

and elsewhere in Asia, and we will be looking to use our CSL investment to get us into other markets." In contrast, Richard Li, PCCW's chairman and CEO said that his company's priorities are "based around deleveraging the company's debt and improving our credit fundamentals (The Daily Deal, July 2, 2002)."

General impacts on host economies

Followed is a summary of general impacts from the cross-border M&As on the competitiveness of Korea; China; and Hong Kong, China, which were noticeable throughout the case studies. The impacts are organized under the framework of the diamond model (Table 6, Table 7, Table 8).

Table 6. General Impacts on Korea

	Fairchild ? Samsung (semiconductor plant)	EBay ? Internet Auction	GM ? Daewoo	Wilhelmsen and Wallenius ? Hyundai Merchant Marine	WPP Group ? LG Ad
Value, share	\$45 mil., 100%	\$120 mil, 50% + 10 shares	\$251 mil., 42%	\$1.5 bil., 80%	\$47.1 mil., 35.2%
Factor Conditions	1. Improving product quality 2. New R&D center	1. Enhancing international brand image of Korea 2. Transfer of managerial skills	1. Financing 2. More production as a global production base 3. GM's new R&D center	1. Financing 2. Able to create greater shipping operations	1. Financing
Demand Conditions	1. Enhancing customer satisfaction	1. A chain of various global products 2. Entering markets in Asia	1. More sales 2. Improvement of demand sophistication with new products		1. Exposure to new advertisement, so enhanced demand sophistication
Related & Supporting Sectors	1. Applications interlinked with Samsung's products 2. Additional distributors contracted with Fairchild				
Strategy, Structure & Rivalry		1. Changing potential competitive threat into a strategic relationship		1. Focus on its core business of container and bulk carriers	1. Introducing global standard and efficiency in advertisement industry

Table 7. General Impacts on China

	Emerson ? Avansys	Alcatel ? Shanghai Mobile	HSBC ? Ping An Insurance	Anheuser- Busch ? Tsingtao	Ford ? Jiangling Auto
Value, share	\$750 mil., 100%	\$37.8 mil., 50% + 1 share	\$600 mil., 10%	\$182 mil., 27% (4.5%? 27%)	\$55 mil., 30% (20%? 30%)
Factor Conditions	1. Financing 2. Know-how and technology	1. Improve China's infrastructure 2. Providing industry-leading solutions 3. 3,500 R&D engineers to be hired in three years	1. More funds from HSBC 2. Provide technical assistance and services	1. More funds to finance affiliates 2. Technical resources 3. Buying breweries in the U.S.	1. Financing funds into Jiangling 2. Technical innovation 3. Improving fundamental credit
Demand Conditions	1. Continued and increased sales to Emerson 2. Avansys' export of its patented technology	1. Increasing capacity to approximately 10 million subscribers 2. Improvement of the quality of demand, after providing high- quality networks	1. China's insurance and wealth management market to grow rapidly by cross- border M&As	1. Helping e xport increase 2. New markets opened from the help of AB 3. A variety of choices of beer introduced by AB for Chinese consumers	1. Advanced demand quality with new product lines from Ford 2. Consumers' concept change of debt with the introduction of vehicle loan systems
Related & Supporting Sectors		1. Alcatel in cooperation with China's aerospace departments		1. Developing related sectors	1. Improvement of vehicle loan system 2. Formation of automobile clusters
Strategy, Structure & Rivalry	1. Able to resume number one in the market share 2. Continuing relationship with Emerson	1. Strategic cooperation with Alcatel	1. Influencing more competitors to enter the market	1. Improving corporate governance	1. Increased competition on marketing

Table 8. General Impacts on Hong Kong, China

	Standard Chartered ? Chase Manhattan Card	NTT ? HKNet	AOL TimeWarner ? CETV	DBS Bank ? Dao Heng Bank	Telstra ? CSL (mobile phone company)
Value, share	\$1.32 bil., 100%	\$16 mil., 79% (49%? 79%)	n/a, 85%	\$5.9 bil., 100%	\$475 mil., 100% (60%? 100%)
Factor Conditions	1. More funds to finance affiliates 2. Greater career prospects for workers	1. Providing various services via cables	1. Upgraded programs	1. Economies of scale	1. Debt reduction 2. Technical innovation
Demand Conditions	1. More customers. 2. New products pioneered by Chase	1. Cable provision to international gateways 2. Enhanced customer satisfaction with various IP services	1. HK viewers' access to US programs 2. CETVs' access to US market		
Related & Supporting Sectors	1. New Distribution Channels	1. Linkage between Hong Kong and various economies	1. Opportunities for local suppliers to participate in marketing and programming 2. Opportunities for foreign suppliers to enter HK	1. Access to international communication networks	
Strategy, Structure & Rivalry			1. Efficient market with an increased competition	1. Pressure for Singapore to open its market	

After summarizing the frequency of impacts announced in the media, each frequency has been summed and averaged to determine the distribution of the impacts among the determinants of the diamond model. Through this, one can easily compare the area of anticipated impacts from the entities of the cross-border M&As and the concerns of the governments or common public of each economy (Figure 7, Figure 8, Figure 9). Also, a comparison of the variety of impacts between the three economies has been made as shown in Figure 10.

Figure 7. Impacts of Cross-border M&As on Korea

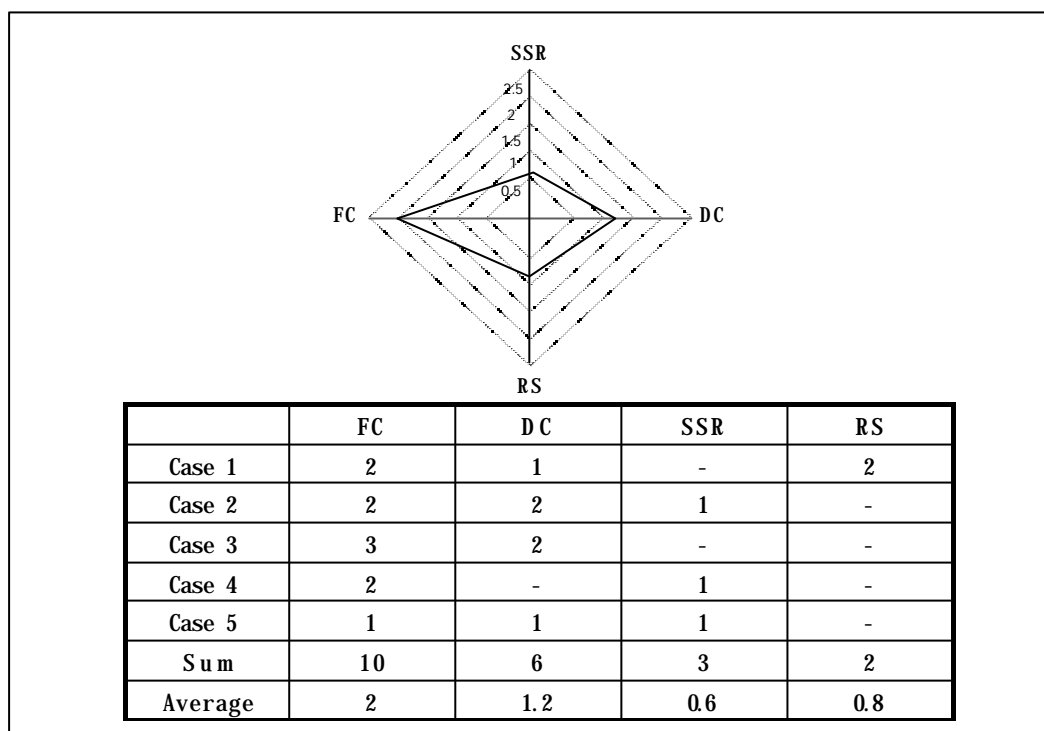


Figure 8. Impacts of Cross-border M&As on China

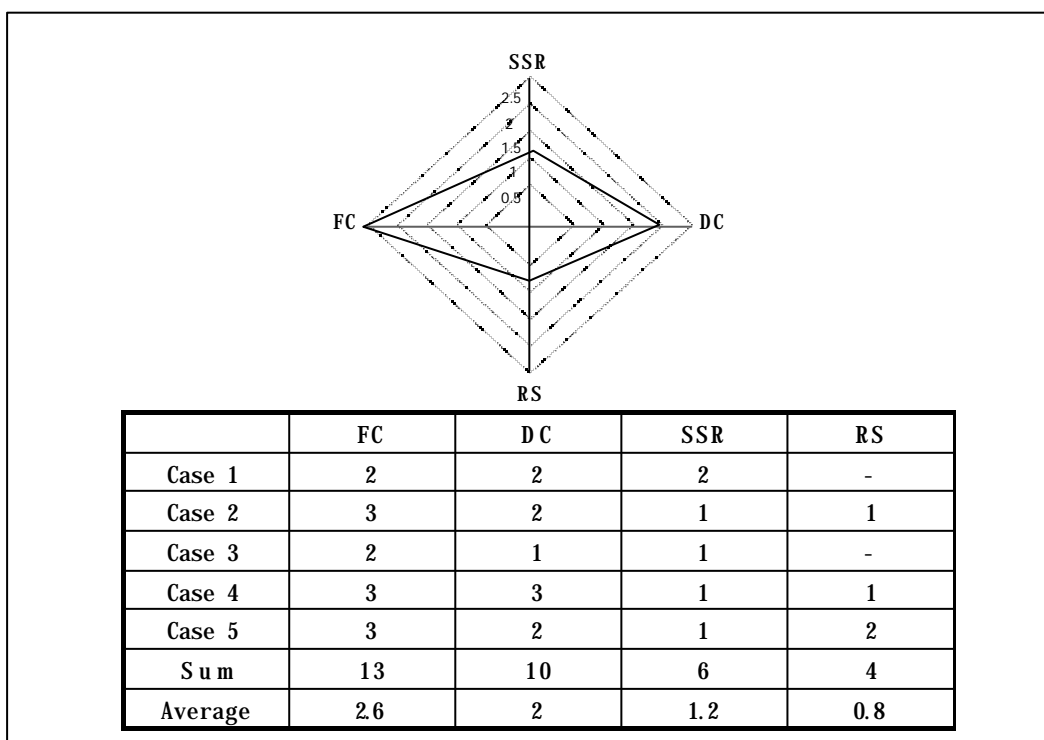
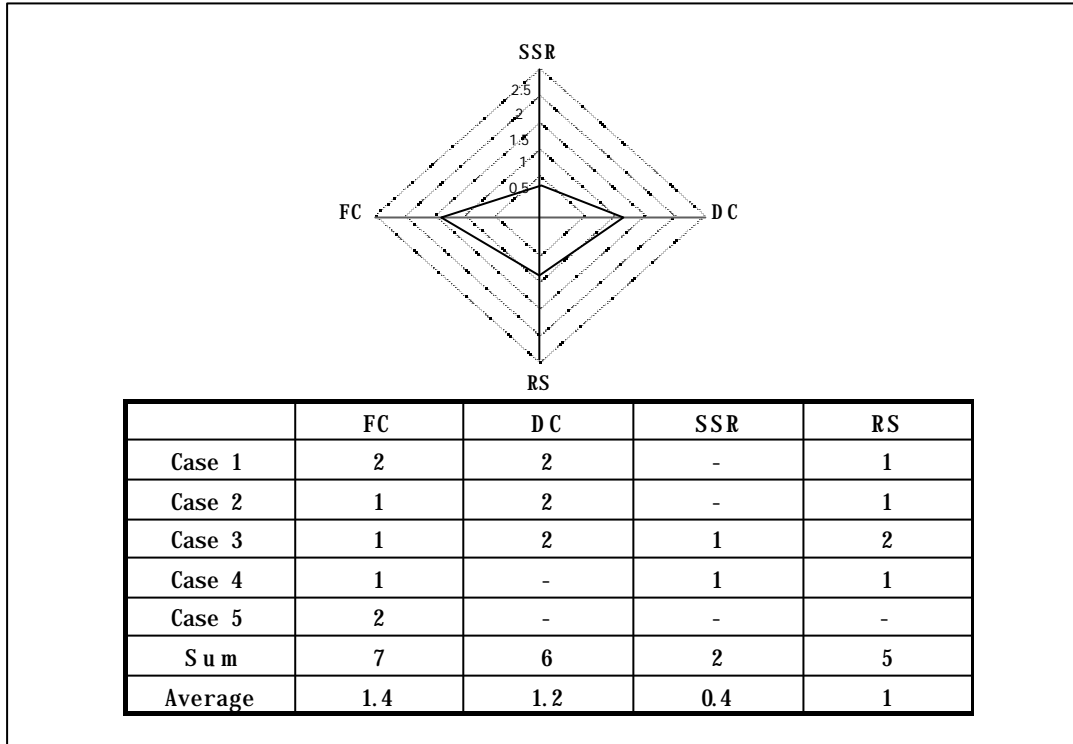


Figure 9. Impacts of Cross-border M&As on Hong Kong, China



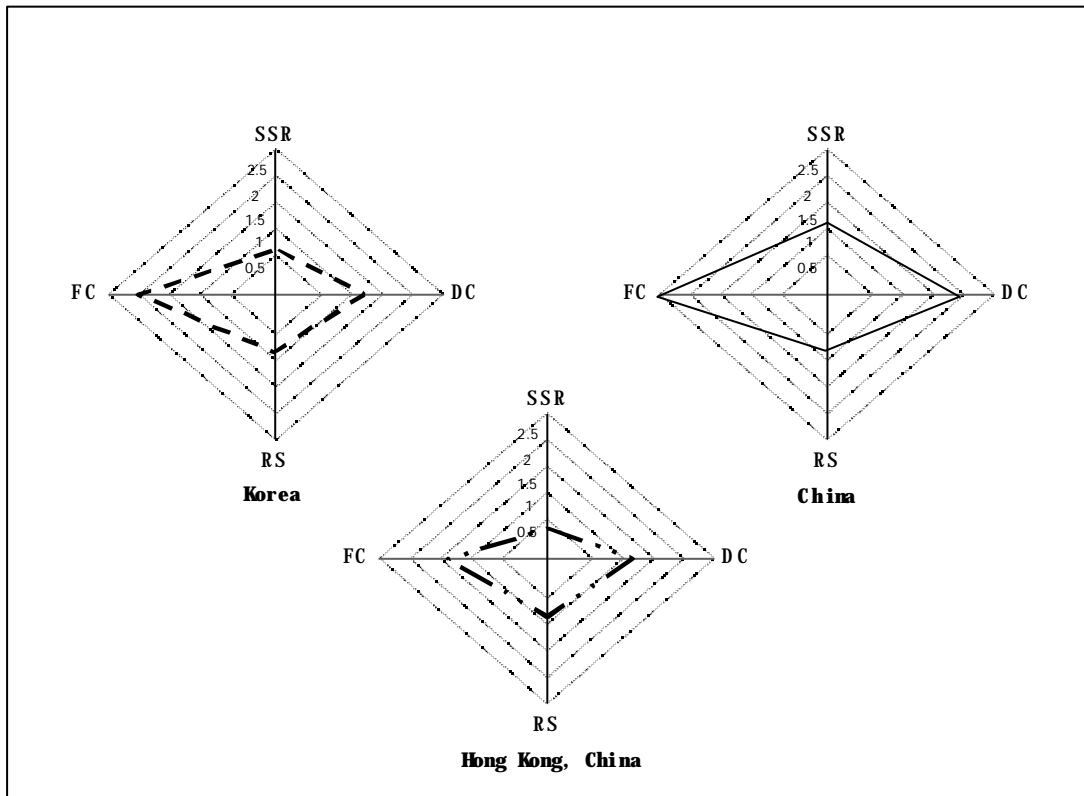
Korea shows a concentration of impacts on the Factor Conditions. This could be well understood considering the fact that many companies have experienced the waves of the economic crisis of 1997. A considerable number of companies had a high proportion of debt-to-equity ratio and thus were on the brink of bankruptcy. Eventually, most of these companies showed up in the market to be sold. Namely, for foreign investors there was ‘a lot to buy’. The main concern for these companies was financing, thus, funds would be on the top list of impacts. Another major phenomenon of Korean firms was restructuring, and in this process managerial skill or technology was in need to improve their competitiveness. A positive result from this situation was a transfer of both, through new management or construction of R&D centers. Meanwhile, the results indicate that there is much room for the Korean government either to induce various motivations of cross-border M&As, or to induce cross-border M&As with multiple impacts to the economy in order to ‘balance out the diamond.’

China shows a more variety of impacts compared to Korea, and is concentrated not only in the area of Factor Conditions, but Demand Conditions as well. As shown in Table 7, there is anticipation that the cross-border M&As will enhance not only the size but also the quality of demand of Chinese people. For example, from the transaction of Alcatel and Shanghai Mobile, there may be an improvement in the quality of demand after Alcatel provides high-quality networks. Also, an increased variety of choices of beer introduced by Anheuser-Busch may well

benefit Chinese consumers and sophisticate the taste for beer. Also, with the introduction of vehicle loan systems from Ford Motors consumers may enhance the concept of debt management.

Considering the ‘size of the diamond’, Hong Kong, China has the least variety of impacts compared to the other two economies. This may be interpreted that Hong Kong, China already having a long history of cross-border M&As compared to the other two economies, has fewer areas to improve in terms of variety of impacts. Nevertheless, anticipation of improvement of distribution channels is noticeable, as shown in the transaction of Standard Chartered and Chase Manhattan Card Company, or opportunities for foreign suppliers to enter Hong Kong, China as in the AOL TimeWarner and CETV transaction. In terms of the ‘shape of the diamond’, Hong Kong, China shows a more balanced diamond among the determinants except for Strategy, Structure, and Rivalry. A small number of impacts in the area show that there may be more room for improvement, for example, an increase in government policies towards cross-border M&As especially in consideration of mainland China.

**Figure 10. Comparison of Impacts of Cross-border M&As:
Korea; China; and Hong Kong, China**



All three economies commonly show a lack in Strategy, Structure, and Rivalry considering the shape and size of the diamond. This may be considered as a good opportunity for governments within the APEC economies to jointly cooperate and fabricate a common strategy for guiding cross-border M&As to impact the host economies in a more balanced matter.

CONCLUSION

Implications

First, a rigorous analysis of the impacts of cross-border M&As on host economies requires a comprehensive analytical model. Here, the paper has introduced the diamond model (Porter, 1990) and the generalized double diamond model (Moon, Rugman, and Verbeke 1995, 1998, Bark and Moon 2002, Dunning 2003), which extends the single diamond model. This proves to be a more comprehensive and balanced model than any other existing models. Next, the paper shows that even though there are initial intended motivations of the cross-border M&As by the transacting entities, there are unexpected results that affect the host-economy as well. For example, the main priority of Daewoo motors was financing, but as seen by the diamond model there may be other impacts such as technology transfer and improvement of demand sophistication. Last, the study has shown that there are more benefits than costs from cross-border M&As. Although there are concerns for the negative impact of cross-border M&As on host economies, we can say that the degree of openness of an economy, including the degree of openness towards cross-border M&As, is positively correlated to the degree of economic performance. In this regard, governments should make efforts to improve the competitiveness by absorbing all of the benefits from cross-border M&As, rather than trying to defend domestic firms.

Further Study

First, each determinant of the model used in this study was measured by the variety and frequency of impacts on the host economies. Further studies may measure the relative magnitude of each determinant and element. For instance, for a particular host economy in a specific situation, the impact on technology transfer may be valued differently in terms of importance compared to the impact on employment. Korea; China; and Hong Kong, China are all in different situations and the relative weight of each kind of impact may be different. Second, the net effect from a cost and benefit analysis is in need. For example, the actual measurement of change in demand quality, or the change in the numbers of domestic suppliers affected by the cross-border M&As will be meaningful. Third, an integrated study of cross-border M&As and greenfield investments will be useful to analyze the general impact of FDI on host economies.

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