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# Increased Chinese Presence and Other Developments in the Southeast Asian Cross-Border M&A Landscape

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ACCESS TO  
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# INTRODUCTION

## Key Observations

1. In 2015, Chinese companies resumed making large acquisitions in Southeast Asia. Many of them were deals sponsored by a consortium of largely Chinese enterprises. As more of these deals relied on private equity financing, there has been an incipient resurgence in total cross-border private equity M&A in the region. It remains to be seen if China's recent regulatory clampdown will slow or even shut down such investments.
2. In the last year and a half, Thailand has significantly increased the pace of cross-border acquisitions. Thailand's four largest recent deals were in Vietnam, which may presage the growing attractiveness of ASEAN firms as targets for intra-regional cross-border M&A activity.

## INTRODUCTION

The history of cross-border mergers and acquisitions (M&A) in Southeast Asia was driven largely by investment flows into the region from buyers in a few key advanced economies—the U.S., the U.K., Japan, and Hong Kong. Intra-regional deals were driven mainly by buyers based in Singapore and Malaysia.<sup>1</sup> Chinese buyers were active from 2006 to 2010 but subsequently retreated until their resurgence in the last two years.

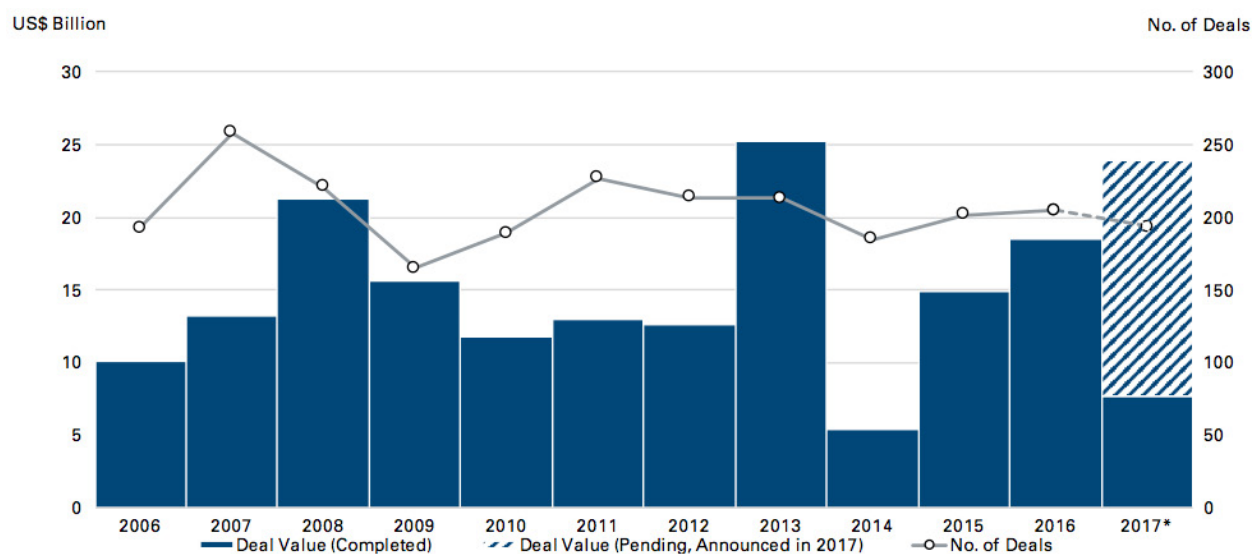
Last year's Milken Institute Global Opportunity Index report showed there was a high degree of concentration of intra-regional cross-border deals in Southeast Asia.<sup>2</sup> This suggested that there may be significant scope for expansion of M&A activity to a broader set of countries in the region. In this paper, we revisit the data and identify three important developments: a tentative recovery in Chinese deals;

# INTRODUCTION

an increase in private equity financing for M&A deals in the region; and the emergence of an investment relationship between Thailand and Vietnam.

To set the stage, Figure 1 shows the evolution of total cross-border M&A deals with targets in the ASEAN countries (including intra-ASEAN deals). M&A flows into ASEAN are near historical highs in terms of absolute dollars, and growing—although the timing of a single large deal can have a substantial effect on yearly totals (e.g., one mega-deal accounts for over 70 percent of the value of ASEAN’s pending deals announced in 2017). Measured as a share of the region’s GDP, M&A inflows have kept pace with the rapid growth of the region’s GDP. In 2016, M&A deals amounted to 0.7 percent of ASEAN GDP, the same as the region’s 2006-2016 average (based on publicly available reports on deal value—see note to Figure 1). To provide some perspective, M&A deals into ASEAN as a share of GDP is only slightly lower than the pace of deals of a typical large advanced country, such as the U.S., Germany, or France; and roughly half that of smaller, highly regionally integrated European countries like Belgium, Finland, or Portugal.

**Figure 1. Cross-Border M&A into ASEAN Countries<sup>3</sup>**



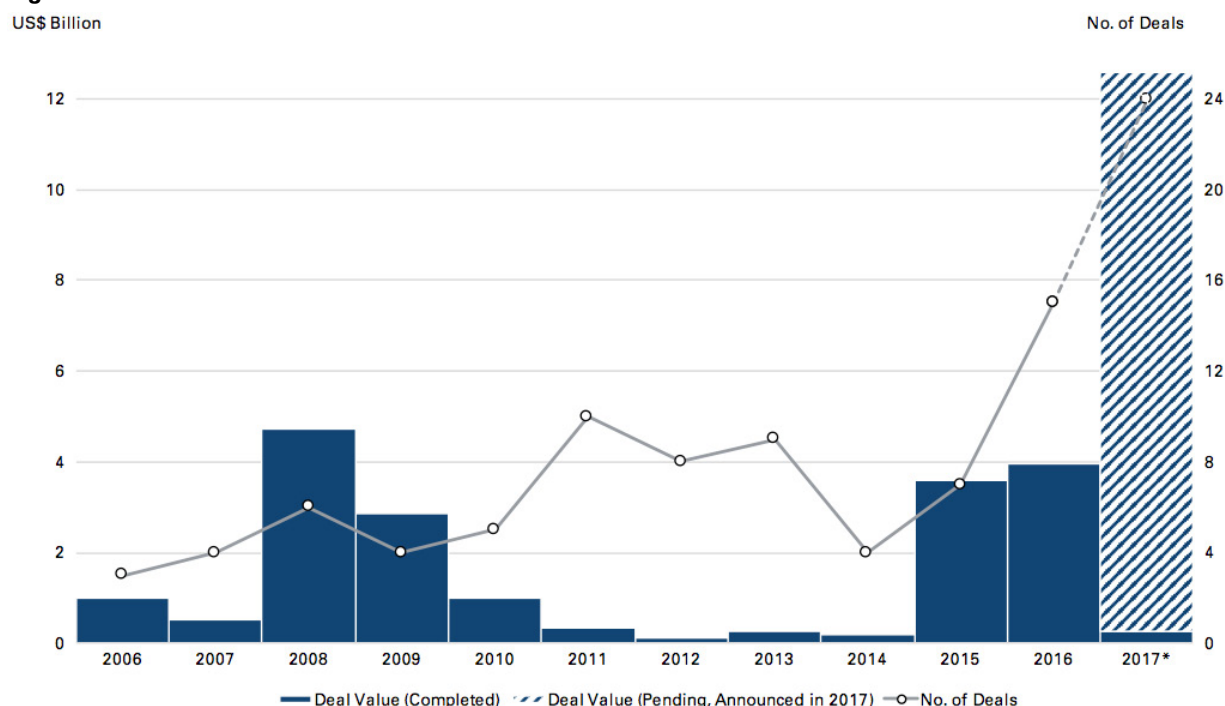
Source: Author’s calculations based on Bloomberg data and various news sources

# THE CHANGING FACE OF CHINESE CROSS-BORDER M&A IN SOUTHEAST ASIA

Since 2015, Chinese acquisitions in Southeast Asia have surged to a pace that is multiples of what occurred during 2011-2014 (see Figure 2). However, compared to the pre-2011 period when there was also a surge in Chinese acquisitions in the region, this recent increase in Chinese M&A is qualitatively different in several respects.

Data on the history of Chinese outward M&A in Southeast Asia are limited, and begin in 2006. Initially, Chinese buyers concentrated on firms based in Singapore. They made their first significant purchase in 2006, when the Bank of China bought a Singaporean aviation company for \$965 million. Sizeable Chinese acquisitions continued over the next few years, with the overwhelming majority of them remaining in Singapore. Their investment flows peaked in 2008, when a state-owned electric utility group bought two power companies in Singapore for a combined deal value of more than \$4 billion (in addition to \$550 million of other Chinese acquisitions in Singapore that year).

**Figure 2. Chinese M&A into ASEAN Countries<sup>4</sup>**



Source: Author's calculations based on Bloomberg data and various news sources and legal documents

# THE CHANGING FACE OF CHINESE CROSS-BORDER M&A IN SOUTHEAST ASIA

Large Chinese acquisitions slowed in 2011-2014 but the period marked a transition to consortium deals. The “consortium model” is where two or more unaffiliated buyers join forces to make an acquisition. Such arrangements make deals more complex, but can bring benefits such as risk-sharing, local market knowledge, or reputational spillover. In addition, a consortium may be formed to promote strategic or political goals. For example, in 2012, three Chinese private equity firms, one of them state-owned, formed a consortium to buy a stake in a Singaporean drug company (not a large deal, but the exact sum was undisclosed). In 2015 larger Chinese acquisitions started making a comeback with two large deals totaling \$2.6 billion. In both cases the buyers were members of a consortium.<sup>5</sup>

More consortium deals were struck in 2016 and 2017, in addition to a large number of single-buyer deals, as Chinese corporations went on a global buying spree. A recently announced consortium deal is on track to set a new record for private equity buyouts in Asia if it is completed: a Chinese consortium put in a winning bid of \$11.6 billion for the Singaporean warehouse operator Global Logistics Properties.<sup>6</sup> This would reinforce the idea that ASEAN has become a destination for large-scale acquisitions, a characteristic formerly associated mainly with advanced economies.

Chinese buyers participated in four of the six largest cross-border private equity deals in Southeast Asia from 2014 through July 2017. This is the first time that Chinese investors have had a substantial role in private equity deals in the region. Leading up to the global financial crisis in 2008, a nascent private equity boom was underway in cross-border M&A in Southeast Asia. Deals with private equity or venture capital acquirers accounted for over 20 percent of cross-border M&A acquisitions of ASEAN targets in 2007, a past peak that was not reached again until 2014. That earlier boom was driven by buyers based in the U.S., U.K., Singapore, Malaysia, and Korea,

# THE CHANGING FACE OF CHINESE CROSS-BORDER M&A IN SOUTHEAST ASIA

with U.S. investors playing the largest role (often as participants in multinational consortiums). Now China can be added to the list, but it is uncertain whether this trend will survive a recent shift in Chinese regulatory policy.

## **A NEW CHINESE REGULATORY REGIME ATTEMPTS TO REIGN IN CROSS-BORDER M&A**

This summer, capital controls were tightened as Chinese regulators signaled a more disapproving stance toward large overseas acquisitions. On June 22, the China Banking Regulatory Commission (CBRC) made headlines by ordering banks to gauge their exposure to the handful of conglomerates most conspicuously engaged in large overseas acquisitions. Then on August 2, the State Administration of Foreign Exchange (SAFE) signaled that it is hardening its stance as well, with a particular focus on the practice of using collateral in China to obtain funding for foreign acquisitions.

We believe that this regulatory clampdown may be part of a broader sweeping shift in economic and regulatory policy to ensure financial stability during the run up to the leadership transition this fall at China's National Party Congress. Concerns about the use of cross-border acquisitions as a vehicle for capital flight were likely the main motivators for the increased scrutiny of M&A activity by the CBRC and SAFE, although recent statements also mentioned potential implications for financial stability. This regulatory push has been accompanied by an unprecedented level of political support from the top level, which has elevated financial stability to a new status; it has now become an issue of national security.<sup>7</sup> The new regulatory actions are also unusual in the degree of coordination across the three main financial regulatory commissions—those in charge of banking, securities markets, and insurance—and the People's Bank of China (PBC). This coordination was facilitated by personnel changes at the tops of all three commissions.<sup>8</sup>

## THE CHANGING FACE OF CHINESE CROSS-BORDER M&A IN SOUTHEAST ASIA

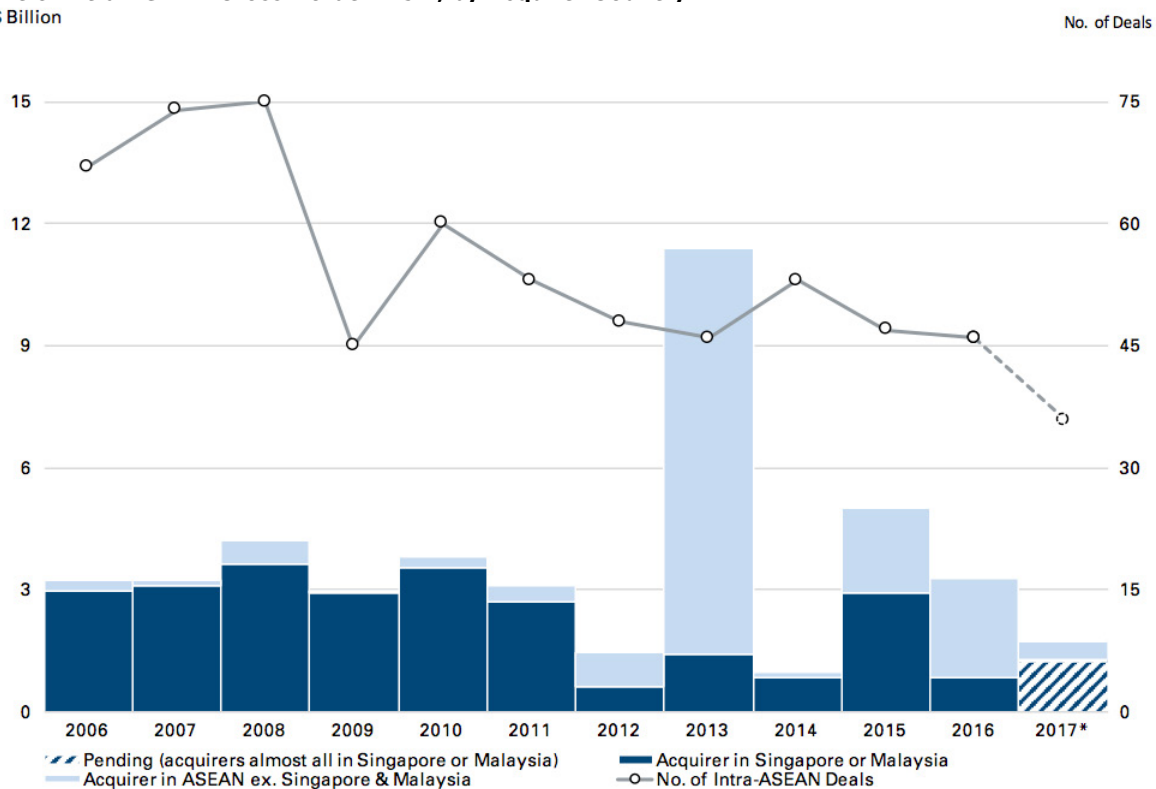
The pace of outbound investment is influenced by a variety of economic, financial, and political policy goals. The most immediate tactical policy goals likely include the central government's desire to temper credit growth, limit the rise in corporate leverage (currently at unprecedented high levels), and support the tentative recovery in reserve accumulation by maintaining stringent control of capital outflows. An additional motivation for continuing such restrictive policies is ensuring domestic stability as members of the all-important Politburo Standing Committee are selected later this year.<sup>9</sup> Towards this latter end, targeted financial regulation may complement the ongoing anti-corruption drive.

The implications of the new regulatory regime for outbound Chinese M&A remain to be seen. Near-term M&A flows from China will likely slow and official policies toward such investments will become less certain. More stringent regulatory scrutiny will cause Chinese companies to become more cautious in making foreign acquisitions. The longer-run outlook depends on regulators' specific motivations and whether the mandate for ensuring financial stability lasts. There could be a change in the composition of acquirers—for example, regulators may promote the role of state-owned enterprises, including new “state capital investment and operation” companies, and state-backed private equity funds. What is certain is that the pace of large overseas acquisitions may become less predictable and more volatile as prospective Chinese buyers wait to see what deals the authorities will allow under this new regulatory environment.

# ASEAN NEWFOUND PARTNERS: THAILAND AND VIETNAM

Thailand's share of intra-ASEAN M&A has increased markedly in the last five years. Although large cross-border Thai investments are a relatively new development, Thai firms have long been active in making small and medium-sized overseas acquisitions. Historically, Thai acquisitions were geographically diverse, and somewhat concentrated in energy and natural resources. To the extent that Thai firms made acquisitions in neighboring countries, these were mainly smaller deals in Indonesia. None of Thailand's outbound deals were for more than a few hundred million dollars, until 2010 when larger deals were struck in Australia and France (in the coal and canned food industries, respectively). In 2013 Thai buyers made two large acquisitions in Singapore—one of them a true mega-deal at \$8.6 billion (see Figure 3).<sup>10</sup> We see that Thailand did make a foray into making bigger deals in the recent past, but they were confined to high-income countries.

**Figure 3. Intra-ASEAN Cross-Border M&A, by Acquirer Country<sup>11</sup>**  
US\$ Billion



Source: Author's calculations based on Bloomberg data and various news sources



## ASEAN NEWFOUND PARTNERS: THAILAND AND VIETNAM

In 2016 and early 2017, Thai companies made four major acquisitions in Vietnam. These were the first large Thai acquisitions in any of Thailand's developing country neighbors, and Vietnam's first large deals from any acquirer country. The four deals totaled about \$2.8 billion (two were in food retail, and two were in the cement industry). These deals signaled that Vietnam has come into its own as an attractive target, especially for Thai and possibly other foreign investors.<sup>12</sup> This interest in Vietnamese investment by Thai investors is especially noteworthy because historically, when Southeast Asia's middle-income countries attracted overseas buyers they were generally from high-income countries.<sup>13</sup> The newfound investment relationship between Thailand and Vietnam offers a glimpse of a scenario in which intra-regional cross-border flows are gradually expanding among a broader set of ASEAN countries. Broader-based investment flows within Southeast Asia would allow the region to be less dependent on the relatively slow-growing major advanced economies, and potential restrictions to capital outflows from political developments in China.

# WHAT NEXT?

In addition to demonstrating the growing attractiveness of ASEAN firms to foreign acquirers, we have identified three influences driving Southeast Asian cross-border M&A that likely will persist: (1) more Chinese acquisitions (largely by consortiums of Chinese firms); (2) more private equity and venture capital financing for acquisitions; and (3) more intra-regional deals among ASEAN-based companies.

In the near term, despite a marked increase in Chinese acquisitions in Southeast Asia announced this year, there are significant and growing headwinds from the sweeping regulatory clampdown by the Chinese authorities and a related push for corporate deleveraging. It remains to be seen whether Chinese buyers respond to regulatory pressure by retreating from the medium-sized deals (in the hundreds of millions of dollars, as opposed to billions) typical of their acquisitions in Singapore, as well as the larger headline-grabbing deals more typical of their acquisitions in the West. Some of the pending deals announced in 2017 (see Figure 3) may not make it to completion due to the regulatory shift.

Aside from the latest Chinese regulatory clampdown, two other influences may change the behavior of Chinese buyers in ASEAN and other parts of Asia. First is the question of whether they will expand the range of their medium-sized and large Southeast Asian acquisitions beyond Singapore. And a second question concerns how, or whether, regional policy makers should court investment from foreign state-owned companies. There is always the concern that such enterprises operate more in the interest of foreign governments than private shareholders. Assuaging such concerns will require instituting strengthened corporate governance and maintaining shareholder vigilance.

## WHAT NEXT?

Uncertainty about Chinese capital outflows and the structural growth slowdown in advanced countries, could incentivize ASEAN countries to look increasingly to each other for cross-border investment. The handful of recent Thai acquisitions in Vietnam may have been driven by industry- or firm-specific conditions rather than being a sign of a structural shift in the environment for cross-border investment in the region. But, at least for this particular pair of countries, it is a hopeful development.

# ENDNOTES

1. As further discussed below, until 2016 Thai buyers played a relatively minor role in the region, apart from two large deals in 2013. Indonesia made one large regional acquisition (of Malaysian oil and gas assets) in 2015.
2. Jonathon Adams-Kane, Claude Lopez and Jakob Wilhelmus, *Global Opportunity Index 2016—Beyond FDI: Lessons from Asia*, Milken Institute, September 2016.
3. The deals included are those in which the target is based in an ASEAN country, and the acquirer is based anywhere other than the target country (or in an unknown country if Bloomberg classifies the deal as cross-border; these cases comprise less than one percent of total deal value). Deal counts may be underestimated due to incomplete reporting of some deals and/or incomplete information about the primary place of business for some target firms. It is likely that our estimates of deal value are underestimated because the value of many deals is not reported even when they are included in the overall count (value of the deal is not reported for roughly 35 percent of those deals for which we have data to be included in deal counts). However, it is likely that these unreported deals tend to be among the smaller-sized deals on average. \*2017 data are through July; deal count includes 110 pending deals announced that year, in addition to 84 completed deals.
4. In one of these, three Chinese semiconductor and telecommunication companies grouped with an investment arm of a state-owned Chinese bank to buy a Singaporean semiconductor company for \$1.75 billion. In the other, a state-owned Chinese investment company teamed with an American private equity firm to buy a Singaporean water treatment company for roughly \$890 million.
5. The deals included in the calculation are those in which the target is based in an ASEAN country, and the acquirer is a single buyer in (mainland) China or a consortium that includes at least one buyer in China. Acquirers in Hong Kong are not included; in some cases, a Chinese company may make an acquisition via a holding company in Hong Kong, but any such deals are not included here. For each consortium deal, the Chinese share is estimated from news articles or legal documents and only the Chinese portion of the deal value is included in the figure. A caveat regarding incomplete data is given in the Figure 1 note. \*2017 data are through July; deal count includes 19 pending deals announced that year, in addition to five completed deals.
6. Barry Naughton, "The Regulatory Storm: A Surprising Turn in Financial Policy," *China Leadership Monitor*, no. 53 (Spring 2017).

## ENDNOTES

7. The chiefs of all three commissions were removed between February 2016 and April 2017. It is normal for officials to be changed over preceding a party congress, but this wave was unusual in that the new chiefs of the CBRC and the China Securities Regulatory Commission both have strong ties to Zhou Xiaochuan, the reformist governor of the PBC, bringing these three regulatory bodies much closer together (*ibid.*). A new chief of the China Insurance Regulatory Commission has not yet been named at the time of writing.

8. *Ibid.*; Lucy Hornby, “Chinese crackdown on dealmakers reflects Xi power play,” *Financial Times*, August 9, 2017.

9. In 2013, ThaiBev, primarily in the brewing and distillation business, acquired a majority share of Fraser and Neave, a diversified company based in Singapore, for \$8.6 billion; and PTT, a Thai state-owned energy group, bought out Sakari Resources, a Singaporean power company with coal mines in Indonesia, for \$1.1 billion.

10. The deals included in the calculation are those in which the target is based in an ASEAN country, and the acquirer is based in a different ASEAN country. A caveat regarding incomplete data is given in the Figure 1 note. \*2017 data are through July; deal count includes 17 pending deals (almost all with acquirers in Singapore or Malaysia) announced that year, in addition to 19 completed deals.

11. In the 2017 Global Opportunity Index (forthcoming), both Vietnam and Thailand moved up in the rankings. Vietnam made some improvement in the financial development component of the index, and Thailand performed especially well in the business perception component as well as showing some improvement in its economic fundamentals.

12. For example, in Indonesia the top acquirer nationalities have historically been the U.S., the UK, and Singapore. In Thailand, they have been Japan and Singapore. In the Philippines, acquirers are mainly multinational consortiums.

# ABOUT US

## ACKNOWLEDGMENTS

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