M&A Transaction with Chinese Buyers, Observation and Challenges

Xiaoyu Liu

ABSTRACT

The paper shows that while dealing with Chinese buyers in cross-border M&As, the sellers may face various challenges and uncertainty due to the peculiarity of Chinese model during their economic deepening.

The unique state-capitalist pattern has created on one side unprecedented economic growth, but on the other side also brought political uncertainty and growing concerns of “national strategic buyers” who align with or navigated by the State to foster and carry out grand policies such as “The Belt and Roald” and “Made in China 2025”. Therefore, the sellers may face stricter scrutiny such as CFIUS and merger control from their country/region attributed to opaque corporate ownership and inestimable motive of the acquiring company. Also considering the rapid change of PRC regulatory requirements and fundraising uncertainties, target companies are concerned with the feasibility of deal competition despite the employment of risk mitigation mechanisms such as reverse break fees and non-refundable deposits.

A growing tension over tariffs and protection of intellectual properties between China and the U.S. has already sent a signal reflecting a slight drop of cross-border M&As, which may also cause a surge of protectionism. However, challenges always coexist with chances. Chinese dealmakers will continue to embrace the hunt for prime assets overseas even though the pace would be slowed down to certain extent. We nevertheless believe that China’s economic transformation still has the potential to usher in a golden age of cross-border transactions. The political, economic and cultural barriers will be ultimately overcome through the humanity’s wisdom, as openness, liberalization and compatibility are the indispensable foundation of the path towards the wellbeing of global society.