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Economic nationalism and foreign acquisition completion: The case of China

Jianhong Zhang [a,*], Xinming He [b,1]

[a] Nyenrode Business University, Straatweg 25, 3621 BG Breukelen, The Netherlands
[b] Durham University Business School, Wolfson Building, Queen's Campus, Thornaby TS17 6BH, UK

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ABSTRACT

Extending institutional theory, we incorporate a neglected but important component of formal institution, economic nationalism, into a model that specifies its effects on cross-border acquisition success. We suggest that economic nationalism has a dynamic nature and sees the interaction between protectionism and liberalism. As such, it exerts both positive and negative effects on foreign investments, contingent on how these investments are perceived as aligned with the national interests as reflected by national security considerations, foreign relations, and growth strategy. Using a data set containing 7275 announced cross-border acquisition deals in China during 1985–2010, the study finds that (1) when an acquisition activity targets essential industries or state-owned enterprises, it is less likely to be completed because of provoked national economic security concerns; and (2) when an acquirer brings technology and/or capital, or/and helps to restructure poorly-performing firms, or/and the acquirer comes from a country with good foreign relations with China, the acquisition is considered as safe and helpful for the country's development, and it is more likely to be completed.

1. Introduction

Cross-border mergers and acquisitions (M&A) has become one of the most important phenomena in international business (IB) as part of the rising globalization. Meanwhile, the world also witnesses an upsurge of nationalism across countries, which has emerged as one of the main issues confronting the world (Balabanis, Diamantopoulos, Meuller, & Melewar, 2001). These two forces are intertwined: nationalistic sentiments grow as a reaction to the instabilities/benefits created by globalization, and economic nationalism greatly impacts foreign firms' market entry and operations. Inbound acquisitions are not free from the growing influence of economic nationalism of host countries as exemplified by recent cases. In 2005 the state-owned CNOOC's bid for Unocal as part of the China Goes Global policy was vetoed by the USA Congress due to national security concerns. In 2007 SEB, a France-based corporation, who bid for Super, China's largest manufacture of small appliances, saw severe oppositions from rivals in a fear of market monopoly when receiving approval by Chinese central government.

Despite perceived importance (e.g., Dunning, 1998, 2009), the influence of economic nationalism on inbound M&A has received little empirical attention. Past acquisition success studies that build on the resource-based view (RBV) and

* Corresponding author. Tel.: +31 346 29 1764; fax: +31 346 29 1250.
E-mail addresses: j.zhang@nyenrode.nl (J. Zhang), xinming.he@durham.ac.uk (X. He).
[1] Tel.: +44 191 334 9424.

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transaction cost analysis (TCA) largely focus on the features of the deals and the entrants, their resources and capabilities in particular, that enable them to reduce costs and achieve sustainable competitive advantage (Anand & Delios, 2002; Barney, 1991; Wernerfelt, 1984). Recent development suggests that a firm's international expansion is also enabled and constrained by the different institutions under which it operates (Buckley et al., 2007; Hoskisson, Eden, & Wright, 2000; Meyer & Peng, 2005; Mudambi & Navarra, 2002; Peng, 2002, 2003; Peng, Wang, & Jiang, 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005). In this line a few studies have examined the impact of institutions on cross-border acquisition, such as industrial regulatory factors (Muehlfeld, Sahib, & van Witteloostuijn, 2007), institutional quality of hosts (Zhang, Zhou, & Ebbers, 2011), and institutional distance (Dikova, Sahib, & van Witteloostuijn, 2010).

Despite this advancement, one of the key institutional factors, economic nationalism as an important antecedent to cross-border acquisition (in)completion remains under-researched in political science and economics (Baughn & Yaprak, 1996) and IB literatures. In the former, "the concept of economic nationalism is relatively unexplored, and seems to fall in the interstices between separate disciplinary interests and concerns" (Burnell, 1986: 16). Economic nationalism and its impact have not been adequately examined by economic theory as well (Pickel, 2002).

In IB studies, the traditional OLI paradigm tends to focus on how national/regional characteristics determine MNEs' location choice to access or exploit their O-specific advantages (Dunning, 1998, 2009), including the host's institutions (Cantwell, Dunning, & Lundan, 2010) such as the nationalistic policies (Dunning, 2009). OLI wisdom stresses the international value-chain allocation, for example the MNEs' preference for less protectionist locations even when they process the institutional ownership advantages (Cantwell et al., 2010). This paper has a different angle by drawing on institutional theory and focusing on the likelihood to complete the intended M&A when the FDI location has been chosen. This approach and empirical work therefore add to OLI wisdom because they provide measured effects by a set of very important institutions upon the possibility of inward FDI in the form of M&A to have successful completion. The favorable institutions including nationalistic attitudes toward foreign investments as revealed in our empirical work could be counted as one of the locational factors.

Many writers for practical journals have noted that foreign investors have to take nationalism in host countries seriously when entering and operating in these areas such as China[2] (e.g., Economy & Lieberthal, 2007; Paine, 2010; Vanhonacker, 1997). Although it is a common sense that nationalism impacts FDI, but the literature fails to see an empirical study concerning the extent to which it affects the completion of inbound M&As. As UNCTAD's *World Investment Report 2011* notes, although liberalizing investment policy measures taken globally in 2010 outnumbered restrictive measures, however "(w)ithout the benefit of statistics, investors might have drawn the opposite conclusion, witnessing what appears to be a rising tide of national resistance to foreign takeovers" (see Walker, 2012 in *Columbia FDI Perspectives*). Thus an investigation into the precise impact of economic nationalism is timely.

Besides, economic nationalism as a crucial institutional factor may do better than the over simplified dichotomy of liberalism and protectionism in explaining business activities and performance from a broader sense, given that it may take either perspectives depending on the then national interests and conditions (Helleiner, 2002; Peng et al., 2008).

Economic nationalism is an important issue that MNEs need to address when expanding into a foreign market and seeking to gain legitimacy (Cantwell et al., 2010; Hanon, 1996; Zaheer, 1995). Foreign invested companies, compared with indigenous entities, are expected to be more prone to and amenable to pursuing firm-specific, rather than national economic interests, which do not always align with the host's national interests (Kim, 2007). Foreign investors may be perceived as having different philosophies regarding sustainability, labor, and industrial policies, which may conflict the public goals favored by the host. A host government develops and employs formal institutions such as industrial policies, technology boost policies, FDI policies and foreign policies to ensure the national interests. Firms that attempt to defy these institutional factors risk losing legitimacy and, hence, failure in that market (Brouthers & Hennart, 2007). These institutions will certainly influence the fate of inward FDI projects, i.e., the failed CNOOC's bid for Unocal in 2005 and Coca-Cola's bid for Huiyuan Juice in 2008. However, these influences have not been sufficiently explored by academia.

In this research we seek to answer several important questions. For example, whether and how do cross-border acquirers see more interactions of protectionism and liberalism than their domestic counterparts? How do targets' and their industrial attributes (i.e., ownership, FDI percentage, technological development level, capital demandingness, and performance level) as through the economic nationalism forces influence the cross-border acquisition success? And how does the evolution of regulations in light of the nationalism impact cross-border acquisitions? Answering these questions provides a number of contributions to the literature. First, it expands the institutional theory by indicating the important but under-researched and dynamic role played by economic nationalism in FDI arena. It also adds to the OLI paradigm by providing the empirical study of a set of specific institutions that will impact MNEs' locational choice. Second, it adds new insights to FDI research by providing measured extent to which economic nationalism dynamically influences inbound M&A completion. Third, it is also beneficial to MNEs by bringing them cautions of the influential economic nationalism that may substantially increase liability of foreignness and costs (Zaheer, 1995).

In line with the call that IB study should be interdisciplinary (Cantwell & Brannen, 2011), we draw on both IB and political science literature (e.g., Baughn & Yaprak, 1996; Johnson, 1965). We offer a conceptual model incorporating five economic nationalism policy elements, including national security, foreign relations, industrial policy, technology policy, and FDI

[2] We thank one of the reviewer for bringing Dunning's and other practical work to our attention.