



## *Business Restructuring in Asia: Cross-Border M&As in the Crisis Period*

By: James Zhan and Terutomo Ozawa

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JIBS BOOK REVIEW EDITOR

This thin book takes up a hot issue of policy analysis revolving around the behaviour of multinational enterprises: The wave of mergers and acquisitions in the aftermath of the Asian crisis of 1997. The authors set the ambitious objective of documenting the evidence, analyzing the causes and outlining the consequences of the sudden surge of M&A.

The book has its origins in a background study for the World Investment Report 2000 (WIR) published annually by the United Nations' UNCTAD, and hence shares many of its strength and weaknesses. The WIR has become a major research effort to document and analyze global trends of direct foreign investment and multinational enterprises, and to provide general policy advice to governments and international institutions. In 2000, it focuses on 'cross-border merger and acquisitions and development'.

Zhan and Ozawa tackle a region of particular interest, the five countries most affected by the Asian crisis of 1997: Indonesia, Republic of Korea, Malaysia, Thailand and the Philippines. The total value of cross-border M&A in these countries rose from an annual US\$ 7 billion before the crisis to an annual average of US\$20 billion during the crisis years 1997 to 1999. This has a profound impact not only on the industrial structure of the host economies but on international business across Southeast Asia. Zhan and Ozawa address in particular two research questions (p.13): "*what are the implications of cross-border M&As for the development of the developing host economies during and after the financial crisis?*

*Are host economies worse off or better off by allowing, or even promoting, cross-border M&As during the financial crisis?"*

In chapter 2, they present the available statistical data on M&A, which is complemented by a very useful annex listing the 187 acquisitions in the region that exceeded US\$ 1 million in 1997 to 1999. Korea alone attracted 61 major deals, most of them in manufacturing. The core of the study is chapter 3, which discusses causes and consequences. The authors initially set out their view on the origins of the 'Asian Miracle' and its demise. They argue that "*there is a direct, if hidden, causal lineage from the way catch-up economic development was planned and executed down to the outbreak of financial crisis and the resultant opportunities for cross-border M&As*" (p.28). Considerable effective government intervention was crucial for development in take-off period, but it also created structures, they were insufficiently adaptable to new challenges in the global economy. Yet in aiming to facilitate change, governments may have acted to hastily. As the authors put it, "*submitting to American pressure for financial liberalization, all the five troubled economies ... succumbed to unstable capital flows by (a) permitting unfavourable current-account conditions to develop and (b) prematurely liberalizaing*

*capital-account transactions”* (p.32).

In the event of the crisis, firms were short of liquidity, and conventional avenues of funds were closed. Therefore, Zhan and Ozawa argue, it was especially “*in their capacity of ‘liquidity suppliers’ that cross-border M&As of local firms benefited Asian host countries at the time*” (p.33). in this way, an M&A deal was in many incidences a way of averting almost certain bankruptcy.

When proceeding to analyzing the impact of M&A on the local economy, Zhan and Ozawa face the problem – as most research on the impact of FDI – of what the counterfactual situation would be, if there had been no M&A. If it is true, as they assert, that bankruptcy would have been a likely outcome for many take-over targets, then the case for positive effects of M&A on the local economy is strong. Foreign acquisitions thus ease the necessary process of industrial restructuring, in particular in reducing over-capacity, over-diversification and high indebtedness of local firms. Less convincing for this reviewer was the suggestion that foreign acquisitions improve local systems of corporate governance as subsidiaries of foreign MNE operate normally outside local equity markets and thus markets for corporate control and capital market regulation.

The impact on other economic variable usually believed to be influenced by FDI is hard to assert as not only the counterfactual is unclear, but in many cases positive and negative effects arise from the same strategy if indirect effects are taken into account. For example, acquisitions may lead to lay-offs in the short-term, yet is may ‘job rescued’ from bankruptcy, and the firm may grow or create new job in affiliated businesses in the longer term. In the absence of hard data on these very recent events, Zhan and Ozawa present the potential effects, sometimes supported with evidence from their own survey of 50 large M&A deals. In this way, they consider technology transfer, employment, export (though skipping over imports), profitability, and the tax base. The effects on competition are considered in more detail and found to vary considerably depending on the prior position of acquirer and target in the industry.

Zhan and Ozawa then take up the claim that the financial crisis let to ‘fire-sales’ and refute it by pointing to forces inhibiting M&As, and under-priced sales in particular. However, I remain unconvinced by the argument, mainly because the concept of ‘fire-sales’ is not clearly defined, and thus can evade being caught.

The policy chapter proposes implication that are largely in line with those commonly promoted by international institutions, and so is the conclusion chapter.

With only 89 pages easily accessible text plus annexes, this book can almost be finished on a morning train (if you commute in an Asian metropolis). It has been carefully edited and clearly designed with many useful illustrations, tables and figures. A minor irritant is that the proof-reader seems to have skipped the boxes.

The study is ambitious in that it aims at analyzing wide ranging implications of recent events. In doing so, the authors face weak empirical data (though the UNCTAD M&A database and the authors own survey of 50 deals help) and little if any prior academic research. Criticizing this study for methodological shortcomings would be an easy task, yet the authors should be commended for addressing broad issues of high policy relevance, and for summarizing the state

of available knowledge on these issues. Any shortcomings observed are a call for further research.

Mergers and acquisitions in Asia have not yet attracted major attention by business researchers – only one paper at the 2000 Asia Academy of Management addresses M&A – in contrast to the business community. In particular, the impact of alternative forms of FDI, and acquisitions in particular, on a developing (or emerging) host economy require further systematic theoretical and empirical research. International business scholars with an interest in public policy will find a range of interesting questions in this book, even if many are not spelled out explicitly.

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