

# Research on the Influencing Factors of Transnational M&A Performance under the Belt and Road Initiative

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**Abstract.** As the "Belt and Road" program continues to progress, cross-border mergers and acquisitions have progressively emerged as a means for multinational corporations to share resource allocation and boost competitiveness. Therefore, a theoretical foundation for future practical development is provided by the study on the effective elements influencing the success of cross-border mergers and acquisitions under the "Belt and Road" project. This paper gathers pertinent literature and summarizes the effects of economic freedom, government funding, and enterprise ownership on the performance of countries along the route in order to support future research by scholars. It concludes that government funding and economic freedom have a positive correlation with the performance of businesses in cross-border mergers and acquisitions, while the effect of enterprise ownership type is still up for debate. Lastly, the paper offers some pertinent policy recommendations to serve as a guide for the growth of international mergers and acquisitions. This study will extract its main points and analyze the effects of three elements on the success of international mergers and acquisitions under the Belt and Road Initiative by gathering and organizing pertinent material. It gives the subsequent study a solid theoretical foundation.

**Keywords:** Belt and Road, cross-border mergers and acquisitions, performance, influencing factors.

## 1. Introduction

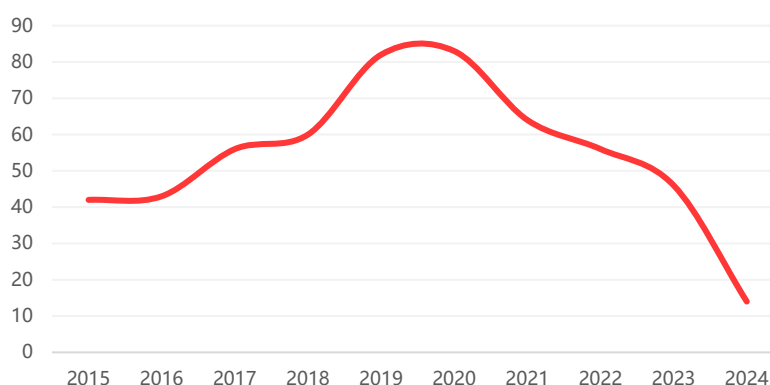
In order to improve political, economic, and cultural relations between China and participating nations in Asia, Europe, and Africa, the Belt and Road Initiative encompasses the Silk Road Economic Belt, the New Maritime Silk Road, and a number of programs that were unveiled in late 2013. Since the Belt and Road Initiative was put forward, there has been close cooperation among countries along the route, with overseas mergers and acquisitions particularly prominent. According to the research of Zhang and Yang, overseas investment in countries with higher financial development level and more abundant capital can better improve the efficiency of OFDI. Under the Belt and Road Initiative, Chinese companies will join the construction of local infrastructure and technology industries through mergers and acquisitions, improving the economic performance of host countries.

Over the years, many scholars have regarded the index of economic freedom as a hot research topic. Since the changes of economic system and political environment of countries along the route can be directly reflected by economic freedom, the study of this factor is helpful for enterprises to reduce the cost of merger and acquisition and choose the right merger object. Of course, M&A investment in countries along the "Belt and Road" cannot be achieved without the support of the government. A series of practical problems faced by enterprises, such as insufficient R&D motivation and weak business performance driving force, all need to improve the initiative of executives through government funding [1], so as to reduce the risk of R&D failure and improve enthusiasm. The first two belong to external factors, while the nature of enterprise ownership belongs to internal factors. State-owned businesses, joint-stock businesses, private businesses, and collective ownership businesses are all examples of the type of enterprise ownership. It is yet unclear how this element affects mergers and acquisitions. There are two categories of mainstream viewpoints: The findings of the study conducted by Li et al., Gu and Robert Reed and Yang show that, as far as Chinese enterprises are concerned, the M&A performance of state-owned enterprises is significantly worse than that of

private enterprises [2-4]. The research of Wang et al. and Lin et al. shows that in general, the M&A performance of state-owned enterprises is higher than that of non-state-owned enterprises [5,6].

## 2. Literature review

As shown in figure 1, research on this topic reached its peak between 2019 and 2020. More than 90 international organizations and more than 150 nations participated in the second Belt and Road Forum for International Cooperation in 2019, and 283 result papers spanning infrastructure, investment, green cooperation, and other topics were signed. The Belt and Road Initiative's high-quality development has made this year a pivotal one, and the body of writing on the initiatives' subjects has peaked as well.



**Figure 1** The number of literatures in the past ten years

Table 1 listed the representative research literature of three influencing factors in recent years.

**Table 1** The representative research literature of three influencing factors

Author	Posted Time	Title	Conclusion
Guo & Huang	2019	Whether economic development can be of higher quality if economic freedom is increased: An empirical investigation using G20 panel data	It is well established that economic freedom significantly affects the quality of economic growth. In developing nations with low levels of economic freedom, the benefits of economic freedom on the quality of economic growth will be more apparent, regardless of whether increasing economic freedom can enhance the quality of economic growth. An empirical investigation using G20 panel data
ANSARI	2022	Does Economic Freedom Influence the FDI–Growth Nexus in ASEAN Economies?	The positive impact of FDI on economic growth is due to increased economic freedom and improvements in human capital and the quality of financial institutions.
Yao	2021	Economic freedom in the host nation, the Belt and Road Initiative, and foreign direct investment	Chinese companies prefer to invest in countries with higher levels of economic freedom.
Chen	2016	Research on the Relationship between Economic Freedom of Countries along the "Belt and Road" and the Location Choice of China's OFDI	Chinese enterprises prefer to invest in countries with a higher level of economic freedom.
Cheng & Ma	2023	Research on how the economic independence of the nations along the "Belt and Road" affects Chinese businesses' choice of site for international M&A	The impact of economic freedom on corporate mergers and acquisitions is positive, but a few indicators are not significant, possibly due to the lagging nature of these indicators and the fact that government size indicators vary among different countries, all of which can have an impact.
Su & Chen	2023	Research on the Impact of Government Funding on Enterprises' "Belt and Road" Investment and Mergers and Acquisitions	Government funding can promote corporate investment and mergers and acquisitions along the "Belt and Road" and enhance the operational level of mergers and acquisitions.
Dang, Wei & Tian	2018	The "Belt and Road" Initiative, Ownership Nature, and Payment Methods in Relation to Corporate Cross-border M&A Performance	Both private and state-owned businesses have good M&A performance, although private businesses outperform state-owned businesses in this area.
Duan, Zhao & Gan	2024	Analysis of influencing factors on the performance of transnational M&A of Chinese enterprises under the Belt and Road Initiative	The nature of corporate ownership has a significant impact on corporate performance, and state-owned enterprises' cross-border M&A performance is more prominent compared to non-state-owned enterprises.

### **3. Ii. Factors influencing how well cross-border mergers and acquisitions perform**

#### **3.1. Economic freedom of countries along the Belt and Road**

Economic freedom, which is the extent to which the government does not impede and defends free competition, free choice, free trade, and private property within the bounds of the constitution, is a crucial metric for assessing the level of marketization of different nations worldwide. As an important branch of institutional factors, domestic and foreign scholars have conducted abundant studies. However, the analysis results of different scholars are also different, and most scholars believe that economic freedom is positively correlated with the performance of cross-border M&A.

Using panel data from G20 nations, Guo investigated whether more economic freedom may enhance the caliber of economic development [7]. They used the G20 nations' economic development between 2001 and 2014 as study samples, and the findings showed that economic freedom may greatly raise the standard of economic growth. Moreover, for developing countries with low economic freedom, the positive impact of economic freedom on the quality of economic growth will be more obvious. ANASRI studied the spillover effect of economic freedom on economic leaders of ASEAN countries and found through empirical analysis that the positive effect of FDI on economic growth was due to the improvement of economic freedom and the improvement of human capital and the quality of financial institutions [8]. Yao and Chen took the impact of economic freedom on OFDI as research objects, and the empirical results show that Chinese enterprises prefer to invest in countries with higher levels of economic freedom [9,10]. Cheng pointed out in her study that the influence of economic freedom on M&A is positive, but there are a few indicators that have no significant influence [11]. The reason may be that these indicators have a certain lag, and different indicators of government scale in different countries will have an impact. It can be seen that most scholars' research results show that economic freedom has a positive impact on M&A.

#### **3.2. Government funding**

The development of the Belt and Road Initiative today cannot be achieved without the support of the government. In particular, mergers and acquisitions will face political, legal and other risks, as well as high uncertainty of asset premium. Through government funding, we can improve the initiative of innovation, transform funding funds into corporate funds, reduce the risks of enterprises and help enterprises develop. At the same time, government funding has a profound impact on mergers and acquisitions.

Su, in studying the impact of government funding on the M&A of enterprises along the Belt and Road, made model assumptions about the variables of EBIT, government funding quota, total assets of enterprises, asset-liability ratio, book to market ratio, return on assets and other variables of investment and M&A events from 2000 to 2017 and the level of investment and M&A of enterprises along the Belt and Road [12]. The regression experiment is carried out, and the experiment draws the conclusion that government funding will promote the investment and acquisition of enterprises in the "Belt and Road" and improve the level of M&A operation. When enterprises are more inclined to acquire industries with comparative advantages in "Belt and Road" countries after government funding, synergies are created in the fields of natural resources and infrastructure construction, giving full play to the comparative advantages of China and countries along the "Belt and Road", and win-win cooperation between the two countries is realized. At the same time, it also puts forward the suggestion that we can give full play to comparative advantages and increase the investment of high-tech enterprises in M&A. Therefore, it can be seen that government funding can improve the driving force and initiative of enterprises.

#### **3.3. The nature of enterprise ownership**

The relationship between the ownership nature of an enterprise and its innovation ability is an important issue in enterprise research. The ownership nature of an enterprise determines its resource

allocation, principal-agent relationship and other governance issues. There are two opposing findings from the extensive study that both domestic and international researchers have done on the connection between ownership type and M&A performance:

Dang et al. took the M&A events of Chinese enterprises in ASEAN from 2005 to 2016 as samples, studied the M&A performance of Chinese enterprises in ASEAN through event analysis and market model, and used multiple regression model to analyze the influence of ownership nature and the Belt and Road Initiative on M&A performance of enterprises. Ultimately, it is determined that although both state-owned and private businesses have good M&A performance, private businesses outperform state-owned businesses in this regard [13].

Compared with private enterprises and non-national enterprises, the merger and acquisition history of national enterprises is earlier, and they have comparative advantages over non-national enterprises in terms of policy, technology, capital and other convenience. Therefore, the merger and acquisition performance of national enterprises is often higher than that of non-national enterprises. Duan analyzed 44 actual cases of cross-border mergers and acquisitions by Chinese enterprises in countries and regions along the "Belt and Road" from 2016 to 2020, involving 40 listed enterprises and 38 in the host country [14]. The regression model experiment on the relationship between M&A performance and 10 factors, such as enterprise scale, enterprise growth rate, maturity of listed companies, experience of the acquirer and nature of enterprise ownership, draws a conclusion that corporate ownership has a significant impact on enterprise performance in the results, among which state-owned enterprises have more prominent transnational M&A performance than non-state-owned enterprises.

#### 4. Conclusions

Good progress has been achieved across the "Belt and Road" program, which has been well embraced by Chinese businesses and nations along the path since it was first conceived. Cross-border M&A performance is an intuitive representation to measure the results of M&A. From the above summary, it can be concluded that economic freedom and government funding are positively correlated with the performance of cross-border M&A, while the impact of the nature of corporate ownership is not yet conclusive. The reasons for the two conclusions on the influence of the nature of enterprise ownership on the performance of cross-border mergers and acquisitions may be as follows: (1) Different countries in the experiment, different data, the degree of national development, economic freedom and so on will become the influencing factors of M&A preference. (2) The second conclusion was published relatively recently, and state-owned enterprises have made improvements in the research basis and policy suggestions of the former, so their performance in cross-border mergers and acquisitions under the Belt and Road Initiative has improved.

In view of the above review, this paper gives the following suggestions: (1) Strengthen regional diversification of investment: the Eurasian countries mainly connected by the "Belt and Road" strategy have a small difference in economic freedom, which provides a convenient and safe location for enterprise mergers and acquisitions. Enterprises should grasp the location advantages and strengthen cooperation with enterprises in neighboring countries. At the same time, increasing investment in more developed economies can reduce economic risks due to their high index of economic freedom and better investment environment. (2) Allow the government's guiding role to be fully executed: the government should effectively establish and implement policies and steer the interests of the nations along the "Belt and Road" to provide businesses more benefits from collaboration. At the same time, we should improve laws, policies, trade agreements, transportation and other aspects to provide more convenience and support.

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