Merger and acquisition hits all time high

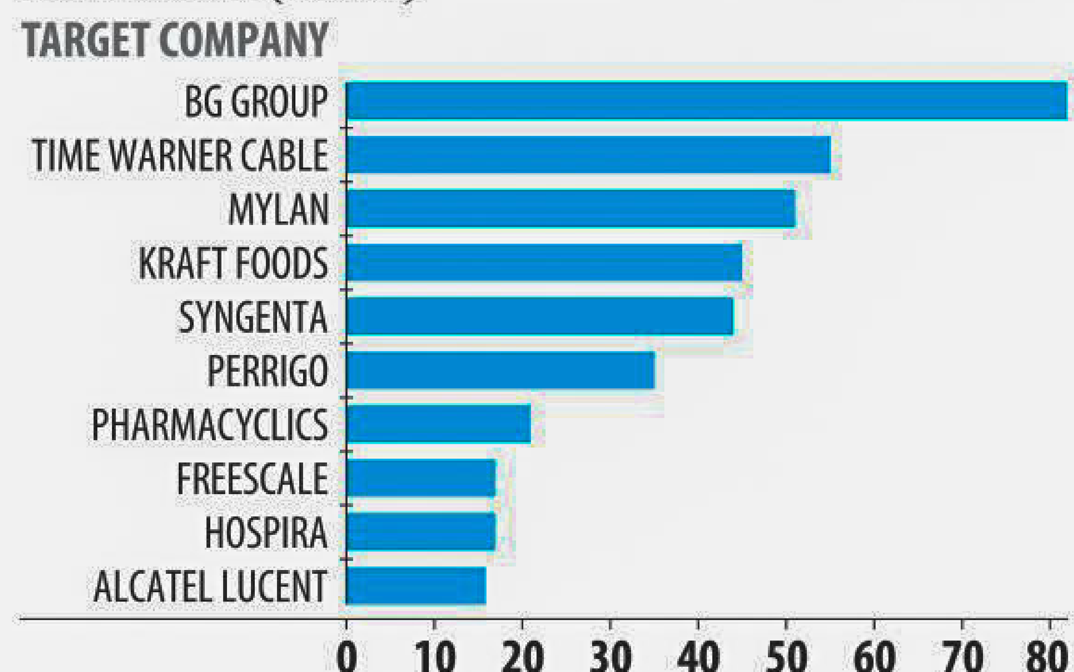
SAZZADUL HASSAN

ACCORDING to Thomson Reuters, one of the reputed multinational mass media and information firms, the year 2015 was the biggest year ever in the history of corporate merger and acquisition (M&A). A record breaking $4.7 trillion M&A deals were signed last year. The previous best record was $4.4 trillion in 2007. Corporate world had witnessed some of the mega deals being signed throughout the year. Pharmaceutical giant Pfizer announced $160 billion merger with Allergan. According to Bloomberg, this is the largest ever deal in the history of healthcare industry and second biggest deal overall on record.

Chemical industry has also been going through the consolidation process. DuPont and Dow, two leading chemical companies, announced to unite as a $130 billion company. Beverage industry also had a massive deal when AB Inbev expressed its intention to acquire SABMiller, creating a $104 billion enterprise. There were 137 deals announced last year. Undoubtedly it is a huge number.

Albeit M&A has been a regular activity in the history of business, researchers so far have identified few notable periods when this had taken place at a breakneck pace. In the beginning of 20th century the trend was known as "horizontal mergers" meaning enterprises from the same industry used to unite and formed monopolies.

In 1960s, companies were trying to "diversify" by way of merger to create large conglomerates. One such great example was General Electric having multiple businesses like manufacturing of large equipment, television to even financial services. Because of globalisation and deregulation banking and telecom sector went through a period of considerable consolidation in 1990s.



Analysts have been trying to find out the root causes behind the huge M&A activities being taken place of late. Ernst & Young (EY), one of big four professional services firms, commented that, appetite for mergers and acquisitions is at the highest level since 2010 amid increasing confidence in an economic recovery. This comment came out of a study which surveyed 1,600 executives in 54 countries. Some of the interesting findings from the survey were: more than half of the companies plan to carry out acquisitions in the next 12 months; three-quarters of executives are planning more deals after a busy 2014; nearly one third are pursuing bigger deals, there is also an increasing interest in smaller bolt-on transactions.

Stable global economy with greater consistency boosted the confidence of the executives to be more optimistic. As a result, companies are going for bolder moves to generate future value. Along with the economic recovery, currency and commodity fluctuations are accelerating cross-border M&A. Few companies are eyeing up to shift their headquarters to low tax jurisdictions by merger and thereby reducing their corporate tax burdens. This move would allow them to increase their spending on R&D. One such example would be Pfizer Allergan merger. Once the deal is approved by the regulators, Pfizer PLC will move its headquarters to Dublin, Ireland and focus on corporate cost cuts. Corporations are looking to consolidate in order to be competitive. M&A has been one of the proven ways of reducing the cost of doing business and increased revenue from greater market share.

Few critical factors that intensified M&A last year were: healthy cash reserves of large corporations and the lowest ever interest rates. As results, companies had flexibility to make capital investments. It is often observed that, in case the normal growth of the business gets slowed down, enterprises are habitually motivated to grow by M&A rather than organically.

Although many deals were announced last year, we will have to wait and see how many of those cross the regulatory hurdles. It is too early to comment what these consolidation plans will bring about in the days to come.

Study suggests 70 to 90 percent of the time mergers fail to meet the long-term financial objectives set to deliver at the outset.

From a consumer right protection point of view, markets work best when there is a healthy competition among businesses. The way M&A is happening, question may arise -- is there a potential fear that in many industries the competition might not exist anymore?

The writer is the managing director of Syngenta Bangladesh Ltd.

China's Xi weaves Poland into 'new silk road' plan

AFP, *Warsaw*

CHINESE President Xi Jinping drummed up investment and trade with Poland on Monday as the European Union's largest eastern economy eyes financing by the Asian giant.

Xi and Polish President Andrzej Duda inked a broad strategic partnership deal on political and economic cooperation, part of Beijing's much vaunted efforts of establishing land and sea links for European trade, known as the "Belt and Road" policy.

Poland is China's largest trade partner in eastern Europe and in 2015 bilateral trade reached 17.1 billion dollars (15.2 billion euros), according to Chinese figures.

But there is a chronic imbalance in favour of Beijing and Warsaw's main objective is to change that.

Xi on Monday urged Poland to "fully take advantage of its position as a founding member of the Asian Infrastructure Investment Bank" (AIIB) to do business.

Launched by China in January, the AIIB includes several European countries among its members but the United States and Japan declined to join. It is viewed by some as a rival to the World Bank.

Calling the AIIB the "world's largest investment fund", Polish deputy prime minister Mateusz Morawiecki told reporters that Warsaw was discussing "massive investments" with Beijing.

"It is certainly still too early to say we've reached some kind of conclusion," he said, revealing only that "multi-billion sums" were involved.

The intensification of ties with Beijing is rooted in Warsaw's "need for capital and export markets beyond Europe, because of the upcoming decrease in EU funds and saturation of the European market," said Justyna Szczudlik, an analyst with the Warsaw-based Polish Institute of International Affairs.

The sides also concluded other lower level bilateral deals, including boosting Polish food products, notably apples, on the Chinese market.

The Chinese are interested in Polish food products, electronics, renewable energy technology, auto manufacturing and white goods. But a 2014 Chinese ban on Polish pork, imposed after an outbreak of African swine fever, remains intact.

Xi, who is on a three-nation tour, and Duda will attend the New Silk Road Forum 2016, an international trade fair bringing together Chinese and European entrepreneurs.

Poland's deputy development minister Radoslaw Domagalski said Warsaw was prepared to set up special investment zones "as gateways for Chinese capital into Poland."

A nation of 38 million people, Poland remains one of the EU's most vibrant economies, clocking uninterrupted annual growth since it shed communism in 1989. GDP is set to expand by around 3.7 percent this year and next.

Poland wants to use the "train connection between the town of Lodz in central Poland with Chengdu in Sichuan province to export to China more Polish agricultural products" like milk, meat and apples, Professor Bogdan Goralczyk, an expert at Warsaw University, told AFP.

Xi and Duda will meet a freight train rolling into the Polish capital from China on Monday after a 13-day trip from Chengdu.

Trains began running between China and Poland in 2013. The journey lasts 11-14 day, a fraction of the 40-50 day transit by sea.

The rail link -- one of the world's longest -- is part of China's "new silk road", touted as a revival of the ancient Silk Road trade route.

Chinese activity in central and eastern Europe is rooted in the "16+1 Forum" for cooperation between 16 ex-communist eastern European states and China, launched in 2012 in Warsaw.

India announces sweeping foreign investment reforms

Indian Prime Minister Narendra Modi

AFP, *New Delhi*

INDIA Monday announced a sweeping relaxation of foreign direct investment (FDI) rules in civil aviation, defence and a string of other sectors as part of efforts to open up the economy.

The government freed up nine areas of the economy, including allowing foreign companies to wholly own local airlines as it looks to spur investment in the world's second most populous country.

Prime Minister Narendra Modi tweeted that the "radical" changes would make "India the most open economy in the world for FDI" and were aimed at generating jobs for the country's tens of millions of young people.

Commerce Minister Nirmala Sitharaman said the changes were focused on making it easier for overseas companies to manufacture in India, notorious for its red tape and labyrinthine regulations.

Under the changes, companies like Apple could move closer to opening stores in India after the government eased regulations on local sourcing.

Overseas companies will in future be allowed to own local airlines outright, compared to a previous 49 percent cap, with government approval. Investment in building and modernising airports around the country will also be eased.

The cap on investment in defence was raised to 100 percent from 49 percent, subject to government approval, in cases which give India access to modern technology. The changes come after popular central bank governor Raghuram Rajan announced at the weekend that he would not seek a second term from September.

Rajan is credited with helping to reform and revive the economy and his announcement raised concerns among analysts about the government's commitment to reform.

Modi stormed to power in 2014, promising an overhaul of the faltering economy. Shortly after taking the reins his government raised foreign investment caps in the defence and insurance sectors and for some railway projects.

Growth is now chugging along at 7.9 percent, the fastest of any major economy.

But the government has been criticised for failing to implement major reforms to boost investment and help create jobs.

The announcement came after Modi chaired a meeting of his top officials Monday, looking to increase foreign investment from the 55.46 billion dollars reached last financial year.

Apple last month hit a roadblock in its plans after the government ruled it must buy at least 30 percent of its parts locally if it wants to open stores in India.

The government's decision came despite chief executive Tim Cook's visit to India to push his ambitions in the hugely lucrative market.

Single-brand foreign retailers can now operate stores for three years before having to comply with local sourcing rules -- and for five years if they can prove their products are "cutting edge" or "state-of-the-art".

The changes to defence come after Modi vowed to end India's status as the world's number one defence importer. He wants 70 percent of hardware to be manufactured domestically by the turn of the decade.

Greek taxes strangle funds industry in name of austerity

REUTERS, *Athens*

GREECE'S latest austerity measures are choking off one of its few sources of local private investment, the funds management industry, thanks to massive tax hikes buried in 7,500 pages of financial reforms approved by the parliament last month.

One listed Greek fund has frozen a 300 million euro ($340 million) investment plan, and another has put a share issue of at least 250 million euros under review, since the hikes were passed -- a footnote in a reform package that appeased the government's European creditors and avoided another cash crunch.

The country's 7 billion euro ($8 billion) funds industry, though small, is a potentially important vehicle for much-needed investment in the shattered economy, helping firms to raise money and buying up property from banks burdened with bad loans.

The new tax rates, applied to funds under management, underline how Athens is relying on a narrow, overstressed tax base to stay afloat, depressing economic activity, while the country's large black economy remains out of reach.

The finance ministry, which is also overseeing a hike in value-added tax as well as separate taxes on Internet usage and fuel, did not respond to requests for comment.

Taxes on mutual fund assets will jump by as much as sevenfold, with new tax rates differing by type of fund.

Real estate funds, a fast-growing source of investment in recent years, fare the worst because Athens has also doubled a separate tax on landlords, in turn hurting property values.

Such a tax, which comes on top of normal corporate tax, is unusual for the asset management industry.

No major European fund management centre imposes such a levy, with taxes usually imposed on dividends, interest income or capital gains rather than a blanket rate on funds under management.

"We were planning investments of more than 300 million euros, which would have beneficial multiplier effects, but now the plan has been frozen," said George Chrysikos, chief executive of listed real estate investment fund Grivalia Properties.

"The taxation is hard to bear and will likely force property funds to drastic moves, including freezing plans to raise capital, returning capital to their shareholders and even switching residence and delisting from the Athens stock exchange."

Another property investment fund, NBG Pangaea, is likely to ditch plans to raise between 250 million and 400 million euros in a share issue, said a senior executive at the fund who spoke on condition of anonymity.

It planned to invest the proceeds in commercial property.

Greek mutual-fund investors are mainly middle-class investors, each with around 20,000 to 30,000 euros invested, while the wealthy use private banking, industry insiders say.

"I would be looking to switch to a foreign mutual fund management company to avoid it (the tax hikes), but even if you pull the money out you can't send it abroad under capital controls," said Nikos Villiotis, 47, a civil engineer who has about 60,000 euros invested in Greek equity and bond funds.

Greece's capital controls, imposed a year ago to prevent the collapse of its financial system, have dissuaded investors from stampeding out of local mutual funds, but fund managers say redemptions are still likely once the controls are lifted.

"Today, due to capital controls, they cannot do it. But this is short sighted because at some point capital controls will be lifted," said Theodore Krintas, vice-president of Greece's institutional investors association.

Greece's mutual funds industry has shrunk dramatically since the financial crisis erupted in 2010 when investors took advantage of their then freedom to move money abroad, but the industry has remained a precious source of investment.

Property funds alone had planned to invest 1.5 billion euros over the next three years, including buying real estate from the nation's cash-strapped government.

"We shouldn't be shooting at the home fund management industry, money needs to stay at home to fund investments and help the economy recover," said George Koufopoulos, head of 3K Investment Partners.

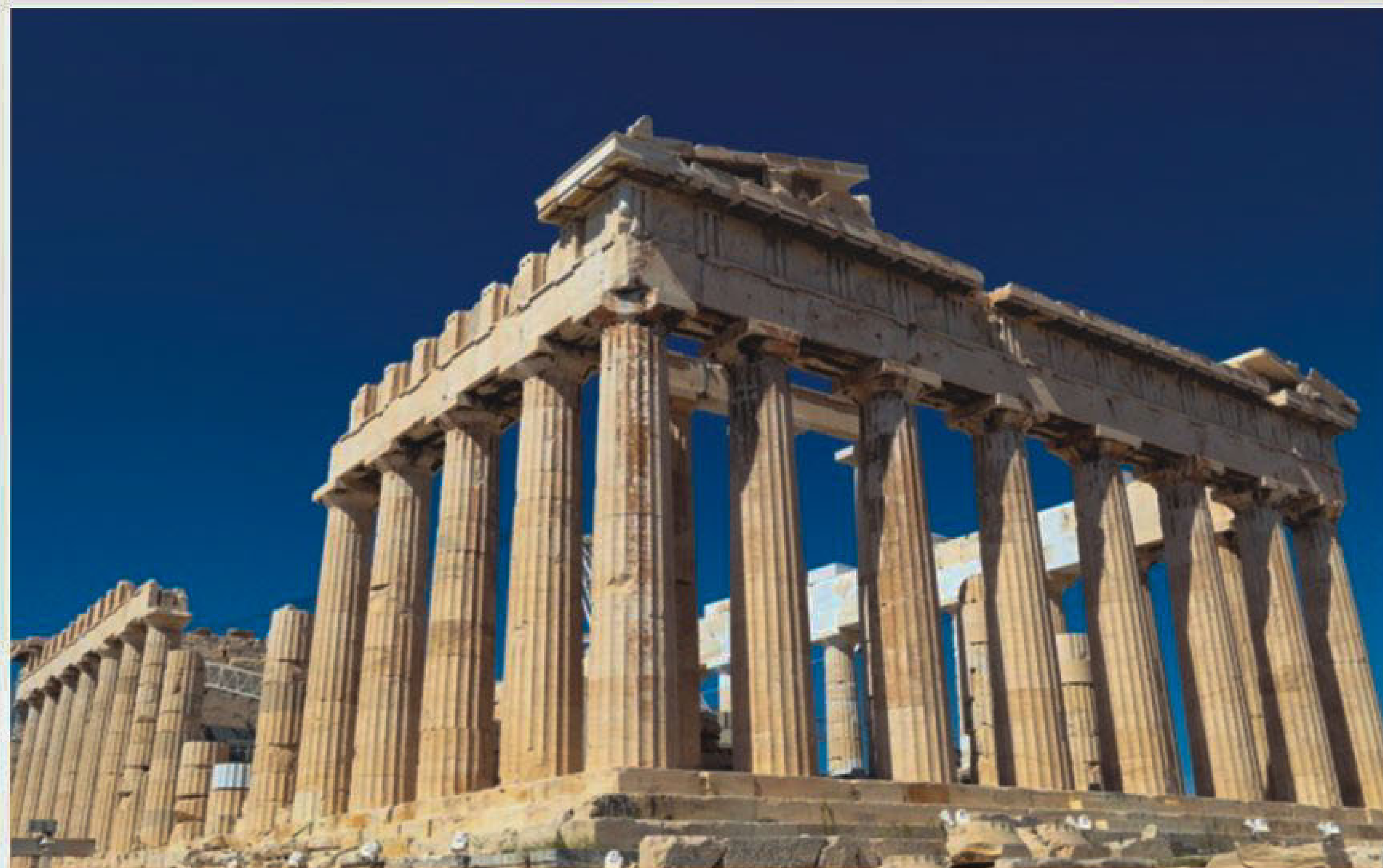
Given investors are effectively locked into their funds due to capital controls, the shares of the largest listed property fund managers have actually outperformed the wider market.

Since late May shares in Grivalia Properties, part-owned by Canada's Fairfax Financial Holdings, have fallen about 6 percent while Pangaea has lost 5 percent, though both stocks are very thinly traded. The Athens bourse's broader market index has fallen 10 percent.

Greece's securities regulator agreed that the new tax burden weighed heavily on funds but said it could be eased later on.

"We also think the tax impact is heavy on growth vehicles such as mutual funds and property investment trusts but official lenders insisted," Charalambos Gotsis, chairman of the Capital Markets Commission, told Reuters.

"We had expressed our disagreement, suggesting that the tax should be on returns and not on the capital the funds manage."



REUTERS

The country's 7 billion euro funds industry, though small, is a potentially important vehicle for much-needed investment in the shattered economy.