
THE RELATIONSHIP BETWEEN MERGERS AND ACQUISITIONS AND ECONOMIC GROWTH IN VIETNAM

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ABSTRACT

The article used statistical methods and analyzed developed trends between M&A and growth of Vietnam's economy through the period study from 2008 to 2014. The findings showed that there is not really existent relationship as well as a significant contribution's the value of M&A to Vietnam economic growth in the period from 2008 to 2014. The finding supported the study by Shun-Jen Hsueh et al (2014). However, the author analyzed the development trends, the results state that economic growth and the value of M&A have a trend of positive development and the similar increase from 2008 to 2012. Meanwhile, there are opposite trends from 2012 to 2014. This indicates that the market M&A in Vietnam is still shortcomings and should be detachable in order to strongly develop M&A activities in the future.

Keywords: Economic growth, mergers and acquisitions (M&A), GDP

1. INTRODUCTION

Vietnam, a country has potential economic development with 90 million people and GDP growth forecasted to average 5.6% in 2017 (OECD, 2013). Since joining ASEAN in 1995, the World Trade Organization in 2007 and recently participating in Trans-Pacific Partnership, Vietnam has improved institutional management framework and market to prepare for a full transition to market economies. Together with the economic growth, M & A activity has grown significantly with an average speed of 65% annual growth in recent years (Vietnam Investment Review, 2013). This is an increasingly popular form of foreign direct investment in order to raise capital, develop national business and reform public sector (Nga Pham et al, 2015). Currently, M & A is one of the corporate restructuring forms that is increasingly popular in recent years in Vietnam. In 2014, the trading value of the M & A increased 15% over last year and mainly occurred between local firms together, foreign companies buying Vietnamese firms and the Vietnamese firms purchasing oversea properties.

The contribution of M & A to the economic growth of Vietnam is a matter of concerned of policy makers. This article focuses on relationship between M & A and economic growth in Vietnam from 2008 - 2014. Is the trading value of the acquisition (M&A) relate to GDP growth in Vietnam? If there exists a relationship, this article provides a policy to facilitate of M&A development and contributes to economic growth Vietnam.

The article composes of 4 parts: Part 1 presenting descriptions of mergers and acquisitions activities in Vietnam recently. Part 2 presenting research methods. Part 3 presenting the current status of M&A activities and economic growth from 2008 to 2014; Part 4 presenting research results and the limitations of the article.

2. METHODOLOGY

The article mainly used statistical methods and data analysis to evaluate the M&A activities and economic growth in Vietnam over years of research.

The relation between the value of M & A activities and economic growth in Vietnam is examined by the correlation coefficient.

Data on the value of M&A is collected on **stockplus** and the data on economic growth in Vietnam using Vietnam GDP on **worldbank.org**. Statistical table (Table 1) shows the value of M&A and Vietnam GDP annual growth rate from 2008 to 2014.

Table 1: M&A value and annual economic growth

Year	M&A value (billion USD)	Gross domestic product (USD)
2008	1.12	99,130,304,099
2009	1.08	106,014,600,964
2010	1.75	115,931,749,905
2011	4.10	135,539,487,317
2012	5.10	155,820,001,920
2013	2.21	171,390,003,299
2014	2.50	184,011,962,617

(Source: Data collected from stock plus and World Bank 2014)

2.1 The value of the annual M&A activities in Vietnam

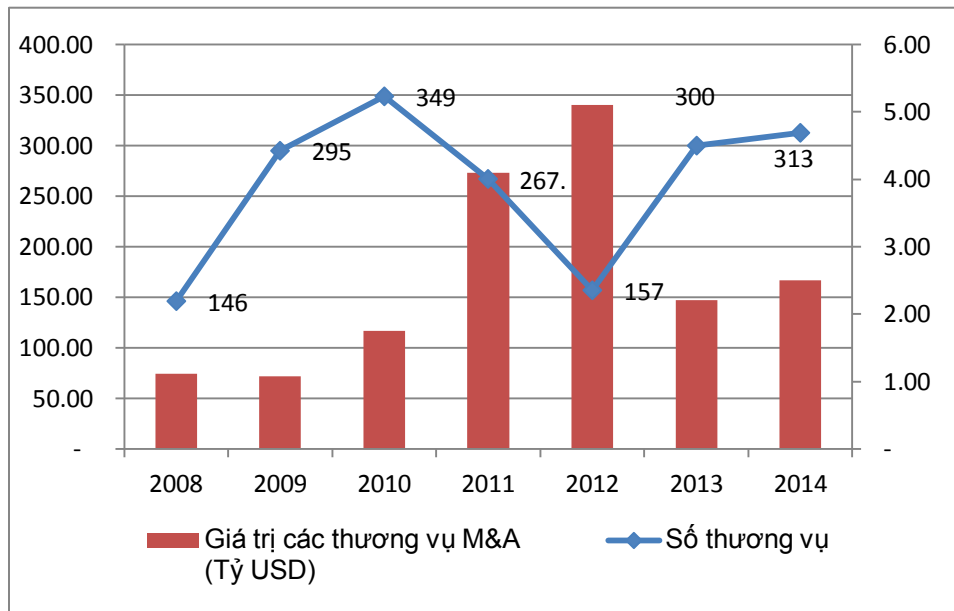


Image 1: Value and volume of M&A (Source: imaa)

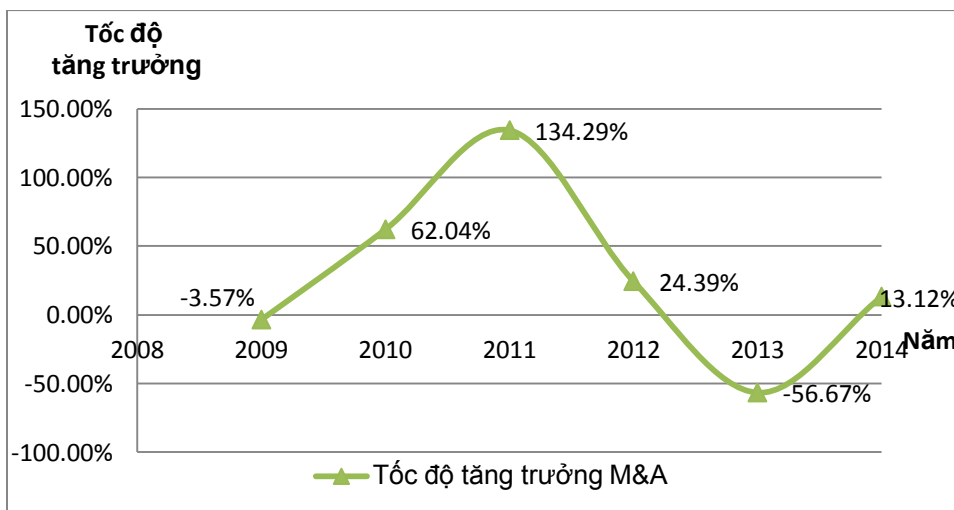


Image 2: The graph shows the economic growth rate of M&A

(Source: The data were calculated by author)

During the research period 2008 to 2014, the strongest growth of M&A activities was between 2009 and 2012. In 2012, the value of M&A purchases reached their highest peak of 5.1 billion dollars, including 157 deals. This is a considerable reduction compared to that in 2011. The reduction is due to the fact that the M&A activities are not as active as compared to that before, whereas foreign corporations still keep the total value at 3.5 million USD, equal to that volume in 2011 (M&A outlook in Vietnam on Stockplus dated April, 2013). Annual growth rate is 65.75%. From 2011 onwards, the value of M&A purchases fell significantly with an average annual rate of reduction of 29.99%. The reason why M&A activities are not robust is that the interest rate in Vietnam is higher than that of many countries in the area, as a result, a major of enterprises that used financial leverage and fell into financial recession whereas their business operation is quite good. This results in the underestimating of M&A value, and a motivation for M&A to happen, especially the penetrating of foreign corporations. Besides the unstable macro economy, reckless policy is the main hindrance to many of foreign corporations to penetrate Vietnam market through M&A.

2.2 Vietnam annual economic growth rate

Table 2: Vietnam GDP Annual Growth Rate

Year	GDP annual growth rate
2008	0.057
2009	0.054
2010	0.064
2011	0.062
2012	0.052
2013	0.054
2014	0.059

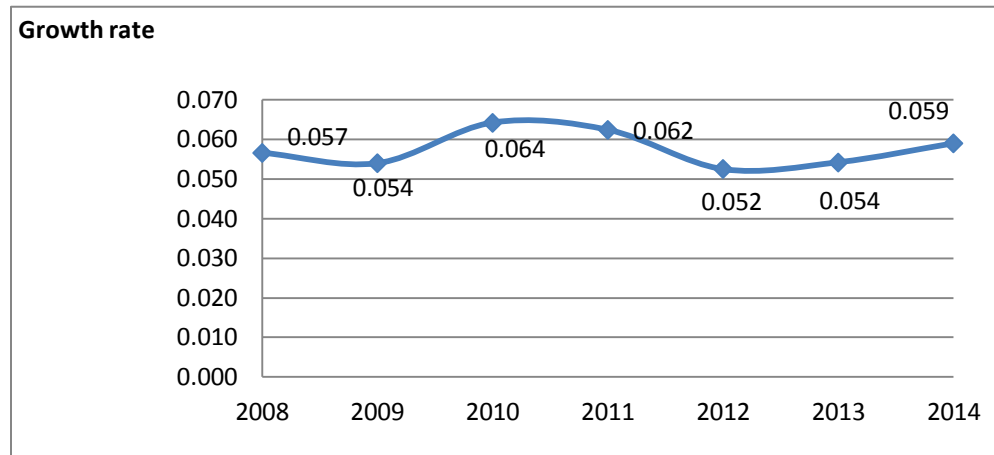


Image 3: Vietnam economic annual growth rate

(Source: worldbank.org)

Vietnam's GDP reached 5.7% in 2008, 5.4% in 2009, 6.4% in 2010, 6.2% in 2011, 5.2% in 2012, 5.4% in 2013, and 5.9% in 2014. Annual growth rate of GDP was 5.73% during 2008-2014; 5.82% during 2008-2010; 5.91% during 2010-2014; and 5.49% during 2012-2014. During the period 2008 - 2010, Vietnam has been effected by high inflation, and the global financial crisis.

The period 2011 – 2015 is an important cornerstone of the development economic and social strategy in 2011 until 2020. During a halfway through the process, even though Vietnam still faces difficult challenges, Vietnam's economy has experienced an impressive performance (period 2011-2013), reaching over 5%.

The impact of the world economic crisis, slow global economic growth,... have adverse impacts on the economy of Vietnam. The limitations and weaknesses of the economy along with the downside of growth-friendly policies have pushed up the inflation (in 2010, inflation rose to 11.75% in 2011 soared to 18.13%). It has a significant impact on the macroeconomic stability, production of the businesses and the economic growth...

Under these circumstances, the Communist Party and the Government of Vietnam have adjusted the objectives and tasks in a timely and efficient manner, which is to focus on curbing the inflation, stabilize the macroeconomy, and maintain reasonable economic growth. National Assembly on the November 8, 2011 approved the Resolution 10/2011/QHXIII, adjusting the economic growth target for the 2011-2015 period, averaging from 7.0 - 7.5% per year to 6.5-7.0% per year.

2.3 The relationship between M&A value and economic growth rate

Table 3: M&A value and economic growth rate

Year	M&A annual growth rate	Economic annual growth rate
2008	-0.3412	0.0570
2009	-0.0357	0.0540
2010	0.6204	0.0640
2011	1.3429	0.0620
2012	0.2439	0.0520
2013	-0.5667	0.0540
2014	0.1312	0.0590

(Source: Data were calculated by author)

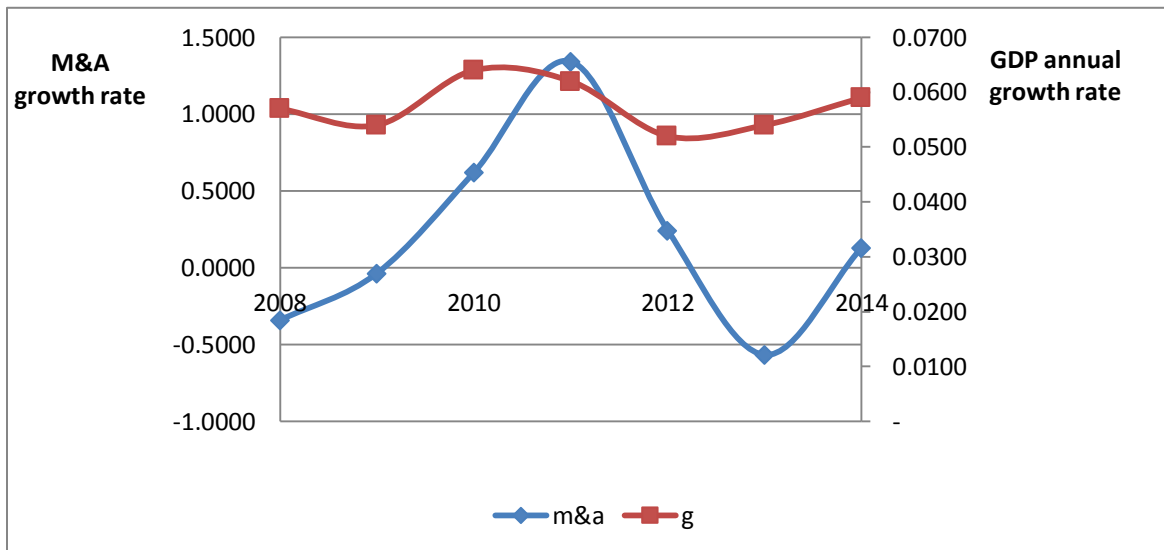


Image 4: M&A và GDP annual growth rate

Due to the fact that data set is limited, the article creates time segment to analyze the relations between economic growth and the value of M&A. According to Figure 4, the article is divided into 3 periods:

Period 2008-2010: The average economic growth rate during this period reached 5.82% while the M & A growth rate was 19.6%. Thus, during this period, economic growth and the value of M & A tend to develop in the same direction and are on the increase.

Period 2010-2012: The average economic growth rate during this period reached 5.91% while the M & A growth rate was 58.79%. Thus, during this period, economic growth and the value of M & A tend to develop in the same direction and are on the increase.

Period 2012-2014: The average economic growth rate during this period reached 5.49% while the M & A growth rate was -29.99%. Thus, during this period, economic growth and the value of M & A tend to develop in the opposite direction.

In short, the average M & A growth rate in the period 2008 - 2014 was 14.32%. Economic growth rate in this period was 5.73%. In general, during the research period, they tend to develop in the same direction and are on the increase.

To examine the relations between economic growth and the value of M&A, this article uses the correlation coefficient by Stata 12. Results in table 4 are as follows:

Table 4: The correlation coefficient of GDP growth rate and M&A value

	GDP growth rate	M&A growth rate
GDP growth rate	1	0.6637 (0.1041)
M&A growth rate		1

(Source: Data were calculated by author)

The table 4 shows that between GDP and M&A growth rate are a positive relation. The correlation is 0.6637 larger than 0.5 so that the relation is quite tight its together. However, the p-value is 0.1041 larger than 0.5 so the relationship between GDP and M&A growth rate are not significant statistic.

3. DISCUSSION

According to the hypothesis test, there is no relationship between M & A activity and economic growth in Vietnam. This result is similar with findings of Shun-Jen Hsueh and his colleagues (2014). The researchers can predict the economic growth or share price of 6 countries in the Organization for Economic Co-operation and Development (acronym: OECD). The result showed that there there is no relationship between economic growth and M & A, excluding Japan (stock price is a controlling variables). Findings of Shun-Jen Hsueh and his colleagues

(2014). In Vietnam, the M & A market has recently increase sharply and Vietnam's stock market is still very young, as a result the evidence can't be obtained sufficiently (Nguyen Thu Hien, Le Tuong Thuat, 2011). According to Nguyen Thi Loan's study (2011), factors that promote M & A activities occurring at the bank such as the legal system, the level of interest, participant's self-perceived role, barriers to M & A activities are still limited. That results in the failure of M & A activities. Vu Anh Dung (2012) studied the procedure of M & A in Vietnam. But in fact, the typical M & A activities in Vietnam are totally different from that on a theoretical basis, and entirely unlike M & A activities in the world. Also, Table 1 shows that the percentage of M & A value in Vietnam's GDP over the years is very low and almost equal to 0. Therefore, the contribution of M & A to Vietnam's economy is really inconsiderable. So the evidence shows that there is no relation between them.

However, at present, M & A activities occur frequently in commercial banks and large corporations in Vietnam. And under the current situation, the M & A activities will grow stronger in the future and their contributions to Vietnam GDP growth will be greater. Thus, examining their relationship as well as the impact of M & A on the economic growth can produce stronger evidence.

Difficulties and problems that actually exist in Vietnam should be solved in order that M & A activities can flourish in Vietnam. According to studies, such as Nguyen Thi Loan's (2011) and Vu Anh Dung's (2012), there still exist some problems such as incomplete legal systems, weak intermediation and especially the lack of consensus between the two sides...Therefore, if this problem is solved, M & A activities will develop and attract more foreign investors in the future.

4. RESULTS

The article presents the reality of the M & A and economic growth of Vietnam over the period 2008-2014. The result showed that there is no relation between economic growth and the value of M & A. Thus, its contribution to the economic growth during the period 2008 - 2014 is insignificant. However, through statistical methods, there was a trend in the same direction for the period 2008-2014, but from the period 2012-2014, the trend went in the opposite direction. This suggests that M & A activities are unstable and highly variable.

The article also has some limitations due to M&A activities recently has developed in Vietnam, so data is difficult and insufficient to deprive for further analysis. During the period 2008 - 2014, the time was too short to meet the in-depth analysis of the relation between economic growth and the value of M & A as well the impact of M & A value on Vietnam's economic growth. Therefore, the article only used statistical methods and analyzed development trends of M & A activities together with economic growth during the research period and used the results to

review the relationship between them and reexamine their correlations. The results show that there is no relationship between economic growth and the value of M & A purchases.

In latter studies, data for the M & A will be used during the research period to analyze the impact of M & A on economic growth in Vietnam. This is a new research direct to Vietnam's economic situations. The study results are very useful for policy makers and strategic orientations for Vietnam's enterprises.

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