Foreign Direct Investment in an Unsettling Economic and Socio-Political Environment

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Declaration of Authenticity and Author's Rights

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

Signed: Sulaiman Mania Aldhawyan
Date: 23 July 2020

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ABSTRACT

This thesis consists of three empirical chapters around the central theme on the role of economic policy shocks and socio-political disruption play in informing foreign direct investment (FDI). The first empirical chapter examines whether economic policy uncertainty (EPU) explains variations in cross-border merger and acquisition (CBA) activities from 20 countries over the period 1997–2017. The results suggest that a higher degree of EPU at home retards the number and volume of inbound CBA deals. However, the inverse relationship between EPU and inward CBA is moderated by the quality of the host country's institutions, business environment, and political risk. The bilateral acquirer-target country-pair investigation reveals that, while higher EPU in the target's nation deters inbound CBAs, higher EPU in the acquirer nation is positively associated with a higher number and volume of outbound CBA deals. Finally, the market seems to revise the expected synergy from the CBAs negatively (positively) in the form of lower (higher) cumulative returns when the target's (acquirer's) domicile faces higher EPU.

The second empirical chapter investigates how populist government policies, induced by immigration-related fear sentiments (IFS), affect inbound CBAs in 4 countries over the period 1995–2017. Consistent with the economic conjecture that populism creates deadweight costs for potential international investors, the findings strongly indicate that the number of inbound CBAs significantly declines following the escalation of IFS. Using two discrete exogenous shocks that escalated anti-immigration populism, the results show a significant drop in inbound CBAs, reduced likelihood of receiving acquisition bids, and lengthier deal completion period for the target firms located in major developed economies. The inverse nexus between IFS

and CBAs seems to be more pronounced in economies with anti-immigration populist (AIP) governments and in labour intensive industries.

Finally, the third empirical chapter quantifies the effect of geopolitical risk (GPR) on FDI inflows. In terms of empirical identification, I exploit the economic shock of the Arab Spring and use it as a source of exogenous variation in GPR over the period 2005–2015 for 175 countries. Also, I employ a time-varying media-based measure of GPR in 18 countries over the period 1988–2016. The results support the negative link between GPR and FDI in both identifications.

The findings of all three empirical chapters, taken as a whole, supports the notion that uncertainty surrounding government policy, migration fears, and geopolitical tensions have a significant and detrimental effect on FDI flows. I believe the finding of this thesis carry important implications for policy makers as indecision from policy makers, with respect to domestic and global political issues, may negatively impact an economy's ability to efficiently allocate capital.

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09/11	11 September 2001 Terrorist Attack on The United States
AIP	Anti-Immigration Populist
BBD	Baker, Bloom, and Davis (2016) Index
BCI	Business Confidence Indicator Index
Capex	Capital Expenditure
CAR	Cumulative Abnormal Returns
CBA	Cross-Border Merger and Acquisition
CEOs	Chief Executive Officers
CI	Caldara and Iacoviello (2018) Index
CIA	Central Intelligence Agency
CLI	Composite Leading Indicator
COVID-19	Coronavirus Outbreak
DiD	Difference-in-Differences
DiDiD	Difference-in-Difference-in-Differences
DMs	Developed Markets
Dom. Inv.	Domestic Investment
DM&A	Domestic M&As
OECD	Organization for Economic Co-Operation and Development
EPL	Employment Protection Legislation
EMs	Emerging Markets
EPU	Economic Policy Uncertainty
ERC	European Refugee Crisis
FF-12	Fama–French 12 Industry Classification
FF-48	Fama–French 48 Industry Classification
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDP gr	Gross Domestic Product Growth
GDPCap	Gross Domestic Product Per Capita
GF	Greenfield
Gov. Exp.	Government Expenditure
GPR	Geopolitical Risk
Herf-Gov	Herfindahl Index of The Government
HHI	Herfindahl-Hirschman Index
Hum. Cap.	Human Capital
ICRG	International Country Risk Guide
IFS	Immigration-Related Fear Sentiments
IMF	International Monetary Fund
ISIN	International Securities Identification Number

M&A	Merger and Acquisition
MENA	Middle East and North Africa
MF	Migration Fear Index
MKTCAP	Stock Market Capitalisation
MNEs	Multinational Enterprises
MTB	Market-to-Book
Nat. Res.	Natural Resource
PRS	Political Risk Services
ROA	Return on Assets
SDC	Securities Data Corporation
UNCTAD	United Nations Conference on Trade and Development
UK	United Kingdom
USA	United States
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
VIX	Volatility Index
WDI	World Bank's World Development Indicators

CHAPTER 1: INTRODUCTION

Social and political uncertainty have increased in recent decades (Devinney & Hartwell, 2020; Davis, 2016). A multitude of multinational enterprises (MNEs) in the recent era have experienced significant economic policy uncertainties, had to deal with the emergence of a populist culture, and counter geopolitical tensions. Events like the result of the 2016 U.S. presidential election and the 2016 Brexit referendum vote, are just few examples of economic policy shocks that has resulted in a growing and persistent level of uncertainty. Due to such events creating high levels of uncertainty, many MNEs are constrained and require to re-evaluate their strategic decisions in order to progress in ways that are economically and politically feasible.

This thesis evaluates the impact of economic policy shocks and socio-political disruptions, including geo-political risk on foreign direct investment (FDI). The studies included in this thesis aim to better identify the ways in which economic strategies and decision-making processes have changed in response to varying levels of global uncertainty. I argue that economic policy shocks and socio-political disruption play an important role in determining the flows of FDI. The remaining sections of this introductory chapter is as follows.

In the following section I provide a background of uncertainty caused by regulatory systems and socio-political disruption. Section 1.2 elaborates the motivations and research questions answered in this thesis. Section 1.3 offers brief discussion on the findings. Section 1.4 discusses the thesis's contributions and Section 1.5 provides an outline of this thesis.

1.1 Background

In this thesis I investigate how uncertainty caused by regulatory systems and socio-political disruption impacts FDI. Before we dive into any research around abrupt political events and the uncertain socio-political environment, it is important to clarify the differences among definitions related to political/policy uncertainty, geo-political/political risk, political instability. Carmignani (2003) illustrates that "political uncertainty" includes uncertainty about the stability of institutions and policymakers , as well as uncertainty about the future course of economic policies. So "policy uncertainty" is just one dimension of "political uncertainty", and the other dimensions of "political uncertainty" can lead to "policy uncertainty". Although several definitions of "political risk" exist, the concept is most often defined as the unpredictability and instability of legal, political, and regulatory conditions in host countries (Kobrin, 1979). Whereas "geo-political risk" refer to the risk of one country's foreign policy influencing or upsetting domestic political and social policy in another country or region (Caldara & Iacoviello, 2018). According to the definition by Carmignani (2003), "political instability" includes events such as government terminations and electoral surprise, besides socio-political unrest.

The above discussion links to the distinction between risk and uncertainty in which the difference between the two concepts is whether the probability of an event occurring is known. . Knight (1921) suggests that risk occurs in a situation when there is a known range of probabilities that could potentially occur. Therefore, a risk assessment would assess a probable distribution based on the history of certain elements within a situation. This contrasts with uncertainty, which refers to a scenario in which agents have limited control over the possible outcomes. Deep uncertainty

limits agents because they have no possible way of predicting the probability of events (Ferrara, Lhuissier, & Tripier, 2018). More specifically, uncertainty refers to unexpected or unpredictable changes in government policies that could have an overall effect on an economic ecosystem (Abel, 1983).

Researchers have attempted to study the role uncertainty plays in FDI. Attempts to measure levels of uncertainty can include political, economic, institutional, or policy-related elements. In all such approaches, researchers agree that a high level of uncertainty hinders FDI flow into a country. This effect is heterogeneous across a firm's sector and experience (e.g. Azzimonti, 2019; Busse & Hefeker, 2007; Julio & Yook, 2016; Schneider & Frey, 1985).

So far, most of the literature focuses on a select aspects of uncertainty. With regard to the political component of economic uncertainty, Jensen (2003) uses the presence or absence of a democratic government as a political modifier for uncertainty. Through this method, Jensen shows that democratic countries tended to attract more FDI flow. However, Li and Resnick (2003) report very different results. Their study show that democratic institutions can have relatively positive and negative impacts on the inflow of FDI, but that these findings will depend on which variable is being considered. In addition, Julio and Yook (2016) use elections as a proxy to show that FDI outflow decreases as elections approach. However, using the election as a mediator does not accurately identify the level of uncertainty fluctuations during the election time period, as well as inaccurately assuming that no fluctuations in uncertainty are experienced during periods without an election, which is wrongly assumed (Gulen & Ion, 2016). Similar drawbacks occur if the variable is delineated as a democratic regime.

Indeed, previous literature has given rise to conflicting theoretical standpoints regarding uncertainty and FDI. However, there is no consensus around the effects that policy-related economic and socio-political uncertainty have on FDI. This thesis, therefore, aims to bridge this gap by addressing where uncertainty falls short in regard to FDI, particularly when quantifying and using *indexes* that comprehensively measure levels of uncertainty.

This section aims to offer some background information on recent sources of economic uncertainties. These relates to uncertainty arising from government policy, increasing migration-related fears, and geopolitical tensions. I also briefly discuss the trend of multinational activity during periods of uncertainty.

1.1.1 Increasing Uncertainty Surrounding Government Policy, Migration Fears, and Geopolitical Tensions

Recently, major regional events have resulted in growing political and economic unrest globally. The uprisings of the Arab Spring in the 2010s, a series of anti-government protests and armed rebellions, sparked massive political turmoil in the region of the Middle East and North Africa (MENA). These shocks has influenced on other political events, even in major superpowers. The displacement of over one million Syrian refugees, known as the Syrian Refugee Crisis, which occurred due to the Syrian civil war in 2011, forced global actors like the United Nations to intervene in geopolitical fronts.

Further, events such as the election of Donald J. Trump as the 45th President of the U. S. and Russia's surprising annexation of Crimea in 2014 have disrupted the global status quo and contributed to a sense of political and economic instability and heightened uncertainty.

Finally, the growing issues of migrations to developed markets, particularly during the 2015 refuge crises, have led to an increase in right-wing politics and polarised political ideologies. Moreover, the recent Brexit vote for the U.K. to leave the European Union has increased doubts around the future prospect of European economic policies (Davis, 2016).

Further, Baker, Bloom, and Davis (2016) argue that concerns have increased due to shifting taxation laws and fiscal regulatory policies in the U.S. and Europe. These shifts significantly contributed to 2008's global economic downturn. Moreover, growing geopolitical tensions and anti-immigration populist (AIP) beliefs have further complicated global economies (Caldara & Iacoviello, 2018; Devinney & Hartwell, 2020). The emergence of political unrest has distinctly shifted the political landscape. The politics of global superpowers has now become a much more disjointed, global–local political landscape that is more diverse, fluid, and also unfamiliar.

Thus, today's world is increasingly complex, and regularly faces an increasing number of global political changes. Due to expanding technologies and the fast-paced evolution of social structures, the world is largely interconnected; therefore, political change in a region thousands of kilometres away can still have a profound effect on distanced nation-states. The above discussed socio-political disruptions are major factors that have led to the recent spike in uncertainty (Davis, 2016).

1.1.2 Foreign Direct Investments (FDI)

FDI occurs through two distinct modes: "greenfield (GF) investment and cross-border mergers and acquisitions (CBA). GF investment relies on the internal capabilities of

an MNE, such as the construction of a new subsidiary from the ground up. CBA[1], on the other hand, involves the cross-border transfer of ownership of an existing asset" (Davies, Desbordes, & Ray, 2018).[2] At this stage, it is worth noting the definition of FDI. According to Financial Times (2016), an FDI is an "investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor". This definition implies a long-term relationship that is not undertaken without considering the MNEs. Therefore, an FDI holds less apparent risk of divestiture in times of economic deterioration, or if an investor's perception of the economy changes. FDI also reduces risks around sudden flight, which can leave companies and countries suddenly disenfranchised (Albuquerque, 2003). Additionally, there are concomitant benefits of FDI, such as garnering technological knowledge and experience, increased employment opportunities in the region, increased production capacity, stimulated progress, and a non-obligatory capital flow (Financial Times, 2016).

1.2 Motivation and Research Questions

Uncertainty around economic policy and socio-political disruption plays a large role in business decisions. For example, non-economic policy events, such as military action, national elections, and national security drives the business cycle (Baker et al., 2016). Investors regularly adjust their choices if they are faced with a certain level of uncertainty. This can depend on the time, context, and social impact of a policy or governmental regulation. Furthermore, concerns around policy uncertainty have

[1]As is common in the literature, the terms "cross-border acquisitions", "mergers & acquisitions", "M&A", "acquisitions", "mergers", and "takeovers" are used interchangeably throughout the thesis.

[2] Due to the empirical advantage of mergers and acquisitions data (allows me to perform a rich set of cross-sectional tests employing detailed industry-characteristics, firm-level characteristics, deal-level characteristics, and stock price data), chapters 2 and 3 use CBA as FDI modes.

increased due to rising political tensions, polarisation, a growing increase in populism, the changing economic structure of government policies, and a large number of uncertainty-inciting events.

Socio-political disruption and regulatory policy vary from other sources of uncertainty. Changing government policies and widespread social movements typically occur as a result of governmental shocks and other shocks that are out of managerial control. Whereas businesses can control firm-specific changes, such as the introduction of a new product, they cannot control non-market crises, such as an unforeseen attack or immigration crisis. Additionally, firm-specific uncertainty can be varied, and can affect niche aspects of a business or industry. This compares to macroeconomic uncertainty, which affects a wide range of firms and is more difficult to diversify. Accordingly, this thesis focuses on uncertainty derived from socio-political events and government policies, in order to assess their effect on FDI. It will not focus on general financial uncertainty, elections, or stock market events.

Until recently, measuring socio-political and regulatory policy uncertainty has been a challenge. This is because it remains unclear which event types can be classified as causal events related to policy uncertainty. Furthermore, scholars have been unable to define and measure the degree of uncertainty that an event may lead to. Lastly, some policy changes are intertwined with general macroeconomic uncertainty, so it can be difficult to identify which effects are change-induced uncertainty and which are not.

To surmount these obstacles, Baker et al. (2015, 2016) develop a type of proxy index that measures economic policy uncertainty (EPU) (henceforth, BBD index) and index for migration fear (henceforth, MF index). Similarly, Caldara and Iacoviello

(2018) develop the geopolitical risk (GPR) index (henceforth, CI index) to measure the geopolitical tensions, risks, and military events.

A growing body of literature has drawn from these new and available measures, including the BBD, MF, and CI, in order to focus on the consequences related to policy-induced uncertainty, even though this body of literature is still in its infancy and mainly focuses on the BBD index and the U.S. Prior research has found that policy uncertainty influences capital flows, the business cycle, and economic recovery at a macro level (Baker et al., 2016; Bloom, Floetotto, Jaimovich, Saporta-Eksten, & Terry, 2018; Julio & Yook, 2016). Policy uncertainty also affects corporate investments (Gulen & Ion, 2016), hedging decisions, firm-level FDI (Nguyen, Kim & Papanastassiou, 2018), and risk premiums on stocks (Pástor & Veronesi, 2012). Others have also found correlations between policy uncertainty and merger and acquisition (M&A) activity at both the macro and firm-level (Bonaime, Gulen, & Ion, 2018; Nguyen & Phan, 2017).

These studies provide a wealth of insights into the causal impact that uncertainty has on firms, to some degree. Unfortunately, however, we still know little about the role that economic policy shocks and socio-political disruption has on FDI around the world. This is a crucial omission in an increasingly interconnected and globalised economy. Given the mitigating role that global corporations play, in both the host and domestic country, and their critical impact on economic growth, it is critical that I analyse shifting business strategies and decision-making processes when global corporations are confronted with varying levels of uncertainty due to economic policy change and socio-political disruption.

Given the above discussed motivations, the three empirical chapters in this thesis address the link between FDI with economic policy shocks, socio-political disruption, and geopolitical tensions. To be specific, I attempt to answer the following three broad research questions:

1.2.1 First Research Question

Economic uncertainties could be related to an array of policy factors such as government spending, taxation, regulatory changes, monetary policies etc. Thus far, studies (e.g. Gulen & Ion, 2016; Jens, 2017; Julio & Yook, 2012) document that a high level of policy uncertainty is inversely associated with the level of corporate investment. Literature also notes that while domestic investors are generally better endowed with inside information and local resources to minimise the uncertainty related costs, foreign investors may not have similar advantages (Julio & Yook, 2016). As such, compared to domestic investors, foreign investors could face higher levels of deadweight costs in the event of policy uncertainties (Erel, Liao, & Weisbach, 2012). Motivated by the possibility that EPU could affect the flow of international investments more. On this basis, I ask the first broad research question:

Research Question 1: Does cross-country variations in EPU explain cross-country differences in CBA activities?

In order to address this first broad research question, I begin with investigation of whether the varying degrees of EPU can, in part, explain the temporal and cross-sectional variations in inbound CBA deals. I also examine the ways in which the quality of national institutions, business environment, and political risk moderates the link between EPU and inbound CBAs. I then investigate whether the effect of EPU on the acquirer and target's country has differential effects on CBAs. Finally, I also test

whether the stock market revises its expectations, based on gains from synergies, as a way to incorporate EPU considerations.

The BBD index includes and measures many of the factors that earlier index studies have used, and it is based on a wide range of EPU indicators. These indicators primarily include events captured in newspapers. The BBD index measures the frequency that newspapers and other economic indicators reference policy uncertainties. This is measured through newspaper searches for articles that contain words such as “economic”, “economy”, “uncertainty”, and “uncertain”, along with “regulation” and “legislation”, in combination with one or more of the following terms: “congress”, “legislation”, “white house”, “regulation”, “federal reserve”, “deficit”, or certain other policy-related terms. The BBD index amalgamates the components related to the newspaper coverage of policy-based economic uncertainty, the federal tax code provisions set to expire, and the butting tropes among economic forecasters.

This index is best-suited for times associated with extreme policy uncertainty, such as uncertainty that occurs during an election period, debates around the debt-ceiling, i.e., the debt-ceiling crisis of 2011, and the European debt crisis of 2009. This index is then correlated with the volatility index (VIX). The VIX can effectively illustrate how market volatility spikes during periods when levels of uncertainty related to policy are high. Their examples illustrate that market volatility spikes also demonstrate a decrease in consumption and spending. This supports Bernanke’s

(1983) argument about uncertainty leading to employment cuts and losses in investments.[3]

1.2.2 Second Research Question

MNEs operating in this era of nationalist rhetoric encounter growing nonmarket threats. Increased de-globalisation sentiment and legislation require MNEs to adjust and adapt their corporate strategies (Doh, Lawton, & Rajwani, 2012). However, due to the different historical and social issues across countries, the effects of globalisation are not the same (Rodrik, 2018). As more and more countries witness the rise of nationalist parties and populist movements, de-globalisation is gaining momentum in many markets (Rodrik, 2019; Witt, 2019). While most companies still seem to strategise in a global economy, policies have recently experienced a backlash; several countries have elected nationalistic governments that seek to protect the local economy and erect trade barriers (Devinney & Hartwell, 2020). The backlash from the local populace is leading governments to adopt policies resulting in reversing globalisation, and both the backlash and the policies are creating new challenges for MNEs in terms of conducting regular business across borders (Butzbach, Fuller, & Schnyder, 2020). This de-globalisation trend resulting from populism has pushed many firms to revise their international expansion decisions or to revert to wait-and-see strategies (Clarke & Liesch, 2017; Kobrin, 2017). Given the attendant socio-political disruption, there is a salient need for more research focused on MNE nonmarket strategies. Therefore, the aims of this chapter to answer the following broad question:

[3] Currently, "there are both daily (for the U.K. & U.S.) and monthly indices for U.S. equities and 24 international markets: Australia, Brazil, Canada, Chile, China, Colombia, Europe, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, South Korea, Mexico, the Netherlands, Russia, Singapore, Spain, Sweden, the U.S., and the U.K".

Research Question 2: How immigration-related fear sentiments (IFS), that incite populism in government policies, can affect inbound CBAs?

With respect to the second broad research question, I investigate how IFS incite populism in government policies, and how those fears can affect inbound CBAs. With this broad project theme, I address the following sub-questions: Does growing AIP movements across countries impact inbound CBA? I investigate this using two approaches: a) How IFS affect inbound CBA labour intensive industries and b) how IFS affect inbound CBA of countries with populist governments?

Next, I investigate other conjectures like whether IFS affect the probability of a target firm being taken over? Do IFS effect the likelihood of deal completion? Finally, do IFS delay the M&A process when an offer arrives?

The authors of the BBD index have also develop the MF quarterly indices for France, Germany, the U.K., and the U.S. The MF index measures the relative frequency of local newspaper articles categorised by terms relating to migration (M) and fear (F). The MF index significantly correlates with major immigration policy events, including Europe's recent waves of refugees, security fears, and terrorist attacks.

1.2.3 Third Research Question

Worldwide, heightened GPR could pose an unprecedented level of risk for cross border business activity. However, there are only a few empirical studies that highlight this link between FDI and GPR (Asiedu & Lien, 2011; Dai, Eden, & Beamish, 2013; Driffield, Jones, & Crotty, 2013). One explanation for this is that there is an inconsistency within the findings because the impact is largely dependent on the type

of event that occurs, and therefore diminishes the credibility of a causal link. For example, major global events like terrorism, wars, or conflict will have a different impact on businesses solely based on the natural risk that they possess. By taking the Arab Spring shock as a credible source of exogenous variation in GPR and by employing a high-frequency media-based measure of GPR, the current chapter overcomes the empirical challenge in asking the following question:

Does GPR affect FDI inflows?

To answer the above question, I examine the causal effect of GPR on FDI inflows in the MENA region before and during the Arab Spring. Also, I employ a high-frequency media-based measure of GPR developed by Caldara and Iacoviellos (2018).

Caldara and Iacoviello (2018) CI index measures articles that discuss geopolitical tensions, risks, and events. Similar to the BBD index, this measure counts the frequency of leading international newspapers against monthly country-specific CI indexes.[4] Their index does not only capture terrorist acts and threats, but it also considers risks around war, nuclear attacks, and military events.

1.3 Findings

1.3.1 First Research Question

In Chapter 2 I try to answer the first question, i.e. whether differences in EPU can explain the cross-sectional and temporal variations in CBA activities. By employing a time-varying media-based index of 20 major economies over a period spanning 1997-2017, as a measure of exogenous variation in EPU, the evidence suggests that country-

[4] These indexes are constructed around 19 emerging markets: "Argentina, Brazil, China, Colombia, Hong Kong, India, Indonesia, Israel, Korea Republic, Malaysia, Mexico, Philippines, Russia, Saudi Arabia, South Africa, Thailand, Turkey, Ukraine, and Venezuela".

level EPU is an important driver of CBA deals. Specifically, these results suggest that countries with higher levels of EPU tend to attract a lower level of foreign acquirers, which were measured both in terms of the number and volume of CBA deals.

These results hold, even after accounting for several additional factors that are known to influence CBA activities, including business cycles and government subsidies. The results are robust to the alternative use of discrete EPU shocks. The outcomes further indicate that the negative association between EPU and inbound CBAs becomes stronger when targets are domiciled in emerging markets (EMs). However, having institutions of a higher quality, a more amicable business environment, and lower levels of political risk can significantly reduce the severity of the negative link between EPU and inward CBA deals.

The bilateral country-pair examinations reveal that, while higher levels of EPU in the target's nation discourages inbound CBAs, a higher level of EPU in the acquiring firms' country boosts outbound CBA deals. The results support the *investment deterrence* view for inbound CBAs in the face of higher policy uncertainty in the target's country, as well as the *hedging motive* when acquirers face higher levels of EPU in their own home country.

Finally, these findings also conclude that the combined cumulative abnormal returns (CARs) of merging partners around a deal announcement is positively associated with EPU in the acquirer's country and, inversely, negatively associated with the EPU of the target's country. This finding is consistent with the theoretical argument that the stock market revises its expected gains from synergies to incorporate policy uncertainty considerations by the "transferring of wealth from target to bidder".

1.3.2 Second Research Question

In Chapter 3 I answer the second question, i.e. how populist government policies, induced by IFS, affect inbound CBAs. Using MF index, which is highly correlated with events such as terrorist attacks, security fears, and major anti-immigration policies, the empirical outputs suggest a negative association between the MF index and the number of inbound CBAs at the industry level. I provide empirical evidence that firms belonging to AIP countries and those belonging to labour-intensive industries become less attractive to potential acquirers following heightened IFS. I further support this finding using a quasi-natural experiment by exploiting the 11 September 2001 terrorist attack on the United States (9/11) and the European Refugee Crisis of 2015 (ERC) as a source of plausibly exogenous variations in uncertainty and showed that after these events there was a significant decline in inbound CBAs.

Using firm-level analysis, I find that IFS significantly reduce the probability of a firm being acquired. Furthermore, I document that higher IFS are also associated with a lower probability of CBA deals being completed and a significantly higher possibility of delay in deal completions. Taken together, all of the empirical outcomes on the deal completion process lend credible support to the conjecture that amplified IFS depress inbound CBA activities.

1.3.3 Third Research Question

In Chapter 4, I answer the third research question i.e. how increased GPR in the Arab World, based on the geopolitical shock of the Arab Spring uprisings, has affected FDI inflows. More specifically, the difference-in-differences (DiD) estimator was employed to investigate the effect of the Arab Spring on FDI inflows for the most affected countries—those in the MENA region. For this purpose, the treatment group

was composed of all MENA countries, while the control group consisted of all non-MENA countries. The results of the quasi-natural experiment exploiting the Arab Spring turmoil, using a dataset of 175 countries, revealed a significant negative impact of GPR on FDI inflows. Depending on the specifications, the empirical estimations show that the countries in the MENA region (those most affected by the Arab Spring shock) experienced a more severe drop in FDI compared to other, less affected countries. The alternative time-varying media-based measures of GPR also qualitatively support the negative link between GPR and FDI inflows.

1.4 Thesis Contributions

Chapter 2 contributes to the literature that looks at the effect of policy-related uncertainty on corporate investment (Bonaime et al., 2018; Gulen & Ion, 2016; Julio & Yook, 2012; Nguyen & Phan, 2017). This research supports and extends the arguments of Bonaime et al. (2018) and Nguyen and Phan (2017), as both find that uncertainty in domestic policy hinders M&A activity in U.S. firms. I extend this body of literature by showing the relevance of EPU in CBAs in a global context. I argue that CBAs are riskier for the acquirer, as they are at an informational and locational disadvantage with respect to their irreversible investments in a foreign territory. Further, I add to the literature by showing that the effect of EPU is more severe when the acquirer is from a developed markets (DMs) and the target is based in an EMs.[5]

[5] Profound thanks to the Konari Uchida (discussant) conference participants, editor, and the two reviewers of "Special Issue of the Journal of Financial Stability on Economic Policy Uncertainty and Corporate Policies around the World" in Tokyo 2019 for reviewing the paper and pointing out constructive comments. Earlier versions of this paper were presented at the International Finance and Banking Society (IFABS) at the Chile Conference in Santiago in 2018, and helpful comments and suggestions were received from Ignacio Requejo (discussant) at the 11th International Accounting & Finance Doctoral Symposium (IAFDS) in Wales in 2018. The status of the paper at the time I'm writing my thesis is revise and resubmit (R&R) under Journal of Financial Stability (JFS).

Chapter 3 contributes to a novel and growing body of literature within international business (IB) research that examines the connection between the political environment and CBAs. Two papers related to my study are that of Dinc and Erel (2013) and Zhang and He (2014). The former traced how nationalist governments influence CBAs, while the latter study found that economic nationalism has significant negative effects on foreign acquisition completion rates in China. I expand this emerging strand of literature by demonstrating how IFS that eventually empower AIP political parties can impact inbound CBAs. I show that growing immigration-related fears among the local populace could be stifling sources of global CBA pursuits and, moreover, the negative impact of IFS on inbound CBAs is stronger in labour-intensive industries.[6]

Chapter 4 contributes the research around the political determinants of FDI (Burger, Ianchovichina, & Rijkers, 2016; Busse and Hefeker, 2007; Wei, 2000). The current study is similar to Burger et al.'s (2015) analysis of Arab's sectoral heterogeneity and its political risks and FDI. However, whereas Burger et al. focus on political risk, the current research explores the role of GPR on FDI inflows, especially in the MENA region after what is known as the Arab Spring. Thus, it covers the endogeneity issue related to establishing credible causal links between how firms are affected by violence (Witte, Burger, Ianchovichina, & Pennings, 2017).[7]

[6] I am indebted to the feedback received at The Annual Conference of the Academy of International Business-U.S. West Chapter (AIB-US West) in San Diego in 2020 and delighted to have won the honourable mention-student paper award, The 45th European International Business Academy (EIBA) Conference in Leeds in 2019 and the 12th IAFDS in Milan in 2019.

[7] This paper has benefited from comments and discussions at the 46th Academy of International Business UK & Ireland Chapter Conference in Brighton in 2019 and the British Accounting and Finance Association (BAFA) Annual Conference in London in 2018.

1.5 Thesis Outline

The rest of this thesis is proceeds as follows. Chapter 2 discusses the first empirical investigation that examines whether EPU explains variations in CBA activities. Chapter 3 discusses the second empirical investigation that investigates how populist government policies, induced by IFS, affect inbound CBAs. Chapter 4 discusses the third empirical investigation that quantifies the effect of GPR on FDI inflows. Chapter 5 brings the concluding remarks

CHAPTER 2: ECONOMIC POLICY UNCERTAINTY AND CROSS-BORDER MERGERS AND ACQUISITIONS

2.1 Introduction

Cross-border mergers and acquisitions (CBAs) play an important role in driving global growth.[8] Thus, identifying the key determinants of CBA activities is of interest to corporate entities as well as regulatory bodies. Studies on political economy (e.g. Bonaime, Gulen, & Ion, 2018; Dinc & Erel, 2013; Nguyen & Phan, 2017) show that governments can affect the corporate takeover market by influencing uncertainty about their future policies that may alter the decisions of investment communities. Economic uncertainties could be related to an array of policy factors such as government spending, taxation, regulatory changes, monetary policies etc. Thus far, studies (e.g. Gulen & Ion, 2016; Jens, 2017; Julio & Yook, 2012) document that a high level of policy uncertainty is inversely associated with the level of corporate investment. Literature also notes that while domestic investors are generally better endowed with inside information and local resources to minimise the uncertainty related costs, foreign investors may not have similar advantages (Julio & Yook, 2016). As such, compared to domestic investors, foreign investors could face higher levels of deadweight costs in the event of policy uncertainties (Erel, Liao, & Weisbach, 2012).

Motivated by the possibility that economic policy uncertainty (EPU) could affect the flow of international investments more, this chapter examines the effect of EPU on CBA activities. I contribute to this strand of literature by addressing the

[8] Reports indicate that there has been an upsurge in CBAs between 1990 and 2017 rising from approximately USD100 billion to over USD869 billion in 2017. The sheer volume reached the milestone of USD1 trillion in 2007 followed by a sharp drop during the 2008 financial crisis with subsequent re-bounce thereafter (UNCTAD World Investment Report, 2017).

following issues. First, it investigate whether the varying degrees of EPU, in part, can explain the temporal and cross-sectional variations in inbound CBA deals. To answer this question I draw on the economic conjecture of the *investment deterrence* view, which suggests that firms from countries with greater political and regulatory stability are less likely to acquire firms in countries that pose a significant EPU (Holburn & Zelner, 2010).

Second, there is a well-established body of literature in international business which documents that, for international investors, host countries with credible institutions of macro-governance exhibit a significantly lower possibility of national expropriation, lower information asymmetry and transaction costs, thus availing a business-friendly environment for international ventures (Bekaert, Harvey, & Lundblad, 2005; Stulz, 2005). In other words, prudent macro-governance is likely to provide greater confidence to international investors in their cross-country investment decisions and hence mitigate the impact of higher EPU. As such, I examine whether the quality of macro-institutions, such as business environment and political risk, moderates the link between EPU and inbound CBAs.

Third, literature on international investment provides a *hedging motive* of a firm, whereby a firm, in response to domestic uncertainty, could undertake outbound investment as a risk-reducing device (e.g. Denis, Denis, & Yost, 2002; Le & Zak, 2006; Cao, Li, & Liu, 2019). To this end, by exploiting bilateral deals between acquirer-target nation pairs, I examine whether the effect of EPU of the domiciles of acquirers and targets have differential effects on CBAs. Specifically, I test the *investment deterrence* view in response to uncertainty faced by the foreign acquirers in targets' domiciles and *hedging motive* to outbound CBAs when the acquirers face

higher EPU at home. I also analyse the possible implications of comparative uncertainty between the countries where acquirers and targets are based.

Finally, I test whether the stock market revises its expectation of gains from synergies in order to incorporate EPU considerations. Previous studies provide two seemingly opposing findings on the effect of value-creation in the face of uncertainty. One studied, for example, showed that those acquirers who take less risk when making a transaction have lower premiums (than those with higher risk) and a higher chance at success. This almost always results in a transfer of wealth to the bidder and increased operational performance for both short- and long-term returns (Nguyen and Phan, 2017). To compare, though, Bonaime et al. (2018) found that premiums rise in times of high EPU, and this increases the bargaining power of the target's and does not significantly affect the short-term announcement returns for long-term operational performance. has no significant effect on short-run announcement returns or long-run operating performance. Given these seemingly opposing empirical findings on the value-creation and expected synergy, I examine the effect of the EPU of target and acquirer domiciles on abnormal returns around the CBA announcements.[9]

Despite the economic conjecture that EPU could deter investments, one major challenge in facing empirical investigation to establish a link between EPU and mergers and acquisitions (M&A) activities is to identify an appropriate but exogenous measure of EPU. The existing body of research employs various proxies to capture EPU, such as analyst forecasts, input and output prices, total factor productivity and

[9] Two seemingly opposing predictions on the effect of EPU on CBAs makes the effect of EPU on value-creation an open question. This further motivates my empirical study employing event studies around the CBAs announcements. While there are other methods to assess value-creation, the market-based measure, i.e. estimation of cumulative abnormal return (CAR) using the event study method, is the most common approach of estimating gains from synergy.

election results.[10] In this study, I make a sincere attempt to overcome this challenge by applying arguably exogenous variations in a newspaper-based novel economic policy-related uncertainty index constructed by Baker, Bloom, and Davis (2016) (henceforth, BBD index). A number of studies argue that the BBD index is able to capture country-specific EPU and is widely used as a plausible measure of exogenous variations in EPU (e.g. Bonaime et al., 2018; Gulen & Ion, 2016; Nguyen & Phan, 2017). Hence, unlike studies that focus on single dimensional measure of uncertainty, I employ a proxy measure (BBD index) that accounts for a multitude of factors that create uncertainty in economic policy-domains.

Using a sample of CBAs from 20 countries between 1997 and 2017, I find strong evidence that EPU leads to a reduction in inbound CBAs, measured in terms of both number and volume (i.e. deal value) of cross-border deals. In economic terms, the results suggest that a 1% increase in the average monthly BBD index of the host nation is associated with 4.6% fewer inward deals and an 18.7% drop in volume.[11] These findings are consistent with the economic conjecture that higher levels of EPU impede CBA activities in the host nation.

I employ a series of further tests to ensure that my findings are not confounded by other economic factors. First, the relationship between EPU and CBA deals could be mechanical, stemming from the fact that EPU may capture the state of an economy (higher EPU during economic slowdown) and that CBA, like other investments, are driven by business cycles. This raises a possibility that the observed negative

[10] See, for example, Bloom et al. (2018); Cao et al. (2019); Jens (2017); Julio and Yook (2012); Stein and Stone (2012); Stock and Watson (2012).
[11] In keeping with the literature, the empirical estimation uses the natural logarithm of a three-month average of the BBD index in lag year-month to facilitate economic interpretation (Gulen & Ion, 2016).

relationship between EPU and CBA deal is actually driven by business cyclicality. I address this concern by allowing for the implications of the economic characteristics that could proxy business cycles. My findings stay strong and consistent even when the possible impact of business cycles is controlled.

Second, I also allow for a possibility that the effect of EPU on CBA could be more prominent in industries that depend heavily on government spending. The results remain robust to this factor too.

Third, I apply a quasi-natural experiment in approach similar to difference-In-differences (DiD) specification. I track the intertemporal variations in EPU among the sample countries for the study period and construct 11 restrictive discrete episodes of high EPU from 10 sample countries and compare them with 17 restrictive episodes of low EPU (based on the percentage change in BBD index) from 10 sample countries. The DiD coefficients corroborate the findings of the main empirical model and lend support to the *investment deterrence* view of EPU on CBA.

Fourth, I assess the differential effect of EPU on developed markets (DMs) and emerging markets (EMs) as classified by the International Monetary Fund (IMF). This distinction largely captures the difference in quality of institutions, business environment and level of political risk of evolving EMs when compared to its more evolved DM counterparts (Zhou, Xie, & Wang, 2016). The results show that the negative association between EPU and inbound CBAs becomes more prominent when targets are domiciled in EMs. Further, higher quality of institutions, more amicable business environment, and lower level of political risk positively moderate the link between EPU and inward CBA. This evidence highlights the importance of improving

country-level governance and quality of institutions to mitigate the effect of policy uncertainties, particularly in EMs where the marginal utility of capital inflows is likely to be higher.

I further analyse the effect of EPU on deal-level CBA activities. The results show strong negative association between the EPU of the target's domicile and the likelihood of inward CBAs, consistent with the *investment deterrence* view. I also find evidence that EPU delays the deal completion process as well as decreases the probability of deal completion. Consistent with the view of Bernanke (1983) my main results, together with the evidence from a battery of additional tests, support the view that firms are likely to delay irreversible investments amid uncertainty.

Analysis of the bilateral deals between acquirer-target country-pair offers two important findings. First, in line with the prediction of the *investment deterrence* view the evidence show that the higher EPU in the target's domicile is associated with lower inbound CBA deals in the following months. Second, the results support the prediction of the *hedging motive* that the outbound CBAs are positively associated with the higher EPU in the acquirer's home nation.

Further sensitivity analysis of bilateral deals on the heterogeneity of EMs and DMs reveals that the negative effects of EPU on inbound CBA deals are stronger when the acquiring firm is domiciled in a DM and the target is based in an EM. The positive effect of higher EPU in the acquirer's domicile on outbound CBAs is stronger when the acquiring firms are based in EMs. These findings suggest that cross-border hedging benefits could accrue more for acquirers based in EMs compared to those in DMs.

I conclude the empirical investigation by examining the value relevance of EPU measured by combined cumulative abnormal returns (CARs) of merging partners around acquisition announcements. To do so, I run cross-sectional regressions of the acquirer and target firms' combined 5-day CARs centred around the deal announcement day to capture the short-term effect of EPU on shareholders' wealth. The results are consistent with the theoretical argument that the stock market revises its expected gain from synergies in order to incorporate policy uncertainty considerations (Pástor & Veronesi, 2012, 2013).

This chapter contributes to several strands of literature. First, it adds to the literature studying the effect of policy-related uncertainty on corporate investment (Bonaime et al., 2018; Gulen & Ion, 2016; Julio & Yook, 2012; Nguyen & Phan, 2017).[12] My paper is related to that of Bonaime et al. (2018) and Nguyen and Phan (2017) as both find that domestic policy uncertainty hinders the M&A activities of US firms. I extend this body of literature by showing the relevance of EPU in CBAs in a global context. I argue that CBAs are more risky as the acquirer is at an informational and locational disadvantage with respect to their irreversible investments in a foreign territory.

Second, this chapter adds to the growing body of research in institutional economics literature, particularly on the institutional determinants of CBA activities. Contributors such as Erel et al. (2012) documented features of target and acquiring countries, which included relationships for trade, proximity, the quality of a disclosure, the size of the stock market and/or exchange rate, any influential M&A activities

[12] Gulen and Ion (2016) and Julio and Yook (2012) document a negative correlation between policy uncertainty and capital expenditure.

between the two countries. Ross Rossi and Volpin (2004) and Ferreira, Massa, and Matos, (2010) also contributed to this body of literature. Both articles showed that that CBA activities were related to differences between cross-country regimes in place to protect investors as well as foreign institutional ownership. Recently, scholars like Ahern, Daminelli, and Fracassi, (2015), Alimov (2015) and Frésard, Hege, and Phillips, (2017) documented that CBA activities that were associated with a distance (primarily cultural) between the target countries and the acquiring peoples, as well as labour laws, and industry-specialisation unique to acquiring and target firms.

I contribute to this strand of literature by identifying EPU as an important factor in the policy realm that inhibits CBA decisions. However, my results also show that the adverse effect of EPU could be mitigated, in part, by improving the quality of institutions and business environment, and by lowering political risks. Further, I add to the literature by showing that the effect of EPU is more severe when the acquirer is from a DM and the target is based in an EM.[13]

Third, this chapter also contribute to the existing political economics literature by analysing whether a market revises its expectations about potential synergy gains in the face of policy- uncertainty (Brogaard & Detzel 2015; Kelly, Pástor, &Veronesi, 2016; Liu, Shu, & Wei, 2017; Pástor & Veronesi, 2012; 2013). On the capital market

[13] Management practices in EMs are not categorically different from those in DMs in the sense that business is business. However, what is different is the macro-institutional environment under which the businesses have to operate. For example, Xu and Meyer (2013, pp.1323) describe the characteristics that typically distinguish EMs from DMs as: "1-EMs are less efficient due to less transparency, more extensive information asymmetries, and higher monitoring and enforcement costs. 2-Governments and government-related entities are not only setting the rules, but are active players in the economy, for example through state-owned or state-controlled firms. 3-Network-based behaviours are common, in part as a consequence of the less efficient markets, but arguably also due to social traditions. 4-Risk and uncertainty are high due to high volatility of key economic, political, and institutional factors. Hence, businesses find it harder to predict parameters they need for strategic decisions, including, for example, predictions related business cycles, government actions, and the outcome of legal proceedings."

front, Pástor and Veronesi (2012) for instance create an equilibrium model that predicts when government policy changes are announced, stock prices are going to fall and the price drop will increase in view of increased policy uncertainty. Pástor and Veronesi (2013) extend the Pástor and Veronesi (2012) model to indicate that, in weaker economic circumstances, the policy uncertainty increases risk premiums. I contribute to this strand of literature by demonstrating that markets differentially revise the expected synergy gains from proposed inbound and outbound CBA deals when facing policy-related uncertainties stemming from acquirer and target nation pairs.

The remainder of the chapter proceeds with Section 2.2, which briefly discusses the development of the hypotheses. Section 2.3 describes the dataset I employ in this study while Section 2.4 presents and discusses the empirical results. Finally, Section 2.5 concludes the chapter.

2.2 Hypotheses Development

The research focused on three different branches of hypothesis development: EPU in target's domicile and inbound CBA deals, EPU in acquirer's domicile and outbound CBA deals, and the value relevance of EPU.

2.2.1 EPU in Target's Domicile and Inbound CBA Deals

Conventional wisdom as suggested by Holburn and Zelner (2010) would suggest that firms from more politically and regulatory stable countries were far less likely to invest in countries with higher risk (i.e., countries with potential policy-related uncertainty) This economic reasoning is referred to as the *investment deterrence* view. Further, host country governments themselves may create economic uncertainty in the name of economic nationalism, particularly when foreign companies take over domestic firms.

Several studies (e.g. Dikova, Rao Sahib, & van Witteloostuijn, 2010; Dinc and Erel, 2013; Sun, Peng, Lee, & Tan, 2015) have analysed a variety of ways that the likelihood of a complete CBA deal. These impacts include the distance between formal institutions, property risk, and economic nationalism (i.e., preferring domicile transactions over foreigners in economic activities). For instance, Dinc and Erel (2013) examine nationalist governments in relation to high-value takeover attempts of 197 local and 218 foreign bids in 15 European Union countries. They find that nationalist governments deter foreign bids on domestic firms. These findings suggest that foreign investors may be wary of investing in the industries of these jurisdictions as the governments themselves may create economic uncertainties.

Firms engaging in international investments could time the market to avoid any impending uncertainties. For example, Cao et al. (2019) show that the number of CBA deals significantly increases during the year prior to the national election, which can be attributed to the desire to escape from political uncertainty. Similarly, firms could choose not to complete acquisitions of foreign targets before uncertainty is resolved in order to maximise the return by waiting for new information and better allocate investments (Bernanke, 1983; Julio & Yook, 2012). In summary, higher economic uncertainty should discourage international investors from engaging in CBAs when facing higher EPU in the target's domicile. This leads to my first hypothesis that examines the *investment deterrence* view of the effect of EPU on CBAs.

H_1: A higher level of EPU in the target's domicile is associated with a lower number and volume of inbound CBA deals.

2.2.2 EPU in Acquirer's Domicile and Outbound CBA Deals

Existing literature documents seemingly opposing views on the association between EPU and outbound CBA deals. The first view borrows its economic intuition from the theory of real options of waiting, where rational investors, in the face of uncertainty, defer investment decisions until they have greater certainty about the business environment (e.g. Bernanke, 1983; Bloom, 2009).[14] In the case of CBAs, which entails difficulty in reversing large capital commitment, the investment retarding effect of higher EPU in the acquirer country arises for two reasons. First, firms aiming to invest further in a risky environment face higher cost of capital (Pástor & Veronesi, 2013).[15] Second, target firms are likely to revise their acquisition premium upwards to compensate, ex-ante, for the added post-merger risk they face because of higher EPU in the acquirer's country (Nguyen & Phan, 2017). Therefore, acquiring firms facing high EPU at home are likely to hold off outbound CBA until the uncertainty of the acquiring nation settles or the firms have clearer information. This leads to my second hypothesis that:

H_{2A}: A higher level of EPU in the acquirer's domicile is related to a lower number and volume of outbound CBA deals.

An alternative view, based on the principle of international diversification (*diversification motive*) suggests that firms facing uncertainty at home should boost their international investments (Abel, 1983; Knight, 1921; Segal, Shaliastovich, &

[14] Consistent with this prediction, Jens (2017) finds that policy uncertainty due to close gubernatorial elections leads to lower firm investment. Similarly, Bonaime et al. (2018) hint that EPU may inspire foreign firms to delay mergers until they are sure that the uncertainty has reduced.

[15] This is consistent with the prediction that EPU alters investment decisions by changing firm characteristics that matter to the investment. For example, Kelly et al. (2016) show that risk premiums increase when EPU is high, which is an explanation for why firms decrease investment.

Yaron, 2015; Vo & Le, 2017). If firms reduce their overseas investment in a period of high domestic uncertainty, their market share and expected returns are likely to decline (Vo and Le, 2017). Acquisition of targets in a foreign country is considered a hedge against uncertainty in home markets. As argued by Cao et al. (2019), global diversification enhances a firm's flexibility through opportunities to respond to differences in tax codes, relative prices, and other institutional differences. Similarly, Denis et al. (2002) consider geographical diversification through acquisitions as a risk-reducing activity. Le and Zak (2006) suggest that outward investments can help firms avoid policy uncertainties at home market. This leads to an alternative (*hedging motive*) hypothesis that:

H_{2B}: A higher level of EPU in the acquirer's domicile is associated with a higher number and volume of outbound CBA deals.

2.2.3 Value Relevance of EPU

The theory of investment under uncertainty (the *investment deterrence* view) predicts higher costs associated with inbound CBAs in the face of higher EPU in the target's domicile. Similarly, based on the *hedging motive*, higher benefit can be associated with outbound CBAs when acquirers encounter higher EPU at home. In other words, for a CBA announcement, stock prices of target (acquirer) firms domiciled in a country with higher EPU should drop (increase) to reflect the higher (lower) required rate of return amid higher risk caused by higher EPU. This leads to my third hypothesis that:

H_{3A}: A higher degree of EPU in the target's (acquirer's) domicile is related to lower (higher) combined announcement period returns from CBA deals.

Notwithstanding the view presented in H_{3A}, there may arise an alternative economic possibility because of EPU on combined value creation. Firms could become more prudent, delay risky investments and choose only those deals that they believe have an undisputable advantage during periods of high uncertainty (Baker et al., 2016; Bernanke, 1983; Bloom, Bond, & Van Reenen, 2007; Gulen and Ion, 2016). Therefore, the acquirers are likely to choose and pursue only those CBA deals that have better expected outcomes. This suggests the positive value gains from CBAs in the face of higher EPU in domiciles of both targets and acquirers. This leads to my final hypothesis that:

H_{3B}: A higher degree of EPU in the target's and acquirer's domiciles is positively related to higher combined announcement period returns from CBA deals.

2.3 Data

M&A deals of 20 countries from 1997 to 2017 are obtained from the Securities Data Corporation (SDC) database. As the study focuses on deals that involve a clear change in control and for the reasons cited in the extant literature in M&A (e.g., Erel et al., 2012), I exclude leverage buyouts, spin-offs, recapitalisations, self-tender offers, exchange offers, repurchases, and privatisations, and deals smaller than United States Dollar (USD) 1 million from the sample. Additionally, to ensure that the acquirer exercises control in the target, I include deals (domestic and cross-border) for which the acquirer owns at least 50% for transfer control (Rossi and Volpin (2004).

After applying these filters, 138,050 deals with a total volume of USD31.26 trillion survive in the sample. Of these, 34,229 (24.79%) are cross-border deals

constituting an aggregated deal volume of USD9.87 trillion. Table 2.1 reports the sample distribution of the number and volume (in USD) of all M&A deals by the domiciles of the acquirers and the targets. The US and UK witness the largest volume of domestic as well as CBA deals. The US and UK firms are involved in 46,643 and 15,541 total deals with 6,610 and 4,248 outbound CBA deals respectively. The US and UK are also the two largest recipients of inbound CBA deals, at least in terms of volume. Other countries such as Canada, China, France, Germany and Japan are also very active in CBA market and account for a significant share of the sample, while many other countries have limited M&A/CBA activities in terms of both number and volume. A key message from Table 2.1 is that there are substantial cross-country differences in M&A/CBA activities. Among factors that are potentially responsible for these variations, this study examines the role of EPU (see Tables 2.1 in the Tables of Chapter 2 section).

Table 2.2 presents the bilateral distributions of the number of completed deals for each pair of acquirer (columns) and target (rows) domiciles. The top three target countries involved in largest number of deals are the US (46,643), the UK (15,541), and China (15,359). Again, I observe substantial differences in the bilateral numbers of CBA activities and these differences are in line with those reported by prior studies, including Rossi and Volpin (2004), Erel et al. (2012), and Ahern et al. (2015). Although a number of studies strive to explain these variations, in this study I focus on the role of EPU in explaining such variations (see Tables 2.2 in the Tables of Chapter 2 section).

The data on industry characteristics and security prices are obtained from Datastream. The country and country-pair specific factors are collected from various

data sources. All the variables used in this study and their source are described in *Appendix 2-A.*

2.3.1 Measuring CBA Activities and Value

I use number and volume (in deal value) of CBA activities as dependent variables. For each country and year, I construct these variables at the industry level using 12 industry (FF-12) portfolios of Fama and French (1997).[16] Following Erel et al. (2012), "$Number\ of\ CBA_{jkt}$" is calculated as the total number of CBA deals per industry-country-year divided by total number of (domestic and CBA) deals per industry-country-year (see equation 1).

$$Number\ of\ CBA_{jkt} = \frac{Total\ number\ of\ CBA\ deals_{jkt}}{Total\ number\ of\ all\ (domestic\ and\ CBA)\ deals_{jkt}} \quad (1)$$

where, j, k and t are industry, target country, and year respectively. Similarly, "$Volume\ of\ CBA_{jkt}$" is constructed as in equation (2).

$$Volume\ of\ CBA_{jkt} = \frac{Total\ dollar\ value\ of\ CBA\ deals_{jkt}}{Total\ dollar\ value\ of all\ (domestic\ and\ CBA)\ deals_{jkt}} \quad (2)$$

Following Bris, Brisley, and Cabolis, (2008), bilateral deals between target-acquirer nation pairs ($NB_{tgt\text{-}acq,t}$) is calculated as the total number of bilateral deals between target-acquirer nation pair for month *t* per 100 listed firms ($NC_{tgt,t}$) in the target nation (see equation 3). ($NB_{tgt\text{-}acq,t}$) can be interpreted as the number of bilateral deals per 100 listed potential targets.[17]

[16] Due to low CBA activity in many industries of certain nations, a more comprehensive classification (such as the 48-FF industries) would inflate the amount of zero.
[17] The variable is expressed per 100 listed companies of target domicile to make the interpretation of coefficient more tractable. This can also be read as the percentage of listed companies.

$$NB_{tgt\text{-}acq,t} = \frac{Total\ NB_{\ tgt\text{-}acq,t}}{NC_{tgt,t}} \quad (3)$$

where, *tgt*, *acq* and *t* are target country, acquirer country, and month respectively. $NC_{tgt,t}$ is expressed in 100. Similarly, the volume of bilateral deals ($VB_{tgt\text{-}acq,t}$) is computed as:

$$VB_{tgt\text{-}acq,t} = \frac{Total\ VB_{tgt\text{-}acq,t}}{GDP_{tgt,t}} \quad (4)$$

i.e., the dollar volume of bilateral deals between country-pair is divided by GDP (in billions of USD) for the target country for the month *t*. [18] This variable is thus interpreted as the volume of cross-border bilateral deals (in millions of USD) associated with one billion economic activities (GDP) in the target domicile. The number of listed firms for each country is retrieved from Datastream while data on GDP are obtained from the World Bank's World Development Indicators (WDI).

For deal-level stock market return analysis, I follow Fuller, Netter, and Stegemoller (2002) and Brown and Warner (1985) and employ the market-adjusted model.[19] As shown in equation 5, the market-adjusted model defines daily abnormal returns as the difference between the firm's return and the market return.

[18] Scaling the CBA number of deals by the number of listed firms allows me to capture the relative intensity of CBA activities across and within countries, mitigating size bias. For the same reason I scale the CBA volume deals by GDP. Further, the scaling of GDP (denominator) is in billions of USD to make the interpretation of coefficients more tractable.

[19] Since prior same events (i.e. earlier acquisition in my sample) may pollute the estimation window, studies on M&A refrain from using the market model. Moreover, "for short-window event studies, Brown and Warner (1985) show that weighting the market return by the firm's beta does not significantly improve the estimation". Hence, the use of the market-adjusted return should not affect the reliability of my findings.

$$AR_{it} = R_{it} - R_{mt} \quad (5)$$

where, AR_{it} is the abnormal return of firm *i* on day *t*, R_{it} is the realised return of firm *i* on day *t* and R_{mt} is the value-weighted market return on day *t*. The CAR for firm *i* is the sum of the abnormal returns over a five-day window (*t – 2* to *t + 2*) surrounding the deal announcement day, *t = 0*, as in equation 6:

$$\mathrm{CAR}_i = \sum_{t-2}^{t+2} \mathrm{AR}_{it}, \quad (6)$$

2.3.2 Measuring Economic Policy Uncertainty

The EPU measure used in this chapter is based on the work of BBD and is sourced from www.policyuncertainty.com. The authors construct a separate monthly index of policy uncertainty for each of the 20 countries included in my sample.[20] The BBD index is based on a normalized count of newspaper articles containing key terms related to the broader words: *policy*, *economics* and *uncertainty*. For each of the 20 countries, the authors search the archives of several large newspapers in that country, counting the number of articles which contain at least one of the terms related to "uncertainty" or "uncertain", "economy" or "economics" and "policy" and/or "regulation". Naturally, the set of terms used can differ from country to country and the authors account for that".

In order to take account of the varying number of articles over time, once the total number of policy uncertainty related article counts are obtained for each

[20] The sample countries are Australia, Brazil, Canada, China, Chile, France, Germany, India, Ireland, Italy, Japan, Russia, Spain, South Korea, Singapore, Sweden, Netherlands, Mexico, the UK and the US.

newspaper, it is then divided by the total number of articles in that newspaper during the same month. Each series is then normalized to have a unit standard deviation. As the final step, these normalized individual newspaper series with unit standard deviation are added together for each country and the resulting monthly country-level measures are scaled to have a mean value of 100.[21]

Figures 2.1 to 2.4 plot the monthly average of the nominal GDP scaled BBD index along with the total number of M&A deals (Figure 2.1), total number CBA deals (Figure 2.2), total dollar volume of M&A deals (Figure 2.3) and total dollar volume of CBA deals (Figure 2.4). A casual eyeballing of Figures 2.1 – 2.4 indicates that both total M&A activities and CBA deals spike when EPU is lower, compared to the periods when EPU is higher, indicating a negative potential relationship between EPU and M&A activities. However, the CBA plots (Figures 2.2 and 2.4) show a noisier picture, implying a possibility that the effect of EPU on CBAs could be different from those of domestic M&As, indicating the need to control for other factors in the model (see Figures 2.1-2.4 in the Figures of Chapter 2 section).

2.3.3 Control Variables

Drawing on the existing literature, I include a number of country-specific, industry-country-specific, bilateral country-pair specific, deal and firm-specific control variables in all multivariate regressions. The first set of controls are specific to the target's domicile (Ahern et al., 2015; Erel et al., 2012; Rossi & Volpin, 2004). To capture a country's potential economic growth and development, I use annual percentage change in gross domestic product (*GDPGr*) and GDP per capita

[21] For more detailed methodology follow this web link: www.policyuncertainty.com

(*GDPCap*). I also include the ratio of total stock market capitalisation to GDP as a proxy of financial development (*MKTCAP/GDP*). I capture country-specific trade openness (*Trade*) by including the ratio of the sum of the imports and exports value to GDP. Further, I also control for the effect of varying inflation (*Inflation*) by incorporating percentage change in the annual consumer price index. Data on all macroeconomic factors are retrieved from the WDI.

I also incorporate stock market volatility (*Volatility*) that is computed as the 12 month rolling standard deviation in monthly market return of each country, obtained from Datastream. I further include changes in currency exchange rates (*Exchange rate*) (vis-à-vis USD for non-US firms) from the Penn World Tables. A country's quality macro-governance is measured by four time-varying indices, capturing the quality of institutions (*Bureaucratic quality, Law and Order, Corruption*) and foreign investment specific business environment (*Business environment*). All these rating indices, whereby higher rating reflects better quality of macro-institutions, are taken from the Political Risk Services' (PRS) International Country Risk Guide's (ICRG) database.

The use of the *Bureaucratic Quality* Index is to identify if a bureaucracy has the strength and/or expertise to govern where there are no drastic changes in governmental policy. Government services are rated on a scale of 0-1. Typically, in countries with lower risk, the bureaucracy will be more autonomous and will not be affected by political pressures. Recruiting and training mechanisms are already established. *Law and Order* is assessed on its own scale. Sub-scale components range from 0-3. Each sub-component assesses how common people observe the law. A country with a higher rating, such as 3, in terms of judicial ruling, but a low rating like

1, will have a higher crime rate or a dismantling of law that is routinely ignored without sanctions. A higher value on this scale suggests lower risk. Lastly, Corruption is measures on a scale of 0-6, with 6 suggest lower levels of corruption.

Business environment (also known as *Investment Profile* Index) is a government's measured attitude in regards to foreign investment. It is determined by contract viability or risk of expropriation, delays in payment, and profit repatriation. Components are scores between 0 and 4, with 0 being very high risk. The index value for *business environment* will range from 0-12 (in total). A higher value will reflect lower potential risk for foreign investors. I also incorporate Henisz's political constraints index (*Political risk*) compiled by (Henisz, 2000*a*).

Again, in line with existing studies, Ialso include a set of variables related to bilateral country-pair investigation (Ahern et al., 2015). I control for the intensity of economic ties between each country-pair in a given year using a dummy variable (*Bilateral investment treaty*). This information on constructing the dummy is obtained from the United Nations Conference on Trade and Development (UNCTAD) database.[22] I also control for geographic proximity between the acquirer and target firm countries by using the natural logarithm of (*Geographic distance*) following the measure proposed by Erel et al. (2012).[23] Further, I also control for cultural and institutional dissimilarity using three country-pair dummy variables (*Same language*, *Same religion* and *Same legal origin*). The language and religion dummies are sourced

[22] For example, India and Mexico signed a bilateral treaty in the year 2007. Therefore, the variable takes the value of zero for the bilateral pairs of India and Mexico for years before 2007 and one from the year 2007 onwards.

[23] This approach uses the great circle formula to calculate the geographic distance between each country-pair (*i-j*) as $3963 \times arcos[\sin(lat_i) \times \cos(lat_i) + \cos(lat_j) \times \cos(lon_j - lon_i)]$ where $lon_{i\,(j)}$ and $lat_{i(j)}$ are the longitude and latitude of the capital city of the acquirer (target) country location. For detailed information see Erel et al. (2012).

from the Central Intelligence Agency (CIA) World Factbook and the legal origin from Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008).

I also include industry average of firm-level variables, all obtained from Datastream. These include the natural logarithm of book-value of the firm's total assets (*Firm size*) to account for firm size. Profitability is captured using return on assets (*ROA*). Leverage is a measure of a firm's long-term financial distress (*Leverage*) and used as long-term debt to book value of equity. I take account of the bidder's mis-valuation implications by including the market-to-book (*MTB*) ratio.

The set of industry-country-level control variables comprises the Herfindahl-Hirschman Index (*HHI*), as a measure of industry competition. Finally, I also incorporate commonly used deal-specific variables in the model. These include *Deal size* (measured as the natural logarithm of the dollar value of the M&A deal), *Public firm dummy* (that takes the value of one if the target firm is a listed firm and zero otherwise). Similarly, I include *Cash payment dummy* (that takes the value of one if at least 50% is paid in cash and zero otherwise) and *Diversifying deal dummy* (takes the value of one if the 2-digit SIC codes of the acquirer and target are different and zero otherwise). Data on all deal-specific factors are obtained from the SDC.

2.3.4 Descriptive Statistics

Table 2.3 presents descriptive statistics of the variables used in my analysis. The table reveals CBA deals (volume) occupying an average of 33.66% (35.96%) of total number of deals (total deal value) emerging from a target-country-industry each month. Similarly, an average deal completion is 99.19 days and 81.36% of announced deals are successfully completed. Further, 24.79% of the sample deals are cross-border deals. On the bilateral country-pair, 100 listed companies in the targets' domicile are

associated with 0.1195 bilateral deals per month during my study period. In terms of total value (volume) of deals, one billion of GDP (USD) of the target country is associated with 0.43 million (USD) worth of cross-border deals. Finally, the CAR of a 5-day window period around an M&A announcement is 3.87%.

On the EPU variable, I find a three-month lagged average percentage change in EPU of the target's (acquirer's) domicile is 8.25% (7.11%) for my sample. This suggests that the change in target countries' EPU is marginally higher than that of the acquirer countries. Taken together, summary statistics show there is considerable time series and cross-sectional variation in the CBA and EPU, allowing us to employ multivariate analysis. Finally, the average deal size is 226.46 million (USD), 40.97% of deals are settled in cash, diversifying deals account for 50.88%, and 11.88% of the deals involves public target firms (see Table 2.3 in the Tables of Chapter 2 section).

2.4 Regression Results

2.4.1 Target Country's EPU and Inbound CBA Deals

The *investment deterrence* view suggests that an acquirer could be reluctant to acquire targets in countries that have higher EPU, leading to lower inward CBA deals in countries with higher EPU. I empirically test this hypothesis (H_1) using the multivariate regression, equation (7).

$$CBA_{jkt} = \propto + \beta_1 EPU_{k,t-1} + \boldsymbol{\beta_2}' \boldsymbol{X_{jkt-1}} + (\alpha_j \times \vartheta_k) + (\alpha_j \times \tau_t) + \epsilon_{jkt,} \quad (7)$$

where, *CBA* is defined in equation 1, j denotes industry, k refers to the target's domicile and t refers to month t. Following Gulen and Ion (2016), I define $EPU_{k,t-1}$ as the natural logarithm of the arithmetic mean of the BBD index of three months prior

to month *t* for country k (i.e. $EPU_{k,t-1} = \ln \frac{(BBD_{k,t-1}+BBD_{k,t-2}+BBD_{k,t-3})}{3}$). $\boldsymbol{X_{jkt-1}}$ is a vector of country and industry level control variables, as explained in Section 2.3.3 and defined in *Appendix 2-A.*[24] α_j, ϑ_k and τ_t are industry, target country, and year-month fixed effects respectively. All country-level and industry-level control variables are lagged by one year to ensure that they are exogenous to CBA decisions. I cluster the standard errors by the target's country-industry level. Since the dependent variable CBA_{jkt} is truncated between 0-1, I employ Tobit regression.[25]

Table 2.4 reports the outcomes of the different variants of equation 7. Estimates reported in Panel A of Table 2.4 (models 1-5) are based on the number of CBAs while those in Panel B (models 6-10) are based on the volume of CBAs. The differences across the models represent different combinations of explanatory variables and alternative definitions. In model (1) of Panel A, I analyse inbound CBA deals with the BBD index as the only independent variable. It shows that the inward number of CBA and EPU in the home market are inversely related, which is also statistically significant, suggesting that firms based in countries with higher EPU are less attractive to foreign acquirers. The coefficient of BBD (-0.104) is economically material and statistically significant, which suggests that an increase in EPU of the home market is associated with lower inward CBA deals. Models 2-4 examine the effect of EPU on the number of CBA deals after controlling for the effects of industry and country-level factors. The impact of EPU on inward CBA deals remains negative and statistically

[24] In line with existing literature, in cases where the control variables (mostly macroeconomic variables) are yearly figures, I take the same value for each month throughout my regressions (see Gelos & Wei, 2005). Thus, the notation ***t-1*** of the vector ***X*** represents yearly lag rather than monthly lag for yearly figures.

[25] Tobit regression accounts for the censoring of the response variable and therefore the appropriate analytical method when analysing bounded dependent variables (Greene, 2004).

significant, indicating that higher EPU deters inbound CBAs (see Table 2.4 in Tables of Chapter 2 section).

Information presented in Table 2.1 shows that the two most common destinations for the inbound CBAs are the US and UK. To ensure that the results are not driven by the experience of these two countries, I re-estimate the equation by dropping the observations pertinent to these two nations. The results reported in Model (4) are qualitatively similar to those in Model (3), indicating that the inverse relationship between EPU and inward CBA is not affected by the cases of the two most active CBA markets. These estimates also confirm the inverse and statistically significant relationship between the EPU at the target's domicile and inward CBA deals.

With the nature of scaling of dependent variables used in models (1-4), the possibility is that the documented negative correlation could be mechanical. This could be in a situation where CBA (the numerator) is not related to EPU, while domestic M&A (part of total deal in the denominator) is positively related to EPU. To address this concern, I follow Cao et al. (2019) and Ahern et al. (2015) and use the number of CBAs (natural logarithm of one plus total number of CBA deals) and volume of CBAs (natural logarithm of one plus the aggregate dollar value of all CBA deals) as additional measures. The results reported in model (5) of Table 2.4 shows that the EPU level in the target country is statistically significant and inversely related to the number of CBA deals. In terms of economic magnitude, estimates suggest that a 1% increase in monthly BBD index is associated with a 4.6% drop in the number of inward CBA deals.

As the economy opens up and the stock market grows, it is possible that the market for acquisitions also changes from a higher number of smaller deals to fewer but larger deals. Consequently, the relationship between EPU and number of CBA deals may not represent the true picture. To address this possibility I replace the dependent variable (number of CBAs) with volume of CBAs (total value of CBA deals divided by total value of all deals). The results are reported in panel B of Table 2.4 – models (6) to (9). The results corroborate the findings based on the number of CBAs (models 1 to 4) indicating that EPUs in the host country and inward CBA deals are inversely related. This evidence reconfirms that firms are reluctant to acquire targets in countries where the EPU level is high (i.e. the *investment deterrence* view). The estimate of model 10, which includes logarithmic values of one plus dollar volume of CBA deals, implies that a 1% increase in the BBD index in a given year-month is associated with an 18.7% drop in volume of inward CBA deals.

In summary, the results reported in Table 2.4 support my first hypothesis (H_1) that "*A higher level of EPU in the target's domicile is associated with a lower number and volume of inbound CBA deals*".

2.4.2 Effects of Business Cycles

Baker et al. (2016) indicate that episodes of varying business cycles drive economic activities and may be correlated with M&A activities. I therefore employ further checks to ensure my baseline results are not driven by the confounding effect of business cycles. Drawing on the existing literature (e.g. Drobetz, El Ghoul, Guedhami, & Janzen, 2018; Gulen & Ion, 2016) I employ three different measures of business cycles. First, I use the *Composite Leading Indicator* (*CLI*) developed by the Organization for Economic Co-operation and Development (OECD), which is a

weighted average of several economic variables that is expected to predict the level of business cycle.[26] Second, I use the *Business Confidence Indicator* (*BCI*) index, developed by OECD, based on a survey of managers, to gauge the economic outlook facing an economy. As a third measure, I control for expected economic conditions using annual real GDP growth forecasts from the OECD for all the sample countries. Appreciating the possibility that the three proxies are used for identical purpose of predicting the business cycle, I also use the first principal component of these three factors besides employing them separately. The results in Table 2.5 show that the effects of EPU on CBA, both number and volume of deals, carry negative signs and are statistically significant even after controlling for the effects of the business cycles. This evidence further corroborates my earlier finding of an inverse relationship between EPU in the target's domicile and inbound CBA deal (see Table 2.5 in the Tables of Chapter 2 section).

2.4.3 Government Subsidy and Spending

Foreign investors' tendency to delay CBA amid high levels of the host country's EPU is expected to be stronger when the target firm is from an industry that relies heavily on government spending/contracts (Gulen & Ion, 2016). Thus, the acquisition of firms in industries that are more sensitive to government subsidies/contracts could be differentially affected by economic uncertainties, particularly those stemming from regulatory and policy instabilities. To address this issue I test for the influence of government subsidies on the relationship between EPU and CBA deals. Following

[26] The chosen business cycle indices defined by OECD is appropriate for this study because this set of component variables differs from country–to–country and it shows short-term economic movements in qualitative rather than quantitative terms. The CLI is not available for Singapore. Thus, I excluded this country of my analysis.

Drobetz et al. (2018), I use yearly data for each firm in each sample country from Datastream and calculate correlation coefficients (Cor_{ss}) between the firm's sales and government subsidies as a fraction of total government spending.[27] I then aggregate these correlations at the Fama-French 12 industry level for each country, and sort them from highest to lowest values. Subsequently, for each country, I generate a dummy variable (Dum_{ss}) that takes the value of one for firms belonging to those industries that have above a median value of Cor_{ss} and zero for those below a median value of Cor_{ss}. I then interact the BBD index with Dum_{ss}. This interaction term (BBD × Dum_{ss}) captures the industry heterogeneity of their dependence on government spending/contracts.

I re-run equation (7) with the interaction term (BBD × Dum_{ss}) and report the results in Columns 1-2 of Table 2.6. The coefficients of the BBD index remain negative and significant, and the coefficients of the interaction terms are also negative and significant. These estimates indicate that for firms belonging to industries that are dependent on government subsidies, the inverse relationship between home country EPU and inward CBA is more pronounced. Taken together, the evidence indicates that the effect of EPU is symmetrical across industries (see Table 2.6 in the Tables of Chapter 2 section).

2.4.4 Shock-Based Estimation

I address the potential issue of endogeneity by exploiting a setting that represents something similar to quasi-experimental.[28] The media-based BBD (2016) measure of

[27] I use the GC.XPN.TRFT.ZS time series from the World Bank database (http://data.worldbank.org). This variable includes "all unrequited, non-repayable transfers on current account to private and public enterprises; grants to foreign governments, international organizations, and other government units; and social security, social assistance benefits, and employer social benefits in cash and in kind."
[28] I qualify the use of restrictive design to highlight the inclusion criteria for the empirical design.

EPU can be argued to provide a plausible source of exogenous variation in EPU. Despite the fact that I have included every possible time invariant and time varying control variables in the multivariate regression models, it is challenging to rule out the possibility that the continuous measure of EPU may be endogenous to other macroeconomic events. I address this concern by exploiting 11 unexpected but very high discrete jumps in the EPU levels from ten sample countries and compare them with 17 comparatively much lower jumps in EPU (i.e. relatively stable). I do this based on the monthly percentage change in BBD index for the ten sample countries.

I measure such discrete jumps for the sample countries by first computing the monthly percentage change in the BBD index. I next sort these percentage changes from lowest to highest jumps and then classify countries into five quintiles based on the increasing order of the monthly percentage change in BBD index. For each month, the countries falling within the 5th quintile are identified as treated (those with highest percentage change in EPU, i.e. highest jumps) and the countries within the 1st quintile are identified as comparison (control) countries (those with lowest percentage change in EPU, i.e. lowest jumps). For the identified treated and comparison countries, I further impose a restriction that the absolute jump in the quintile rank in the following three months is not more than one. This ensures persistence of the jumps for each country for at least three months to ensure the EPU level of these countries becomes credible to the bidders. This restriction significantly mitigates the possibility of overlap between pre and post events. Applying these restrictions results in 11 episodes (month-country events) of high EPU shocks and 17 episodes of stable-EPU comparison episodes (month-country events). See *Appendix 2-C* for the jumps and the treated and comparison countries.

To examine the effect of the target's domicile EPU on inbound CBA deals, I estimate the following shock-based regression equation (8).

$$CBA_{jkt} = \propto + \beta_1 (EPU\_SHOCK_{K,t} \times AFTER_t) + \boldsymbol{\beta_2}' \boldsymbol{X_{jkt-1}} + (\vartheta_k \times \alpha_j) + (\alpha_j \times \tau_t) + \epsilon_{JKt} \quad (8)$$

In equation (8), *j* denotes an industry, k refers to the target country and *t* refers to the month. The dependent variable, CBA_{jkt}, is either the CBA number or CBA volume, as defined earlier in equations 1 and 2 (separate models are estimated). For each identified EPU episode, treatment indicator EPU_SHOCK_{it} takes the value of one if a country in a given month belongs to one of treated episodes (*high EPU episodes*), and zero if it belongs to one of the comparison episodes (low EPU episodes) as identified in *Appendix 2-C.* $AFTER_t$ is the dummy variable that takes the value of one for the six subsequent months following a high EPU episode, and zero for six months before the EPU episode, as presented in *Appendix 2-C.*

The above identification strategy is based on the assumption that the outcome variable (i.e. *M&As* activities) would have behaved in a similar way across all groups of countries in the absence of sudden shocks. $\boldsymbol{X_{jkt-1}}$ is a vector of country and industry level control variables, as explained in Section 2.3.3 and defined in *Appendix 2-A.* As the data are aggregated at country-industry level I include ($\vartheta_k \times \alpha_j$) for target country ($\vartheta_k$) – industry ($\alpha_j$) fixed effects, to control for country-industry heterogeneity. I also include ($\alpha_j \times \tau_t$) for target industry (α_j) – year (τ_t) fixed effects, to control for time-varying industry-specific shocks in all specifications. The estimates are reported in Table 2.7 (see Table 2.7 in the Tables of Chapter 2).

Model (1) in Table 2.7 shows the estimates of the baseline specification without other country level and country-industry specific characteristics. The effect is statistically significant and economically meaningful (-0.1319) and is consistent with the baseline results reported in Table 2.4. The outcome of model (2), which includes country-level control variables, also shows a greater decline in CBA deals when EPU levels are higher relative to more stable periods. Estimates in model (3), which incorporate further controls, also corroborate the findings of models 1 and 2. Turning to the volume of CBA, columns (4)-(6) of Panel B document a similar inverse association between EPU in the target's domicile and inward CBA deals. In summary, the estimates reported in Table 2.7 support my *investment deterrence* hypothesis (H_1) that suggests a higher degree of EPU in the target's domicile may dampen inbound CBA deals.

2.4.5 The Moderating Role of Macro Institutions

I investigate whether the effect of host country EPU on inbound CBA deals depends on the country level macro-institutional qualities. Literature in new institutional economics argues that better quality macro-institutions might reduce the level of uncertainty present in transactions because they have stricter rule enforcement. Authors (Choi, Lee and Kim, 1999; North, 1990) found that legal institutions and regulator systems lower the transaction costs because they provide a stable institutional environment. However, in EMs, institutions are underdeveloped and must charge higher costs for the enforcement and measurement of regulations. Higher transaction costs are therefore incurred (North, 1990). Further, foreign investors in EMs face

greater levels of information asymmetry than in DMs.[29] Similarly, a number of other studies provide convincing evidence that, compared to DMs, EMs have a weaker information environment and a relatively poorer quality of governance and institutions (see, for example, Bekaert & Harvey, 2003; Bekaert et al., 2005; Claessens & Yurtoglu, 2013).

Further, Khanna and Palepu (2010, p. 17) argue, "Well-functioning markets tend to have relatively low transaction costs and high liquidity, as well as greater degrees of transparency and shorter time periods to complete transactions." As such, a strong regulatory framework can reduce uncertainty, protecting multinational enterprises (MNEs) and facilitate international competition by addressing market failure, which should increase efficiency and improve profitability (Li & Resnick, 2003; Bailey, 2018).[30] Thus, assuming all other factors, including EPU level are constant, international investors would generally prefer to invest in countries with greater transparency and a more cost-effective macro-institutional environment.

To examine this country governance heterogeneity, I re-run Equation (7) by interacting the EPU with six different variables that capture various facets of differences in governance and institutional qualities. Among these characteristics, the first is a dummy variable that takes the value of one if the country belongs to the group of EMs and zero otherwise. This is followed by interacting BBD with three country-level measures of quality of institution (i.e. *Bureaucratic quality*, *Law and Order* and

[29] Several studies highlight differences in information flow in EMs and DMs. See, for example, Akerlof (1970); Brennan and Cao (1997); Chan et al. (2005); Choe et al. (2005); Dvořák, (2005); Hau (2001).

[30] In contrast to DMs largely governed by monetary and fiscal policies, EMs have less effective fiscal and monetary stabilization policies, causing diminishing growth opportunities during bad economic conditions, which could induce fewer inbound CBAs (Bloom, 2014).

Corruption). I also interact the BBD index with *Business environment* and *Political risk*[31] (see Section 2.3.3 and *Appendices A and B* for definitions of all these variables). The results are presented in Panels A, B, C and D of Table 8 respectively (see Table 2.8 in Tables of Chapter 2 section).

The negative and significant coefficient of interaction term [BBD × EMs] suggests that the inverse relationship between host country EPU and inbound CBAs is more pronounced in EMs than in DMs. Models (2)-(4) report the results of estimates that have interaction terms between EPU and the individual institutional quality indicators (e.g., *Bureaucratic quality*, *Law and Order* and *Corruption*). As the higher value of these measures indicates better quality, the observed positive coefficients of the interaction terms of Models (2)-(4) are consistent with the view that the inverse relationship between host country EPU and inward CBA deals can be mitigated, at least in part, by better quality of institutions. These results are consistent with the findings of Busse and Hefeker (2007) who report a positive association between institutional quality and the flow of foreign direct investment (FDI).

The interaction term (*BBD* × *Business environment*) also bears a statistically significant positive coefficient (model 5). This suggests that a higher investment profile (lower risk to foreign investors) is positively associated with the levels of inward CBA deals. Finally, the coefficient of the interaction term between BBD and political risk, whereby higher ratings of political risk reflects lower level of risks, is also positive and statistically significant. This indicates that the possibility of lower

[31] Higher rating of *Quality of institution* reflects lower potential risk. See Panel B of *Appendix 2-B* for its three individual sub-components, i.e. Corruption (0-6), Law and Order (0-6) and Bureaucracy Quality (0-6). Similarly, the Business environment variable is on a scale of 0-12 with higher value reflecting lower potential risk. See Panel C of *Appendix 2-B* for its individual sub-components, i.e. Contract Viability/Expropriation (0-4), Profit Repatriation (0-4) and Payment Delays (0-4).

political risk, thus lower regulatory and policy uncertainty, partly compensates for the negative effect of higher EPU on inward CBA activities. All results based on CBA volume [models 7-12] are similar to those reported for number of deals. Overall, these findings suggest that the link between host market EPU and inward flow of CBA deals is also dependent on the quality of countries' macro-institutions.

2.4.6 Cross-border Acquisition Candidacy

As the EPU of the target's domicile could pose a serious and irrevocable cost for foreign acquirers, the propensity to undertake CBAs could be dampened (Bernanke, 1983; Bloom, 2009). Consequently, the likelihood of firms based in countries with higher EPU being taken over (i.e. acquisition candidacy) should be lower. To test this proposition I employ probit regression as in equation (9).

$$CB - Acquisition\ Candidacy_{ijt} = \propto + \beta_1.(\Delta \mathrm{BBD}_{3\mathrm{m\_avg}_{t-1}}) + \boldsymbol{\beta_2}'\boldsymbol{X_{t-1}} \quad (9)$$

$$+ (\mathrm{C}_{tgt} \times \gamma_{tgt}) + (C_{acq} \times \gamma_{acq}) + (\gamma_{tgt} \times \tau_t) + (\gamma_{acq} \times \tau_t) + \boldsymbol{\lambda_{i-j,t}} + \epsilon_{ijt}$$

where, $CB - Acquisition\ Candidacy_{ijt}$ takes the value of one if in an M&A deal pair *i-j* at time *t* is a cross-border target and zero otherwise and $(\Delta \mathrm{BBD}_{3\mathrm{m\_avg,t-1}})$ is the monthly change (in percent) in the BBD index.

As the levels of the BBD indices of the pair-countries are unlikely to be comparable, I use two variations of the change in BBD index (i.e. change in the level of EPU). The first is separately calculated for the domiciles of target ($\Delta BBD_{3m\_avg\_tgt}$) and acquirer ($\Delta BBD_{3m\_avg\_acq}$). This is computed as the average of the previous three months' ΔBBD of target's and acquirer's nations. The second variation I employ is the difference between target's and acquirer's ΔBBD_{3m_avg} (i.e. $[\Delta BBD_{3m\_avg\_tgt}] -$

$[\Delta BBD_{3m\_avg\_acq}]$). These two measures help in assessing the effects of the EPU of target's and acquirer's domiciles separately and their net effect ($[\Delta BBD_{3m\_avg\_tgt}] - [\Delta BBD_{3m\_avg\_acq}]$) on CBA activities.[32] $\boldsymbol{X_{t-1}}$ represents a vector of control variables that include country and industry (*Firm size, ROA, leverage* and *MTB*) specific characteristics of acquirer and target nations pair (expressed in the difference between the target's and acquirer's variables). The control variables are explained in Section 2.3.3 and defined in *Appendix 2-A***.**

The third set of control variables, $\boldsymbol{\lambda_{i\text{-}l,t}}$ (*deal size*, *public target*, *cash payment* and *diversifying deal*) represent contemporaneous deal level factors that may affect the propensity to engage in CBAs. Further, I also control for $(C_{tgt} \times \gamma_{tgt})$ and $(C_{acq} \times \gamma_{acq})$ to control the target country-industry and acquiring country-industry fixed effects. Finally, $(\gamma_{tgt} \times \tau_t)$ and $(\gamma_{acq} \times \tau_t)$ account for industry-specific shocks originating in industries of acquirer and target firms respectively. Standard errors are clustered at the acquirer-target nation pair.[33]

The results of probit regressions that examine the relationship between target (acquirer) country's EPU and probability of target (acquirer) firms being acquired are presented in Table 2.9. The coefficients of $[\Delta BBD_{3m\_avg\_tgt}]$ in models 1 and 2 are negative and statistically significant. This evidence confirms my predictions that firms are less likely to acquire a target that is based in countries with a higher level of EPU.

[32] As the levels of the BBD indices of the pair-countries are unlikely to be comparable, I employ (percentage) change in BBD index, $\Delta BBD_{3m\_avg,t-1}$. Whilst $\Delta BBD_{3m\_avg,t-1}$ appropriately captures the difference in direction and magnitude of the change in EPU of the merging partners' nations, it has limited ability to capture the effect of the level of EPU on long-term investments such as M&A. Therefore, this approach should be considered as a complement to the use of the level of EPU in the baseline regression, equation (7).

[33] Examples include industry-specific technology and innovation shock, or shift in industry-level investment growth, or competition prospects.

In contrast, the coefficients of $[\Delta BBD_{3m\_avg\_acq}]$ in models 3 and 4 are statistically significant but positive, implying that higher EPU in a host country is associated with higher outbound CBA supporting the *hedging motive*. Coefficients of $([\Delta BBD_{3m\_avg\_tgt}] - [\Delta BBD_{3m\_avg\_acq}])$ in models 5 and 6 indicate a strong negative net effect of higher EPU on CBA acquisition candidacy. Taken together, the findings lend support to the *investment deterrence* view that the acquisition candidacy of the targets based in countries with increased EPU is reduced (i.e. lower inbound CBA deals) while the acquirers based in countries with increased EPU opt for more international acquisitions, lending support to the *hedging view* (see Table 2.9 in the Tables of Chapter 2 section).

2.4.7 Deal Completion

Evidence thus far shows that higher EPU in the home market decreases the likelihood of receiving an inward CBA bid. I now investigate if EPU can complicate the deal completion process after an offer is made. To assess this possibility, I adopt three strategies. First, I evaluate the persistence effect of EPU on CBA. To do so I use lag values of BBD for up to six months, i.e. I include six different lagged values of the BBD index. The estimates are reported in models 1-2 of Table 2.10. The results reveal that while the effect of EPU is statistically significant all the way up to three months, on average it is strongest in the 3rd month. This suggests that the uncertainty would transmit its effect on a CBA investment decision for up to three months. The effect fades gradually after three months. This implies that, on average, after three months, acquirers revise their decision based on information that is more recent (see Table 2.10 in the Tables of Chapter 2 section).

In the second approach, I compute the time taken to complete a deal, measured as the difference between announcement date and date of completion of a deal ($Deal\ Compl\ Dur_{ijt}$), and estimate equation (10):

$$Deal\ Compl\ Dur_{ijt} = \propto + \beta_1.(\Delta BBD_{3m_{avg,t-1}}) + \boldsymbol{\beta_2}'\boldsymbol{X_{c,t-1}} \quad (10)$$

$$+ (C_{tgt} \times \gamma_{tgt}) + (C_{acq} \times \gamma_{acq}) + (\gamma_{tgt} \times \tau_t) + (\gamma_{acq} \times \tau_t) + \boldsymbol{\lambda_{i-j,t}} + \epsilon_{i\text{-}l,t}$$

Finally, I also estimate the likelihood of deal completion ($Deal - Compl - likl_{ijt}$) using equation (11):

$$Deal - Compl - likl_{ijt} = \propto + \beta_1.(\Delta BBD_{3m\_avg_{t-1}}) + \boldsymbol{\beta_2}'\boldsymbol{X_{c,t-1}} \quad (11)$$

$$+ (C_{tgt} \times \gamma_{tgt}) + (C_{acq} \times \gamma_{acq}) + (\gamma_{tgt} \times \tau_t) + (\gamma_{acq} \times \tau_t) + \boldsymbol{\lambda_{i-j,t}} + \epsilon_{i\text{-}l,t}$$

where, $Deal - Compl - likl_{ijt}$ is a dummy variable that takes the value of one if the deal is "completed" and zero otherwise. In both specifications, $\Delta BBD_{3m\_avg,t-1}$ is as defined in Section 2.4.6. Columns (3)-(8) of Table 2.10 present the results of OLS and probit estimations of equations 10 and 11 respectively. In column (3), the coefficient of $BBD_{3m\_avg\_tgt_{t-1}}$ is positive and statistically significant. This signifies that deals involving target firms based in countries with higher EPU take longer to complete. Similarly, in column (4), the coefficient of $\Delta BBD_{3m\_avg\_acq,t-1}$ is also positive and statistically significant. The sign suggests that it takes a longer duration for acquirers from countries with relatively higher EPU to complete the deals. In column (5), the coefficient of $[\Delta BBD_{3m\_avg\_tgt,t-1} - \Delta BBD_{3m\_avg\_acq,t-1}]$ is positive and statistically significant, indicating that when the EPU level of the target firm's nation is relatively higher than the EPU of the acquiring firm's nation, deal completion takes

longer.

In terms of probability of deal completion, the results reported in columns (6)-(8) mirror those reported in columns (3)-(5). In column (6), the coefficient of $\Delta BBD_{3m\_avg\_tgt,t-1}$ is negative and significant, suggesting that a higher level of EPU in the target nation reduces the likelihood of deal completion. The coefficient of $\Delta BBD_{3m\_avg\_acq,t-1}$ in Column (7) is also negative and significant, implying that a higher level of EPU in acquiring firms' nations has a deterring effect on the likelihood of deal completion. Finally, the coefficient of $[\Delta BBD_{3m\_avg\_tgt,t-1} - \Delta BBD_{3m\_avg\_acq,t-1}]$ in column (8) is also negative and significant, indicating that when the EPU of a target firm's domicile is relatively higher than that of the acquiring firm's nation the probability of deal completion is reduced. In sum, the results thus far reflect the view that target firms based in countries with higher EPU are less likely to be acquired and the acquisition process is likely to lengthier.

2.5 Bilateral M&A Activities

I extend my analysis of the impact of EPU on bilateral country-pair setting (among the sample 20 countries). Country-pair analysis enables us not only to isolate the impact of the EPU originating from the domiciles of targets and acquirers separately but also to gauge the net effect of differences in the changes in EPU between the pair on their CBA activities. I use a specification that is similar to the gravity model often featured in international economics to model bilateral M&A flows. Specifically, my model (equation 12) follows that of Erel et al. (2012).

$$Bilateral\ Deals_{\ tgt,acq,t} = \propto + \beta_{1.}(\Delta \mathrm{BBD}_{3\mathrm{m\_avg,t-1}}) + \boldsymbol{X_{tgt-acq,t-1}} \qquad (12)$$

$$+ \gamma_{tgt} + \gamma_{acq} + \tau_t + \epsilon_{tgt,acq,t}$$

In equation (12) the subscript *tgt* represents targets' domiciles and *acq* represents acquirers' countries. I use two measures of the dependent variable. The first measure, *Number of Bilateral Deals,* is defined as the total number of bilateral deals originating from the acquirer's nation to target's nation as a percentage of firms listed in the target's domicile. The second measure, *Volume of Bilateral Deals,* is defined as the total dollar value of bilateral deals (in millions of USD) originating from the acquiring firm's nation to target's nation divided by GDP (billions of USD) of the target's nation. I employ two variations of $\Delta \mathrm{BBD}_{3\mathrm{m\_avg,t-1}}$, as explained in Section 2.4.6. $\boldsymbol{X}_{tgt-acq,}$ is the bilateral target's and acquirer's country-pair characteristics (expressed as the difference between the target's and the acquirer's variables). I also use γ_{tgt} and γ_{acq} to control for the time invariant country-specific factors of the nations in which targets and acquirers are based. Further, I include a year-month dummy τ_t to capture possible implications of global economic variations, and $\epsilon_{tgt,acq,t}$ is the error term. All the first differenced control variables are lagged by one year to ensure that they are exogenous to CBA decisions. I cluster the standard errors by acquirer-target nation pair. The results of the different specifications of equation (11) are presented in Table 2.11 (see Table 2.11 in the Tables of Chapter 2 section).

The dependent variable in models 1 to 6 is *Number of Bilateral Deals*, while in models 7 to 12 it is *Volume of Bilateral Deals*. The estimates in models (1) and (2) support the *investment deterrence* view on inbound bilateral deals when the EPU level of the target's nation is higher than that of the acquirer's nation. In models (3) to (6) I further estimate the sensitivity of the effect of EPU based on the heterogeneity of

emerging (EM) and developed (DM) markets pair.[34] Model 3 in particular reveals that such deterrence is stronger when the acquiring firm is from a DM and the target is from an EM. Estimates reported in models (7) to (12) corroborate the evidence reported in models (1) to (6) when using a volume-based measure of bilateral deals. Further, estimates in model 9 show a similarly stronger deterrence effect when the acquirer is from a DM and target is based in an EM.

In columns (13)-(22) in Panel C of Table 2.11, I report the effects of EPU originating from target's and acquirer's domiciles separately. Results presented in columns 13-17 uphold the negative effect of higher EPU in the target's domicile on bilateral deals, supporting the *investment deterrent* view. The results are qualitatively similar (models 18 to 22) when the dependent variable is volume-based.

2.6 Announcement Period Returns

Findings in previous sections show that EPU affects the number and volume of CBA deals as well as the likelihood of receiving a takeover bid. To the extent that markets factor in risk and cost associated with CBA deals facing higher EPU, I expect that a higher degree of EPU in the target's domicile to be associated with lower synergy gains (measured by combined announcement period returns) to merging partners. Following the methods used in extant M&A literature (see, for example, Ahern et al., 2015) I measure the gains by combining the CARs of acquirer and target. I examine the impact of the EPU of the target's domicile on the equally weighted combined gains (and those of targets and acquirers separately) of merging partners for five days (-2 to

[34] In Table 11, I represent DM_acq - EM_tgt as bilateral deals between acquirer from DM and target from EM. Similarly, DM_acq - DM_tgt represents bilateral deals when both acquirer and target are from DMs. EM_acq - DM_tgt is when acquirer is from EM and target is from DM. Finally, EM_acq - EM_tgt is a bilateral deal when acquirer and target are both from EMs.

+2) surrounding the announcement of the deal. I estimate equation (13) that controls for other factors that are known to affect the gains from M&A.

$$CAR_{ijt} = \propto + \beta_1.(\Delta \mathrm{BBD}_{3\mathrm{m\_avg,t-1}}) + \boldsymbol{\beta_2}'\boldsymbol{X_{tgt-acq_{t-1}}} + \boldsymbol{\lambda_{i-j,t}} + \alpha_j + \vartheta_k + \tau_t + \epsilon_{jkt,} \quad (13)$$

CAR_{ijt} is the cumulative abnormal return of the acquirer-target deal pair ij.[35] I employ both variations of $(\Delta \mathrm{BBD}_{3\mathrm{m\_avg,t-1}})$ as defined in Section 2.4.6. $\boldsymbol{X_{tgt-acq_{t-1}}}$ is a vector of control variables (expressed in the difference between the target and the acquirer variables) as explained in Section 2.3.3 and defined in *Appendix 2-A.* $\boldsymbol{\lambda_{i-j,t}}$ controls deal level characteristics. α_j, ϑ_k and τ_t are firm, country, and year fixed effects, respectively. All country-specific control variables are lagged by one year to ensure that they are exogenous to CBA decisions. I cluster the standard errors by acquirer nation - target nation pair.

The results are reported in Table 2.12. Models (1) to (3) show the estimates of abnormal returns of acquirers, targets, and the combined gains respectively. Models (4) to (7) present additional sensitivity tests based on the heterogeneity of EMs and DMs. The change in EPU of the target's nation is inversely related to abnormal returns [CAR, -2, +2] of merging partners around the announcement of the deals. The findings support the argument that the market penalises the merging partners if the target is based in a nation whose EPU is accelerating faster. The adverse value implication associated with higher EPU of the target's domicile is strongest when the acquirer is

[35] Combined CAR is the CAR of the acquirer when a target firm is not private, or they do not have stock information. Like CAR, combined CAR takes the value of target's CAR if price information is not available.

from a DM and the target is from an EM (Model 4; see Table 2.12 in the Tables of Chapter 2 section).

On the other hand, the market rewards the CBA partners if the acquirer is based in a higher EPU country possibly because the investors recognise the value of hedging (international diversification) in the face of increased uncertainty in the home market. The positive value implication of CBAs associated with higher EPU of the acquirer's domicile is strongest when both acquirer and target are from DMs (Model 5). In summary, the results lend further support to the *investment deterrence* view of inbound CBAs when the EPU of the target nation is high. The results also support the *hedging motive* of outbound CBA deals as the market positively rewards merging partners of CBA deals when the acquiring firm is facing higher EPU at home.

2.7 Conclusion

This study examines whether differences in EPU can explain the cross-sectional and temporal variations in CBA activities. By employing a time-varying media-based index of 20 major economies over the period spanning 1997-2017 as a measure of exogenous variation in EPU, the evidence suggests that country-level EPU is an important driver of CBA deals. Specifically, my results show that countries with higher EPU attract a lower level of foreign acquirers, measured by both number and volume (value) of CBA deals.

These results hold, even after accounting for several additional factors that are known to influence CBA activities, including business cycles and government subsidy. The results are robust to the alternative use of discrete EPU shocks. The outcomes further indicate that the inverse relationship between EPU and inbound CBAs becomes

stronger when targets are domiciled in EMs. However, higher quality of institutions, more amicable business environment and lower level of political risk can mitigate, to some extent, the severity of the adverse effect of EPU on the inward flow of CBA deals. I also find that firms in high EPU countries are actually less likely to be taken over and when they are completion of the deal takes much longer.

The bilateral country-pair examinations reveal that while higher EPU in the target's domicile discourages inbound CBAs, higher EPU in acquiring firms' countries encourages outbound CBA deals. The results support the *investment deterrence* view for inbound CBAs in the face of higher policy uncertainty in the target's domicile and the *hedging motive* when acquirers face higher EPU in their own home country.

Finally, the value created from the merger (measured by the combined CARs of merging partners) around the announcement of a deal is positively associated with the EPU of the acquirer's country and inversely associated with the EPU of the target's domicile. This finding is consistent with the theoretical argument that the stock market revises expected value synergy from mergers conditional upon the policy uncertainties of the nation in which the firms are based. These findings imply that countries aiming to attract foreign capital through cross-border mergers should strive to mitigate economic policy-related uncertainties.

Tables of Chapter 2

Table 2.1 Number and Volume of M&A Deals

	All Deals by Acquirer Nation		Cross-border Deals by Acquirer Nation		All Deals by Target Nation		Cross-border Deals by Target Nation	
Country	Number	Volume (USD millions)	Number	Volume (USD millions)	Number	Volume (USD millions)	Number	Volume (USD millions)
Australia (AU)	8,294	942,979.60	1,132	332,984.40	9,449	1,011,850.00	2,287	401,854.60
Brazil (BR)	1,407	384,922.30	82	64,427.17	2,100	471,601.60	775	151,106.50
Canada (CA)	12,300	1,467,039.00	3,809	590,603.40	11,549	1,590,414.00	3,058	713,978.60
Chile (CL)	371	45,726.34	54	10,398.92	661	92,080.56	344	56,753.15
China (CH)	15,359	1,572,180.00	636	219,721.30	17,540	1,615,930.00	2,817	263,471.10
France (FR)	2,580	1,252,518.00	1,117	737,789.20	3,030	855,349.60	1,567	340,620.70
Germany (GR)	1,843	1,174,442.00	858	811,032.30	2,936	1,047,865.00	1,951	684,455.40
India (IN)	1,990	189,843.40	509	45,156.95	2,136	209,194.30	655	64,507.82
Ireland (IR)	949	189,990.90	605	161,271.30	800	253,069.20	456	224,349.60
Italy (IT)	1,984	407,111.50	488	146,470.20	2,339	553,945.40	843	293,304.10
Japan (JP)	7,179	817,667.10	898	289,280.80	6,700	614,630.60	419	86,244.16
Mexico (MX)	449	169,692.70	115	57,832.64	976	180,760.40	642	68,900.33
Netherlands (NT)	1,175	622,662.10	739	482,231.50	1,487	564,970.20	1,051	424,539.60
Russian Fed (RU)	796	285,977.80	90	44,211.62	1,043	323,215.20	337	81,448.94
Singapore (SG)	1,817	186,921.90	650	99,814.40	1,915	187,284.30	748	100,176.80
South Korea (SK)	3,632	330,635.80	307	46,804.93	3,860	359,419.40	535	75,588.52
Spain (SP)	1,785	393,382.90	440	188,069.20	2,271	500,261.40	926	294,947.80
Sweden (SW)	1,746	167,973.10	632	102,556.40	1,950	244,649.60	836	179,232.90
U.K. (UK)	15,541	2,626,182.00	4,248	1,384,429.00	15,755	3,287,360.00	4,462	2,045,607.00
USA (US)	46,643	16,000,000.00	6,610	1,984,895.00	49,553	17,300,000.00	9,520	3,317,033.00
Others	10,210	2,068,140.00	10,210	2,068,140.00	-	-	-	-
Total	138,050	31,295,988.44	34,229	9,868,120.63	138,050	31,263,850.76	34,229	9,868,120.63

This table reports the number and value of all deals, and number and volume of cross-border deals by acquirer country and target country, respectively, in the SDC database from 1997 to 2017. The sample excludes leverage buyouts, spin-offs, recapitalisations, self-tender offers, exchange offers, repurchases and privatisations. Only deals with a value of at least USD1 million and more than 50% of the target shares are owned by the acquirer after the merger are included.

Table 2.2 Bilateral Pair-Countries Number of CBA Deals

Target Nation	**Acquirer Nation**																					
	AU	BR	CA	CL	CH	FR	GR	IN	IR	IT	JP	MX	NT	RU	SG	SK	SP	SW	UK	US	Oth.	Total
Australia (AU)	7,162	5	201	1	85	31	27	30	16	15	56	2	19	1	118	8	11	17	341	493	810	9,449
Brazil (BR)	30	1,325	106	33	11	45	17	12	5	25	20	23	11	0	5	2	47	5	54	173	151	2,100
Canada (CA)	136	8	8,491	3	55	46	17	16	23	10	23	7	27	9	11	20	6	23	216	1,575	827	11,549
Chile(CL)	44	6	86	317	3	6	4	3	0	5	4	6	3	0	1	0	33	3	13	66	58	661
China (CH)	53	2	88	0	14,723	37	15	6	8	15	74	1	19	1	203	89	7	9	67	282	1,841	17,540
France (FR)	13	4	54	0	28	1,463	78	21	15	75	20	0	73	3	7	3	56	51	307	401	358	3,030
Germany (GR)	39	1	67	0	50	105	985	27	23	57	41	2	74	8	19	7	26	77	357	506	465	2,936
India (IN)	16	2	18	1	3	32	34	1,481	3	13	45	2	22	3	53	14	11	6	57	163	157	2,136
Ireland (IR)	10	0	27	0	4	5	4	4	344	3	3	1	9	0	0	0	1	8	188	121	68	800
Italy (IT)	10	3	15	0	30	79	41	13	8	1,496	20	0	29	8	2	2	44	19	145	151	224	2,339
Japan (JP)	6	1	5	1	30	8	10	3	1	2	6,281	0	10	0	31	25	2	0	20	102	162	6,700
Mexico (MX)	12	5	286	2	5	5	5	3	3	5	1	334	11	0	2	2	26	5	20	187	57	976
Netherlands (NT)	17	2	38	1	22	58	57	8	19	28	22	1	436	6	15	4	19	40	240	220	234	1,487
Russian Fed (RU)	6	0	14	0	5	6	3	2	2	10	2	0	24	706	2	7	3	16	47	41	147	1,043
Singapore (SG)	60	0	5	0	47	12	7	32	2	5	60	1	8	1	1,167	10	1	8	39	85	365	1,915
South Korea (SK)	13	0	12	0	16	20	12	6	1	1	59	0	14	0	28	3,325	5	9	27	129	183	3,860
Spain (SP)	16	6	36	4	10	99	51	10	11	49	12	12	35	1	3	2	1,345	26	162	142	239	2,271
Sweden (SW)	10	0	30	0	8	26	42	3	8	9	9	0	33	2	5	0	9	1,114	132	161	349	1,950
U.K. (UK)	207	7	226	1	40	174	164	85	261	75	82	1	134	17	54	10	49	132	11,293	1,612	1,131	15,755
USA (US)	434	30	2,495	7	184	323	270	225	196	86	345	56	184	30	91	102	84	178	1,816	40,033	2,384	49,553
Total	8,294	1,407	12,300	371	15,359	2,580	1,843	1,990	949	1,984	7,179	449	1,175	796	1,817	3,632	1,785	1,746	15,541	46,643	10,210	138,050

This table reports the distribution of the total number of CBA deals between acquirer nation (columns) and target nation (rows) between 1997 and 2017 and covers all announced and completed cross-border deals in the SDC database. The sample excludes leverage buyouts, spin-offs, recapitalisations, self-tender offers, exchange offers, repurchases and privatisations. Only deals with a value of at least USD1 million and more than 50% of the target shares are owned by the acquirer after the merger are included.

Table 2.3 Descriptive Statistics

Variable name	Number of observations	Mean	Median	Standard deviation	25th percentile	75th percentile
Dependent Variables						
Number of CBA (% of total number of all deals)	28,445	0.3366	0.1875	0.3864	0.0000	0.5000
Volume of CBA (% of total value of all deals)	28,445	0.3596	0.0636	0.4283	0.0000	0.9171
Deal completion duration (days)	65,515	99.19	60	152.85	30	117
Deal completion (0-1)	13,8050	0.8136	1.0000	0.3894	1.0000	1.0000
CB acquisition candidacy (0-1)	13,8050	0.2479	0.0000	0.4318	0.0000	0.0000
$NB_{tgt\text{-}acq}$ (per 100 listed companies in target nation)	12,596	0.1195	0.0557	0.1849	0.0218	0.1538
$VB_{tgt\text{-}acq}$ (per billion of GDP of target nation)	12,596	0.4295	0.0303	4.2639	0.0069	0.1390
Combined CAR [-2, +2] (%)	24,196	0.0387	0.0106	0.1368	-0.0206	0.0584
Key Independent Variable						
$\Delta BBD_{3m\_avg\_tgt}$ (%)	12,596	0.0825	0.0441	0.2187	-0.0480	0.1643
$\Delta BBD_{3m\_avg\_acq}$ (%)	12,596	0.0711	0.0378	0.1983	-0.0497	0.1482
$\Delta BBD_{3m\_avg\_tgt} - \Delta BBD_{3m\_avg\_acq}$ (%)	12,596	0.0109	0.0066	0.2512	-0.1081	0.1210
Country-level Characteristics						
$\ln(GDPCap)_{tgt}$	12,596	9.8346	10.2474	1.1623	9.2120	10.6459
$\ln(GDPCap)_{acq}$	12,596	9.8148	10.2259	1.1003	9.2305	10.6125
$(GDPGr)_{tgt}$ (%)	12,596	0.0347	0.0296	0.0345	0.0174	0.0504
$(GDPGr)_{acq}$ (%)	12,596	0.0343	0.0296	0.0357	0.0164	0.0510
$(MKTCAP/GDP)_{tgt}$ (%)	12,596	1.0909	0.9253	0.6645	0.6134	1.3785
$(MKTCAP/GDP)_{acq}$ (%)	12,596	1.0686	0.8488	0.6952	0.5331	1.3785
Trade (fraction of GDP) $_{tgt}$ (%)	12,596	0.9725	0.5671	1.0458	0.4832	0.7937
Trade (fraction of GDP) $_{acq}$ (%)	12,596	1.0039	0.5624	1.1033	0.4882	0.7708
Inflation $_{tgt}$ (%)	12,596	0.0345	0.0220	0.0609	0.0120	0.0386
Inflation $_{acq}$ (%)	12,596	0.0341	0.0224	0.0536	0.0130	0.0403
Bureaucratic quality $_{tgt}$	12,596	8.8228	10.0000	1.8417	7.5000	10.0000
Bureaucratic quality $_{acq}$	12,596	9.2490	10.0000	1.4982	10.0000	10.0000
Law and order $_{tgt}$	12,596	8.3354	8.3333	1.7054	8.3333	10.0000

Law and order $_{acq}$	12,596	8.7493	8.3333	1.2637	8.3333	10.0000
Corruption $_{tgt}$	12,596	6.5996	6.6667	1.7858	5.0000	8.2000
Corruption $_{acq}$	12,596	6.9288	7.5000	1.6273	6.5333	8.3333
Business environment $_{tgt}$	12,596	8.6066	9.1667	1.5494	7.5000	10.0000
Business environment $_{acq}$	12,596	8.8509	9.5833	1.4265	7.9833	10.0000
Political risk $_{tgt}$	12,596	0.4100	0.4116	0.1502	0.3907	0.4890
Political risk $_{acq}$	12,596	0.4239	0.4125	0.1340	0.3954	0.4890
Country-pair Characteristics						
Same language (0-1)	12,596	0.2486	0.0000	0.4322	0.0000	0.0000
Same legal origin (0-1)	12,596	0.3709	0.0000	0.4831	0.0000	1.0000
Same religion (0-1)	12,596	0.3509	0.0000	0.4773	0.0000	1.0000
Bilateral investment treaty (0-1)	12,596	0.1652	0.0000	0.3714	0.0000	0.0000
In (geographic distance)	12,596	8.4484	8.5685	0.6679	8.0878	9.0369
Industry Characteristics						
Firm Size [(ln(Total assets)]	28,445	11.4927	11.3758	1.4503	10.5162	12.4828
ROA (%)	28,445	0.0369	0.0515	0.0759	-0.0008	0.0859
Leverage (%)	28,445	0.1763	0.1947	0.0921	0.1009	0.2428
MTB	28,445	1.7004	1.5300	0.8158	1.1900	1.9700
Herfindahl-Hirschman Index (HHI)	28,445	0.1197	0.0707	0.1447	0.0313	0.1477
Deal/Bid Characteristics						
Deal size (millions of USD)	13,8050	226.46	17.75	1980.12	5.2	75
Target's public firm (0-1)	13,8050	0.1188	0.0000	0.3235	0.0000	0.0000
Diversifying deal (0-1)	13,8050	0.5088	1.0000	0.4999	0.0000	1.0000
Cash deals (0-1)	13,8050	0.4097	0.0000	0.4918	0.0000	1.0000

This table presents the descriptive statistics of dependent, key independent and control variables for the full sample which covers 20 countries over the period 1997-2017. The subscripts *tgt* and *acq* represent variables specific to target and acquirer respectively. All variables are defined in *Appendix 2-A*. % figures are expressed in decimals. For instance, the mean value of Number of CBA 0.3366 should be read as 33.66%.

Table 2.4 Target Country's EPU: Inbound CBA Deals Analysis

	Panel A: (DV) Number of CBA (% of total number of all deals)					**Panel B: (DV) Volume of CBA (% of total value of all deals)**				
Variable	Without control	Country-level characteristics	Industry country-level characteristics	Excluding US and UK	OLS model: ln (1+ number of CBA)	Without control	Country-level characteristics	Industry-country-level characteristics	Excluding US and UK	OLS model: ln (1+ USD volume of CBA)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Independent Variable										
BBD	**-0.104** **(0.0469)**	**-0.100** **(0.0392)**	**-0.106** **(0.0413)**	**-0.158*** **(0.0529)**	**-0.046*** **(0.0104)**	**-0.105** **(0.0460)**	**-0.108** **(0.0429)**	**-0.114** **(0.0445)**	**-0.163*** **(0.0583)**	**-0.187*** **(0.0628)**
Country-level Characteristics										
In (GDPCap)		-0.192*** (0.0624)	-0.200*** (0.0655)	-0.208*** (0.0547)	0.173*** (0.0522)		-0.210** (0.0818)	-0.225*** (0.0835)	-0.256*** (0.0770)	0.721*** (0.1849)
GDPGr		-0.624 (0.4683)	-0.639 (0.4926)	-0.696 (0.5721)	0.025 (0.3132)		-0.109* (0.0592)	-0.1008* (0.0607)	-0113 (0.0804)	0.112 (0.2015)
Trade		-0.120 (0.1348)	-0.175 (0.1248)	-0.125 (0.1384)	0.056 (0.0756)		-0.150 (0.2542)	-0.251 (0.2173)	-0.204 (0.2680)	0.084 (0.3414)
Inflation		-0.704* (0.3987)	-0.607 (0.4716)	-0.871 (0.5424)	0.038 (0.1711)		-0.334 (1.2468)	-0.121 (1.3120)	-0.370 (1.7515)	0.708 (1.7697)
MKTCAP/GDP		-0.140*** (0.0498)	-0.131*** (0.0463)	-0.119** (0.0531)	0.074** (0.0339)		-0.157*** (0.0587)	-0.139*** (0.0520)	-0.142** (0.0699)	0.373*** (0.1261)
Volatility		-0.0179*** (0.0065)	-0.0168*** (0.0063)	-0.02070*** (0.0678)	-0.0115 (0.0171)		-0.083* (0.0410)	-0.076* (0.0388)	-0.076*** (0.0168)	-0.001*** (0.0001)
Exchange rate		0.001*** (0.0004)	0.001*** (0.0004)	0.002*** (0.0003)	0.001** (0.0003)		0.0012** (0.0005)	0.0011** (0.0004)	0.0013*** (0.0005)	0.003** (0.0013)
Domestic M&As					-0.151** (0.0569)					-0.277*** (0.0337)
Bureaucratic quality		0.142** (0.0597)	0.146** (0.0635)	0.083 (0.0659)	0.073*** (0.0245)		0.150** (0.0595)	0.158** (0.0698)	0.115 (0.0943)	0.241** (0.1086)

Law and order		-0.025	-0.031	-0.032	-0.046**		-0.007	-0.015	-0.017	-0.319***
		(0.0361)	(0.0326)	(0.0425)	(0.0175)		(0.0463)	(0.0403)	(0.0555)	(0.1047)
Corruption		0.005	-0.000	-0.024	0.012		0.016	0.009	-0.019	0.068
		(0.0330)	(0.0329)	(0.0423)	(0.0165)		(0.0390)	(0.0393)	(0.0534)	(0.0708)
Business environment		0.007	0.005	0.014	-0.013		0.008	0.006	0.015	-0.050
		(0.0125)	(0.0124)	(0.0139)	(0.0089)		(0.0144)	(0.0144)	(0.0184)	(0.0349)
Political risk		-0.187**	-0.197**	-0.193*	-0.061		-0.222**	-0.235**	-0.238*	-0.142
		(0.0868)	(0.0901)	(0.1105)	(0.0615)		(0.1128)	(0.1160)	(0.1391)	(0.2262)
Industry-country-Level Characteristics										
Firm size			0.000	-0.004	-0.003			0.001	-0.002	0.000
			(0.0059)	(0.0076)	(0.0038)			(0.0072)	(0.0093)	(0.0145)
ROA			0.041	0.028	0.072**			0.066	0.074	0.248*
			(0.0428)	(0.0598)	(0.0275)			(0.0580)	(0.0812)	(0.1327)
Leverage			0.051	0.050	0.016			0.070	0.073	-0.062
			(0.0577)	(0.0680)	(0.0280)			(0.0730)	(0.0893)	(0.1506)
MTB			-0.009	-0.009	-0.003			-0.012	-0.012	-0.011
			(0.0076)	(0.0090)	(0.0039)			(0.0094)	(0.0113)	(0.0118)
HHI			0.078*	0.066	0.029			0.093*	0.078	0.007
			(0.0436)	(0.0479)	(0.0230)			(0.0477)	(0.0539)	(0.1139)
Country × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry × Year-Month FE	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Prob. >χ^2	0.0000	0.0000	0.0000	0.0000		0.0000	0.0000	0.0000	0.0000	
Adj. R_2					0.47					0.32
Observations	28445	28445	27387	21875	27387	28445	28445	27387	21875	27387

This table presents Tobit regressions estimates of the effect of EPU on Number of CBA (Panel A) and Volume of CBA (Panel B) of inbound CBA deals at the target country-industry level. BBD is the natural logarithm of the arithmetic average of the BBD index for immediate three lag months. Depending on specifications, the regressions control for industry-country-level and country-level characteristics. Inclusion of fixed effects (FE) is indicated at the end. All country-level and industry-country-level controls are lagged one year, and are defined in *Appendix 2-A*. Standard errors are clustered at the target country-industry level, and reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.5 Controlling for Business Cyclicality

	(DV) Number of CBA (% of total deals)				**(DV) Volume of CBA (% of total value of all deals)**			
Variable	CLI	CCI	Real GDP forecast	1st PC	CLI	CCI	Real GDP forecast	1st PC
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Independent Variable								
BBD	**-0.111*** (0.0189)**	**-0.091*** (0.0196)**	**-0.107*** (0.0186)**	**-0.090*** (0.0198)**	**-0.161*** (0.0233)**	**-0.132*** (0.0241)**	**-0.157*** (0.0228)**	**-0.129*** (0.0244)**
Business Cyclicality Level Characteristics								
CLI	-0.004 (0.0045)				-0.004 (0.0055)			
CCI		0.006 (0.0051)				0.013** (0.0062)		
Real GDP forecast			0.000 (0.0035)				0.002 (0.0044)	
1st PC				0.006 (0.0068)				0.012 (0.0084)
Country-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-country-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry × Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob $>\chi^2$	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	25842	21937	25842	21937	25842	21937	25842	21937

This table presents the estimation results of four different sets of control variables controlling for business cyclicality. The dependent variable is *Number of CBA*, defined as the total number of CBA deals divided by the total number of domestic and CBA deals (for models 1-4) and *Volume of CBA*, defined as the total value of CBA deals divided by the total value of domestic and CBA deals (for models 5-8). BBD is the natural logarithm of the arithmetic average of the BBD index for immediate three lag months. For each dependent variable, we introduce the following first moment controls individually by column: OECD composite leading indicator (CLI), an average of business confidence and consumer confidence (CCI), projected real GDP growth (RGDP growth) and the first principal component from the previous three first moment controls (1st PC). The regressions control for industry-country-level and country-level characteristics. Inclusion of fixed effects (FE) is indicated at the end. All country-level and industry-country-level controls are lagged one year, and are defined in *Appendix 2-A*. Standard errors are clustered at the target country-industry level, and reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.6 Effect of Government Subsidy/Spending

Variable	**Tobit model: Number of CBA (% of total number of all deals)**	**Tobit model: Volume of CBA (% of total value of all deals)**
	(1)	(2)
Independent variable		
BBD	**-0.089*** **	**-0.128*** **
	(0.0223)	**(0.0222)**
BBD × Dum_{ss}	**-0.060** **	**-0.208*** **
	(0.0274)	**(0.0521)**
Country-level characteristics	Yes	Yes
Industry-country-level characteristics	Yes	Yes
Country × Industry FE	Yes	Yes
Industry × Year-Month FE	Yes	Yes
Prob >χ^2	0.0000	0.0000
Observations	25027	25027

This table presents the estimation results of gauging the differential effect of EPU on CBA based on industry heterogeneity. The dependent variable is either number of CBA (% of total number of all deals) in column (1) or volume of CBA (% of total value of all deals) of CBAs in column (2). BBD is the natural logarithm of the arithmetic average of the BBD index for immediate three lag months. Dum_{ss} is a dummy variable that takes the value of one if the firm belongs to one of FF-12 industries with firms sales correlation with the government subsidies and support (as a fraction of total government spending) above median and zero otherwise. The regressions control for industry-country-level and country-level characteristics as in the baseline result in Table 2.4. The inclusion of fixed effects (FE) is indicated at the end. All country-level and industry-country-level controls are lagged one year, and are defined in *Appendix 2-A.* Standard errors are clustered at the target country-industry level, and reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.7 Difference in Differences (DiD) Specifications with Discrete EPU Shocks

	Panel A: (DV) Number of CBA (% of total number of all deals)			**Panel B: (DV) Volume of CBA (% of total value of all deals)**		
	Without control	Country-level characteristics	Industry country-level characteristics	Without control	Country-level characteristics	Industry-country-level characteristics
	(1)	(2)	(3)	(4)	(5)	(6)
Independent variable						
EPU shock × After	**-0.1319*** (0.0419)**	**-0.0618*** (0.0204)**	**-0.0879*** (0.0231)**	**-0.1604*** (0.0523)**	**-0.1361*** (0.0331)**	**-0.1325*** (0.0327)**
Country-level characteristics						
In (GDPCap)		0.0309***	-0.0839		-0.0476	0.0331
		(0.0093)	(0.2609)		(0.3109)	(0.2732)
GDPGr		0.02379*	0.0295		3.4503	3.5545
		(0.01265)	(0.02857)		(3.5700)	(3.1719)
Trade		-0.00801*	-0.0216**		-0.0243*	-0.0244*
		(0.00434)	(0.0108)		(0.0136)	(0.0146)
Inflation		0.0098	0.0020458		3.1311	3.6569
		(0.0026)	(2.3959)		(3.0635)	(3.1203)
MKTCAP/GDP		-0.0033**	-0.0007		0.0005	0.0010
		(0.0014)	(0.0031)		(0.0038)	(0.0026)
Volatility		-0.0296***	-0.0287***		-0.0196***	-0.0287***
		(0.0027)	(0.0033)		(0.0027)	(0.0033)
Exchange rate		-0.0081*	0.0046		0.0122	0.0109
		(0.0046)	(0.0116)		(0.0145)	(0.0155)
Bureaucratic quality		-0.0191	-0.10193		-0.17850	-0.1806
		(0.0142)	(0.10697)		(0.1399)	(0.1527)
Law and order		0.0195**	0.0276**		0.0337**	0.0321**
		(0.0925)	(0.1099)		(0.0153)	(0.0151)
Corruption		0.0092	0.0582		0.0874	0.0883

		(0.0377)	(0.0501)		(0.0672)	(0.0687)
Business environment		0.0359	0.0542		0.0344	0.0385
		(0.0369)	(0.0358)		(0.0531)	(0.0521)
Political risk		-0.0181	-0.0253		-0.0412	-0.0383
		(0.0169)	(0.0401)		(0.0502)	(0.0484)
Industry-country-level characteristics						
Firm size			-0.0276			-0.0382
			(0.0243)			(0.0348)
ROA			-0.3049			-0.5747
			(0.3145)			(0.3978)
Leverage			0.0547**			0.0872***
			(0.0239)			(0.0295)
MTB			-0.0349			-0.0361
			(0.0313)			(0.0389)
HHI			0.0899			0.1758
			(0.1102)			(0.1475)
Country × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry ×Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Prob >χ^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	4032	4032	4032	4032	4032	4032

This table presents Tobit regression in DiD design examining the effect of restrictive EPU shock on number of CBA (Panel A) and volume of CBA (Panel B) of inbound CBA deals at the target country-industry level. EPU shock is an indicator variable that takes the value of one for a target nation that witnesses major EPU shock (treated episodes) and zero if target nation witnesses an lower EPU (comparison episodes) as defined in the notes to *Appendix 2-C*. After is an indicator variable that takes the value of one for six months following the EPU episodes and zero for six month before the EPU episodes as identified in *Appendix 2-C*. Depending on specifications, the regressions control for industry-country-level and country-level characteristics. The inclusion of fixed effects (FE) is indicated at the end. All country-level and industry-country-level controls are lagged one year, and are defined in *Appendix 2-A*. Standard errors are clustered at the target country-industry level, and reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.8 Moderating Effects of Macro-Institutions

	(DV) Number of CBA (% of total number of all deals)						**(DV) Volume of CBA (% of total value of all deals)**					
	(1) Emerging Markets	(2) Bureaucratic quality	(3) Law and order	(4) Corruption	(5) Business environment	(6) Political risk	(7) EMs	(8) Bureaucratic quality	(9) Law and order	(10) Corruption	(11) Business environment	(12) Political risk
Panel A: EMs												
BBD	**-0.0680*** (0.0105)**	**-0.0695*** (0.0106)**	**-0.0681*** (0.0105)**	**-0.0695*** (0.0106)**	**-0.0692*** (0.0106)**	**-0.0690*** (0.0106)**	**-0.0480*** (0.0105)**	**-0.0495*** (0.0106)**	**-0.0481*** (0.0105)**	**-0.0495*** (0.0106)**	**-0.0492*** (0.0106)**	**-0.0490*** (0.0106)**
EMs × BBD	**-0.0730*** -0.0128**						**-0.0245*** (0.0018)**					
Panel B: Quality of Institutions												
Bureaucratic quality × BBD		**0.0046*** (0.0003)**						**0.0048*** (0.00040)**				
Law and order × BBD			**0.0046*** (0.0005)**						**0.0047*** (0.0006)**			
Corruption × BBD				**0.0035*** (0.0004)**						**0.0036*** (0.0004)**		
Panel C: Business Environment												
Business environment × BBD					**0.0051*** (0.0006)**						**0.0055*** (0.0007)**	
Panel D: Political Risk												
Political risk× BBD						**0.0036*** (0.0008)**						**0.0037*** (0.0009)**
Country-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-country-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry × Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob >χ^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	27387	27387	27387	27387	27387	27387	27387	27387	27387	27387	27387	27387

This table presents the estimation results of several interactions with country governance mechanisms on CBA activity. The dependent variable is *Number of CBA*, defined as the total number of CBA deals divided by the total number of domestic and CBA deals (for models 1-6) and *Volume of CBA*, defined as the total value of CBA deals divided by the total value of domestic and CBA deals (for models 7-12). The variables of interest are BBD, (Panel A: EMs), (Panel B: quality of institutions), (Panel C: business environment), (Panel D: political risk), and the interaction between BBD and each panel. As in Table 2.4, the regressions control for industry-country-level and country-level characteristics. The inclusion of fixed effects (FE) is indicated at the end. All controls are lagged one year, and are defined in *Appendix 2-A*. Heteroscedasticity robust standard errors, clustered at the country-pair level, are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.9 CB Acquisition Candidacy

	(DV) *CB-Acquisition Candidacy*					
	Without controls	With target controls	Without controls	With acquirer controls	Without controls	With target-acquirer controls
	(1)	(2)	(3)	(4)	(5)	(6)
Independent Variable						
$\Delta BBD_{3m\_avg\_tgt}$	**-0.002*** (0.0003)**	**-0.001*** (0.0001)**				
$\Delta BBD_{3m\_avg\_acq}$			**0.005*** (0.0003)**	**0.001*** (0.0003)**		
[ΔBBD (3m_avg_tgt) - ΔBBD(3m_avg_acq)]					**-0.004*** (0.0012)**	**-0.003** (0.0012)**
Bilateral Country-pair Characteristics (Difference)						
In (GDPCap) tgt – acq		-0.014*** (0.0024)		-0.018*** (0.0024)		-0.019*** (0.0025)
GDPGr tgt – acq		0.040* (0.0243)		0.085*** (0.0243)		0.065** (0.0264)
Trad tgt – acq		0.010* (0.0053)		-0.013** (0.0053)		-0.009 (0.0057)
Inflation tgt – acq		-0.038** (0.0161)		-0.018 (0.0154)		-0.017 (0.0169)
MKTCAP tgt – acq		0.006*** (0.0016)		0.005*** (0.0016)		0.005*** (0.0017)
Volatility tgt – acq		-0.004 (0.0276)		0.022 (0.0276)		0.006 (0.0289)
Exchange rate tgt per acq		-0.000* (0.0000)		-0.000* (0.0000)		-0.000 (0.0000)
Bureaucratic quality tgt – acq		-0.005* (0.0028)		-0.003 (0.0028)		-0.007** (0.0031)
Law and order tgt – acq		0.005*** (0.0012)		0.005*** (0.0012)		0.005*** (0.0012)
Corruption tgt – acq		0.000 (0.0008)		0.001 (0.0008)		0.001 (0.0009)
Business environment tgt – acq		0.001* (0.0004)		0.001** (0.0004)		0.001*** (0.0005)
Political risk tgt – acq		-0.016*** (0.0059)		0.000 (0.0059)		-0.001 (0.0062)
Industry-bilateral Country-pair Characteristics (Difference)						
Firm size tgt – acq		-0.000** (0.0001)		-0.000** (0.0001)		-0.000** (0.0001)
ROA tgt – acq		0.004*** (0.0011)		0.004*** (0.0011)		0.004*** (0.0011)
Leverage tgt – acq		0.004*** (0.0015)		0.004*** (0.0015)		0.004*** (0.0015)
MTB tgt – acq		0.000 (0.0001)		0.000 (0.0001)		0.000 (0.0001)
Deal-level Characteristics						
Deal size		0.000		0.000		0.000

		(0.0001)		(0.0001)		(0.0001)
Public target		0.001**		0.001**		0.001**
		(0.0003)		(0.0003)		(0.0003)
Diversifying Deal		0.001***		0.001***		0.001***
		(0.0002)		(0.0002)		(0.0002)
Cash payment		0.000***		0.000***		0.000***
		(0.0002)		(0.0002)		(0.0002)
Target country FE × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer country × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry ×Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry ×Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Prob >χ^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	119201	119201	119303	119303	119303	117029

This table presents the propensity for cross-border-acquisitiveness. The dependent variable is *CB acquisition candidacy* – a dummy that takes the value of one if a firm is an acquisition target in a given year, and zero otherwise. Estimation models employ two variations of change in the BBD index (ΔBBD) as explanatory variables. The estimates of the first variation with the change in EPU at target's nation, $\Delta BBD_{3m\_avg\_tgt}$, are in columns (1) and (2), while those for acquirers' nations, $\Delta BBD_{3m\_avg\_acq}$, are in columns (3) and (4). The estimates of the second variation that employs the difference between target's and acquirer's $\Delta BBD_{3m_{avg}}$, i.e. [ΔBBD (3m_avg_tgt) minus ΔBBD (3m_avg_acq)], are in columns (5) and (6). The inclusion of fixed effects (FE) is indicated at the end. Country-level controls are lagged one year, and are defined in *Appendix 2-A*. Heteroscedasticity robust standard errors, clustered at the country-pair level, are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.10 Deal Completion

Dependent Variable	Deal Ratio	Volume Ratio	Ln (1+deal complete duration)			Completion dummy		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Independent variable								
Ln[1 month lagged BBD(tgt)]	**-0.026***	**-0.022***						
	(0.0145)	**(0.0109)**						
Ln[2 month lagged BBD(tgt)]	**-0.040****	**-0.034***						
	(0.0160)	**(0.0197)**						
Ln[3 month lagged BBD(tgt)]	**-0.052*****	**-0.053*****						
	(0.0160)	**(0.0196)**						
Ln[4 month lagged BBD(tgt)]	-0.002	-0.010						
	(0.0155)	(0.0195)						
Ln[5 month lagged BBD(tgt)]	**-0.030***	**-0.041****						
	(0.0157)	**(0.0194)**						
Ln[6 month lagged BBD(tgt)]	-0.008	-0.019						
	(0.0144)	(0.0178)						
$\Delta BBD_{3m\_avg\_tgt}$			**0.052****			**-0.021*****		
			(0.0245)			**(0.0068)**		
$\Delta BBD_{3m\_avg\_acq}$				**0.056****			**-0.026*****	
				(0.0242)			**(0.0067)**	
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})]$					**0.024****			**-0.032****
					(0.0121)			**(0.0066)**
Industry- level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal- level characteristics	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Country-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target country FE × Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer country × Industry FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry × Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob >χ^2	0.0000	0.0000				0.0000	0.0000	0.0000
Adjusted R_2			0.14	0.14	0.14			
Observations	27188	27188	60653	60653	60653	125434	125434	125434

This table presents the analysis of the duration effect of EPU on CBA. Columns (1)-(2) employ Tobit, columns (3)-(5) use OLS while column (6)-(8) employ probit regression models. The dependent variable is Deal ratio in column (1), Volume Ratio in column (2), ln(1+deal completion duration) in columns (3)-(5) or Deal completion dummy in columns (6)-(8). Columns (1) and (2) use the natural logarithm of lagged value of BBD of the target domicile up to six months as the main explanatory variables. Columns (3)-(8) employ two variations of the ΔBBD_{3m_avg} variable. The first variation is computed as the average of the previous three months' ΔBBD of target nation, $\Delta BBD_{3m\_avg\_tgt}$, (used in columns (3) and (6)) and the average of the previous three months' ΔBBD of the acquirer nation, $\Delta BBD_{3m\_avg\_acq}$, (used in columns (4) and (7)). The second variation, which employs the difference between the target's and acquirer's $\Delta BBD_{3m_{avg,}}$ i.e. $[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})]$, is used in columns (5) and (8). Control variables for columns (1) and (2) are the same as those used in Table 2.4 (the baseline regression), while control variables for columns (3)-(8) are the same as those used in Table 2.9 (CB acquisition candidacy). The inclusion of fixed effects (FE) is indicated at the end. Heteroscedasticity robust standard errors, clustered at the country-pair level, are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.11 EPU and Bilateral M&A Activities

Dependent Variable	**Number of bilateral deals**						**Volume of bilateral deals**					
	(1) BBD Indices only	(2) Including all controls	(3) Developed acquirer-emerging target	(4) Developed acquirer-developed target	(5) Emerging acquirer-developed target	(6) Emerging acquirer-emerging target	(7) BBD Indices only	(8) Including all controls	(9) Developed acquirer-emerging target	(10) Developed acquirer-developed target	(11) Emerging acquirer-developed target	(12) Emerging acquirer-emerging target
Panel A: Baseline Tests												
Independent Variable												
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})]$	**-0.053*** **	**-0.059*** **	**-0.062*** **	**-0.046*** **	**-0.058*** **	**-0.058*** **	**-0.022*** **	**-0.022*** **	**-0.029*** **	**-0.015*** **	**-0.017*** **	**-0.023*** **
	(0.0145)	**(0.0137)**	**(0.0153)**	**(0.0153)**	**(0.0136)**	**(0.0138)**	**(0.0014)**	**(0.0008)**	**(0.0012)**	**(0.0016)**	**(0.0012)**	**(0.0011)**
Bilateral Country-pair Characteristics (Difference)												
In (GDPCap) $_{tgt - acq}$		-0.0154***	-0.0153***	-0.0152***	-0.0154***	-0.0154***		-0.0056***	-0.0049**	-0.0050**	-0.0055**	-0.0055***
		(0.0023)	(0.0023)	(0.0023)	(0.0023)	(0.0023)		(0.0021)	(0.0022)	(0.0022)	(0.0021)	(0.0021)
GDPGr $_{tgt - acq}$		0.0011	0.0010	0.0012	0.0011	0.0013		-0.0006	-0.0006	-0.0005	-0.0006	-0.0006
		(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)		(0.0033)	(0.0033)	(0.0033)	(0.0033)	(0.0033)
Trad $_{tgt - acq}$		0.0259***	0.0259***	0.0263***	0.0260***	0.0261***		-0.0088	-0.0082	-0.0061	-0.0088	-0.0087
		(0.0089)	(0.0089)	(0.0089)	(0.0089)	(0.0089)		(0.0255)	(0.0254)	(0.0253)	(0.0255)	(0.0255)
Inflation $_{tgt - acq}$		0.0434***	0.0437***	0.0447***	0.0434***	0.0453***		0.0263	0.0277	0.0272	0.0261	0.0275
		(0.0120)	(0.0120)	(0.0120)	(0.0120)	(0.0121)		(0.0214)	(0.0214)	(0.0213)	(0.0214)	(0.0214)
MKTCAP $_{tgt - acq}$		-0.0078***	-0.0080***	-0.0087***	-0.0079***	-0.0080***		-0.0095	-0.0102	-0.0122*	-0.0096	-0.0098
		(0.0015)	(0.0015)	(0.0016)	(0.0015)	(0.0015)		(0.0071)	(0.0071)	(0.0071)	(0.0071)	(0.0072)
Volatility $_{tgt - acq}$		-0.0018	-0.0018	-0.0030	-0.0019	-0.0019		-0.0017	-0.0017	-0.0030	-0.0018	-0.0016
		(0.0027)	(0.0027)	(0.0028)	(0.0027)	(0.0027)		(0.0032)	(0.0032)	(0.0034)	(0.0032)	(0.0032)
Exchange rate $_{tgt\ per\ acq}$		-0.0003***	-0.0003***	-0.0003***	-0.0003***	-0.0003***		-0.0002**	-0.0002**	-0.0002**	-0.0002**	-0.0002**
		(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)		(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Bureaucratic quality $_{tgt - acq}$		-0.0001	-0.0001	-0.0001	-0.0001	-0.0001		-0.0004***	-0.0004***	-0.0004***	-0.0004***	-0.0004***
		(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)		(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Law and order $_{tgt - acq}$		-0.0071***	-0.0070***	-0.0070***	-0.0071***	-0.0072***		-0.0098***	-0.0095***	-0.0094***	-0.0097***	-0.0097***
		(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)		(0.0019)	(0.0019)	(0.0019)	(0.0019)	(0.0019)
Corruption $_{tgt - acq}$		-0.0071***	-0.0072***	-0.0070***	-0.0071***	-0.0071***		-0.0011	-0.0013	-0.0009	-0.0011	-0.0012
		(0.0011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)		(0.0018)	(0.0018)	(0.0018)	(0.0018)	(0.0018)
Business environment $_{tgt - acq}$		-0.0001***	-0.0001***	-0.0001***	-0.0001***	-0.0001***		-0.0001***	-0.0001***	-0.0001***	-0.0001***	-0.0001***
		(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)		(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Political risk $_{tgt - acq}$		0.0070***	0.0070***	0.0070***	0.0070***	0.0070***		0.0076***	0.0076***	0.0074***	0.0076***	0.0076***

Bilateral Country-pair Characteristics											
Bilateral investment treaty	0.0001	0.0004	0.0001	0.0003	0.0004	0.0032**	0.0027*	0.0027*	0.0029**	0.0029**
	(0.0007)	(0.0007)	(0.0007)	(0.0007)	(0.0007)	(0.0015)	(0.0014)	(0.0014)	(0.0015)	(0.0014)
Same language	0.0023***	0.0026***	0.0024***	0.0024***	0.0025***	0.0088***	0.0082***	0.0083***	0.0086***	0.0087***
	(0.0007)	(0.0007)	(0.0007)	(0.0007)	(0.0007)	(0.0023)	(0.0023)	(0.0023)	(0.0023)	(0.0023)
Same legal origin	0.0024***	0.0024***	0.0024***	0.0024***	0.0025***	0.0007	0.0008	0.0008	0.0007	0.0007
	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0015)	(0.0015)	(0.0015)	(0.0016)	(0.0016)
Same religion	0.0018***	0.0018***	0.0019***	0.0019***	0.0018***	0.0052***	0.0052***	0.0052***	0.0052***	0.0052***
	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0014)	(0.0014)	(0.0014)	(0.0014)	(0.0014)
ln (Geographic distance)	-0.0046***	-0.0046***	-0.0045***	-0.0045***	-0.0046***	-0.0003	-0.0003	-0.0003	-0.0003	-0.0003
	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0009)	(0.0009)	(0.0009)	(0.0009)	(0.0009)
Panel B: Subsample and Interaction Analyses											
DM_acq - EM_tgt		**-0.0054*** **					**-0.0093*** **			
		(0.0014)					**(0.0027)**			
DM_acq - DM_tgt			**0.0076*** **					**0.0085*** **		
			(0.0012)					**(0.0029)**		
DM_acq - DM_tgt				**-0.0079*** **					-0.0015	
				(0.0017)					(0.0031)	
EM_acq - DM_tgt					-0.0008					**-0.0046***
					(0.0017)					**(0.0028)**
$[(\Delta BBD_{3m\_avg\_tgt})$ - $(\Delta BBD_{3m\_avg\_acq})] \times$ DM_acq - EM_tgt		**-0.0011*** **					**-0.004*** **			
		(0.0001)					**(0.0001)**			
$[(\Delta BBD_{3m\_avg\_tgt})$ - $(\Delta BBD_{3m\_avg\_acq})] \times$ DM_acq - DM_tgt			**-0.0001** **					**-0.003***		
			(0.0000)					**(0.0001)**		
$[(\Delta BBD_{3m\_avg\_tgt})$ - $(\Delta BBD_{3m\_avg\_acq})] \times$ EM_acq - DM_tgt				-0.0001					-0.0002	
				(0.0001)					(0.0001)	
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})] \times$ EM_acq - EM_tgt					-0.0000					0.0000
					(0.0001)					(0.0001)
Acquirer country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year-month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo −log likelihood	24774.48	25031.11	25033.07	25037.14	25038.84	25032.77	16903.22	16982.39	16986.87	16986.65	16982.92	16983.16
Prob $>\chi^2$	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	11796	11796	11796	11796	11796	11796	11796	11796	11796	11796	11796	11796

	Number of bilateral deals					Volume of bilateral deals				
	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
	Without Interaction	Developed acquirer-emerging target	Developed acquirer-developed target	Emerging acquirer-developed target	Emerging acquirer-emerging target	Without Interaction	Developed acquirer-emerging target	Developed acquirer-developed target	Emerging acquirer-developed target	Emerging acquirer-emerging target
$\Delta BBD_{3m\_avg\_tgt}$	**-0.057*** **	**-0.063*** **	**-0.055** **	**-0.054*** **	**-0.057*** **	**-0.019*** **	**-0.032*** **	**-0.010*** **	**-0.014*** **	**-0.019*** **
	(0.0171)	**(0.0203)**	**(0.0213)**	**(0.0176)**	**(0.0172)**	**(0.0016)**	**(0.0025)**	**(0.0012)**	**(0.00156)**	**(0.00162)**
$\Delta BBD_{3m\_avg\_acq}$	**0.040*** **	**0.040*** **	**0.030***	**0.043*** **	**0.040*** **	**0.010*** **	0.008	0.018	0.004	0.010
	(0.0109)	**(0.0119)**	**(0.0163)**	**(0.0097)**	**(0.0109)**	**(0.0014)**	(0.0013)	(0.0022)	(0.0014)	(0.0014)
DM_acq - EM_tgt		**-0.060*** **					**-0.056***			
		(0.0210)					**(0.0300)**			
DM_acq - DM_tgt			0.143					**0.059** **		
			(0.0886)					**(0.0275)**		
EM_acq - DM_tgt				**-0.053*** **					-0.049	
				(0.0197)					(0.0309)	
EM_acq - EM_tgt					**0.043** **					0.048
					(0.0207)					(0.0304)
$\Delta BBD_{3m\_avg\_tgt}$ × DM_acq - EM_tgt		**-0.022*** **					**-0.035*** **			
		(0.00208)					**(0.0028)**			
$\Delta BBD_{3m\_avg\_acq}$, × DM_acq - EM_tgt		**0.01*** **					**0.008*** **			
		(0.0019)					**(0.0035)**			
$\Delta BBD_{3m\_avg\_tgt}$ × DM_acq - DM_tgt			-0.003					-0.015		
			(0.0280)					(0.0275)		
$\Delta BBD_{3m\_avg\_acq}$, × DM_acq - DM_tgt			0.012					0.013		
			(0.0145)					(0.0260)		
$\Delta BBD_{3m\_avg\_tgt}$ × EM_acq – DM_tgt				-0.050					**-0.092** **	
				(0.0517)					**(0.0433)**	
$\Delta BBD_{3m\_avg\_acq}$, × EM_acq – DM_tgt				-0.016					0.032	
				(0.0208)					(0.0263)	
$\Delta BBD_{3m\_avg\_tgt}$ × EM_acq – EM_tgt					0.047					0.044
					(0.0674)					(0.0381)
$\Delta BBD_{3m\_avg\_acq}$, × EM_acq – EM_tgt					**0.090***					-0.024
					(0.0488)					(0.0492)
All Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob >χ^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	11697	11697	11697	11697	11697	11697	11697	11697	11697	11697

This table presents the results of the Tobit regressions. Panel A presents the effects of differential EPU between target-acquirer domicile pairs on bilateral M&A activities. Panel B presents the coefficient on EPU in various subsample and interaction tests. Panel C presents the effect of EPU of target and acquirer domicile separately. The dependent variable is *Number of CBA* (per 100 listed firms in target nations) (Columns (1)-(6) and (13)-(17)) and *Volume of CBA* per billion USD of GDP of target nation (Columns (7)-(12) and (18)-(22)). Estimation models employ two variations of the ΔBBD_{3m_avg} as explanatory variable. The first variation is computed as the average of the previous three months' ΔBBD of the target nation, $\Delta BBD_{3m\_avg\_tgt}$ and the acquirer nation, $\Delta BBD_{3m\_avg\_acq}$ respectively employed in columns (13)-(22). The second variation which employs the difference between the target's and acquirer's ΔBBD_{3m_avg} i.e. $[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})]$ is used in columns (1)-(12). All controls are lagged one year, and are defined in *Appendix 2-A*. Economically developed and emerging markets are classified based on the IMF classification. The inclusion of fixed effects (FE) is indicated at the end. Heteroscedasticity robust standard errors, clustered at the country-pair level, are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Table 2.12 EPU and Announcement Return Analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Combined CAR [-2,+2]	Combined CAR [-2,+2]	Combined CAR [-2,+2]	Combined CAR [-2,+2]	Combined CAR [-2,+2]	Combined CAR [-2,+2]	Combined CAR [-2,+2]
				Developed acquirer-emerging target	Developed acquirer-developed target	Emerging acquirer-developed target	Emerging acquirer-emerging target
Panel A: Baseline Tests							
Independent Variable							
$\Delta BBD_{3m\_avg\_tgt}$	**-0.0743*** **						
	(0.0049)						
$\Delta BBD_{3m\_avg\_acq}$		**0.0187*** **					
		(0.0055)					
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})]$			**-0.0642*** **	**-0.0682*** **	**-0.0482*** **	**-0.0635*** **	**-0.0625*** **
			(0.0053)	**(0.0056)**	**(0.0092)**	**(0.0053)**	**(0.0053)**
Bilateral Country-pair Characteristics (Difference)							
In (GDPCap $_{tgt-acq)}$	-0.0302***	0.0114	-0.0235**	-0.0241***	-0.0241***	-0.0248***	-0.0252***
	(0.0079)	(0.0548)	(0.0093)	(0.0088)	(0.0088)	(0.0088)	(0.0088)
GDPGr $_{tgt-acq}$	0.1008	-0.1439	0.1193	0.1036	0.1117	0.1162	0.1792**
	(0.0752)	(0.3527)	(0.0865)	(0.0867)	(0.0866)	(0.0865)	(0.0863)
MKTCAP/GDP $_{tgt-acq}$	-0.0111**	-0.0280	-0.0150***	-0.0139**	-0.0147**	-0.0148**	-0.0270***
	(0.0047)	(0.0381)	(0.0058)	(0.0058)	(0.0058)	(0.0058)	(0.0058)
Volatility $_{tgt - acq}$	-0.0011	-0.0011	-0.0012	-0.0020	-0.0020	-0.0020	-0.0020
	(0.0022)	(0.0027)	(0.0027)	(0.0028)	(0.0028)	(0.0022)	(0.0025)
Trade $_{tgt-acq}$	-0.0361***	0.0456	-0.0508***	-0.0520***	-0.0505***	-0.0508***	-0.0264**
	(0.0104)	(0.0603)	(0.0121)	(0.0121)	(0.0121)	(0.0121)	(0.0120)
Inflation $_{tgt-acq}$	0.0212	-0.0336*	0.0373	0.0418	0.0433	0.0371	0.0371
	(0.0335)	(0.0204)	(0.0365)	(0.0367)	(0.0366)	(0.0363)	(0.0363)
Exchange rate $_{tgt-per-acq}$	0.0001	00004	0.0001	0.0001	0.0001	0.0001	0.0001
	(0.0001)	(0.0006)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Bureaucratic quality $_{tgt-acq}$	-0.0379***	-0.0803	-0.0216**	0.0243**	0.0235**	0.0234**	0.0227**
	(0.0101)	(0.0784)	(0.0110)	(0.0108)	(0.0108)	(0.0108)	(0.0108)
Law and order $_{tgt-acq}$	-0.0058	-0.0193	-0.0028	-0.0002	-0.0019	-0.0035	-0.0044

	(0.0051)	(0.0520)	(0.0060)	(0.0060)	(0.0060)	(0.0059)	(0.0060)
Corruption $_{tgt-acq}$	0.0095**	-0.0032	0.0053	0.0068*	0.0065	0.0067*	0.0065*
	(0.0039)	(0.0283)	(0.0043)	(0.0039)	(0.0040)	(0.0039)	(0.0040)
Business environment $_{tgt-acq}$	-0.0006	-0.0353**	-0.0030	-0.0030	-0.0032	-0.0032	-0.0031
	(0.0019)	(0.0142)	(0.0023)	(0.0022)	(0.0022)	(0.0022)	(0.0022)
Political risk $_{tgt-acq}$	0.0020	-0.0799	-0.0352	-0.0352	-0.0352	-0.0352	-0.0352
	(0.0213)	(0.2014)	(0.0332)	(0.0332)	(0.0332)	(0.0332)	(0.0332)
Bilateral investment treaty	0.0270***	0.0134	0.0296***	0.0370***	0.0361***	0.0363***	0.0368***
	(0.0054)	(0.0516)	(0.0066)	(0.0073)	(0.0073)	(0.0073)	(0.0074)
Same religion	0.0092	0.0223	-0.0040	-0.0050	-0.0052	-0.0051	-0.0052
	(0.0330)	(0.0249)	(0.0040)	(0.0040)	(0.0040)	(0.0040)	(0.0040)
Same legal origin	0.0068	-0.0005	0.0037	0.0042	0.0045	0.0040	0.0046
	(0.0053)	(0.0432)	(0.0061)	(0.0061)	(0.0061)	(0.0061)	(0.0061)
Same language	-0.0027	-0.0112	-0.0033	0.0011	0.0010	0.0021	0.0010
	(0.0073)	(0.0572)	(0.0080)	(0.0080)	(0.0080)	(0.0080)	(0.0080)
Bilateral Country-pair Industry-level Characteristics (Difference)							
Firm size $_{tgt-acq}$	-0.0061**	0.0313	-0.0059**	-0.0067**	-0.0062**	-0.0061**	-0.0059**
	(0.0027)	(0.0198)	(0.0030)	(0.0030)	(0.0030)	(0.0030)	(0.0030)
MTB $_{tgt-acq}$	-0.0008	-0.0179	-0.0004	-0.0048	-0.0053	-0.0044	-0.0047
	(0.0035)	(0.0300)	(0.0039)	(0.0041)	(0.0041)	(0.0041)	(0.0041)
Leverage $_{tgt-acq}$	-0.0972***	-0.0158	-0.0962***	-0.0947***	-0.0959***	-0.0967***	-0.0949***
	(0.0305)	(0.2097)	(0.0339)	(0.0339)	(0.0339)	(0.0338)	(0.0339)
ROA $_{tgt-acq}$	-0.0331	0.1543	-0.0013	-0.0054	-0.0015	-0.0042	-0.0036
	(0.0384)	(0.3718)	(0.0475)	(0.0475)	(0.0476)	(0.0478)	(0.0475)
Deal-level Characteristics							
Deal size	-0.0007	-0.0042	-0.0001	-0.0001	-0.0000	-0.0000	-0.0001
	(0.0007)	(0.0033)	(0.0008)	(0.0008)	(0.0008)	(0.0008)	(0.0008)
Cash payment	-0.0167***	0.1168***	0.0041	0.0038	0.0038	0.0038	0.0040
	(0.0032)	(0.0237)	(0.0041)	(0.0041)	(0.0041)	(0.0041)	(0.0041)
Public target	-0.0170***	0.1144***	0.1239***	0.1238***	0.1238***	0.1235***	0.1239***
	(0.0050)	(0.0303)	(0.0081)	(0.0081)	(0.0081)	(0.0081)	(0.0081)
Diversifying deal	0.0193***	-0.0233	0.0189***	0.0184***	0.0185***	0.0185***	0.0184***
	(0.0034)	(0.0258)	(0.0038)	(0.0038)	(0.0038)	(0.0038)	(0.0038)

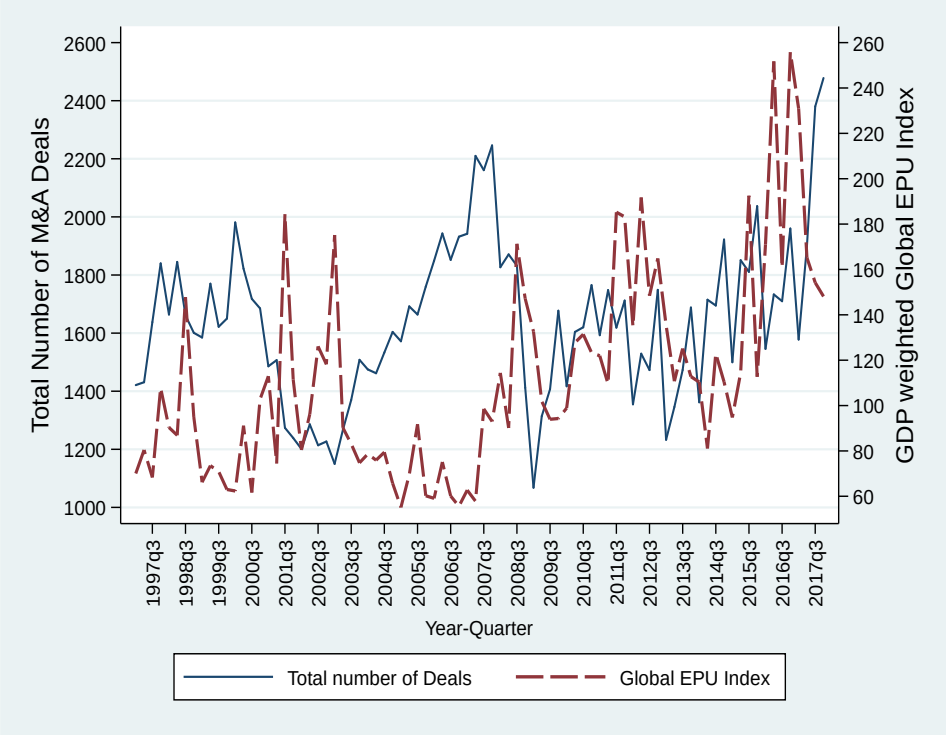
Panel B: Subsample and Interaction Analyses

DM_acq – EM_tgt				**-0.0177****			
				(0.0073)			
DM_acq – DM_tgt					0.0301		
					(0.0578)		
EM_acq – DM_tgt						0.1177	
						(0.0957)	
EM_acq – EM_tgt							0.0873
							(0.0855)
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})] \times$ DM_acq – EM_tgt				**-0.0327****			
				(0.0138)			
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})] \times$ DM_acq – DM_tgt					**-0.0207****		
					(0.0098)		
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})] \times$ EM_acq – DM_tgt						0.0045	
						(0.0147)	
$[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})] \times$ EM_acq – EM_tgt							-0.0175
Acquirer country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year-month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.12	0.11	0.30	0.30	0.30	0.30	0.30
Observations	24196	24196	24196	24196	24196	24196	24196

This table presents the estimates from OLS models explaining the announcement return using 5-day window Combined CAR (−2, +2) surrounding the deal announcement. Panel A presents the effect of EPU on total samples whereas Panel B shows the effect on the sub-sample tests (with the interaction terms). Estimation models employ two variations of the ΔBBD_{3m_avg} as explanatory variable. The first variation is computed as the average of the previous three months' ΔBBD of the target nation, $\Delta BBD_{3m\_avg\_tgt}$, (used in column (1)) and the average of the previous three months' ΔBBD of the acquirer nation, $\Delta BBD_{3m\_avg\_acq}$, (used in column (2)). The second variation, which employs the difference between target's and acquirer's $\Delta BBD_{3m_{avg,}}$ i.e. $[(\Delta BBD_{3m\_avg\_tgt}) - (\Delta BBD_{3m\_avg\_acq})]$, is used in columns (3)-(7). The regressions control for deal-level, industry-level, country-level and country-pair characteristics. All controls are lagged one year, and are defined in *Appendix 2-A.* The inclusion of fixed effects (FE) is indicated at the end. Heteroscedasticity robust standard errors, clustered at the country-pair level, are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

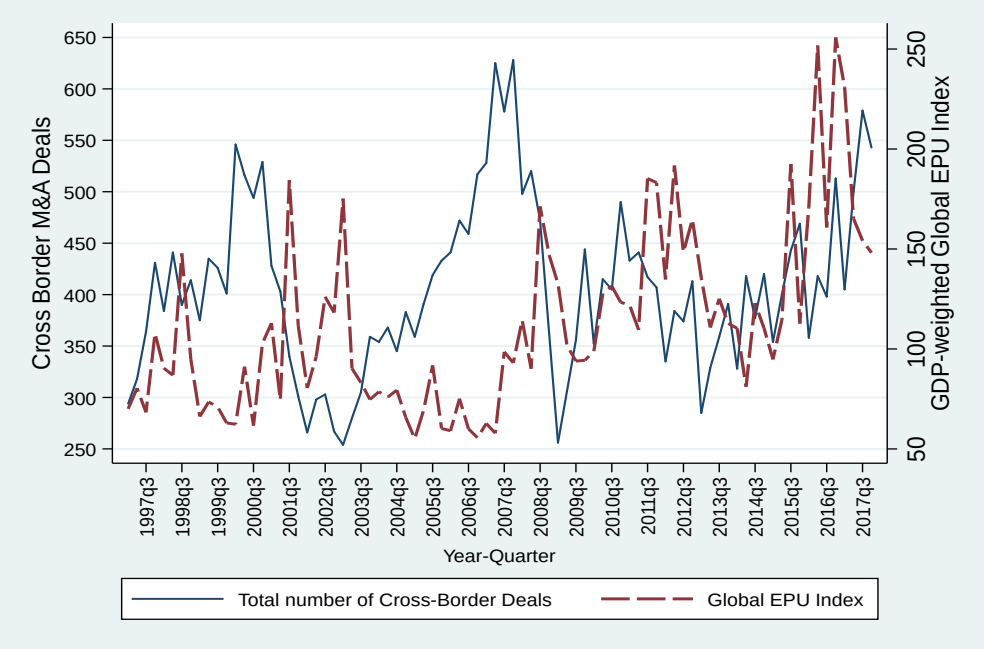
Figures of Chapter 2

Figure 2.1 Times Series Plot of Number of M&A Deals and EPU



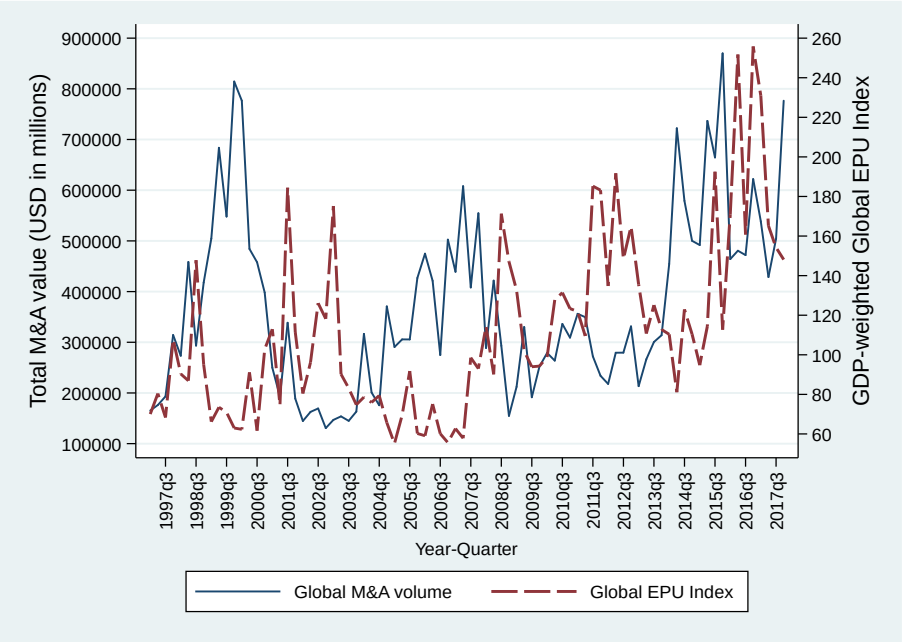
This figure depicts the time series of nominal GDP scaled global BBD index (dashed red line) in the right vertical axis and the number of M&A deals (blue line) in the left vertical axis respectively. The horizontal axis presents year-month from 1997 to 2017.

Figure 2.2 Times Series Plot of CBA Deals and EPU



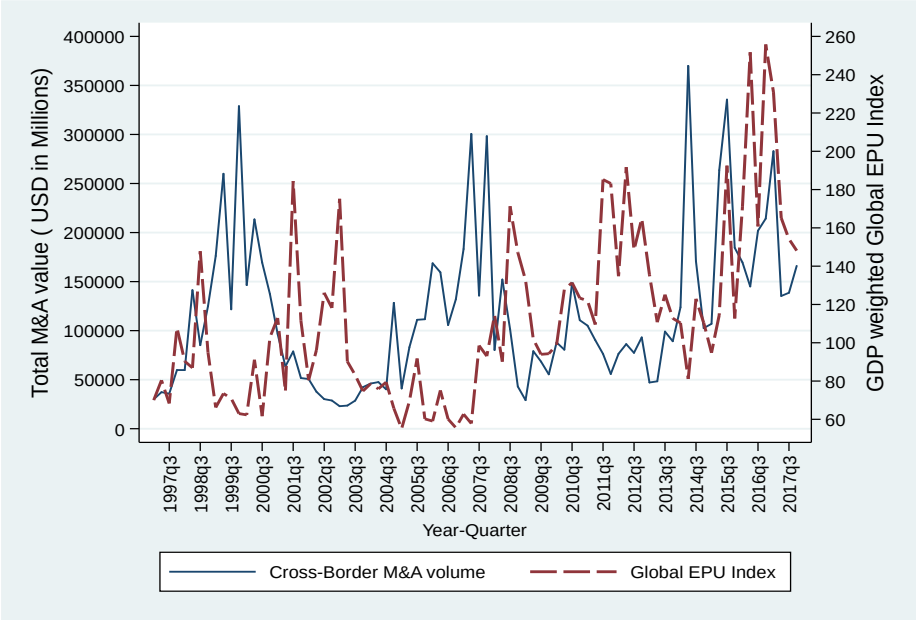
This figure 2 plots the time series of nominal GDP scaled by global BBD index (dashed red line) in the right vertical axis and the natural logarithm of number of CBA deals (blue line) in the left vertical axis respectively. The horizontal axis presents year-month from 1997 to 2017.

Figure 2.3 Times Series Plot of Number of Dollar Volume of Total M&A Deals and EPU



This figure 2.3 plots the time series of nominal GDP scaled global BBD index (dashed red line) in the right vertical axis and the total volume of total M&A deals measured in millions of USD (blue line) in the left vertical axis respectively. The horizontal axis presents year-month from 1997 to 2017.

Figure 2.4 Times Series Plot of Dollar Volume of CBA Deals and EPU



This figure 2.4 plots the time series of nominal GDP scaled global BBD index (dotted blue line) in the left vertical axis and the natural logarithm of volume of CBA deals measured in millions of USD (red line) in the right vertical axis respectively. The horizontal axis presents year-month from 1997 to 2017.

Appendices of Chapter 2

Appendix 2-A Variables, Definitions and Data Sources

Variable	Definition	Source
Panel A: Dependent Variables		
Target's Country-industry Level		
Number of CBA	The total number of CBA deals divided by the total number of (domestic and CBA) deals in a given target's country-industry and month.	SDC
Volume of CBA	The total dollar value of CBA deals divided by total dollar value of (domestic and CBA) deals in a given target's country-industry and month.	SDC
Bilateral Country-pair level		
Number of Bilateral Deals (NB)	The total NB between country-pair per 100 listed firms (NC) in a given target's country.	SDC and Datastream
Volume of Bilateral Deals (VB)	The total VB in millions of USD divided scaled per billion GDP in a given target country.	SDC and Datastream
Deal Level		
CB acquisition candidacy	Dummy variable equal to one if the target is cross-border and zero otherwise.	SDC
Deal completion duration	Number of calendar days between the deal announcement date and the completion date.	SDC
Deal completion	Dummy variable equal to one if SDC reports deal status as "completed", and zero otherwise.	SDC
Combined CAR (−2, + 2)	Refers to combined CAR (−2, + 2) in Equation (6), Section 2.3.1	SDC and Datastream
Panel B: Key Independent Variable		
BBD	The natural logarithm of the arithmetic average of Baker et al.'s (2016) country-level BBD index for immediate three lag months.	Author's calculation based on BBD (2016)
$\Delta BBD_{3m\_avg\_tgt}$	Arithmetic average of percentage change in BBD of target nation for immediate three months.	Author's calculation based on BBD (2016)
$\Delta BBD_{3m\_avg\_acq}$	Arithmetic average of percentage change in BBD of acquirer nation for immediate three months.	Author's calculation based on BBD (2016)
[ΔBBD (3m_avg_tgt) - ΔBBD_(3m_avg_acq)]	Difference between target's and acquirer's ΔBBD_{3m_avg}.	Authors' calculation based on BBD (2016)
Panel D: Deal/Bid Characteristics		
Deal Size	Natural logarithm of deal transaction value, in millions of USD.	SDC
Diversifying deal	Dummy variable equal to one if the 2-digit SIC codes of the acquirer and target are different and zero otherwise.	SDC
Public target	Dummy variable equal to one if target's firm is a public firm and zero otherwise.	SDC
Cash payment	Dummy variable equal to one if the deal payment is made with at least 50% cash and zero otherwise.	SDC
Panel E: Industry Characteristics		
Firm size	The industry median of the dollar value of the natural logarithm of total assets.	Datastream
ROA	The industry median of return on assets. It is calculated as EBITDA divided by the book value of total assets.	Datastream
Leverage	The industry median of debt-to-equity ratio. It is calculated as long-term debt minus cash and cash equivalents divided by the book value of common equity.	Datastream

MTB	The industry median of market-to-book ratio. It is calculated as the market value of common equity divided by the book value of common equity.	Datastream
Herfindahl-Hirschman Index (HHI)	The sum of squares of the market share of individual firms in the same 12-FF industry. Market share is calculated as the dollar value of sales of a firm divided by the total dollar value of sales volume of the industry (Authors' calculation).	Datastream

Panel F: Country Characteristics

GDPGr	Growth rate of gross domestic product in USD	WDI
GDPCap	The natural log transformation of per capita GDP in USD.	WDI
Trade	The annual trade (imports + exports) of goods and services divided by GDP.	WDI
Exchange rate	Exchange rate in USD divided by Purchasing Power Parity.	Penn World Tables
MKTCAP/GDP	The total stock market capitalization divided by GDP.	WDI
Inflation	The annual consumer price index (annual %).	WDI
Business environment	Investment Profile Index from ICRG. Time-varying index measuring the government's attitude towards foreign investment. The investment profile is determined by summing the three following components: (1) risk of expropriation or contract viability; (2) payment delays; and (3) repatriation of profits. Each component is scored on a scale from 0 (very high risk) to 4 (very low risk). Thus, Business environment ranges from 0-12 with a higher value reflecting lower potential risk for foreign investors.	ICRG
Corruption	Corruption Index from ICRG. Time-varying index measuring the corruption level within the political system; it is measured on a scale of 0-6, where higher points denote a lower level of corruption.	ICRG
Law and order	Law and Order Index from ICRG. Time-varying indexes of law and order are assessed separately, with each sub-component consisting of zero to three points. The Law sub-component is an assessment of the strength and impartiality of the legal system, whereas the Order sub-component is an assessment of popular observance of the law. Thus a country can enjoy a high rating (3) in terms of its judicial system, but a low rating (1) if it suffers from a high crime rate or if the law is routinely ignored without effective sanctions. A higher number denotes lower risk.	ICRG
Bureaucratic Quality	Bureaucratic Quality Index from ICRG. Time-varying index measuring whether the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services on a scale of 0-4. In low-risk countries, the bureaucracy tends to be somewhat autonomous from political pressure and to have an established mechanism for recruiting and training.	ICRG
Political risk	Henisz's political constraints index (POLCON). The index ranges from 0-1 with lower scores representing higher levels of political risk. Details of this index are available in Henisz (2000).	Henisz (2000)

Panel G: Country-pair Characteristics

Bilateral investment treaty	Dummy variable equal to one if the acquirer and target nation signed a bilateral investment treaty.	UNCTAD
Same language	Dummy variable equal to one if the target and acquirers' primary language (English, Spanish, or Others) are the same.	CIA World Factbook
Same religion	Dummy variable equal to one if target and acquirers' primary religion (Protestant, Catholic, Muslim, Buddhist, or Others) are the same.	CIA World Factbook
Same legal origin	Dummy variable equal to one if the target and acquirer have the same legal origin. Legal origin refers to common or civil law origin countries, with the latter further classified as French, German, or Scandinavian.	Djankov et al., 2008).
Geographic distance	The natural log transformation of geographic distance between capitals in miles. The geographic distances are calculated following the great circle formula, which uses latitudes and longitudes of the most important city (in terms of population) or of its official capital.	CEPII

Appendix 2-B ICRG's Political Risk Components

Panel A: Overall Political Risk Components

Sequence	Component	Points (Max)
A	Government Stability	12
B	Socioeconomic Condition	12
C	Investment Profile	12
D	Internal Conflict	12
E	External Conflict	12
F	Corruption	6
G	Military in Politics	6
H	Religious Tension	6
I	Law and Order	6
J	Ethnic Tensions	6
K	Democratic Accountability	6
L	Bureaucracy Quality	4
TOTAL		**100**

Panel B: Quality of Institution

Sequence	Components	Points (Max)
F	Corruption	6
I	Law and Order	6
L	Bureaucracy Quality	4
TOTAL		**16**

Panel C: Investment Profile: Investor Protection Measures Specific to Foreign Investment

Sequence	Sub-Component	Points (Max)
C	Contract Viability/Expropriation	4
C	Profit Repatriation	4
C	Payment Delays	4
TOTAL		**12**

Appendix 2-C Low and High EPU Episodes

Low EPU Episodes (comparison)				High EPU Episodes (treated)			
Target Nation	Year	Month	Treatment	Target Nation	Year	Month	Treatment
Brazil	1999	5	0	Australia	2017	12	1
Brazil	2012	9	0	Canada	2016	8	1
Canada	1999	2	0	China	2014	10	1
Chile	1998	11	0	Germany	2010	4	1
Chile	2001	10	0	India	2006	7	1
France	1998	8	0	Ireland-Rep	2013	12	1
France	2013	8	0	Japan	2005	8	1
France	2014	8	0	South Korea	2001	8	1
Japan	1998	9	0	United Kingdom	2004	11	1
Russian Fed	2005	5	0	United Kingdom	2016	7	1
Russian Fed	2015	5	0	United States	2012	6	1
South Korea	2010	3	0				
South Korea	2016	3	0				
Sweden	2000	11	0				
United Kingdom	2015	8	0				
United States	2011	11	0				
United States	2013	2	0				

This discrete EPU shock is identified based on the BBD index of sample countries. For each year-month the sample countries are clustered into five quintiles based on month-on-month percentage change in BBD index (5^{th} quintile implying highest percentage change) and countries belonging to the 5^{th} quintile (1^{st} quintile) are assigned as the treated (comparison) group. I remove years 2008 and 2009 due to coinciding with the global financial crisis period. To further assure the persistence of EPU shocks to impact M&As, I impose a restriction that the change in the quintile rank for three subsequent months following a discrete EPU shock is not more than one for treated and comparison countries. The restriction gives me 17 unique country-months as being comparison and 11 unique country-months as treated episodes.

CHAPTER 3: IMMIGRATION-FEAR-INDUCED POPULISM AND CROSS-BORDER ACQUISITIONS

3.1 Introduction

Prior studies note that heightened immigration-related-fear sentiments (IFS), which breed anxiety and fear among local inhabitants, lead to the growth of anti-immigration populist (AIP) views among people across the globe (Edo, Giesing, Öztunc, & Poutvaara, 2019). Although highly debatable, the research identifies two primary sources of IFS. The first source is the possibility of terrorist attacks that have the direct, tangible effect of destroying physical infrastructure and the physiological, intangible effect of depressing human productivity (Ahern, 2018).[36] The second source of IFS stems from growing competition for access to public resources between immigrants and the local populace (Jacobsen, 2005; Werker, 2007).

Both the tangible and the intangible sources of IFS create deadweight costs for the business community, which carries a dampening effect on their investment activities (Ahern, 2018; Becker & Rubinstein, 2011). Studies also document that both sources of IFS lead to the growing popularity of AIP political parties, which generally hold anti-immigration ideologies and pursue protectionist economic policies, such as instituting cross-border trade and investment barriers, compelling firms to only hire local employees. There is some economic opinion that notes that the possibility of AIP governments following these extreme protectionist policies may heighten uncertainties among economic agents, which may retard productive business pursuits (Abadie & Gardeazabal, 2008; BenYishay & Pearlman, 2013). In the context of corporate

[36] Metcalfe, Powdthavee, and Dolan (2011) document a reduced level of subjective well-being of the general populace following the 9/11 attack.

investments, studies strongly posit and empirically document the inverse relation between policy uncertainties and inward merger and acquisition (M&A) activities (Bonaime, Gulen, & Ion, 2018; Nguyen & Phan, 2017).

In this study, I contribute to the literature by examining whether an environment with a growing AIP movement following heightened IFS affects inbound cross-border acquisitions (CBAs). I answer this question by using the migration-related-fear sentiment index (MF index) of Baker, Bloom, and Davis (2015) and by exploiting the exogenous events of the 11 September 2001 terrorist attack on the United States (9/11) along with the European Refugee Crisis of 2015 (ERC), both of which intensified IFS among the inhabitants of many developed economies (Baker et al., 2015). Backed by economic arguments, my study concludes that higher IFS and the subsequent escalation of AIP attitudes seem to reduce the amount of inbound CBAs, more so in countries governed by AIP political parties and in labour-intensive industries.

The current geopolitical landscape across the globe is characterised by social division, political extremism and nationalist sentiment, which are often portrayed as being caused by globalisation (Hill & Hult, 2017; Rodrik, 2018). However, due to the different historical and social issues across countries, the effects of globalisation are not the same (Rodrik, 2018). As more and more countries witness the rise of nationalist parties and populist movements, de-globalisation is gaining momentum in many markets (Rodrik, 2019; Witt, 2019). While most companies still seem to strategise in a global economy, policies have recently experienced a backlash; several countries have elected nationalistic governments that seek to protect the local economy and erect trade barriers (Devinney & Hartwell, 2020). The backlash from the local populace is

leading governments to adopt policies resulting in reversing globalisation, and both the backlash and the policies are creating new challenges for Multinational enterprises (MNEs) in terms of conducting regular business across borders (Butzbach, Fuller, & Schnyder, 2020). This de-globalisation trend resulting from populism has pushed many firms to revise their international expansion decisions or to revert to wait-and-see strategies (Clarke & Liesch, 2017; Kobrin, 2017).

Numerous studies note that the growing level of immigration, predominantly uninvited, generates anxiety and fear among the local populace. An overwhelming amount of emerging research shows that the growing number of immigrants and refugees may pose difficulties to natives in the form of increased pressure for land, jobs, housing and other resources (Jacobsen, 2005; Werker, 2007). Studies also note that refugees could exacerbate economic burdens by straining local social services and infrastructure and reducing public resources available for natives (Weiner, 1992). These circumstances are indicative of the growing evidence that under such heightened anxiety and fear, populism becomes rampant. Recent evidence indicates that populism today includes a wide array of political movements, from the emergence of anti-euro parties in Europe, anti-immigrant movements in Greece and Spain and Trump's anti-trade nativism in the USA to Chavez's economic populism in Latin America (Rodrik, 2018). Major immigration policies, including the open border concept in the European Schengen area, are now questionable.

As a result of mounting anxiety about rising immigration, Guiso, Herrera, Morelli, and Sonno's (2017) European survey data on individual voting behaviour

signifies that economic insecurity is driving support for populist parties.[37] Furthermore, growing anxiety and fear may influence citizens who are intolerant towards immigration to become more inclined to AIP, a highly intolerant political ideology based on opposition to immigration, anti-elitism and, in most cases, Euroscepticism (see Podobnik, Kirbis, Koprcina, & Stanley, 2019). Consistent with this view, Podobnik et al. (2017) demonstrate that high levels of immigration, particularly with uninvited immigrants, are a major cause of anti-globalist sentiments and support for AIP parties. These predictions seem to be further validated by the recent of Trump's election in the USA, mounting European populism as a result of the refugee crisis and the Brexit vote in the UK. In all of these, the common theme has been anti-immigration related sentiments; with some instructive exceptions, they were all variants of AIP right-wing parties (Arnorsson & Zoega, 2018; Rodrik, 2018).

AIP governments tend to advocate for and prefer natives over foreigners and immigrants and are also more inclined to pursue inward-looking protectionist economic policies (Dinc & Erel, 2013). The surge in AIP views thus creates a high degree of economic uncertainty for the business community.[38] Such economic uncertainties, along with protectionist policies, may dampen investors' willingness to take risks, and thus deter them from investing in these markets (Baker et al., 2016; Kaplanski & Levy, 2010). A number of theoretical models suggest that in the face of heightened anxiety, fear and uncertainty, investors, including international investors,

[37] In an earlier survey of 26 different academic studies on European parties advocacy and preferences of natives, Mudde (1996) found at least half of the studies featured terms like nationalism, racism, xenophobia, anti-democracy and strong state.

[38] Pástor and Veronesi (2012) define economic uncertainty as a high level of probability that the prevailing government's economic policies may change frequently and abruptly. Similarly, Pástor and Veronesi (2013) broadly interpret policy uncertainty as '*uncertainty about the government's future actions*' (page 521).

become cautious and hold back on making real and financial investments (see Bernanke, 1983; Bloom, Bond, & Van Reenen, 2007). Empirically, Bloom (2014) also supports this view by demonstrating that higher levels of micro and macro uncertainty discourage firms from hiring and investing.

Specific to international direct investments, studies document several driving factors of CBAs, such as accessing new markets, exploiting valuable resources and reaping the benefits of international diversification, along with stable business environments (Erel, Liao, & Weisbach, 2012). Recent evidence also suggests that acquiring target firms' human capital is also a significant determinant in CBA investment decisions.[39] For example, Ouimet and Zarutskie (2012) find evidence that one of the key reasons why firms pursue M&As is to acquire important global talents. Along similar lines, Tate and Yang (2015) find that the freedom to actively pursue inter-industry and international mobility of human resources motivates MNEs to diversify acquisition activities. Lee, Mauer, and Xu (2018) support this evidence of targeting firms and domiciles that allows free-mobility of talents. However, since AIP governments may discourage firms from hiring global talents in favour of the local workforce and place excessive restrictions on international transfers of global talent, foreign investors seeking unrestricted movement of productive human capital may find it unattractive to invest in an economic environment of growing anti-immigration populism. These economic arguments and the empirical evidence suggest that the limited ability to acquire and freely move human capital acts as a potential channel

[39] Acquiring firms prefer to use M&A to boost their labour efficiency through economies of scale to rapidly satisfy increasing customer demands (e.g., Lee et al., 2018; Ouimet & Zarutskie, 2012; Tate & Yang, 2015; Tate & Yang, 2016).

through which IFS may affect CBA activities, making target firms in such locations less attractive.[40]

Thus, building on the above-outlined economic underpinnings and empirical evidence exhibiting the negative link between uncertainty and investments, it can be predicted that firms operating in locations witnessing growing IFS should experience reduced inbound CBA activities, lower likelihoods of receiving acquisition bids and deal completions and lengthier deal completion times.

My empirical investigations report the following findings. Using MF index, which is highly correlated with events such as terrorist attacks, security fears and major anti-immigration policies, the empirical outputs suggest a negative association between the MF index and the number of inbound CBAs.[41] In four quarters of dynamic investigation, I find that the strength of this inverse nexus between the MF index and CBAs is substantially strong (i.e. in all my quarter lags of MF).

Exploiting the events of 9/11 and ERC as exogenous shocks, I further validate the link between IFS and CBAs by using the quasi-natural empirical approach of difference-in-differences (DiD). In addition to temporal shocks (9/11 and ERC), I also exploit two cross-sectional differences in the varying degrees of IFS. The first difference is based on whether the government can be considered to be following AIP policies or not, and the second is whether a CBA deal belongs to a high or low labour-intensive industry. Consistent with economic predictions, I find that in the post-shock

[40] This is due to i) acquirers' chief executive officers (CEOs) and other board members' safety uncertainty and fear in line with the risk-aversion and risk deterrence hypotheses (see Dai, Rau, Stouraitis, & Tan, 2020); and/or ii) reduction in target firms' human capital productivity.

[41] See section 3.3.3 for a detailed description of the index. Given the empirical challenge of convincingly inferring economic results in social science, all quantitative effects reported in this study are limited to my sample and subjected to the assumptions of the estimated models. I suggest that greater emphasis should be paid on the qualitative nexus, which are supported by sound economic justifications.

periods, inbound CBAs significantly decline among firms located in a country with AIP-leaning governments. Similarly, I also find that the negative impact of IFS on inbound CBAs is greater in high labour-intensive industries.

Second, using firm-level analysis, I find that IFS significantly reduce the probability of a firm being acquired. Furthermore, I document that higher IFS are also associated with a lower probability of CBA deals being completed and a significantly higher possibility of delay in deal completions. These outcomes are further triangulated when I employ similar empirical estimations by exploiting the two exogenous difference-in-differences (DiD) analyses as noted earlier. Taken together, all of the empirical outcomes on the deal completion process lend credible support to the conjecture that amplified IFS depress inbound CBA activities.

My study adds to the following strands of literature. First, the chapter belongs to a novel and growing literature linking policy uncertainty to economic outcomes and corporate investments. Bloom et al. (2007) and Bloom (2009), among others, argue that increased uncertainty carries a negative impact on investments, outputs and employment activities. Using the policy uncertainty index constructed by Baker et al. (2016) and firm-level investment data, Gulen and Ion (2016) find strong support for the argument that policy uncertainty depresses corporate investments due to the natural investment irreversibility of real investments. Although Bonaime et al. (2018) and Nguyen and Phan (2017) offer some evidence on the link between policy uncertainty and M&As, this present study extends this line of research by identifying the link between the IFS-induced AIP movement and inbound CBAs. Thus, it is argued that the IFS-led AIP movement is now a novel form of uncertainty that may dampen global CBA activities.

Second, the chapter also adds to the literature of international business research that examines the connection between political environments and CBAs. Two papers that could be argued to be related to my study are that of Dinc and Erel (2013) and Zhang and He (2014). The former shows how a nationalist government influences CBAs, while the latter study finds that economic nationalism significantly negatively affects foreign acquisition completion rates in China. This study expands on this emerging strand of literature by demonstrating how IFS, which eventually empower AIP political parties, can impact inbound CBAs. This study also shows that growing immigration-related fears among a local populace could be stifling sources of global CBA pursuits.

Finally, the chapter also belongs to a growing literature that examines the association between human capital and corporate finance decisions. As noted earlier, growing evidence shows that the ability to acquire and freely move global talent across international markets is an important determinant of M&As (Lee et al., 2018; Ouimet & Zarutskie, 2012; Tate & Yang, 2015). In this regard, a fresh perspective is offered by showing that the negative impacts of IFS on inbound CBAs are stronger in labour-intensive industries.

The rest of the chapter proceeds as follows. Section 3.2 discusses the relevant literature leading to the development of the key testable hypotheses. Section 3.3 describes the sample data employed in this study, followed by empirical results presented and discussed in Section 3.4. Finally, Section 3.5 offers some discussion and concluding remarks.

3.2 Hypotheses Development

3.2.1 IFS and CBAs

Increasingly, people in developed countries are criticising globalisation as the root of economic hardship, thus fostering nationalist and populist movements and leading to a surge of economic nationalism (Colantone & Stanig, 2019; Kobrin, 2017). The global financial crisis has also led to refuelling scepticism in western democracies about the gains from global trade practices (Kobrin, 2017). The backlash is also resulting from other broader grievances on globalisation's impact on national security, identity and culture (Rodrik, 2018).

International immigration is a key concern in security planning in the USA, Schengen area and many other countries (Adamson, 2006; Rudolph, 2003). There are, however, two views in the literature regarding the link between immigration and security risk. One set of studies shows a higher likelihood of conflict spillover with a larger influx of refugees from nearby conflict-torn countries, including an association between refugees and the spread of terrorism (Buhaug & Gleditsch, 2008; Milton et al., 2013; Salehyan & Gleditsch, 2006). Conversely, another group of studies shows no evidence for a direct relationship between uninvited immigrants arriving in Europe and the risk of terrorism in the EU (Choi, 2019), nor any causal link, despite post-9/11 fears (Guild, 2003; Howard, 2010).

Genocide, civil war, dissident conflicts, government violence and political regime transitions could all lead to increased human displacement (Davenport, Moore, & Poe, 2003; Melander & Öberg, 2007; Moore & Shellman, 2004; Schmeidl, 1997). This could lead to a civilian flight from conflict zones; refugees move to places that are free of conflict and have higher incomes and lower transit costs (Moore &

Shellman, 2007).[42] One example of this is the Syrian refugee crisis, which has become a popular media sensation. While a response for this crisis has been staggering, there are crucial geopolitical considerations that need to be made whenever refugees are of concern. Refugees largely place certain fiscal straings on a nation and they can also pose a security risk to the receiving state. It is important to note that a vast majority of refugees do not directly nor deliberately participate in violent acts once arriving in a home country (Braithwaite, Salehyan, & Savun, 2019; Hatton, 2016).

A plethora of theoretical and empirical studies posit a strong negative relation between uncertainty and corporate investments. The seminal work of Bernanke (1983) provides an economically convincing theoretical framework illustrating the positive connection between economic policy uncertainty and firms' propensity to delay investments. Similarly, Bloom et al. (2007) show that a change in the regulatory environment increases real option values, making firms more vigilant when investing or disinvesting. More recently, Baker et al. (2016) discover that the inverse association between policy uncertainty and investment is greater for economic industries that are more vulnerable to policy modifications. Supporting a similar research thread, Gulen and Ion (2016) and Kim and Kung (2017) demonstrate that the unfavourable effect of increasing policy uncertainty on capital investment is considerably greater for firms working in government-exposed sectors and for those in which expenditures are more irreversible. Extending this line of literature, this study argues that IFS increase the uncertainty in the investment environment. Anxiety and fear have been shown to

[42] "By the end of 2017, more than 68.5 million people had been displaced from their homes due to violent conflict, persecution, famine or natural disasters (United Nations High Commissioner for Refugees: UNHCR, 2018)". This movement is a major issue in contemporary world politics, with economic, demographic, political and security implications for host countries (Miller & Peters, 2018; Milton et al., 2013; Salehyan & Gleditsch, 2006).

momentarily decrease the readiness of investors to take risks by making them more pessimistic about future returns (Kaplanski & Levy, 2010). My analysis is, therefore, driven by the literature on psychology, which shows that exposure to extreme adverse occurrences, such as fears about terrorism and waves of illegal immigration, adversely affects people's emotions. The result is a degree of pessimism among people, which in turn affects their risk assessments in unrelated areas (Lerner, Gonzalez, Small, & Fischhoff, 2003; Lerner & Keltner, 2001). Given these arguments, I propose the following hypotheses that examines the *investment deterrence* view on the association between IFS and CBAs.

H_{1a}: A higher degree of IFS is associated with a lower number of inbound CBAs.

H_{1b}: A higher degree of IFS is associated with a lower probability of receiving inbound CBA bids.

H_{1c}: A higher degree of IFS is associated with a lower probability of completing the CBA deal.

3.2.2 IFS-Induced AIP Movement and CBAs

Evidence suggests that immigration, combined with anti-globalisation political sentiments, has become a concern for national security and sovereignty in many countries, leading to anxiety and fear (Buckley & Hashai, 2020; Hassner & Wittenberg, 2015; Rudolph, 2003). The literature on right-wing populism argues that the success of right-wing populist parties is based on economic insecurity and cultural anxiety provoked by populist tendencies among a populace disadvantaged by modernisation (Betz, 1994; Kitschelt, 2016). Halla, Wagner, and Zweimüller (2017) argue that inflows of immigrants and refugees are the most important factors for the rise of the right-wing populist party's success in advanced democracies. The influx of

immigrants following wars and political instability in some countries has resulted in escalating occurrences of clashes due to the cultural and racial differences often guiding voters' choices (Zakaria, 2016). Taking advantage of such a fear-based environment, AIP politicians foster xenophobia, which escalates fear among the local populace (Choi, 2019). This boosts people's support for AIP governments that promise to introduce strict security legislations and anti-immigration policies (Davis & Silver, 2004; Lerner et al., 2003).[43] Further, the emergence of nationalistic and extreme far-right populist governments tend to be followed by policies whereby native workers are preferred over foreigners and immigrants, along with pursuing highly inward-looking protectionist economic policies (Dinc & Erel, 2013). While both right-wing and left-wing parties may bring in populist economic measures, cultural insecurity is intrinsically linked to right-wing populism (Rodrik, 2018). These nationalistic economic policies generate a high degree of economic uncertainty for the business community, leading to significant deadweight costs.

Following the evidence on the nexus between uncertainty and corporate investments, I argue that IFS-induced growing populism and the strengthening of AIP political parties should lead to uncertainty in policies and caution in investment environments. As noted by Botero, Djankov, Porta, Lopez-de-Silanes, & Shleifer (2004), the political environment is an important factor that influences a country's attitude to both IFS and CBAs. For example, left-leaning governments tend to be more supportive of immigrants, while the right-leaning governments oppose immigration,

[43] Politicians will not disclose that they had any information around the security of potential terrorist subjects prior to attacks, as well as not want to disclose any failure to act (De Mesquita, Smith, Morrow, and Siverson, 2005; Mearsheimer, 2013).

both of which directly affect labour policies relating to immigration (Edo et al., 2019). According to Hatton (2016), "a major source of support for far-right parties in Europe is based on the perceived threat of immigration eroding welfare state benefits – a fear that is particularly heightened in countries experiencing austerity and recession".[44]

As such, in this study, I argue that the potential loss of tangible and intangible resources and the heightened economic uncertainty resulting from the policies of AIP governments as a consequence of growing IFS should be unfavourable for the international investment community leading to reduced CBAs. Thus, I hypothesise the following.

H_{2a}: A higher degree of IFS is associated with a lower number of inbound CBAs in AIP governed countries, compared to non-AIP governed countries.

H_{2b}: A higher degree of IFS is associated with a lower probability of receiving inbound CBA bids in AIP governed countries, compared to non-AIP governed countries.

3.2.3 IFS, Human Capital and CBAs

IFS have an intangible impact that raises economic agents' rates of uncertainty and fear of significant losses, distorting productive human behaviour. Increased fear and safety uncertainty can reduce job satisfaction, participation, effort, learning and creativity of employees and, consequently, decrease their productivity (Ahern, 2018; Becker & Rubinstein, 2011). The source of IFS is twofold; one source is increased terrorist threats, and the other is through the economic consequences of immigration.

[44] Scholars Cavaille and Ferwerda (2017) supported the argument that AIP parties were responsive to a perceived type of competition for in-kind benefits from immigrants.

First, Abadie and Gardeazabal (2008) offer a theoretical framework explaining the nexus between terrorism and investment. They suggest two possible channels through which terrorism affects economic activities – predominantly real investments. Terrorism has a tangible effect because it destroys physical assets and leads to the loss of productive human resources. This implies that, in the case of CBAs, such fear relates to the possibility that target companies may suffer significant tangible losses, lose important employees and face the challenge of hiring replacement employees, particularly extremely qualified workers (BenYishay & Pearlman, 2013). The link between foreign direct investment (FDI) and human capital is further corroborated by an authoritative study that claims that FDI boosts economic growth more than domestic investments through the transfer of technology. However, the higher productivity of FDI is only significant when a host country has an optimum level of human capital that can absorb the capabilities of advanced technologies (see Borensztein, De Gregorio, & Lee, 1998).

In addition to security risks, scholars have suggested that the large influx of immigrants can place a strain on the economy of the receiving countries. This is due to employment losses for native workers and then rent increases for better quality housing (Tumen, 2016). Moreover, particularly associated with human capital productivity, fear and uncertainty can exacerbate feelings of racism, xenophobia and discrimination based on people's ethnic origin, migration status or religion (Birkelund, Chan, Ugreninov, Midtbøen, & Rogstad, 2019), often leaving certain groups out of the labour market. These effects reduce the attractiveness of the local labour market to the human capital and also decreases the human capital supply in

heightened IFS areas since the risk-averse human capital prefer to locate in safer places.

The above problems are exacerbated in firms that predominantly use human capital. Extremely talented employees increase a firm's effectiveness; however, they are more sensitive to the risk of fear-mongering than those with lower talents (Amior, 2015).[45] Thus, exceedingly talented workers require better life-quality conditions and have expanded impetuses to switch employment into more secure environments (Docquier, Lohest, & Marfouk, 2007; Dreher, Krieger, & Meierrieks, 2011). Along these lines, the psychology literature (see, for instance, Galea, Ahern, & Resnick, 2002; Hughes, Brymer, Chiu, Fairbank, Jones, Pynoos, 2011) suggests that security concerns adversely affect an individual's sentiment, as strong feelings of anxiety, fear and depression are common even for people who are not directly exposed to IFS. In this respect, Ryan, West, and Carr (2003) report that security concerns generate fears and affect employees psychologically, who then become pessimistic about the future and adopt anti-productive attitudes. For example, Byron and Peterson (2002) and Ksoll, Macchiavello, and Morjaria (2018) show that security concerns lead to increased employee absenteeism in the workplace. Given the above support from literature, I hypothesise the following.

H_{3a}: A higher degree of IFS is associated with a lower number of inbound CBAs in industry belonging to high labour intensity, compared to low labour intensity.

H_{3b}: A higher degree IFS is associated with a lower probability of receiving inbound CBA bids in high labour intensity, compared to low labour intensity.

[45] Earlier research demonstrates that exceptionally talented representatives have high geographic versatility and can secure positions effectively and rapidly (Gottschalk, 1997).

3.3 Data and Descriptive Statistics

3.3.1 Data Source

I obtained the MF index from Baker et al. (2015).[46] My sample data consisted of four target countries for which MF was available: France, Germany, the United Kingdom (UK) and the United States (USA). I obtained the number, volume and other deal characteristics of inbound CBA deals from the Securities Data Corporation (SDC) database and firm- and industry-level data from the S&P Capital IQ. I conducted my empirical analysis at three levels to test my hypotheses: industry, firm, and deal. For firm- and deal-level empirical analyses, I integrated the data from both sources by matching target firms on SDC with S&P Capital IQ using the International Securities Identification Number (ISIN). For target firms on SDC with no ISIN, I used a fuzzy matching technique using 90% similarity scores. I performed a manual audit on these fuzzy matched firms to ensure perfect matches. Based on these matching techniques and integration, my final panel consisted of 22,969 public and private firms from the four target countries with 12,713 observations for industry-level analysis and 430,455 observations for firm-level analysis for the sample period of 1995 to 2017. Country-level control variables were sourced from the World Bank's World Development Indicators Database and the Database for Political Institutions.[47]

3.3.2 CBA Deals

Following the practice of existing literature, I exclude leverage buyouts, spin-offs, recapitalisations, self-tender offers, exchange offers, and repurchases from the inbound CBA deals obtained from SDC (see Erel et al., 2012). Further, I only retained

[46] The index is available at: http://www.policyuncertainty.com/ See also: http://voxeu.org/article/immigration-fears-and-policy-uncertainty

[47] All variable definitions and sources are summarised in in *Appendix 3-A.*

deals with a minimum transaction value of United States Dollar (USD) 1 million.[48] Additionally, in the robustness test, I dropped all deals where the acquirer's stake would be less than 30% for post-acquisition and 50% for a transfer of control (Rossi and Volpin, 2004).

In Table 3.1, I present the distribution of the number and volume of M&A deals. After applying the above-stated standard filters, I had 29,576 inbound CBA deals, representing 21.01% of the total 140,706 unique M&A deals of both public and private firms for my sample period. Of these, 90.05% (26,634) of inbound CBA deals were completed. Of all four countries, the USA had the highest number and volume of inbound CBAs, representing 47.8% and 83.6% of the total completed CBA deals, respectively. While 93.69% of the CBA deals were completed in France (highest), only 88.18% of all CBA deals were completed in the USA (lowest)(see Table 3.1 in the Tables of Chapter 3 section).

3.3.3 Migration-Related-Fear Sentiment Index

For capturing the intensity of migration-related fears in France, Germany, the UK and the USA, I used the MF index developed by Baker et al. (2015) as a proxy for IFS. The MF index extends back to 1995, reflecting unparalleled levels of apprehension about migration. For each of the four countries, it was available quarterly and constructed by counting the number of newspaper articles with at least one term related to the words 'migration' and 'fear'.[49] These articles were then divided by the total

[48] About 29.69% of the deals on SDC for the four target countries do not have transaction value data. I, however, retain such deals in my final sample. Following Alimov and Officer (2017), I consider only the number of inbound CBA deals in my empirical analysis and use CBA volume in the robustness test with the available data.

[49] *Migration* has several related terms: 'border control', 'Schengen', 'open borders', 'migrant', 'migration', 'asylum', 'refugee', 'immigrant', 'immigration', 'assimilation' and 'human trafficking". For *fear*, terms like "anxiety', 'panic', 'bomb', 'fear', 'crime', 'terror', 'worry', 'concern' and 'violent" are also related. Counts were obtained by Le Monde for France, Frankfurter Allgemeine Zeitung and

count of newspaper articles to obtain the migration-related fear proportionate measure (in the same calendar quarter and country). Each of these proportionate measures was then normalised to have a mean value of 100 from 1995 to 2011. This suggests that a higher MF index value indicates greater intensity of immigration-related fears among the local populace. Consistent with the evidence presented by Baker et al. (2015), Figures 3.1 and 3.2 show that the MF index increased around events such as the ERC, Paris attacks and the 9/11 terrorist attacks, which are *ex-ante* expected to increase IFS (see Figure 3.1 and 3.2 in the Figures of Chapter 3 section).

Further, I superimposed the trend of number (volume) of CBA deals in Figure 3.1 (2) with the MF index. I observed that the CBA trends normally declined following an increase in the MF index.

3.3.4 Control Variables

Drawing on existing literature, I included an exhaustive set of control variables in my empirical study. I controlled for a host of firm-level characteristics. Since smaller sized firms, on average, are more likely to receive an acquisition, I controlled for firm size (*Firm size*) by taking the natural logarithm of total assets (Moeller et al., 2004; Palepu, 1986). Palepu (1986) found a negative relation between takeover bids and leverage; however, Stulz (1988) suggests that a higher leverage of a target firm can result in a larger takeover from a premium offer. Therefore, I controlled for leverage (*Leverage*), defined as the ratio of the sum of long-term and short-term debts to total assets. "The inefficient management hypothesis suggests that firms with efficient managers are more likely to acquire inefficiently-operating targets to enhance the value of the

Handelsblatt for Germany, the *Financial Times* and the *Times of London* for the United Kingdom, and USA newspapers indexed by the Access World News Newsbank database for the United States.

combined firm. The theory also predicts that the bidding companies are expected to have strong performances, while targets of M&A activity demonstrate poor performance" (Morck, Shleifer, & Vishny, 1990; Palepu, 1986). I included return on assets (*ROA*) to control for managerial quality, measured as the ratio of the income before interest, tax depreciation and amortisation to total assets.

It has been argued that cash holding may decrease the probability of that firm being acquired because it might be used to defend against a bid. However, cash holding also has the potential to attract the attention of bidders who want to add cash reserves to their firms' balance sheet (Croci, Pantzalis, Park, & Petmezas, 2017). Therefore, I used the ratio of the cash and short-term investments scaled by total assets as the proxy for cash holding (*Cash to Assets*). An essential factor for value creation is the synergy as a result of acquisitions. Harrison, Hitt, Hoskisson, and Ireland (2001, 1991), testing similarity vs complementarity, show that a merged entity has higher performance when capital intensity differences between the target and acquirer were greater. Thus, on the one hand, potential takeover synergies are impacted by the target's intensity of capital expenditures. On the other hand, Kim and Lyn (1987) show that capital intensity can act as an entry barrier for foreign multinationals and that they tend to invest in industries not requiring large capital outlays. Therefore, I controlled for the target's capital expenditure by scaling it by total assets to account for internal investment (*Capex*) (Elnahas & Kim, 2017; Lang, Ofek, & Stulz, 1996).

I controlled for a host of industry-level characteristics for each target country under the Fama–French 48 industry classification (FF-48). Harford (2005) shows that mergers are clustered in time within industries. Furthermore, he finds that capital liquidity positively affects the aggregate level of the likelihood of acquisition. I

included an analysis of the Liquidity variable to account for the potential liquidity of corporate assets per industry. This variable was measured as the sum of deal values scaled by the total assets of firms in the same FF-48 and year. Another variable to consider that might influence firm acquisition would be the concentration of an industry, as those firms in areas that are highly concentrated within their industry have less competition targets and this will reduce the within-industry acquisition rate (Harford & Uysal, 2014). To proxy for industry concentration, I used the Herfindahl index (*Herfindahl*), defined as the sum of squares of the market shares of sales of all firms sharing the same FF-48 industry. Domestic acquirers may have an advantage over foreign acquirers as foreign acquirers tend to have cultural, geographic and country-level governance differences with target companies, plus international tax effects. I included the number of domestic M&A deals to allow me to implicitly control these factors, which gives domestic acquirers an edge over foreign counterparts (Erel et al., 2012). Furthermore, depending on the specification of the empirical analysis, following Billett and Xue (2007) and Chen, Kacperczyk, and Ortiz-Molina (2012), I included the FF-48 industry median of the following variables calculated for each country: *Firm size, Leverage, ROA, Cash to Assets, Capex*.

Next, I controlled for country-level characteristics that could affect the CBA. Underlying economic conditions (e.g. level of economic development and growth) and trade relations were strongly correlated with cross-country differences (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). To control for country-level economic development and growth, I included the natural logarithm of GDP per capita (*GDP per capita*) and the annual growth in real GDP (*GDP growth*). To record a country's level of foreign trade, I calculated the ratio of imports and exports to GDP (*Trade*

openness). Bailey (2018) argues that institutional factors, such as bureaucratic quality, the rule of law and corruption, are important factors influencing FDI. Following Erel et al. (2012) and Bekaert, Harvey, and Lundblad (2005), among others, I controlled for a country's institutional environment by including time-varying indices taken from the International Country Risk Guide's database. For this, I controlled for: (i) (*Quality of Institution*), calculated by summing three different indices capturing the corruption levels, law and order quality and bureaucratic quality. I then normalised it on a scale of 0–1, with the higher score indicating countries with higher institutional quality and vice-versa. (ii) (*Investment profile*), determined by summing three sub-indices that specifically capture the quality of the environment for foreign investments. These indices included risk of expropriation or contract viability, payment delay and repatriation of profits. Each of these sub-components was scored on a scale from 0 (very high risk) to 4 (very low risk). I then normalised the 0–12 index on a scale of 0–1, with one representing a potentially very high risk.

For deal-level empirical analysis, I also controlled for a host of deal-level characteristics. Prior literature documents that diversifying CBAs are decreasing the likelihood of takeover premiums (Officer, 2003). To control for deal diversification, I included a dummy variable that takes the value of 1 if the target and bidder firms operated in different FF-48 industries and 0 otherwise (*Diversifying*). While Huang and Walkling (1987) document that the takeover premium in cash is larger compared with stock transactions, Hansen's (1987) model predicts that stock is more likely to be used by acquiring firms when there is considerable uncertainty about the value of the target. I controlled for cash deals by including a dummy variable (*Cash deal*) with a value equal to 1 if the complete consideration of the CBA deal was in cash and 0

otherwise. Additionally, Schwert (2000) finds that tender offers and hostile deals have a positive relationship with the takeover deal. Hence, to see how deals react to the offer, I included a dummy variable (*Tender offer*), which takes the value of 1 if a bid was structured as a tender offer and 0 otherwise. I also included a dummy variable (*Hostile bid)*, which takes the value of 1 if SDC classified a bid as hostile and 0 otherwise.

Finally, studies argue that macroeconomic uncertainty discourages CBA activities as it increases the likelihood that a target firm's value decreases in the interim period between the deal announcement and completion (Bhagwat, Dam, & Harford, 2016). I included the migration-related policy uncertainty quarterly index (*MPU*) values available for the four target countries under the study (Baker et al., 2015).[50] I also controlled for the impact of geopolitical tensions by including the quarterly average of geopolitical risk index values (*GPR*) (Caldara & Iacoviello, 2018).[51] While these two political indicators (*MPU* and *GPR*) are correlated with the MF index, they capture different dimensions that could impact inbound CBA, such as the uncertainty in economy and geopolitics. Also, unlike the MF index, they do not capture fear

[50] The index counts the total number of newspapers with at least one of the following terms: migration, economy (related to migration economic), policy (related to regulation, deficit, white house, legislation, Congress, and Federal Reserve) and uncertainty (related to uncertain). It then divides these by the total count of newspaper articles for the same calendar quarter in that country.

[51] Various GPR indices have counted occurrences of keywords related to geopolitical tensions (Caldara and Iacoviello, 2016). They searched the electronic archives of just under a dozen leading national and international newspapers between 1985 and 2016, scouring for the following phrases: 'geopolitical risk(s)', 'geopolitical concern(s)', 'geopolitical tension(s)', 'geopolitical uncertainty(s)', 'war risk(s)' (or 'risk(s) of war'), 'military threat(s)', 'terrorist threat(s)', 'terrorist act(s)', and 'Middle East and tensions'. The index was then normalized to an average value of 1000 within the 2000-2009 decade (Economic Policy Uncertainty, accessed 10 February 2019).

sentiments emanating out of immigration. Following Husted, Rogers, and Sun (2019) and Azzimonti (2019), therefore, I included these two additional controls.[52]

3.4 Empirical Results

3.4.1 Descriptive Statistics

I present the summary statistics of the variables used in my empirical investigation in Table 3.2. In Panel A, I present the target country, FF-48 industry-wise quarterly distribution of my main dependent variables, i.e. number of CBAs (for all deals and deals with completion status), and deal completion durations. Consistent with Table 3.1, I find that the USA has the maximum number of inbound CBA deals when compared to other countries, with a median of two deals per quarter per FF-48 industry, while other countries have a median of one deal. While an average inbound CBA in France and Germany takes about 42 days to complete, deals in the UK take about 30 days, and they take 53 days in the USA. While more than half of inbound CBAs are completed within 15 days in other countries, it takes at least 42 days to complete them in the USA.

Panel B presents the distribution of the MF index for my sample period. MF indices are not comparable across countries. However, individually, I observe that in terms of standard deviation, the MF indices of the UK and Germany are more volatile when compared to the USA and France. I see that the German MF index has an extremely high maximum value of 1,277.68, compared to its median value of 109.89. Figures 3.1(d) and 3.2(d) for Germany show that this large value is around the ERC,

[52] Again, following Husted, Rogers, and Sun (2019) and Azzimonti (2019) my empirical tests excluding *MPU* and *GPR* from my regressions (unreported results) indicate that my results remain qualitatively unchanged.

post-2015. A similar spike is seen in the UK's migration policy uncertainty index with a maximum value of 2,822.16, compared to its median value of 167.68 in Panel C. Data shows that this increase is observed post-2015, coinciding with the ERC and Brexit.

I provide descriptive statistics for firm characteristics in Panel D (FFI-48 averages) and Panel F (firm-level). They indicate low *ROA* and *Capex* averages and extreme *Leverage* values across FFI-48 and firms. Further, the country-level control variables presented in Panel E indicate high mean and median values for *Trade openness*, *Investment profile* and *Quality of institutions*, reducing any barriers for inbound CBAs. Finally, Panel F and G present a summary of deal-level characteristics for those with a deal status of 'complete' on SDC. Again, the USA received the most, with 34.07% of deals falling under the *Diversifying* category and 17.49% of all deals with 100% cash consideration. I observe very few deals with *Tender offer* and *Hostile* bids (see Table 3.2 in the Tables of Chapter 3 section).

3.4.2 Industry-Level Analysis

I began my empirical study to examine the effect of IFS on inbound CBAs by testing the hypotheses H_{1a}, H_{2a} and H_{3a} in an industry-level analysis. For this, I constructed target country-wide, FFI-48 industry-wise quarterly panel data for the sample period of study.

3.4.2.1 IFS and number of inbound CBAs

To test the conjecture of a direct association between IFS and number of inbound CBAs, I estimated the following equation:

$$CBA_{jkq} = \alpha + \beta_1 MF_{k(t-q)} + \boldsymbol{\beta_2}\, \boldsymbol{I_{jkq-1}} + \boldsymbol{\beta_3}\, \boldsymbol{C_{kq-1}} + (\gamma_j \times \tau_q) + \nu_k + \epsilon_{jkq} \quad (1)$$

where the dependent variable, $CBAs_{jkt}$, is the number of inbound CBAs (natural logarithm of one plus the total number of cross-border deals) in the FF-48 industry *j* of the target country *k*, in the calendar quarter *q*, in the year *t*. $MF_{k(t-q)}$ is the variable of interest with *q* as the number of lags in which $q \in \{0,1,2,3\}$ and its coefficient capture the effect of IFS. $\boldsymbol{I_{jkq-1}}$ is a vector of FF-48 industry *j* median values of the target country *k*, in the calendar quarter *q* of the following variables: *Firm size, Leverage, ROA, Cash to Assets, Capex and Herfindahl.* It also includes (*DM&A)*, which controls for the number of domestic M&As (natural logarithm of one plus the total number of cross-border deals). $\boldsymbol{C_{kq-1}}$ is a vector of country-level characteristics (*GDP growth, GDP per capita, Trade openness, Investment profile and Institutional quality*) and uncertainty indices *MPU* and *GPR* for target country *k*, in the calendar quarter *q*. All variables are as defined in Sections 3.3.2–3.3.4 (also see *Appendix 3-A*). All independent variables are lagged by one year and winsorized at 1% on both tails. The interaction term $(\gamma_j \times \tau_q)$ controls for the change in $CBAs_{jkq}$ as a result of FFI-48 industry-specific events arising at different times. I also introduced target country fixed effects (ν_k) as the MF index levels were not comparable across countries.[53] Finally, standard errors were clustered by industry-calendar quarter level.

I present the results of equation (1) in Table 3.3, with completed deals in columns [1] to [4] and all deals, irrespective of the deal completion status, in columns [5] to [8].

[53] I thank authors of MF index, Scott R. Baker (Northwestern University, Kellogg School of Management) and Steven J. Davis (University of Chicago, Booth School of Business) for clarifying this point and suggesting using the log MF and country fixed effects in my model.

It is observed that the coefficient of MF is significantly negative in the range of −3.8% to −6.6% for completed deals; the time-sensitivity analysis with longer quarter lags increases the significance level. This is evident in all deals, where the MF of quarter three and quarter four lags being significantly negative at −4.5% and −4.8%, respectively. I further see that the control variables have the expected signs. Collectively, the results in Table 3.3 strongly characterise IFS as a key determinant of inbound CBA activity at the industry level. The results are consistent with the hypothesis of *investment deterrence view*, thus supporting *H_{1a}: A higher degree of IFS is associated with a lower number of inbound CBAs* (see Table 3.3 in the Tables of Chapter 3 section).

3.4.2.2 IFS-induced AIP and number of inbound CBAs

Following the general results of the strong negative association between IFS and inbound CBAs, to test whether this is specific to targets when a country is ruled by AIP-leaning governments, I estimated the following equation:

$$CBA_{jkq} = \alpha + \beta_1 \left(MF_{k(t-q)} \times AIP_{kq}\right) + \beta_2 MF_{k(t-q)} + \beta_3 AIP_{kq} + \boldsymbol{\beta_4}\, \boldsymbol{I_{jkq-1}} + \boldsymbol{\beta_5}\, \boldsymbol{C_{kq-1}} + \left(\gamma_j \times \tau_q\right) + \nu_k + \epsilon_{jkq} \quad (2)$$

where the interaction term $\left(MF_{k(t-q)} \times AIP_{kq}\right)$ is the variable of interest, and its coefficient captures the effect of IFS in countries with AIP-leaning governments. AIP_{kq} is a dummy variable that takes the value of 1 for firms belonging to a target country *k* with an AIP-leaning government and 0 otherwise during the calendar quarter *q*.[54] $\boldsymbol{C_{kq-1}}$ is a vector of country-level characteristics as in equation (1), which additionally includes the Herfindahl Index of the government (*Herf-Gov*) for target

[54] See *Appendix 3-A* for the definition of AIP.

country *k* in the calendar quarter *q*. *Herf-Gov* represents a measure of government coalition concentration. The presence of a majority party in a government coalition increases the index. Having many (small) parties in a government reduces it. This additional control is introduced as higher values of *Herf-Gov* mean fewer coalition parties, giving the government better control on policymaking – in my case, stronger anti-immigration policies. All other specifications are the same as equation (1).

I present the results of the equation (2) in Table 3.4, with no control variables in Panel A and with all control variables in Panel B. Panel A indicates a strong negative significance in the range of −8.7% to −13.7% for completed deals and the range of −10.5% to −14.5% for all deals when MF is lagged up to four quarters. Panel B also indicates that MF is significantly negative when lagged up to two quarters in the range of −5.5% to −9% across models. These significant results strongly indicate that, in the wake of heightened IFS, the number of inbound CBA deals reduce significantly during times when a target country is ruled by AIP-leaning governments.

Interestingly, the coefficient of *AIP* is significantly positive. This may indicate that an AIP-leaning government by itself may not discourage inbound CBAs, but only when the IFS are heightened under AIP-leaning governments are inbound CBAs reduced significantly. It can also be observed that *Herf-Gov* is significantly negative, indicating a higher concentration of the ruling party in a government acts as a strong deterrence to inbound CBAs. This is because an AIP-leaning government with a higher majority can be stricter with their policies towards external entities. Thus, my results presented in Table 3.4 strongly support *H_{2a}: A higher degree of IFS is associated with a lower number of inbound CBAs in AIP governed countries, compared to non-AIP governed countries* (see Table 3.4 in the Tables of Chapter 3 section).

3.4.2.3 IFS, human capital and number of inbound CBAs

For this subsection, I tested the conjectures of the negative association between MF and CBAs among targets belonging to highly labour-intense industries by estimating the following equation:

$$CBA_{jkq} = \alpha + \beta_1 \left(MF_{k(t-q)} \times Lab - Int_{jkt}\right) + \beta_2 MF_{k(t-q)} + \beta_3\, Lab - Int_{jkt} + \boldsymbol{\beta_4}\, \boldsymbol{I_{jkq-1}} + \boldsymbol{\beta_5}\, \boldsymbol{C_{kq-1}} + \left(\gamma_j \times \tau_q\right) + \nu_k + \epsilon_{jkq} \quad (3)$$

where the interaction term $\left(MF_{k(t-q)} \times Lab - Int_{jkt}\right)$ is the variable of interest, and its coefficient captures the effect of IFS on labour-intensive industries. $Lab - Int_{jkt}$ takes the value of 1 if the median of the labour intensity of industry *j* belongs in the upper tercile and takes the value of 0 if the median of the labour intensity of industry *j* falls in the lower tercile for the target country *k* in a calendar year *t*.[55] All other specifications are the same as equation (1).

Thus, the results presented in Table 3.5 provide strong support for *H3a: A higher degree of IFS is associated with a lower number of inbound CBAs in industry belonging to high labour intensity, compared to low labour intensity* (see Table 3.5 in the Tables of Chapter 3 section).

3.4.3 Firm-Level Analysis – IFS and Probability of Being Acquired

To further triangulate my conjecture that IFS is a non-trivial inhibitor of CBAs, I examined whether IFS affects the probability of a firm being acquired. As such, IFS could pose serious and irrevocable costs on a firm's decision to invest in a foreign territory. This may reflect not only on scaling down the investments in and frequency

[55] See *Appendix 3-A* for the definition of labour intensity of an industry.

of CBA activities but may also decrease the propensity to undertake CBAs (Bernanke, 1983; Pástor & Veronesi, 2013, 2012). CBAs tend to be risky investments; as such, potential acquirers delay CBAs until the target country's uncertainty resolves itself. Given the large capital commitment and the irreversibility of CBA deals, a negative relationship between IFS and a target firms' propensity to be acquired was predicted. I tested this conjecture at firm-level by employing the following probit equation:

$$BeingAcq_{it} = \alpha + \beta_1 MF_{k(t-q)} + \boldsymbol{\beta_2 X_{it-1}} + \boldsymbol{\beta_3 I_{jkt-1}} + \boldsymbol{\beta_4 C_{kt-1}} + \gamma_j + \nu_k + \epsilon_{jkt} \quad (4)$$

where $BeingAcq_{it}$ is a dummy variable that takes the value of 1 if a firm has received at least one bid during the calendar year *t* and 0 otherwise. $MF_{k(t-q)}$ is the variable of interest, with *q* as the number of quarterly lags in which $q \in \{0,1,2,3\}$ and its coefficient capture the effect of migration fears. $\boldsymbol{X_{it-1}}$ is a vector of firm-level control variables (*Firm size, Leverage, ROA, Cash to Assets* and *Capex*). $\boldsymbol{I_{jkt-1}}$ is a vector of FFI-48 industry-level control variables *(Liquidity* and *Herfindahl*) and uncertainty indices (MPU_{kq} and GPR_t) for the target country *k*. All variables are as defined in Sections 3.3.2–3.3.4 (also see *Appendix 3-A*). I controlled for industry (γ_j) and country fixed effects (ν_k). Standard errors were clustered by industry-calendar quarter level.

The results of the equation (4) presented in Table 3.6 show a 1% negative significance level MF index coefficient for all four quarterly lags. These results indicate that IFS significantly reduce the probability of a firm being acquired. The marginal effects accessing the economic magnitude of the probit coefficients indicate that when the MF index increases by 1%, the probability of a firm being acquired reduces significantly in the range of −8.3% to −9.4%. These results support the general *investment deterrence view* argument that IFS negatively impact inbound CBAs,

which strongly supports *H_{1b}: A higher degree of IFS is associated with a lower probability of receiving inbound CBA bids* (see Table 3.6 in the Tables of Chapter 3 section).

3.4.4 Deal-Level Analysis – IFS and Deal Completion

Results until now indicate that IFS deter inbound CBAs and reduce the probability of being acquired. The immediate question that follows is: What happens to the existing ongoing deals – do they complete or get withdrawn? To test my conjecture that when IFS increase, the propensity for deal completion should decrease, I conducted a deal-level analysis by employing the following probit equation:

$$DealComp_{di} = \alpha + \beta_1 MF_{k(t-q)} + \boldsymbol{\beta_2 X_{it-1}} + \boldsymbol{\beta_3 I_{jkt-1}} + \boldsymbol{\beta_4 C_{kt-1}} + \boldsymbol{\beta_5 D_d} + \gamma_j + \nu_k + \epsilon_{jkt} \quad (5)$$

where $DealComp_{di}$ is a dummy variable that takes the value of 1 if the deal *d* for the firm *i* is completed and 0 otherwise. $\boldsymbol{D_d}$ is a vector of deal-level control variables *(Diversifying, Cash deal, Tender Offer* and *Hostile bid)*. All other specifications are the same as equation (4).

Table 3.2 indicates that after the SDC to Capital IQ firm matches are generated, as outlined in Subsection 3.1, approximately 13,450 deals remained in my panel for deal-level analysis. I estimated equation (4) and present the results in Table 3.7 by including only deal-level controls in columns [1] to [4] and introducing other controls in the remaining models. Columns [9] to [12], which include all controls as indicated in the equation, show no significance in the coefficient values even when MF is lagged for up to four quarters. However, excluding *MPU* and *GPR* controls in columns [5] to [8] generates significantly negative coefficients for MF across lags, indicating that a 1% increase in MF reduces the propensity for deal completion in the range of −11.2%

to −16.8%. Columns [1] to [4], with only deal level controls, indicate an even stronger negative association in the range of −20.9 to −25.2% at the 1% significance level. In summary, the results in Table 3.7 support *H_{1c}: A higher degree of IFS is associated with a lower probability of completing the CBA deal.* See Table 3.7 in the Tables of Chapter 3 section.

3.4.5 Deal-Level Analysis – IFS and Deal Duration

As an additional extension of deal-level analysis, I further tested the impact of heightened IFS on the duration of deal completion, for which I employed the following equation:

$$DealDur_{di} = \alpha + \beta_1 MF_{k(t-q)} + \boldsymbol{\beta_2 I_{jkt-1}} + \boldsymbol{\beta_3 C_{kt-1}} + \boldsymbol{\beta_4 D_d} + (\gamma_j \times \tau_t) + \nu_k + \epsilon_{jkt} \quad (6)$$

where $DealDur_{di}$ is the number of days taken for the deal d of the firm i to complete. Following equation (1), I controlled for industry-time fixed effects $(\gamma_j \times \tau_t)$ and target country fixed effects (ν_k). All other variables are as defined for equation (5).

A necessary condition for a deal to be part of the panel is that the status of the deal is 'completed'. This additional filter brings the total SDC to Capital IQ firm-matched, deal-level observations to 7,059, as indicated in Table 3.2. I present the results of equation (6) in Table 3.8. Columns [9] to [12], which include all controls as indicated in the equation, show no significance in the coefficient values even when MF is lagged for up to four quarters. However, excluding industry fixed effects in columns [4] to [8], generates significantly positive coefficients for MF across lags, indicating that a 1% increase in MF increases the duration of deal completion in the range of 23% to 25.7%. Models [1] to [4], with only deal level controls, also indicate

a strong positive association in the range of 12.6% to 21.3%. In summary, my results indicate a higher degree of IFS increases the total time taken for deal completion (see Table 3.8 in Tables of Chapter 3 section).

3.4.6 Endogeneity

The media-based measure of the MF index can be argued to provide a credible source of exogenous variation in IFS, given they are directly derived from the reporting of major newspapers in the sample countries (Baker et al., 2016). However, there is a possibility that the multi-country continuous measure of IFS may be endogenous to other macro-economic events. As such, to further address the endogeneity concern, I exploited two exogenous shocks, which increase fear and anxiety as captured by the MF index, the first being the 9/11 terrorist attack in the USA and the second being the unprecedented levels of the ERC in 2015 in a DiD design.

I used two alternative treatment groups; one was based on whether a firm belongs to a country with an AIP government, and the second was based on the industry labour intensity. In the political science domain, the societal cleavage theory discusses the idea of a division of voters based on their support of or opposition to societal issues. Accordingly, following Rodrik (2018), I looked into the impact of the AIP variant of populism arising out of societal cleavages induced by IFS on inbound CBAs. I generated a dummy variable *AIP*, which takes the value of 1 for firms belonging to a target country with an AIP-leaning government (treatment group firms) and 0 otherwise (control group firms). Similarly, in the second case, following Ahmad and Lambert (2019), the dummy variable *Lab-Int* takes the value of 1 if the firms belong to a high labour intensity industry (treatment group firms) and takes the value of 0 if the firms belong to a low labour intensity industry (control group firms).

In my DiD specifications, $Treated_i$ is a dummy variable *AIP* or *Lab-Int.* $Post_t$ is a dummy variable that takes the value of 0 for three years before exogenous shocks (1998–2000 for 9/11 and 2012–2014 for the ERC) and takes the value 1 for three years from and including the year of the exogenous shock (2001–2003 for 9/11 and 2015–2017 for the ERC). The interaction term ($Treated_i \times Post_t$) is my DiD estimate that captures the causal effect of the IFS on CBAs. Further, I also conducted a difference-in-difference-in-differences (DiDiD) by estimating the triple interaction of ($AIP_i \times Post_t \times Lab - Int_i$) to estimate the impact of the exogenous event on the CBAs in the labour-intensive industries of AIP governed countries. I conducted the DiD and DiDiD analyses at industry-level for the number of inbound CBAs, at firm-level for the probability of being acquired and at deal-level for the probability of deal completion.

3.4.6.1 Number of inbound CBAs

I ran the following DiD equation, where the dependent variable $CBAs_{jkt}$ is the number of inbound CBA deals in the industry *j* of the target country *k*, in the calendar quarter *q*.

$$CBAs_{jkq} = \alpha + \beta_1(Treated_i \times Post_t) + + \boldsymbol{\beta_2}\, \boldsymbol{I_{jkq-1}} + \boldsymbol{\beta_3}\, \boldsymbol{C_{kq-1}} + (\gamma_j \times \tau_q) + \nu_k + \epsilon_{jkq} \quad (7)$$

The interaction term ($Treated_i \times Post_t$) is my DiD variable of interest that estimates the causal effect of 9/11 and the ERC on the number of inbound CBAs. All other specifications are the same as equation (1).

DiD coefficients displayed in Table 3.9 are significantly negative for both the ERC and 9/11 exogenous events across completed and all deals. Results indicate that,

when compared to non-AIP governed countries, the number of inbound CBAs significantly decreased in the range of −11.1% to −16.8% during both shocks. Similarly, when compared to low labour-intensive industries, inbound CBAs among high labour-intensive industries significantly decreased in the range of −14.5% to −25.4% after the two exogenous events. These results strongly establish the causal impact of IFS on reduced inbound CBAs, thus supporting both hypotheses *H2a* and *H3a*.

Further, in the DiDiD analysis presented in columns [5], [6], [11] and [12], after the 9/11 event, the inbound CBAs significantly reduced in labour-intensive industries in target countries with AIP-leaning governments. DiDiD coefficients for the ERC are not significant (see Table 3.9 in the Tables of Chapter 3 section).

3.4.6.2 Probability of being acquired

I further tested the implication of IFS on the propensity of target firms to be acquired ($BeingAcq_{it}$) using the following DiD equation.

$$BeingAcq_{it} = \alpha + \beta_1(Treated_i \times Post_t) + \boldsymbol{\beta_2}\, \boldsymbol{X_{it-1}} + \boldsymbol{\beta_3}\, \boldsymbol{I_{jkt-1}} + \boldsymbol{\beta_4}\, \boldsymbol{C_{kt-1}} + \gamma_j + \nu_k + \epsilon_{jk} \quad (6)$$

The interaction term ($Treated_i \times Post_t$) is my DiD variable of interest that estimates the causal effect of 9/11 and the ERC on the probability of a target firm being acquired. All other specifications are the same as equation (4).

I report the results of DiD equation (6) in Table 3.10 for both the ERC and 9/11 exogenous shocks. My results show that the probability of a firm being acquired reduced significantly by −7.4% and −2.9% at the 1% significance level in target countries with AIP-leaning governments after the ERC and 9/11 events when

compared to firms in countries with non-AIP leaning governments. These results support *H_{2b}: A higher degree of IFS is associated with a lower probability of receiving inbound CBA bids in AIP governed countries, compared to non-AIP governed countries.*

However, columns [3] and [4] show that the DiD coefficients are insignificant; thus, I am unable to credibly establish the causal effect of IFS among labour-intensive industries. My results fail to support *H_{3b}: A higher degree of IFS is associated with a lower probability of receiving inbound CBA bids in high labour intensity, compared to low labour intensity.*

In the DiDiD results presented in columns [5] and [6], after the ERC and 9/11, the probability of labour-intensive firms in countries with AIP-leaning governments being acquired is also insignificant.

3.4.7 Robustness Tests and Subsample Analyses

I conducted a host of robustness tests and subsample analyses for IFS impact on the number of inbound CBAs, the probability of being acquired and the probability of a deal being completed, which received support through my empirical investigations presented in previous subsections. I present the results of the impact of $MF_{k(t-l)}$ on the dependent variable $CBAs_{jkt}$ in Table 3.11 and $BeingAcq_{it}$ and $DealComp_{dit}$ in Table 3.12.

3.4.7.1 Ownership control

As indicated in Section 3.3, my panel consisted of CBA deals where the post-acquisition acquirer's stake would be not less than 30%. I further tightened this to 50% to reflect a transfer of control and to 95% to check for impact on complete control

(Rossi and Volpin, 2004). Results presented in Panel A of Table 3.11 are in line with my general findings that IFS significantly reduce the number of inbound CBAs in the third and fourth quarter lags in the range of −3.5% to -6.3%.

3.4.7.2 Public and private firm permutations

Prior studies have shown that private (public) target M&As increase (decrease) an acquiring firm's value as the simpler ownership structure of private firms decreases the takeover premium (Aybar & Ficici, 2009; Chang, 1998; Fuller, Netter, & Stegemoller, 2002). Additionally, in normal parlance, private targets being smaller than public targets and acquiring higher equity stakes in a private firm is more likely, especially by larger public acquirers that have easier access to capital markets to finance their takeovers, when compared to their private acquirer counterparts that likely have constrained access to financing large targets (Erel et al., 2012). Private acquirers are, therefore, typically involved in smaller deals (Bargeron, Schlingemann, Stulz, & Zutter, 2008).

Given this evidence, I tested whether IFS have a differential impact on inbound CBA activities based on the structure of the target and acquirer (see Table 3.11 and 3.12 in the Tables of Chapter 3 section). Panel B of Table 3.11 shows that across all permutations of Public-Private and Target-Acquirer, IFS result in significant reductions in the number of inbound CBAs. Panel B of Table 3.12 indicates that, when considering IFS, even though the probability of public targets being acquired reduces significantly in the range of −8.4 to −9.4%, the probability of private companies receiving an acquisition bid is significantly high around 3.3%. However, the

probability that these deals complete is significantly less for private targets in the range of −27%.

3.4.7.3 Alternative specifications

As robustness checks to the general findings, I ran three alternative specifications of equation (1). I first ran the industry-level analysis on the SIC three-digit industry classification, Tobit regression and inbound CBA volume as dependent variables. I present the results in Panel C of Table 3.11. Even at the wider SIC 3-digit industry classification, the regression coefficients indicate that the number of inbound CBAs significantly reduces when MF is lagged by three and four quarters by −2.5% to −2.9%. Consistent with the results in Table 3.3, the Tobit model results indicate significant declines across all quarters. Further, considering footnote 13, inbound CBA volumes also show a significant decline in the range of −2.2% when MF is lagged up to two quarters.

3.4.7.4 Deal withdrawal

My empirical results support the hypothesis that higher IFS should lead to a lower probability of deal completion; conversely, this means higher IFS should lead to a higher probability of deal withdrawals. Withdrawing an announced M&A deal comes with substantial costs to the acquirer (e.g. penalties). Higher IFS are likely to lead to higher risks as a country faces adverse changes in its political or economic environment, reducing the number of inbound CBAs and deal completions. The uncertainty concerning future market stability can lead to reduced confidence in doing business in such an unstable environment for acquirers. Overall, as IFS increase, the likelihood of undesirable changes can significantly increase the likelihood of deal

withdrawal (Zhou, Xie, & Wang, 2016). Panel C of Table 3.11 shows that when MF is lagged by three quarters, the number of inbound CBA deals withdrawn significantly increases by 6.8%, supporting my deal withdrawal conjecture.

3.4.7.5 Target size

Large firms normally employ a larger number of people, have a greater economic impact and enjoy greater public awareness when compared to small firms, which causes them to be more significant within their home country (Deephouse, 2000; Fang & Peress, 2009; Shane, 2009). These firms are sometimes viewed as crown jewels to a nation (Zander & Zander, 2010). Therefore, when large firms become potential CBA targets of an acquirer from an antagonistic country, it can create great resistance among the members of the target country's stakeholders. Additionally, governments and the public will exert an influence to object to a deal (Dinc & Erel, 2013). By contrast, acquisition bids for smaller target firms may not face similar resistance, or if there is resistance, it may be less pronounced in the first place (Li, Arikan, Shenkar, & Arikan, 2020). Hence, I tested whether IFS cause any differential impact among targets based on size. For this, a target was considered small (big) if its total assets were below (above) the FFI-48 industry median in the year the deal was announced.

My results in Panel B of Table 3.12 indicate that the probability of propensity for receiving a deal declines significantly on average in the range of −12.8% to −14.6% for small targets and the range of −9.12% to −9.95% for big targets. While the propensity for deal completion is not significant for big targets, it is highly significant in the range of −24.4 to −23.7% for small targets. These results indicate that the size

of a target does not matter for receiving a bid, but smaller targets suffer substantially greater risks of failed deals.

3.4.7.6 Targets with low vs high intangible assets

Evidence suggests that large firms gain access to innovations through acquisitions (Arrow, 1993). Often, young, small and underperforming firms, having relatively low learning costs relating to new technologies and innovations, are more likely to become targets (Morck et al., 1990). Extant literature suggests the potential for a transfer of intangible assets from one firm to another through acquisitions (Capron & Pistre, 2002; Li, Qiu, & Shen, 2018). Thus, bidders could be motivated to undertake CBAs to accumulate intangible capital by acquiring highly intangible targets. To test this conjecture, I divided the target firms into having high (low) levels of intangible assets if their intangible assets ratio was above (below) the FFI-48 industry median in the year when the deal was announced. My results in Panel C of Table 3.12 indicate that the probability of receiving a deal declines significantly on average in the range of −8.96% to −10.4% for targets with few and many tangibles. These results indicate that IFS significantly reduce inbound CBAs, irrespective of intangible assets in a target firm.

3.4.7.7 Targets in politically sensitive industries

Migration fear is expected to have stronger effects on firms that are operating in more politically sensitive industries (Julio & Yook, 2012). Therefore, I examined whether the negative effect of MF on a firm being acquired is more pronounced for these firms. Classifying an industry as political sensitive is difficult. However, guidance from the literature of political economy enabled me to classify industries based on a high or low

sensitivity to election outcomes. Based on the findings and the references of Julio and Yook (2012), I classified firms in tobacco product, pharmaceutical, health care service, defence, petroleum and natural gas, telecommunication and transportation industries as politically sensitive. I set the sensitive industry dummy to 1 if a firm belonged to one of these politically sensitive industries. My results in Panel D of Table 3.12 indicate no significant impact on the propensity for receiving a deal among politically sensitive firms. However, the probability of deal completion significantly declines in the range of −18.7% to −28.2% as the MF is lagged up to four quarters. These results indicate that the risk of failed deals increases following heightened IFS.

3.4.7.8 Controlling for employment protection legislation

Labour restructuring is an important force for corporate market control and it is a source of synergistic merger (Dessaint, Golubov, & Volpin, 2017). While the literature on employees and labour markets suggests that greater employment protection regulations will reduce activities around takeovers and merges (Dessaint et al., 2017; John, Knyazeva, & Knyazeva, 2015), Alimov (2015) suggests that a strict employment protection within the country of the target firm is also associated with a higher level of CBAs. Taken together, the link between employment protection and exposure to IFS remains an open empirical question. To capture the stringency of employment protection legislation (EPL), I use the EPL index, which measures the strictness of regulations an employer must follow to dismiss a worker with a regular contract; it ranges from 0 to 6 and is time-varying, obtained from the Organisation for Economic Co-operation and Development. My results in Panel D of Table 3.12 indicate that the probability of propensity for receiving a deal significantly declines by −5% on average when I additionally control for EPL.

3.4.7.9 Various subsample analyses

I conducted a number of subsample analyses as follows; the results are presented in Panel D of Table 3.11 and Panel E of Table 3.12.

High-tech industry targets: Free, international flows of complex, technological know-how can be hindered by the scepticism toward globalisation and its resulting anti-globalisation policies (Buckley & Hashai, 2020; Cuervo-Cazurra, Doz, & Gaur, 2020). This is a real threat to global companies because they outsource operations but internalise knowledge (Martin & Salomon, 2003). Growing anxiety over stolen and/or transferred sensitive information (due to commercial or military espionage) has been cause for governments to induce stricter cross-border regulations (Cuervo-Cazurra et al., 2020), and this should also influence CBA deals in sensitive high-tech industries. Thus, IFS should lead to greater resistance to inbound CBAs in high-tech industries. To investigate this conjecture, I included a dummy variable with the value of 1 if a target was in a high-tech industry, as defined by SDC. Panel D of Table 3.11 indicates that, on high-tech targets, the propensity for receiving a CBA bid and of deal completion is significantly negative only when the MF is lagged by three or four quarters. This may indicate that for high-tech companies, CBA activities are impacted only when the IFS continue to extend for longer periods.

Diversifying deals: Acquisitions in related industries generally experience lower levels of internal uncertainty than those in unrelated, cross-border M&As (Erel et al., 2012). Thus, diversified acquisitions have been shown to destroy shareholder value (Morck et al., 1990), and higher premiums are normally offered in intra-industry mergers (Officer, 2003). Panel D of Table 3.11 indicates that the propensity for

receiving a CBA bid from an acquirer belonging to a different industry than that of the target significantly declines by about −3.5% to −5.17% when MF is lagged by three and four quarters. Similarly, the propensity for deal completion is significantly negative only when the MF is lagged by four quarters.

Deal size: Deal size may influence the post-acquisition performance of the acquirer as large targets are complex to manage, which makes it difficult for acquirers to yield economic benefits (Alexandridis, Fuller, Terhaar, & Travlos, 2013). Additionally, according to Ahern (2011), large deals have higher integration costs and consequently negatively impact acquirers' returns. It is also possible that the market for acquisitions changes from a higher number of smaller deals to fewer but larger deals over time as an economy opens and the stock market grows. To address this possibility of MF impacting inbound CBA deals differently, for the deals with a transaction deal value on SDC, I first grouped them into lower, middle and upper terciles based on deal value, then conducted the subsample analysis on each tercile. Results presented in Panel D of Table 3.11 indicate that targets falling under the lower tercile of deal value suffer significant declines in the propensity to receive a bid and deal completion when MF is lagged up to four quarters. For deal values falling in higher terciles, I did not find significant results. These results, which indicate IFS impacts only small deals, need to be considered with the caveat of the missing value bias specified in footnote 48.

Country specific subsample analysis: My results indicate that a European country's propensity to receive CBA deals declines significantly when under all lagged specifications of MF. Germany also shows a significant decline in the propensity for deal completion by 5% on average. Interestingly, the USA subsample shows contrarian

results, indicating that the propensity to receive a CBA deal increases by around 2% on average. Therefore, I excluded the USA and re-ran equations (4) and (5) on only European countries and found that the negative significance holds.

Non-financial targets: Since firms belonging to the finance sector are highly regulated and capital intensive, I conducted a subsample analysis by dropping all targets belonging to the financial sector. Results indicate a significant decline in the propensity to receive a CBA bid by −11% on average when MF is lagged up to four quarters.

Finally, I conducted my subsample analysis containing observations with targets in AIP-leaning governments and firms belonging to labour-intensive industries. Results in Panel E of Table 3.12 indicate that in AIP governed countries, the probability of receiving a CBA bid declines significantly in the range of −13% to −15% among targets in AIP-leaning countries and the range of −10.9% to −12.5% among targets in labour-intensive industries when MF is lagged up to four quarters. These results lend support to my DID analysis results in Table 3.10. Negative significance is observed in one quarter lag of MF for the propensity for deal completion for targets in AIP-leaning governments.

3.4.7.10 Alternative definitions

Finally, for the equation (2) and (3) I use alternative definitions for AIP and Lab-Int which I use for interacting with MF and present the results in panel E of Table 3.11.

AIP: I use the Chapel Hill Survey of Experts database which estimates the positioning of national political parties on immigration policy of EU member states

(UK, France and Germany in my study) over the sample period[56] (Bakker, de Vries, Edwards, Hooghe, Jolly, & Marks, 2015; Pástor & Veronesi, 2018). I calculate the alternative anti-immigration score by interacting immigration salience policy score with the vote share provided in the database. *AIP* takes the value of 1 if the anti-immigration score is above the country's median value and zero otherwise. I run the equation (3) using this alternative definition of *AIP*. Consistent with the results presented in Table 3.4, the coefficients of the interaction between MF and *AIP* is highly negatively significant for up to 3 quarter lags in MF. These results strongly indicate that the number of inbound CBA declines significantly countries with AIP leaning governments in the range of -8.9% to −16.5% depending on the specification.

Lab-Int: As an alternative definition for labour intensity I measure firm labour productivity using the ratio of firm sales to number of employees (Tate & Yang, 2015). I then calculate the industry median value labour productivity each year. using this I redefine *Lab-Int* as a dummy variable if the industry labour productivity is above median and zero otherwise. I run the equation (4) using this alternative definition of *Lab-Int*. Consistent with the results presented in Table 3.5, the coefficients of the interaction between MF and *Lab-Int* is highly negatively significant for up to 4 quarter lags in MF. These results strongly indicate that the number of inbound CBA declines significantly among labour intensive industries in the range of -7.8% to -11.2% depending on the specification (see Table 3.11 and 3.12 in the Tables of Chapter 3 section).

[56] As the survey data is available for each national election and not for each year, I use the same scores as per latest survey figures for the years till a new survey value is available.

3.5 Discussion and Conclusion

My work carries practical implications for managers and policymakers. The findings suggest that managers need to become aware of IFS when conducting business abroad. If high IFS encourage firms to delay CBAs, then firms making acquisitions during times of policy uncertainty should delay such acquisitions as it doing otherwise could prove to be a costly exercise. This is reflected in my work, where I first showed that IFS lead to a significant reduction in inbound CBAs, including a reduction in the propensity of firms to be acquired or of deals to be completed. My work is also important for policymakers and shows that their indecision with respect to IFS can be particularly detrimental to the efficient allocation of capital in an economy.

Cross-border takeovers significantly impact firm's activities and operations. Regardless, factors that determine a deal's success have not yet been fully understood. This chapter provided novel evidence on the impact of IFS on inbound CBAs. I provide empirical evidence that firms belonging to AIP countries and those belonging to labour-intensive industries become less attractive to potential acquirers following heightened IFS. I offer clear evidence of a negative relationship between IFS and the number of inbound CBAs at the industry level. I further support this finding using a quasi-natural experiment by exploiting the 9/11 terrorist attack and the ERC as a source of plausibly exogenous variations in uncertainty and showed that after these events there was a significant decline in inbound CBAs. Additionally, I show that following high IFS, the likelihood of receiving an acquisition bid for firms located in these large economies is lowered, and their takeover process is lengthened. I find support to the argument that an AIP-leaning government and an industry’s labour intensity negatively affect CBAs when IFS are high. These findings contributed to my

understanding of the issue of the impact of socio-political movements on globalisation agendas.

Tables of Chapter 3

Table 3.1 Sample Composition

Panel A: Number of Cross Border and Domestic Deals For Each Target Country

Country	Deal Status: Completed						All Deals					
	CBA		Domestic		Total		CBA		Domestic		Total	
France	2955	11.1%	5394	5.3%	8349	6.5%	3154	10.7%	5598	5.0%	8752	6.2%
Germany	3972	14.9%	4937	4.8%	8909	6.9%	4288	14.5%	5163	4.6%	9451	6.7%
United Kingdom	6986	26.2%	21,973	21.4%	28,959	22.4%	7708	26.1%	23,724	21.3%	31,432	22.3%
United States	12,721	47.8%	70,272	68.5%	82,993	64.2%	14,426	48.8%	76,645	69.0%	91,071	64.7%
Total	26,634	100.0%	1,02,576	100.0%	1,29,210	100.0%	29,576	100.0%	1,11,130	100.0%	1,40,706	100.0%

Panel B: Volume of Cross Border and Domestic Deals For Each Target Country

Country	Deal Status: Completed						All Deals					
	CBA		Domestic		Total		CBA		Domestic		Total	
France	693,042	3.6%	470,449	7.0%	1,163,492	4.5%	864,233	3.7%	556,401	6.7%	1,420,635	4.4%
Germany	470,302	2.4%	852,300	12.6%	1,322,602	5.1%	627,935	2.7%	975,389	11.7%	1,603,324	5.0%
United Kingdom	1,983,558	10.3%	1,858,640	27.5%	3,842,198	14.8%	2,419,997	10.3%	2,611,859	31.3%	5,031,857	15.8%
United States	16,083,749	83.6%	3,581,839	53.0%	19,665,588	75.7%	19,684,468	83.4%	4,203,186	50.4%	23,887,654	74.8%
Total	19,230,653	100.0%	6,763,228	100.0%	25,993,882	100.0%	23,596,634	100.0%	8,346,837	100.0%	31,943,471	100.0%

This table presents summary statistics for the domestic and cross-border M&A dals. Panel A shows the number of cross border and domestic deals for each target country along with their percentages both for deals that are completed and all deals irrespective of the deal status. Panel B shows the volume of cross border and domestic deals for each target country along with their percentages both for deals that are completed and all deals irrespective of the deal status.

Table 3.2 Descriptive Statistics

Variables	Observations	Mean	Median	Std. Deviation	Minimum	Maximum
Panel A: Dependent variables						
Number of CBA (completed deals)	13,251	2.01	1	3.69	0	71
France	2,759	1.07	1	1.52	0	16
Germany	2,735	1.45	1	2.07	0	25
United Kingdom	3,580	1.95	1	3.24	0	36
United States	4,177	3.05	2	5.30	0	71
Number of CBA (all deals)	13,450	2.20	1	4.06	0	78
France	2,808	1.12	1	1.59	0	17
Germany	2,788	1.54	1	2.24	0	27
United Kingdom	3,648	2.11	1	3.50	0	36
United States	4,206	3.43	2	5.87	0	78
Deal completion duration	13,251	42.35	25.00	82.03	1	3665.00
France	2,759	42.44	13.25	102.87	1	2563.50
Germany	2,735	42.10	15.00	81.84	1	1772.00
United Kingdom	3,580	30.05	15.19	78.43	1	3665.00
United States	4,177	53.00	41.91	66.78	1	2256.00
Panel B: Independent variable						
Migration fear index (*MF*)						
France	92	128.67	122.69	67.09	37.70	349.56
Germany	92	196.13	109.89	225.77	68.49	1277.68
United Kingdom	92	165.00	140.95	117.25	40.11	545.24
United States	92	106.52	96.65	44.57	61.09	356.83
Panel C: Political indicators as control variables						
Migration policy uncertainty index (*MPU*)						
France	92	146.21	119.02	116.41	6.61	585.15
Germany	92	121.45	73.44	144.51	16.79	706.14
United Kingdom	92	320.13	167.68	530.16	8.61	2822.16

United States	92	136.47	100.53	128.60	32.68	865.21
Geopolitical risk index (*GPR*)	92	85.31	71.60	58.87	27.83	464.53
Panel D: Industry-level control variables for Industry level analysis						
Herfindahl Index Government	12,713	0.86	1	0.18	0.50	1
DM&A	12,713	0.31	0.69	0.60	0.00	4.51
Firm size	12,588	4.01	4.12	1.21	-2.30	6.90
Leverage	12,696	39.17	26.85	68.33	-448.2	1420.6
ROA	12,584	0.04	0.07	0.23	-6.50	0.72
Cash to assets	12,588	0.12	0.08	0.12	0.00	0.99
Capex	12,588	0.03	0.02	0.04	0.00	0.85
Herfindahl	12,713	0.27	0.17	0.39	0.00	15.87
Panel E: Country-level control variables						
GDP Growth	12,713	2.01	2.22	1.67	-5.62	4.69
GDP per capita	12,713	10.53	10.59	0.25	10.02	10.99
Trade openness	12,539	3.81	3.94	0.41	3.10	4.46
Investment profile	12,713	0.81	0.84	0.18	0	1
Quality of institutions	12,186	0.76	0.87	0.29	0	1
Panel F: Firm-level control variables for firm-level and deal level analysis						
Firm size	784,221	4.01	4.48	2.34	-3.00	6.91
Leverage	959,297	47.19	12.7	137.69	-464.2	562.4
ROA	735,836	-0.37	0.00	10.69	-4193.50	834.00
Cash to assets	805,174	0.18	0.07	0.25	-1.00	1.13
Capex	805,174	0.04	0.01	0.15	-0.86	26.00
Liquidity (Ind avg)	981,062	0.08	0.03	1.04	0.00	166.29
Panel G: Deal-level control variables for deal level analysis						
Diversifying	7,059	0.63	1	0.48	0	1
Cash deal	7,059	0.32	0	0.46	0	1
Tender offer	7,059	0.012	0	0.11	0	1
Hostile bid	7,059	0.001	0	0.029	0	1

Panel H: Observations (completed deals)	Total	% of completed deals	France	Germany	United Kingdom	United States
Diversifying	4,515	34.07%	543	458	1187	2327
Cash deal	2318	17.49%	293	172	917	936
Tender offer	90	0.68%	25	37	23	5
Hostile bid	6	0.05%	0	0	3	3

This table presents summary statistics for the variables used in our study for CBA deals. Panel A shows descriptive statistics of the quarterly observations of Fama-French 48 industry classification based dependent variables. Panel B shows quarterly descriptive statistics of the variable of interest (Migration fear index) for each target country. Panel C shows political indicators. Panel D shows quarterly descriptive statistics of Fama-French 48 industry classification based industry-level-variables. Panel E shows quarterly descriptive statistics of the country-level variables. Panel F shows quarterly descriptive statistics of the firm level variables. Panel G shows deal-level variables for completed deals and Panel H shows total number of observations for each country under different deal characteristics. The sample period of study is 1995–2017. All variables are defined in *Appendix 3-A.*

Table 3.3 Target Country's IFS and Number of Inbound CBAs: Industry-Level Analysis

Dependent variable = *Number of inbound CBA*								
	Completed Deals				All Deals			
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
MF (1 quarter lag)	**-0.0383****				-0.0246			
	(-2.05)				(-1.29)			
MF (2 quarter lag)		**-0.0411****				-0.0274		
		(-2.34)				(-1.54)		
MF (3 quarter lag)			**-0.0600*****				**-0.0450****	
			(-3.35)				**(-2.48)**	
MF (4 quarter lag)				**-0.0661*****				**-0.0481****
				(-3.43)				**(-2.48)**
Industry-level-controls								
Firm size (Ind avg)	-0.0451***	-0.0450***	-0.0451***	-0.0452***	-0.0434***	-0.0433***	-0.0435***	-0.0436***
	(-6.13)	(-6.14)	(-6.16)	(-6.19)	(-5.71)	(-5.72)	(-5.75)	(-5.77)
Leverage (Ind avg)	-0.0347***	-0.0347***	-0.0350***	-0.0349***	-0.0367***	-0.0367***	-0.0369***	-0.0369***
	(-6.95)	(-6.94)	(-6.98)	(-6.99)	(-7.17)	(-7.17)	(-7.21)	(-7.21)
ROA (Ind avg)	-0.283***	-0.286***	-0.283***	-0.280***	-0.368***	-0.370***	-0.367***	-0.365***
	(-2.87)	(-2.91)	(-2.88)	(-2.84)	(-3.63)	(-3.67)	(-3.63)	(-3.61)
Cash to Assets (Ind avg)	-0.0482	-0.0509	-0.0555	-0.0608	-0.0356	-0.0375	-0.0415	-0.0452
	(-0.57)	(-0.61)	(-0.66)	(-0.72)	(-0.42)	(-0.44)	(-0.48)	(-0.53)
Capex (Ind avg)	1.488***	1.468***	1.462***	1.481***	1.677***	1.664***	1.656***	1.671***
	(5.34)	(5.28)	(5.24)	(5.30)	(5.85)	(5.81)	(5.77)	(5.81)
Herfindahl	-0.343***	-0.344***	-0.343***	-0.345***	-0.359***	-0.360***	-0.359***	-0.361***
	(-11.26)	(-11.26)	(-11.25)	(-11.34)	(-11.42)	(-11.41)	(-11.42)	(-11.48)
DM&A	0.0163***	0.0163***	0.0163***	0.0163***	0.0154***	0.0154***	0.0154***	0.0154***
	(17.83)	(17.86)	(17.97)	(17.85)	(17.50)	(17.53)	(17.60)	(17.52)
Country-level-controls								
GDP growth	0.00403	0.00374	0.00471	0.00418	0.00522	0.00506	0.00589	0.00546
	(0.76)	(0.71)	(0.89)	(0.79)	(0.96)	(0.94)	(1.09)	(1.01)
GDP per capita	-0.113**	-0.115**	-0.104**	-0.101**	-0.105**	-0.106**	-0.0970*	-0.0950*

	(-2.22)	(-2.27)	(-2.05)	(-2.00)	(-2.05)	(-2.09)	(-1.90)	(-1.87)
Trade openness	-0.341***	-0.342***	-0.329***	-0.324***	-0.345***	-0.345***	-0.333***	-0.330***
	(-4.40)	(-4.46)	(-4.29)	(-4.25)	(-4.43)	(-4.45)	(-4.29)	(-4.27)
Investment profile	-0.443**	-0.435**	-0.416**	-0.389**	-0.554***	-0.548***	-0.527***	-0.510***
	(-2.28)	(-2.23)	(-2.13)	(-1.99)	(-2.84)	(-2.78)	(-2.69)	(-2.60)
Quality of Institutions	-0.0112	-0.00940	-0.0137	-0.0153	-0.0291	-0.0281	-0.0318	-0.0327
	(-0.32)	(-0.27)	(-0.40)	(-0.44)	(-0.83)	(-0.81)	(-0.91)	(-0.93)
Political indicators-controls								
MPU	0.00642	0.00561	0.0102	0.00975	0.00754	0.00727	0.0116	0.0110
	(0.67)	(0.62)	(1.14)	(1.13)	(0.77)	(0.78)	(1.27)	(1.23)
GPR	-0.0733***	-0.0745***	-0.0707***	-0.0676***	-0.0732***	-0.0737***	-0.0701***	-0.0681***
	(-3.58)	(-3.66)	(-3.47)	(-3.31)	(-3.46)	(-3.51)	(-3.33)	(-3.23)
R_2 (*within*)	0.199	0.199	0.199	0.200	0.202	0.202	0.203	0.203
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	10317	10317	10317	10317	10317	10317	10317	10317

This table presents the estimates from OLS regression of inbound CBA activity. The dependent variable, $CBA_{jkq,}$ is the natural logarithm of total number of cross-border deals by target country. The main variable of interest, MF, is the quarterly value of the Baker et al. (2015) migration fear index. The table presents results of regressions after controlling for industry -level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A.* The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry interacted with time fixed effects (Industry × Time FE), along with country fixed effects (Country FE). Time in the fixed effects indicates each quarter of the year. We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.4 Target Country's IFS and Number of Inbound CBAs: AIP Analysis

Panel A: With no control variables

	Dependent variable = *Number of inbound CBAs*							
	CBA (for only completed deals)				*CBA* (for all deals)			
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
MF (1 quarter lag) × AIP	**-0.0937*** (-3.12)**				**-0.107*** (-3.54)**			
MF (2 quarter lag) × AIP		**-0.137*** (-3.39)**				**-0.145*** (-3.58)**		
MF (3 quarter lag) × AIP			**-0.0878** (-2.33)**				**-0.105*** (-2.83)**	
MF (4 quarter lag) × AIP				**-0.124*** (-3.87)**				**-0.145*** (-4.41)**
AIP	0.383*** (2.70)	0.579*** (3.12)	0.352* (2.00)	0.522*** (3.46)	0.445*** (3.11)	0.617*** (3.31)	0.432** (2.48)	0.615*** (4.00)
MF (1 quarter lag)	-0.0818** (-2.15)				-0.0589 (-1.52)			
MF (2 quarter lag)		-0.0424 (-1.25)				-0.0227 (-0.68)		
MF (3 quarter lag)			-0.0856*** (-2.85)				-0.0609** (-2.05)	
MF (4 quarter lag)				-0.0740* (-1.78)				-0.0460 (-1.07)
Herf-Gov	-0.484*** (-6.34)	-0.517*** (-6.04)	-0.482*** (-5.77)	-0.510*** (-6.53)	-0.519*** (-6.28)	-0.548*** (-5.98)	-0.521*** (-5.84)	-0.551*** (-6.50)
Controls	No	No	No	No	No	No	No	No
R_2 (*within*)	0.0165	0.0149	0.0152	0.0164	0.0149	0.0135	0.0138	0.0150
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	12558	12650	12650	12650	12558	12650	12650	12650

Panel B: With control variables

	Dependent variable = *Number of inbound CBAs*							
	CBA (for only completed deals)				*CBA* (for all deals)			
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
MF (1 quarter lag) × AIP	**-0.0557****				**-0.0677****			
	(-2.14)				**(-2.66)**			
MF (2 quarter lag) × AIP		**-0.0832****				**-0.0902*****		
		(-2.63)				**(-2.90)**		
MF (3 quarter lag) × AIP			-0.0262				-0.0433	
			(-0.95)				(-1.63)	
MF (4 quarter lag) × AIP				-0.0255				-0.0440
				(-0.86)				(-1.44)
AIP	0.213*	0.343**	0.0839	0.0853	0.266**	0.374**	0.160	0.167
	(1.72)	(2.39)	(0.66)	(0.61)	(2.17)	(2.63)	(1.30)	(1.17)
MF (1 quarter lag)	0.0311				0.0561*			
	(1.03)				(1.95)			
MF (2 quarter lag)		0.0434				0.0630*		
		(1.30)				(1.93)		
MF (3 quarter lag)			-0.0209				0.00817	
			(-0.57)				(0.24)	
MF (4 quarter lag)				-0.0430				-0.0107
				(-0.97)				(-0.24)
Herf-Gov	-0.292***	-0.302***	-0.247***	-0.241***	-0.315***	-0.319***	-0.275***	-0.269***
	(-3.55)	(-3.41)	(-2.78)	(-3.01)	(-3.48)	(-3.31)	(-2.86)	(-3.04)
Industry-level-controls								
Firm size (Ind avg)	-0.0517**	-0.0520**	-0.0520**	-0.0522**	-0.0507*	-0.0509*	-0.0509*	-0.0511*
	(-2.05)	(-2.06)	(-2.07)	(-2.07)	(-1.95)	(-1.96)	(-1.97)	(-1.97)
Leverage (Ind avg)	-0.0389**	-0.0393**	-0.0395**	-0.0396**	-0.0410**	-0.0413**	-0.0415**	-0.0416**
	(-2.32)	(-2.36)	(-2.37)	(-2.36)	(-2.39)	(-2.43)	(-2.44)	(-2.43)
ROA (Ind avg)	-0.428	-0.416	-0.418	-0.414	-0.521*	-0.509*	-0.509*	-0.507*
	(-1.53)	(-1.49)	(-1.50)	(-1.49)	(-1.81)	(-1.77)	(-1.78)	(-1.77)
Cash to Assets (Ind avg)	0.0169	0.0225	0.0190	0.0129	0.0179	0.0276	0.0250	0.0207

	(0.07)	(0.10)	(0.08)	(0.06)	(0.07)	(0.11)	(0.10)	(0.09)
Capex (Ind avg)	1.603	1.588	1.549	1.559	1.857	1.847	1.812	1.815
	(1.54)	(1.53)	(1.49)	(1.49)	(1.67)	(1.66)	(1.63)	(1.63)
Herfindahl	-0.376***	-0.377***	-0.377***	-0.378***	-0.393***	-0.394***	-0.395***	-0.395***
	(-3.33)	(-3.36)	(-3.35)	(-3.36)	(-3.29)	(-3.32)	(-3.31)	(-3.31)
DM&A	-0.0993***	-0.0995***	-0.0995***	-0.0995***	-0.0973***	-0.0976***	-0.0976***	-0.0976***
	(-4.27)	(-4.30)	(-4.29)	(-4.29)	(-4.21)	(-4.24)	(-4.23)	(-4.23)
Country-level-controls								
GDP growth	0.00554	0.00608	0.00571	0.00584	0.00800	0.00878	0.00831	0.00871
	(0.90)	(1.02)	(0.94)	(0.97)	(1.31)	(1.48)	(1.37)	(1.45)
GDP per capita	-0.260**	-0.267**	-0.255**	-0.248**	-0.247**	-0.253**	-0.244**	-0.239**
	(-2.57)	(-2.61)	(-2.47)	(-2.50)	(-2.39)	(-2.45)	(-2.35)	(-2.38)
Trade openness	-0.423***	-0.401***	-0.393***	-0.375***	-0.429***	-0.404***	-0.397***	-0.381***
	(-3.24)	(-3.22)	(-3.01)	(-3.15)	(-3.23)	(-3.23)	(-3.02)	(-3.21)
Investment profile	0.225	0.245	0.256	0.298	0.126	0.152	0.168	0.200
	(0.72)	(0.78)	(0.81)	(0.95)	(0.41)	(0.49)	(0.54)	(0.64)
Quality of Institutions	-0.0142	-0.0113	-0.0304	-0.0350	-0.0369	-0.0357	-0.0515	-0.0553
	(-0.28)	(-0.23)	(-0.63)	(-0.70)	(-0.74)	(-0.74)	(-1.08)	(-1.11)
Index-controls								
MPU	-0.0181*	-0.0150	-0.0103	-0.00630	-0.0178*	-0.0136	-0.00925	-0.00501
	(-1.69)	(-1.54)	(-1.07)	(-0.60)	(-1.72)	(-1.41)	(-0.97)	(-0.47)
GPR	-0.106***	-0.105***	-0.0961**	-0.0902***	-0.105***	-0.102***	-0.0938**	-0.0892**
	(-2.95)	(-2.84)	(-2.55)	(-2.69)	(-2.80)	(-2.70)	(-2.44)	(-2.59)
R_2 (*within*)	0.253	0.253	0.252	0.253	0.269	0.270	0.269	0.269
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	10230	10313	10313	10313	10230	10313	10313	10313

This table presents the estimates from OLS regression of inbound CBA activity. The dependent variable, CBA_{jkq}, is the natural logarithm of total number of cross-border deals by target country. MF is the quarterly value of the Baker et al. (2015) migration fear index. AIP is a dummy variable that takes the value of one for firms belonging to the target country with a AIP leaning government. The main independent variable is the interaction term between the dummy AIP interacted with MF index. Panel A presents the results without controlling for key variables. Panel B presents the results of regressions after controlling for industry -level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A.* The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry interacted with time fixed effects (Industry × Time FE), along with country fixed effects (Country FE). Time in the fixed effects indicates each quarter of the year. We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.5 Target Country's IFS and Number of Inbound CBAs: Labour Intensive Industry Analysis

Panel A: With no control variables

	Dependent variable = *Number of inbound CBAs*							
	CBA (for only completed deals)				*CBA* (for all deals)			
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
MF (1 quarter lag) × Lab-Int	**-0.0368*** (-5.53)**				**-0.0401*** (-5.99)**			
MF (2 quarter lag) × Lab-Int		**-0.0353*** (-5.32)**				**-0.0386*** (-5.79)**		
MF (3 quarter lag) × Lab-Int			**-0.0358*** (-5.40)**				**-0.0391*** (-5.86)**	
MF (4 quarter lag) × Lab-Int				**-0.0353*** (-5.25)**				**-0.0391*** (-5.75)**
Lab-Int	-0.0515** (-2.17)	-0.0567** (-2.41)	-0.0533** (-2.27)	-0.0563** (-2.38)	-0.0637*** (-2.68)	-0.0686*** (-2.91)	-0.0653*** (-2.77)	-0.0670*** (-2.83)
MF (1 quarter lag)	-0.126*** (-5.84)				-0.112*** (-5.10)			
MF (2 quarter lag)		-0.114*** (-5.08)				-0.0945*** (-4.18)		
MF (3 quarter lag)			-0.131*** (-5.76)				-0.113*** (-4.93)	
MF (4 quarter lag)				-0.107*** (-4.61)				-0.0867*** (-3.70)
Controls	No	No	No	No	No	No	No	No
R_2 (*within*)	0.0304	0.0274	0.0301	0.0268	0.0326	0.0296	0.0320	0.0291
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	6060	6060	6060	6060	6060	6060	6060	6060

Panel B : With all control variables

	Dependent variable = *Number of inbound CBAs*							
	CBA (for only completed deals)				*CBA* (for all deals)			
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
MF (1 quarter lag) × Lab-Int	**-0.0496*** (-7.45)**				**-0.0529*** (-7.94)**			
MF (2 quarter lag) × Lab-Int		**-0.0493*** (-7.48)**				**-0.0525*** (-7.99)**		
MF (3 quarter lag) × Lab-Int			**-0.0498*** (-7.46)**				**-0.0532*** (-7.97)**	
MF (4 quarter lag) × Lab-Int				**-0.0500*** (-7.42)**				**-0.0540*** (-8.00)**
Lab-Int	0.00800 (0.30)	0.00707 (0.26)	0.00898 (0.34)	0.00869 (0.33)	0.00394 (0.15)	0.00284 (0.11)	0.00484 (0.19)	0.00595 (0.23)
MF (1 quarter lag)	0.000168 (0.01)				0.0161 (0.59)			
MF (2 quarter lag)		0.00304 (0.11)				0.0238 (0.89)		
MF (3 quarter lag)			-0.0367 (-1.33)				-0.0128 (-0.47)	
MF (4 quarter lag)				-0.0301 (-1.08)				-0.00354 (-0.13)
DM&A	-0.104*** (-6.24)	-0.104*** (-6.24)	-0.105*** (-6.23)	-0.104*** (-6.24)	-0.101*** (-5.84)	-0.102*** (-5.83)	-0.102*** (-5.83)	-0.101*** (-5.84)
Industry-level-controls								
Firm size (Ind avg)	-0.0256*** (-2.66)	-0.0255*** (-2.65)	-0.0261*** (-2.73)	-0.0259*** (-2.71)	-0.0274*** (-2.80)	-0.0273*** (-2.79)	-0.0278*** (-2.86)	-0.0275*** (-2.83)
Leverage (Ind avg)	0.00307 (0.46)	0.00300 (0.44)	0.00234 (0.35)	0.00275 (0.41)	0.00311 (0.45)	0.00315 (0.45)	0.00264 (0.38)	0.00307 (0.44)
ROA (Ind avg)	-0.709*** (-5.84)	-0.708*** (-5.85)	-0.700*** (-5.76)	-0.702*** (-5.80)	-0.784*** (-6.12)	-0.784*** (-6.14)	-0.776*** (-6.06)	-0.779*** (-6.10)

Cash to Assets (Ind avg)	-0.454***	-0.454***	-0.461***	-0.462***	-0.470***	-0.469***	-0.474***	-0.475***
	(-4.13)	(-4.12)	(-4.18)	(-4.21)	(-4.21)	(-4.19)	(-4.24)	(-4.26)
Capex (Ind avg)	1.264***	1.246***	1.251***	1.259***	1.661***	1.651***	1.650***	1.654***
	(3.29)	(3.25)	(3.27)	(3.28)	(4.25)	(4.23)	(4.23)	(4.24)
Herfindahl	-0.317***	-0.318***	-0.315***	-0.318***	-0.364***	-0.365***	-0.362***	-0.364***
	(-6.00)	(-6.01)	(-5.94)	(-6.01)	(-6.45)	(-6.46)	(-6.40)	(-6.45)
Country-level-controls								
GDP growth	0.0136*	0.0131*	0.0147*	0.0141*	0.0172**	0.0167**	0.0181**	0.0176**
	(1.71)	(1.67)	(1.87)	(1.79)	(2.13)	(2.11)	(2.27)	(2.20)
GDP per capita	-0.240***	-0.245***	-0.222***	-0.225***	-0.228***	-0.234***	-0.214***	-0.218***
	(-3.53)	(-3.64)	(-3.30)	(-3.33)	(-3.32)	(-3.44)	(-3.15)	(-3.20)
Trade openness	-0.237**	-0.239**	-0.206*	-0.210*	-0.246**	-0.251**	-0.220**	-0.226**
	(-2.24)	(-2.24)	(-1.93)	(-1.96)	(-2.31)	(-2.34)	(-2.04)	(-2.08)
Investment profile	0.820***	0.819***	0.869***	0.877***	0.650**	0.640**	0.691**	0.688**
	(2.86)	(2.82)	(3.03)	(3.04)	(2.28)	(2.22)	(2.42)	(2.40)
Quality of Institutions	-0.0401	-0.0377	-0.0469	-0.0475	-0.0702	-0.0678	-0.0761	-0.0761
	(-0.82)	(-0.77)	(-0.96)	(-0.97)	(-1.48)	(-1.43)	(-1.60)	(-1.59)
Index-controls								
MPU	-0.0146	-0.0165	-0.0073	-0.010	-0.0077	-0.0101	-0.0016	-0.0044
	(-1.10)	(-1.32)	(-0.59)	(-0.86)	(-0.58)	(-0.81)	(-0.13)	(-0.38)
GPR	-0.0872***	-0.0896***	-0.0810***	-0.0813***	-0.0862***	-0.0889***	-0.0809***	-0.0824***
	(-3.02)	(-3.07)	(-2.79)	(-2.79)	(-2.94)	(-3.01)	(-2.75)	(-2.79)
R_2 (*within*)	0.265	0.264	0.266	0.265	0.286	0.286	0.287	0.287
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	4620	4620	4620	4620	4620	4620	4620	4620

This table presents the estimates from OLS regression of inbound CBA activity. The dependent variable, CBA_{jkq}, is the natural logarithm of total number of cross-border deals by target country. MF is the quarterly value of the Baker et al. (2015) migration fear index. Lab-Int is a dummy variable that takes the value of one if the firms belong to high labour intensity industry. The main independent variable is the interaction term between the dummy Lab-Int with MF index. Panel A presents the results without controlling for key variables. Panel B presents the results of regressions after controlling for industry -level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A*. The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry interacted with time fixed effects (Industry × Time FE), along with country fixed effects (Country FE). Time in the fixed effects indicates each quarter of the year. We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.6 Target Country's IFS and Probability of Being Acquired: Firm-level Analysis

	Dependent variable = *Probability of receiving a bid*			
	[1]	[2]	[3]	[4]
MF (1 quarter lag)	**-0.0835*** **			
	(-9.45)			
MF (2 quarter lag)		**-0.0888*** **		
		(-10.10)		
MF (3 quarter lag)			**-0.0928*** **	
			(-10.30)	
MF (4 quarter lag)				**-0.0945*** **
				(-10.91)
Firm-level-controls				
Firm size	0.0853***	0.0853***	0.0853***	0.0853***
	(52.18)	(52.07)	(52.11)	(52.11)
Leverage	0.0160***	0.0159***	0.0160***	0.0159***
	(9.89)	(9.87)	(9.90)	(9.88)
ROA	-0.0716***	-0.0717***	-0.0717***	-0.0720***
	(-8.57)	(-8.58)	(-8.58)	(-8.62)
Cash to Assets	0.109***	0.109***	0.109***	0.109***
	(4.93)	(4.91)	(4.92)	(4.89)
Capex	0.151***	0.149***	0.149***	0.149***
	(4.22)	(4.16)	(4.15)	(4.16)
Industry-level-controls				
Herfindahl	-1.065***	-1.043***	-1.030***	-1.018***
	(-7.31)	(-7.11)	(-6.96)	(-6.86)
Liquidity	0.00355	-0.00153	-0.00476	-0.00536
	(0.17)	(-0.08)	(-0.23)	(-0.27)
Country-level-controls				
GDP growth	0.00363***	0.00368***	0.00433***	0.00347***
	(2.81)	(2.85)	(3.48)	(2.80)
GDP per capita	-0.369***	-0.365***	-0.363***	-0.363***
	(-17.99)	(-17.36)	(-17.39)	(-17.10)
Trade openness	-0.265***	-0.265***	-0.267***	-0.262***
	(-6.43)	(-6.57)	(-6.70)	(-6.66)
Investment profile	0.620***	0.615***	0.593***	0.611***
	(6.38)	(6.50)	(6.32)	(6.61)
Quality of Institutions	0.134***	0.133***	0.136***	0.133***
	(10.66)	(10.79)	(10.96)	(10.76)
Political indicators-controls				
MPU	-0.0521***	-0.0540***	-0.0526***	-0.0563***
	(-10.06)	(-11.12)	(-10.98)	(-12.34)
GPR	-0.0296***	-0.0329***	-0.0361***	-0.0323***
	(-4.69)	(-5.57)	(-5.99)	(-5.26)
R_2 (*pseudo*)	0.0764	0.0765	0.0765	0.0765
Prob > χ^2	0.000	0.000	0.000	0.000
Industry FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Number of observations	405230	405230	405230	405230

This table presents the estimates from probit model of inbound CBA activity. The dependent variable, $BeingAcq_{it}$, is a dummy variable equal to 1 if the firm has received at least one bid during the year and zero otherwise. The main variable of interest, MF, is the quarterly value of the Baker et al. (2015) migration fear index. The table presents the probit results after controlling for firm-level, industry-level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A.* The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry fixed effects (Industry FE), along with country fixed effects (Country FE). Standard errors are clustered by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.7 Target Country's IFS and Deal Completion

	Dependent variable = *Probability of deal completion*											
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
MF (1 quarter lag)	**-0.218*** **				**-0.112** **				-0.0147			
	(-5.86)				**(-2.04)**				(-0.19)			
MF (2 quarter lag)		**-0.241*** **				**-0.134** **				-0.0652		
		(-6.40)				**(-2.43)**				(-0.98)		
MF (3 quarter lag)			**-0.209*** **				**-0.129** **				-0.0559	
			(-5.50)				**(-2.29)**				(-0.82)	
MF (4 quarter lag)				**-0.252*** **				**-0.168*** **				-0.108
				(-6.24)				**(-2.78)**				(-1.50)
Deal-level-controls												
Diversifying	-0.098***	-0.096***	-0.097***	-0.099***	-0.095*	-0.092*	-0.093*	-0.095*	-0.092*	-0.091*	-0.092*	-0.093*
	(-2.66)	(-2.61)	(-2.66)	(-2.70)	(-1.71)	(-1.66)	(-1.69)	(-1.72)	(-1.67)	(-1.65)	(-1.67)	(-1.69)
Cash deal	0.0558*	0.0559	0.0509	0.0519	0.108**	0.109**	0.106**	0.106**	0.107**	0.109**	0.108**	0.108**
	(1.65)	(1.64)	(1.49)	(1.53)	(2.21)	(2.22)	(2.17)	(2.17)	(2.19)	(2.24)	(2.21)	(2.22)
Tender offer	0.725***	0.716***	0.719***	0.724***	0.873***	0.879***	0.873***	0.881***	0.868***	0.869***	0.865***	0.871***
	(3.51)	(3.47)	(3.49)	(3.51)	(2.71)	(2.73)	(2.70)	(2.73)	(2.69)	(2.70)	(2.68)	(2.70)
Hostile bid	-2.329***	-2.318***	-2.327***	-2.321***	-2.32***	-2.32***	-2.32***	-2.31***	-2.32***	-2.32***	-2.32***	-2.32***
	(-11.49)	(-11.43)	(-11.53)	(-11.42)	(-8.30)	(-8.28)	(-8.28)	(-8.26)	(-8.24)	(-8.24)	(-8.24)	(-8.23)
Political indicators-controls	-	-	-	-	-	-	-	-	Yes	Yes	Yes	Yes
Firm-level-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-level-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-level-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R_2 (*pseudo*)	0.0567	0.0574	0.0561	0.0573	0.0811	0.0815	0.0813	0.0819	0.0820	0.0822	0.0821	0.0825
Prob > χ^2	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	9125	9125	9125	9125	3949	3949	3949	3949	3949	3949	3949	3949

This table presents the estimates from probit model of inbound CBA activity. The dependent variable, $DealComp_{di}$, is a dummy variable equal to 1 if SDC reports deal status as "completed," and zero otherwise. The main variable of interest, MF, is the quarterly value of the Baker et al. (2015) migration fear index. Depending on the specification, the table presents the results of probit controlling for deal-level variables and further with and without controlling for firm-level, industry-level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A*. The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry fixed effects (Industry FE), along with country fixed effects (Country FE). We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.8 Target Country's IFS and Deal Completion Duration

	Dependent variable = *Deal completion duration*											
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
MF (1 quarter lag)	**0.215*** **				**0.231** **				0.0860			
	(2.85)				**(2.15)**				(0.59)			
MF (2 quarter lag)		**0.141***				**0.249** **				0.155		
		(1.87)				**(2.46)**				(1.17)		
MF (3 quarter lag)			**0.126***				**0.230** **				0.0211	
			(1.69)				**(2.25)**				(0.17)	
MF (4 quarter lag)				**0.213*** **				**0.257** **				0.167
				(2.70)				**(2.46)**				(1.21)
Deal-level-controls												
Diversifying	-0.305***	-0.304***	-0.307***	-0.306***	-0.182***	-0.182***	-0.183***	-0.180***	-0.0929	-0.0905	-0.0942	-0.0911
	(-5.97)	(-5.95)	(-5.99)	(-5.98)	(-2.98)	(-2.98)	(-3.00)	(-2.94)	(-1.18)	(-1.14)	(-1.19)	(-1.15)
Cash deal	0.192***	0.194***	0.194***	0.193***	0.194***	0.195***	0.194***	0.199***	0.157**	0.157**	0.158**	0.158**
	(4.02)	(4.06)	(4.04)	(4.05)	(3.26)	(3.28)	(3.26)	(3.34)	(2.14)	(2.14)	(2.15)	(2.16)
Tender offer	1.330***	1.329***	1.331***	1.331***	1.215***	1.219***	1.223***	1.206***	1.414***	1.412***	1.412***	1.404***
	(8.80)	(8.75)	(8.74)	(8.81)	(7.52)	(7.53)	(7.45)	(7.38)	(6.15)	(6.14)	(6.14)	(6.07)
Hostile bid	0.595	0.604	0.613	0.581	-0.632	-0.588	-0.574	-0.600	0.131	0.110	0.135	0.0956
	(0.67)	(0.69)	(0.70)	(0.66)	(-0.65)	(-0.62)	(-0.61)	(-0.63)	(0.10)	(0.09)	(0.11)	(0.08)
Political indicators-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-level-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-level-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-level-controls	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R_2 (within)	0.0186	0.0177	0.0176	0.0185	0.0935	0.0940	0.0935	0.0940	0.0830	0.0835	0.0828	0.0835
Industry × Time FE	Yes	Yes	Yes	Yes	-	-	-	-	Yes	Yes	Yes	Yes
Time FE	-	-	-	-	Yes	Yes	Yes	Yes	-	-	-	-
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	6759	6759	6759	6759	3039	3039	3039	3039	2664	2664	2664	2664

This table presents the estimates from OLS regression of inbound CBA activity. The dependent variable, $DealDur_d$, is number of calendar days between the deal announcement date and the completion date. The main variable of interest, MF, is the quarterly value of the Baker et al. (2015) migration fear index. Depending on the specification, the table presents the results of probit controlling for deal-level variables and further with and without controlling for firm-level, industry-level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A*. The sample consists of all target firms in 4 countries for the period 1995 to 2017. Depending on the specification we include Fama–French 48 industry interacted with time fixed effects (Industry × Time FE), along with country fixed effects (Country FE) or Time FE. Time in the fixed effects indicates each quarter of the year. We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.9 DiD Regression - Target Country's IFS and Inbound CBAs

	Dependent variable = *Number of inbound CBA*											
	Completed Deals						All Deals					
	ERC	9/11	ERC	9/11	ERC	9/11	ERC	9/11	ERC	9/11	ERC	9/11
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
DiD_AIP	**-0.111****	**-0.168*****			-0.0466	-0.0425	**-0.112****	**-0.164****			-0.0681	-0.0322
[*AIP* × *Post*]	**(-2.41)**	**(-2.59)**			(-0.60)	(-0.45)	**(-2.39)**	**(-2.55)**			(-0.88)	(-0.35)
DiD_Lab-int			**-0.254****	**-0.145****	**-0.279****	0.0698			**-0.230***	**-0.163****	**-0.254***	0.0555
[*Lab-Int* × *Post*]			**(-1.99)**	**(-2.20)**	**(-2.19)**	(1.20)			**(-1.72)**	**(-2.52)**	**(-1.91)**	(0.94)
DiDiD					0.0762	**-0.294*****					0.0779	**-0.293*****
[*AIP* × *Post* × *Lab-Int*]					(0.96)	**(-3.14)**					(1.05)	**(-3.07)**
DMnA	-0.125***	-0.0931***	-0.158***	-0.0800***	-0.158***	-0.0855***	-0.127***	-0.0899***	-0.163***	-0.0775***	-0.163***	-0.0819***
	(-9.55)	(-6.06)	(-7.51)	(-4.06)	(-7.50)	(-4.87)	(-9.45)	(-5.68)	(-7.43)	(-3.84)	(-7.42)	(-4.57)
Industry-level-controls												
Firm size (Ind avg)	-0.00646	-0.0413***	-0.0117	-0.0316**	-0.0120	-0.0423**	-0.00151	-0.0433***	-0.00488	-0.0320**	-0.00544	-0.0488***
	(-0.39)	(-3.12)	(-0.56)	(-2.24)	(-0.58)	(-2.37)	(-0.09)	(-3.23)	(-0.24)	(-2.25)	(-0.27)	(-2.65)
Leverage (Ind avg)	-0.00251	-0.0581***	0.0162	-0.0167	0.0144	-0.0222*	-0.00315	-0.0584***	0.0176	-0.0169	0.0157	-0.0225*
	(-0.25)	(-5.57)	(1.23)	(-1.59)	(1.10)	(-1.87)	(-0.32)	(-5.52)	(1.36)	(-1.58)	(1.20)	(-1.84)
ROA (Ind avg)	-1.432***	-0.124	-1.627***	-0.422**	-1.632***	-0.458**	-1.633***	-0.160	-1.740***	-0.446**	-1.748***	-0.449**
	(-5.49)	(-0.70)	(-5.49)	(-2.31)	(-5.50)	(-2.18)	(-6.35)	(-0.86)	(-5.74)	(-2.30)	(-5.74)	(-2.01)
Cash to Assets (Ind avg)	-0.323*	0.439**	-0.451**	0.0371	-0.438*	0.385*	-0.403**	0.434**	-0.496**	0.0405	-0.485**	0.374*
	(-1.84)	(2.51)	(-2.03)	(0.23)	(-1.95)	(1.79)	(-2.31)	(2.39)	(-2.20)	(0.24)	(-2.13)	(1.65)
Capex (Ind avg)	4.104***	0.560	3.761***	0.357	3.803***	0.657	4.098***	0.738	3.876***	0.539	3.926***	0.904
	(5.33)	(1.17)	(3.78)	(0.66)	(3.84)	(1.07)	(5.28)	(1.54)	(3.85)	(1.02)	(3.91)	(1.47)
Herfindahl	-0.164**	-0.409***	-0.167*	-0.343***	-0.158	-0.395***	-0.140*	-0.420***	-0.172*	-0.360***	-0.162	-0.403***
	(-1.98)	(-4.88)	(-1.65)	(-3.86)	(-1.58)	(-3.47)	(-1.70)	(-4.76)	(-1.68)	(-3.80)	(-1.59)	(-3.28)
Country-level-controls												
GDP growth	0.00340	-0.0718***	0.0421	-0.0649***	0.0432*	-0.0673**	0.0111	-0.0640***	0.0305	-0.0552**	0.0309	-0.0560**
	(0.17)	(-3.33)	(1.62)	(-2.63)	(1.66)	(-2.40)	(0.53)	(-3.01)	(1.14)	(-2.27)	(1.14)	(-2.02)
GDP per capita	0.195	-0.982**	-0.162	-0.928*	-0.192	-0.981	0.128	-1.037**	0.134	-1.001**	0.133	-1.131*
	(0.54)	(-2.16)	(-0.35)	(-1.94)	(-0.40)	(-1.47)	(0.35)	(-2.26)	(0.28)	(-2.09)	(0.27)	(-1.71)
Trade openness	-0.201	-1.786***	-0.191	-1.387***	-0.227	-1.876***	-0.190	-1.904***	0.474	-1.553***	0.494	-2.031***
	(-0.38)	(-4.18)	(-0.29)	(-3.01)	(-0.33)	(-3.48)	(-0.35)	(-4.44)	(0.69)	(-3.41)	(0.70)	(-3.77)
Investment profile	-0.297	-0.941	0.489	-0.561	0.556	-0.945	0.246	-1.050	0.612	-0.592	0.731	-1.039
	(-0.25)	(-1.23)	(0.31)	(-0.74)	(0.35)	(-0.90)	(0.21)	(-1.38)	(0.39)	(-0.80)	(0.48)	(-0.99)
Quality of Institutions	-0.110	0.0433	-0.105	0.0593	-0.109	-0.0564	-0.132	0.0610	-0.103	0.117	-0.0934	0.00532

	(-1.13)	(0.32)	(-0.90)	(0.37)	(-0.90)	(-0.31)	(-1.36)	(0.46)	(-0.90)	(0.73)	(-0.78)	(0.03)
Political indicators-controls												
MPU	-0.0140	0.0132	-0.0299	-0.00633	-0.0292	0.0149	-0.00860	0.00390	-0.0351	-0.0197	-0.0293	0.0106
	(-0.57)	(0.77)	(-1.00)	(-0.32)	(-0.88)	(0.63)	(-0.34)	(0.22)	(-1.19)	(-1.01)	(-0.88)	(0.45)
GPR	0.0460	-0.386***	0.290**	-0.234***	0.303***	-0.403***	0.0739	-0.388***	0.300***	-0.231***	0.317***	-0.411***
	(0.54)	(-6.71)	(2.48)	(-3.81)	(2.61)	(-5.62)	(0.88)	(-6.65)	(2.81)	(-3.80)	(2.98)	(-5.60)
R_2 (*within*)	0.250	0.295	0.307	0.227	0.307	0.285	0.279	0.308	0.340	0.244	0.341	0.298
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	2501	2916	1392	2023	1392	1801	2501	2916	1392	2023	1392	1801

This table presents the estimates from DiD and DiDiD regression of inbound CBA activity. The dependent variable, CBA_{jkq}, is the natural logarithm of total number of cross-border deals by target country. Depending on the specification, $Treated_i$ is a dummy variable *AIP* or *Lab-Int*, $Post_t$ dummy variable takes the value of zero for three years before the exogenous shocks (i.e., 1998-2000 for 9/11 and 2012-2014 for ERC) and takes the value one for three years from and including the year of the exogenous shock (2001-2003 for 9/11 and 2015-2017 for ERC). $Treated_i \times Post_t$ is our DiD estimate of causal effect of the 9/11 and ERC on CBAs. The estimates of DiDiD is the triple interaction among the dummy variables $Post_t$, *AIP* and *Lab-Int.* The table presents results of regressions after controlling for industry-level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A.* The sample consists of all target firms in 4 countries for the period 1993 to 2003 for 9/11 and 2012 to 2017 for ERC. In all models we include Fama–French 48 industry interacted with time fixed effects (Industry × Time FE), along with country fixed effects (Country FE). Time in the fixed effects indicates each quarter of the year. We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.10 DiD Regression - Target Country's IFS and Probability of Being Acquired

	Dependent variable = *Probability of receiving a bid*					
	ERC	9/11	ERC	9/11	ERC	9/11
	[1]	[2]	[3]	[4]	[5]	[6]
DiD_AIP	**-0.0741*** **	**-0.0292*** **			**-0.180** **	0.0154
[*AIP* × *Post*]	**(-2.78)**	**(-3.53)**			**(-2.11)**	(0.54)
DiD_Lab-int			-0.0554	-0.0139	**-0.0766***	0.00680
[*Lab-Int* × *Post*]			(-1.59)	(-0.97)	**(-1.89)**	(0.48)
DiDiD					0.160	-0.0834
[*AIP* × *Post* × *Lab-Int*]					(1.56)	(-1.48)
Firm-level-controls						
Firm size	0.0903**	0.0885***	0.101**	0.0851***	0.101***	0.0851***
	(2.41)	(8.00)	(2.33)	(7.46)	(7.24)	(7.47)
Leverage	0.0208	0.0271***	0.0216	0.0296***	0.0216*	0.0296***
	(0.93)	(3.04)	(1.13)	(3.62)	(1.86)	(3.62)
ROA	-0.0719*	-0.0146	-0.0754**	0.000370	-0.0762	0.00152
	(-1.89)	(-0.36)	(-2.12)	(0.01)	(-1.20)	(0.03)
Cash to Assets	-0.0652	0.382***	-0.167	0.415***	-0.164	0.415***
	(-0.24)	(8.29)	(-0.53)	(4.60)	(-1.22)	(4.58)
Capex	-0.678	0.528***	-0.868	0.553**	-0.878***	0.556**
	(-1.24)	(3.22)	(-1.39)	(2.56)	(-2.91)	(2.57)
Industry-level-controls						
Herfindahl	-1.372*	-1.449	-0.704	-1.528	-0.696	-1.526
	(-1.93)	(-1.51)	(-0.77)	(-1.21)	(-0.57)	(-1.23)
Liquidity	-0.0863***	-0.0433	-0.0573	-0.0397	-0.0392	-0.0285
	(-3.54)	(-1.51)	(-1.05)	(-1.59)	(-0.78)	(-1.14)
Country-level-controls						
GDP growth	-0.00178	0.00713	0.00614	0.00474	0.00773	0.00559
	(-0.11)	(1.31)	(0.34)	(0.63)	(0.77)	(0.61)

GDP per capita	0.475*	-0.169***	0.363***	-0.200*	0.488**	-0.106
	(1.91)	(-2.96)	(3.18)	(-1.77)	(2.48)	(-0.61)
Trade openness	-0.00206	-0.434***	0.0700	-0.399**	0.179	-0.505**
	(-0.00)	(-2.72)	(0.17)	(-2.57)	(0.65)	(-2.12)
Investment profile	-0.721	-0.548***	-0.393	-0.459*	-0.340	-0.679***
	(-0.60)	(-3.78)	(-0.40)	(-1.86)	(-0.84)	(-6.26)
Quality of Institutions	-0.136**	-0.158***	-0.149**	-0.150***	-0.0775*	-0.162***
	(-2.00)	(-5.53)	(-2.37)	(-2.59)	(-1.79)	(-3.69)
Political indicators-controls						
MPU	-0.0342***	-0.00214	-0.0389***	-0.0006	-0.0235***	-0.00354
	(-4.30)	(-0.41)	(-4.61)	(-0.18)	(-3.02)	(-0.57)
GPR	-0.131***	-0.00832***	-0.130***	-0.00521	-0.111***	-0.0109***
	(-5.77)	(-3.87)	(-7.33)	(-1.01)	(-6.96)	(-3.03)
R_2 (*pseudo*)	0.0664	0.0702	0.0955	0.0737	0.0957	0.0737
Prob > χ^2	0.000	0.000	0.000	0.000	0.000	0.000
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	105503	109873	64682	80677	64682	80677

This table presents the estimates from DiD and DiDiD regression of inbound CBA activity. The dependent variable, $BeingAcq_{it}$, is a dummy variable equal to 1 if the firm has received at least one bid during the year and zero otherwise. Depending on the specification, $Treated_i$ is a dummy variable *AIP* or *Lab-Int*, $Post_t$ dummy variable takes the value of zero for three years before the exogenous shocks (i.e., 1998-2000 for 9/11 and 2012-2014 for ERC) and takes the value one for three years from and including the year of the exogenous shock (2001-2003 for 9/11 and 2015-2017 for ERC). $Treated_i \times Post_t$ is our DiD estimate of causal effect of the 9/11 and ERC on CBAs. The estimates of DiDiD is the triple interaction among the dummy variables $Post_t$, *AIP* and *Lab-Int.* The table presents results of regressions after controlling for firm-level, industry-level, country-level and political indicators variables. All independent variables are lagged by one year and are as defined in *Appendix 3-A*. The sample consists of all target firms in 4 countries for the period 1993 to 2003 for 9/11 and 2012 to 2017 for ERC. In all models we include Fama–French 48 industry fixed effects (Industry FE), along with country fixed effects (Country FE). We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.11 Number of Inbound CBAs: Robustness and Subsample Analysis

	pendent variable = *Number of inbound CBA*							
	Completed Deals				All Deals			
	1 Q lag	2 Q lag	3 Q lag	4 Q lag	1 Q lag	2 Q lag	3 Q lag	4 Q lag
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Panel A- ownership control								
Controlling ownership of 50% and above	-0.0224	-0.0188	-0.0355**	-0.0524***	-0.0160	-0.0115	-0.0265*	-0.0421**
	(-1.44)	(-1.23)	(-2.21)	(-3.13)	(-1.04)	(-0.77)	(-1.67)	(-2.53)
Controlling ownership of 95% and above	-0.0187	-0.0235	-0.0523***	-0.0631***	-0.00136	-0.00585	-0.0296*	-0.0384**
	(-1.14)	(-1.45)	(-3.05)	(-3.65)	(-0.09)	(-0.38)	(-1.81)	(-2.32)
Panel B- permutation of type of target and acquirer								
Public company Targets	-0.0299*	-0.0302*	-0.0695***	-0.0851***	-0.0168	-0.0171	-0.0484***	-0.0618***
	(-1.92)	(-1.93)	(-4.46)	(-5.26)	(-1.13)	(-1.17)	(-3.37)	(-4.05)
Private company Targets	-0.0226	-0.00866	-0.0411*	-0.0874***	-0.0190	-0.00534	-0.0275	-0.0744***
	(-1.04)	(-0.42)	(-1.84)	(-3.64)	(-0.87)	(-0.27)	(-1.26)	(-3.16)
Public Target- Public Acquirer	-0.0357**	-0.0310*	-0.0429***	-0.0570***	-0.0271*	-0.0232	-0.0361**	-0.0475***
	(-2.16)	(-1.86)	(-2.61)	(-3.30)	(-1.68)	(-1.44)	(-2.32)	(-2.84)
Public Target- Private Acquirer	-0.0334**	-0.0336**	-0.0541***	-0.0633***	-0.0214	-0.0197	-0.0362**	-0.0448***
	(-2.07)	(-2.12)	(-3.18)	(-3.63)	(-1.38)	(-1.31)	(-2.26)	(-2.68)
Private Target- Public Acquire	-0.0379*	-0.0337*	-0.0585***	-0.0843***	-0.0345*	-0.0274	-0.0403**	-0.0684***
	(-1.93)	(-1.78)	(-2.83)	(-4.10)	(-1.79)	(-1.51)	(-2.11)	(-3.51)
Private Target- Private Acquirer	-0.0385**	-0.0347**	-0.0437**	-0.0829***	-0.0375**	-0.0314*	-0.0380**	-0.0787***
	(-2.15)	(-1.98)	(-2.35)	(-4.38)	(-2.13)	(-1.85)	(-2.09)	(-4.23)
Panel C- alternative specifications								
SIC 3-digit industry classification	-0.0104	-0.0150	-0.0291***	-0.0258***	-0.00908	-0.0140	-0.0232**	-0.0168*
	(-1.02)	(-1.58)	(-2.94)	(-2.63)	(-0.92)	(-1.53)	(-2.44)	(-1.78)
Tobit model	-0.0298*	-0.0444***	-0.0550***	-0.0593***	-0.00412	-0.0162	-0.00934	-0.00848
	(-1.80)	(-2.80)	(-3.46)	(-3.63)	(-0.33)	(-1.44)	(-0.82)	(-0.72)
CBA volume	-0.226**	-0.216**	-0.106	0.000156	-0.194**	-0.144	-0.0168	0.0495
	(-2.14)	(-1.99)	(-1.11)	(0.00)	(-2.14)	(-1.53)	(-0.19)	(0.47)
CBA deals withdrawn	0.0412	0.0389	0.0686***	0.0270				

	(1.47)	(1.57)	(2.75)	(1.12)				
Panel D- Various sub-samples								
High-tech Target	-0.0316	-0.0003	-0.0939***	-0.0778***	-0.0332	0.000665	-0.0818***	-0.0660**
	(-1.06)	(-0.01)	(-2.94)	(-2.65)	(-1.12)	(0.02)	(-2.67)	(-2.28)
Diversified CBA	-0.00387	-0.0137	-0.0358**	-0.0517***	0.00612	-0.00223	-0.0217	-0.0381**
	(-0.26)	(-0.88)	(-2.36)	(-3.27)	(0.43)	(-0.15)	(-1.50)	(-2.52)
CBA in lower tercile of deal value	-0.0645***	-0.0596***	-0.0739***	-0.0697***	-0.0611***	-0.0584**	-0.0517**	-0.0517**
	(-2.81)	(-2.59)	(-3.32)	(-3.20)	(-2.69)	(-2.56)	(-2.34)	(-2.38)
CBA in mid-tercile of deal value	0.00536	-0.00287	-0.00536	-0.0529	0.0298	0.0224	0.00570	-0.0270
	(0.11)	(-0.06)	(-0.12)	(-1.11)	(0.62)	(0.51)	(0.12)	(-0.54)
CBA in upper tercile of deal value	-0.0577	-0.0221	-0.00521	-0.0362	-0.0852*	-0.0327	-0.00911	-0.0549
	(-1.16)	(-0.45)	(-0.11)	(-0.72)	(-1.75)	(-0.70)	(-0.20)	(-1.14)
Panel E - Alternative AIP and Labour intensity definitions								
MF × AIP	-0.0916**	-0.0894**	-0.151***	-0.0463	-0.119***	-0.0945**	-0.165***	-0.0654
	(-2.22)	(-2.08)	(-3.49)	(-1.04)	(-2.80)	(-2.17)	(-3.75)	(-1.49)
MF × Lab-Int	-0.0783**	-0.0894***	-0.106***	-0.106***	-0.0870***	-0.0974***	-0.112***	-0.109***
	(-2.49)	(-2.77)	(-3.09)	(-2.97)	(-2.73)	(-2.98)	(-3.27)	(-3.06)
Control variables as in Table 3.3	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

This table presents the estimation results of several robustness and subsample analysis on CBA activity. Panel A presents the results from controlling for different ownership, Panel B presents the results for permutation of type of target and acquirer, and Panel C presents the results from alternative specifications, Panel D presents the results using various subsamples. Panel E presents the results from alternative definitions for AIP and Lab-Int interactions. In all panels the dependent variable is CBA_{jkq}. The table presents the coefficients of the main variable of interest, MF, the quarterly value of the Baker et al. (2015) migration fear index. We include the same set of control variables as in Table 3 for all models in all panels. Inclusion of fixed effects (FE) is indicated at the end. All variables are defined in *Appendix 3-A.* The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry fixed effects (Industry FE), along with country fixed effects (Country FE). We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Table 3.12 Being Acquired and Deal Completion: Robustness and Subsample Analysis

	Dependent variable = *Probability of receiving a bid*				Dependent variable = *Probability of deal completion*			
	1 Q lag	2 Q lag	3 Q lag	4 Q lag	1 Q lag	2 Q lag	3 Q lag	4 Q lag
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Panel A: private vs. public targets								
Public target	-0.0840***	-0.0892***	-0.0924***	-0.0941***	-0.0733	-0.103*	-0.105*	-0.127*
	(-9.43)	(-10.15)	(-10.40)	(-10.91)	(-1.16)	(-1.71)	(-1.75)	(-1.94)
Private target	0.0341***	0.0328***	0.0314***	0.0322***	-0.260***	-0.275***	-0.273**	-0.353***
	(4.59)	(4.80)	(4.49)	(4.64)	(-2.58)	(-2.73)	(-2.57)	(-3.02)
Panel B: small vs. big targets								
Small targets	-0.128***	-0.129***	-0.137***	-0.146***	-0.244**	-0.281***	-0.258**	-0.327***
	(-9.44)	(-9.86)	(-10.29)	(-11.43)	(-2.23)	(-2.66)	(-2.28)	(-2.61)
Big targets	-0.0912***	-0.0944***	-0.0995***	-0.0951***	-0.00148	-0.0451	-0.0290	-0.0652
	(-8.36)	(-8.93)	(-9.20)	(-8.95)	(-0.02)	(-0.62)	(-0.41)	(-0.84)
Panel C: targets with low vs. high intangible assets								
Targets with few intangible assets	-0.0896***	-0.0896***	-0.0976***	-0.102***	0.0291	-0.124	-0.0451	-0.0676
	(-5.63)	(-5.75)	(-5.89)	(-6.05)	(0.19)	(-0.80)	(-0.28)	(-0.41)
Targets with many intangible assets	-0.0947***	-0.0990***	-0.104***	-0.104***	-0.102	-0.104*	-0.111*	-0.146**
	(-9.51)	(-10.42)	(-10.79)	(-11.39)	(-1.55)	(-1.66)	(-1.72)	(-2.01)
Panel D- Additional analysis								
Politically sensitive firms target	0.00697	0.00692	0.00693	0.00790	-0.187*	-0.186**	-0.193**	-0.282***
	(0.78)	(0.86)	(0.88)	(1.00)	(-1.96)	(-2.13)	(-2.12)	(-2.73)
Controlling for employment protection	-0.0527***	-0.0518***	-0.0458***	-0.0506***	0.0008	-0.0277	-0.0159	-0.0671
	(-5.53)	(-6.02)	(-5.23)	(-6.20)	(0.01)	(-0.38)	(-0.21)	(-0.82)
Panel E- Various sub-samples								
France	-0.0671***	-0.0851***	-0.0813***	-0.0621***	-0.0518	-0.211	-0.0780	-0.427
	(-4.14)	(-5.14)	(-4.57)	(-3.42)	(-0.20)	(-0.74)	(-0.31)	(-1.41)
Germany	-0.0825***	-0.101***	-0.104***	-0.109***	-0.508***	-0.429***	-0.224	-0.235
	(-7.04)	(-8.21)	(-7.55)	(-8.22)	(-3.03)	(-2.81)	(-1.35)	(-1.32)
United Kingdom	-0.185***	-0.165***	-0.173***	-0.180***	0.0257	0.00824	0.0907	0.0284

	(-10.67)	(-12.42)	(-14.24)	(-15.34)	(0.22)	(0.07)	(0.76)	(0.25)
United States	0.0186*	0.0273***	0.0203*	0.0188	-0.0914	-0.118	-0.388**	-0.486**
	(1.87)	(2.73)	(1.86)	(1.63)	(-0.61)	(-0.85)	(-2.40)	(-2.45)
Non-USA targets	-0.154***	-0.157***	-0.161***	-0.166***	-0.0890	-0.139*	-0.0515	-0.108
	(-12.01)	(-12.60)	(-12.23)	(-13.55)	(-1.21)	(-1.89)	(-0.71)	(-1.41)
Non-financial firms target	-0.102***	-0.107***	-0.112***	-0.112***	-0.114*	-0.112*	-0.105*	-0.166**
	(-11.40)	(-11.72)	(-12.03)	(-12.32)	(-1.78)	(-1.85)	(-1.72)	(-2.49)
Target during AIP government	-0.130***	-0.134***	-0.142***	-0.153***	-0.328***	-0.187*	-0.141	-0.229*
	(-8.38)	(-8.76)	(-9.11)	(-9.18)	(-3.03)	(-1.72)	(-1.28)	(-1.90)
Target labour Intensive firms	-0.109***	-0.116***	-0.124***	-0.125***	-0.116	-0.0924	-0.0636	-0.102
	(-8.59)	(-9.67)	(-9.78)	(-10.07)	(-1.35)	(-1.11)	(-0.76)	(-1.17)
Control variables as in Table 3.6	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

This table presents the estimation results of several robustness and subsample analysis on CBA activity. Panel A presents the results for private and public targets. Panel B presents the results for small and big targets). Panel C presents the results for targets with low and high levels of intangibles, Panel D presents the results using additional analysis for politically sensitive sector targets by controlling for EPL, Panel E presents the results using various subsamples. In all panels the dependent variable is either $BeingAcq_{it}$ or $DealComp_{di}$. The table presents the coefficients of the main variable of interest, MF, the quarterly value of the Baker et al. (2015) migration fear index. We include the same set of control variables as in Table 6 for $BeingAcq_{it}$ and as in Table 7 for $DealComp_{di}$ regression models in all panels. Inclusion of fixed effects (FE) is indicated at the end. All variables are defined in *Appendix 3-A.* The sample consists of all target firms in 4 countries for the period 1995 to 2017. In all models we include Fama–French 48 industry fixed effects (Industry FE), along with country fixed effects (Country FE). We cluster standard errors by industry interacted with time. *t*-statistics are reported in parentheses. *, ** and *** indicate statistical significance at the 10%, 5% and 1% level, respectively.

Figures of Chapter 3

Figure 3.1 Target Country's MF Index and Number of Inbound CBAs

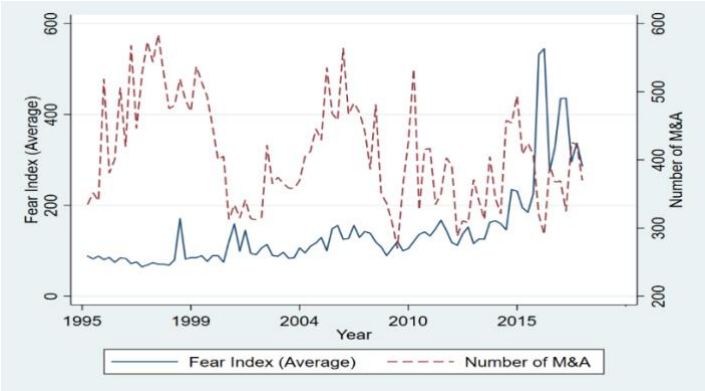


Figure 3.1(a) – Average of all countries (USA, UK, Germany and France)

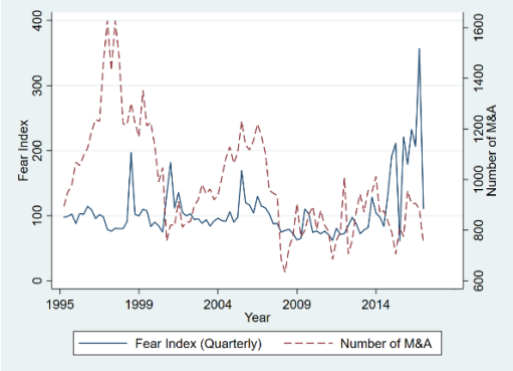


Figure 3.1(b) United States

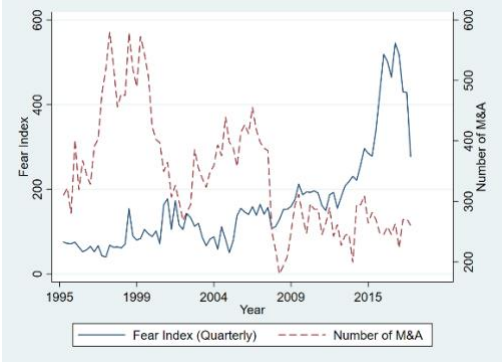


Figure 3.1(c) United Kingdom

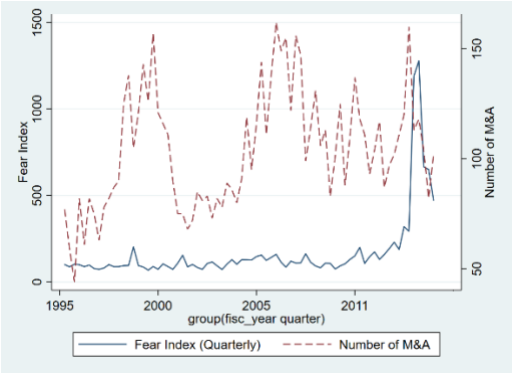


Figure 3.1(d) Germany

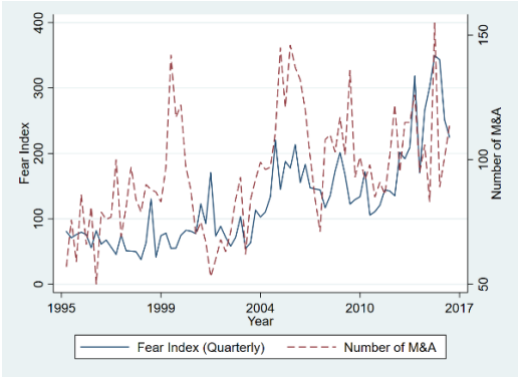


Figure 3.1(e) France

This figure depicts the quarterly aggregate number of inbound CBA deals together with Baker et al.'s (2015) quarterly migration fear index over the sample period 1995 to 2017. Figure 1(a) shows the average CBA and fear index, Figures (b) to (e) shows the trends od CBA and fear in individual countries.

Figure 3.2 Target Country's MF Index and Volume of Inbound CBAs

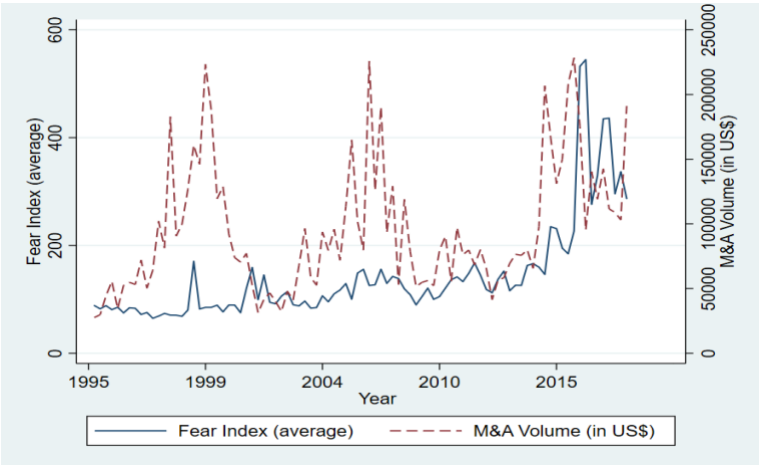


Figure 3.2(a) – Average of all countries (USA, UK, Germany and France)

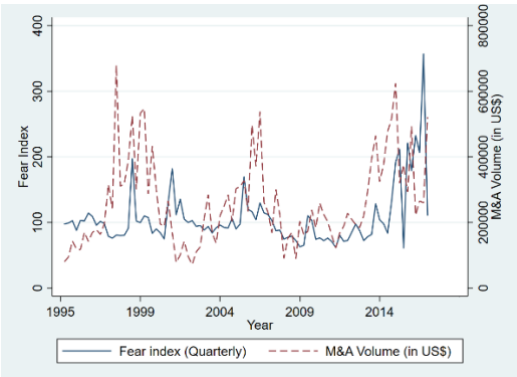


Figure 3.2(b) United State

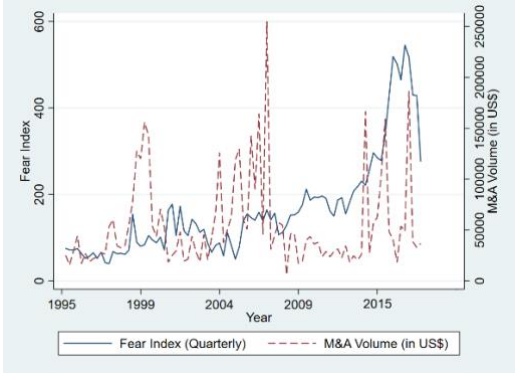


Figure 3.2(c) United Kingdom

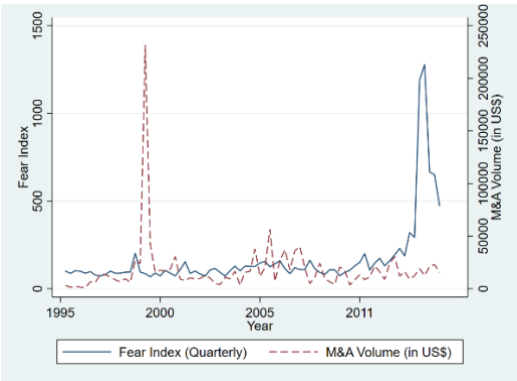


Figure 3.2(d) Germany

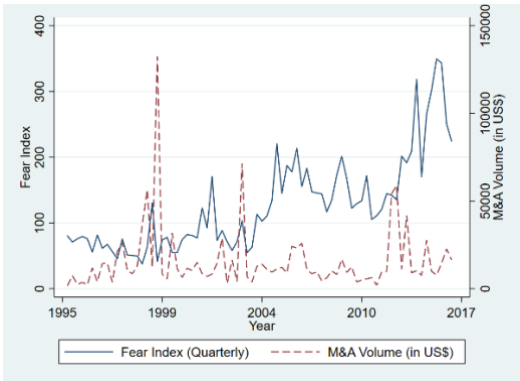


Figure 3.2(e) France

This figure depicts the quarterly aggregate deal value reported in millions of 2017 US dollars of inbound CBA deals together with Baker et al.'s (2015) quarterly migration fear index over the sample period 1995 to 2017. Figure 1(a) shows the average CBA and fear index, Figures (b) to (e) shows the trends od CBA and fear in individual countries.

Appendix of Chapter 3

Appendix 3-A Variables, Definitions and Data Sources

Variable name	Definition and source
Dependent variables	
CBAs number (*CBA*)	Natural logarithm of one plus total number of inbound cross-border deals for the industry *j* of the target country *k*, in the calendar quarter *t*. (*Source*: SDC).
Receiving a bid (*BeingAcq*)	Dummy variable equal to 1 if the firm has received at least one bid during the year and zero otherwise. (*Source:* SDC).
Deal completion (*DealComp*)	Dummy variable equal to 1 if SDC reports deal status as "completed," and 0 otherwise (*Source:* SDC).
Deal completion duration (*DealDur*)	Number of calendar days between the deal announcement date and the completion date (*Source*: SDC).
Key independent variable	
Migration fear (*MF*)	The natural logarithm of the quarterly value of the Baker et al. (2015) migration fear index in a given year (*Source:* http://www.policyuncertainty.com/immigration_fear.html).
Uncertainty index variables	
Migration policy uncertainty (*MPU*)	The natural logarithm of the quarterly value of the Baker et al.'s (2015) migration policy uncertainty index in a given year (*Source:* http://www.policyuncertainty.com/immigration_fear.html).
Geopolitical risk (*GPR*)	The natural logarithm of the average quarterly Caldara and Iacoviello (2018) geopolitical risk index in a given year (*Source:* https://www.policyuncertainty.com/gpr.html).
Firm-level variables	
Firm size	The natural logarithm of total assets (*Source:* S&P Capital IQ).
Leverage	The debt-total assets ratio. It is calculated as long-term debt minus cash and cash equivalents divided by total assets (*Source:* S&P Capital IQ).
ROA	The return on assets. It is calculated as EBITDA divided by book value of total assets (*Source:* S&P Capital IQ).
Cash to Assets	Cash and short-term investments divided by total assets (*Source:* S&P Capital IQ).
Capex	Capital expenditure called by total assets (*Source:* S&P Capital IQ).
Industry-level variables	
Firm size	The industry median of the dollar value of the natural logarithm of total assets (*Source:* Capital IQ).
Leverage	The industry median of debt-to- total assets ratio. It is calculated as long-term debt minus cash and cash equivalents divided by total assets (*Source:* S&P Capital IQ).
ROA	The industry median of the return on assets. It is calculated as EBITDA divided by book value of total assets (*Source:* S&P Capital IQ).
Cash to Assets	The industry median of cash and short-term investments divided by total assets (*Source:* S&P Capital IQ).
Capex	The industry median of capital expenditure called by total assets (*Source:* S&P Capital IQ).
Industry CBAs liquidity	The sum of deal values for each FF-48 industry and year divided by the total assets of firms in the same FF-48 and year. (*Source:* Capital IQ).
Herfindahl Index	The sum of squares of the market shares of all firms sharing the same FF-48 industry. (*Source:* S&P Capital IQ).
Country-level variables	
GDP Growth	Real growth rate (%) of GDP in US dollars (*Source:* World Bank).
GDP per capita	The natural logarithm of per capita GDP in US dollars (*Source:* World Bank).

Trade Openness	The ratio of imports and exports of goods and services to GDP (*Source:* World Bank).
Investment profile	Time-varying index measuring the government's attitude toward investment. The investment profile is determined by summing the three following components: (1) risk of expropriation or contract viability; (2) payment delays; and (3) repatriation of profits. Each component is scored on a scale from 0 (very high risk) to 4 (very low risk). The values are then normalized on a scale of 0-1 (*Source:* ICRG).
Quality of institutions	Time-varying index measuring institutional quality of a country, which is calculated by summing the three following components: (1) corruption; (2) law and order; and (3) bureaucratic quality. High score indicates countries with higher institutional quality and vice versa. The values are normalized on a scale of 0-1 (*Source:* ICRG).
Deal-level variables	
Diversifying	Dummy variable that takes the value of 1 if the target and bidder firms operate in the different industries using 48 Fama-French industry classification (FF-48) and 0 otherwise (*Source:* SDC).
Cash deal	Dummy variable that takes the value of 1 if 100% of the complete consideration of the CBAs deal is in cash, and 0 otherwise (*Source:* SDC).
Tender offer	Dummy variable that takes the value of 1 if a bid is structured as a tender offer, and 0 otherwise (*Source:* SDC).
Hostile bid	Dummy variable that take the value of 1 if SDC classifies a bid as hostile, and 0 otherwise (*Source:* SDC).
Other Variables	
AIP	Using the largest government party orientation data we identify for each country whether they are right or left leaning in each year. AIP is a dummy variable which takes the value of one for right orientation and value zero otherwise. (*Source:* DPI World bank)
Labour intensity *(Lab-Int)*	Industry median of the natural logarithm of total number of employees is calculated for each country each year. *Lab-Int* is a dummy variable that takes the value 1 for upper tercile and zero for lower tercile of the median values calculated. (*Source:* Capital IQ).
Domestic M&A (*DM&A*)	Natural logarithm of one plus total number of domestic M&A deals for the industry *j* of the target country *k*, in the calendar quarter *t*. (Source: SDC).
Herfindahl (*Herf-Gov*)	Represents a measure of government coalition concentration, by squaring the percentage of parties in the government coalition. (*Source:* DPI World bank)

CHAPTER 4: GEOPOLITICAL RISK & FOREIGN DIRECT INVESTMENT

4.1 Introduction

Many previous studies have extensively analysed how political factors can explain variations in the distribution of foreign direct investment (FDI), and most of them argue that FDI flow is adversely affected by political risk (e.g. Busse & Hefeker, 2007; Schneider & Frey, 1985).[57] However, relatively little effort has been devoted to exploring the links between geopolitical risk (GPR)[58] and FDI. The existing literature distinguishes GPR from domestic political risk as follows (Miller, 1992; Oetzel & Oh, 2014): whereas political risk is generally country-specific and domestic in nature and source, GPR refers to risks commonly associated with extreme political acts, such as inter-national tensions, wars, and terrorist attacks, as these affect the normal political discourse of relations both domestically and internationally (Caldara & Iacoviello, 2018). Thus, although GPR may emanate from one particular country, it can affect a number of countries in a particular region. Furthermore, political risk is really an uncertainty around governmental policies, which is something that can be avoided even though it is longstanding. This differs from GPR, which are events that are difficult to anticipate and are episodic in nature (Oetzel & Oh, 2014). Therefore, these two political factors must be approached different. Political risk may be a more continuous threat but it is at least predictable. GPR, on the other hand, is not predictable and might be more disruptive to normal political flows. Due to this, this

[57] For example, Busse and Hefekers (2007) analysis argues that things like government stability, conflict (both internally and externally), different types of corruption, ethnic or racial tensions, determinants of order, political accountability, and bureaucracy to all significantly affect FDI flows. Schneider and Frey (1985) document that political instability significantly affects FDI inflows in developing countries.
[58] Caldara and Iacoviello (2018) have also documented how GPR is a key determinant when making investment decisions.

study will investigate and quantify the effects of GPR on FDI inflows. This is achieved by taking the Arab Spring shock as a credible source of exogenous variation in GPR and by employing a high-frequency media-based measure of GPR.

One of the key challenges in this area of research is to differentiate the effects of political events from GPR (Baker, Bloom, & Davis, 2016). This research makes a sincere effort to overcome this challenge by focusing on the Arab Spring shock as an exogenous event that heightened GPR in the Middle East and North Africa (MENA) region.[59] In addition, it employs a high-frequency media-based measure of GPR computed by Caldara & Iacoviello (2018), which are staggered across the business cycle.[60]

The hypothesis testes on a large sample of data from 175 countries for the period 1988–2016. Using difference-in-difference (DiD) tests, the study finds strong evidence that GPR, measured based on the unexpected Arab Spring shock, has a greater adverse effect on the FDI inflows of the highly impacted 'treatment' countries (MENA countries) than on those of the less affected 'control' countries. In quantitative terms and based on the outlined specifications, the empirical estimations show that, in the post-shock period, the countries in the MENA region (the most affected nations) experienced a minimum 2.149% reduction in their FDI inflows relative to gross domestic product (GDP), which is more severe than the drops in other, less affected countries. These findings hold against the rigour of several robustness tests. Analysis of an alternative time-varying media-based measure of GPR also supports the conjecture that increase in GPR is associated with a decline in FDI inflows for a sample

[59] See Section 4.2 for further details on this event.
[60] See Section 4.5.3.4 for further details on this measure.

of 18 emerging-market countries. These findings suggest that theoretical predictions that policy uncertainty determines investment are accurate (Bernanke, 1983; Stokey, 2016), and that these investment agents will delay parts of their investment strategy (such as hiring and making decision) during times of high economic volatility.

The findings from this chapter contribute to the research around the political determinants of FDI (Burger, Ianchovichina, & Rijkers, 2016; Busse and Hefeker, 2007; Wei, 2000). The current study is similar to Burger et al. (2015) analysis of Arab's sectoral heterogeneity and its political risks and FDI. However, while they focus on political risk, the current research explores the role of GPR on FDI inflows, especially in the MENA region after the incident that is now well known as the Arab Spring. Thus, it covers the endogeneity issue related to establishing credible causal links of how firms are affected by violence (Witte, Burger, Ianchovichina, & Pennings, 2017).

The remainder of this chapter is structured as follows. Section 4.2 discusses the nature of the Arab Spring. Section 4.3 presents the related literature and develops the testable hypothesis. Section 4.4 briefly reports the research design and the sample data, followed by the empirical results in Section 5. Finally, concluding remarks are presented in Section 4.6.

4.2 Arab Spring

The emergence of the Arab Spring suggests a historic moment for the MENA region, with long-standing and unpredictable impacts (Darendeli & Hill, 2016). The Arab Spring began in December of 2010 in Tunisia. Tensions that had already existed in the MENA region due to the economic conditions of the Arab conditions, which was

exacerbated by high food prices, high levels of unemployment, high levels of corruption rates, and poor reform policies (Anderson, 2011). These tensions are believed to have contributed to the unrest of the Arab Spring, and this resulted in the conflicts and revolutions that occurred in Tunisia, Egypt, Libya, Yemen, Syria and Bahrain (Campante & Chor, 2012).

As outlined above, the Arab Spring provides an ideal context for conducting a quasi-natural experiment to test whether the most affected countries suffered more in their efforts to attract FDI than countries that were less affected by the upsurge of GPR in the MENA region. This shock, which began unexpectedly in December 2010, provides an excellent empirical setup for using the DiD estimation technique to investigate whether the exogenous shock, which triggered a series of GPRs with the potential to reduce foreign investors' confidence in the MENA region. As such, the countries in the MENA region countries are used as the treatment group and all other (non-MENA) countries, which were less affected, are the control group.

4.3 Related Literature and Hypothesis Development

As noted in the introduction, the extensive literature on national risk mainly focuses on political risk (e.g. Burger et al., 2016; Darendeli & Hill, 2016; Henisz, 2000*b*). Although several definitions of political risk exist (Kobrin, 1979), The consensus is that political risk is understood as policy uncertainty within a specific country. However, this policy uncertainty is so great that it may negatively affect the level of cash flows of a company interested in investing in within a given country (Bekaert, Harvey, Lundblad, & Siegel, 2014). What is analysed is three types of political risks associated with the location selection decisions of

multinational countries; these are: risk of expropriation (Duanmu, 2014; Kobrin, 1984), levels of corruption (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002), and limited or absent political constraints (Henisz, 2000*b*; Holburn & Zelner, 2010). When combined, these three political risks negatively affect FDI.

The current chapter supports this existing literature, but there are also two main areas of departure. First, this chapter assumes political risk to be different from GPR because they each affect economic activities differently, and GPR can lead to the destruction of human and physical capital. This is because GPR is associated with extreme events, such as terrorism acts or fighting between a government entity and rebel groups (Caldara & Iacoviello, 2018). Second, GPR is cumulative of single, short episodes of conflict. These short bursts of activity are difficult to predict compared to other types of political risk (Oetzel & Oh, 2014). For example, Gause (2011) suggests that the Arab Spring uprisings were only predicted by very few people. In situations of GPR, managers are unable to predict the economic fluctuations associated with the event, which suggests that managing business during GPR events has much greater levels of uncertainty (Kelly, Pástor, & Veronesi, 2016). Based on these distinctions, GPR is a type of discontinuous political risk, which confers less information of possibility of recurrence and future predictions.

This chapter also support previous research by exploring environmental risk derivations, specifically levels of risk that are a direct result from geopolitical concerns. For example, a host government is more likely to impose new regulations or change regulations during episodes of major GPR. This will most likely raise the cost associated with doing a business for when a multinational

enterprises (MNEs) enters this particular market (Li, 2006). Types of regulatory changes would be focused on restrictive trading: exchange controls, embargoes, change of terms of contract (breach of contract terms), and limitations around profit repatriation (Li & Vashchilko, 2010). GPR also leads to negative shocks against earnings because of things like damaged property, the death or injury of employees, damage to infrastructure, major disruptions in the supply chain, and increased expenses associated with trade (Li & Vashchilko, 2010; Oh & Oetzel, 2017). During this time, consumers will be more reluctant to purchase from a foreign company if it is a known subsidiary of a company in a country that is being hostile to the host. This targeted reluctance to shop with a brand will shop the profit of the subsidiary, as is common in market-seeking FDI (Julio & Yook, 2016). This makes investing in a company or country inflicted by GPR a very risky infesting. FDIs in that country then look less attractive.

GPR can pose potentially significant risks for international businesses. However, there are only a few empirical studies that highlight this link between FDIs and GPRs (Asiedu & Lien, 2011; Dai, Eden, & Beamish, 2013; Driffield, Jones, & Crotty, 2013). One explanation for this is that there is an inconsistency within the findings because the impact is largely dependent on the type of event that occurs, and therefore diminishes the credibility of a causal link. For example, major global events like terrorism, wars, or conflict will have a different impact on businesses solely based on the natural risk that they possess. By considering a unique and unexpected instance of a credible GPR, i.e. the Arab Spring of 2011, the current study overcomes the empirical challenge in testing the following hypothesis.

Hypothesis: Ceteris paribus, relative to less affected control countries, the highly affected treatment countries (states in the MENA region) experienced a more severe reduction in FDI in the post-Arab Spring period.

4.4 Data and Empirical Methodology

4.4.1 Sample

The FDI data set is obtained from the World Bank's World Development Indicators (WDI) database. The sample spans the period 2005–2015 and covers 175 countries. A full list of the countries is provided in *Appendix 4-A.*

4.4.2 Research Design and Regression Specification

This study's key identification strategy is to exploit the exogenous nature of the Arab Spring[61] from the year 2011 and employ the DiD estimation technique. The sudden emergence of the Arab Spring and the DiD framework provide an ideal quasi-experimental environment, in which are able me to identify two distinctive groups of countries. The first group, called the treatment group, consists of those countries that expect to have been most affected by the Arab Spring movement. The treatment that affected the treated group countries is defined as the incidence of the Arab uprisings that began in Tunisia towards the end of 2010 (Campante & Chor, 2012). These were followed by a wave of similar uprisings in Egypt in 2011, as well as in other Arab countries. In the most extreme case, peaceful uprisings developed into a civil war in Syria. These uprisings and the civil war in Syria represent unprecedented levels of GPR throughout the whole MENA region (Campante & Chor, 2012). Thus, the

[61] Focusing on the MENA region, one can cite the Arab Spring uprisings that began in Tunisia in 2010 and spread to other countries, including Libya and Egypt. They also developed into the ongoing Syrian Civil War that first erupted in 2010.

treatment group comprises the 18 MENA countries, i.e. "Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates and Yemen". The control group is composed of all the non-MENA countries. As such, the following DiD specification estimates the DiD between FDI inflows in the treated and control groups in the post-Arab Spring period.

$$\mathrm{FDI}_{k,t}/\mathrm{GDP}_{k,t-1} = \propto + \beta_1(MENA * Arab\ Spring) + \boldsymbol{\beta_2 X_{k,t-1}} + \mu_k + \mu_t + \epsilon_{it} \quad (1)$$

where k is a country, t is a year, and μ_k and μ_t are country and year fixed effects, respectively. The dependent variable $\mathrm{FDI}_{k,t}/\mathrm{GDP}_{k,t-1}$ represents net FDI inflows, scaled by GDP_{t-1}.[62] The key explanatory variable in this analysis is $MENA$. This is a dummy variable that is equal to one if a country belongs to the MENA group[63] and zero otherwise. *Arab Spring* is a dummy variable that takes a value of one for years occurring after the Arab Spring period (2011–2015) and zero for years before the Arab Spring period (2005–2010). The β_1 of the interaction variable ($MENA * Arab\ Spring$) is the DiD estimate of the causal effect of the Arab Spring on FDI inflows for MENA countries relative to non-MENA countries in the post-Arab Spring period. Fixed effects for the country capture time-fixed heterogeneity and control for unobserved heterogeneity to limit any self-selection bias. Moreover, the country fixed effects control for country size, culture, institutions (because institutions change very slowly over time), ethnolinguistic fractionalisation, and resource endowments.

[62] The $\mathrm{FDI}_{k,t}/\mathrm{GDP}_{k,t-1}$ variable is scaled by GDP to identify the role of FDI in the economy and lagged to minimise the risk of omitted variable bias.

[63] i.e. "Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen".

Because of these fixed effects, this study will only look at within-country variation, or if when a country's level of GPR increases, it attracts less FDI. Fixed effects over the course of the year additionally capture time-dependent effects. Time -dependent effects include global economic phenomena like fluctuating global commodity prices and global FDI waves. $\boldsymbol{X_{k,t-1}}$ is the matrix of control variables (lagged by one year to ensure that they are exogenous to FDI) and ϵ_{it} is the error term. In all estimations, this study allows for double clustering of the errors at country and year level.

4.4.3 Control Variables

This analysis includes several country-level control variables that previous research has identified as being associated with FDI inflows (Bailey, 2018), including: real GDP growth (*GDP gr*) as a proxy for economic growth; GDP per capita (*GDP pc*) as a proxy for economic development; trade openness (*Openness*) as a proxy for the level of openness of the economy; human capital (*Hum. Cap.*) as a proxy for skills and educational level; natural resource (*Nat. Res.*) as a proxy for resource factors; domestic investment (*Dom. Inv.*) as a proxy for infrastructure development; and government expenditure (*Gov. Exp.*) as a proxy for public expenditure. We obtain these country-level variables from the WDI data. In addition, data from Caldara and Iacoviello's (2018) index (CI index) are used to measure time variation in GPR. The CI index is a monthly index based on a tally of newspaper stories that contain terms related to geopolitical tensions. The index values are averaged to compile the annual data series. A description of the variables employed in the study is provided in Table 4.1. Tables 4.2(a) and 4.2(b) present descriptive statistics and annual distribution of the sample. See these tables in the Tables of Chapter 4 section.

4.5 Empirical Results

This section presents the empirical results of the study. First, it includes a summary of the differences between the main variables in the pre-event and post-event periods. Second, it presents the results of the DiD estimation that exploits the Arab Spring context to measure the impact of the Arab uprisings, which can be seen as representing unprecedented levels of GPR, on FDI inflows to the Arab world.

4.5.1 Pre- and Post-Arab Spring Summary

This section presents a summary of the differences between the main variables pre-event and post-event, based on a simple paired t-test. The results in row one of Table 4.3 show that the FDI inflows figure is 0.85% lower post-Arab Spring than pre-Arab Spring (statistically significant at the 1% level). This indicates that the uprising shaped by the Arab Spring provisions may have had a detrimental impact on FDI inflows. Similarly, the GPR figure for post-Arab Spring is 13.87% lower than for pre-Arab Spring (statistically significant at the 1% level). All other variables are either statistically significant at 5% and 10% or not significant (see Table 4.3 in the Tables of Chapter 4 section).

4.5.2 Difference-in-Difference Estimation

Before specification 1 is estimated, Figure 4.1 presents the trends of yearly average FDI/GDP_{t-1} figures for the MENA and non-MENA countries. It is evident that the MENA countries were more severely affected by the Arab Spring crisis and experienced a significant drop in FDI inflows, particularly after the year 2010. Before 2010, the share of FDI inflows of the treated (MENA) and control (non-MENA) countries were virtually similar with similar trend. However, after 2010, significant divergence between the two groups is observed, with a consistent drop in the share of

FDI inflows for the MENA regions compared to all other non-MENA countries. Such divergent trends over time provide a credible empirical setup to estimate the univariate and multivariate DiD figures (see Figure 4.1 in the Figures of Chapter 4 section).

The univariate difference in FDI/GDP_{t-1} is evaluated for the treated and control groups before and after the Arab Spring shock. The results are presented in Table 4.4. The post-Arab Spring period ranges from 2011–2015, while the pre-Arab Spring period ranges from 2005–2010. The FDI/GDP_{t-1} value for the treated group during the pre-Arab Spring period is 5.519%, compared to 2.355% during the post-Arab Spring period, constituting a difference of −3.164%. This difference, which is statistically significant the 1% level, implies a descending shift in the FDI inflows trend, possibly due to the increased levels of GPR in the MENA region. The difference for the control group is smaller than for the treated group, at −0.917%, which suggests a lesser effect of the Arab Spring shock on the control group. Thus, the DiD of −2.247% per year of FDI inflows can be attributed to the GPR caused by the Arab Spring. In essence, the DiD result reveals the difference in FDI flows between the control group and the treatment group before and after the GPR incident, and thus shows the differential effect of the shock on FDI inflows after the eruption of the Arab Spring (see Table 4.4 in the Tables of Chapter 4 section).

The DiD method is also applied by running a number of regressions with different control variables. Using Equation (1), Table 4.5 shows that the DiD coefficient (associated with the interaction term *Arab Spring* × *MENA*) enters all regressions with an expected negative sign and is statistically significant at the 5% significance level. The coefficient of −2.149 (Model 9) implies that, after ruling out all possible alternative explanations, the GPR caused by the Arab Spring shock shows a greater adverse effect

on the FDI inflows of the treated countries compared to the control countries in the post-Arab Spring period. With respect to the other control variables employed in the interaction estimations, GDP growth is found to be positively and significantly correlated with FDI inflow across all the estimations at 1%, which implies that profit-maximising foreign investors are attracted to fast-growing economies to take advantage of future market opportunities. Human capital also seems to be an important determinant of FDI inflows, as the estimated coefficient is found to be significant at 1% with a positive sign, indicating that higher values of human capital are more attractive to FDI inflows. Domestic investment is consistently significant at 1% and positive, indicating that countries that are capable of mobilising domestic resources that are attractive to FDI inflows. GPR is shown to be negatively and significantly correlated with FDI inflow at 10%. Most of the other controls are either insignificant or sensitive to different specifications, as shown by other DiD regressions performed as robustness checks in the following sections (see Table 4.5 in the Tables of Chapter 4 section).

4.5.3 Robustness Checks

4.5.3.1 Alternative treated and control groups

The above classification of treated and control groups based on the impact of the Arab Spring in the Arab world includes only 18 countries within the treated group. This could raise the concern of comparability between the two groups. To reduce the impact of this possibility, a sub-sample of oil-producing countries is identified. Both control and treated groups are re-defined so that oil-producing MENA countries constitute the treated group, while oil-producing non-MENA countries compose the newly defined control group. The relevant countries are defined in *Appendix 4-C*. Using

this reduced sample, a fully specified specification of Equation (1) is conducted. The results in Table 4.6 are virtually unchanged with respect to the DiD sign, showing statistical and economic significance of the estimations to the results at a level of 10%. Of the control variables, domestic investment has a positive sign and is statistically significant. Moreover, GDP growth has a consistent and positive effect on FDI inflows (see Table 4.6 in the Tables of Chapter 4 section).

4.5.3.2 Addressing systematic shocks

The results presented above could be capturing other systematic shocks that may have occurred during the Arab Spring period. If such shocks are not captured in Model 9 of Table 4.5, the Arab Spring uncertainty period could be confounded. In this regard, addressing regional and global shocks contemporaneous to Arab Spring may undermine the study's inference. To address this, the specified regional dummies are combined with time dummies to allow for inter-temporal variation of region-specific shocks that may confound the inference. One problem in directly employing this method based on the original regional classification is that the Arab Spring is also a regional shock affecting MENA countries; thus, integration of the interaction variable of regional dummies and time dummies would also capture the effect of the Arab Spring on these countries, making the DiD coefficient redundant. To avoid this dummy trap, the Middle East countries of the MENA group are reclassified within the Asia-Pacific category. Similarly, the Northern African countries of the MENA group are included in the Sub-Saharan Africa group. This creates regional groups of countries without a separate MENA category. The estimated DiD coefficient after controlling for the country fixed effects and the interaction of the regional and year dummies thus estimates the causal effect of the Arab Spring on the FDI inflows of MENA countries

while controlling for the effect of regional shocks that may have affected the original results. Table 4.7 in Model 9 shows that this approach does not change the main results reported in Table 4.5; thus, these findings are robust to the effect of any other systematic shocks (see Table 4.7 and 4.5 in the Tables of Chapter 4 section).

4.5.3.3 Dealing with the possibility of a false experiment

The possibility of a false experiment is addressed by capturing the same period of the Arab Spring shock (2011) for the same treated and control groups, but for the years 2010 (the year before the Arab Spring) and 2012–13 (the two years after the Arab Spring). For this, two dummies are created. These take the value of one if of the period covered for both year 2010 and years 2012–13. These dummies are interacted with the treated group as a false experiment for both regressions. Table 4.8 shows that the estimate for the year 2010, although statistically significant, the estimate for the year 2013 is negative but statistically insignificant. This provides confidence that the results are not driven by any other experiment (see Table 4.8 in the Tables of Chapter 4 section).

4.5.3.4 Alternative measure of GPR and multivariate analysis

Furthermore, an alternative annualised measure is employed, consisting of a media-based, monthly constructed time-varying index of GPR for 18 emerging countries based on the CI index. A full list of the countries is provided in *Appendix 4-B.* The CI index is constructed by counting the occurrence of words related to geopolitical tensions[64] in 11 leading newspapers, based on automated text-search results of the

[64] The CI index website states that: "The search identifies articles containing references to six groups of words: Group 1 includes words associated with explicit mentions of geopolitical risk, as well as mentions of military-related tensions involving large regions of the world and a U.S. involvement. Group 2 includes words directly related to nuclear tensions. Groups 3 and 4 include mentions related to

electronic archives of the 11 selected national and international newspapers.[65] The index is subsequently normalised to average a value of 100 in the 2000–2009 decade. This implies that any spike in the index over time would signify a sudden increase in GPR. For example, the global CI index shows spikes around the Gulf War, after 9/11, during the 2003 Iraq invasion, during the 2014 Russia–Ukraine crisis and after the Paris terrorist attacks. Further details regarding the index's construction and methodology are available at the following link: http://www.policyuncertainty.com/gpr.html. One limitation is that on a country level this index is currently only available for 18 emerging countries, which we employ in our estimation.

The CI index has several advantages for studying the GPR–investment relationship. First, many of the other available indices either do not define GPR at all or use a wide-ranging definition that includes very different events, ranging from wars to major economic crises to climate change. Naturally, it is unclear exactly what these indices measure. Second, unlike geopolitical events, which occur sporadically, the CI index GPR measure is available at a monthly frequency from 1985. This long span of data allows us to study the rich dynamics of investment in response to fluctuations in GPR. Third, unlike many other uncertainty proxies, the CI index does not systemically increase during recessions and financial crises; however, it does spike during wars or terrorist acts. Therefore, the CI index can help to distinguish the effects of GPR on

war threats and terrorist threats, respectively. Finally, Groups 5 and 6 aim at capturing press coverage of actual adverse geopolitical events (as opposed to just risks) which can be reasonably expected to lead to increases in geopolitical uncertainty, such as terrorist acts or the beginning of a war". (Economic Policy Uncertainty, accessed 10 February 2019).

[65] "The newspapers are The Boston Globe, Chicago Tribune, The Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, Los Angeles Times, The New York Times, The Times, The Wall Street Journal and The Washington Post".

corporate investment from the impacts of other uncertainties and can mitigate the endogeneity concern regarding the uncertainty–investment relationship. The time-varying figures of CI index for all 18 sample countries are presented in Figure 4.2 (see Figure 4.2 in the Figures of Chapter 4 section).

As depicted in Figure 4.2, the CI index fluctuates significantly over time and across countries, thus providing an effective measure for empirical exercises. For example, the CI index for Saudi Arabia shows spikes during the Gulf War in 1991, after 9/11 and during the 2003 invasion of Iraq. The index rises for North Korea during the North Korean satellite tests of 2012. More recently, the index for Ukraine shows spikes at the time when a missile hit a plane in Ukraine and during the resurgence of the Ukraine–Russia crisis in 2014. The index also rises in 2014 for Russia during the Russian annexation of the Crimea peninsula, and again during the escalation of ISIS military operations in Iraq and Syria. As such, to investigate the links between GPR and FDI inflows using this time-varying measure of GPR the following specification is employed:

$$\mathrm{FDI}_{k,t}/\mathrm{GDP}_{\mathrm{k,t-1}} = \propto + \beta_1 CI\ index_{k,t} + \boldsymbol{\beta_2 X_{k,t}} + \mu_k + \mu_t + \epsilon_{it} \qquad (2)$$

where $CI\ index_{k,t}$ is the time-varying measure of GPR of country k for year t. $\boldsymbol{X_{k,t}}$ is the control, as noted earlier. The regression output is presented in Table 4.9. The results indicate that increases in GPR are associated consistently with significant decreases in FDI inflows. The estimations are significant in the models after controlling for all competing control variables and country and year fixed effects. These findings highlight the significance of GPR as a credible threat in determining

decisions among foreign investors to withdraw FDI inflows (see Table 4.9 in the Tables of Chapter 4 section).

4.6 Conclusion

Although the existing literature provides sufficient evidence of the negative link between FDI flows and country-specific political risk, less attention has been placed on how GPR can affect FDI inflows. This study attempt to fill this void by credibly examining how increased GPR in the Arab World, based on the geopolitical shock of the Arab Spring uprisings, has affected FDI inflows. More specifically, the DiD estimator was employed to investigate the effect of the Arab Spring on FDI inflows for the most affected countries – those in the MENA region. For this purpose, the treatment group was composed of all the MENA countries, while the control group consisted of all non-MENA countries.

The results of quasi-natural experiments exploiting the Arab Spring turmoil, using a dataset of 175 countries, reveal a significant negative impact of GPR on FDI inflows. Depending on the specifications, the empirical estimations show that the Arab region countries (those most affected by the Arab Spring shock) experienced a more severe drop in FDI compared to other, less affected countries. The alternative media-based time-varying measures of GPR also qualitatively support the negative link between GPR and FDI inflows.

Tables of Chapter 4

Table 4.1 Variables List

Variable	Measure	Definition	Source
1)FDI inflows	FDI	FDI is defined by the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital, as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, divided by GDP.	WDI
2) GDP gr	Growth rate	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 US dollars (USD). GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	WDI
3) GDP pc	GDP per capita	GDP per capita is GDP divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current USD.	WDI
4) Openness	Economic openness	Openness is the sum of exports and imports of goods and services measured as a share of GDP.	WDI
5) Hum. Cap	School enrolment, secondary	Gross enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Secondary education completes the provision of basic education that began at the primary level, and it is aimed at laying the foundations for lifelong learning and human development by offering more subject- or skill-oriented instruction using more specialised teachers.	WDI
6) Nat. Res.	Natural resource	Percentage of merchandise exports of fuels, ores and metals comprise the commodities.	WDI
7) Dom. Inv.	Domestic investment	Gross capital formation percentage of GDP consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include: land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales.	WDI

8) Gov. Exp.	Government expenditure	General government final consumption expenditure percentage of GDP includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditures on national defence and security; however, it excludes government military expenditures that are part of government capital formation.	WDI
9) CI index	Geopolitical risk	Caldara and Iacoviello construct a monthly index (converted to yearly) of geopolitical risk (CI index) counting the occurrence of words related to geopolitical tensions in 11 leading international newspapers. The CI index spikes around the Gulf War, after 9/11, during the 2003 Iraq invasion, during the 2014 Russia–Ukraine crisis and after the Paris terrorist attacks. The index reflects automated text-search results of the electronic archives of the following national and international newspapers: The Boston Globe, Chicago Tribune, The Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, Los Angeles Times, The New York Times, The Times, The Wall Street Journal, and The Washington Post. Caldara and Iacoviello calculate the index by counting the number of articles related to geopolitical risk in each newspaper for each month (as a share of the total number of news articles). The CI index is then normalised to average a value of 100 in the decade 2000–2009.	http://www.policyuncertainty.com/gpr.html

Table 4.2 Descriptive Statistics and Annual Distribution of the Sample

Table 4.2(a) Descriptive Statistics

Variable	Obs.	Mean	SD	Median	Min.	Max.
FDI inflow (% of GDP)	1903	4.75	4.18	3.44	-0.08	14.35
GDP gr (annual %)	1905	3.93	3.53	3.94	-4.28	10.70
GDP pc (USD'000')	1904	11.18	13.69	4.65	0.24	41.33
Openness (% of GDP)	1846	87.33	35.34	82.85	30.93	162.56
Hum. Cap (%gross enrolment ratio)	1381	79.39	27.15	88.44	15.21	114.57
Dom. Inv. (% of GDP)	1769	24.18	7.19	23.49	10.67	38.68
Nat. Res. (% of merchandise exports)	1582	26.44	28.60	12.89	0.16	90.21
Gov. Exp. (% of GDP)	1778	15.49	4.76	15.49	7.14	25.69
CI Index	1925	77.20	22.44	70.42	53.73	137.22

This table presents descriptive statistics for dependent and control variables during the sample period (2005–2015). See Table 4.1 for a description of variables and sources.

Table 4.2(b) Annual Distribution of the Sample

Year	FDI inflow (% of GDP)	CI index	Money supply (% of GDP)	GDP per capita	Trade openness (% of GDP)	Population growth (%)	GDP growth (%)	Domestic credit to private sector (% of GDP)	Government expenditure (% of GDP)	No. of listed companies
1988	0.80	96.36	47.81	2,628.01	48.75	1.93	5.95	44.55	13.07	454.75
1989	0.95	105.36	52.94	2,721.11	50.65	1.88	3.17	50.78	14.06	481.67
1990	1.17	128.48	42.90	3,107.69	50.45	1.88	4.63	42.91	14.06	444.71
1991	1.46	130.86	44.51	3,426.94	50.12	1.98	4.69	41.26	14.24	459.00
1992	1.31	104.80	49.21	3,581.11	54.50	1.78	3.56	48.16	13.84	484.93
1993	1.48	98.10	50.41	3,722.11	53.05	1.66	3.32	50.98	14.76	482.25
1994	1.46	93.86	48.02	3,953.82	55.37	1.59	2.67	48.58	14.62	659.63

1995	1.46	82.98	46.76	4,456.76	59.01	1.54	3.63	48.50	14.65	669.50
1996	1.80	82.97	48.30	4,699.32	59.22	1.48	4.26	50.73	14.89	731.88
1997	2.58	75.18	51.93	4,780.15	60.84	1.43	4.21	55.32	16.02	736.50
1998	2.42	94.71	54.23	4,320.07	63.85	1.38	-0.42	54.30	15.89	730.75
1999	2.44	110.94	56.98	4,361.04	63.88	1.36	2.06	51.38	15.55	775.07
2000	2.17	92.83	55.60	4,807.93	69.58	1.34	5.66	49.08	15.07	772.50
2001	2.03	107.94	61.93	4,587.22	66.56	1.27	2.21	50.69	15.54	778.19
2002	1.69	117.49	62.89	4,310.91	67.45	1.24	2.40	50.34	15.37	735.47
2003	1.62	122.91	64.00	4,699.44	68.30	1.22	4.93	50.56	15.11	747.53
2004	1.95	96.02	63.26	5,409.27	72.82	1.19	7.61	51.28	14.60	711.71
2005	3.18	89.27	64.23	6,277.66	73.28	1.16	6.00	53.02	14.52	721.29
2006	3.23	90.65	67.58	7,079.48	73.56	1.16	6.60	56.09	14.57	741.18
2007	3.40	88.08	71.55	8,214.39	72.22	1.15	7.00	59.70	14.52	768.06
2008	3.32	97.99	72.29	9,323.08	73.87	1.16	3.99	61.59	14.44	773.65
2009	2.25	96.82	78.60	8,328.34	64.03	1.19	-1.16	65.15	15.98	777.12
2010	2.62	89.62	76.71	9,957.51	66.49	1.16	6.21	64.86	15.35	805.53
2011	2.53	92.32	77.36	11,186.52	70.24	1.18	5.54	65.59	15.12	840.41
2012	2.37	93.68	79.33	11,495.86	68.53	1.18	4.12	68.32	15.56	817.41
2013	2.47	102.73	82.34	11,885.34	66.89	1.17	3.85	71.29	15.88	821.88
2014	1.86	119.11	81.15	11,833.03	66.66	1.14	2.87	75.83	16.25	809.56
2015	2.31	116.81	83.56	10,619.88	64.14	1.11	2.50	77.06	16.64	899.71
2016	2.24	113.65	87.23	10,513.29	61.67	1.07	2.67	77.92	16.68	914.35
Total	2.10	101.54	62.96	6,404.59	63.36	1.38	3.96	56.31	15.06	718.57

This table presents the annual distribution of the sample for the 18 emerging countries of the CI index during the sample period (1988–2016). See Table 4.1 for a description of variables and sources.

Table 4.3 Differences Between the Main Variables Pre-Event and Post-Event

Variable	Pre-Arab Spring	Post-Arab Spring	Difference	t-stat	p-value
FDI inflow (% of GDP)	5.22	4.37	-0.85	-3.96	0.00
GDP gr (annual %)	4.11	3.65	-0.46	-2.48	0.01
GDP pc (USD'000')	10.79	12.10	1.30	1.86	0.06
Openness (% of GDP)	86.40	89.56	3.16	1.73	0.08
Hum. Cap (% of gross)	77.66	82.01	-3.83	-2.41	0.02
Dom. Inv. (% of GDP)	24.43	24.16	-0.27	-0.70	0.49
Nat. Res. (% of merchandise exports)	26.78	27.35	0.57	0.36	0.72
Gov. Exp. (% of GDP)	15.30	15.65	0.35	1.40	0.16
CI index	78.25	64.38	-13.87	-25.02	0.00

This table presents the average of the main variables used in the analysis for the segregated two periods, i.e., pre-event and post-event. The event here is the Arab Spring in 2011, and the total sample period covers 2005–2015 for 175 countries. The difference shows the difference between post-Arab spring and pre-Arab Spring values. The number of observations is the sample size included in each variable.

Table 4.4 Country-Level DiD for *FDI/GDP_{t-1}*

	Country group	Pre-Arab Spring (1)	Post-Arab Spring (2)	DiD (2-1)	t-statistics	p-value	No. of Obs.
FDI/GDP_{t-1}	Treated group	5.519	2.355	-3.164	-4.679	0.000	153
	Control group	6.756	5.839	-0.917	-2.205	0.028	1411
			Diff-in-Diff (DiD) =	**-2.247*** **			

This table presents the mean estimates of FDI/GDP_{t-1} for MENA region (treated) and non-MENA region (control) pre and post the event (Arab Spring in 2011). The number of observations is the sample size included in the main variable. The sample period covers 2005–2015 for 175 countries. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Table 4.5 GPR and FDI Inflows: Baseline Results

	Model1	Model2	Model3	Model4	Model 5	Model 6	Model 7	Model 8	Model 9
DiD	**-.167****	**-1.935****	**-1.892****	**-1.650***	**-1.857****	**-1.863****	**-2.066****	**-2.149****	**-2.149****
	(-2.76)	**(-2.64)**	**(-2.56)**	**(-2.17)**	**(-2.51)**	**(-2.56)**	**(-2.71)**	**(-2.85)**	**(-2.82)**
GDP gr		0.225***	0.218***	0.191***	0.210***	0.278***	0.180***	0.189***	0.224***
		(7.94)	(7.46)	(5.66)	(5.89)	(6.64)	(4.90)	(5.00)	(5.58)
GDP pc			1.432**	2.416***	2.045**	1.222	-0.590	-0.314	-0.314
			(2.49)	(3.68)	(2.48)	(1.10)	(-0.61)	(-0.32)	(-0.31)
Openness				0.0467**	0.0380*	0.0290	0.00922	0.0105	0.0105
				(2.60)	(2.00)	(1.17)	(0.48)	(0.55)	(0.51)
Nat. Res.					-0.0000811	0.0151	0.0130	0.0101	0.0101
					(-0.01)	(0.80)	(0.78)	(0.59)	(0.52)
Hum. Cap.						0.0665**	0.0720***	0.0685***	0.0685***
						(2.99)	(3.53)	(3.34)	(3.27)
Dom. Inv.							0.207***	0.202***	0.202***
							(3.82)	(3.83)	(3.69)
Gov. Exp.								0.125	0.125
								(1.12)	(1.11)
CI index									-0.00785*
									(-1.68)
Country & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.0123	0.0527	0.0583	0.0783	0.0757	0.0879	0.146	0.149	0.150
Countries	175	175	175	172	159	143	141	141	141
Observation	1910	1904	1903	1844	1546	1152	1123	1123	1123

This table presents regression estimates results for the following FDI regression specification:

$$\text{FDI}_{k,t}/\text{GDP}_{k,t-1} = \propto + \beta_1(MENA * Arab\ Spring) + \boldsymbol{\beta_2 X_{k,t-1}} + \mu_k + \mu_t + \epsilon_{it}$$

where the dependent variable is FDI inflows to country k in year t scaled by the previous GDP. MENA is a dummy variable that is equal to one if a country belongs to the MENA group, or zero otherwise, Arab Spring is a dummy variable that takes a value of one for years after the Arab Spring (2011 and later) and zero before the Arab Spring. The interaction term is the DiD estimate of the causal effect of the Arab Spring on FDI inflows into the MENA region. $X_{k,t-1}$ is the matrix of control variables (lagged by one year). Within this, *GDP gr* is the annual percentage growth rate of GDP at market prices based on constant local currency, *GDP pc* is GDP divided by midyear population (log), *Openness* is the sum of exports and imports of goods and services measured as a share of GDP, *Nat. Res* is natural resources, *Hum. Cap* is proportion of secondary-level school enrolment for the population of the age group that officially corresponds to the level of education shown, *Dom. Inv.* is gross capital formation as a percentage of GDP, *Gov. Exp.* is general government final consumption expenditure as a percentage of GDP, and *CI index* is a yearly index of geopolitical risk. Inclusion of fixed effects (FE) is indicated at the end. Standard errors are corrected for double clustering at the country and year levels. The sample period covers 2005–2015 for 175 countries. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Table 4.6 GPR and FDI Inflows: Subsample of MENA and Oil-Producing Countries

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
DiD	**-1.885***	**-1.885***	**-1.790***	**-1.706***	**-1.538***	**-2.038***	**-1.748***	**-1.802***	**-1.802***
	(-1.83)	**(-1.93)**	**(-1.84)**	**(-1.79)**	**(-1.65)**	**(-2.09)**	**(-1.84)**	**(-1.98)**	**(-1.96)**
GDP gr		0.144***	0.146***	0.115**	0.153**	0.188**	0.151*	0.160*	0.160**
		(3.59)	(3.46)	(2.71)	(3.11)	(2.80)	(2.02)	(2.14)	(2.25)
GDP pc			0.593	1.932	2.251*	2.071*	1.607	1.822	1.822
			(0.54)	(1.64)	(1.98)	(1.84)	(1.53)	(1.77)	(1.76)
Openness				0.0609*	0.0690**	0.0566	0.0418	0.0386	0.0385
				(1.96)	(2.40)	(1.64)	(1.27)	(1.17)	(1.15)
Nat. Res.					0.0109	-0.00208	-0.00264	-0.00627	-0.00772
					(0.73)	(-0.14)	(-0.18)	(-0.41)	(-0.50)
Hum. Cap.						0.0253	0.0259	0.0223	-0.000114
						(0.99)	(1.02)	(0.86)	(-0.01)
Dom. Inv.							0.129**	0.117**	0.123**
							(2.55)	(2.31)	(2.53)
Gov. Exp.								0.118*	-0.0849
								(1.85)	(-0.80)
CI index									-0.00908
									(-1.56)
Country & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.0325	0.0585	0.0586	0.0994	0.134	0.170	0.199	0.201	0.255
Countries	46	46	46	46	42	34	34	34	34
Observation	494	491	490	486	395	279	278	278	278

This table presents regression estimates results for the following FDI regression specification:

$$\text{FDI}_{k,t}/\text{GDP}_{k,t-1} = \propto + \beta_1(MENA * Arab\ Spring) + \boldsymbol{\beta_2 X_{k,t-1}} + \mu_k + \mu_t + \epsilon_{it}$$

where the dependent variable is FDI inflows to country k in year t scaled by the previous GDP. MENA is a dummy variable that is equal to one if a country belongs to the MENA group, or zero if a country belongs to the oil-producing group. Arab Spring is a dummy variable that takes a value of one for years after the Arab Spring (2011 and later) and zero before the Arab Spring. The interaction term is the DiD estimate of the causal effect of the Arab Spring on FDI inflows into the MENA region. All control variables are lagged by one year and are defined in Table 4.1. Inclusion of fixed effects (FE) is indicated at the end. Standard errors are corrected for double clustering at the country and year levels. The sample period covers 2005–2015 for 175 countries. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Table 4.7 GPR and FDI Inflows: Addressing Systematic Shocks

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
DiD	**-2.814*** **	**-2.589*** **	**-2.529** **	**-2.340** **	**-2.695*** **	**-3.176*** **	**-2.899*** **	**-2.950*** **	**-2.653*** **
	(-3.27)	**(-3.23)**	**(-3.16)**	**(-2.89)**	**(-3.42)**	**(-4.45)**	**(-3.83)**	**(-3.90)**	**(-3.19)**
GDP gr		0.186***	0.186***	0.152***	0.171***	0.223***	0.158***	0.164***	0.164***
		(7.80)	(7.25)	(5.77)	(5.63)	(5.80)	(3.68)	(3.86)	(3.86)
GDP pc			0.385	1.356*	0.859	-0.597	-1.503	-1.202	-1.326
			(0.66)	(2.16)	(1.07)	(-0.58)	(-1.48)	(-1.16)	(-1.56)
Openness				0.0548***	0.0453**	0.0427*	0.0226	0.0230	0.00265
				(3.44)	(2.68)	(2.05)	(1.24)	(1.28)	(0.14)
Nat. Res.					-0.00192	0.00336	0.00412	0.00165	0.0109
					(-0.17)	(0.17)	(0.24)	(0.09)	(0.70)
Hum. Cap.						0.0296	0.0423*	0.0390*	0.0382*
						(1.64)	(2.06)	(1.88)	(1.84)
Dom. Inv.							0.152**	0.148**	0.149**
							(3.11)	(3.12)	(3.13)
Gov. Exp.								0.121	0.0243
								(1.09)	(0.22)
CI index									-0.00785
									(-1.29)
Country & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R_2	0.0197	0.0461	0.0460	0.0739	0.0710	0.0767	0.100	0.103	0.209
Countries	175	175	175	172	159	143	141	141	141
Observation	1910	1904	1903	1844	1546	1152	1123	1123	1123

This table presents regression estimates results for the following FDI regression specification:

$$\text{FDI}_{k,t}/\text{GDP}_{k,t-1} = \propto + \beta_1 (MENA * Arab\ Spring) + \boldsymbol{\beta_2 X_{k,t-1}} + \mu_k + \mu_t + \epsilon_{it}$$

where the dependent variable is FDI inflows to country k in year t scaled by the previous GDP, MENA is a dummy variable that is equal to one if a country belongs to MENA group, or zero otherwise, Arab Spring is a dummy variable that takes a value of one for years after the Arab Spring (2011 and later) and zero before the Arab Spring. The interaction term is the DiD estimate of the causal effect of the Arab Spring on FDI inflows into the MENA region. All control variables are lagged by one year and are defined in Table 4.1. Inclusion of fixed effects (FE) is indicated at the end. Standard errors are corrected for double clustering at the country and year levels. The sample period covers 2005–2015 for 175 countries. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Table 4.8 GPR and FDI Inflows: The Possibility of False Experiment

	2010	2012	2013
DID	**-2.138****	**-1.893***	-1.457
	(-2.88)	**(-2.16)**	(-1.67)
GDP gr	0.228***	0.227***	0.229***
	(5.60)	(5.62)	(5.50)
GDP pc	-0.316	-0.278	-0.294
	(-0.32)	(-0.28)	(-0.29)
Openness	0.0101	0.00277	0.0118
	(0.49)	(0.15)	(0.57)
Nat. Res.	0.0100	0.0109	0.0117
	(0.51)	(0.59)	(0.61)
Hum. Cap.	0.0692***	0.0662**	0.0684**
	(3.27)	(3.09)	(3.05)
Dom. Inv.	0.203***	0.202***	0.202***
	(3.69)	(3.66)	(3.60)
Gov. Exp.	0.121	0.129	0.125
	(1.07)	(1.14)	(1.09)
CI index	-0.00582	-0.00580	-0.00519
	(-1.26)	(-1.26)	(-1.13)
Country & Year FE	Yes	Yes	Yes
Adjusted R_2	0.150	0.145	0.142
Countries	141	141	141
Observation	1123	1123	1123

This table presents regression estimates results for the following FDI regression specification:

$$\mathrm{FDI}_{k,t}/\mathrm{GDP}_{k,t-1} = \propto + \beta_1(false\ experiment) + \boldsymbol{\beta_2 X_{k,t-1}} + \mu_k + \mu_t + \epsilon_{it}$$

where the dependent variable is FDI inflows to country k in year t scaled by the previous GDP, *False experiment* is the interaction of a dummy created for the year 2010 before the Arab Spring and 2012–2013 after the Arab Spring with the treated group (MENA). The period is the same as the Arab Spring dummy for the year 2011 in the previous regressions, and MENA is a dummy variable that is equal to one if a country belongs to MENA group, or zero otherwise. The interaction term is the DiD estimate of the causal effect of the Arab Spring on FDI inflows into the MENA region. All control variables are lagged by one year and are defined in Table 4.1. Inclusion of fixed effects (FE) is indicated at the end. Standard errors are corrected for double clustering at the country and year levels. The sample period covers 2005–2015 for 175 countries. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Table 4.9 GPR and FDI Inflows: Time-Varying CI Index

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
CI index	**-0.01*** **	**-0.01** **	**-0.01** **	**-0.01** **	**-0.01** **	**-0.01** **	**-0.01***	**-0.01** **	**-0.01** **
	(-4.48)	**(-2.63)**	**(-2.66)**	**(-2.66)**	**(-2.69)**	**(-2.13)**	**(-2.11)**	**(-2.51)**	**(-2.39)**
Control variables as in Table 4.5	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R_2	0.03	0.03	0.03	0.03	0.03	0.04	0.04	0.06	0.05
Countries	18	18	18	18	18	18	18	18	18
Observation	507	503	503	503	503	503	499	498	453

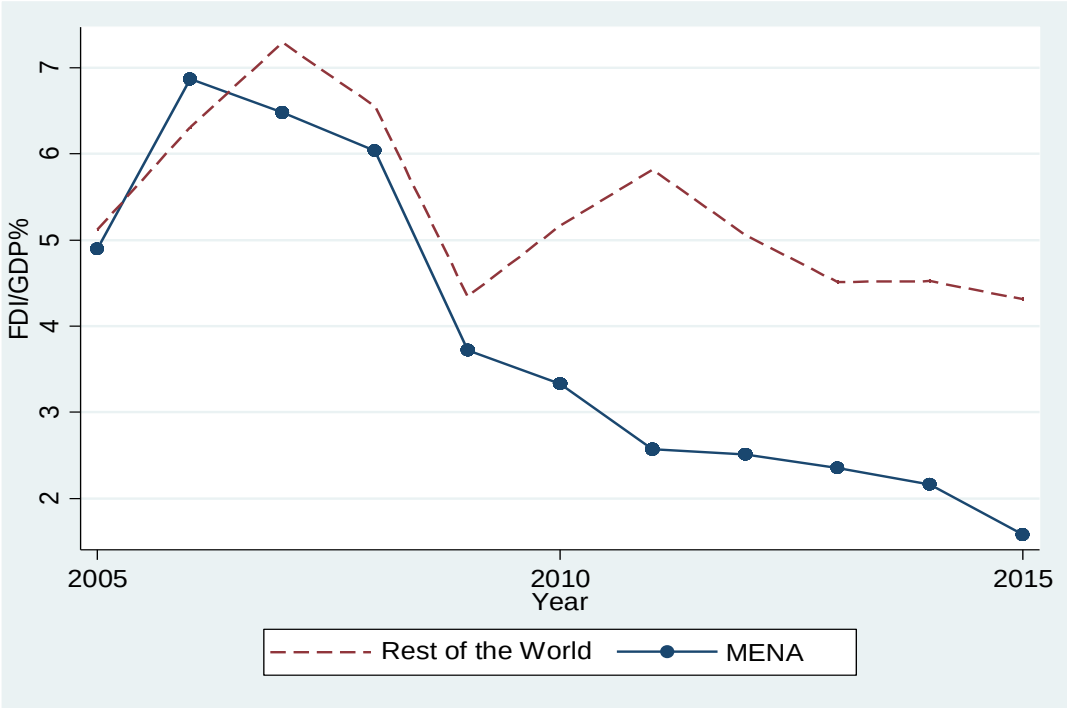
This table presents regression estimates results for the following FDI regression specification:

$$\text{FDI}_{k,t}/\text{GDP}_{\text{k,t}-1} = \propto + \beta_1 CI\ index_{k,t} + \boldsymbol{\beta_2 X_{k,t}} + \mu_k + \mu_t + \epsilon_{it}$$

where the dependent variable is FDI inflows to country k in year t scaled by the previous GDP, and $CI\ index_{k,t}$ is the time varying measure of GPR. All control variables are lagged by one year and are defined in Table 4.1. Inclusion of fixed effects (FE) is indicated at the end. Standard errors are corrected for double clustering at the country and year levels. The sample period covers 1988–2016 for 18 countries. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

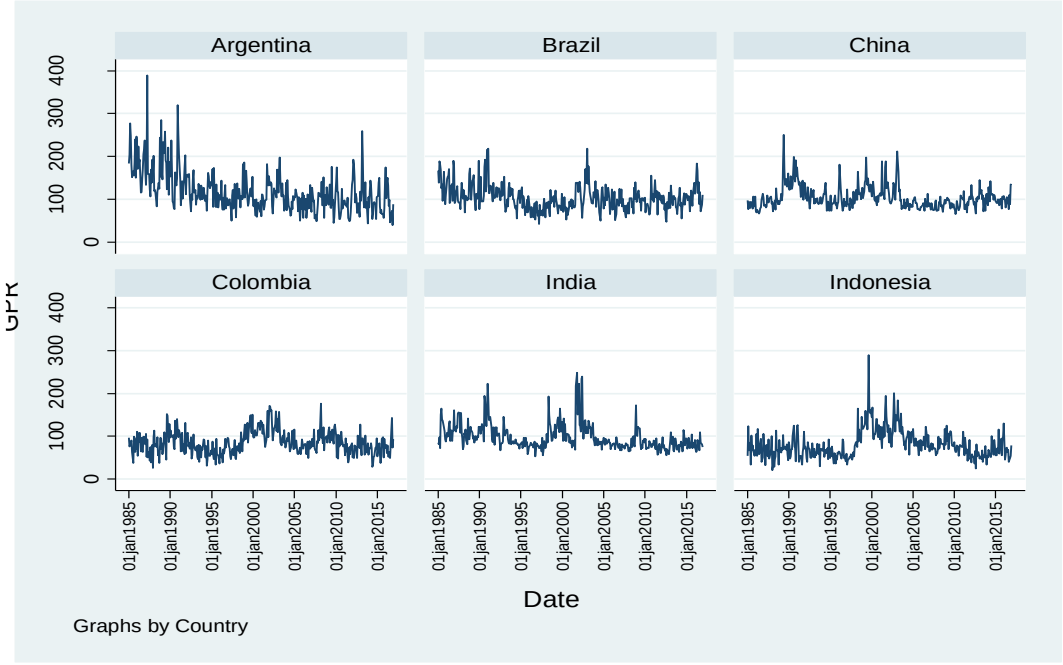
Figures of Chapter 4

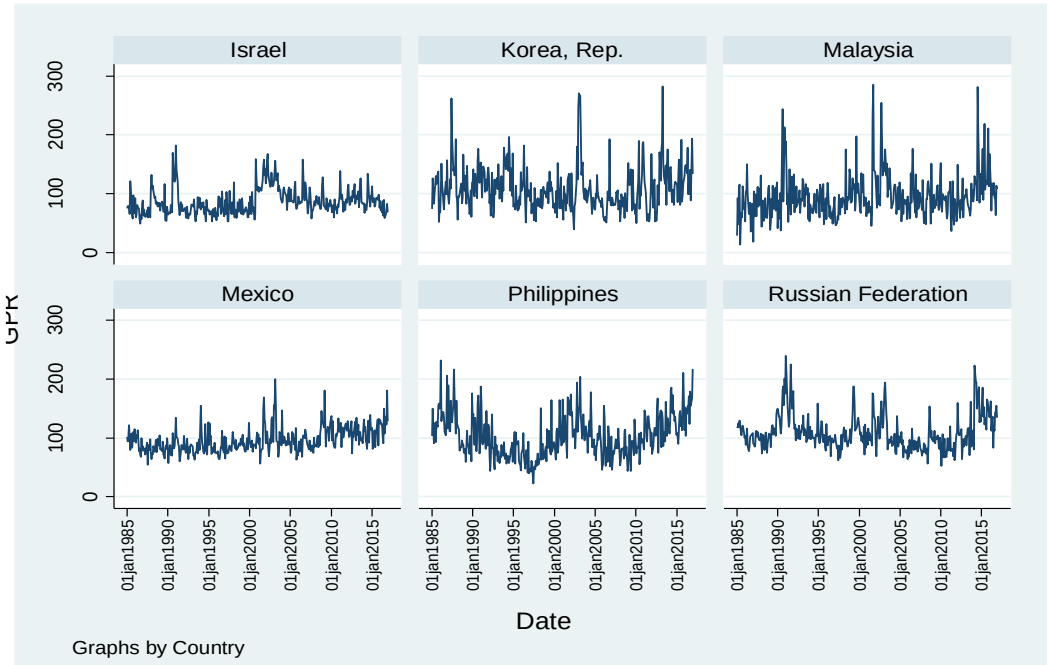
Figure 4.1 FDI Inflows of MENA Countries and Rest of the World

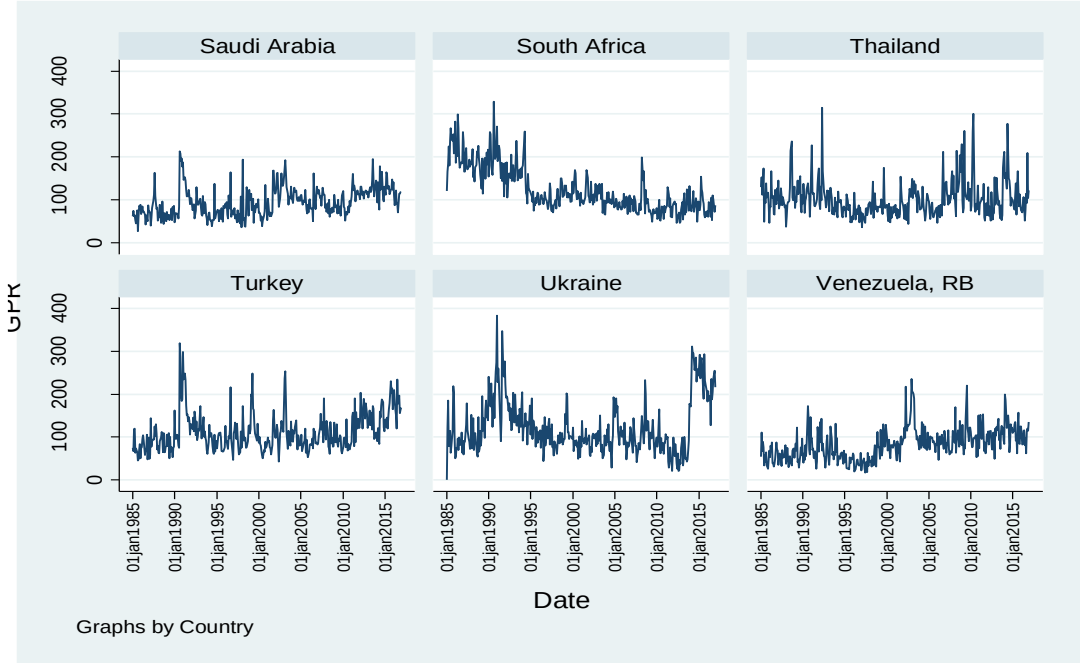


This figure plots FDI/GDP$_{t-1}$ for MENA countries (treatment group) and the rest of the world (control group). Data sample period: 2005–2015 for 175 countries. Event time: 2011 (Arab Spring).

Figure 4.2 Media-Based CI Index of 18 Emerging Countries







This figure plots time-varying media-based measure of GPR based on Caldara and Iacoviello (2018).

Appendices of Chapter 4

Appendix 4-A All Countries Used in this Study, Including MENA Countries

All Countries Used in this Study					MENA Countries
Albania	Cote d'Ivoire	Ireland	Niger	Syrian Arab Rep.	Algeria
Algeria	Croatia	Israel	Nigeria	Tajikistan	Bahrain
Angola	Cyprus	Italy	Norway	Tanzania	Egypt, Arab Rep.
Argentina	Czech Republic	Jamaica	Oman	Thailand	Iran, Islamic Rep.
Armenia	Denmark	Japan	Pakistan	Togo	Iraq
Australia	Djibouti	Jordan	Palau	Tonga	Israel
Austria	Dominica	Kazakhstan	Panama	Trinidad and Tobago	Jordan
Azerbaijan	Dominican Republic	Kenya	Papua New Guinea	Tunisia	Kuwait
Bahamas, The	Ecuador	Korea, Rep.	Paraguay	Turkey	Lebanon
Bahrain	Egypt, Arab Rep.	Kuwait	Peru	Turkmenistan	Libya
Bangladesh	El Salvador	Kyrgyz Republic	Philippines	Uganda	Morocco
Barbados	Equatorial Guinea	Lao, PDR	Poland	Ukraine	Oman
Belarus	Eritrea	Latvia	Portugal	Uzbekistan	Qatar
Belgium	Estonia	Lebanon	Qatar	Vanuatu	Saudi Arabia
Belize	Ethiopia	Lesotho	Romania	Venezuela, RB	Syrian Arab Rep.
Benin	Fiji	Liberia	Russian Federation	Vietnam	Tunisia
Bhutan	Finland	Libya	Rwanda	Yemen, Rep.	United Arab Emirates
Bolivia	France	Lithuania	Samoa	Zambia	Yemen, Rep.
Bosnia and Herzegovina	Gabon	Luxembourg	Sao Tome and Principe	Zimbabwe	
Botswana	Gambia, The	Macedonia, FYR	Saudi Arabia		
Brazil	Georgia	Madagascar	Senegal		
Brunei Darussalam	Germany	Malawi	Serbia		
Bulgaria	Ghana	Malaysia	Seychelles		
Burkina Faso	Greece	Maldives	Sierra Leone		
Burundi	Grenada	Mali	Singapore		
Cabo Verde	Guatemala	Mauritania	Slovak Republic		
Cambodia	Guinea	Mauritius	Slovenia		
Cameroon	Guinea-Bissau	Mexico	Solomon Islands		
Canada	Guyana	Moldova	South Africa		

Central African Republic	Haiti	Mongolia	Spain
Chad	Honduras	Morocco	Sri Lanka
Chile	Hong Kong SAR, China	Mozambique	St. Kitts and Nevis
China	Hungary	Myanmar	St. Lucia
Colombia	Iceland	Namibia	Sudan
Comoros	India	Nepal	Suriname
Congo, Dem. Rep.	Indonesia	Netherlands	Swaziland
Congo, Rep.	Iran, Islamic Rep.	New Zealand	Sweden
Costa Rica	Iraq	Nicaragua	Switzerland

Appendix 4-B List of Countries Covered by the Media-based High-frequency CI Index

List of Countries Covered by the Media-based High-frequency CI Index	
Argentina	Morocco
Brazil	Philippines
China	Russian Federation
Colombia	Saudi Arabia
India	South Africa
Indonesia	Thailand
Israel	Turkey
Korea, Rep.	Ukraine
Malaysia	Venezuela, RB

Appendix 4-C Oil-producing Countries, Including MENA Countries

Oil-producing Countries		MENA Countries
Russian Federation	Egypt, Arab Rep.	Algeria
Saudi Arabia	Libya	Bahrain
United States	Congo, Rep.	Egypt, Arab Rep.
Iraq	Vietnam	Iran, Islamic Rep.
Iran, Islamic Rep.	Australia	Iraq
China	Thailand	Israel
Canada	Sudan	Jordan
United Arab Emirates	Turkmenistan	Kuwait
Kuwait	Equatorial Guinea	Lebanon
Brazil	Gabon	Libya
Venezuela, RB	Denmark	Morocco
Mexico	Chad	Oman
Nigeria	Trinidad and Tobago	Qatar
Angola	Bolivia	Saudi Arabia
Norway	Uzbekistan	Syrian Arab Rep.
Kazakhstan	Bahrain	Tunisia
Qatar	Tunisia	United Arab Emirates
Algeria	Syrian Arab Rep.	Yemen, Rep.
Oman	Jordan	
United Kingdom	Israel	
Colombia	Lebanon	
Indonesia	Morocco	
Azerbaijan	Ghana	
India	Cameroon	
Malaysia	Pakistan	
Ecuador	Romania	
Argentina	Italy	

CHAPTER 5: SUMMARY AND CONCLUSION

This concluding chapter summarises all the findings of the three empirical chapters in Section 5.1, Section 5.2 and Section 5.3 respectively. These sections include the implications of the findings of my study for managers, investors, and policymakers, followed by discussions on the limitations of the studies. Section 5.4, I highlight the future research avenues. Finally, I present my concluding remarks in Section 5.5.

5.1 Chapter 2: Economic Policy Uncertainty and Cross-Border Mergers and Acquisitions

In Chapter 2 I examine the ability of EPU to explain variations in CBA activities. The results of this chapter suggest that a higher degree of EPU at home retards the number and volume of inbound CBA deals. However, the inverse relationship between EPU and inward CBA is moderated by the quality of the host country's institutions, the business environment, and political risk. The bilateral acquirer-target country-pair investigation reveals that, while a higher level of EPU in the target's nation deters inbound CBAs, a higher level of EPU in the acquirer's nation is positively associated with a higher number and volume of outbound CBA deals. Finally, I find the market seems to recover the expected synergy from the CBAs negatively (positively) in the form of lower (higher) cumulative returns when the target's (acquirer's) domicile faces higher levels of EPU.

Economic policy shocks not only impact critical stakeholders, but also directly affect management and operations. Improving causal understandings can provide relief to ailing economies by better mitigating economic collapse, anticipating economic and political uncertainties, and avoiding economic uncertainties. I find that

countries with increased levels of EPU attract less foreign acquirers, especially those from developing markets. These findings can be applied to other scenarios, such as the role that the quality of institutions plays in a foreign investors' decision-making process. Countries with credible institutional circumstances tend to have more amicable business environments and are associated with lower political risk. This fluctuates depending on the level of EPU and can directly affect CBA. This variation in institutional-EPU effective suggests that respected institutions can contribute to a reduced economic impact around policy uncertainty. This also supports Rodrik's (1990) argument that, since EPU can create incentives for foreigners to withhold investment, government efforts to mitigate uncertainty may need to re-direct reforms when policy sustainability is called into question. By assessing the possible impact of EPU on corporations, as this research suggests, economists can be more aware that different firms will be affected to differing degrees, depending on uncontrollable factors such as reliance on government spending. Additionally, increases in a target country's level of EPU is negatively related to the synergy created by these mergers. This contributes to the growing body of literature focused on uncertainty and the global economy, supporting points related to the potential of uncertainty to impact social welfare (Bloom et al., 2018; Gulen & Ion, 2016; Pástor & Veronesi, 2012).

However, as with any research endeavour, there are some limitations to consider. The sample used in this chapter is limited by the availability of the BBD index. At the moment, the BBD index is only available for a limited number of countries. Future studies can extend their sample sizes to include more countries as and when more countries are included in this index. Also, due to a lack of data availability, this study is limited to focusing on public acquirers only. As owing to the

nature of data availability and their comparability (especially on valuation) pooling of private and public firms in one study is not feasible, a separate study on private firms engaged in merging partners is warranted.

5.2 Chapter 3: Immigration Fear Induced Populism and Cross-Border Acquisitions

In Chapter 3 I investigate how IFS-induced populism in government policies affects inbound CBAs. Consistent with the economic conjecture that populism creates deadweight costs for potential investors, my findings strongly indicate that the number of inbound CBAs significantly decrease following the escalation of IFS. Using two discrete exogenous shocks that caused an escalation of AIP in its aftermath, my research shows a significant decline in inbound CBAs, a reduced likelihood of receiving an acquisition bid, and lengthier deal completion periods for firms located in major developed economies. The inverse link between IFS and CBAs seems to be more pronounced in economies with AIP governments and in labour-intensive industries.

Regarding the consequences of IFS for inbound CBAs, my findings suggest a negative relationship between IFS and the number of inbound CBAs at the industry level. There is a general perception in populist parties that immigration presents difficult security challenges for a country, which directly inhibits the free movement of skills and talent. The results from my research has significant implications in the recent events like the presidential election in the U.S. and the Brexit vote. Brexit is perhaps one of the more extreme examples, as it represents an instance where a country (the U.K.) is purposely stepping back from a previously fluid region border, which in

turn limits its own citizens. This move was made in order to stop EU citizens from having that same rights in the U.K. This policy isolates labour and strongly alters the free-flowing dynamic that the knowledge-based systems relied on, including the free movement of people and talent as a key component of global multinational strategies and performances (see, e.g. Andersson, Forsgren, & Holm, 2002; Devinney & Hartwell, 2020). Ultimately, my research shows that AIP factors seem to play a bigger role than economic factors in explaining IFS in CBA investments. The sample used is consistent with the predictions of Dinc and Erel (2013). The conclusions of my research imply that policy efforts aimed at facilitating M&A could also benefit from designing more sensible policies that more accurately reflect the specificities of a country's political institutions. This is a particularly sensitive finding, as M&A policies can determine the reallocation of M&A investments to more productive industries.

Yet, my findings are qualified by some limitations. The limitations in this chapter lie in the availability of the MF index to only four countries: the U.S., the U.K., France, and Germany. Furthermore, due to data availability I do not examine issues such as acquirer's country MF and outbound CBA and target’s vis-a`-vis acquirer’s CBA activities.

5.3 Chapter 4: Geopolitical Risk and Foreign Direct Investment

In Chapter 4 I quantify the effect of GPR on FDI inflows. In terms of empirical identification, my study exploits the economic shock of the Arab Spring and use it as a source of exogenous variation in GPR by employing a time-varying media-based measure of GPR. The dataset included 175 countries. The results of the quasi-natural experiments exploiting the Arab Spring turmoil reveals a significant negative impact

of GPR on FDI. Depending on the specifications, the empirical findings of my study suggest that the most affected countries within the MENA region experienced a more severe fall in FDI compared to other, less affected countries. The alternative time-varying media-based measures of GPR also qualitatively support the negative association between GPR and FDI.

These results are consistent with implications of direct investment models on uncertainty, in particular Rodrik (1991) model of policy uncertainty and private foreign investment. According to Forbes and Warnock (2012), GPR allows for a variation in FDI flows equally to a sudden stop. While many sudden stops suggest that they could be based on global and natural causes, my research suggests an underlying domestic source as a causal factor for the sudden variation in FDI inflows that are unrelated to natural disturbances. Indeed, policymakers should consider a stable political environment, in order to attract FDI. That is particularly important for developing countries, whose performance in political stability and economic development is usually considered to be fragile. Governments must be dedicated to remedial measures that consistently ensure national security, global harmony, and the protection of the public against non-natural stoppage events, such as a malfunctioning national security or another kind of diplomatic protocol that may restrict the growth of FDI inflow.

The discussion in this chapter I utilize aggregated country-level FDI data derived from the World Bank. While this data set is robust enough for the cross-sectional analysis, the accuracy of the FDI data is functionally limited across emerging nations and countries where FDI flows are biased as a result of tax considerations.

The official FDI annual flow data are supposed to include the following components: new equity, retained earnings, and net intra-corporate loans. However, changes that occur late in the year, after the initial investment, are not usually reported. This is, of course, a problem, as changes to "historical" costs are based less on the adjustments for retained earnings and intra-corporate loans, which can vary by nation. The current market value of an investment will often change from its initial value. Countries like China, where data are filtered through Chinese FDI routes in Hong Kong and the rest of the world, make this measure even more complex. Other U.S. corporates, such as the Delaware Corporations, a company legally registered in the state of Delaware, are not necessarily required to indicate the identity of the ultimate beneficial owners or the location in which the business is conducted, so many U.S. FDI subsidiaries' origin country is often unknown.

Furthermore, gross and net flow distinctions are not regularly reported by the press and governments, and each government can cut the "tail" of the distribution differently. The U.S. Commerce Department, for example, does not require FDIs under United States Dollar (USD) 2.5 million to be reported to the database, which ends up omitting thousands of smaller foreign subsidiaries in America. Other nations have a cut-off point of USD1 million. To mitigate this, analysts need to distinguish between fully-owned subsidiaries and partial acquisitions, joint ventures with local investors, as well as greenfield investments and acquisitions from domicile-existing foreign firms. Unfortunately, this type of detailed data are simply unavailable for smaller infrastructures. The above limitations in this chapter is from (Contractor, Dangol, Nuruzzaman, & Raghunath, 2020)

5.4 Future Research Suggestions

My findings presented in this thesis raise several questions about the relationship between economic policy shocks and socio-political disruption and FDI. Since there are many measures of uncertainty with regard to economic policy shocks and socio-political disruption, it can be difficult to identify which method is best for measuring these effects. Suggested future research could consider the factors that determine the degree of the effects of uncertainty for intercountry and interstate relations. It should also address the ways in which MNEs and geographically diverse firms are affected by and interact with economic policy shocks and socio-political disruption. Unique business alliances between firms that are located in different geographical areas could also be affected by uncertainty. There are also policy changes that could be reflected across countries or states. Therefore, it is crucial to identify whether these changes are aligned with each other or against each other. At the time of the writing of this thesis, the world is reeling under the recent coronavirus outbreak (COVID-19). This pandemic provides an extreme case of uncertainty. Having data on how the COVID-19 pandemic is affecting corporations and economies is paramount if one hopes to formulate an effective policy to resolve the challenges posed by the crisis. One possible question that could be addressed is: Is the association between policy uncertainty and FDI stronger for firms with high levels of exposure to COVID-19?

5.5 Concluding Remarks

In general, countries with more events related to uncertainty—caused by political and regulatory systems and socio-political disruption—experience lower numbers of cross-country business opportunities through FDIs. EPU affects CBA activity at the

macro and firm level. If a country has a higher degree of EPU at home (the target nation), this deters foreign firms' inbound CBA deals. However, one way to mitigate this negative effect is through developed institutional environments. Furthermore, higher levels of EPU in the acquirer's nation is positively associated with outbound CBA deals. To uncover the channels through which IFS affects CBA decisions, we find that target firms belonging to countries with AIP, as well as those belonging to labour-intensive industries, become less attractive to potential acquirers in the wake of heightened IFS in major developed economies. To test if GPR discourages FDI inflows, I find that the most affected countries of the MENA region experienced a more severe fall in FDI inflows, compared to other, less affected countries. The alternative media-based time-varying measures of GPR also qualitatively support the negative link between GPR and FDI inflow.

The findings, taken as a whole, clearly support the notion that uncertainty surrounding government policy, migration fears, and geopolitical tensions have a significant and detrimental effect on FDI flows. In the face of increased uncertainty, MNEs postpone making large investments. This supports the extant literature that highlights the impact of uncertainty on real economic activity.

Finally, my thesis contributes to the literature on uncertainty and FDIs. It has important implications, which are, arguably, of utmost importance for policy makers. The indecision of policy makers with respect to which uncertainties matter most, i.e., government policy, migration fear, and geopolitical tensions, can be particularly detrimental to the efficient allocation of capital in the economy.

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