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Investment Opportunity Sets of Real Assets:

An International Empirical Study Based on Ownership Types

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Abstract

This paper is the first, to our knowledge, to make the distinction between the investment opportunity set of real assets versus portfolio securities. We perform a large scale formal investigation of the investment opportunity set in global acquisitions based on ownership type over the period of 1985 – 2012. Compared to private acquirers, government acquirers have a much reduced investment opportunity set. Government acquirers invest in fewer target nations and industries, settle for smaller stakes, invest in countries with lower quality legal institutions and in nations with which political relations are more positive and see a 50% higher deal failure rate.

Keywords: International; Mergers and Acquisitions; Government ownership

JEL Classification: G15, G18, F34

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I. Introduction

The notion of investment opportunity set plays a key role in finance, both in theory and empirics. In portfolio investment, investment opportunity set defines the efficient portfolio frontier, which in turn helps generate the capital market line and capital asset pricing model, etc. The size of the investment opportunity set underlies the gains from diversification, from expanding to international stocks, to investing in nontraditional assets. It is generally acknowledged that investors gain from a greater investment set, while reducing the investment opportunity set causes a reduction in investors' wealth and an increase in risk. Examples of changes in size include the expansion of the investment opportunity set through international diversification across exchanges in different countries, and the reduction of this set for foreign investors to a restricted list of 'investible'.

Our understanding of the role of investment opportunity set in real assets, however, is not as well developed. This is, to a large extent, due to the fact that the real asset opportunity set is more complex. For a multinational firm domiciled in country 'x' desiring to invest in foreign country 'y', either through direct investment or acquisition, its investment opportunity set would depend on several factors. First, there is the issue of whether the size of the investment opportunity set depends on the identity of the home country of the multinational firm, i.e., could a multinational firm from country 'x' be allowed in invest in the real assets of country 'y'? Will they be excluded from investing in a particular set of industries? These constraints on investment opportunity set, which could be country pair and country-industry pair specific, differ from the broad restriction on portfolio investment in which 'investible' applies to all foreign investors. Second, the ownership type or affiliation of the foreign firm could matter. Constraints to invest in country 'y' may apply differently depending on whether the multinational firm is owned by private individuals

or affiliated with state agencies of country 'x'. Third, unlike portfolio investment that involves a fraction of a company, real asset investment often requires full or majority control. The real asset investment opportunity set could be reduced if the foreign firm faces constraints on the percentage of ownership. The limit on ownership could affect the multinational's ability to restructure, to take risks, or to engage in innovative activities. Fourth, if completion of a transaction is highly uncertain, and thus, reducing its expected value and rendering the opportunity set as probabilistic, the result is also a reduction in the real asset opportunity set.

These differences between portfolio investment and real asset investment generate several testable hypotheses. The real asset opportunity set is country to country specific; it is also country-industry specific, and ownership type specific. It is further reduced from the limitations on the percentage of ownership, and from greater uncertainty, where risk of failure to complete the deal is greater. As a result of the reduced investment opportunity set due to the these constraints, another empirical implication is that the more constrained the multinational is, either due to home country or ownership type, the more likely they would have to invest in less desirable real assets in the interior of the unconstrained real asset opportunity set. That is, since these constrained multinationals have a much reduced investment opportunity set, empirically, they would be observed to invest in riskier real assets such as in countries that are less stable politically or more corrupt, and in countries where the cost of successful integration is higher due to cultural difference, etc.

Although foreign firms, particularly foreign government affiliated firms, are suspected of having less success in acquiring companies in another country, this impression derives mostly from anecdotal evidence involving a few high profile cases. In this paper, we perform, for the first time, a large scale formal investigation of the investment opportunity set in global acquisitions over the

period of 1985 – 2012. We provide empirical evidence on the extent that the investment opportunity set is reduced and the factors affecting the reduction. Our sample includes acquisitions by multinational firms from 149 countries in 134 target countries. Although real asset investment may take either the form of direct foreign investment (FDI) or acquisition, and this choice is an interesting topic in itself, we choose to conduct our study on acquisitions by multinational firms. This choice is dictated by the need for a large sample in order to perform statistical tests and have greater confidence in the results.

We first focus on the empirical evidence regarding the size of the opportunity set for all firm ownership types (i.e., privately owned and government owned) depending on country characteristics. We find that relatively smaller target nations, less open target nations, and target nations with weaker legal protection are less likely to see cross-border merger activity regardless of ownership type.

We next examine if the ownership type of a firm is related to the investment opportunity set. Specifically, we compare government-affiliated (heretofore "government") acquirers to private acquirers. This is an issue of practical importance as there are many large state-owned firms as remnants of state monopolies in former controlled economy countries.[1] Our results indicate that government acquirers invest in fewer countries and fewer industries than their private counterparts. Specifically, 134 target nations have received at least 50 cross-border deals and 115 of those target nations have received at least one cross-border acquisition from a government acquirer. Target nations differ with respect to the ratio of government cross-border deals to non-government cross-border deals. For instance, Estonia and Bermuda see a ratio of government cross-border deals to non-government cross-border deals that is roughly an order of magnitude

[1] In China, for instance, state owned firms account for 83% of total market capitalization for the country (Lee, 2007).

higher than China. Based on the Fama and French 49 industry classification, 49 (48) industries have received private (government) cross-border M&A activity. Overall, 18 of the 49 industries have received fewer than 10 government cross-border investments. Similar to private firms, government acquirers are less likely to invest across borders in smaller target nations but instead invest in target nations that are relatively less open and have weaker legal protections. However, the economic effect of this result is stronger for private acquirers than government acquires. When we focus on differences between acquirer and target nations, we find that government acquirers are more likely to invest in cross-border deals when cultures are less similar and in which political relations are relatively more positive. The economic magnitude of the results suggests that political relations are of first-order importance followed by institutional quality and finally culture.

Next we focus on the size of stake sought in cross-border deals. While the size of the stake sought is negatively related to cross-border deals of all types, we find that government firms acquire smaller stakes in cross-border deals relative to private firms. Specifically, the median stake sought for government firms in cross-border deals is 50% compared to a median stake sought of 100% for all other acquirers.

Finally, we examine deal success rates based on ownership type. Government acquirer acquisitions are approximately 50% more likely to fail in cross-border deals than non-government acquirers in similar deals. Thus, government acquirers differ with respect to opportunity set on several dimensions relative to private firms. "

This paper is the first, to our knowledge, to make the distinction between the investment opportunity set of real assets versus portfolio securities. We identify three distinct characteristics of real assets' investment opportunity set. One, the size of the real investment opportunity set is

not the same for all investors. It is dependent on the identity of the acquirer country, target country, the acquirer country to target country pairing, and the ownership structure of the acquirer. Two, due to the lumpiness of real assets, restricting the percent of ownership could cause the acquirer's real asset portfolio to not fall on the efficient frontier. Consistent with this possibility, we find that government acquirers seek smaller stakes by half. Three, the risk that the transaction may not go through is equivalent to reduction from a universe of certain 'm' assets as in portfolio securities to a 'p' probability of a 'm' real assets opportunity set, and (1-p) probability of a 'n' real assets opportunity set, where 'n' < 'm.' Our evidence indicates that government acquirers are twice as likely to see a failed deal.

The rest of the paper is structured as follows: Section 2 provides theory and hypotheses. Section 3 provides a description of the data collection efforts as well as specifics about the sample. Section 4 outlines the empirical method outlined in the paper. Section 5 describes the results. Section 6 provides a robustness analysis to ensure that the results are not spuriously determined and Section 7 concludes the paper.

II. Theory and Hypotheses

Cross-border mergers make up a substantial portion of all deals globally, but research has generally focused on domestic deals. Recent work has expanded the focus to cross-border deals in the context of publicly-traded and privately-held firms. While this literature improves our understanding of cross-border deal dynamics, it does not address the case of government acquirers. One specific form of government acquirers, sovereign wealth funds (SWFs), has received some attention in the literature. However, SWFs comprise only a portion of government acquisitions and the literature has not addressed the opportunity set for SWFs. Thus, we include both SWF and non-

SWF government acquisitions in the sample. The investment set faced by government acquirers in cross-border deals has not, to the best of our knowledge, been addressed by the literature. Both the cross-border M&A and SWF literature help determine our approach and expectations.

One motivation for mergers is profit maximization. Deals will take place when the acquiring firm is able to create shareholder wealth through the acquisition. The source of value may include synergies realized by the combined entity. Combining two business entities cross-border, however, presents frictions related to culture, trust and political relations for all investor types and the existence of such frictions has been shown to influence deal activity in the private sector (Ahearn et al., 2012 and Dinc and Erel, 2012). Having a government acquirer in the deal may further complicate matters. In fact, it is unclear what role, if any, such frictions play in the level of government acquirer cross-border deal activity.

The first possibility is that government acquirers do not differ from non-government acquirers in the potential deal opportunities that are available to them. Thus, we may expect that the government acquirers face the same opportunity set as non-government acquirers and make their selection using the same factors. Karolyi and Liao (2010) find some differences between government acquirers and non-government acquirers in cross-border deals, but conclude that the differences are economically small. However, they focus on cross-border differences in their analysis and do not address the opportunity set from the perspective of target nation selection, industry selection, stake selection, or the failure rate of deals as we do in this study.[2]

The second possibility is that government firms face limitations in cross-border deals relative to non-government acquirers. Limitations may exist due to factors identified by the

[2] Specifically, Karolyi and Liao (2010) do not consider the absence of investment from foreign governments (i.e., investment into a target nation = 0). Our paper differs then in recognizing that in this case no observation (i.e., no foreign government deals in a target nation) is an observation. We further differ from them in that we examine directly failed deals.

literature including: general bias against and distrust of foreign investment, culture, political relations, crisis periods, industry characteristics, or institutional and government quality. Government ownership has been linked to relatively poor performance and generally different characteristics relative to non-government firms in the privatization literature (i.e., Megginson et al., 1994, Dewenter and Malatesta, 1997, 2001, D'Souza et al., 2005, Boubakri et al., 2008, and Chen et al., 2008) and SWF literature (i.e., Dewenter et al., 2010, Kotter and Lel, 2011, Knill et al. 2012a, 2012b, Johan et al., 2013, Bortolotti et al., 2009). General bias against foreign investors has been documented in the literature. Ahearn et al. (2012), for example, find that lack of trust inhibits cross-border mergers for non-government acquirers. Further, Dinc and Erel (2012), find evidence of "widespread economic nationalism" in which target nations greatly prefer local acquirers to foreign acquirers, which they link to lower cross-border merger activity.

Culture has also been examined in the context of cross-border merger activity. Ahearn et al. (2012), find that cultural similarity is positively related to cross-border merger volume for non-government firms. Conversely, Erel et al. (2012) do not find cultural factors to be significant. Thus, the role of culture in cross-border mergers is not clear.

Bilateral political relations between acquirer and target nations has likewise been identified as relevant to cross-border merger activity. Gupta and Yu (2009) and Li and Vashchilko (2010) discuss how the relationship between governments (i.e., bilateral political relations) impacts foreign investment. The former study suggests that investors consider the relationship between their domestic government and the government of potential investments. The latter study related changing political relations between governments and perceived political risks suggesting its

importance while investing.[3]The possibility exists that target nation governments may even block deals. However, Knill et al. (2012a) find that SWFs prefer to invest in nations with which they have relatively weaker political relations.[4]

Crisis periods have also been linked to cross-border merger activity. Alquist et al. (2013) document increased cross-border M&A during crisis periods. However, they do not find that crisis period deals differ from non-crisis periods and instead conclude they are "business as usual." Li et al. (2011) find that foreign ownership in general reduces firm volatility which suggests a stabilizing role for cross-border investment. With respect to government acquirers, there are times when government firms provide a valuable source of capital; specifically, government investment may be valuable during times of crisis. Fernandes (2009), for example, finds that SWFs provide a stabilizing effect when they provide capital in instances where private firms will not. Faccio et al. (2006) suggest that governments bailout firms that are politically connected more frequently than those that are not politically connected. This study, however, only considers political connections in a domestic context. There are therefore times when a government firm can provide a valuable source of capital and in these times, targets may be relatively more welcoming than during non-crisis periods.

Penetration of government foreign M&A activity into different industries is likely relevant. Indeed, governments hold certain industries as sensitive, disallowing foreign investment. The defense industry, for example, is an industry where governments would likely carefully consider foreign investment. Foreign government investment is perhaps even more scrutinized in this area

[3] There is also a growing literature studying the political aspect of SWF investment. Studies by Chhaochharia and Laeven (2009), Bernstein et al. (2010) and Knill et al.(2012a) find evidence consistent with political motivations. Conversely, Balding, 2008 and Karolyi and Liao (2010) find no evidence of political motivations in SWF investments.

[4] We note that the Knill et al. (2012a) results are based on SWFs only, a sample which is roughly one third the size of the sample in this paper which includes both SWF and other government-affiliated acquirers.

than private (i.e., non-government) investment. Two anecdotes from SWF investment provide good examples of this: 1) the forced divestiture by the US government of a port authority subsidiary purchased by Dubai-based SWF, and 2) the forced reduction of Kuwaiti SWF stake in British Petroleum by the British government. These and other anecdotes suggest that governments may not be able to invest in certain industries based on their sensitivity. Therefore, we may see differences in the opportunity set for government and non-government acquirers in terms of industry.

An important consideration in examining the opportunity set of government firms is when attempted deals are subject to failure. Based on the nature of government firms, target nations may feel nervous about acquisitions from these firms. Interestingly, this area has received little attention in the literature. Though there has been some examination of failed deals, it has solely involved domestic acquisitions. Savor and Lu (2009), for example, focus on the cause of failed deals in the U.S. market. Rhodes-Kropf et al. (2005) compare failed deals to completed deals in the U.S. market and find that misvaluation is higher in successful deals. The failure rate of cross-border deals to domestic deals is relatively unexplored, however. To the best of our knowledge the role that government affiliation may play in the success or failure of a deal is unaddressed by the literature. Karolyi and Liao (2010) analyze samples based on the inclusion/exclusion of failed deals, but they do not examine failed deals alone.

A large literature discusses the role of institutional and government quality in the choice of target nation when investing abroad. From a practical perspective, the amount of liberalization a nation has is directly proportional to the opportunity set acquirers face (see, e.g., Bekaert et al., 2005). The amount of protection in the form of legal recourse investors receive is positively linked to the quality of investment opportunity; factors such as the enforcement of securities regulation,

disclosure, etc. also positively influence potential deal quality (see, e.g., Kelley and Woidtke, 2006, Berkowitz et al., 2003; La Porta et al., 1997; 1998). Finally, acquirers might invest in foreign nations to gain favorable tax treatments. Grubert (2003), for example, discusses company strategies to avoid taxes through cross-border investment by non-government investors and country responses to them. Since governments do not have to pay taxes, this would be an obvious difference in investment motivations. There is evidence both supporting and contradicting the role of target nation institutional quality in cross-border deals. Erel et al. (2012) find that institutional quality is an important positive determinant of cross-border M&A activity. Chari and Chang (2009) examine the percent stake acquired in cross-border deals and find that stake is positively related to institutional quality and legal protection. However, Weitzel and Berns (2006) do not find target nation government quality (i.e., legal protection and rule of law) influence cross-border merger activity. Rossi and Volpin (2004) document an inverse relation between target nation legal protection and cross-border merger activity. Overall, the exact role of target nation institutional quality is not clear for non-government acquirers.

We note that many of the factors above have been addressed only in a non-government acquirer setting. As such, the analysis in this paper can extend our understanding of these factors in the context of government acquirers. It is possible that the concerns and objections to foreign companies could multiply if the acquirer is a foreign government company. This could be due to the target nation suspicions of these companies and a general aversion to the notion that foreign governments could exercise control extraterritorially over their economy. This resistance could further reduce the investment opportunity set available to foreign government acquirers. This may be reflected in quantitative terms (i.e., number of deals, number of target nations, stake acquired), quality terms (i.e., lower legal quality target nations) or the likelihood of success (i.e., whether or

not it fails). Thus, the focus of this paper is to examine if foreign government acquirers face a limited opportunity set relative to non-government acquirers. Formally stated, this becomes:

Hypothesis (Null): There is no difference in the opportunity set for foreign government acquirers relative to non-government acquirers.

Hypothesis (Alternative): Foreign government acquirers have a smaller opportunity set in terms of the number of target nations, industries, % stake acquired, quality of deal, and deal success.

III. Data

We collect all mergers and acquisitions from SDC Platinum for the sample term 1985 – 2012. Ideally, we would follow the related literature closely on our sample construction, but deal screening techniques are not consistently applied in the merger literature. The identification of deals is particularly relevant given the findings of Netter et al. (2011) who find that screening techniques greatly influence results in certain M&A contexts. They specifically note that dropping deals without a reported deal value greatly reduces the sample size and leads to oversampling of relatively larger deals. Still, dropping such deals is common. Ahearn et al. (2012), for example, examine cross-border deals and drop all deals valued at less than $1 million or where the stake is less than 50%, all deals that have not been completed, and deals in which the location of the target or acquirer is unknown or is listed as multinational. They include both public and private targets. The focus of Ahearn et al. (2012) is on announcement returns, which is considerably different than the focus of this paper and we consequently do not follow their screening approach closely. Specifically, it is not necessary for us to link merger announcements to publicly traded acquirers

for event study purposes. Similar to our approach, Karolyi and Liao (2010) focus on government acquirers in cross-border deals and exclude countries that have received fewer than 50 cross-border deals. They provide results for deals with and without deal values disclosed. Additionally, they include results for a sample that includes failed results, although they do not address the success or failure rate of certain types of deals. We initially include failed deals in our analysis but eventually focus explicitly on those failed deals to give us a more nuanced analysis.

We generally attempt to follow the literature in our sample selection, while making some adjustments based on the focus of our paper. Specifically, we have a large and inclusive sample, which is consistent with our focus on the opportunity set for government acquirers. The opportunity set includes issues such as stake sought, success and failure of the deal, and the general presence of any government deal activity. As such, our sample includes both public and private targets, deals with and without deal value disclosed (we present results for the deal value disclosed sample as well), completed and failed deals, and deals with less than 50% of the target acquired. We drop deals in which the target or acquirer nation is not identified or is listed as multinational and those deals involving a target nation that has fewer than 50 deals over the sample period.[5]

We define government acquirers as any acquirer whose ultimate parent is classified as government by SDC Platinum. This is consistent with Karolyi and Liao (2010), who note that this definition includes government-owned firms and financial buyers (i.e., SWFs) in which government ownership exceeds 50%. The number of government acquirers using this definition totals 7,074 deals including both domestic and cross-border deals. The government sample is roughly 1% of the full sample of 701,816 deals. Of the 7,074 government deals, 1,529 are cross-border. There are 115 target nations receiving at least one cross-border government investment

[5]This restriction results only in a loss of roughly 1,500 observations out of over 700,000 in the full sample.

(who have at least 50 deals total). If we apply a more restrictive filter to the deals and require that the deal value be disclosed, then there are 602 cross-border deals in which a government controlled firm is the acquirer. See Appendix A for detail in the observations that are lost at each step in the screening process and Table 1 for a detailed list of the deals by target nation.[6]

[Insert Appendix A and Table 1 about here]

In Table 2 we document the number of private and government cross-border deals for each target nation in the sample. We also calculate the proportion of government cross-border deals to private cross-border deals. The mean and median ratio is 1.61% and 1.16%, respectively. The nations with the highest ratio of government cross-border deals and a minimum of 10 such deals are: Estonia (3.04%), Bermuda (2.99%), Hong Kong (2.34%), and Thailand (1.79%). Twenty nations have received no government cross-border investment (but have received private cross-border investment). China has the lowest ratio of government to private cross-border investment of target nations receiving at least 10 government cross-border investments at 0.33%.

[Insert Table 2 about here]

Table 3 provides an industry breakdown of both government and private cross-border M&A activity based on the Fama and French 49 industry classifications for SIC codes. While every industry has received private cross-border M&A, one of the 49 industries has not received government cross-border investment in any target nation over the period examined using our most inclusive sample. Eighteen of the 49 industries have received fewer than 10 government cross-

[6] We do not address domestic governments as acquirers, which include: nationalization, forced sales, expropriation, bail-out, etc., since they are outside the scope of this paper.

border investments. The industries with the lowest ratio of government to private cross-border investment include: Shipping Containers, Recreation, Fabricated Products, Business Supplies, Candy and Soda, Healthcare and Printing and Publishing. The mean and median ratio of government to private cross-border deals for a given industry is 1.03% and 0.51%, respectively. The ratio of government to private cross-border deals is highest for Defense (10.32%)[7], Computer Software (3.42%), Aircraft (3.16), Petroleum and Natural Gas (3.12%), and Transportation (3.05%). We note the importance of sample selection in this analysis. An example of this issue is that if we require deal values to be disclosed then we do not identify a single government cross-border investment in defense. When we relax that constraint, we find that defense is proportionally the industry most likely to receive government cross-border investment.

[Insert Table 3 about here]

In Table 4 we present the global average (by number of deals) ratio of government cross-border deals to all cross-border deals for each year in the sample. The mean and median ratio for a given year based on our inclusive sample is 1.07% and 0.96%, respectively. While Alquist et al. (2013) document higher cross-border activity for non-government acquirers during crisis-periods, we find no such change to government cross-border activity *relative* to non-government cross-border deals during crisis periods in our sample. The 2007- 2010 period, for instance, sees higher than median government cross-border activity, but the highest years of activity are 1986 and 1993. In short, there is not an easily discernible pattern of government cross-border activity over time.

[7] The target nations for government acquirer cross-border investment in defense firms includes: Belgium, Chile, France, Germany, Italy, Norway, Poland, Ukraine, and the United States. Four of the 16 deals involve investment by Ruag Holdings (Switzerland) in various German firms, three deals involve French weapons manufacturer Giat in Belgium and Germany, and the one US target firm was Aviall Inc. (Aviation) by Singapore.

[Insert Table 4 about here]

IV. Empirical Methods

We use deal-level probit regressions in order to identify determinants of government acquirers' opportunity set for cross-border investments. Specifically, we categorize each deal as a government acquirer (i.e., G=1) or a non-government acquirer (i.e., G=0), which includes both publicly-traded firms and privately-held firms for acquirer n from nation j in target nation i. Given the limited dependent variable, we use probit analyses, but reported results are robust to the use of logit regressions.[8]Independent variables are created to capture deal characteristics, target nation economy size, and institutional characteristics of target nations that may be related to government acquirers' opportunity set. These factors have been found to be significantly related to both non-government deals (Savor and Lu, 2009, Ahearn et al., 2012, Erel, et al., 2012) and SWFs (Karolyi and Liao, 2010, Knill, et al. 2012a,b, Johan et al., 2013).Empirically, this becomes:

(1)	$G_{n,i,j} = \alpha + \beta_1 Deal_{n,i,j} + \beta_2 GDPT\arg et_i + \beta_3 Y_i + \varepsilon_{n,i,j}.$

Where $Deal_{n,i,j}$ is a vector of deal characteristics. In addition to potential barriers to certain target nations or industries, the size of the stake may also be limited for government acquirers. Thus, the *Deal* vector includes *% Stake Sought, Cash Only*, *Stock Only*, *Value of Transaction* and *Failed Deals*. Percentage Stake is the percent of the target firm sought by the acquirer in a given deal, *Cash Only* and *Stock Only* are indicator variables which take on a value of one if the offer type is all cash or all stock, respectively. A negative coefficient on *% Stake Sought* would be consistent with greater barriers faced by government acquirers in cross-border deals or with government

[8] Results not reported for brevity but are available upon request.

acquirers preferring lower stakes. *Value of Transaction* is the value of the deal in millions of US dollars. While *% Stake Sought* captures factors such as control and voting rights, the absolute size of the deal provides indirect information about the size of the target. Specifically, larger deal values will proxy for larger firms. Additionally, we include *Failed Deals* which is an indicator variable equal to one if the deal is not completed and zero otherwise. This definition of failed deals is consistent with both Savor and Lu (2009) and Karolyi and Liao (2010). The relative success rate of government cross-border deals is a potential area of difference compared to other deal types. A positive and significant coefficient would indicate that government acquirers face more difficulty completing cross-border deals than private acquirers.

GDP Target, is the gross domestic product per capita of the target nation and is included to capture the relative size of the target nation economy. Non-government cross-border deals are more common in countries with relatively larger GDPs (i.e., note in Table 2 that roughly 23% of all non-government cross-border deals are in the U.S. or U.K.). A significant coefficient would indicate that government acquirers differ from non-government acquirers in this dimension.

Y_i is a vector of target nation institutional characteristics that might influence the number of deals in a country. The openness of the target nation to foreign investors is likely related to the ability of government acquirers to complete deals in a given target nation. Thus, we include *Liberalization Target,* which is the liberalization intensity measure for the target nation taken from Bekaert et al. (2005). Non-government acquirers have been found to prefer target nations with relatively better developed legal systems in cross-border deals. We include *Legality Target* and *Rule of Law Target,* which is the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. This variable is

included given its significance in regressions from Karolyi and Liao (2010) in tests of determinants of cross-border acquisitions for government and non-government acquirers. *PR* is the bilateral political relations between the acquirer and target nation. This variable is constructed as in Gartzke (1998) and Knill at al. (2012a) and is based on how closely related UN General Assembly votes are for a given acquirer and target nation pair. The variable ranges from -1 to +1 where -1 corresponds to all votes being different and +1 corresponds to all votes being the same for a given year. Robust standard errors that are clustered by target nation are used in addition to year indicator variables. This is consistent with the suggestion of Petersen (2009) for panel data as well as the cross-border M&A literature (i.e., Ahearn et al., 2012 and Erel et al., 2012).

In addition to the probit regression discussed above, we perform bivariate probit analyses. The two dependent variables in the bivariate probit are indicators for cross-border deals and government cross-border deals, respectively. This approach is similar in spirit to seemingly unrelated regressions in that there are separate models with correlated errors. As in the probit regressions discussed above, robust standard errors that are clustered by target nation are used in addition to year indicator variables. All variable definitions and sources can be found in Appendix B.

Table 5 provides information about the data characteristics. Panel A provides the summary statistics for the sample used in the regression and Panel B provides the correlations. *Government Cross-Border* is the dependent variable in our probit regressions. It is an indicator variable that takes on a value of one if the deal involves a foreign government acquirer and is zero otherwise. The mean of 0.002 indicates that out of all deals globally, 0.20% of those are cross-border deals involving government acquirers.

Panel B provides pairwise correlations for the variables used in our analysis and reveals that *Government Cross-Border* is negatively related to *% Stake Sought, Stock Only, GDP Target, Liberalization Target, Legality Target, Tax Haven Target,* and *Rule of Law Target*. Alluding to a limited opportunity set and foreshadowing results to come, *Government Cross-Border* is positively correlated with *Failed Deal.* The institutional characteristics used are generally strongly positively correlated. For instance, the correlation between *Rule of Law Target* and *GDP Target, Liberalization Target,* and *Legality Target* is greater than 50%. Because of this, we only include one of the institutional characteristics in a given model.

[Insert Table 5 about here]

V. Results

In Table 6 we present the mean and median for each of our variables for both government cross-border deals and all other deals. We provide a t-test of the difference in means as well as a Wilcoxon Rank Sum test to determine if the samples are the same. For all variables, we find that the government cross-border sample differs from all other deals (significant at the 1% level). Government cross-border deals have lower stakes acquired, are more likely to fail, take place in smaller target nations and target nations that are less liberalized, have lower legal protection, are not tax havens and have lower rule of law. Government cross-border deals are more likely to be cash only and are more likely to be larger deals. Overall, the results are consistent with a limited opportunity set for government acquirers in both quantity and quality.

[Insert Table 6 about here]

Table 7 reports the number of government cross-border deals based on various characteristics. We divide all cross-border deals into four groups based first on institutional characteristics and secondly on either culture or political relations. This raw count of deals based on certain key characteristics allows us to establish the opportunity set faced by government acquirers. The first group includes deals with above-median institutional characteristics (above-median liberalization and legality index) and in which the culture between the acquirer and target nation is similar (i.e., language and religion are the same) or in which the political relations between the acquirer and target nation are above median. There are 187 deals involving government acquirers in this group (compared to 17,343 private firm deals in this group). The second group involves above-median institutional characteristics and dissimilar cultures. This group sees 99 government deals (compared to 10,609 private deals). The third group involves below median institutional characteristics and similar cultures and contains 268 government deals (compared to 17,990 private deals). The fourth group involves deals with below median institutional characteristics and dissimilar cultures. This group sees 275 deals (compared to 42,830 private deals). Collectively, the results in this table are consistent with government deals being more likely in target nations with relatively weak institutional characteristics (66% of all government cross-border deals in this category) and slightly more likely in pairs with similar cultures (55% of all government cross-border deals in this category). The results suggest that weak institutional characteristics are relatively more important than culture in characterizing the opportunity set faced by government acquirers.

In the bottom rows of Table 7 we provide results in which deals are grouped as before except political relations is used in place of culture. The results in this analysis suggest clear evidence of the role of political relations in determining government acquirer opportunity sets.

Specifically, regardless of institutional quality, nearly all government cross-border deals are in target nations with which the acquirer nation has relatively more positive political relations, with approximately 95% of the deals falling in the above median political relations group.[9] The results suggest that political relations are of first order importance in determining the opportunity set faced by government acquirers.

Table 8 reports the results of our deal-level probit analysis. The dependent variable in these regressions is an indicator equal to one if the deal involves a government acquirer in a cross-border deal and zero otherwise. The independent variables are designed to capture potential sources of difference between government acquirers in cross-border deals and all other deal types with respect to opportunity set. We find that *% Stake Sought* is negatively and significantly related to the likelihood of a deal being government acquirer related and cross-border in all specifications in which it is included at the 1% level. Thus, in addition to the limited opportunity set of target nations, government acquirers seem to face limitations in the size of stake in cross-border deals relative to all other deal types. An alternative interpretation is that government acquirers may prefer a smaller stake relative to non-government acquirers to avoid attention or controversy. In economic terms, the median stake sought for government firms in cross-border deals is 50% compared to a median of 100% for all other deal types.

Stock Only is negatively related (at the 1% level) to government cross-border acquisitions. This is perhaps not surprising given that many government acquirers do not have publicly-traded shares limiting the possible offer type to cash. Even for publicly-traded government firms, access to cash for acquisition purposes from state-owned banks may be relatively easy to obtain.

[9] Note that the median political relations is determined based on all cross-border deals which includes both private and government acquirers.

Value of Transaction is positively related (at the 1% level) to government cross-border acquisitions. Specifically, the marginal effect is approximately $1 million. This is consistent with government acquirers seeking relatively larger targets in cross-border deals, albeit only modestly larger. The inclusion of this variable drops the sample size from 644,965 observations in specification (1) to 287,653 observations in specification (2). Due to the limiting nature of this variable, we estimate all other specifications in Table 7 without deal value. We provide additional robustness checks including deal value in Appendix C.

Failed Deal is positively related (at the 1% level) to government cross-border acquisitions. This is consistent with a higher failure rate for government acquirers in cross-border deals. Results from Table 6 on the failure rate of various deal types suggests that government cross-border deals fail roughly 38% of the time relative to private deals (cross-border and domestic) failure rate of 23%. Thus, economically, government cross-border deals are much riskier with respect to potential for failure. This is consistent with a limited "investible" opportunity set for government acquirers in cross-border deals.

GDP Target appears to be only marginally significant in our analysis, as evidenced by the fact that it is statistically insignificant in three of four specifications. Overall, the size of the target nation does not appear to drive government cross-border acquisitions when considering other deal and target nation characteristics.

Variables related to target nation institutions including *Liberalization Target, Legality Target, Rule of Law Target*, and *Tax Haven Target* are all negatively related to government cross-border acquisitions (statistically significant in five of six specifications). This is consistent with government acquirers having to settle for less desirable target nations with lower quality legal systems and lower levels of openness.

[Insert Table 8 about here]

Table 9 presents the results of our bivariate probit analyses, which are similar in spirit to seemingly unrelated regression models. The two dependent variables in this model are an indicator for all cross-border deals and an indicator for all cross-border deals involving government acquirers, respectively. We then compare the coefficients for each group to determine if government cross-border deals differ from other cross-border deals across key dimensions (significant differences at a minimum of the 5% level are denoted by bold coefficients in Table 9). The deal benchmark in Table 8is all deals, while the approach in Table 9 uses a benchmark of cross-border deals. This allows us to isolate the role of government affiliation in cross-border deals while still including all deals in the sample.

Our results suggest that government deals involve smaller stakes, are less likely to be stock only and are larger than cross-border deals in general. Government cross-border deals are more likely to fail, even relative to other cross-border deals. In unreported results, we find that the failure rate for all cross-border deals is 24% compared to government cross-border failure rates of 38%. Once we account for potential endogeneity in the analysis, results on deal quality tell a slightly different story than in Table 8. Specifically, government acquirers invest in larger target nations with better legal quality (*Legality Target* and *Rule of Law* Target) when compared to all cross-border deals. Additionally, government acquirers are less likely to seek tax haven nations in their M&A. The remaining variables are generally not significantly different between the two groups suggesting that these factors are similarly related to government and non-government acquirers in cross-border deals.

[Insert Table 9 about here]

While Table 9 helps to isolate the role of government in cross-border deals, the sample still includes all deals (i.e., domestic and cross-border). Due to the inclusion of all deals in the sample, it is not appropriate to consider target and acquirer nation differences given that much of the sample (i.e., domestic) sees no differences in these variables. In Table 10 we focus on cross-border deals and now include differences in target and acquirer nation characteristics in our probit regressions. In addition to the institutional characteristics examined previously, we now add cultural and political proxies to our analysis. The dependent variable is an indicator equal to one if the deal is cross-border and involves a government acquirer and is zero otherwise.

We find that differences in tax haven status, language, religion, and culture are positively related to the probability of a cross-border deal involving a government acquirer. While the research is mixed on whether or not non-government acquirers on average seek target nations with similar characteristics, our evidence suggests that government acquirers have to settle for target nations with characteristics dissimilar to theirs. One notable exception to this trend is that political relations are positively related to government cross-border deals. This result is consistent with Gupta and Yu (2009) and Li and Vashchilko (2010) who find that relatively more positive political relations are linked to more foreign investment in general. This result is inconsistent with Knill et al. (2012a) who find that one specific form of government investor, SWFs, prefer to invest in nations with which they have relatively weaker political relations. This difference is easily reconciled, however, once it is noted that Knill et al. (2012a) uses only SWFs in its sample.[10] Combining the results of Tables 8 and 10, we find that government acquirers are more likely to invest in target nations with different and lower quality institutional characteristics. This is

[10] SWFs represent only one third of the sample in this paper.

consistent with government firms settling for less desirable targets as a result of reduced opportunity set. Further, they are more likely to invest in target nations with dissimilar cultures.

[Insert Table 10 about here]

Table 11 reports the results of deal-level probit analyses similar to Table 8 except for the dependent variable and variable of interest. The dependent variable in Table 11 is an indicator equal to one if the deal is not completed and zero otherwise. The independent variables are designed to capture potential sources of failed deals. Particularly, our variable of interest is *Government Cross-border,* which is an indicator equal to one if a deal involves a government acquirer in a cross-border deal and zero otherwise. This allows us to determine if government acquirers experience a more limited opportunity set in the form of a higher failure rate of deals.

We find that *Government Cross-border* is positively related to failed deals (significant at 1% in all but one specification where it is 5%). The economic magnitude of this result indicates that government acquirers in cross-border deals are on average roughly twice as likely (12.5% in absolute terms) to experience a failed deal than all other deal types even after controlling for deal and target nation characteristics. Given that the unconditional failure rate from Table 5 is 21.3%, this indicates that government acquirers face a greatly constrained set of opportunities when considering failure rates. We again note that the failure rate for non-government cross-border deals is less than 1% higher than non-government domestic deals, which suggests that the observed result is not due to the cross-border nature of the deal but rather the involvement of a government acquirer.

[Insert Table 10 about here]

VI. Robustness

We have executed a battery of robustness tests. We report numerous alternate specifications in Appendices C and D and other checks have been completed but not reported for brevity.[11] Appendix C reports the robustness results of deal-level probit regressions similar to Table 8. The value of the transaction is included in specifications (1) through (4), which greatly reduces the sample (over 300,000 observations lost) but has the advantage of controlling for deal size. Specifications (4) through (8) include acquirer nation indicators in addition to year indicators and clustering by target nation. The additional indicators allow us to examine if certain acquirer nations drive the results. The results in Appendix C confirm our conclusions in Table 8. Specifically, the stake sought, liberalization, legal protection, tax haven status and rule of law (deal size, failed deals) are negatively (positively) related to government cross-border deals.

Appendix D reports the robustness results of deal-level probit regressions similar to Table 11. The dependent variable in specifications (1) through (8) is an indicator equal to one if the deal is not completed and zero otherwise as in Table 11. The dependent variable in specifications (9) through (12) is an indicator equal to one if the deal is withdrawn and zero otherwise. This is a more strict definition of a failed deal as it requires that the deal was specifically reported as withdrawn. Using the failed deal definition from Table 11 there are over 160,000 failed deals whereas using the withdrawn definition there are just over 21,000 withdrawn deals. While it is more conventional to use the definition in Table 11, we nonetheless provide results using the more restrictive definition in Appendix D. The value of the transaction included in specifications (1) through (4)

[11] Our results are qualitatively identical when using: 1) logit instead of probit, 2) alternate dependent variable which is the ratio of government cross-border deals to all deals in a fractional tobit framework, 3) additional control variables including WTO membership, FDI Restrictiveness, anti-self-dealing index and accounting disclosure index.

greatly reduces the sample (over 300,000 observations lost) but has the advantage of controlling for deal size. Specifications (4) through (8) include acquirer nation indicators in addition to year indicators and clustering by target nation. The additional indicators allow us to examine if certain acquirer nations drive the results. In Appendix D we find results that are consistent with Table 11. Specifically, *Government Cross-border* is positively (and statistically significantly) related to failed deals regardless of the definition of failed deals, inclusion of deal value, or acquirer nation indicators.

VII. Conclusions

The role of investment opportunity set in real assets is not as well developed in the literature as that of the investment opportunity set in portfolio investment. With respect to one form of investment opportunity, cross-border mergers and acquisitions, we identify four issues with testable implications. First, we examine if the size of the investment opportunity set depends on target country characteristics. Our results indicate that foreign acquirers are less likely to invest in target nations that have relatively lower GDP, that are less open and that have less developed legal protection. Second, we identify the role that the ownership type or affiliation of the foreign firm has in the opportunity set. We find that government owned acquirers invest in fewer target nations and industries relative to private firms. Government firms are also more likely to invest in target nations with which they have dissimilar cultures and relatively more positive political relations. These are consequences of their more restricted opportunity set as they would have likely preferred to invest in countries with similar cultures to ease post-merger integration and not be limited to friendly countries. Third, the real asset investment opportunity set could be reduced if the foreign firm faces constraints on the percentage of ownership. We find that foreign firms in general take a

smaller stake than domestic firms. Foreign government firms take an even smaller stake – one that is one half the size of all other acquirer types in a typical deal. Fourth, higher foreign deal failure rates would be consistent with a reduction in the real asset opportunity set. We find that the failure rate for foreign government acquirers is double that of foreign private firms.

Overall, our results indicate a reduced opportunity set for foreign acquirers – a result that is greatly magnified for foreign government owned firms. Our results are of particular interest given that the ideological debate in political economics worldwide has shifted from the planned economy of socialism/communism versus capitalism in much of the 20th century to the mixed state and private ownership versus private ownership economies in the current period. Of these large state-owned companies, many have international stock listings as a result of consolidation and partial privatization. These are hailed by some supporters as an improved compromise of socialism and capitalism, e.g., witness magazine cover, "The rise of state capitalism" (Economist, 2012), and books with titles such as, "The End of the Free Market" (Bremmer, 2010). While supporters point to their size and prevalence around the world (in emerging markets alone, they account for a third of the economy and nearly $10 trillion in stock market capitalization), detractors can point out that these companies are often inefficient, and waste government connected financing by making poor investments (Shleifer and Vishny, 1994). However, gauging the success of these government companies with conventional accounting and stock returns measures is particularly treacherous since their shareholders could gain from the sundries of government largess, easy access to low cost financing to outright subsidy, and an implicit guarantee against failure at the expense of the rest of the economy.

Appendix A

Deal Screening

Deal Screening	Number of Deals Remaining
1. Initial collection of data: 1985-2012	815,190
2. Drop deals without party identification	701,816
3. Drop deals <$1 million or missing deal values	289,851

Appendix B

Variable Definitions

Variable	Variable Definition	Source
Government Cross-Border	An indicator variable equal to one if the target is in a different nation than the acquirer and the acquirer is government and zero otherwise. Government acquirers are those firms identified in SDC with acquirer public status of "Government."	SDC Platinum
Cross-Border	An indicator variable equal to one if the target is in a different nation than the acquirer.	SDC Platinum
% Stake Sought	The percent stake sought by the acquirer.	SDC Platinum
Cash Only	An indicator variable equal to one if the deal terms include cash offer only and zero otherwise.	SDC Platinum
Stock Only	An indicator variable equal to one if the deal terms include stock offer only and zero otherwise.	SDC Platinum
Value of Transaction	The value of the transaction in billions of dollars.	SDC Platinum
Failed Deal	An indicator variable equal to one if the deal is not completed and zero otherwise.	SDC Platinum
GDP Target	The GDP per capita of the target nation.	World Bank
Liberalization Target	The liberalization intensity measure for the target nation from Bekaert et al. (2005).	Bekaert et al. (2005).
Legality Target	The weighted average of following factors: efficiency of judicial system, rule of law, corruption, risk of expropriation, risk of contract repudiation, shareholder rights constitutes a nation's legality score. This variable is the target nation legality.	Berkowitz et al.(2003); La Porta et al.(1997), (1998)
Tax Haven Target	An indicator variable equal to one if the target nation is an "offshore financial center" (OFC).	IMF, Karolyi and Liao(2010)
Rule of Law Target	A measure of the law and order tradition in the target nation based on assessment by the risk-rating agency International Country Risk (ICR). This variable ranges between zero and ten.	La Porta et al.(1998)
Liberalization Difference	The absolute value of the difference in liberalization intensity measure for the target and acquirer nation from Bekaert et al. (2005).	Bekaert et al. (2005).
Legality Difference	The weighted average of following factors: efficiency of judicial system, rule of law, corruption, risk of expropriation, risk of contract repudiation, shareholder rights constitutes a nation's legality score. This variable is the absolute value of the difference between target and acquirer nation legality.	Berkowitz et al.(2003); La Porta et al.(1997), (1998)
Tax Haven Difference	An indicator variable equal to one if the target nation is an "offshore financial center" (OFC). This variable is the absolute value of the difference between target and acquirer nation tax haven status.	IMF, Karolyi and Liao(2010)
Rule of Law Difference	A measure of the law and order tradition in the target nation based on assessment by the risk-rating agency International Country Risk (ICR). This variable ranges between zero and ten. This variable is the absolute value of the difference between target and acquirer nation rule of law.	La Porta et al.(1998)
Language Difference	An index from zero (same) to one (different) describing whether or not the acquirer and target nations have different languages.	CIA World Factbook
Religion Difference	An indicator variable equal to one if the target and acquirer nation have the same major religion and zero otherwise.	CIA World Factbook
Culture Index	An indicator variable equal to one if the target nation and acquirer nation have difference major language and different major religions and zero otherwise.	CIA World Factbook
Geographic Distance	A dummy variable that indicates whether countries are geographically distant from the acquiring nation. We define "distant" as within 500 miles of each other.	Gleditsch and Ward (2001)
PR	The political relations between the acquirer and target nation measured by the distance between UN voting records for a given bilateral pair.	Gartzke (1998)

Appendix C

Government Opportunity Set: Deal-Level Probit

This table presents the results of the following probit regression: $G_{n,i,j} = \alpha + \beta_1 Deal_{n,i,j} + \beta_2 GDPTarget_i + \beta_3 Y_i + \varepsilon_{n,i,j}$. The dependent variable is an indicator equal to one if a deal involves a government acquirer (i.e., G=1) in a cross-border deal or a zero otherwise for acquirer n from nation j in target nation i. *Deal* is a vector of deal characteristics. *% Stake Sought,* is the percent of the target firm sought by the acquirer in a given deal. *Cash Only* and *Stock Only* are indicator variables that take the value of one if the offer type of the deal is all cash or all stock, respectively. *Value of Transaction* is the U.S. dollar value of the deal in billions. *Failed Deal is an indicator equal to one if the deal is not completed and zero otherwise. GDP Target* is the gross domestic product per capita of the target nation. *Y* is a vector of target nation institutional characteristics. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* and *Rule of Law Target* are the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. Robust standard errors are reported in parentheses. Standard errors are clustered by target nation and all specification include year indicators. Specifications (5) through (8) include acquirer nation indicators. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively. The sample includes all M&A deals (i.e., acquirer n from nation j into target nation "i") from SDC Platinum from 1985-2012.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
% Stake Sought	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)
Cash Only	0.162***	0.163***	0.184***	0.164***	0.021	0.020	0.020	0.020
	(0.034)	(0.033)	(0.032)	(0.034)	(0.016)	(0.014)	(0.014)	(0.014)
Stock Only	-0.034	-0.053	-0.052	-0.049	-0.144	-0.153	-0.153	-0.153
	(0.035)	(0.042)	(0.042)	(0.041)	(0.109)	(0.114)	(0.114)	(0.114)
Value of Transaction	0.001***	0.001***	0.001***	0.001***				
	(0.000)	(0.000)	(0.000)	(0.000)				
Failed Deal	0.054*	0.062**	0.042	0.061**	0.081**	0.078**	0.078**	0.078**
	(0.028)	(0.028)	(0.026)	(0.028)	(0.038)	(0.035)	(0.035)	(0.035)
GDP Target	-0.000	0.002	0.001	0.001	0.002	0.003	0.003	0.003
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)
Liberalization Target	0.004				-0.396**			
	(0.048)				(0.160)			
Legality Target		-0.011*				-0.043**		
		(0.006)				(0.018)		
Tax Haven Target			-0.079***				-0.001***	
			(0.030)				(0.000)	
Rule of Law Target				-0.011				-0.062**
				(0.011)				(0.026)
Observations	217,271	225,749	250,185	226,533	519,333	535,348	535,348	535,348
Pseudo R-squared	0.0796	0.0795	0.0743	0.0798	0.0776	0.0803	0.0803	0.0803

Appendix D

Government Opportunity Set: Failed Deal Probit

This table presents the results of the following probit regression: $F_{n,i,j} = \alpha + \beta_1 Deal_{n,i,j} + \beta_2 GDPTarget_i + \beta_3 Y_i + \varepsilon_{n,i,j}$. The dependent variable is an indicator equal to one if the deal is not completed and zero otherwise for acquirer n from nation j in target nation i in specifications (1) through (8). In specifications (9) through (12) the dependent variable is an indicator equal to one if the deal is withdrawn and zero otherwise. *Deal* is a vector of deal characteristics. *Government CB* is an indicator equal to one if a deal involves a government acquirer in a cross-border deal or a zero otherwise. *% Stake Sought,* which is the percent of the target firm sought by the acquirer in a given deal. *Cash Only* and *Stock Only* are indicator variables which take the value of one if the offer type of the deal is all cash or all stock, respectively. *Value of Transaction* is the U.S. dollar value of the deal in billions. Failed Deal is an indicator equal to one if the deal is not completed and zero otherwise. *GDP Target* is the gross domestic product per capita of the target nation. *Y* is a vector of target nation institutional characteristics. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* and *Rule of Law Target* are the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. Robust standard errors are reported in parentheses. Standard errors are clustered by target nation and all specification include year indicators. Specifications (5) through (8) include acquirer nation indicators. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively. The sample includes all M&A deals (i.e., acquirer n from nation j into target nation "i") from SDC Platinum from 1985-2012.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Government CB	0.093*	0.099**	0.065*	0.098**	0.088***	0.073***	0.055***	0.072***	0.033**	0.034**	0.031**	0.035**
	(0.049)	(0.042)	(0.039)	(0.042)	(0.024)	(0.023)	(0.020)	(0.023)	(0.016)	(0.015)	(0.012)	(0.015)
% Stake Sought	-0.028**	-0.048***	-0.041***	-0.046***	0.001	-0.003	0.003	-0.002	0.023***	0.020***	0.019***	0.019***
	(0.013)	(0.016)	(0.016)	(0.016)	(0.011)	(0.010)	(0.010)	(0.010)	(0.003)	(0.004)	(0.003)	(0.003)
Cash Only	-4.110***	-4.250***	-4.408***	-4.262***	-3.475***	-3.433***	-3.185***	-3.395***	0.975***	1.017***	0.937***	1.020***
	(1.386)	(1.333)	(1.226)	(1.343)	(0.510)	(0.494)	(0.488)	(0.490)	(0.219)	(0.217)	(0.196)	(0.198)
Stock Only	3.444*	3.084*	3.836**	3.116*	5.104***	5.213***	5.400***	5.256***	3.714***	3.748***	3.607***	3.651***
	(1.846)	(1.748)	(1.713)	(1.640)	(1.212)	(1.220)	(1.162)	(1.212)	(0.417)	(0.352)	(0.504)	(0.331)
Value of Transaction	-0.007	-0.012	-0.017	-0.012								
	(0.011)	(0.013)	(0.015)	(0.013)								
GDP Target	-0.098	-0.298*	-0.377***	-0.255*	-0.027	-0.040	-0.191***	-0.042	0.003	-0.043	-0.029*	-0.070***
	(0.087)	(0.167)	(0.121)	(0.144)	(0.059)	(0.083)	(0.060)	(0.076)	(0.021)	(0.028)	(0.015)	(0.021)
Liberalization Target	-9.274***				-10.422***				-1.578**			
	(3.367)				(2.338)				(0.763)			
Legality Target		0.177				-0.786**				0.113		
		(0.673)				(0.330)				(0.117)		
Tax Haven Target			-2.100				-0.910				0.600	
			(2.742)				(0.991)				(0.580)	
Rule of Law Target				-0.082				-1.303***				0.407**
				(0.939)				(0.499)				(0.163)
Observations	217,271	225,749	250,185	226,533	522,487	535,627	589,373	537,102	522,521	535,661	589,384	537,136
Chi-Square	0.0348	0.0335	0.0651	0.0334	0.0364	0.0385	0.0601	0.0385	0.0463	0.0436	0.0430	0.0445

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Table 1

All Acquisitions by Target Nation

This table presents the number of acquisitions (Deals) by target nation for all deal types (i.e., private firm, government, domestic, cross-border).Percent is the percent of all deals represented by the target nation. The "Total" sample includes all M&A deals and the "Value Disclosed" sample includes only those deals with deal value disclosed in SDC Platinum from 1985-2012.

Target Nation	Total No. of Deals	No. of Deals Value Disclosed	Target Nation	Total No. of Deals	No. of Deals Value Disclosed
Albania	51	26	El Salvador	79	36
Algeria	58	22	Estonia	775	170
Angola	53	12	Fiji	43	27
Argentina	3,126	1,407	Finland	7,173	1,551
Armenia	78	29	France	27,871	7,351
Australia	25,966	14,357	Gabon	48	15
Austria	3,831	646	Georgia	86	33
Azerbaijan	74	17	Germany	33,489	5,252
Bahamas	129	69	Ghana	108	45
Bahrain	145	52	Greece	1,963	665
Bangladesh	56	28	Guatemala	90	41
Barbados	72	35	Guernsey	143	90
Belarus	119	21	Guyana	55	33
Belgium	5,048	1,267	Honduras	45	13
Bermuda	501	328	Hong Kong	11,103	7,812
Bolivia	210	87	Hungary	2,475	542
Bosnia	101	35	Iceland	279	97
Botswana	44	21	India	11,574	4,367
Brazil	7,676	3,345	Indonesia	3,622	1,708
British Virgin	488	254	Iraq	47	21
Bulgaria	1,156	417	Ireland-Rep	2,892	1,268
Cambodia	73	36	Isle of Man	104	63
Canada	33,844	16,725	Israel	2,363	1,338
Cayman Islands	211	102	Italy	14,348	5,004
Chile	2,140	1,085	Ivory Coast	96	35
China	27,531	18,999	Jamaica	106	42
Colombia	1,257	530	Japan	27,745	12,611
Costa Rica	184	65	Jersey	123	68
Croatia	623	244	Jordan	487	98
Cyprus	605	222	Kazakhstan	450	190
Czech Republic	2,825	601	Kenya	151	47
Czechoslovakia	148	38	Kuwait	289	166
Denmark	5,513	1,260	Kyrgyzstan	73	41
Dominican Rep	108	45	Latvia	536	99

Ecuador	242	96
Egypt	912	399
Luxembourg	728	262
Macau	106	63
Macedonia	114	33
Malaysia	11,695	5,470
Malta	83	41
Mauritius	133	49
Mexico	3,288	1,482
Moldova	66	23
Monaco	73	33
Mongolia	124	69
Morocco	317	151
Mozambique	83	41
Namibia	87	41
Neth Antilles	79	28
Netherlands	11,487	2,476
New Zealand	4,643	1,876
Nicaragua	67	31
Nigeria	340	110
Norway	6,926	2,471
Oman	216	57
Pakistan	364	112
Panama	274	132
Papua N Guinea	220	124
Paraguay	54	20
Peru	1,316	642
Philippines	2,474	1,176
Poland	4,691	1,783
Portugal	2,674	1,035
Puerto Rico	371	153
Qatar	131	39
Rep of Congo	45	25
Romania	1,177	418
Russian Fed	16,999	2,195
Saudi Arabia	383	115
Serbia	231	101
Serbia & Mont.	127	64
Lebanon	130	38
Lithuania	756	205
Singapore	5,948	3,564
Slovak Rep	626	164
Slovenia	479	125
South Africa	5,574	2,921
South Korea	8,464	6,211
Spain	14,710	4,814
Sri Lanka	417	184
Sweden	11,859	3,566
Switzerland	7,322	1,261
Taiwan	2,685	1,515
Tanzania	116	44
Thailand	3,823	2,115
Trinidad&Tob	93	40
Turkey	2,183	978
Uganda	65	17
Ukraine	2,158	317
United Kingdom	62,566	32,082
United States	219,756	91,522
Uruguay	217	71
Utd Arab Em	733	208
Uzbekistan	95	45
Venezuela	674	260
Vietnam	1,619	584
Yugoslavia	61	29
Zambia	95	43
Zimbabwe	216	73
Total	701,816	289,851

Table 2

Private and Government Cross-Border Acquisitions by Target Nation

This table presents the number of acquisitions (Deals) by target nation for cross-border deals. Private refers to acquirers that are not identified as government. Government refers to acquirers identified as government. G/P is the ratio of government cross-border deals to private cross-border deals for a given target nation. The "Total" sample includes all M&A deals and the "Value Disclosed" sample includes only those deals with deal value disclosed in SDC Platinum from 1985-2012.

Target Nation	Total Private	Private Value Disclosed	Total Government	Government Value Disclosed	G/P Total	G/P Value Disclosed
Albania	50	25	1	1	2.00%	4.00%
Algeria	57	21	1	1	1.75%	4.76%
Angola	51	12	2	0	3.92%	0.00%
Argentina	1,732	783	16	8	0.92%	1.02%
Armenia	76	29	2	0	2.63%	0.00%
Australia	6,274	3,561	85	64	1.35%	1.80%
Austria	1,649	323	14	4	0.85%	1.24%
Azerbaijan	70	16	4	1	5.71%	6.25%
Bahamas	101	58	1	1	0.99%	1.72%
Bahrain	73	32	5	0	6.85%	0.00%
Bangladesh	53	25	3	3	5.66%	12.00%
Barbados	60	32	0	0	0.00%	0.00%
Belarus	115	21	4	0	3.48%	0.00%
Belgium	2,570	741	16	6	0.62%	0.81%
Bermuda	334	218	10	4	2.99%	1.83%
Bolivia	136	69	2	0	1.47%	0.00%
Bosnia	99	35	2	0	2.02%	0.00%
Botswana	44	21	0	0	0.00%	0.00%
Brazil	2,951	1,228	22	11	0.75%	0.90%
British Virgin	440	221	0	0	0.00%	0.00%
Bulgaria	599	218	2	2	0.33%	0.92%
Cambodia	69	34	4	2	5.80%	5.88%
Canada	8,452	3,809	40	19	0.47%	0.50%
Cayman Islands	186	95	4	1	2.15%	1.05%
Chile	1,079	541	11	4	1.02%	0.74%
China	7,526	4,374	25	10	0.33%	0.23%
Colombia	714	324	3	0	0.42%	0.00%
Costa Rica	130	47	0	0	0.00%	0.00%
Croatia	325	126	4	1	1.23%	0.79%
Cyprus	339	111	0	0	0.00%	0.00%
Czech Republic	1,503	353	13	6	0.86%	1.70%
Czechoslovakia	146	38	2	0	1.37%	0.00%
Denmark	2,096	617	24	12	1.15%	1.94%
Dominican Rep	106	43	2	2	1.89%	4.65%
Ecuador	163	73	1	1	0.61%	1.37%
Egypt	369	166	6	1	1.63%	0.60%
El Salvador	78	36	1	0	1.28%	0.00%
Estonia	427	98	13	5	3.04%	5.10%
Fiji	42	27	1	0	2.38%	0.00%
Finland	1,908	541	10	1	0.52%	0.18%
France	8,226	2,889	57	14	0.69%	0.48%
Gabon	48	15	0	0	0.00%	0.00%

Georgia	83	31	3	2	3.61%	6.45%
Germany	11,306	3,008	93	13	0.82%	0.43%
Ghana	106	44	2	1	1.89%	2.27%
Greece	454	191	6	3	1.32%	1.57%
Guatemala	86	38	4	3	4.65%	7.89%
Guernsey	101	63	2	1	1.98%	1.59%
Guyana	51	31	4	2	7.84%	6.45%
Honduras	45	13	0	0	0.00%	0.00%
Hong Kong	3,467	2,033	81	49	2.34%	2.41%
Hungary	1,236	321	18	7	1.46%	2.18%
Iceland	56	20	0	0	0.00%	0.00%
India	3,856	1,727	41	15	1.06%	0.87%
Indonesia	1,737	855	28	11	1.61%	1.29%
Iraq	46	21	1	0	2.17%	0.00%
Ireland-Rep	1,484	627	8	4	0.54%	0.64%
Isle of Man	80	53	0	0	0.00%	0.00%
Israel	973	519	3	0	0.31%	0.00%
Italy	4,643	1,451	32	7	0.69%	0.48%
Ivory Coast	51	18	3	3	5.88%	16.67%
Jamaica	65	32	0	0	0.00%	0.00%
Japan	2,181	1,043	21	5	0.96%	0.48%
Jersey	108	60	0	0	0.00%	0.00%
Jordan	144	60	2	0	1.39%	0.00%
Kazakhstan	303	136	8	3	2.64%	2.21%
Kenya	89	30	1	0	1.12%	0.00%
Kuwait	51	21	0	0	0.00%	0.00%
Kyrgyzstan	72	41	1	0	1.39%	0.00%
Latvia	314	64	7	2	2.23%	3.13%
Lebanon	61	18	1	1	1.64%	5.56%
Lithuania	418	125	5	1	1.20%	0.80%
Luxembourg	575	220	6	2	1.04%	0.91%
Macau	104	63	2	0	1.92%	0.00%
Macedonia	110	31	4	2	3.64%	6.45%
Malaysia	1,467	711	14	4	0.95%	0.56%
Malta	58	33	1	1	1.72%	3.03%
Mauritius	104	41	1	0	0.96%	0.00%
Mexico	2,015	917	13	0	0.65%	0.00%
Moldova	65	23	1	0	1.54%	0.00%
Monaco	73	33	0	0	0.00%	0.00%
Mongolia	122	69	1	0	0.82%	0.00%
Morocco	161	74	0	0	0.00%	0.00%
Mozambique	81	40	2	1	2.47%	2.50%
Namibia	86	41	1	0	1.16%	0.00%
Neth Antilles	68	22	0	0	0.00%	0.00%
Netherlands	4,457	1,542	24	6	0.54%	0.39%
New Zealand	1,683	740	13	7	0.77%	0.95%
Nicaragua	67	31	0	0	0.00%	0.00%
Nigeria	143	58	4	0	2.80%	0.00%
Norway	2,352	889	26	10	1.11%	1.12%
Oman	81	26	2	1	2.47%	3.85%
Pakistan	165	74	8	2	4.85%	2.70%
Panama	181	87	3	2	1.66%	2.30%
Papua N Guinea	152	91	2	2	1.32%	2.20%
Paraguay	54	20	0	0	0.00%	0.00%

Peru	715	376	5	3	0.70%	0.80%
Philippines	892	442	3	1	0.34%	0.23%
Poland	2,114	826	12	5	0.57%	0.61%
Portugal	983	353	6	1	0.61%	0.28%
Puerto Rico	269	108	2	2	0.74%	1.85%
Qatar	50	15	1	0	2.00%	0.00%
Rep of Congo	44	24	1	1	2.27%	4.17%
Romania	793	294	3	2	0.38%	0.68%
Russian Fed	3,229	675	20	3	0.62%	0.44%
Saudi Arabia	173	44	2	0	1.16%	0.00%
Serbia	159	57	4	4	2.52%	7.02%
Serbia & Mont.	122	62	5	2	4.10%	3.23%
Singapore	2,226	1,223	12	5	0.54%	0.41%
Slovak Rep	408	109	3	0	0.74%	0.00%
Slovenia	155	50	2	1	1.29%	2.00%
South Africa	1,462	671	15	7	1.03%	1.04%
South Korea	1,389	783	10	6	0.72%	0.77%
Spain	4,374	1,578	44	19	1.01%	1.20%
Sri Lanka	147	58	4	3	2.72%	5.17%
Sweden	3,826	1,305	62	12	1.62%	0.92%
Switzerland	3,068	767	17	3	0.55%	0.39%
Taiwan	854	434	5	2	0.59%	0.46%
Tanzania	112	42	4	2	3.57%	4.76%
Thailand	1,227	599	22	12	1.79%	2.00%
Trinidad&Tob	69	29	0	0	0.00%	0.00%
Tunisia	105	34	0	0	0.00%	0.00%
Turkey	1,032	401	6	3	0.58%	0.75%
Uganda	64	17	1	0	1.56%	0.00%
Ukraine	1,132	186	16	5	1.41%	2.69%
United Kingdom	15,260	6,648	140	56	0.92%	0.84%
United States	24,338	12,498	146	67	0.60%	0.54%
Uruguay	168	56	3	0	1.79%	0.00%
Utd Arab Em	392	133	7	2	1.79%	1.50%
Uzbekistan	91	43	4	2	4.40%	4.65%
Venezuela	349	142	7	3	2.01%	2.11%
Vietnam	560	238	7	1	1.25%	0.42%
Yugoslavia	58	28	3	1	5.17%	3.57%
Zambia	90	42	5	1	5.56%	2.38%
Zimbabwe	102	41	4	0	3.92%	0.00%
Total	172,158	72,047	1,529	602		

Table 3

Private and Government Cross-Border Acquisitions by Industry

This table presents the number of M&A deals by deal type for each of the Fama and French 49 industry classifications. G/P CROSS-BORDER is the ratio of government cross-border deals to private cross-border deals for a given industry. The "Total" sample includes all deals and the "Value Disclosed" sample includes only those deals with deal value disclosed in SDC Platinum from 1985-2012.

	PRIVATE CROSS- BORDER		GOVERNMENT CROSS-BORDER		G/P CROSS-BORDER	
FF49	Total # of Deals	Value Disclosed	Total # of Deals	Value Disclosed	Total # of Deals	Value Disclosed
1	1,353	520	6	4	0.44%	0.77%
2	4,088	1,521	11	4	0.27%	0.26%
3	1,292	532	2	1	0.15%	0.19%
4	1,487	661	21	9	1.41%	1.36%
5	241	126	3	0	1.24%	0.00%
6	1,122	481	1	1	0.09%	0.21%
7	2,142	963	9	3	0.42%	0.31%
8	2,303	741	4	0	0.17%	0.00%
9	3,034	1,158	8	0	0.26%	0.00%
10	1,067	425	2	2	0.19%	0.47%
11	1,230	546	2	1	0.16%	0.18%
12	1,801	838	4	3	0.22%	0.36%
13	4,321	2,190	13	4	0.30%	0.18%
14	5,378	1,826	39	11	0.73%	0.60%
15	1,959	728	5	2	0.26%	0.27%
16	1,221	506	8	4	0.66%	0.79%
17	5,074	2,047	21	7	0.41%	0.34%
18	2,518	954	21	9	0.83%	0.94%
19	3,096	1,325	32	21	1.03%	1.58%
20	775	261	1	1	0.13%	0.38%
21	5,692	2,030	29	12	0.51%	0.59%
22	1,965	771	5	1	0.25%	0.13%
23	3,248	1,235	31	13	0.95%	1.05%
24	474	196	15	3	3.16%	1.53%
25	508	191	7	2	1.38%	1.05%
26	155	45	16	0	10.32%	0.00%
27	3,907	2,537	19	13	0.49%	0.51%
28	3,705	2,292	80	56	2.16%	2.44%
29	964	546	14	10	1.45%	1.83%
30	5,889	2,939	184	72	3.12%	2.45%
31	3,426	1,653	117	49	3.42%	2.96%
32	5,994	2,737	84	41	1.40%	1.50%
33	1,726	560	4	0	0.23%	0.00%
34	16,619	5,457	63	17	0.38%	0.31%
35	1,507	694	3	0	0.20%	0.00%
36	12,670	5,005	30	8	0.24%	0.16%
37	4,913	2,411	31	16	0.63%	0.66%
38	1,713	733	4	1	0.23%	0.14%
39	2,159	897	3	1	0.14%	0.11%
40	708	298	0	0	0.00%	0.00%
41	6,625	2,383	202	48	3.05%	2.01%
42	8,623	2,893	31	14	0.36%	0.48%
43	4,459	1,705	23	5	0.52%	0.29%
44	2,958	1,532	17	7	0.57%	0.46%
45	5,740	2,535	126	49	2.20%	1.93%
46	3,831	1,582	24	7	0.63%	0.44%
47	4,638	2,881	45	22	0.97%	0.76%
48	10,105	4,274	86	37	0.85%	0.87%
49	1,271	507	15	10	1.18%	1.97%

Table 4

Ratio of Government to Private Cross-Border Acquisitions by Year

This table presents G/P CROSS-BORDER, which is the ratio of government cross-border deals to private cross-border deals globally, for each year in the sample in percent form. The "Total" sample includes all M&A deals and the "Value Disclosed" sample includes only those deals with deal value disclosed in SDC Platinum from 1985-2012.

Year	G/P CROSS-BORDER TOTAL	G/P CROSS-BORDER VALUE DISCLOSED
1985	0.65	0
1986	2.26	2.5
1987	1.21	1.42
1988	1.23	0.82
1989	0.81	0.83
1990	1.14	0.91
1991	1.42	0.96
1992	1.28	1.42
1993	1.9	2.03
1994	1.15	1.55
1995	0.82	0.52
1996	0.73	0.83
1997	0.96	1.09
1998	0.91	1.02
1999	1	0.68
2000	0.9	1.08
2001	0.96	1.01
2002	0.96	1.09
2003	0.93	0.71
2004	1.02	0.88
2005	0.89	0.76
2006	0.63	0.62
2007	0.83	0.8
2008	1.18	1.4
2009	1.81	2.26
2010	1.36	0.14
2011	0.42	0.39
2012	0.54	0.64
Mean	1.07	1.01
Median	0.96	0.90

Table 5

Data Characteristics

Panel A reports the number of observations, the mean, median, minimum, maximum, and the standard deviation of the variables in our analysis. Panel B reports correlation coefficients across the variables defined in Appendix B. Correlations significant at the 5% level denoted by *.Variable are as defined in Appendix B.

Panel A: Summary Statistics

	N	Mean	Median	Min	Max	SD
Government Cross-Border	644,965	0.002	0	0	1	0.045
% Stake Sought	644,965	80.272	100	3.70	100	32.487
Cash Only	644,965	0.324	0	0	1	0.468
Stock Only	644,965	0.024	0	0	1	0.154
Value of Transaction	272,428	0.127	0.016	0.001	2.732	0.373
Failed Deal	644,965	0.213	0	0	1	0.410
GDP Target	592,212	27410	27559	140	186243	14649
Liberalization Target	558,997	0.892	1	0	1	0.261
Legality Target	574,928	19.702	20.82	8.51	21.91	2.513
Tax Haven Target	640,753	0.543	1	0	1	0.498
Rule of Law Target	576,549	9.008	10	2.08	10	1.576

Panel B: Correlation

		1	2	3	4	5	6	7	8	9	10	11
1	Government Cross-Border	1										
2	% Stake Sought	-0.0307	1									
3	Cash Only	0.0224	-0.2766	1								
4	Stock Only	-0.0088	0.1245	-0.343	1							
5	Value of Transaction	0.018	0.0699	-0.1039	0.0182	1						
6	Failed Deal	0.0076	-0.0934	0.0052	-0.0076	-0.0236	1					
7	GDP Target	-0.0086	0.1999	-0.1093	0.067	0.0919	-0.1164	1				
8	Liberalization Target	-0.0099	0.2771	-0.1485	0.0932	0.0584	-0.1127	0.5486	1			
9	Legality Target	-0.0134	0.2485	-0.1532	0.1045	0.0361	-0.0908	0.6488	0.8225	1		
10	Tax Haven Target	-0.0164	0.2078	-0.1558	0.0976	0.0329	-0.1301	0.3531	0.2637	0.3578	1	
11	Rule of Law Target	-0.0117	0.2415	-0.1508	0.1334	0.0499	-0.0917	0.6473	0.8304	0.9442	0.2858	1

Table 6

Variable Means, Medians, and Tests of Difference by Government Cross-Border

This table reports the mean and median for each variable in our analysis for two samples: government cross-border deals, and all other deals. A t-test (Government – all other deals) and Wilcoxon Rank Sum test are conducted to determine if the variables for the two samples are equal. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively.

	Government CB			All Other Deals				
Variable	N	Mean	Median	N	Mean	Median	T-Test	Wilcoxon Rank Sum
% Sought	1,307	57.46%	50.00%	643,658	80.32%	100%	-25.42***	-25.38***
Cash Only	1,531	0.40	0	695,163	0.32	0	6.21***	6.21***
Stock Only	1,531	0.00	0	695,163	0.02	0	-5.53***	-5.53***
Transaction Value	602	0.279	0.044	287,051	0.125	0.0166	10.18***	10.37***
Failed Deal	1,531	0.38	0	695,163	0.23	0	14.34***	14.35***
GDP Target	1,413	22,544.58	22,946.10	636,822	27,253.33	27,172.90	-12.01***	-12.14***
Liberalization Target	1,137	0.81	0.72	601,937	0.89	1	-10.69***	-8.59***
Legality Target	1,222	18.76	20.41	618,972	19.67	20.82	-12.52***	-10.56***
Tax Haven Target	1,443	0.36	0	690,473	0.54	1	-13.33***	-13.34***
Rule of Law Target	1,229	8.41	8.22	620,688	8.99	8.57	-12.75***	-13.17***

Table 7

Government Opportunity Set

This table presents the number of government cross-border M&A deals based on various deal characteristics. Above (Below) Median Institutional refers to all deals involving a target nation with greater than (less than or equal to) median scores in both the liberalization and legality variables. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* is the legality index from La Porta et al. (1998).*Culture Index* is an indicator variable equal to one if the target nation and acquirer nation have difference major language and different major religions and zero otherwise. Above (Below) Median PR refers to all deals involving an acquirer and target nation with political relations greater than (less than or equal to) the median political relations score for all cross-border deals in the sample.*PR* is the political relations between the acquirer and target nation measured by the distance between UN voting records for a given bilateral pair. The sample includes all M&A deals (i.e., acquirer n from nation j into target nation "i") from SDC Platinum from 1985-2012.

	Culture Index = 1	Culture Index = 0
Above Median Institutional	187	99
Below Median Institutional	268	275
	Above Median PR	Below Median PR
Above Median Institutional	284	2
Below Median Institutional	500	43

Table 8

Government Opportunity Set: Deal-Level Probit

This table presents the results of the following probit regression: $G_{n,i,j} = \alpha + \beta_1 Deal + \beta_2 GDPT\arg et_i + \beta_3 Y + \varepsilon_{n,i,j}$. The dependent variable is an indicator equal to one if a deal involves a government acquirer (i.e., G=1) in a cross-border deal or a zero otherwise for acquirer n from nation j in target nation i. *Deal* is a vector of deal characteristics. *% Stake Sought,* which is the percent of the target firm sought by the acquirer in a given deal. *Cash Only* and *Stock Only* are indicator variables that take the value of one if the offer type of the deal is all cash or all stock, respectively. *Value of Transaction* is the U.S. dollar value of the deal in billions. *Failed Deal is an indicator equal to one if the deal is not completed and zero otherwise. GDP Target* is the gross domestic product per capita of the target nation. *Y* is a vector of target nation institutional characteristics. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* and *Rule of Law Target* are the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. Robust standard errors are reported in parentheses. Standard errors are clustered by target nation and all specification include year indicators. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively. The sample includes all M&A deals (i.e., acquirer n from nation j into target nation "i") from SDC Platinum from 1985-2012.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
% Stake Sought	-0.003***								-0.002***	-0.002***	-0.002***	-0.002***
	(0.000)								(0.000)	(0.000)	(0.000)	(0.000)
Cash Only	0.020								0.014	0.018	0.024	0.016
	(0.018)								(0.014)	(0.014)	(0.015)	(0.014)
Stock Only	-0.338***								-0.256***	-0.265***	-0.283***	-0.262***
	(0.090)								(0.075)	(0.078)	(0.075)	(0.075)
Value of Transaction		0.001***										
		(0.000)										
Failed Deal			0.154***						0.097***	0.096***	0.088***	0.095***
			(0.034)						(0.026)	(0.025)	(0.023)	(0.024)
GDP Target				-0.005***					-0.001	0.002	0.001	0.002
				(0.002)					(0.002)	(0.002)	(0.001)	(0.001)
Liberalization Target					-0.169***				-0.004			
					(0.046)				(0.053)			
Legality Target						-0.020***				-0.014**		
						(0.004)				(0.007)		
Tax Haven Target							-0.142***				-0.095***	
							(0.049)				(0.034)	
Rule of Law Target								-0.034***				-0.021**
								(0.008)				(0.009)
Observations	644,965	287,653	696,694	638,235	603,074	620,194	691,916	621,917	522,521	535,661	589,384	537,136
Pseudo R-squared	0.0375	0.0204	0.0158	0.0129	0.0150	0.0166	0.0166	0.0172	0.0482	0.0517	0.0474	0.0515

Table 9

Government Opportunity Set: Deal Level Bivariate Probit

This table presents the results of the following bivariate probit regression: $G_{n,i,j} = \alpha + \beta_1 Deal + \beta_2 GDPTarget_i + \beta_3 Y + \varepsilon_{n,i,j}$. The two dependent variables are indicators equal to one if a deal is cross-border (CB) or involves a government acquirer and is cross-border (GOVCB). *Deal* is a vector of deal characteristics. *% Stake Sought* is the percent of the target firm sought by the acquirer in a given deal. *Cash Only* and *Stock Only* are indicator variables that take the value of one if the offer type of the deal is all cash or all stock, respectively. *Value of Transaction* is the U.S. dollar value of the deal in billions. *Failed Deal* is an indicator equal to one if the deal is not completed and zero otherwise. *GDP Target* is the gross domestic product per capita of the target nation. *Y* is a vector of target nation institutional characteristics. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* and *Rule of Law Target* are the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. Bold coefficients indicate that the coefficients of the two groups are statistically different at a minimum of the 5% level. Robust standard errors are reported in parentheses. Standard errors are clustered by target nation and all specification include year indicators. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively. The sample includes all M&A deals from SDC Platinum from 1985-2012.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	CB	GOVCB	CB	GOVCB	CB	GOVCB	CB	GOVCB	CB	GOVCB	CB	GOVCB
% Stake Sought	**-0.306***	**-0.543*****										
	(0.168)	(0.093)										
Cash Only	4.209	4.838										
	(4.487)	(3.214)										
Stock Only	-41.500***	-65.815***										
	(11.349)	(9.535)										
Value of Transaction			**0.127***	**0.218*****								
			(0.070)	(0.050)								
Failed Deal					**7.410**	**23.802*****						
					(5.724)	(3.960)						
GDP Target							**-1.045*****	**-0.636****				
							(0.384)	(0.286)				
Liberalization Target									-50.709**	-29.695**		
									(24.109)	(12.998)		
Legality Target											**-6.110****	**-3.333*****
											(2.414)	(1.279)
Tax Haven Target												
Rule of Law Target												
Constant	-0.453***	-2.503***	-0.681***	-2.904***	-0.693***	-2.918***	-0.409***	-2.686***	-0.296**	-2.643***	0.459	-2.240***
	(0.075)	(0.049)	(0.117)	(0.071)	(0.152)	(0.075)	(0.081)	(0.054)	(0.134)	(0.070)	(0.368)	(0.190)
Observations	644,965	644,965	287,653	287,653	696,694	696,694	638,235	638,235	603,074	603,074	620,194	620,194

Chi-Square	264.2	264.2	59.25	59.25	43.11	43.11	7.590	7.590	5.222	5.222	6.956	6.956

Table 9 Ctd.

	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	CB	GOVCB	CB	GOVCB	CB	GOVCB	CB	GOVCB	CB	GOVCB	CB	GOVCB
% Stake Sought					**-0.259****	**-0.548*****	**-0.240***	**-0.550*****	**-0.168***	**-0.487*****	**-0.233****	**-0.546*****
					(0.128)	(0.080)	(0.128)	(0.079)	(0.098)	(0.066)	(0.115)	(0.073)
Cash Only					6.250*	4.985	5.946	5.758*	6.894	6.181*	5.812	5.488*
					(3.550)	(3.122)	(3.829)	(2.963)	(6.014)	(3.593)	(4.015)	(3.009)
Stock Only					**-40.346*****	**-62.659*****	**-37.469*****	**-62.245*****	**-32.414*****	**-60.550*****	**-35.021*****	**-61.538*****
					(9.298)	(9.471)	(9.821)	(9.650)	(7.656)	(7.612)	(9.278)	(9.600)
Value of Transaction												
Failed Deal					**3.614**	**23.608*****	**2.429**	**22.465*****	**-0.486**	**17.520*****	**2.308**	**22.294*****
					(3.663)	(3.054)	(4.054)	(2.809)	(5.815)	(4.612)	(3.729)	(2.892)
GDP Target					-0.270	-0.091	0.013	0.043	-0.214	0.031	0.066	0.076
					(0.287)	(0.201)	(0.275)	(0.207)	(0.201)	(0.163)	(0.361)	(0.197)
Liberalization Target					-30.903	-6.141						
					(20.601)	(9.962)						
Legality Target							**-5.252****	**-1.684**				
							(2.203)	(1.056)				
Tax Haven Target	**-49.897*****	**-22.553****							**-48.485*****	**-22.179****		
	(16.480)	(11.437)							(14.531)	(9.665)		
Rule of Law Target			**-10.608****	**-5.731****							**-9.608***	**-3.225**
			(4.614)	(2.455)							(5.101)	(2.404)
Constant	-0.442***	-2.762***	0.212	-2.381***	-0.211	-2.507***	0.455	-2.261***	-0.284***	-2.510***	0.266	-2.314***
	(0.045)	(0.035)	(0.321)	(0.165)	(0.153)	(0.093)	(0.376)	(0.191)	(0.084)	(0.067)	(0.367)	(0.195)
Observations	691,916	691,916	621,917	621,917	522,521	522,521	535,661	535,661	589,384	589,384	537,136	537,136
Chi-Square	13.84	13.84	5.583	5.583	348.5	348.5	334.6	334.6	993.7	993.7	324.1	324.1

Table 10

Government Opportunity Set: Deal Level Probit Cross-Border Sample

This table presents the results of the following probit regression: $G_{n,i,j} = \alpha + \beta_1 Deal_{n,i,j} + \beta_2 GDPT\arg et_i + \beta_3 Y_i + \varepsilon_{n,i,j}$. The dependent variable is an indicator equal to one if a deal involves a government acquirer (i.e., G=1) in a cross-border deal or a zero otherwise for acquirer n from nation j in target nation i. *Deal* is a vector of deal characteristics. *% Stake Sought* is the percent of the target firm sought by the acquirer in a given deal. *Cash Only* and *Stock Only* are indicator variables that take the value of one if the offer type of the deal is all cash or all stock, respectively. *Value of Transaction* is the U.S. dollar value of the deal in billions. *Failed Deal is an indicator equal to one if the deal is not completed and zero otherwise. GDP Target* is the gross domestic product per capita of the target nation. *Y* is a vector of target nation institutional characteristics. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* and *Rule of Law Target* are the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. Robust standard errors are reported in parentheses. *Culture Index* is an indicator variable equal to one if the target nation and acquirer nation have difference major language and different major religions and zero otherwise.*PR* is the political relations between the acquirer and target nation measured by the distance between UN voting records for a given bilateral pair. Standard errors are clustered by target nation and all specification include year indicators. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively. The sample includes all M&A deals (i.e., acquirer n from nation j into target nation "i") from SDC Platinum from 1985-2012.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
% Stake Sought	-0.009***				-0.007***	-0.006***	-0.009***	-0.006***	-0.009***	-0.008***	-0.008***	-0.010***	-0.007***
	(0.001)				(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Cash Only	0.071				0.048	0.052	0.099*	0.056	0.113**	0.074	0.074	0.109*	0.062
	(0.060)				(0.037)	(0.038)	(0.057)	(0.037)	(0.057)	(0.054)	(0.054)	(0.056)	(0.054)
Stock Only	-1.105***				-0.574***	-0.527**	-0.913***	-0.548***	-0.803**	-0.975***	-0.976***	-1.003***	-0.320**
	(0.292)				(0.223)	(0.217)	(0.295)	(0.211)	(0.314)	(0.285)	(0.285)	(0.352)	(0.160)
Value of Transaction		0.004***											
		(0.001)											
Failed Deal			0.532***		0.222***	0.187***	0.386***	0.194***	0.405***	0.359***	0.360***	0.432***	0.260***
			(0.092)		(0.066)	(0.063)	(0.070)	(0.062)	(0.075)	(0.075)	(0.074)	(0.077)	(0.058)
GDP Difference				0.004	-0.010**	-0.008	0.001	-0.002	-0.005	-0.007	-0.007	-0.002	0.002
				(0.007)	(0.004)	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)	(0.004)
Liberalization Difference					0.003								
					(0.002)								
Legality Difference						0.017							
						(0.026)							
Tax Haven Difference							-0.004*						
							(0.002)						
Rule of Law Difference								-0.000					
								(0.000)					
Language Difference									0.005***				
									(0.001)				

Religion Difference										0.006***			
										(0.002)			
Culture Index											0.006***		
											(0.002)		
Geographic Distance												-0.174	
												(0.297)	
PR													0.005***
													(0.002)
Observations	158,325	72,816	173,927	151,693	107,379	111,341	135,956	112,325	138,284	138,284	138,284	138,284	67,159
Pseudo R-squared	0.0322	0.0215	0.0174	0.00712	0.0338	0.0308	0.0419	0.0308	0.0447	0.0463	0.0461	0.0379	0.0616

Table 11

Government Opportunity Set: Failed Deal Probit

This table presents the results of the following probit regression: $F_{n,i,j} = \alpha + \beta_1 Deal_{n,i,j} + \beta_2 GDPTarget_i + \beta_3 Y_i + \varepsilon_{n,i,j}$. The dependent variable is an indicator equal to one if the deal is not completed and zero otherwise for acquirer n from nation j in target nation i. *Deal* is a vector of deal characteristics. *Government Cross-border* is an indicator equal to one if a deal involves a government acquirer in a cross-border deal or a zero otherwise. *% Stake Sought* is the percent of the target firm sought by the acquirer in a given deal. *Cash Only* and *Stock Only* are indicator variables that take the value of one if the offer type of the deal is all cash or all stock, respectively. *Value of Transaction* is the U.S. dollar value of the deal in billions. Failed Deal is an indicator equal to one if the deal is not completed and zero otherwise. *GDP Target* is the gross domestic product per capita of the target nation. *Y* is a vector of target nation institutional characteristics. *Liberalization Target* is the liberalization intensity measure for the target nation from Bekaert et al. (2005). *Legality Target* and *Rule of Law Target* are the legality index and measure of law and order, respectively, both from La Porta et al. (1998). *Tax Haven Target* is an indicator variable equal to one if the target nation is classified as an offshore financial center by IMF and zero otherwise. Robust standard errors are reported in parentheses. Standard errors are clustered by target nation and all specification include year indicators. ***, **, and * indicate significance levels of 1%, 5%, and 10%, respectively. The sample includes all M&A deals (i.e., acquirer n from nation j into target nation "i") from SDC Platinum from 1985-2012.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Government Cross-border	0.116***	0.081**	0.136***	0.146***	0.143***	0.134***	0.142***	0.130***	0.123***	0.105***	0.122***
	(0.024)	(0.032)	(0.024)	(0.021)	(0.020)	(0.024)	(0.021)	(0.023)	(0.021)	(0.023)	(0.022)
% Stake Sought	-0.058**							-0.009	-0.023*	-0.009	-0.023*
	(0.026)							(0.013)	(0.013)	(0.015)	(0.014)
Cash Only	0.455							-3.177***	-2.621***	-0.880	-2.612***
	(2.009)							(0.560)	(0.682)	(1.283)	(0.681)
Stock Only	6.272**							6.327**	6.418**	7.399***	6.620***
	(2.641)							(2.708)	(2.588)	(2.588)	(2.511)
Value of Transaction		-0.026									
		(0.020)									
GDP Target			-0.393***					-0.054	-0.189	-0.344***	-0.180
			(0.115)					(0.094)	(0.152)	(0.125)	(0.142)
Liberalization Target				-16.625***				-13.574***			
				(2.059)				(3.742)			
Legality Target					-1.502***				-0.528		
					(0.267)				(0.637)		
Tax Haven Target						-6.473*				-1.524	
						(3.398)				(2.325)	
Rule of Law Target							-2.364***				-0.927
							(0.439)				(1.015)
Observations	644,965	287,653	638,235	603,074	620,194	691,916	621,917	522,521	535,661	589,384	537,136
Chi-Square	0.0175	0.0422	0.0316	0.0267	0.0225	0.0200	0.0221	0.0227	0.0193	0.0307	0.0194