Economic nationalism and foreign acquisition completion: the case of China

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Abstract: Extending institutional theory, we incorporate a neglected but important component of formal institution, economic nationalism, into a model that specifies its effects on cross-border acquisition success. We suggest that economic nationalism has a dynamic nature and sees the interaction between protectionism and liberalism. As such, it exerts both positive and negative effects on foreign investments, contingent on how these investments are perceived as aligned with the national interests as reflected by national security considerations, foreign relations, and growth strategy. Using a data set containing 7,275 announced cross-border acquisition deals in China during 1985-2010, the study finds that (1) when an acquisition activity targets essential industries or state-owned enterprises, it is less likely to be completed because of provoked national economic security concerns; and (2) when an acquirer brings technology and/or capital, or/and helps to restructure poorly-performing firms, or/and the acquirer comes from a country with good foreign relations with China, the acquisition is considered as safe and helpful for the country's development, and it is more likely to be completed.

1. INTRODUCTION

Cross-border mergers and acquisitions (M&A) has become one of the most important phenomena in international business (IB) as part of the rising globalization. Meanwhile, the world also witnesses an upsurge of nationalism across countries, which has emerged as one of the main issues confronting the world (Balabanis, Diamantopoulos, Mueller, & Melewar, 2001). These two forces are intertwined: nationalistic sentiments grow as a reaction to the instabilities/benefits created by globalization, and economic nationalism greatly impacts foreign firms' market entry and operations. Inbound

acquisitions are not free from the growing influence of economic nationalism of host countries as exemplified by recent cases. In 2005 the state-owned CNOOC's bid for Unocal as part of the China Goes Global policy was vetoed by the USA Congress due to national security concerns. In 2007 SEB, a France-based corporation, who bid for Super, China's largest manufacture of small appliances, saw severe oppositions from rivals in a fear of market monopoly when receiving approval by Chinese central government.

Despite perceived importance (e.g., Dunning, 1998; 2009), the influence of economic nationalism on inbound M&A has received little empirical attention. Past acquisition success studies that build on the resource-based view (RBV) and transaction cost analysis (TCA) largely focus on the features of the deals and the entrants, their resources and capabilities in particular, that enable them to reduce costs and achieve sustainable competitive advantage (Anand & Delios, 2002; Barney, 1991; Wernerfelt, 1984). Recent development suggests that a firm's international expansion is also enabled and constrained by the different institutions under which it operates (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Hoskisson, Eden & Wright, 2000; Meyer & Peng, 2005; Mudambi & Navarra, 2002; Peng, 2002 & 2003; Wright, Filatotchev, Hoskisson & Peng, 2005; Peng, Wang & Jiang 2008). In this line a few studies have examined the impact of institutions on cross-border acquisition, such as industrial regulatory factors (Muehlfeld, Sahib, & Witteloostuijn, 2007), institutional quality of hosts (Zhang, Zhou & Ebbers, 2011), and institutional distance (Dikova, Sahib & Witteloostuijn, 2010). Despite this advancement, one of the key institutional factors, economic nationalism as an important antecedent to cross-border acquisition (in)completion remains under-researched in political science and economics (Baughn & Yaprak, 1996) and IB literatures. In the former, "the concept of economic nationalism is relatively unexplored, and seems to fall in the interstices between separate disciplinary interests and concerns" (Burnell, 1986: 16). Economic nationalism and its impact have not been adequately examined by economic theory as well (Pickel, 2002).

In IB studies, the traditional OLI paradigm tends to focus on how national/regional characteristics determine MNEs' location choice to access or exploit their O-specific advantages (Dunning, 1998; 2009), including the host's institutions (Cantwell, Dunning & Lundan, 2010) such as the nationalistic policies (Dunning, 2009). OLI wisdom stresses the international value-chain allocation, for example

the MNEs' preference for less protectionist locations even when they process the institutional ownership advantages (Cantwell, Dunning & Lundan, 2010). This paper has a different angle by drawing on institutional theory and focusing on the likelihood to complete the intended M&A when the FDI location has been chosen. This approach and empirical work therefore add to OLI wisdom because they provide measured effects by a set of very important institutions upon the possibility of inward FDI in the form of M&A to have successful completion. The favorable institutions including nationalistic attitudes towards foreign investments as revealed in our empirical work could be counted as one of the locational factors.

Many writers for practical journals have noted that foreign investors have to take nationalism in host countries seriously when entering and operating in these areas such as China[1] (e.g., Economy & Lieberthal, 2007; Paine, 2010; Vanhonacker, 1997). Although it is a common sense that nationalism impacts FDI, but the literature fails to see an empirical study concerning the extent to which it affects the completion of inbound M&As. As UNCTAD's *World Investment Report 2011* notes, although liberalizing investment policy measures taken globally in 2010 outnumbered restrictive measures, however "(w)ithout the benefit of statistics, investors might have drawn the opposite conclusion, witnessing what appears to be a rising tide of national resistance to foreign takeovers" (see Walker, 2012 in *Columbia FDI Perspectives*). Thus an investigation into the precise impact of economic nationalism is timely.

Besides, economic nationalism as a crucial institutional factor may do better than the over simplified dichotomy of liberalism and protectionism in explaining business activities and performance from a broader sense, given that it may take either perspectives depending on the then national interests and conditions (Helleiner, 2002; Peng, Wang & Jiang, 2008).

Economic nationalism is an important issue that MNEs need to address when expanding into a foreign market and seeking to gain legitimacy (Cantwell, Dunning & Lundan, 2010; Hanon, 1996; Zaheer, 1995). Foreign invested companies, compared with indigenous entities, are expected to be more prone to and amenable to pursuing firm-specific, rather than national economic interests, which do not

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[1] We thank one of the reviewer for bringing Dunning's and other practical work to our attention.

always align with the host's national interests (Kim, 2007). Foreign investors may be perceived as having different philosophies regarding sustainability, labor, and industrial policies, which may conflict the public goals favored by the host. A host government develops and employs formal institutions such as industrial policies, technology boost policies, FDI policies and foreign policies to ensure the national interests. Firms that attempt to defy these institutional factors risk losing legitimacy and, hence, failure in that market (Brouthers & Hennart, 2007). These institutions will certainly influence the fate of inward FDI projects, i.e., the failed CNOOC's bid for Unocal in 2005 and Coca-Cola's bid for Huiyuan Juice in 2008. However, these influences have not been sufficiently explored by academia.

In this research we seek to answer several important questions. For example, whether and how do cross-border acquirers see more interactions of protectionism and liberalism than their domestic counterparts? How do targets' and their industrial attributes (i.e., ownership, FDI percentage, technological development level, capital demandingness, and performance level) as through the economic nationalism forces influence the cross-border acquisition success? And how does the evolution of regulations in light of the nationalism impact cross-border acquisitions? Answering these questions provides a number of contributions to the literature. First, it expands the institutional theory by indicating the important but under-researched and dynamic role played by economic nationalism in FDI arena. It also adds to the OLI paradigm by providing the empirical study of a set of specific institutions that will impact MNEs' locational choice. Second, it adds new insights to FDI research by providing measured extent to which economic nationalism dynamically influences inbound M&A completion. Third, it is also beneficial to MNEs by bringing them cautions of the influential economic nationalism that may substantially increase liability of foreignness and costs (Zaheer, 1995).

In line with the call that IB study should be interdisciplinary (Cantwell & Brannen; 2011), we draw on both IB and political science literature (e.g. Baughn & Yaprak, 1996; Johnson, 1965). We offer a conceptual model incorporating five economic nationalism policy elements, including national security, foreign relations, industrial policy, technology policy, and FDI policy, into a preliminary model that specifies the influences of dynamic interaction between protectionism and liberalism of economic nationalism on cross-border acquisition completion. We empirically tested the model with a

data set containing 7,275 announced cross-border acquisition deals in China across 1985-2010. To further verify the effect of the economic nationalism, we carried out additional estimations by using domestic M&A data, which included 17,654 domestic acquisitions that occurred during the period of 1990-2010. We conclude with a discussion of the results, and the implications and directions for further research.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Economic nationalism has been widely misinterpreted as an ideology associated with 'protectionism' fending off foreign MNEs (in favor of domestic ownership) in areas like political economy (Baughn & Yaprak, 1996; Dicken, 2007; Helleiner, 2002) and IB (i.e., Buckley & Ghauri, 2004), and with nationalistic sentiments and ethnocentricity in marketing (e.g., Balabanis, Diamantopoulos, Mueller & Melewar, 2001). However, there are contrasting differences between these two terms. Economic nationalism is a dynamic concept. The natural of economic nationalism is to ensure a nation's economic development and sovereignty (Gilpin, 1987). Its definition "must be modified from one of protecting domestic capital from foreign capital to leveraging local resources for extracting economic benefits from the global economy" (D'Costa, 2009: 622). Many nationalist goals such as the promotion of the national unity, identity and autonomy are pursued through a variety of economic policies that often include free trade and investment in light of economic liberalism (D'Costa, 2009; Helleiner, 2002; Pickel, 2002; Shulman, 2000) to help a country obtain "power, prestige, or prosperity" (Helleiner, 2002: 310). Many New Industrial Economies and Emerging Economies have intervened on nationalist grounds to strategically exploit opportunities available in the global economy, contrasting to their past protectionist gestures (e.g. Amsden, 1989; Johnson, 1982; Gold, 1986; D'Costa, 2009). Therefore protectionism and liberalism work together, which to dominate is contingent on what is perceived to be beneficial to the national interests in a particular time period. Following Helleiner (2002) we define economic nationalism as a form of nationalistic ideology associated with various economic policies.

Economic nationalism is a crucial aspect of the home country's institutions (Beland & Lecours, 2005), which can greatly facilitate or constrain foreign investors' FDI (Dikova, Sahib & Witteloostuijn, 2010).

North (1990) defines institutions as the humanly devised constrains that structure human interaction, and include both informal (e.g. ideas, attitude) and formal forces (e.g., policies, regulations) (Zaheer, 1995). Scott (1995) suggests that institutions consist of three pillars, regulative, normative and cognitive forces. These institutions are linked to both collective activities and governmental policies and individual behaviors (Balabanis, Diamantopoulos, Mueller & Melewar, 2001). Noting the importance of institutions, Dunning (2009) argues that a country needs to adopt or upgrade institutions and institutional infrastructure to advance its comparative dynamic advantage. The current study focuses on the impact of government-level nationalism as reflected by its policies, paralleling North's formal institutions, and Scott's regulative institutions. This set of institutions is key discriminating factors of FDI success (Dikova, Sahib & Witteloostuijn, 2010).

A country's institutional environment influences the success of a foreign firm's cross-border acquisition because the environment reflects the "rules of the game" by which it enters and operates in a given market (Scott, 1995). Economic nationalism is one of the key institutional factors that exert impacts on firms' FDI. However, existing economic nationalism studies largely treat nationalism as the explanatory problem (explanandum) while ignoring its explanatory function (explanans) (Pickel, 2002 & 2003). As an effort to fill this knowledge gap, this research seeks to examine the explanatory power of economic nationalism on cross-border acquisition completion. We develop a conceptual model (Figure 1) based on political literatures and institutional theory (Abdelal, 2005; Baughn & Yaprak, 1996; Chen, 2005; Johnson, 1965; Ning, 2009; North, 1990; Pickel, 2002).

(INSERT FIGURE 1 HERE)

As a subset of institutions, economic nationalism comprises two aspects: informal (ideology of nationalism) and formal constrains (policies, regulations). The political literature indicates that policies and regulations in light of nationalism largely follow the ideology, and both work to influence economic activities (Beland & Lecours, 2005; Johnson, 1965). Our empirical analysis focuses on the effects of the policies derived from nationalistic ideology on inward acquisition completion.

As we have argued economic nationalism is unnecessarily related with protectionism in nature. Pragmatic nationalism is national-interest driven. Its orientation to world affairs is seeking and defending national interests, particularly national security and territorial integration (Zhao, 2000).

Directed by this pragmatism, the ideology of economic nationalism possesses the elements of both protectionism and liberalism, which shape the national policy. For example, to achieve national prosperity, countries develop formal institutions such as competition policies to improve their comparative advantages by attracting FDI and/or engaging in international markets (Dunning, 2009). We follow the concept of nationalizing mechanism by Pickel (2002) to gain a better understanding of how economic nationalism functions in influencing inward FDI. The nationalizing mechanism, which subsumes economic nationalism, is a crucial social process in current global transformations. With the state as the central actor, it looks to legitimate changing economic and political systems, and to facilitate their economic and political integration regionally and globally. Therefore a state's policy and actions reflect how it copes with internal legitimation and external integration in a collective way, since economic nationalism works as a set of policies that follow the national objectives and directions (Abdelal, 2005). Following this logic, we conclude that the economic nationalism functions collectively through the domestic policy and foreign relations for the nation's economic development and security. Consequently, our empirical model focuses on three important aspects of economic nationalism, i.e. national security, foreign relations and national growth strategy. National security emphasizes a country's sovereignty including economic safety (Jiang, 2007). Foreign relations, as outcomes of foreign policy to serve national interests by creating a safe environment for the nation, influence inbound FDI from nations that have diplomatic relations with the host (Chen, 2005; Ning, 2009). National growth strategy includes three key economic policies, i.e. industrial policy, technology policy, and FDI policy, all of which aim to enhance a country's economic prosperity. We suggest that all these three components have impacts on inbound M&A success.

To convert the conceptual model into an empirical model, we develop a set of testable hypotheses by using the case of China. A transitional economy and the largest FDI recipient (Peng, 2006), China's experience reflects the dynamic nature of economic nationalism and provides a perfect lab to examine how economic nationalism impacts inbound FDI completion. Since the late 1970s, China's economic nationalism has been shifted from simple and defensive protection of domestic businesses to greater international visibility. In Maoist anti-imperialist nationalism, foreign capitalists were clearly viewed as enemies, and "self-reliance" was watchword. After 1978, autarky was abandoned, and the economic

nationalism transformed from nativism to pragmatism (Zhao, 2000). Chinese leaders recognize that China's economic advancement depends heavily on integration with the rest of the world. To achieve modernization, political leaders initiated a unique path of reform and openness to engage China in the world economy. China's economic nationalism was then partially reflected by some liberal actions like welcoming FDI, joining WTO, and encouraging domestic companies' outbound FDI (Crane, 1999). In the transition, the integrative nationalism becomes a central element in China's external nationalizing mechanism (Pickel, 2002)[2]. China is very careful and takes a gradualist approach in its participation in the world economy. So China's openness is not without reservation; when an inbound acquisition concerns national security or national growth strategy, economic nationalism may arise. Certain government agencies play an important role in M&A control through enforcing laws and regulations, and reviewing and approving deals. The decision depends on the structure of the deal, the nature of the target and the industrial sector, and the value of the transaction.

National security considerations

An essential element of nationalism is the actions that a nation takes in seeking to achieve or sustain sovereignty (e.g. Gellner, 1983; Miller, 2000). National security is the primary concern of a government. Serving the national interest, many governments use national security as the mandate to be of protectionism and oppose takeovers of domestic firms by foreigners, even when the shareholders are in support. Perceived national security threats can lead national review agencies to turn to protectionism and then quash deals. Many countries carefully regulate and screen foreign investments, ensuring that the foreign investments are in the national interests. The government will prohibit or restrict foreign investment in sectors it considers as crucial to national security. An acquisition deal targeting a local company with operations that have national security or national interest implications such as those involving military production, crucial infrastructure, or energy and other scarce natural resources, is more likely to be obstructed by political forces. In China, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) defines seven industries as "vital

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[2] Because it is an explanans, economic nationalism is as a part of a theoretical framework that can tie together processes of economic change at global and national levels. Pickel (2002) defines the general process at the center of this framework as the nationalizing mechanism, which is the culturally grounded process of internal and external integration or disintegration of national political economies and societies. China is in the process of integration into the global economy, but it takes a careful and gradual approach towards the integration.

industrial and crucial fields that relate to national security and the life line of national economy",

including war industry, power grid and power, petrochemical, telecommunications, coal, civil aviation

and shipping (Xinhuan News, 2006)[3]. We expect that acquiring a firm in these industries may face

more obstacles:

Hypothesis 1: An acquisition deal in industries related to national security is less likely to be

completed than the deals in other industries.

Being of liberalism China allows foreign investors to participate in the restructuring and privatization

of SOEs. However the politicians still continue emphasizing the central role of public ownership in

national economy. The fundamental reason for advocating public ownership and the persistent

dominance of SOEs lies in the Party leadership's fear of losing control over the country's economy

(Narayanan, 2006). In addition, Chinese politicians view increasing share of crucial products and

services by SOEs as related to national security. Furthermore, in recent years, in order to enhance

Chinese companies' global competitiveness and the national reputation, Chinese government takes the

"national champions" strategy, promoting leading SOEs in such sectors considered as important to

economic security by granting financial support, regulatory privileges, and protection. Therefore,

privatization in China does not mean abandoning protectionism, and the hurdle of acquiring a SOE by

a foreign company is higher than that for other targets[4]. In practice, although the foreign capital has

aggressively participated in privatization of SOEs via M&A (Lin, 2008), acquiring SOEs ends up with

low success rate. On the contrary, the transaction for a private target is more likely to be determined by

the market, based on the will of private sellers and buyers, and less complicated by the government

and public opinion.[5] These arguments lead to the following hypotheses.

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[3] http://news.xinhuanet.com/fortune/2006-12/18/content_5502762.htm

[4] In its new anti-monopoly law coming into effect in August 2008, China provides additional protection for SOEs that are "relied upon by the national economy and national security" with respect to competition rules (see Anti-Monopoly Law, Article 7).

[5] In this research we focus on SOE and private targets to identify the government's influence in the context of nationalism. SOEs are defined as firms that are controlled by the government which owns 50% or more of shares. Private firms are without government involvement, because they are owned by individuals or have a private parent of less than 50% share which is not traded on a public exchange. Other types of targets, such as public firms (companies whose total or a majority of share is publicly traded and are without a majority parent), joint ventures (firms that have two or more parents), and subsidiaries (organizations whose non-government parents own 50% or more of the share, and is not publicly traded), have too complicated ownership structures to clarify the influences by the state, their direct parents and ultimate parents. To test our hypotheses, these targets were treated as a reference group in opposition to SOE targets (Models 2 and 3) or private targets (Models 1 and 3).

Hypothesis 2a. An acquisition of an SOE target is less likely to be completed than other targets.

Hypothesis 2b. An acquisition of a private target is more likely to be completed than other targets.

Foreign relations

The nationalists identify a foreign country as threatening their national identity and security not only with its power, but also with how the two countries have interrelated politically and historically (Abdelal, 2005). Nationalism is a fundamental force in influencing Chinese foreign policy (Zhu, 2001). The fundamental goals of China's foreign policy include preserving its independence, sovereignty and territorial integrity, creating a favorable international environment for its reform and opening-up and modernization[6]. From the perspective of political risk, IB studies have investigated the impact of political stability and bilateral foreign relations on business (e.g. Li & Vashchilko, 2010; Loree & Guisinger, 1995; Sethi, Guisinger, Phelan & Berg 2003; and see Henisz, Mansfield & Von Glinow 2010 for an extensive review). Scholars contend that states of good relations should engage more economic exchanges than those of poor relations (Davis & Meunier, 2011, Zhang, Witteloostuijn & Elhorst, 2011). A good diplomatic relation, for example, friendly high-level visits from an investing country would improve the country's acknowledgment in China. We expect that an MNE from a country that has good foreign relations with China would find it easier to be recognized and accepted. Therefore we hypothesize:

Hypothesis 3: A cross-border acquisition is more likely to be completed if an acquirer is from a country with good foreign relation with China.

Growth strategy

An ideology of nationalism reflected in economic domain, China has adopted an 'opening' or liberalist policy as its long-term fundamental state policy since 1979 based on such a notion that China's economic development depends heavily on integration with the world economy. Generally China welcomes FDI as part of its economic ideology.

However, foreign investors are not evenly welcomed across industries depending on their fit with the country's growth strategy, where we can clearly see the role played by the dynamic interaction of

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[6] http://www.fmprc.gov.cn/eng/wjdt/

protectionism and liberalism. Here we investigate three particular policies: FDI policy, technology policy, and industrial policy.

FDI Policy. Basically, one can expect that a cross-border acquisition deal in an industry which is widely open to foreign investors is easier to complete than a deal in a less open industry. We gauge the industrial openness with the percentage of FDI in an industry, and suggest that the higher FDI share is in an industry, the more open this industry is. However, the relationship between industry openness and FDI's likelihood of completion is unnecessarily linear due to the interaction between protectionism and liberalism. The nation opens up industries to FDI to boost technological development, managerial efficiency and industrial growth in favor of liberalism. Once the FDI share in an industry increases to a certain level, domestic concerns might grow fearing that foreign companies dominate the national market and thus threaten national economic security (Borgonjon & Sinclair, 2006). This may turn a liberalist FDI policy into a protectionist one. In recent years, many foreign M&A attempts target leading Chinese firms in sectors including beverage, cosmetics, electronics, automobiles, petrochemicals and machinery. These have aroused close attention of Chinese scholars and politicians, who are concerned that once foreign companies establish a monopoly in these industries, they will essentially manipulate Chinese market (Wang, 2007). Protecting the industry from being controlled by foreign hands is a common reason that authorities reject the deals. This implies a certain level of FDI share, beyond which success rate of cross-border acquisitions will decrease. Following this logic, we propose:

Hypothesis 4: Given the effects from both FDI policy and national security, there is an inverted U-shaped relationship between FDI share and the likelihood that a cross-border acquisition attempts is completed.

Technology policy. Chinese economic nationalism advocates the enhancement of the national economy by introducing modern production and management practices and skills into China that local firms can learn and benefit from in light of liberalism (Deng, 1978). Capital and external knowledge can be acquired through developing key business relationships (Dieleman & Sachs, 2008; Yli-Renko, Autio & Sapienza 2001). Cross-border acquisition is one channel to establish business relation with foreign firms. Although FDI policy and other FDI related industrial policies have been amended several times

in the past, encouraging technology transmission via FDI remains a focus of these policies, and it is much more so in recent years in consistence with the fundamental objectives of attracting FDI. Moreover, China has been changing its growth strategy from an export- and investment- driven economy to a consumption- and quality-driven one to achieve long-term sustainable national prosperity. To meet this end, the government advocates the industrial upgrading by promoting the development of high-tech industries. FDI is considered as an important instrument to pursue this goal, and consequently is encouraged to flow into the high-tech sectors under the dominant liberalism. Therefore, we expect that:

Hypothesis 5: An acquisition in high- tech industry is more likely to be completed than a deal in other industries.

Industrial Policy. Another measurement to enhance the national economy relates to the need of capital for development. One of the key purposes of attracting FDI is to fill the capital gap typical for an emerging economy like China as suggested in the 'two-gap' model (Chenery & Strout, 1966; McKinnon, 1966; Wang, 2007; Weisskopf 1972), and the mobilization of domestic savings and foreign capital are needed to generate sufficient investment to accelerate the process of national development. Inward acquisition could be a quick way for the host country to raise the capital it needs as advocated by the liberalists. Therefore, we expect that:

Hypothesis 6: An acquisition in a capital demanding industry is more likely to be completed than a deal in other industries.

Foreign investors is often expected to provide to a host country a commercially viable package consisting of superior process and product technology supported by appropriate organizational and managerial capacities (Henley & Kirkpatrick, 1999). The host country can benefit from FDI via improving efficiency in some traditional industries as liberalism would suggest. Selling inefficient firms to foreign investors could be one solution to avoid job loss and increase social instability. Following this nationalistic goal, FDI is not only allowed but encouraged to participate in the restructuring of those ailing firms. Therefore, we expect that:

Hypothesis 7: An acquisition in a poorly performing industry is more likely to be completed than a deal in other industries.

3. DATA AND METHODOLOGY

The sample of this study is 7,275 cross-border acquisitions that occurred during the period of 1985-2010, accessed via the Thomason Financial Merger & Acquisition database. The acquirers are from 76 countries with a majority (71%) in HK[7], Japan, US and Europe. This database offers valuable information of the deal statue, dates of announcement and completion of the transaction, and some attributes of the targets and acquirers such as ownership, industry, and sought percentage. To ensure the accuracy of the information, we used Lexis-Nexis Academic Universe database for double check. The data of investment risk are from the PRS Group's Institutional Country Risk Guide (ICRG) assessments (http://www.prsgroup.com), and the information of foreign relations is obtained from China's Ministry of Foreign Affairs, the Chinese embassies, and Xinhua News Agency. Industry-level data are from Emerging Markets Information Service (EMIS) database of CEIC Data Company Ltd. The detailed sources for each variable can be found in Table 1.

Dependent variable

Acquisition completion is operationalized as a dummy variable that takes the value of 1 if the announced acquisition attempt is completed and 0 otherwise.

Key explanatory variables

In line with our hypotheses, we choose a set of explanatory variables capturing economic nationalism factors. *Security* indicates whether a target is in the industries that are national security-related according to the SASAC, including war industry, power grid and power, petrochemical, telecommunications, coal, civil aviation, and shipping (Xinhuan News, 2006). We code it as 1 if it falls into these categories and 0 otherwise.

SOE target and *Private target*, coded as dummies, refer to the ownership of target firms. We code *SOE target* as 1 if an acquisition target is an SOE, and 0 if otherwise. *Private target* takes the value of 1

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[7] Although HK returned to China in 1997, we keep the samples from HK in the models for five reasons. First, despite the transfer of sovereignty from the UK to China in 1997, HK enjoys a high degree of autonomy as a special administrative region (SAR) in all areas but defence and foreign affairs under the principle of "one country, two systems". Officially, investment from HK is classified as foreign investment, which is subject to all FDI regulations. Second, HK has been excluded in the models (model 3 and 4) that estimate the effects of foreign relations. Therefore the political relation change in 1997 does not skew the result. Third, we did robust test by dropping the samples from HK in model 1 and 2. Similar results were obtained (available upon request), implying that the samples from HK do not skew the result. Four, we include a dummy variable, HK, to control for the effect from the special economy. Finally, we did a robustness test by dropping samples from HK in Models 1 and 2, and the estimation results do not change much (results available upon request).

when the target company is privately owned, and 0 if otherwise.

Foreign relation measures bilateral foreign relations between China and the investing country based on the diplomatic events that happened between Chinese government and investing countries' governments. Following Goldstein (1992), daily events are weighted and aggregated into annual numbers for each investing country. We employ high-level visits to China to gauge the variable. We apply the weighting method by Zhang, Witteloostuijn and Elhorst (2011). The heads of states' visit is weighted by 2 and the influential politicians' visit by 1. The higher the value is, the better is the foreign relation.

FDI share denotes the share of foreign capital in an industry, and is measured by the ratio of foreign equity to total equity in an industry. This variable demonstrates to what extent the industry is open to foreign investors, and the level of foreign dominance in the sector. To test the inverted U-shaped relationship highlighted by H4, we also include its squared term, *FDI share^2*.

High tech indicates whether a target is in high-tech industry (coded as 1) or not (coded as 0). We use AeA's 45 SIC codes list[8], measured at the four-digit level, to identify these industries.

Capital denotes the demandingness of capital in an industry. A high *Capital* indicates the industry demands more capital. It is measured by the total capital invested in an industry divided by the number of firm in the industry.

Loss share indicates the percentage of companies in loss in an industry. It is calculated by the number of money-losing firms divided by the total number of companies in that industry.

Control variable

We included a number of control variables that may be linked to acquisition completion. *Sought percentage* is the percentage of ownership stake of a target sought by the acquirer in a transaction. The higher this factor is, the more likely it is at stake for the acquirer's and target's shareholders, which may affect both sides' approval (Dikova, Sahib & Witteloostuijn, 2010) and make it more difficult to complete. When there is a high sought percentage, the transaction becomes more sensitive to interest groups, including stakeholders of the target and the acquirer, and even the competitors and

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[8] http://www.techamerica.org/sic-definition

cooperators.

Investment risk is an assessment of factors affecting the risk of investment, ranging from 0 to 12. The risk rating is the sum of three components (Contract Viability/Expropriation, Profits Repatriation, and Payment Delays), each ranging from 0 to 4. A score of 12 equates to Very Low Risk, and 0 refers to Very High Risk (PRS Group, 2007). We expect that when the investment risk increases, the deal completion becomes harder to achieve.

Finally we develop three dummy variables, *HK, US* and *Japan,* to control for the country/region specific effect by these three areas and Europe[9] (treated as a reference group in the models). We do this for two reasons. First, these four economies are different from each other and from other economies in terms of culture, economy and politics, hence the investment behaviors and strategies of firms from these economies are different (e.g. Park & Lee, 2003). Second, they are homes of major acquiring investors in China, which account for 71% of total cross-border acquisitions in China.

(INSERT TABLE 1 ABOUT HERE)

Estimation

Because the dependent variable is dichotomous, we use logistic regression to analyze the determinants of acquisition attempt outcomes. The logit model is represented as follows:

$$P(i) = 1/[1 + e^{-\beta X(i)}] \qquad (1)$$

where P(i) is the probability of acquisition i being completed; e is the exponential function; X(i) is the vector of independent variables, including the key explanatory variables and control variables listed above; and β is the regression coefficients for the vector of independent variables X (i). The explanatory power of the logit model is determined using the likelihood ratio test.

To analyze the changes taking place during the investigating period, we choose two years, 2001 and 2003, as benchmarks. First, we split data into two periods: 1985-2001 and 2002-2010, to estimate the changes before and after China's entry into WTO. Second, we compare the two periods: 1984-2003 and 2004-2010 because 2003 is the year when the first piece of Chinese legislation governing

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[9] This study includes following European countries: Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland Rep, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Russian Fed, Switzerland, Sweden, Spain, Slovenia, and the United Kingdom.

cross-border acquisition, namely the Provisional Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (hereafter the 2003 Provisional Rules), was enacted. One of this legislation's goals is to maintain "national economic security". It brings all cross-border acquisitions to the review procedure. Exemption from such review can only be granted when the transaction: 1) "can improve the conditions for fair competition in the market"; 2) "can restructure a loss-making enterprise and safeguard employment"; 3) "introduces advanced technology and management personnel and enhances the international competitiveness of the enterprise"; or 4) "can improve the environment".[10] By comparing the differences before and after the enforcement of the legislation, we will be able to tell if the institutions influence cross-border acquisitions in China. To do this, we also include the industrial-level data. Due to limited availability of industrial data, we compare 1985-2003 and 2004-2009.

In addition, to understand to what extent the obstacles can be attributed to economic nationalism, we carry out an additional estimation by using domestic M&A data. The samples of this estimation included 17,654 domestic acquisitions that occurred during the period of 1990-2010, from the Thomason Financial Merger & Acquisition Database. The definition of the variables and estimation model are the same as those in cross-border acquisition case. The only difference is that we include two ownership variables, *SOE acquirer* and *Private acquirer*, to examine if the ownership of domestic acquirers matters in deal completion[11]; and we included two interaction terms, *Security*SOE* and *Security*Private acquirer* to estimate the moderating effect of ownership of acquirers. The purpose of adding the two new variables and interaction terms is to distinguish how national security sentimental reacts differently to foreign acquirers, domestic state-own acquirers and domestic private acquirers.

4. RESULTS

Table 2 presents a standard summary of statistics and correlations. We do not observe high correlation between repressors.[12] The logistic regression model results are presented in Table 3. Models 1 and 2 include a constant, control variables and independent variables related to national security and

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[10] See Article 22 in the 2003 Provisional Rules.
[11] We do not include acquirer's ownership into the previous estimation because there are few SOE acquirers in foreign acquisition case.
[12] We have also examined the correlation with all sub-group samples, which is available upon request. We do not observe high correlation between repressors for all models.

high-tech industries based on a full sample of 7,275 observations. Based on Model 1 and 2, we add *foreign relation* into Models 3 and 4. Since the foreign relations are not applicable between Mainland China and areas such as Hong Kong, Macau and Taiwan, the observations reduce to 4,292 after dropping those of these economies. To test the hypotheses, we need to test the effect of SOE targets with non-SOE targets as the reference group, and to test the effect of private targets with non-private targets as the reference group. Therefore, we introduce the two ownership variables separately into Models 1-4. In Model 4a, the two ownership variables are included simultaneously. The reference group of this model is those who are neither SOE targets nor private targets. Models 5 and 6 are replications of Model 2 using data of 1985-2001, and 2002-2010 respectively. We further add industry-level predictors reflecting growth strategy into Models 7, 8, and 9. This variable is only available within the manufacturing sectors with a SIC code between 20 and 38, so the observations drop to 2,968. In addition, 716 out of 780 (92%) high-tech deals are in the sector with a SIC code of 73, which is not in the observations of manufacturing sectors. The only set of high-tech deals in manufacturing is the SIC code of 29, which is petroleum and coal products. According to the SASAC definition, petroleum and coal products are an industry of national economic security, which has been included in security variable (Hypothesis 1) already. Therefore we do not include *high-tech* in Models 7-9.

We report the coefficients, standard error, value of the likelihood function at convergence and the likelihood-ratio chi-square in each model. The chi-square statistic is significant at 1% level in all models, which suggests that the models with explanatory variables and control variables fit better than a model only with the constant.

(INSERT TABLE 2 and 3 ABOUT HERE)

Security has significantly negative influence on acquisition success in Models 1-6, supporting H 1. The insignificance of its effect in Model 7- 9 can be explained by including the industry-level data. As mentioned above, the industrial data only cover the manufacturing sectors with SIC codes of 20-38. All industries considered being of economic security, excluding petrochemical, are not included, leaving only 5% of deals related to national security included in the estimations. With 95% of deals in the seven industries excluded, the estimations could be biased because of the unrepresentative data.

Therefore, the insignificance in these three models should not weaken the explanatory power of *Security*. *SOE target* is negatively and significantly linked to acquisition success in all relevant models (Models 2 and 4), providing support to H 2a, suggesting that a deal with a SOE target faces more stringent constraints. *SOE target* becomes insignificant when we include *Private target* in Model 4a with the reference group as those targets that are neither SOEs nor private firms. A possible reason could be that part of these targets in reference group are not completely free from government intervention, especially target firms with share, even though minority, owned by the government. Another reason can be that some targets have parent(s) or shareholders whose interferences complicate and deter the acquisition process. These complexities require further study. *Private target* is positively related to acquisition success (p<0.01), supportive to H 2b, suggesting a deal with a private target faces less obstacles than a deal with other target.

Foreign relation has a positive effect (p<0.1) on acquisition success in all models, in support to H 3. Concerning the explanatory variables related to growth strategy, the coefficient of *FDI share* is positive (p<0.01), and the coefficient for its squared term is negative (p<0.01) as well, showing an inverted U-shape relationship between the FDI share and the acquisition success, consistent with H 4. *High-tech* is significantly positively related to acquisition success in all models except Model 5, partially supporting H 5. *Capital's* effect is significantly positive in Model 7 and 8, in partial support of H 6. Finally, *loss share* has significantly positive linkage to acquisition success in Model 7 and 9, but not in Model 8, also partially supporting H 7.

In line with our expectation, the control variable *sought percentage* is negatively and significantly related to acquisition success in Model 1, 3, 5, and 8. Not surprisingly, *investment risk* is significantly positively associated with acquisition success in all models, indicating the importance of investment environment for a successful acquisition. Strikingly, *HK* has a significantly negative coefficient in Model 1, 2, 5, 6, 7, and 9, indicating that acquisitions by Hong Kong investors tend to be unsuccessful. This certainly has implications for future research. *US* and *Japan* also have significantly negative impact on acquisition success in Model 1, 2, 3, 5, and 6, implying that acquirers from US and Japan face more obstacles than those from other areas such as Europe.

The results of the estimation with domestic acquisition are presented in Table 4. The coefficient of

Security is negative and significant, and the coefficient of *Private target* is positive and significant, in line with the result in cross-border acquisition case. The coefficient of *SOE target* is positive and significant, which is opposite to the estimation with cross-border acquisition case in Table 3. The interaction term *Security*SOE* has positive and significant coefficient, and the coefficient of *Security*Private acquirer* is insignificant, revealing that Chinese SOE acquirers are more likely to be successful in conducting acquisition in security-related industries.

(INSERT TABLE 4 ABOUT HERE)

5. DISCUSSION AND FURTHER ANALYSIS

Our empirical analysis above provides evidence that economic nationalism influences cross-border acquisition completion in China at least through three channels: national security consideration, foreign relations with home countries, and national growth strategy. In this section, we provide further analysis and finding from dynamic and ownership perspectives, and discussion on generalizability of the findings.

Changes over time

In the past 30 years, China has strived to rebuild its nation from the past ruin; the rise of economic nationalism is evident in both the country's ruling party's discourse and economic policies. The recurring themes are centered on nationalistic values such as national unity, identity, autonomy, prestige, and prosperity of the nation as reflected by the dynamic interaction of protectionism and liberalism. In our empirical study, we observe the changes of China's attitude to FDI into high-tech industries, the appetite for foreign capital and industrial performance.

Attitude to foreign investment into high-tech industries. As reported in Table 3, *high-tech* has significantly positive impact on acquisition completion in models with full set of data. But the significance of the impact only exists for 2002-2010 when we split the data into two periods, 1985-2001 and 2002-2010. This may result from the more liberalist efforts in promoting and expressive encouragement from the central government for cross-border acquisitions in high-tech sectors after 2001. For example, an important objective of China's 10th Five Year Plan for 2001-2005 was to improve the competitiveness of its high-tech sectors by increasing overall spending on R&D,

particularly on prioritized "pillar industries" and key strategic technologies[13]. It encouraged FDI to tap into cutting-edge and technology-oriented industries, such as electronic information, bioengineering, new materials and aviation and aerospace. In addition, the 2003 Provisional Rules explicitly stipulate that cross-border acquisition deals introducing advanced technology can be granted exemption from the review procedure. The empirical results reflect certain outcomes of these new institutions. Our findings reveal different attitudes to inward acquisitions in high-tech sectors between China and other countries. Many countries consider the possession of technology as an essential national advantage, and tend to protect their key high–tech sectors from being acquired by foreign firms (e.g. Graham & Marchick 2006). However, China as a later comer seems to open its high-tech industries to foreign investment to cultivate its advantage.

Changed appetite for capital. Our findings suggest that *capital'*s influence is significant, but the sub-sample estimations indicate that it is significant in the period of 1985-2003, not in the later period, implying that the appetite for capital brought in by FDI changed over time. After years' opening up and development, China has accumulated massive capital that gradually fills the capital gap illustrated in the two-gap model. According to Chinese Ministry of Commerce, China had pooled more than 500 billion USD in FDI by the end of 2003[14]. This fuels the debate about the role of FDI in China. Many protectionists and activists argue that China does not lack capital to sustain its economic growth. Foreign M&A could bear the brunt of this domestic resistance. Consequently, after 2003, the capital demand is not a significant factor influencing the deal completion in our study.

Industrial performance. We observed that *loss share* works significantly in the period of 2004-2009, but not in 1985-2003. This indicates that cross-border acquisitions were completed more easily in a poorly performing industry than a healthy industry after 2003. This result may be partially attributed to the 2003 Provisional Rules, the first piece of legislation governing cross-border M&A in China. The Rules explicitly stipulate that an exemption from security review can be granted where the transaction "can restructure a loss-making enterprise and safeguard employment" to ensure the national security from the perspective of employment and social stability. Our empirical results seem to support the

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[13] http://www.gov.cn/english/2006-04/05/content_245624.htm
[14] Source: China Ministry of Commerce, 2004; China Foreign Direct Investment, 2004.

effect of this regulation from a liberalist approach.

In addition, the confirmed inverted U-shape relationship between FDI share and success rate of inward acquisitions also shows the attitude toward FDI could change over time given the dynamic interplay of liberalism and protectionism due to the fear of dominant foreign ownership in industries.

To what extent the obstacles can be attributed to economic nationalism

One may argue that domestic firms, particular private owned, may also face obstacle in acquiring another domestic firm that is national security-related. Therefore, we need to be clear to what extent the obstacles underpinned by nationalism are specific to foreign acquirers. The estimation results from Table 4 answer this question.

First, *SOE target* has significantly positive relationship with acquisition completion, implying that acquiring a SOE faces less constrains than acquiring firms of other ownerships, in opposition to the findings with cross-border acquisitions. This divergence reflects the dynamic reform in China, one key element of which is re-devising of SOEs ownership structure. Since the 1990s, new regulations began to allow more and more SOEs to be leased or sold to the public and employees in order to increase their efficiency and competitive advantage. The number of SOEs has reduced sharply, with a percentage of SOE in industrial output falling from 65% in 1985 to 10% in 2009[15]. Most of SOEs have been restructured through domestic M&A. Therefore reshuffling SOEs is a part of Chinese reform, and there is no strict review process required for domestic buyers. However, the security review remains a complex process for foreign investors. The different outcomes between domestic and foreign acquisitions provide extra evidence that supports the existence and effects of economic nationalism on foreign acquisition of SOEs.

Second, *security industry* is significantly and negatively linked to acquisition completion, implying that acquiring a firm in an industry related to national security is more protected and thus more difficult than that in other industries for local players, comparable to their foreign counterparts. Moreover, we find that the completions are different between domestic SOEs and private firms by testing the moderate effect of ownership on *security industry*. The results indicate that, when *private*

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[15] Source: National Bureau of Statistics of China.

acquirer does not work as a moderator, *SOE acquirer* has a significant and positive moderating effect on *security industry,* implying that state ownership make a successful acquisition in security industries easier. By comparing both cross-border and domestic acquisitions, we conclude that both foreign and domestic acquirers except SOEs face a high fence in completing M&A in security related industries. Therefore, economic nationalism again plays a role in acquisitions in security industries.

The generalizability of the findings

The uniqueness of nations' formal institutions and the complex nature of China's transitional economy and political considerations may limit the generalizability of our empirical findings. However, economic nationalism is prevalent across the world, and seeking to attract FDI is not so much a China-specific phenomenon. Our research still provides applicable and helpful insights to other contexts. First, security concern in relation to FDI is widely perceived in both developing and developed countries; China is just one among around 90 countries that apply regulatory scrutiny procedure to cross-border M&A (Singh, 2002). The regulatory scrutiny gives special attention to industries that are related to national security. For example, US governments requires transactions involving regulated industries (e.g. energy, public utilities, gaming, insurance, telecommunications and media, financial institutions and defense contracting) should prepare for extra layer of approvals by the Committee on Foreign Investment in the United States (CFIUS) (Wachtell, Lipton, Rosen & Katz , 2008). Second, SOEs exist in nearly all countries despite their different social nature. SOEs are often prevalent in utilities and infrastructure industries whose performance is of great importance to broad segments of the population and to other parts of the business sectors (OECD, 2005). Therefore the resistant force against M&A of SOE targets may be prevalent everywhere. Third, diplomatic activities are wildly used as a tool to enhance economic exchange (Lee & Hudson, 2004). Most of countries use business diplomacy as one of the main elements of diplomatic policies. Governments allocate diplomatic resources to make business activities more concentrated, hence to extend the diplomatic business scope (Lee & Hudson, 2004). Governments are likely to become business cooperators. In this case, our finding about foreign relations' effects can be interpreted in a more generalized sense. Fourth, many developing countries apply similar development-oriented FDI policies to pursue their own national objectives (UNCTAD, 2003), where conditions for foreign firms

are comparable to those in China. Fifth, developed countries also endeavor to attract FDI to underpin economic growth and employment. Currently, two reasons make economic nationalism become more important in these countries. The first one is current global crisis; the other is the rising of FDI from developing/transition countries. While not all the empirical findings of this study are applicable to the developed countries, the concept model is relevant due to the fact that the nationalizing mechanism applies in both developing and developed countries (Pickel, 2002).

6. CONCLUSION

This paper focuses on an overlooked but important relationship in IB literature that economic nationalism may influence the success of an announced cross-border acquisition. We suggest that economic nationalism may be associated with both protectionism that discourages foreign investment, and liberalism that encourages the foreign investment. Economic nationalism, developed and adjusted according to a nation's internal and external conditions when forming part of the national ideology, shapes and influences the national policies toward global market participation. When a foreign investment is perceived to threaten the economic security, protecting nationalism arises. When foreign investments benefit to host's economic development, liberal nationalism gains ground. The findings of the study help us understand, from a perspective of economic nationalism, why cross-border acquisitions differ from their domestic counterparts in completion, why some cross-border acquisitions are more difficult to complete than others, how targets' and their industrial attributes influence the cross-border acquisition success, and how the effects of relevant regulations/policies change over time as they evolve.

This paper focuses on three economic nationalism elements, including national security concerns, foreign relations, and economic growth policy (i.e., industrial policy, technology policy, and FDI policy). China as the context, our findings show that, when an acquisition activity targets essential industries or a SOE, the nationalism becomes more of protectionism, and the acquisition is less likely to complete. When an acquirer is perceived to bring desired technology and/or capital (stipulated by China's national regulations and policies), or expected to help restructure poorly performing firms, or the acquirer is from a country with good foreign relation with China, the acquisition will be considered as safe and helpful, and the acquisition is easier to complete. In addition, some effects may change

over time due to the changes of the economic and political situations and thus policies.

Our theoretical approach and empirical results contribute to the literature in three major ways. First, our research offers new insights to IB literature by examining economic nationalism as one of the main institutional aspects encountered by MNEs in M&A. It adds to OLI model by exploring the degree to which economic nationalism impacts M&A success when the FDI location is chosen. It confirms OLI's claim that economic nationalism is an influential factor among other national characteristics when MNEs consider the international presence for markets, national resources, ways to increase efficiency and strategic assets (Dunning, 1998). Furthermore, it provides a new and superior perspective over simplified dichotomy of protectionism and liberalism on exploring the mechanisms how a host country's institutions impact the likelihood to complete an inbound cross-border acquisition over the past.

Second, our study enriches the development of a dynamic view of institution theory by investigating the evolving effects of nationalism on inward acquisition completion in China. In this sense, our analysis of the changing impacts of institutional factors extends institution theory, which focuses overly on static outcomes of institutions but neglects the dynamic mechanism.

Third, the analysis of Chinese economic nationalism can be generalized to other developing countries, since many developing countries apply the similar development-oriented FDI policies to pursue their own national objectives (UNCTAD, 2003). Developed countries also endeavor to attract more investment via policy and promotional efforts. Nationalism concern rises in particular to the increasing FDI from transition economies, where our conceptual model may be applicable.

Our findings provide some important managerial implications. Our study advances the traditional wisdom to provide measured effects of nationalism on international acquisition completion, and thus brings the awareness of the functioning economic nationalism to those MNEs that want to play in international arena. Our analysis shows that Chinese economic nationalism is a dynamic phenomenon, and its influence evolves over time given China's transitional nature. In order to achieve economic development, China is on its way to be integrated into the world economy, and welcomes foreign investment. However, China's protectionist policies remain powerfully applicable if necessary. Thus both liberalist and protectionist approaches work depending on the specific conditions of inbound

acquisitions. Accordingly although economic nationalism sometimes shows anti-foreign-acquisition sentiments, it does not always cause problems for foreign MNEs that intend to acquire domestic firms. When a cross-border acquisition fits the national growth strategy, economic nationalism shows positive impact on the activity. Therefore, being aware of the local nationalist attitudes and actions, understanding foreign relations between the China and their home country, and recognizing the host's growth strategy/policies, are extremely important for successfully conducting cross-border acquisitions in China.

Managers for international M&A are also advised to consider several tactical factors when acquiring in China. First, under current Chinese FDI policy, foreign investors may be better off to avoid the seven sensitive industries, including war industry, power grid and power, petrochemical, telecommunications, coal, civil aviation, and shipping as classified by SASAC, and Chinese SOEs. Second, a low profile attitude is recommendable for investors from a China- unfriendly home country such as USA and Japan. Third, targeting high-tech industries, and poorly performing companies, and shunning from foreign capital intensive sectors are also strategies to have successful M&A in China. There are more strategic considerations, for example to build the corporate image better, and adapt corporate structure and capability to cater for the changing needs of hosts (Wright & Ricks, 1994).

Admittedly, economic nationalism is an under-researched area. More research efforts need to be put into investigating the nationalism – business relationship. First, though the conceptual model might be generalizable, the empirical tests of the study are based on the case of China. Researchers may be interested to explore the applicability of our empirical findings to other contexts including developing and developed economies. Second, we did not fully explore the rational link between the economic nationalist ideology and economic actions and the direct link between the ideology and cross-border acquisition. These links are important to understand the effects of economic nationalism, because those aspects of economic nationalism reflecting informal institutions (e.g. national sentiments) may also influence the outcomes of cross-border acquisitions. Third, MNEs' entry strategy and acquisitions are not random. So they may be a self-selected method and there are other factors such as firm attributes and industrial conditions affecting the completion than merely the acquisition itself. Further research needs to address the self-selection issue.

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Figure 1: Conceptual model
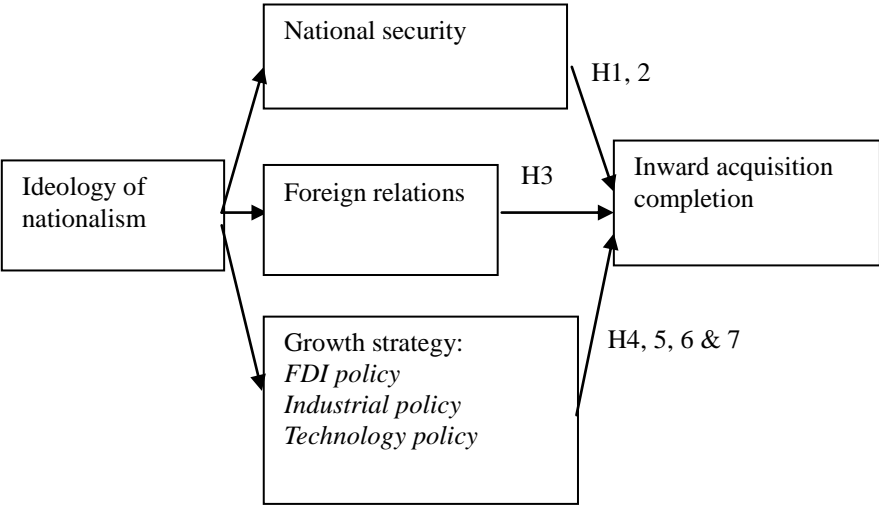
Table 1 overview of hypotheses, variables, estimations and measures

Hypotheses	Variables and expected sigh	Estimation Result	Measures	Source
H1	Security(-)	Negative significant	Dummy variable with the value of 1 if an acquisition deal is in an industry that is national security-related according to the SASAC, and 0 otherwise.	Thomson Xinhuan News 18-12-2006
H2a	SOE target (-)	Negative significant	Dummy variable with the value of 1 if a target is state owned enterprise and 0 if it is not	Thomson
H2b	Private target (+)	Positive significant	Dummy variable with the value of 1 if a target is a private enterprise and 0 if it is not	Thomson
H3	Foreign relation (+)	Positive significant	Daily events as to high-level in visit to China are weighted and aggregated into annual numbers for each investing country.	China's Ministry of Foreign Affairs, the Chinese embassies, and Xinhua News Agency
H4	FDI share ($\pm$)	U-shaped relation	The ratio of foreign equity to total equity in an industry.	EMIS database of CEIC Data Company Ltd.
H5	High tech (+)	Positive significant	Dummy variable with the value of 1 if a target is in high tech industry.	Thomson, AeA's 45 SIC codes list
H6	Capital (+)	Positive significant	The total capital invested in an industry divided by the number of firm in the industry.	EMIS database of CEIC Data
H7	Loss share (+)	Positive significant	The percentage of companies in loss in an industry.	EMIS database of CEIC Data Company Ltd.
Control variables	Sought percentage (-)	Negative significant	The percentage of the ownership stake sought by an acquirer	Thomson
	Investment risk (+)	Positive significant	The score of investment risk	The PRS Group's Institutional Country Risk Guide (ICRG) assessments (http://www.prsgroup.com)
	HK, US, Japan		Dummy variables for the three economies.	

Table 2: Descriptive statistics and correlation matrix of independent variables

		Obs	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1	*SOE target*	7708	0.0785	0.2690	1										
2	*Private target*	7275	0.4170	0.4931	-0.2507***	1									
3	*Foreign relation*	5769	1.2834	2.9103	0.0170	-0.0025	1								
4	*FDI share*	4584	0.2167	0.1939	-0.0117	-0.0902***	0.0311	1							
5	*High-tech*	7275	0.1074	0.3096	-0.0530***	0.0993***	0.0119	-0.1608***	1						
6	*Capital*	3361	0.0610	0.2312	-0.0104	0.0579***	-0.0588	-0.1794***	-0.0159	1					
7	*Loss share*	3561	0.1897	0.0593	0.0993***	-0.0633***	0.1257***	0.1380***	0.1147***	-0.1409***	1				
8	*Sought percentage*	11630	0.7404	0.4384	-0.0425***	0.1817***	-0.0247	-0.0242	0.0515***	-0.0101	-0.0358	1			
9	*Investment risk*	11668	6.9838	0.7999	0.0136	0.0019	0.0683***	-0.0169	0.1046***	0.0118	0.0050	-0.0977***	1		
10	*HK*	11630	0.2513	0.4338	0.0835***	-0.0920***	-0.0324	-0.1084***	0.0186	0.0386	0.0557***	-0.2325***	0.0899***	1	
11	*US*	11630	0.1278	0.3339	-0.0338	0.1280***	0.0444***	0.0246	0.0861***	-0.0119	-0.0164	-0.0087	0.0321***	-0.2000***	1
12	*Japan*	11630	0.0309	0.1730	-0.0059	-0.0460***	0.0448***	0.0381	-0.0097	0.0001	0.0273	-0.1427***	0.0114	-0.1034***	-0.0616***

Note**:** *** $p < 0.001$.

Table 3: Logit estimates of acquisition completion of cross-border acquirers in China, 1985-2010

	Model 1	Model 2	Model 3	Model 4	Model 4a	Model 5 1985-2001	Model 6 2002-2010	Model 7 Manufacturing	Model 8 Manufacturing 1985-2003	Model 9 Manufacturing 2004-2009
Security	-0.344*** (0.0885)	-0.331*** (0.0883)	-0.302** (0.1280)	-0.296** (0.1280)	-0.297** (0.1280)	-0.367** (0.1810)	-0.342*** (0.1030)	-0.0646 (0.2000)	0.0059 (0.3740)	0.011 (0.2450)
SOE target		-0.413*** (0.0870)		-0.289** (0.1240)	-0.127 (0.1280)	-0.405** (0.1770)	-0.252** (0.1060)	-0.313** (0.1500)	-0.469** (0.2380)	-0.209 (0.1960)
Private target	0.482*** (0.0508)		0.374*** (0.0658)		0.358*** (0.0677)	0.284** (0.1170)	0.477*** (0.0591)	0.303*** (0.0852)	0.0882 (0.1670)	0.390*** (0.0998)
Foreign relation			0.0169* (0.010)	0.0170* (0.010)	0.0171* (0.010)					
FDI share								2.987*** (0.8590)	3.558* (2.0810)	3.227*** (1.0080)
FDI share^2								-3.487*** (1.1330)	-5.0730* (3.2290)	-3.487*** (1.2890)
High-tech	0.345*** (0.0824)	0.383*** (0.0819)	0.288*** (0.1110)	0.314*** (0.1100)	0.283** (0.1110)	0.149 (0.1660)	0.367*** (0.0961)			
Capital								0.439** (0.1760)	0.868** (0.3560)	0.212 (0.2170)
Loss share								2.546*** (0.7490)	1.961 (1.7280)	2.043* (1.0460)
Sought percentage	-0.139*** (0.0506)	-0.0665 (0.0497)	-0.136** (0.0678)	-0.0572 (0.0660)	-0.135** (0.0679)	-0.705*** (0.1150)	-0.0028 (0.0572)	-0.0355 (0.0820)	-0.107 (0.1570)	-0.0029 (0.0966)
Investment risk	0.166*** (0.0453)	0.165*** (0.0451)	0.141** (0.0616)	0.141** (0.0614)	0.140** (0.0616)	0.0864* (0.0496)	0.916*** (0.1600)	0.230*** (0.0880)	0.164 (0.1080)	
HK	-0.622*** (0.0563)	-0.629*** (0.0561)				-0.622*** (0.1280)	-0.648*** (0.0638)	-0.434*** (0.0916)	-0.571*** (0.1770)	-0.389*** (0.1080)
US	-0.242*** (0.0693)	-0.192*** (0.0687)	-0.0811 (0.0699)	-0.0528 (0.0695)	-0.0811 (0.0699)	-0.293* (0.1670)	-0.222*** (0.0767)	-0.116 (0.1050)	-0.0832 (0.2260)	-0.130 (0.1190)
Japan	-0.406*** (0.1160)	-0.436*** (0.1160)	-0.283** (0.1170)	-0.310*** (0.1160)	-0.285** (0.1170)	-0.2490 (0.2560)	-0.489*** (0.1330)	-0.252 (0.1740)	-0.677** (0.2990)	-0.047 (0.2160)
Constant	-0.693** (0.3260)	-0.507 (0.3240)	-0.636 (0.4400)	-0.504 (0.4390)	-0.616 (0.4410)	0.646* (0.3800)	-6.109*** (1.1340)	-2.119*** (0.6540)	-1.246 (1.0290)	-0.591** (0.2620)
Log likelihood	-4826.0	-4860.0	-2848.0	-2862.0	-2847.0	-993.2	-3781.0	-1898.0	-513.3	-1378.0
LR chi2	286	217	61	34	62	86	280	84	33	54
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Number of observation	7275	7275	4290	4290	4290	1567	5708	2871	812	2059

Note: a) Standard errors are shown in parentheses;

b) *** p<0.01; ** p<0.05; and * p<0.1

Table 4: Logit estimates of acquisition completion of domestic acquirers in China, 1990-2010

	Model 1	Model 2	Model 3	Model 4
Security	-0.291***	-0.272***	-0.183***	-0.217***
	(0.054)	(0.054)	(0.057)	(0.068)
SOE target	0.714***		0.764***	0.770***
	(0.155)		(0.163)	(0.163)
Private target		0.577***	0.754***	0.753***
		(0.035)	(0.037)	(0.037)
Security*SOE acquirer				0.439*
				(0.258)
Security*Private acquirer				0.051
				(0.133)
SOE acquirer			0.527***	0.478***
			(0.082)	(0.087)
Private acquirer			1.375***	1.371***
			(0.036)	(0.038)
High-tech	0.396***	0.320***	0.252***	0.252***
	(0.059)	(0.059)	(0.062)	(0.062)
Sought	-0.00284***	-0.00270***	-0.00183***	-0.00183***
	(0.000)	(0.000)	(0.000)	(0.000)
Constant	-0.181***	-0.328***	-0.860***	-0.857***
	(0.029)	(0.031)	(0.036)	(0.036)
Log likelihood	-11929.9	-11805.3	-11029.7	-11028.2
LR chi2	130.71	379.86	1931.07	1933.97
Prob > chi2	0.0000	0.0000	0.0000	0.0000
Number of observation	17654	17654	17654	17654

Note: a) Standard errors are shown in parentheses;

b) *** $p<0.01$; ** $p<0.05$; and * $p<0.1$