

Democracy, Antitrust Regulation, and Cross-Border Mergers and Acquisitions

Quan Li

Pennsylvania State University

Email: quanli@psu.edu

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The spread of international production is the most salient expression of economic globalization, growing faster than global GDP and exports. But multinational corporations (MNCs) remain controversial. One important long-standing criticism levied against MNCs is that they are anticompetitive, creating monopoly or oligopoly market structure and causing distortions in the host country's political process (see, e.g., Bergsten, Horst and Moran 1978; Graham 1996; Hymer 1976; Korten 2001; Moran 1978; Tarzi 1991; Vernon 1998). Among the 63,000 MNC parent firms, associated with 690,000 foreign affiliates, the hundred largest MNCs control about 20% of global foreign assets, employ about 6 million workers and account for about 30% of total world sales of all MNCs (UNCTAD 1997, 8).

Over the past two decades, the rapid expansion of international production was largely driven by cross-border mergers and acquisitions (M&As) (UNCTAD 2000). Cross-border M&As increased from \$72 billion in sale value in 1987 to over \$760 billion in 1999. In the developing countries, the ratio of the value of cross-border M&As over total FDI inflows rose from about 1/10 at the end of the 1980s to about 1/3 at the end of the 1990s. When MNCs merge with or acquire host firms, they gain enormous market power in the host economy. Not surprisingly, many, though not all, MNCs are motivated to use M&As to suppress competition and dominate the host market.

One may argue that cross-border M&As further worsen the anticompetitive image of MNCs. In the 2000 World Investment Report, which was devoted to the issue of cross-border M&As, UNCTAD Secretary-General Rubens Ricupero (UNCTAD 2000, xxvii) pointedly wrote,

“Indeed, the threat of monopoly, or tight oligopoly, is potentially the single most important negative effect of cross-border M&As and therefore poses the single most important policy challenge. The challenge, more precisely, is to ensure that policies are in place to deal with those M&As that raise competitive concerns, and that they are implemented effectively.”

In the midst of the expansion of international production and particularly the rapid rise of M&As, many countries have adopted competition policy legislation to regulate the impact of MNCs on market structure. By 2000, some 90 countries had adopted or were in the process of adopting competition laws, with 70 of them including mandatory or voluntary antitrust merge notification systems (UNCTAD 2000, 148, 158).

Within this broad context, several questions arise. Do competition policy regimes in different countries affect cross-border M&A sales in their economies? Does the spread of democracy in many countries influence the effectiveness of competition policy? And does democracy affect cross-border M&As? Surveying the relevant literatures in international business, economics, and political science reveals that while it is often acknowledged that the causes and consequences of cross-border M&As can be political, the effects of regulatory policy regime and democracy on M&As have not received wide scholarly attention.

The large literature on cross-border M&As in international business and economics (see, e.g., Hopkins 1999; Cantwell and Santangelo 2002) has focused on economic, market, and business strategic motives of M&A behaviors and the post-M&A firm performance. The policy-oriented analysis (e.g., Graham and Richardson 1997; Graham 1996; Scherer 1994) has approached the issue of how to deal with M&As using competition policy based on economic reasoning. Only a few cross-national empirical studies have examined the determinants of cross-border M&As systematically. For example, strong investor protection and good broad governance regime in the host country are found to increase mergers and acquisitions in the economy (Rossi and Volpin 2004; Globerman and Shapiro 2005). Yet relative to their acquirers, target firms are typically from countries with poorer investor protection in cross-border M&As (Rossi and Volpin 2004). National merger review laws are shown to reduce M&A sales to American MNCs (Evenett 2002). These few pioneer empirical studies contribute to our understanding of the determinants of cross-border

M&As--an important aspect of international production. But all of them are cross-sectional in nature, focusing on one year or an aggregate period and thus, making it difficult to establish causation. Furthermore, they do not investigate the political sources of these determinants of cross-border M&As, such as the impact of democracy.

Political scientists in the area of political economy have contributed little analysis of the interactions among democracy, antitrust regulation, and cross-border M&As. Indeed, while most political scientists would agree that monopoly and oligopoly have political sources and consequences (e.g., Lindblom 2001; Li and Resnick 2003), only a few political scientists have studied the antitrust regulation in the developing world (Sell 1995, 1997), the sources of antitrust holdup for domestic mergers in 27 mostly advanced economies (Clougherty 2005), the antitrust and merger review in the European Union (Buthe and Swank 2005), and the antitrust regulation in the US (Lewis-Beck 1979; Wood and Anderson 1993). So far, no study has analyzed how the spread of democracy may affect antitrust regulation and cross-border M&As, particularly in the developing countries that witness a rise in democracy and yet are most vulnerable to rent-seeking behaviors of large corporate interests.

In this article, I address these overlooked questions. In my argument, democracy influences cross-border M&As through three mechanisms: antitrust regulation, investor protection, and advantage in policy credibility. On the one hand, democracy may lead to more effective antitrust regulation which limits the relative importance of M&As in the economy. On the other hand, democracy may offer better investor protection and possess an advantage in policy credibility, both of which appeal to foreign investors and encourage cross-border M&A sales.

An empirical analysis tests these expectations from 1987 to 2000 in three samples (all 47 countries, 22 established industrial democracies, and 25 less developed countries). Two M&A measures are examined: the percent of M&A sales over GDP and the amount of M&A sales. The findings are summarized as follows. Effective antitrust regulation reduces cross-border M&A sales

for both measures. The effect is robust in 22 established industrial democracies, but varies across the measures for the 25 less developed countries. Investor protection increases M&A sales, but the effect is not robust across the two measures of M&As and samples. Democratic duration, which measures the democratic advantage in policy credibility, consistently increases M&A sales across both measures and samples. Additional empirical analysis demonstrates that democratic countries are associated with more effective antitrust regulation in the 47 country sample and the 25 LDC sample.

The rest of the paper proceeds as follows. Section 2 presents the theoretical argument and hypotheses on how democracy affects cross-border M&As, with a particular emphasis on the role of antitrust regulation. Section 3 discusses the research design for the empirical analysis. Section 4 presents the findings. Section 5 concludes the paper by exploring the implications of the findings.

2. Theoretical Argument

A MNC refers to a firm that organizes production of goods and services in more than one country. FDI is the purchase of physical assets or a significant amount of the ownership (stock) of a company in another country to gain a measure of management control. A MNC engages in FDI through either greenfield investment in a new facility, or acquiring or merging with an existing local firm. In a cross-border merger, two firms from two different countries combine the assets and operations to establish a new legal entity, while in a cross-border acquisition, the control of assets and operations is transferred from a local to a foreign firm, with the former becoming the latter's affiliate. Most M&As are acquisitions while only less than 3% of cross-border M&As are mergers (UNCTAD 2000, 99). For this analysis, it is important to note that cross-border M&As may be horizontal between competing firms in the same industry (such as pharmaceuticals, automobiles, and

petroleum), or vertical between firms in client-supplier or buyer-seller relationships, or conglomerate between firms in unrelated industries.

Cross-border M&As and Market Dominance

How do cross-border M&As influence host market competition? First, one may compare the effects of greenfield FDI and cross-border M&As. Greenfield FDI adds to the capital stock in the host country, while M&As often just involve the change of ownership from domestic to foreign. Hence, the entry of greenfield FDI increases the number of firms in the host economy and thus does not directly increase market concentration. In contrast, M&As are more likely to cause the number of competitors in the local market to decline, since most foreign acquirers already have operations in the host market (UNCTAD 2000).

Second, one may examine the significance of the motive to pursue monopoly in cross-border M&As. M&As are often driven by a variety of motives, including the search for new markets, increased market power and market dominance, efficiency gains through synergy, greater size, diversification, financial motivations, and/or personal motivations of managers (Hopkins 1999; Cantwell and Santangelo 2002; UNCTAD 2000). Strategic M&As intend to create synergy, increase market or political power (Hopkins 1999; Cantwell and Santangelo 2002). For example, Philip Morris acquired Miller Beer and by applying their strength in marketing, raised Miller's market position from number seven to number two. The pursuit for market dominance is one of the main motivations for cross-border M&As.

Third, one may look at the relative importance and the effects of different types of M&As. In terms of their composition, cross-border M&As are more often horizontal than vertical. The percentage of horizontal M&As in the total value of cross-border M&As has always stayed above more than 50% (UNCTAD 2000, 102). In addition, the value of horizontal M&As has been

increasing. The percentage of horizontal M&As in the total value rose from 59% in 1989 to 70% in 1999; in contrast, vertical M&As stayed well below 10% in the 1990s, and conglomerate M&As dropped from about 42% in 1991 to 27% in 1999 (UNCTAD 2000, 101). The desire for achieving or strengthening monopoly power is a major cause of horizontal M&As in the past (Cantwell and Santangelo 2002, 402). Cross-border M&As have caused greater industrial concentration in such industries as motor vehicles, pharmaceuticals, banking, which happen to experience most horizontal M&As. While horizontal M&As are more likely to be anticompetitive than vertical M&As, the latter also reduce market competition in various circumstances (Graham and Richardson 1997, 24-5). For example, vertical arrangements, such as exclusive contracts between firms and suppliers of some non-substitutable input, often foreclose entry by rival firms.

Fourth, one may examine the severity of the anticompetitive effect of M&As in the developing countries. The anticompetitive motive and consequence of cross-border M&As are likely to be most serious in the developing countries. The MNCs' pursuit for monopoly motivates a lot of the cross-border M&As in unregulated markets in the developing world (Newfarmer 1979; UNCTAD 2000). Unregulated acquisitions by MNCs, together with their market power in technology and financial markets, cause a negative impact on the host market structure. In Brazil, acquisitions by MNCs in the electrical industry caused an increase in both the level of industrial concentration and foreign control (Newfarmer 1979). This appears to be the pattern in other developing countries in more recent years as well. According to research findings on notable cases, cited in UNCTAD (2000, 194), for example, the Indian subsidiary of Unilever acquired its main local rival and dominated the local markets in the toilet soap (75%) and detergent (30%). The Mexican brewery Grupo Modelo SA used to hold 55% of the local market share in 1996 and then in 1998, the US brewery Anheuser-Busch, already operating in Mexico, acquired a controlling stake (50.2%) in Modelo. Therefore, in developing countries, which lack competition legislation or

resources to implement these laws, cross-border M&As are much more likely to cause market dominance in the host economy. M&As may arguably maintain market competition by entering the local market and acquiring ailing domestic firms (UNCTAD 2000). The post-entry effect of the MNC on market competition, however, depends on that the host government has effective regulatory regime preventing the MNC from dominating the host market. Governments in the developing countries are typically not adequately equipped with requisite competition laws or administrative resources.

On balance, cross-border M&As reduce market competition more than greenfield FDI, and horizontal M&As are more pernicious to market competition than vertical M&As. Since most cross-border M&As are horizontal, it is plausible to conclude that M&As will often reduce market competition in host economies. In the developing countries, where markets are not regulated or poorly regulated, the anticompetitive effect of cross-border M&As is likely to be strong.

Democracy and Antitrust Regulation

Firms are motivated to invest abroad because they can exploit advantages in their ownership of tangible and intangible assets (facility, equipment, technology, product differentiation and organization) and in their internalization and hierarchical control of cross-border operations (Dunning 1988, 1993; Hymer 1976; Caves 1971; Rugman 1981; Teece 1981). These advantages lead MNCs to invest in concentrated industries and further strengthen the monopoly and oligopoly market structures (Stopford and Strange 1991, 74). In capital intensive industries where scale is a critical determinant of firm competitiveness, firms seek monopoly status to reduce costs and expand. As Vernon (1998) noted, a few large firms in various capital intensive industries such as chemicals, aluminum, oil, electric bulbs, etc. arose to dominance in their home countries in the first half of the 20th century. They sought to avoid competition among themselves by elaborate market

sharing agreements. Industrial concentration then occurred in their home countries as well as the host countries where their subsidiaries operated. In the end, FDI tends to originate in home country oligopolies and the operations of MNCs correlate with market concentration in host economies (UNCTAD 1997, 137).

The anticompetitive consequence of foreign investment is likely to be serious in the developing countries, where domestic firms can not compete successfully against large MNCs and where local markets are protected, lack contestability and openness (UNCTAD 1997). Furthermore, eager to attract foreign capital, host governments in many developing countries often grant exclusive or monopoly-type inducements that grant legally protected market power to MNCs, to attract foreign investors. For example, international franchisors may require the local franchisor to use inputs from specific sources they control. Or the foreign partner in a joint venture is required not to compete with the host partner firm on certain products.

Is democratic governance at odds with market monopoly or oligopoly associated with large MNCs? The answer to the question is complicated. There has been a long tradition in economics and political science arguing that big corporations, monopoly or oligopoly, are incompatible with public interest and democracy. The argument traces back to Adam Smith's critique of corporations conspiring to raise price against the public. Firms find it to be in their own interest to seek monopoly or oligopoly whenever feasible because price setting market power raises profits for firms and shareholders (Graham and Richardson 1997). The arguments against anticompetitive behaviors now expand to include a variety of restrictive business practices, such as collusion, barriers to entry, and rent seeking, all with the purpose to dominate the market and increase profit (see, e.g., Graham and Richardson 1997; Stiglitz 1995; UNCTAD 1997). The social welfare consequences are inefficient allocation of resources and the lack of fairness and volunteerism in the market.

In the spirit of this literature, the desire of firms to create, maintain and increase the monopoly or oligopoly position sets them at odds with democratic governments. Charles E. Lindblom (1977) flatly states, “The large private corporation fits oddly into democratic theory and vision. Indeed, it does not fit.” Lindblom (2001, 236) provides for the claim the following rationale. Genuine democracy requires roughly equal distribution of political influence among citizens over elites. Economic inequalities, however, “create inequalities in opportunity to run for office, in launching candidates, in capacities to use the mass media to influence voters, in lobbying, and in social interchange with party and government officials.”

The economic and political consequences of imperfect market structures are considered to justify antitrust regulation and competition policy. As written by the US Supreme Court in *US v. Topco Associates Inc.* (1972), “Antitrust laws...are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free enterprise system as the Bill of Rights is to our fundamental freedoms.” (as cited by Dean and Mohieldin 2001, 3) And “Political liberty can survive only within an effective competitive economic system.” (Simons 1948, 43)

The opposing view regarding the relationship between large corporations and democracy also has existed for a long time (see, e.g., Marris and Mueller 1980). Schumpeter (1942) argues that “What we have got to accept is that the large-scale enterprise has come to be the most powerful engine of progress.” Large corporations play a leading role in research and development (R&D), technological innovations, exploiting the economies of scale, and driving economic development. Innovation and firm turnover through creative destruction are essential for achieving dynamic efficiency over time. In addition, economic rationale accounts for the existence of natural monopoly in some industries. Natural monopoly arises where technology requires scale economy or high natural setup costs such that cost-saving production is still possible even with one single firm serving an entire market (Graham and Richardson 1997). It is therefore not surprising that large

MNCs innovate and engage in R&Ds that are not possible for small and medium enterprises. Furthermore, large MNCs may actually increase the contestability of the local market, by creating more competition in host markets that were previously protected and monopolized by domestic firms. To the extent that technological innovation and economic development promote democracy (see, e.g., Lipset 1994), natural monopolies are not necessarily incompatible with democratic governance.

This battle of ideas has influenced the thinking of both scholars and regulators over the issue of effective antitrust regulation and competition policy (see, e.g., Graham and Richardson 1997; Mandel et al. 2000). It is recognized that while anticompetitive behaviors by large firms should be kept in check, indiscriminate trust-busting could hurt technological innovations that are possible only because of large MNCs, producing counter-productive regulation.¹ Therefore, for antitrust regulation and competition policy to be effective and productive, host country circumstances, industry attributes, and global market conditions need to be carefully analyzed. To ensure effective and legitimate antitrust regulation, competing interests need to be advocated and represented; opposing views articulated and heard. Policymakers and lawmakers have to allow full expression of and give adequate deliberation to different opinions.

Because these pre-requisite conditions are more likely to realize under democratic institutions, democracy is better able to achieve effective antitrust regulation that curbs anticompetitive behaviors and promotes market competition. By definition, representation democracy implies free and fair elections of the executive and legislative offices, the right of citizens to vote and compete for public office, and institutional guarantees for the freedom of association and expression (Dahl 1971, 1998). Freedom of expression and open media allow different views to

¹ The Microsoft antitrust case is an illuminating example. The Federal Trade Commission and the Justice Department have used innovation instead of price as the basis for antitrust action. The US government

be heard, discussed and debated. The right to vote and to run for office facilitates the organization and representation of competing interests. Electoral accountability ensures that politicians listen to different views of their constituencies. Hence, antitrust regulation and competition policy are more likely to have legitimacy and effectiveness in democracy.

Antitrust regulation is less likely to be effective for promoting market competition under autocratic rule for several reasons. First, in the autocratic country, the government is held accountable only to the ruling elite (Linz 2000). The nature of the regime dictates that dissenting views and interests be suppressed. Competing views on antitrust regulation are less likely to receive wide discussion and debate. Competition policymaking is less informed. Second, the primary concern of an autocratic government is to generate more revenue for the ruling clique (Olson 1993). The orientation of the competition policy regime depends on the preference of those in the winning coalition. If the interest of the elite contradicts that of the MNC, foreign entry is difficult and domestic monopoly is more likely. If the interest of the elite coincides with that of the MNC, collusion with foreign interests results in their joint dominance of the host market. Regardless, antitrust regulation in autocracy is more likely to bias in favor of particularistic interests (domestic or foreign). Given the general trend toward liberalizing FDI restrictions since the 1980s (UNCTAD 2000), it is plausible to conclude that the autocratic countries are now more inclined to favor foreign capital and thus, less likely to impose antitrust regulation on foreign businesses.

Democracy and Cross-border M&As

In light of the discussions above, democracy may affect cross-border M&As through three different mechanisms: antitrust regulation, property rights protection, and policy credibility. The first

proposal to break up Microsoft was based on the claim that Microsoft deterred innovations beneficial to consumers (Mandel et al. 2000).

mechanism may dampen cross-border M&As, while the last two may lower investment risks for international businesses. Each of these mechanisms is discussed below.

According to theoretical discussions above, we should expect that democracy have more effective antitrust regulation. What is the implication for cross-border M&As? As merger review is part of antitrust regulation and competition policy, governments approve or block cross-border M&As, regulating the entry of MNCs and specifying the rules of operation for those that already operate in host economies. Some 70 countries had adopted mandatory or voluntary antitrust merge notification systems by 2000 (UNCTAD 2000, 158). Effective antitrust regulation is likely to reduce cross-border M&As that are anticompetitive. Evenett (2002) shows in a cross-sectional analysis of 49 countries for 1999 that merger review laws in the host countries reduce the amount of American M&A received. Furthermore, businesses that anticipate the impact of the regulatory regime are likely to choose not to pursue M&As that would be blocked by the antitrust authorities. Therefore, to the extent that democratic governments are expected to have effective antitrust regulation, they are more likely to block the M&As that reduce market competition.

Anecdotal case evidence supports this expectation. For example, the \$129 billion (US\$) merger of WorldCom, Inc. and Sprint Corp., which would have been one of the largest mergers in history, failed to pass the merger reviews in both Europe and US and was eventually blocked by the antitrust authorities in 2000. Between 1990 and 2000, EU Commission blocked 13 mergers, each case involving companies with combined global sales of over 5 billion euros. The theoretical expectation also appears consistent with the intuitive understanding by multinational executives of the effect of politics on the M&A process. Avi Eden, Vice Chair of Vishay Intertechnology, said, for example, “It’s a buyer’s market now for multinational corporations. When we do an acquisition, we’re in the controlling seat. The region has to come to us and say we want these jobs to stay or we want this to be here.” (Hopkins 1999, 230) However, democratic countries are less eager to rush

and the M&A deals receive more scrutiny from various interests. According to Avi Eden, the process is going to be slow in democratic countries because “politicians make the decision in the democratic arena. The decision is not going to be made quickly, it’s not going to be made efficiently” (Hopkins 1999, 230-1). Based on these discussions, one may formulate the following hypothesis regarding the relationship between democracy and M&As:

Hypothesis 1 Democratic host countries have more effective antitrust regulation, which limits the relative importance of cross-border M&As in their economies.

Theoretically, one may anticipate that the hypothesized effects differ between established industrial democracies and those in the developing world and in economic transition due to differences in expertise, human capital, and the independence of the antitrust agency. As noted, many countries have adopted merger control, but adoption does not ensure effective implementation. For example, in 1994, Brazil enacted a new antitrust law that includes provisions for merger control. While the number of mergers reviewed rose from 99 in the first two years to over 600 in 2001, none of the three agencies responsible for antitrust enforcement issued any merger guidelines since 1999. And they challenged very few cases and did not prohibit any transaction outright since 1996 (Correa and Aguiar 2002). In contrast, the antitrust authorities in established industrial democracies like the US or EU have been much proactive and effective in influencing the outcomes of many mergers, particularly the mega mergers. This difference implies that the expected effects in hypothesis 1 are likely to differ between established industrial democracies and many less developed or transitional economies.

Democracy may also affect cross-border M&As by influencing property rights institutions. In fact, democracy may increase M&As via its positive effect on investor protection. Because FDI involves cross-border jurisdiction, foreign investors are concerned with monitoring and enforcing their private property rights in the host country (see, e.g., Frieden 1994). The possibility of property

rights violations, such as expropriation, seizure of assets, contract repudiation, and government corruption, weighs heavily in the calculus of FDI decisions (see, e.g., Kobrin 1984). In the context of M&As, Globerman and Shapiro (2005) find in a cross-sectional analysis of about 150 countries in the period of 1995-2001 that better rule of law and investor protection are associated with more M&A sales. Similarly, Rossi and Volpin (2004) find in a cross-sectional analysis of 49 countries for the period of 1990s that the volume of M&As is significantly larger in countries with better investor protection, though the target countries in cross-border M&As tend to have worse investor protection than the acquirer countries.

In the literature on the political economy of FDI, scholars (e.g., Jensen 2003, 2006; Li and Resnick 2003; Li 2006) argue that more checks and balances that exist under democratic institutions prevent the state from predatory rent-seeking and render the government's commitment to private property credible, reducing expropriation risks for foreign investors. Democratic institutions, such as the dispersion of power, the constrained executive, the large number of veto players over public policy, legislative and judicial power, the diversity of views in the legislature, and the independent judiciary, collectively serve to strengthen the rule of law and secure private property rights. By reducing the risks of expropriation and contract repudiation for private businesses, better property rights protection improves the investment environment for foreign investors, leading to more FDI inflows (Li and Resnick 2003; Jensen 2003, 2006). Extant empirical evidence (e.g., Clague et al. 1996; Li and Resnick 2003; Li 2006) demonstrates that on average, democracy offers better property rights protection than non-democracy. Hence, to the extent that cross-border M&As respond to better investor protection, democratic countries may attract more multinationals to acquire and merge with their local businesses.

Hypothesis 2 Democracy increases cross-border M&As by providing better investor protection.

The third mechanism by which democracy affects cross-border M&As relates to the issue of policy credibility. Because foreign direct investors tend to have long time horizon, their investment is mobile *ex ante* but illiquid *ex post*. As a result, foreign investors value the credibility of the host government's policy regime (e.g., Brewer 1993; Jensen 2003, 2006). Host policies over taxation, trade, foreign exchange, and capital control are relevant to firm operations, investment decisions and returns (see, e.g. Guisinger 1985; Brewer 1993). Unexpected changes in these policy areas surprise businesses and reduce their profits. Jensen (2003, 2006) argues that democratic governments that change policy regimes and renege on their international commitments to investors are likely to pay audience cost in the form of electoral defeat. Because MNEs penalize such leaders by divesting or withholding future investments, citizens in the host country have an incentive to replace those leaders that lose favor with foreign investors. This possibility compels democratic leaders to maintain policy credibility with foreign investors. This logic gives democracy an advantage in ensuring policy credibility and reducing investment risks.

To be sure, regularized election and government turnover do introduce "institutionalized policy uncertainty" in democracy (Przeworski 1991). The fact that leaders compete vigorously for office to implement their preferred policies, however, allows the logic of audience cost to work. Yet democracies that constantly go through institutional changes may lack policy credibility in the eyes of foreign investors. Hence, when democratic institutions are stable and last in duration, it means the rules of the game continue to be clear, observable, and accepted by different parties. As information flows freely in the democratic society, the boundaries of "institutionalized policy uncertainty" resulting from elections and government turnover will become clearer to observers over time. Transparency and institutional stability make it easier for foreign investors to anticipate and adjust to possible policy changes in democracy. The same effect is unlikely to occur in autocracy as the government imposes information censorship and clouds policymaking with secrecy.

The lack of transparency renders government commitment a cheap talk signal. Consequently, institutional stability in democracy is associated with fewer unexpected policy changes and lower risks, which appeal to foreign investors.

Hypothesis 3 Institutional stability in democracy generates greater policy credibility that increases cross-border M&As.

3. Data and Methods

The sample includes 47 countries² (22 established industrial democracies and 25 less developed or transition economies) from 1989 to 2000. As noted, the effect of antitrust regulation may differ between the two sub-samples. In addition, as Blonigan and Wang (2005) demonstrate, LDC's experiences with FDI are systematically different from those of developed countries and pooling these two types of countries together in analyzing the causes and effects of FDI is inappropriate. Hence, analysis is conducted separately for each of the three samples.

Data on cross-border M&As are collected from the 2000 and 2006 *World Investment Report*, based on the UNCTAD database on cross-border M&As. Several data characteristics warrant clarification and attention in analysis (UNCTAD 2000, 105). First, these data follow the FDI definition in terms of the equity share rule (the 10% or more foreign control). They reflect the cross-border nature of the M&As and are suitable for our analysis. Second, there exist national differences in how the statistics are collected, in terms of the timing of data collection, the treatment of different forms of M&As, and the treatment of additional acquisitions by majority owners. This apparently introduces country specific heterogeneity that should be controlled for. Third, the data

² These countries are Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, South Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Russia, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States, and Venezuela.

involve transactions and include purchases financed through both domestic and international capital markets. One should thus refrain from equating the magnitude of cross-border M&As transactions with FDI flows. This does not pose a problem for this analysis since we focus on the M&A transactions, not a comparison with the total FDI flows or greenfield investment.

Based on the M&As data, two dependent variable measures are constructed: the percent of M&A sales over GDP and the amount of M&A sales in millions US dollars. These two measures, though based on the same underlying data, provide for us somewhat different information. The percent measure represents the relative size and importance of cross-border M&As in the host economy. The amount measure reflects the level of cross-border M&As sale in the host economy. In the all country sample, the two measures are correlated at 0.41, which suggests that they contain substantially different information.

Hypothesis 1 concerns the effectiveness of antitrust regulation, which is difficult to measure. As noted, a country may adopt competition policy but lack antitrust enforcement, making policy adoption an inappropriate indicator for the argument.³ I use some survey-based measures to construct an indicator of the effectiveness of antitrust regulation. The *World Competitiveness Report* (1989-1995) and the *World Competitiveness Yearbook* (1996-present) conducted annual Executive Opinion Survey, consistently including one question on antitrust regulation (1989-1996) and competition law (1997-present). Each year around March, typically over 3000 executives in top- and middle management complete and return a questionnaire for the Survey. These respondents are from the OECD countries and some 10-30 newly industrialized and emerging economies (varying number of less developed countries depending on the year), and in both domestic and international companies, offering local and expatriate perspectives. For the antitrust regulation and competition policy question, these respondents are asked to rank “the effectiveness of anti-trust laws in checking

non-competitive practices” (1989-1996) or the degree to which “competition laws do prevent unfair competition” (1997-present) in the countries in which they work. I use the mean response score to the above survey question to proxy the effectiveness of antitrust regulation and competition policy in promoting market competition in the host economy. The variable ranges from 0 to 100, with higher values indicating more effective antitrust regulation. Compared with indicators of formal antitrust policy, this indicator is a better proxy for the actual effectiveness of antitrust regulation than legal stipulations. As a potential problem, this measure may be reversely affected by the dependent variable as it is based on the perceptions of executives. This may not pose a significant threat to the validity of the measure to the extent that the survey covers a very wide range of firms. Still the potential problem of reverse causality should be formally tested.

For hypothesis 2, the investor protection variable is the sum of four annual indicators (investment profile, law and order, corruption, bureaucratic quality) from the Political Risk Service.⁴ The investor protection index ranges from 0 to 28, with higher values indicating better investor protection. Previous studies (e.g., Knack and Keefer 1995; Clague et al. 1996; Li and Resnick 2003; Rossi and Volpin 2004) also have used these measures for property rights protection.

To measure institutional stability in democracy for hypothesis 3, I use the regime durability variable from the POLITY IV database. The variable is the number of years since the most recent regime change, defined by a three-point change in the POLITY score over a period of three years or less, for democratic countries. To focus on the institutional stability in democracy, the variable is coded zero for non-democratic countries. This variable captures the stability of political institutions

³ Rossi and Volpin (2004) show that the cross-border regulation policy dummy has no effect on the ratio of cross-border over domestic M&A deals.

⁴ Investment profile, ranging from 0 to 12, measures the risks of contract repudiation and expropriation. Law and order, ranging from 0 to 6, reflects the strength of impartial legal system and popular observance of laws. Corruption, ranging from 0 to 6, indicates the degree of government corruption. Bureaucratic quality, ranging from 0 to 4, reflects the autonomy from political pressures and bureaucratic expertise.

in democracy, which correlates with investors' certainty about the host country's future economic policies and provides a measure for the democratic advantage in policy credibility.⁵

To test the idea that democracy no longer affects M&As after controlling for antitrust regulation, investor protection and policy credibility, the democracy variable is included in some models. The democracy variable is the POLITY2 variable from the POLITY IV database, which is the difference between the variable DEMOC and the variable AUTOC, ranging from -10 to +10.⁶ It is widely used to measure the level of democracy (see, e.g., Jensen 2003, 2006; Li and Resnick 2003).

I also control for a number of factors the economics and business literature suggest that have affected cross-border M&As. Countries with higher economic growth may induce more M&A activities because they provide more opportunities. The faster growth country is more likely to be home to target firms and experience more M&A sales (Yagil 1994; Hopkins 1999). But the effect of economic growth on cross border M&As is often statistically insignificant in cross national empirical studies (Globerman and Shapiro 2005; Rossi and Volpin 2004). The growth variable is the annual percentage growth rate of GDP. Data are from the World Bank's *World Development Indicators*.

Economies with more wealth have larger internal markets and better infrastructure, which allow them to attract more FDI due to higher expected returns (Ross and Volpin 2004). Log transformed GDP per capita (in constant purchasing power parity adjusted international dollars) is used to measure the effect of wealth and market size. Data are from the World Bank (2006).⁷

As noted, different countries may apply different data collection rules on cross-border M&As (UNCTAD 2000, 105). In addition, natural resource endowment, cultural, historical and

⁵ A country is considered democratic if its polity2 variable is greater than or equal to 6, following the conventional practice in the political science literature (see, e.g., Dixon 1994).

⁶ The POLITY IV database (Marshall and Jaggers 2000) records annually from 1800 to 2003 the democratic and autocratic attributes of many countries, including competitiveness of political participation, regulation of political participation, competitiveness of executive recruitment, openness of executive recruitment, and constraints on the chief executive.

⁷ Globerman and Shapiro (2005) use the logged GDP variable to measure market size instead. Whether this variable is included in lieu of or together with GDP per capita in our models does not affect the results for the main variables. It is not included since its effect is rarely significant.

structural differences among countries also may influence cross-border M&As. Factors such as common law tradition affect cross-border M&As and tend to be stable over time (Rossi and Volpin 2004; Globerman and Shapiro 2005). There may also be other country-specific unobservables that influence M&As. Hence, country fixed effects dummies are included to control for these country-specific factors. While this is a conservative practice, it guards against possible spurious correlations due to those omitted country-specific factors (observed or unobserved). It also allows us to interpret the findings as the within effects for countries (Greene 2003).

Privatization is widely argued to have encouraged cross-border M&A sales in the less developed or transitional economies (see, e.g., Hopkins 1999; Cantwell and Santangelo 2002; UNCTAD 2000). First, cross-border M&As may be motivated by the desire to enter new markets in new countries. The deregulation and privatization of state-owned enterprises provide opportunities for acquisitions by foreign investors. Relative to alternative modes of entry, M&A is less costly and risky than wholly owned subsidiary but offers more control than joint ventures. Second, undervalued businesses are likely to be M&A targets. The privatization reforms in Eastern Europe and China, for example, often cause state-owned enterprises to be undervalued, as these governments may be eager to carry out deregulation and privatization reforms for rent seeking purposes (Hopkins 1999; UNCTAD 2000). Privatization also is a driving cause of M&A sales in Argentina and Brazil, the two largest sellers in Latin America (Cantwell and Santangelo 2002; UNCTAD 2000). The privatization variable is measured by the total value of privatization transactions in a country in a given year. Data are from the World Bank privatization database. The variable is included in models for the less developed and transition economies.

Finally, cross border M&As often occur in industries of imperfect market structure. The strategic motive to seek market dominance implies that MNCs react to the M&As by their rivals. As rival firms enter a new market, it is important to follow suit in order to maintain and expand market

share (UNCTAD 2000). This may create inertia in the series of M&A sales. Such inertia is often modeled econometrically by the lagged dependent variable (Greene 2003; Beck and Katz 1995).

Therefore, the model of cross-border M&A sales is specified as follows:

$$y_{it} = \beta_1 y_{it-1} + \beta_k x_{it-1} + \alpha_i + \varepsilon_{it}, i=1, \dots, N; t=1, \dots, T$$

where y_{it} is a measure of the cross-border M&A sales. y_{it-1} is the lagged dependent variable. x_{it} represents the vector of the right-hand side variables, all of which are lagged one year to control for reverse causality except for antitrust regulation and privatization. α_i represents the time invariant country-specific heterogeneity, i.i.d with mean zero and variance σ_α^2 , and ε_{it} is i.i.d with mean zero and variance σ_ε^2 . N is the number of countries, varying depending on the sample, and T is 12 years.

This is a dynamic panel data model. In this model, because y_{it-1} is a function of the country-specific effects, $\text{cov}(y_{it-1}, \alpha_i) \neq 0$ by design and thus, both the OLS and the random effect estimators produce biased and inconsistent estimates. The fixed effect estimator also is a biased and inconsistent estimator for this model and the size of the finite sample bias is of order $1/T$. The bias is very large when T is moderate or small (Greene 2003). When T is small, the dynamic panel data model is usually estimated by the method of instrumental variables.

Arellano and Bond (1991) suggest a generalized method of moments (GMM) estimator to obtain consistent estimates for this type of model. The GMM estimator takes a first difference of the model, which removes the time invariant country specific effects.

$$\Delta y_{it} = \beta_2 \Delta y_{it-1} + \beta_k \Delta x_{it-1} + \Delta \varepsilon_{it},$$

The first differencing, however, introduces regressor-error correlation, that is, $\Delta y_{it-1} = (y_{it-1} - y_{it-2})$ is a function of ε_{it-1} , an element in the first differenced error term. To address the problem, the GMM estimator applies y_{it-2} or Δy_{it-2} as an instrument that correlates with Δy_{it-1} , but not $(\varepsilon_{it} - \varepsilon_{it-1})$. The GMM estimator requires that there is no second order serial correlation in the first differenced equation.

Robust standard errors are estimated to further guard against heteroskedastic error variance in the first differenced error term.

4. Results

Tables 1 and 2 report the statistical results for the two dependent variable measures, respectively. Each table includes six models. The first four cover the three samples and the addition of the privatization variable. The last two examine the effect of democracy vis-à-vis the three key variables.

[Insert Tables 1 and 2]

To ensure the validity of the statistical findings, two diagnostic tests recommended by Arellano and Bond (1991) are conducted. First, the Arellano-Bond estimator requires that the errors be serially uncorrelated. Thus, the first differenced residuals should have no second order serial correlation. Based on the reported z-scores reported in the tables, the null hypothesis of no second-order autocorrelation fails to be rejected for each of the models. Second, Arellano and Bond (1991) suggest the Sargan test for whether a model's over-identifying restrictions are valid. According to the Sargan test statistics (with 76 degrees of freedom) in Tables 1-2, the null hypothesis of valid over-identifying restrictions fails to be rejected for each of the models, based on the two-step estimator recommended for this test. These diagnostic tests support the model results.⁸

Next, we turn to discuss the control variables. According to Tables 1 and 2, the lagged dependent variable is statistically insignificant across the different samples in Table 1, but statistically significant across the models in Table 2. There is little state dependence in the M&A over GDP measure, but significant state dependence in the M&A amount measure. This suggests that controlling for the dynamics is important for modeling the amount measure, but that the model may be over-specified for the M&A over GDP measure, an issue we will return to later. According to

the estimates in Table 2, every million dollar increase in M&A sales leads to 1.17 million dollar increase in the advanced democracies, but only 0.301 million dollar increase in the less developed and transition economies. International strategic rivalry appears most intense in the advanced democracies and less so in the less developed economies.

GDP per capita has no effect on the M&A over GDP measure across the samples in Table 1. But in Table 2, it reduces the amount of M&A sales significantly for the 47 country sample and the advanced democracy sample while not in the less developed country sample. Economic growth has no statistically significant effect on either M&A measure across the different samples. These results are not surprising, as the effects of these macroeconomic conditions for cross-border M&As are found to lack robustness in the literature (e.g., Rossi and Volpin 2004; Globerman and Shapiro 2005). It is plausible that their effects vary substantially, depending on the sector, industry and firm attributes.

For less developed and transition economies, the effect of privatization is consistent with the expectation in the literature. As expected in many studies, the effect of privatization is statistically significant and positive on both M&A measures. A rise in privatization transactions leads to both an increase in the relative share of M&A sales in the national economy and the amount of M&A sales. Privatization reforms in the developing host countries are associated with more cross-border M&As sales. Based on the estimated coefficients in Tables 1 and 2, for every one billion dollar privatized assets in a less developed or transition economy, its cross-border M&A sales increase by \$652 million, or the M&A over GDP percentage ratio goes up by 0.13.

Now we discuss the results for the key independent variables. Antitrust regulation has a statistically significant negative effect on the M&A over GDP measure across all models and all samples in Table 1. A one point rise in the antitrust regulation index leads to the M&A over GDP

⁸ VIF statistics for the models in both tables are low, not exceeding 2 for any of the variables. This means that

percentage ratio to decline by about 0.06% in advanced democracies and about 0.04% in less developed or transition economies. A 6-point rise in antitrust regulation (one standard deviation change for the first differenced variable in the estimation sample) leads the relative share of M&A sales to drop by about 0.3% for advanced democracies and over 0.2% for less developed or transition economies. In Table 2, antitrust regulation also reduces the M&A sale amount, but its effect is not robust for the less developed economy sample. The effect is statistically insignificant in model 3 without the privatization variable, but is negative and approaches significance in model 4 with the privatization variable. Its effect is extremely large in the advanced democracies. A one point rise in the antitrust regulation causes the M&A sale to drop by nearly half a billion. This is not surprising given the various failed mega-mergers in the advanced economies. Overall, effective antitrust regulation limits both the relative size of M&A sales in the national economy and the amount of M&A sales, and the effect is stronger in advanced democracies where antitrust regulation is more developed.

The effect of investor protection varies dramatically between the two M&A measures. In Table 1, investor protection has a statistically significant positive effect on the M&A over GDP measure, but the effect is not significant in the less developed economy sample. In Table 2, investor protection does not have any statistically significant effect in any of the models. These results stand in contrast with the existing cross-sectional empirical studies (Rossi and Volpin 2004; Globerman and Shapiro 2005). The first possible cause is multicollinearity with GDP per capita. While the two variables are somewhat highly correlated in level (ranging between 0.5 and 0.8 across the samples), the first differenced variables are not highly correlated (0.4 at most). And the VIF statistics never exceed 2 for these two first differenced variables (or other variables in the model). A second possibility is that investor protection is generally low in less developed economies. Indeed, it is on

multicollinearity is not a problem.

average lower by 5 points than in advanced democracies. But the first differenced variable has a similar mean value in both samples. Third, the difference from previous findings may be due to research design and the concept measurement. Both Rossi and Volpin (2004) and Globerman and Shapiro (2005) are cross sectional while this analysis is pooled time series, focusing on the within effect. It is possible that the cross sectional analysis captures cross-sectional variations, assuming that there is no bias or inconsistency due to unobserved unit heterogeneity. But such effect is weak in the time series setting. In addition, Rossi and Volpin (2004) focus on shareholder protection and accounting standards. Globerman and Shapiro (2005) focus on broad governance indicators involving rule of law as well as political accountability and instability. This analysis focuses on investor protection in terms of expropriation, contract repudiation, corruption and bureaucracy. Differences in design and concept measurement may have caused the different findings. Future research in this area is obviously useful.

The democratic institutional stability variable, measuring the democratic advantage in policy credibility, has a statistically significant and positive effect on both M&A measures, except for in the LDC model with privatization in Table 2. As this is a count variable, its first differenced version is essentially a dummy variable with one indicating institutional stability and zero indicating change. The substantive effect is hugely different in size between advanced democracies and the less developed or transition economies. Relative to years with institutional change, the share of M&A sales over GDP is 0.38% in advanced democracies and 0.18% for the less developed economies under years of institutional stability. The amount of M&A sales is over 3.3 billion dollars more for the advanced democracies in years of institutional stability.⁹ Hence, democratic institutional stability encourages more M&A sales in the host economies.

⁹ It is worth noting that in the particular sample of advanced democracies, there is no large institutional change in the period for any of the countries. Hence, the first differenced variable is constant, basically indicating the baseline intercept value of the dependent variable, holding other variables in the model constant.

Overall, the results for antitrust regulation, investor protection and democratic institutional stability provide support for hypotheses 1-3, with some qualifications on their effects in the less developed and transition economies. One premise of the argument is that democracy affects M&As through these three variables. If this premise is valid, we should expect the following: the effect of democracy is statistically significant (the direction of its effect depending on the relative strength of those three forces) in a model excluding the three key variables, and yet its effect should become insignificant once we control for those three key variables. The results in models 5-6 for both M&A measures support this expectation. The effect of democracy is significant and negative in model 5 for both measures, but becomes insignificant in model 6 in both tables.

As noted earlier, the lagged dependent variable for the M&A over GDP models is not statistically significant, which suggests that a dynamic specification is not necessarily suitable for modeling the M&A over GDP measure. One may ask whether the model results will remain if one removes that variable. Without the lagged dependent variable, one need not use the Arellano-Bond estimator, but may apply the fixed effects OLS estimator instead. We replicate the models in Table 1 using the alternative estimator, but with panel corrected standard errors (PCSE) and correction for AR(1) serial correlation in the error term (Beck and Katz 1995). Table 3 reports these results. The effects of all three key variables (antitrust regulation, democratic institutional stability, investor protection) remain consistent with those based on the Arellano-Bond estimator.

[Insert Table 3]

One may also wonder if other omitted variables could confound the effects of the three main variables. To the extent that these factors are structural and stable over time, they are cancelled out by the first differencing as noted earlier. But there are some other observable variables worth considering, such as institutional stability in autocracy, capital account openness, and stock market capitalization. Tables 4-5 report the results for including these variables in the 47-country

sample and the less developed economy sample for the two M&A measures, respectively. The effects of the three key variables (antitrust regulation, democratic institutional stability, and investor protection) remain consistent with those in Tables 1-2. For the newly added variables, autocratic institutional stability does not increase the M&A sales, regardless of the measure, consistent with our expectation. Institutional stability improves policy credibility only under democracy, where both transparency and audience cost are high. Stock market capitalization appears to have some weak positive effect in the all country sample, but not in less developed economies. Finally, for both M&A measures, capital account openness has a significant but negative effect in the all country sample, but not in less developed economies. Given the time period and the variable is first differenced, the negative effect in the all country sample captures those late liberalizers in the capital account liberalization in the advanced democracies (e.g., Japan). The negative effect of liberalization may reflect the high impediments against M&As in these countries.¹⁰

[Insert Tables 4-5]

5. Effect of Democracy on Antitrust Regulation

Part of the theoretical argument in the paper relies on the premise that democracy has relatively more effective antitrust regulation than non-democracy. I evaluate this claim empirically by estimating the effect of democracy on the antitrust regulation effectiveness variable. I use the country fixed effects model with panel corrected standard errors (PCSE), plus AR(1) correction. For simplicity, model specification includes the democracy variable, logged GDP per capita, and country dummies. Statistical results are presented in Table 6.

[Insert Table 6]

¹⁰ Excluding China from the samples does not change the results of the three key variables from those in Tables 1-2.

Table 6 includes four models, with the first two for the 47-country sample and the second two for the less developed economy sample, using two measures of democracy (one continuous, one dichotomous) for each sample. GDP per capita has a positive and statistically significant impact on antitrust regulation. As a country becomes richer in wealth and income, its antitrust regulation will also improve.

As expected, the effect of democracy on antitrust regulation effectiveness is positive and statistically significant. Democracy has more effective antitrust regulation, and the effect is robust across samples. According to the coefficients in Table 6, as a country turns democratic, its antitrust regulation is expected to improve by about 4.8 points for the 47-country sample and 6.4 points for the less developed economy sample. These improvements are more than one-third of one-standard deviation (13) for the 47-country estimation sample and more than half of one-standard deviation (11) for the less developed economy sample. These effects are substantial in size and confirm our theoretical expectation.¹¹

6. Conclusion and Implications

The rapid development of MNCs and FDI has raised many important theoretical and policy related questions. Developing countries have actively pursued foreign capital, abandoning their capital controls and their previous strategies of shunning foreign business as a source of exploitation and underdevelopment. Increasingly mergers and acquisitions have become as important a mode of foreign entry as greenfield investment. The growing and spreading presence of MNCs have rekindled the strong anti-capitalist sentiment among many social activists, producing various social movements reacting to the MNC expansion. One central criticism concerns the growing

¹¹ One may wonder if cross-border M&A reversely affects antitrust regulation. In fact, when the models include either M&A measure, neither of them has a statistically significant impact on antitrust regulation. Neither the Granger

significance of cross-border M&As and their anticompetitive impact on the host economy. Many countries have adopted competition policy to address the anticompetitive impact of M&As. But scholarly research on the effect of competition policy on M&As has been sparse. And the link between democracy, on the one hand, and antitrust regulation and cross-border M&As, on the other, has not been investigated systematically in the cross-national setting.

This research demonstrates that democracy limits both the relative importance of cross-border M&As in the host economy and the amount of M&A sales via improving the effectiveness of antitrust regulation. This effect is largely robust in both advanced democracies and less developed economies. Both the effect of democracy on antitrust regulation and the effect of antitrust regulation on cross-border M&As are substantively important. These findings have several important implications. While MNCs are growing bigger and more powerful, as critics argue, one does not have to be pessimistic. Democracy helps to put a brake on the malign expansion of MNCs, essentially filtering and selecting quality foreign investments that are more likely to contribute to the host economy positively. Democratic countries may have an advantage in admitting better quality foreign investment and thus, may be more likely to maximize the benefits of MNCs and minimize their costs.

A wide range of constituencies are concerned about the economic and political impact of the notion that gigantic corporate interests dwarf other societal groups. These include anti-globalization activists, dependency theorists, labor, consumer groups, as well as believers of Laissez-faire who are concerned about market failure. Even for such a diverse range of interests, this research spells some good news. To the extent that antitrust regulation responds to popular pressure in democratic polity and curtails anticompetitive M&As, democratic political process turns out to be a solution to market failure in this case. The outcome, which both consumers and proponents of Laissez-faire will

causality tests nor the “Durbin-Wu-Hausman” endogeneity test suggest that reverse causality from M&As to antitrust

welcome, is likely to be preserved market competition and more efficient allocation of resources. Conceivably, labor as well as anti-MNC activists and watchdog groups also play an important role in this process. They may gather and provide information regarding MNC behaviors for the antitrust authorities, and influence the political and regulatory agenda by raising the salience of the issue. Inclusive democratic politics may even occasionally allow these social interests who are believed to be marginalized by large corporate interests to be heard in the regulatory process, seeing their preferences translated into busted M&As at times.

Many scholars have argued that in today's global economy, it has become increasingly difficult for countries to carry out effective antitrust regulation individually. They emphasize the need for international coordination in competition policy. While the emphasis is well placed, it is difficult to expect such cooperation to be forthcoming and within reach. The barrier is collective action and conflict of interests. This analysis provides one domestic solution for competition policy, that is, democratic governance may help secure effective antitrust regulation.

This research also demonstrates that democracy may please international investors who are constantly seeking lower risks and higher returns. As shown, democratic institutional stability is a powerful magnet for M&A activities, an effect that is statistically robust and substantively significant. Democratic polities that do not experience frequent institutional changes have superior appeal to investors than their other democratic counterparts. More important, autocratic institutional stability does not improve policy credibility of the autocratic leader. While some MNCs that seek market monopoly position may lament their lost bigness due to antitrust regulation in democratic polity, more MNCs, particularly medium and small sized international businesses, will embrace the democratic advantage in policy credibility.

regulation is a problem.

Several possible future extensions may arise from this research. First, the finding that investor protection does not have a robust effect on cross-border M&As is worth further investigation. Second, the finding that democracy generates competing effects on M&As suggests a different line of exploration than that currently undertaken in the literature on the politics of FDI. It suggests that it is not necessary that democracy attracts more or less FDI than autocracy, but that they attract different types of investment. Democracy may be appealing to certain types of investments while autocracy certain other types. Additional work in this area will be fruitful. Finally, where antitrust regulation is most likely to fail is in the less developed economies. Further research is necessary on the conditions under which antitrust regulation is likely to succeed or fail in these countries, if they were to fully enjoy the fruits of expanded international production.

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Table 1 Effect of Antitrust Regulation and Democracy on M&A Sale/GDP (1989-2000)

	(1)	(2)	(3)	(4)	(5)	(6)
Antitrust regulation	-0.051 (0.003)	-0.058 (0.001)	-0.035 (0.041)	-0.040 (0.010)		-0.051 (0.003)
Democratic institutional stability	0.358 (0.000)	0.381 (0.000)	0.183 (0.029)	0.191 (0.020)		0.364 (0.000)
Investor protection	0.250 (0.024)	0.424 (0.007)	0.106 (0.268)	0.065 (0.497)		0.251 (0.024)
Lagged Dependent Variable	0.055 (0.557)	0.025 (0.735)	-0.107 (0.144)	-0.107 (0.142)	0.154 (0.176)	0.054 (0.565)
GDP per capita (logged)	1.126 (0.543)	2.911 (0.402)	0.104 (0.938)	1.005 (0.474)	1.385 (0.437)	1.180 (0.515)
Growth	0.006 (0.819)	0.046 (0.506)	-0.023 (0.344)	-0.008 (0.749)	0.028 (0.237)	0.005 (0.833)
Privatization				.00013 (0.005)		
Level of democracy					-0.142 (0.013)	0.022 (0.779)
Sargan test (df=76)	40	17	16	13	43	40
Second-order autocorrelation (Z)	-0.81	-1.02	-0.92	-0.89	0.18	-0.81
Observations	405	233	172	152	452	405
Countries	43	22	21	19	47	43

Note: Robust p values in parentheses; Arellano-Bond estimator.

Table 2 Effect of Antitrust Regulation and Democracy on M&A Sale Amount (1989-2000)

	(1)	(2)	(3)	(4)	(5)	(6)
Antitrust regulation	-236.97 (0.037)	-497.284 (0.051)	24.982 (0.564)	-35.570 (0.144)		-232.91 (0.039)
Democratic institutional stability	1,543.67 (0.042)	3,351.36 (0.008)	503.58 (0.048)	181.68 (0.328)		1,151.13 (0.065)
Investor protection	586.38 (0.414)	1,844.58 (0.253)	-287.40 (0.240)	-255.21 (0.108)		558.02 (0.431)
Lagged Dependent Variable	1.211 (0.000)	1.170 (0.000)	0.301 (0.000)	0.173 (0.000)	1.250 (0.000)	1.212 (0.000)
GDP per capita (logged)	-18,683 (0.099)	-74,978 (0.042)	2,215 (0.419)	3,675 (0.128)	-23,56 (0.051)	-21,544 (0.083)
Growth	213.905 (0.312)	711.329 (0.274)	35.747 (0.537)	45.940 (0.118)	300.10 (0.131)	238.78 (0.268)
Privatization				0.679 (0.000)		
Level of democracy					-1,440.45 (0.081)	-917.59 (0.105)
Sargan test (df=76)	41	17	19	10	46	49
Second-order autocorrelation (Z)	0.66	0.37	0.54	0.37	1.01	0.69
Observations	405	233	172	152	452	405
Countries	43	22	21	19	47	43

Note: Robust p values in parentheses; Arellano-Bond estimator.

Table 3 Effect of Antitrust Regulation and Democracy on M&A Sale/GDP (1989-2000)

	(1)	(2)	(3)	(4)
Antitrust regulation	-0.033 (0.012)	-0.043 (0.054)	-0.019 (0.168)	-0.028 (0.013)
Democratic institutional stability	0.403 (0.000)	0.485 (0.000)	0.281 (0.000)	0.273 (0.000)
Investor protection	0.119 (0.036)	0.281 (0.018)	0.008 (0.885)	0.024 (0.603)
GDP per capita (logged)	0.903 (0.244)	-1.276 (0.615)	0.939 (0.219)	1.300 (0.062)
Growth	-0.002 (0.879)	0.064 (0.338)	-0.023 (0.110)	-0.013 (0.380)
Privatization				0.00013 (0.000)
Observations	454	255	199	176
Countries	47	22	25	23

Notes: p values in parentheses; fixed effects model with panel corrected standard errors and AR(1) correction; country dummies not included.

Table 4 Effect of Antitrust Regulation and Democracy on M&A Sale/GDP (1989-2000): Robust tests

	(1)	(2)	(3)	(4)	(5)	(6)
Antitrust regulation	-0.049 (0.004)	-0.034 (0.047)	-0.054 (0.002)	-0.034 (0.054)	-0.040 (0.011)	-0.027 (0.130)
Democratic institutional stability	0.391 (0.000)	0.200 (0.024)	0.398 (0.000)	0.189 (0.025)	0.456 (0.000)	0.241 (0.057)
Autocratic institutional stability	-0.086 (0.027)	-0.023 (0.390)				
Investor protection	0.260 (0.023)	0.106 (0.269)	0.236 (0.027)	0.081 (0.354)	0.298 (0.015)	0.103 (0.370)
Lagged Dependent Variable	0.051 (0.578)	-0.109 (0.142)	0.032 (0.714)	-0.119 (0.088)	0.027 (0.737)	-0.143 (0.055)
GDP per capita (logged)	1.507 (0.418)	0.340 (0.799)	2.060 (0.310)	0.631 (0.684)	0.799 (0.711)	0.146 (0.936)
Growth	0.009 (0.704)	-0.023 (0.366)	-0.015 (0.570)	-0.019 (0.431)	0.005 (0.853)	-0.032 (0.312)
Market capitalization			0.008 (0.145)	-0.003 (0.213)		
Capital account openness					-0.417 (0.026)	-0.024 (0.820)
Observations	405	172	395	169	374	149
Countries	43	21	43	21	43	21

Note: Robust p values in parentheses; Arellano-Bond estimator.

Table 5 Effect of Antitrust Regulation and Democracy on M&A Sale Amount (1989-2000): Robustness tests

	(1)	(2)	(3)	(4)	(5)	(6)
Antitrust regulation	-233.45 (0.042)	25.87 (0.555)	-257.27 (0.028)	35.81 (0.426)	-206.35 (0.051)	31.58 (0.510)
Democratic institutional stability	1,596.69 (0.045)	514.12 (0.055)	1,718.55 (0.035)	485.87 (0.056)	1,182.59 (0.024)	516.55 (0.074)
Autocratic institutional stability	-115.07 (0.519)	-32.22 (0.692)				
Investor protection	596.40 (0.418)	-280.4 (0.241)	601.68 (0.419)	-308.90 (0.198)	704.48 (0.352)	-243.32 (0.272)
Lagged Dependent Variable	1.211 (0.000)	0.300 (0.000)	1.164 (0.000)	0.288 (0.000)	1.194 (0.000)	0.275 (0.000)
GDP per capita (logged)	-17,925 (0.103)	2,412 (0.419)	-15,882 (0.152)	2,125 (0.446)	-37,089 (0.048)	-1,259 (0.658)
Growth	217.878 (0.298)	39.193 (0.526)	27.941 (0.908)	39.505 (0.493)	383.829 (0.135)	70.485 (0.310)
Market capitalization			100.88 (0.170)	-8.170 (0.031)		
Capital account openness					-3,352.78 (0.065)	-321.18 (0.474)
Observations	405	172	395	169	374	149
Countries	43	21	43	21	43	21

Note: Robust p values in parentheses; Arellano-Bond estimator.

Table 6 Effect of Democracy on Antitrust Regulation (1989-2000)

	(1)	(2)	(3)	(4)
Level of Democracy	0.568 (0.085)		0.753 (0.033)	
Democracy dummy		4.761 (0.042)		6.394 (0.005)
GDP per capita (log)	32.233 (0.000)	31.776 (0.000)	21.948 (0.000)	21.266 (0.000)
Observations	455	455	200	200
Number of cow	47	47	25	25

Notes: p values in parentheses; fixed effects model with panel corrected standard errors and AR(1) correction; country dummies not included.