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**CHINESE OVERSEAS M&A PERFORMANCE AND THE GO GLOBAL POLICY**

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***WORKING PAPER***

**No. 07/2012**

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### Abstract

It is well-known that government plays an important role in the business activities of Chinese firms. Less certain is the effect this influence has on the wealth of those firms' shareholders. We contribute to the literature by analyzing stock market reactions to announcements by Chinese firms of overseas mergers and acquisitions (OMAs). OMAs are of particular interest because there can exist a conflict between the interests of the public sector in acquiring overseas assets, and the interests of the private sector in maximizing shareholder wealth. Our main data set consists of 213 observations of 157 OMA events that occurred between 1994-2009, using share market returns from the Shanghai, Shenzhen, Hong Kong, and U.S. markets. The aggregation of share price data across multiple markets, and the listing of firms in multiple exchanges, raise econometric issues for the standard event-study methodology. To address these, we use a new, feasible generalized least squares (GLS) procedure developed by Gu (2011). Based upon an analysis using both aggregated and disaggregated samples, and of daily and cumulative abnormal returns, we find consistent evidence that (i) Chinese OMAs have not lowered the wealth of shareholders of Chinese acquiring firms, and (ii) shareholders of Chinese acquiring firms have not fared worse under Go Global than before Go Global.

**Keywords:** Overseas Mergers and Acquisitions, Event study, Go Global

**JEL Classifications:** G34, F21, O25, O53

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### **I. INTRODUCTION.**

The effect of government intervention on business is a longstanding topic in political economy. Of particular interest is China, where “socialism with Chinese characteristics” is associated with three decades of rapid economic growth. This approach can be described as a “market economy model dominated by political capital.” It is characterized by a strategy of utilizing government’s coercive power to cultivate national brands and global players, among other things.

While a substantial literature examines various facets of the Chinese model, including the effect of government control on the performance of Chinese firms, there have been very few studies that examine overseas mergers and acquisitions (OMAs).<sup>1</sup> OMAs provide something of a laboratory with regard to the interaction of the Chinese public and private sectors. They have been explicitly identified by the central government as a tool for achieving national strategic goals. This creates a potential conflict between the public sector and private shareholders of Chinese acquiring firms. Observing how these different interests get resolved allows us to gain a better understanding of the workings of the Chinese model at the firm level.

This paper addresses two questions. Motivated by the concern that government decision-makers may have different goals than maximizing the wealth of firm shareholders, we ask, “Has Chinese OMAs adversely affected shareholders of Chinese acquiring firms?” The study of Chinese OMAs also provides an opportunity to evaluate China’s “Go Global” policy. “Go Global” is the banner name of a national policy encouraging outward investment by Chinese firms. It was initially introduced in 1999, but has evolved over time to represent a conglomerate of individual policies. The second, related, question we address is, “Has China’s Go Global policy sacrificed the interests of shareholders of Chinese acquiring firms in order to pursue national, strategic interests?”

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<sup>1</sup> Chinese OMAs have increased dramatically in economic importance over the last two decades. By one measure, Chinese OMA activity rose from US\$307 million in 1994 to over US\$26.5 billion in 2008 (United Nations, 2006, 2008).

Our analysis uses event-study methodology to address these questions. Our main sample consists of 213 observations of 157 deals made over the years 1994-2009. This represents the most comprehensive investigation of Chinese OMAs to date. We are able to construct this relatively large sample by using price data from firms that list on multiple exchanges. This raises econometric issues. To address these, we employ a new, feasible, generalized least squares (GLS) estimator developed by Gu (2011).

Based upon an analysis using both aggregated and disaggregated samples, and of short-term cumulative abnormal returns (CARs) and long-term buy and hold abnormal returns (BHARs), we find consistent evidence that (i) Chinese OMAs have not lowered the wealth of shareholders of Chinese acquiring firms, and (ii) shareholders of Chinese acquiring firms have not fared worse under Go Global than before Go Global.

The study proceeds as follows: Section II briefly discusses related literature. Section III presents three testable hypotheses. Section IV describes our data. Section V explains the event-study methodology we employ in our analysis. Section VI reports and discusses our results. Section VII summarizes and concludes.

## **II. RELATED LITERATURE.**

Three strands of literature are especially relevant to our study: (i) studies reporting on OMA performance in emerging markets; (ii) the literature on the determinants of OMA performance; and (iii) descriptions of China's "Go Global" policy.

### *II.1. Studies of OMA performance in emerging markets.*

Previous studies have come to conflicting conclusions about the response of share markets towards acquiring firms announcing OMA deals in emerging markets. Gubbi et al. (2010) evaluate 425 cross-border acquisitions by Indian firms during 2000-2007 and report positive and significant cumulative abnormal returns of 2.58% over the eleven-day window around the announcement date. Aybar and Ficici (2009) examine 433 cross-border M&As associated with 58 large multinational firms during the period 1991-2004. They report significant, negative cumulative abnormal returns of -0.09% on the  $(-1,1)$  window. Kim (2003) analyzes 270 events of overseas foreign investments (which include OMAs) by Korean firms from 1991-1997. He

reports a lagged, positive market reaction on the day after announcement of 0.26%, which is significant at the 10 (but not 5) percent level.

There has been surprisingly little study of Chinese OMAs. The only academic study we are aware of is Chen and Young (2010). They use event-study methodology and find a negative but statistically insignificant market response to announcements on the  $(-1,0)$  window. However, their sample is small, consisting of only 39 deals. Within the non-academic literature, Hemerling et al. (2006) use event-study methodology to study 16 OMA deals. They find that “relative total shareholder returns” around the announcement day were positive in the majority of deals.<sup>2</sup> Luedi (2008) analyzes 56 deals over the period 1995-2007 and reports that Chinese acquirers “overpaid” for foreign assets in 55 percent of deals, as measured by the change in share prices around the announcement day.<sup>3</sup> Other studies summarize various features of Chinese OMAs, such as location of target firms, characteristics of target industries, and motivations underlying foreign acquisitions (e.g. Liao, 2006; Deng, 2007, 2009; Rui and Yip, 2008).<sup>4</sup> However, these rely largely on summaries of aggregate activity, and case studies of a few firms without any formal analysis.

## *II.2. Determinants of OMA performance.*

Dunning’s (1980) OLI paradigm is widely influential as a model for understanding the determinants of foreign direct investments. However, Dunning and Lundan (2008) note that different factors may be important for acquiring firms in emerging markets. In particular, government is likely to play a more prominent role in OMA decisions. This is particularly true for China, where OMAs are seen as strategic instruments to further government efforts to secure energy and other natural resources, appropriate new technologies, and extend political influence (Ping, 2007; Huaichuan and George, 2008; Morck, Yeung, and Zhao, 2008).

The relationship between the public sector and business enterprises in China is complicated. Government can be involved directly, via direct ownership; or indirectly, via ownership of shares. Further, different levels of government may be involved; with municipal, provincial, and national governments engaged individually, or operating together as joint

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<sup>2</sup> “Relative total shareholder return” is defined as “Total shareholder return” minus “Return of stock market index of the local market” as measured during the  $(-5,5)$  window.

<sup>3</sup> Luedi (2008) defines “overpaid” as a negative share price movement in the  $(-2,2)$  window.

<sup>4</sup> Chi, Sun, and Young (2010) study announcement effects of Chinese acquiring firms, but include domestic as well as overseas M&As.

ventures (Antkiewicz and Whalley, 2007). Liu (2005) estimates that 61.4 percent of Chinese listed companies are under local government control, 15.3 percent are under central government control, and 3.4 percent are cooperatively controlled by different levels of government. Only 12.8 percent are identified as privately controlled.<sup>5</sup> Similarly, Morck, Yeung, and Zhao (2008) find that 65.9 percent of shares of firms listing on the two mainland exchanges are owned by some level of Chinese government or related government agencies.

Government control can affect the type and performance of OMAs through numerous channels. Government can influence the appointment of senior company executives, exert control over the kinds of business activities undertaken and the manner in which they are implemented, subsidize specific business activities either directly or indirectly via low- or no-interest loans, and approve or reject applications for overseas projects, among other things. Luo, Xue and Han (2010) give a comprehensive review of the development of governmental policy in China towards outwards investment. Their review includes many details about specific policies that have been adopted to encourage Chinese firms to invest overseas.

The evidence on government control and firm performance in China is mixed, and frequently varies according to the performance metric employed (Xu and Wang, 1999; Qi, Wu, and Zhang, 2000; Sun, Tong, and Tong, 2002; Hovey, Li, and Naughton, 2003; Wei, Xie, and Zhang, 2005; Gunasekarage, Hess, and Hu, 2007). Similarly, Karolyi and Liao (2009) find mixed evidence with respect to government control of acquirers and responses of share markets to OMA announcements. In contrast, Chen and Young (2010) report a negative relationship between government ownership and cumulative abnormal returns, but, as noted above, their sample only consists of 39 observations.

In addition to government control, a large number of other variables have been hypothesized to affect overseas investments in general, and OMAs in particular.<sup>6</sup> For the empirical work that follows, we focus on three: (i) cultural distance, (ii) industry relatedness, and (iii) target location. Culture differences between acquirers and targets encumber communication, raising transaction costs and impacting the profitability of OMAs (Hofstede, 1980; Kogut &

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<sup>5</sup> Ownership details for the remaining 7 percent were insufficient to identify the degree of government control.

<sup>6</sup> Indeed, the literature exploring the reasons for why firms invest overseas is extensive. Recent theoretical work from the field of international economics on cross-border M&As include Nocke and Yeaple (2007) and Norbäck and Persson (2008).

Singh, 1988; Morosini, Shane, & Singh, 1998; Ahern, Daminelli, and Fracassi, 2012).<sup>7</sup> Acquirers and targets in related industries have an advantage in sharing human resources and distribution networks. Further, they possess similar technologies and managerial structures, leading to better decision-making and fewer misunderstandings (Jensen and Meckling, 1976; Rau & Vermaelen, 1998; Doukas and Lang, 2003; Boubakri et al., 2008). Finally, target location matters because host country regulations governing financial transparency and investor protection, and country-specific characteristics, such as level of economic development and political stability, are all factors that can affect OMA performance (Hagiwara, 2006; Karolyi, 2006).

### *II.3. “Go Global” policy.*

The Chinese government’s promotion of overseas investment came into force with the unveiling of its “Go Out Policy” or “Going Global Strategy” -- henceforth “Go Global” – in 1999.<sup>8</sup> As a national policy, it was elevated in importance when it was adopted as part of the 10<sup>th</sup> Five Year Plan (2001-2005).<sup>9</sup> The nature of this promotion has taken numerous forms, and continues to evolve to the present day.<sup>10</sup>

One major thrust of the Go Global policy has been the loosening of controls on outward investment by Chinese firms. Outward investment requires approval by China’s Ministry of Commerce, with concomitant foreign currency approval from the State Administration of Foreign Exchange (SAFE). In 2002, SAFE authorization was decentralized from the central agency to select local authorities for projects of US\$1 million or less, with an overall investment cap of US\$200 million. Subsequent decentralization continued in 2005 such that foreign exchange authorization was extended to all provinces, municipalities, and autonomous regions; the local limit was increased to US\$10 million; and the overall investment quota was expanded to US\$5 billion. In June 2006, the overall investment quota was abolished. Meanwhile,

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<sup>7</sup> Some researchers have found that cultural distance has a negative effect on post-merger performance (Li, Lam, and Qian, 2001). Others, however, obtain the opposite result. Morosini et al. (1998) examine 52 cross-border M&As in 1987-1992 and they find a positive association between national cultural distance and cross-border acquisition performance. Larsson and Finkelstein (1999) also argue that cultural distance improves post-merger performance, and that cross-border M&As lead to higher potential firm value and lower staff attrition because of mutual complementarity of resources..

<sup>8</sup> *Notice on Encouraging Chinese Firms to Develop Overseas Processing on Supplied Materials and Assembly Business*, The General Office of the State Council of the People’s Republic of China, Document Number 17,[1999], [http://www.gov.cn/fwxx/bw/swb/content\\_449812.htm](http://www.gov.cn/fwxx/bw/swb/content_449812.htm) (in Chinese).

<sup>9</sup> See “[http://www.gov.cn/node\\_11140/2006-03/15/content\\_227686.htm](http://www.gov.cn/node_11140/2006-03/15/content_227686.htm)” (in Chinese).

<sup>10</sup> The subsequent discussion of the Go Global policy relies heavily on Hagiwara (2006).

authorization from the Ministry of Commerce was decentralized to local commercial administrations in October 2004, except for large state-owned enterprises.

A second thrust has involved direct support from the Ministry of Commerce. Some of this has consisted of informational support and bureaucratic expertise in navigating foreign investment rules. In July 2004, the Ministry of Commerce along with the Ministry of Foreign Affairs provided a “guidance list” of industries that should be preferred for outward investment. Additional support has come in the form of preferential treatment of outward-investing Chinese firms in terms of direct grants, tax benefits, low- or no-interest loans, access to foreign exchange, etc. This culminated in November of 2004 with the creation of a formal loan support system under authority of the National Development and Reform Commission and the Export-Import Bank of China.<sup>11</sup>

This brief summary documents some of the changes and expansions that have occurred in China’s Go Global policy since its inception in 1999. The policy has been identified with numerous motivations. It provides a means of reducing appreciation pressures on China’s currency, the Renminbi. It addresses concerns that there be sufficient resources to sustain China’s growth over the middle- to long-term. It presents an opportunity to modernize Chinese business via the appropriation of foreign technology and the assimilation of modern business practices. And it enables government to use foreign investment as means of extending China’s political influence in strategic countries. To the extent that government influence on firms’ OMA decisions is prompted by these motivations, it sets up a potential conflict between the pursuit of national goals and the maximization of shareholder wealth.

### **III. TESTABLE HYPOTHESES.**

Our empirical analysis investigates the behavior of abnormal returns around OMA announcement dates. As noted above, government, especially local government (Liu, 2005), is heavily involved in the business affairs of Chinese firms. If the goals of government officials conflict with those of shareholders, then OMAs may negatively impact shareholders of Chinese acquiring firms. If that were the case, we would expect share markets to respond negatively to the announcement of an OMA by a Chinese acquiring firm. This leads to the first testable hypothesis:

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<sup>11</sup> Readers interested in learning more about how Go Global affected the incentives of firms to target specific overseas companies are referred to the excellent review in Luo, Xue, and Han (2010).

H1: If OMAs are expected to adversely affect shareholders of Chinese acquiring firms, share prices of Chinese acquiring firms will react negatively upon their announcement. Therefore, mean abnormal returns should be negative around the announcement date. Let  $\beta$  be the mean of the distribution of abnormal returns. The corresponding null hypothesis is  $\beta \geq 0$ .

The second question we examine is how China's Go Global policy affects the shareholders of Chinese firms that acquire or merge with overseas firms. As discussed above, China's Go Global policy has several goals, all of which are directed towards national strategic interests. If OMA activity under Go Global is redirected by government officials away from wealth maximizing activities, shareholders of Chinese acquiring firms may find themselves adversely impacted. This leads to the second testable hypothesis:

H2a: If OMAs during the Go Global period are perceived as pursuing national goals at the expense of shareholder wealth, share prices of Chinese acquiring firms will react negatively upon their announcement. Therefore, mean abnormal returns during the Go Global period should be lower than mean abnormal returns before Go Global. Let  $\beta_1$  be the mean of the distribution of abnormal returns before Go Global, and let  $\beta_2$  be the mean of the distribution of abnormal returns after Go Global. The corresponding null hypothesis is  $\beta_2 - \beta_1 \geq 0$ .

Relatedly, if Chinese firms, either through the direct or indirect influence of government officials, are using OMAs to promote national strategic interests at the expense of shareholders' interests, we expect that Chinese acquiring firms would pay more for target firms under Go Global than before Go Global. Thus, share prices of target firms should respond positively to OMA announcements. This leads to our final testable hypothesis:

H2b: Mean abnormal returns *for target firms* around the announcement date should be higher during the Go Global period than before Go Global. Let  $\beta_3$  be the mean of the distribution of abnormal returns for target firms before Go Global, and let  $\beta_4$  be the mean of the distribution of abnormal returns after Go Global. The corresponding null hypothesis is  $\beta_4 - \beta_3 \leq 0$ .

While hypothesis H1 and H2a/H2b are related, they differ in an important respect. Hypotheses H2a/H2b focus specifically on the Go Global policy, which is a policy initiative of the central government. Previous literature suggests that OMA decisions are greatly influenced by government decision-makers. However, the nature of that influence may differ depending on whether local or national interests predominate. For example, as a primary shareholder (Liu,

2005), local government may be more interested in increasing the value of the firm, and seeing local benefits such as increased employment and tax revenues. In contrast, central government may be more interested in using OMAs to extend political influence in strategic countries, or securing natural resources to fuel continued national economic growth.<sup>12</sup> While our analysis is not able to identify these various effects, it does recognize that the interests of local and central governments can have different impacts. It is an empirical matter whether these potentially different impacts are reflected in the data.

#### **IV. DATA DESCRIPTION.**

Our main sample consists of 213 observations of price reactions associated with 157 OMA events that were announced between January 1, 1994 and December 31, 2009.<sup>13</sup> Two characteristics are particularly noteworthy about this sample.

Most of the Chinese acquiring firms list on share markets outside of China. If we restrict our analysis to Chinese mainland markets (Shanghai and Shenzhen), or to a single overseas market (e.g. NYSE), our sample would be insufficiently representative of all OMAs. Accordingly, we include share price data from multiple markets: the Shanghai and Shenzhen, the SEHK (Hong Kong), and the NYSE, AMEX and NASDAQ (US) exchanges.

In addition, many of the acquiring firms in our sample list on more than one market. 46 of the 157 OMA events included in this sample involve Chinese firms that simultaneously list in either two (36 events) or three (10 events) markets. Previous studies have tended to handle multiple listing by choosing price data from only one market. The most common approach is to use returns from each firm's home market (Aktas, de Bodt, and Roll, 2004; Bailey, Karolyi and Salva, 2006; Doidge, 2004; Faccio, McConnell, and Stolin, 2006; Kim, 2003; Wang and Boateng, 2007). Others use returns from the firm's most liquid markets (Aybar and Ficici, 2009; Baruch, Karolyi, and Lemmon, 2007; Campbell et al., 2010). On the one hand, omitting data from some share markets runs the risk of throwing away potentially valuable information. On the other hand, including price reactions from multiple-listed shares invalidates the assumption of

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<sup>12</sup> Luo, Xue and Han (2010, page 70) note the existence of tensions between local and central agencies.

<sup>13</sup> Even accounting for the fact that our study includes (i) more years and (ii) listings in U.S. markets, we still identify many more OMA events than Chen and Young (2010). One possible explanation for this discrepancy is that Chen and Young (2010) hand-collected their data through news announcements published by the China Mergers and Acquisitions Association (CMAA). In contrast, we identified our OMAs through the Thomson Reuters SDC Platinum database.

independence across observations that is commonly invoked in event-study methodology. We discuss this in greater detail below.

To be included in the sample, daily share price information needs to be included in the Thomson Reuters database Datastream, with at least 136 days of continuous return data before, and 11 days on or after, the announcement date. No more than 50% of the daily price series can consist of zero returns.<sup>14</sup> We include OMAs from all industries except finance.<sup>15</sup>

TABLES 1 through 3 summarize a number of features of the corresponding sample. TABLE 1 reports year and value data for Chinese OMA deals. There is a positive spike in both the number and the size of deals beginning in 2002, and this increase continues through to the end of the sample period. Approximately four-fifths of the deals, accounting for over 95% of the total value of transactions, occur in the latter half of the sample period (2002-2009). As noted above, the Go Global policy was initiated in 1999 and expanded in subsequent years. The higher level of Chinese OMA activity occurring in 2002 and beyond is consistent with Go Global serving as a catalyst for Chinese OMA activity.

A potential complication in attributing the post-2001 spike in OMA deals to Go Global is the fact that China became a member of the World Trade Organization (WTO) in 2001. However, these need not be viewed as competing determinants. The expansion of trade made possible by China's entrance into the WTO was likely spurred by the Go Global policy to promote investments abroad.

TABLE 2 reports the geographical distribution of the associated target firms. Most target firms are located in developed countries. Over a third of deals involve target firms located in Hong Kong. The U.S. and Australia rank second and third as locations for target firms. The remainder of the deals are spread widely across the six continents, with Asia a common target region. An interesting fact not apparent from TABLE 2 is that a significant drop-off in Hong Kong targets occurs with the onset of Go Global: Hong Kong firms are roughly half as likely to be chosen as targets in 2002-2009 as compared to 1994-2001.<sup>16</sup>

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<sup>14</sup> A 70% criterion would produce 217 observations. A 30% criterion produces 211 observations. We chose the middle value of 50%, which gave us 213 observations.

<sup>15</sup> Financial firms are subject to special accounting and regulatory requirements, making them difficult to compare with other firms.

<sup>16</sup> Hagiwara (2006) suggests that a substantial portion of Hong Kong OMA activity is in fact "roundtrip" investment that detours outside the mainland to take advantage of various tax, trade, and regulatory incentives.

TABLE 3 reports the distribution across industries of target firms in the 1994-2001 and 2002-2009 time periods. The telecommunications, electronics, and software industries are at or near the top in terms of targets for Chinese acquiring firms. Other industries lag substantially behind, with the exception of energy and natural resources, which enjoyed a substantial boost during the Go Global years. M&A activity involving target firms in the energy and natural resource industries comprised 32.5% of all deals during the Go Global years, compared to only 3.2% from 1994-2001. This is consistent with Go Global's motivation of assuring sufficient resource availability to sustain China's economic growth into the future.

Our analysis also utilizes a second sample of observations on Chinese OMA target firms. Unfortunately, data for most of the target firms associated with our sample of acquiring firms are not available in Datastream. As a result, this second sample consists of all non-Chinese target firms listed in Datastream that were acquired by Chinese firms over the period 1994-2009, even if Datastream did not list the associated acquiring firm. A total of 159 target firms satisfied the data requirements identified above (136 days of continuous return data before the announcement date, 11 days return data on or afterwards, no more than 50% zero return days, and no finance firms).

## V. METHODOLOGY.

We employ event-study methodology to evaluate the effect of Chinese OMAs on shareholder wealth. A noteworthy feature of our analysis is that we apply a new, generalized least squares (GLS) procedure for event studies with multi-listed observations (Gu, 2011).

End-of-day, daily (adjusted) stock prices ( $P_{it}$ ) for each OMA event/firm  $i$  at time  $t$  for the 147-day data period  $(-136, 11)$  were obtained from Datastream. Daily returns ( $R_{it}$ ) were computed by taking the log of stock prices (Strong 1992):

$$(1) \quad R_{it} = \ln\left(\frac{P_{it}}{P_{i,t-1}}\right), i=1, 2, \dots, N; \quad t = -135 \dots, 10;$$

where  $N$  is the total number of event/firms included in the sample. Data during the estimation window were used to estimate the following "market model" specification (Brown and Warner, 1985; Strong, 1992) for each event/firm  $i$ :

$$(2) \quad R_{it} = \alpha_i + \beta_i R_{mt} + error_{it}, t=-135, \dots, -11;$$

where  $R_{mt}$  is the return of the local market index at time  $t$ .<sup>17</sup> Expected returns during the testing period ( $\hat{R}_{it}$ ) were calculated by

$$(3) \quad \hat{R}_{it} = \hat{\alpha}_i + \hat{\beta}_i R_{mt}, \quad i=1,2,\dots,N; t=-10,-9,\dots,9,10;$$

where  $\hat{\alpha}_i$  and  $\hat{\beta}_i$  are the estimated values of  $\alpha_i$  and  $\beta_i$  from Equation (2). Abnormal returns for the testing period are calculated as the difference between actual returns during the testing period and their forecasted values (based on the coefficients estimated during the estimation period),

$$(4) \quad AR_{it} = R_{it} - \hat{R}_{it}, \quad i=1,2,\dots,N; t=-10,-9,\dots,9,10.$$

Let the DGP associated with individual  $AR_{it}$  observations for a given test day  $t$  be represented by

$$(5) \quad \mathbf{y} = \mathbf{x}\beta + \boldsymbol{\varepsilon};$$

where  $\mathbf{y}$  is an  $N \times 1$  vector of abnormal returns,  $AR_{it}$ ,  $i=1,2,\dots,N$ ;  $\mathbf{x}$  is an  $N \times 1$  vector of ones;  $\beta$  is a scalar representing the mean of the distribution of daily abnormal returns; and  $\boldsymbol{\varepsilon}$  is an  $N \times 1$  vector of error terms. If the error terms are normally, independently distributed and homoskedastic, OLS estimation of Equation (5) will produce efficient estimates of  $\beta$ , the mean value of daily abnormal returns. In fact, the error terms in our sample are likely to be characterized by at least two types of nonspherical behaviors. As a result, this study employs GLS estimation of Equation (5) to obtain efficient coefficient estimates.

The first type of nonspherical behavior is heteroskedasticity,  $Var(\varepsilon_{it}) = \sigma_i^2$ ,  $i=1,2,\dots,N$ . This reflects the fact that some share prices are inherently more variable than others. This problem is well-recognized. A common procedure to address this consists of “standardizing” the abnormal returns.

If individual error terms are normally and independently distributed, then

$$\boldsymbol{\varepsilon} \sim N \left( \mathbf{0}_N, \boldsymbol{\Omega} = \begin{bmatrix} \sigma_1^2 & 0 & \dots & 0 \\ 0 & \sigma_2^2 & \dots & 0 \\ \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & \dots & \sigma_N^2 \end{bmatrix} \right),$$

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<sup>17</sup> The local market indices selected for the Shanghai, Shenzhen, Hong Kong, and U.S. markets were, respectively, Shanghai A Shares, Shenzhen A Shares, the Hang-Seng index and the S&P 500 Composite index.

where  $\mathbf{0}_N$  is an  $N \times 1$  vector of zeroes and  $\mathbf{\Omega}$  is  $N \times N$ . Given the error variance-covariance matrix above, the OLS estimate of  $\beta$  in Equation (5) is inefficient. The source of this inefficiency lies in the fact that OLS gives equal weight to every observation. The solution consists of assigning different weights to the individual observations, with larger weights given to the more reliable observations. The estimation procedure that assigns an “efficient” set of weights is called Generalized Least Squares (GLS).

Define a “weighting matrix”  $\mathbf{P}$ , where  $\mathbf{P}$  is an  $N \times N$ , symmetric, invertible matrix such that  $\mathbf{P}'\mathbf{P} = \mathbf{\Omega}^{-1}$ . Given  $\mathbf{\Omega}$  above, it is easily confirmed that

$$\mathbf{P} = \mathbf{P}' = \begin{bmatrix} \frac{1}{\sigma_1} & 0 & \dots & 0 \\ 0 & \frac{1}{\sigma_2} & \dots & 0 \\ \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & \dots & \frac{1}{\sigma_N} \end{bmatrix}.$$

Assuming the  $\sigma_i^2$ ,  $i=1,2,\dots,N$  are known, the GLS estimator of  $\beta$  is given by

$$(6) \quad \hat{\beta}_{GLS1} = (\mathbf{x}'\mathbf{\Omega}^{-1}\mathbf{x})^{-1} \mathbf{x}'\mathbf{\Omega}^{-1}\mathbf{y},$$

$$(7) \quad \text{Var}(\hat{\beta}_{GLS1}) = (\mathbf{x}'\mathbf{\Omega}^{-1}\mathbf{x})^{-1}, \text{ and}$$

$$(8) \quad \text{s.e.}(\hat{\beta}_{GLS1}) = \sqrt{(\mathbf{x}'\mathbf{\Omega}^{-1}\mathbf{x})^{-1}}.$$

Alternatively, define  $\tilde{\mathbf{x}} = \mathbf{P}\mathbf{x}$  and  $\tilde{\mathbf{y}} = \mathbf{P}\mathbf{y}$ . Then

$$(6') \quad \hat{\beta}_{GLS1} = (\tilde{\mathbf{x}}'\tilde{\mathbf{x}})^{-1} \tilde{\mathbf{x}}'\tilde{\mathbf{y}},$$

$$(7') \quad \text{Var}(\hat{\beta}_{GLS1}) = (\tilde{\mathbf{x}}'\tilde{\mathbf{x}})^{-1}, \text{ and}$$

$$(8') \quad \text{s.e.}(\hat{\beta}_{GLS1}) = \sqrt{(\tilde{\mathbf{x}}'\tilde{\mathbf{x}})^{-1}}.$$

In words,  $\hat{\beta}_{GLS1}$  is identical to OLS applied to  $\tilde{\mathbf{y}} = \tilde{\mathbf{x}}\beta + \tilde{\mathbf{\varepsilon}}$ , where  $\tilde{\mathbf{x}}$ ,  $\tilde{\mathbf{y}}$ , and  $\tilde{\mathbf{\varepsilon}}$  are standardized as described above. Note in particular that  $\tilde{\mathbf{y}}$  is an  $N \times 1$  vector of *standardized* abnormal returns,

$$\tilde{\mathbf{y}} = \begin{bmatrix} AR_{1t} / \sigma_{1t} \\ AR_{2t} / \sigma_{2t} \\ \vdots \\ AR_{Nt} / \sigma_{Nt} \end{bmatrix}.$$

As  $\sigma_{it}$  is unknown, we follow standard practice (Patell, 1976; Mikkelsen and Partsch, 1986; Doukas and Travlos, 1988) and estimate  $\sigma_{it}$  by

$$(9) \quad \hat{\sigma}_{it} = \left[ \hat{\sigma}_i^2 \left[ 1 + \frac{1}{L} + \frac{(R_{mt} - \bar{R}_m)}{\sum_{s=1}^L (R_{ms} - \bar{R}_m)^2} \right] \right]^{1/2},$$

where  $\hat{\sigma}_i^2$  is the estimated variance of the error term in the market model regression (Equation 2),  $L$  is the number of observations in the estimation period (in our case,  $L=125$ ),  $R_{mt}$  ( $R_{ms}$ ) is the return on the respective market portfolio at time  $t$  ( $s$ ), and  $\bar{R}_m$  is the average return on the respective market portfolio over the estimation period.

The GLS estimator,  $\hat{\beta}_{GLS1}$ , is appropriate when dealing with observations from a single market, or when combining observations from different markets as long as there is a single observation per OMA event. However, when OMA events are multiple-listed,  $\hat{\beta}_{GLS1}$  will be inefficient because it does not adjust for correlations across observations. We therefore use a more general GLS procedure to handle this second type of nonspherical behavior.

Define  $\tilde{y}_{ijt} = \left( \frac{AR_{ijt}}{\sigma_{ijt}} \right)$  as the standardized, abnormal return for OMA event/firm  $i$ , listed

in stock exchange  $j$ , at time  $t$ . Note that stocks need not be, and are likely not, listed on all exchanges. Thus some stocks may be listed on only one exchange, some on only two, and so on.

Let us stack the data such that – for a given time period  $t$  – the observations are grouped first by event  $i$ , then by stock exchange  $j$ .

For example suppose we have 7 observations and three possible stock exchanges. Let the first three observations belong to the same multi-listed firm/M&A event, with listings on all three exchanges. The next two observations belong to another multi-listed firm/M&A event, with listings on the first and third exchanges. The last two observations belong to separate firms/M&A events that are single-listed on the second and third exchanges, respectively. Under this scenario,  $\tilde{\mathbf{y}}$  looks like this:

$$\tilde{\mathbf{y}} = \begin{bmatrix} AR_{11t} / \sigma_{11t} \\ AR_{12t} / \sigma_{12t} \\ AR_{13t} / \sigma_{13t} \\ AR_{21t} / \sigma_{21t} \\ AR_{23t} / \sigma_{23t} \\ AR_{32t} / \sigma_{32t} \\ AR_{43t} / \sigma_{43t} \end{bmatrix}$$

Picking up where we left off before, the DGP for the standardized abnormal returns,  $\tilde{\mathbf{y}}$ , is  $\tilde{\mathbf{y}} = \tilde{\mathbf{x}}\beta + \tilde{\boldsymbol{\varepsilon}}$ . Note that  $Var(\tilde{\varepsilon}_{ijt}) = 1$  for all  $i, j$ , and  $t$ .  $\tilde{\boldsymbol{\varepsilon}} \sim N(\mathbf{0}_N, \tilde{\boldsymbol{\Omega}})$ , where  $\tilde{\boldsymbol{\Omega}}$  is  $N \times N$ ,

$$(10) \quad \tilde{\boldsymbol{\Omega}} = \begin{bmatrix} 1 & \rho_{11,12} & \rho_{11,13} & 0 & 0 & 0 & 0 \\ \rho_{12,11} & 1 & \rho_{12,13} & 0 & 0 & 0 & 0 \\ \rho_{13,11} & \rho_{13,12} & 1 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 1 & \rho_{21,23} & 0 & 0 \\ 0 & 0 & 0 & \rho_{23,21} & 1 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 1 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 1 \end{bmatrix}.$$

The off-diagonal terms in  $\tilde{\Omega}$  are now nonzero due to multiple-listing.  $\rho_{ij,ik}$  represents the correlation of standardized abnormal returns between multi-listed pairs,  $AR_{ijt} / \sigma_{ij}$  and  $AR_{ikt} / \sigma_{ik}$ , during the estimation period.

Similar to before, define  $\tilde{\mathbf{P}}$  (where  $\tilde{\mathbf{P}}$  is  $N \times N$ ) such that  $\tilde{\mathbf{P}}\tilde{\mathbf{P}} = \tilde{\Omega}^{-1}$ . Assuming the  $\rho_{ij,ik}$   $i=1,2,\dots,N$  are known, the GLS estimator of  $\beta$  is now

$$(11) \quad \hat{\beta}_{GLS2} = (\tilde{\mathbf{x}}'\tilde{\Omega}^{-1}\tilde{\mathbf{x}})^{-1} \tilde{\mathbf{x}}'\tilde{\Omega}^{-1}\tilde{\mathbf{y}},$$

$$(12) \quad \text{Var}(\hat{\beta}_{GLS2}) = (\tilde{\mathbf{x}}'\tilde{\Omega}^{-1}\tilde{\mathbf{x}})^{-1}, \text{ and}$$

$$(13) \quad \text{s.e.}(\hat{\beta}_{GLS2}) = \sqrt{(\tilde{\mathbf{x}}'\tilde{\Omega}^{-1}\tilde{\mathbf{x}})^{-1}}.$$

Gu (2011) develops a procedure for estimating the  $\rho_{ij,ik}$ 's when they are unknown. The extension to multiple time periods and the calculation of cumulative abnormal returns is straightforward.

A major disadvantage of the GLS procedure with cross-sectional correlation is that it underestimates standard errors, leading to over-rejection of the null hypothesis (Malatesta, 1986). A number of “sandwich estimators” have been developed and studied in the context of cross-sectional correlation (cf. Kolar and Pynnönen, 2010; Beck and Katz, 1995; Reed and Webb, 2010). Based on these studies, we can conclude that the full GLS estimator is likely to produce better estimates of the mean of the distribution of abnormal returns,  $\beta$ , with a sandwich estimator producing more reliable estimates of the standard error.

In the context of our problem, the appropriate procedure estimates  $\beta$  using the standardized model (cf. Equations 6 and 6'), and then applies the corresponding sandwich estimator (incorporating cross-sectional correlation) for the standard error and associated hypothesis testing (Gu and Reed, 2012). These are respectively given by

$$(14) \quad \hat{\beta}_s = (\tilde{\mathbf{x}}'_t\tilde{\mathbf{x}}_t)^{-1} \tilde{\mathbf{x}}'_t\tilde{\mathbf{y}}_t, \text{ and}$$

$$(15) \quad \text{s.e.}(\hat{\beta}_s) = \sqrt{(\tilde{\mathbf{x}}'_t\tilde{\mathbf{x}}_t)^{-1} \tilde{\mathbf{x}}'_t\tilde{\Omega}\tilde{\mathbf{x}}_t (\tilde{\mathbf{x}}'_t\tilde{\mathbf{x}}_t)^{-1}}.$$

The empirical work below reports GLS estimates of  $\beta$  calculated from Equation (11), with  $p$ -values derived from the sandwich estimators of Equations (14) and (15) for hypothesis testing.<sup>18</sup>

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<sup>18</sup> It is common in the event-study literature to use different estimators for coefficient estimates and standard errors/hypothesis testing. For example, Table 4 in Mikkelsen and Partsch (1986) reports Average Prediction Errors

## VI. RESULTS.

### VI.1. Do OMAs diminish wealth for shareholders of Chinese acquiring firms?

The preceding analysis presents three hypotheses for testing. We first investigate the overall impact of OMAs on the shareholders of Chinese acquiring firms. TABLE 4 reports estimates of mean abnormal returns for the main sample of 213 observations of Chinese acquiring firms. Column 1 reports results for the full sample, aggregated across all markets. Columns 2-4 disaggregate the results across the three distinct sets of markets: (i) Mainland (Shanghai and Shenzhen), (ii) Hong Kong (SEHK), and (iii) U.S. (NYSE, AMEX, and NASDAQ).

The top panel of TABLE 4 reports estimates of mean abnormal returns for each day of the 21 days of the test window  $(-10,10)$ . The bottom panel reports estimates of mean, daily abnormal returns across multiple-day intervals within the test window. With respect to the latter, we divide the test window into 5 separate intervals to capture (i) leading effects far from the announcement day  $(-10,-6)$ ; (ii) leading effects close to the announcement day  $(-5,-2)$ , (iii) announcement day effects  $(-1,1)$ ; (iv) lagging effects close to the announcement day  $(2,5)$ ; and (v) lagging effects far from the announcement day  $(6,10)$ . In addition, different windows are formed around the announcement day:  $(-1,1)$ ,  $(-2,2)$ , and  $(-3,3)$ . The wider windows around the announcement day are designed to address concerns that price reactions from different markets may get allocated to different trading days due to time zone differences between the markets.

The first hypothesis states that OMAs adversely affect shareholders of Chinese acquiring firms, perhaps because political influences divert firms from maximizing shareholder wealth. The associated (one-sided) null hypothesis is that the mean of the distribution of daily abnormal returns is not negative. Column (1a) of Panel A in TABLE 4 reports estimates of mean daily abnormal returns for the full, aggregated sample. For example, mean abnormal returns for *Days -1, 0, and 1* are estimated to be 0.28%, 0.16%, and 0.22%. Column (1b) reports the  $p$ -values associated with a test of the one-sided null hypothesis,  $H_0 : \beta \geq 0$ .

We find no evidence at the 5-percent level to reject the null hypothesis either on the announcement day (*Day 0*), or one day before or after the announcement (*Day -1, Day 1*). At 0.92, 0.79, and 0.98, the corresponding  $p$ -values are well above 0.05. Indeed, the null hypothesis is never rejected across any of the individual, 21 days of the  $(-10,10)$  test window.

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(=mean abnormal returns), but uses Average *Standardized* Prediction Errors for hypothesis testing (see Footnote *a* in their Table 4). See also Reed and Ye (2011).

Panel B confirms this finding when mean abnormal returns are estimated over multiple-day intervals within the test period. All of the respective  $p$ -values are well above 0.05. For example, we estimate mean daily abnormal returns of 0.22%, 0.09%, and 0.06% over the  $(-1,1)$ ,  $(-2,2)$  and  $(-3,3)$  windows. The associated  $p$ -values for tests of the null hypothesis are 0.99, 0.89, and 0.74. Taken together, Columns (1a) and (1b) of Panels A and B of TABLE 4 provide no evidence that OMAs harm shareholders of Chinese acquiring firms.

Columns (2-4) of TABLE 4 repeats the analysis for each of the three sets of exchange markets (Mainland, Hong Kong, and U.S.). There are three reasons for disaggregating results across markets. Firstly, information about acquirers and targets may be geographically dispersed. Investors in Mainland markets may be in a better position to judge the suitability of a match from the acquiring firm's perspective, while traders in the Hong Kong and U.S. markets may be better informed about the suitability of the overseas target. Informational frictions (e.g. due to different languages, time zones, etc.) and trading limitations (e.g. restrictions on foreigners to trade in Mainland markets) may inhibit the ability of traders to arbitrage information across markets.

Secondly, the respective sets of markets have different opening and closing times. An announcement may occur while some exchanges are open and others are closed. This situation is complicated by the fact that, though we know the announcement day, we are unsure exactly when, and -- more importantly -- where an announcement was made. For example, a Chinese acquiring firm whose primary listing is in the NYSE may announce an OMA in New York, or via its headquarters in China. Depending on the time of day the announcement was made, the announcement could fall on different trading days in the U.S. and China. For this reason, daily returns for "Day 0" in a given market may not contain the relevant price reaction.

Finally, stock price reactions may be different depending on particular stock exchange regulations such as insider trading laws, investor protection, and disclosure requirements.

Despite those concerns, we find that the results from Columns (2)-(4) consistently reaffirm the findings from the aggregated sample of Columns (1a) and (1b). Starting with Panel A, we note that the null hypothesis fails to be rejected on any of the days around the announcement ( $Days -1, 0, 1$ ). Across all 63 individual hypothesis tests, it is rejected a total of 3 times: in the Hong Kong market on *Day 3*, and in the U.S. markets on *Days -7* and *-2*. There is no logical explanation for this pattern of results. Indeed, approximately three rejections are what

would be expected if the null were true, given a significance level of 0.05. Accordingly, we attribute these rejections to random chance.

Panel B provides further confirmation. The one-sided null hypothesis that mean cumulative abnormal returns are not negative fails to be rejected for the (-1,1), (-2,2) and (-3,3) windows for each of the three sets of markets. The only significant cumulative abnormal return is for the window (-5,-2) in the U.S. markets. Again, we can attribute this singular result to random chance.

In conclusion, based upon results from both the aggregated and disaggregated samples, and from individual and multiple-day abnormal returns, we find no evidence to conclude that OMAs lowered the wealth of shareholders of Chinese acquiring firms.

## VI.2. A robustness check.

One of the shortcomings of the preceding analysis is that it is unable to identify the effect of government control from other factors that influence OMA performance. On the one hand, our findings provide evidence that any adverse effects from government control are insufficient to generate negative abnormal returns. However, it may be that market returns would have been higher in the absence of government control.

The SDC Platinum – Mergers and Acquisitions database allows us to address this issue. It characterizes firms as to whether they are “government owned.” We expect that “government owned” firms are more susceptible to public control. If government control results in Chinese acquiring firms pursuing less profitable OMA targets, this should be reflected in lower mean abnormal returns for these firms.

To test this, we use a multivariate version of the GLS framework above to estimate  $y = XB + \varepsilon$ . We begin by expanding the data matrix to consist of two columns: a column of ones ( $i$ ) and a dummy variable characterizing the acquiring firm as “government owned” ( $D_{Government\ Owned}$ ):  $X = [i \ D_{Government\ Owned}]$  and  $B = [\beta \ \beta_{Government\ Owned}]$ . If government owned firms are viewed by markets as pursuing less profitable OMA opportunities, then  $\beta_{Government\ Owned} < 0$ .

Columns (1a), (2a) and (3a) of TABLE 5 report the results of this analysis using the full sample of 213 observations, estimated over three different, multi-day test periods: (-1,1), (-2,2), and (-3,3). While the coefficient for the *Government Owned* dummy variable is negative in all

three regressions, it is always statistically insignificant, with Z-values ranging from -0.44 to -1.21.<sup>19</sup> Furthermore, the estimated coefficients imply a mean abnormal return that is positive even for government owned firms. For example, mean abnormal return for government owned acquiring firms is estimated to be 0.0015 over the (-1,1) window (0.0015=0.0037-0.0022).

As a further robustness test, we expand the analysis to include the control variables *Cultural Distance*, *Industry Relatedness*, and a set of dummy variables to indicate when the target firm is located in Hong Kong (*Target\_HK*) or in a developed country other than Hong Kong (*Target\_DEV*). Each of these variables is further described in Appendix A.1.

Columns (1b), (2b) and (3b) of TABLE 5 report the results of adding these additional variables to the specification. The qualitative results are unchanged: The estimated coefficient for *Government Owned* remains insignificant in all three regressions. Thus, we find no statistically significant evidence that Chinese OMAs lower shareholder wealth, even for firms that are “government owned.”

### VI.3. Does Go Global cause Chinese acquiring firms to sacrifice shareholders interests in pursuit of national strategic interests? Evidence from acquiring firms.

The second hypothesis compares stock market reactions for acquiring firms to announcements of OMAs before and after Go Global. If OMAs during the Go Global period are perceived as pursuing national goals at the expense of shareholder wealth, share prices of Chinese acquiring firms will respond negatively to their announcement. Therefore, mean abnormal returns during the Go Global period should be lower than mean abnormal returns before Go Global.

To test this hypothesis, we again use a multivariate version of the GLS framework above to estimate  $y = XB + \varepsilon$ , where now  $X = [i \ D_{GoGlobal}]$ ,  $B = [\beta \ \beta_{GoGlobal}]$ , and  $D_{GoGlobal}$  is a dummy variable indicating that the OMA event occurred during the Go Global period (2002-2009). The corresponding null hypothesis is  $H_0 : \beta_{GoGlobal} \geq 0$ . In words, this null hypothesis states that mean abnormal returns are the same or higher during the Go Global period. Rejection of this null is evidence that the Go Global policy adversely affected shareholders of Chinese acquiring firms. We estimate this equation for the full sample of 213 observations and report

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<sup>19</sup> To avoid confusion, the Z-values in the table are derived from the GLS2 estimates of the standard error (cf. Equation 13). Identical qualitative results obtain when one uses the Z-values for the associated sandwich estimators.

results for three different, multi-day test windows:  $(-1,1)$ ,  $(-2,2)$ , and  $(-3,3)$ . We subsequently expand the analysis to include control variables.

The first row of TABLE 6 reports (i) the GLS estimate of the coefficient for the *Go Global* variable and (ii) its associated (sandwich estimator)  $p$ -value when no control variables are included in the equation (“None”). We cannot reject the null hypothesis for any of the three test windows. The associated  $p$ -values of 0.44, 0.30, and 0.31 are well above the 0.05 threshold.<sup>20</sup> Little is changed when additional control variables are included in the specification. The second row reports the estimated value of  $\beta_{GoGlobal}$  in a specification that also includes the variable *Government Owned*. The next three rows repeat the exercise, but with (i) *Cultural Distance*, (ii) *Industry Relatedness*, and (iii) (*Target\_HK* and *Target\_DEV*) replacing *Government Owned*. The last row of TABLE 6 includes all 5 control variables in the specification. The null hypothesis is never rejected, with  $p$ -values ranging from 0.27 to 0.57. In words, we find no evidence that mean abnormal returns are lower for OMA announcements during the Go Global period.

#### VI.4. A Robustness Check.

A potential criticism of the preceding analysis is that it ignores the possibility that Chinese firms may have become better at identifying profitable targets over time. If this were the case, the negative impact of Go Global could be disguised by the improvement in targeting OMA candidates.

To explore this possibility, we estimate Buy-and-Hold (Monthly) Abnormal Returns (BHARs) for each of the windows (i) 1 year, (ii) 1.5 years, (iii) 2 years, (iv) 2.5 years, (v) 3 years, and (vi) 3.5 years following the completion of the OMA. TABLE 7 reports the results of estimating the specification,  $BHAR_t = \beta + \beta_{GoGlobal} D_{GoGlobal}$ , where  $D_{GoGlobal}$  is a dummy variable that takes the value 1 for years in which the Go Global policy was in place. If Chinese acquiring firms were becoming better able to identify profitable targets over time, this should be evidenced by higher BHARs for the Go Global period,  $\beta_{GoGlobal} > 0$ .

For five of the six windows the estimated value of  $\beta_{GoGlobal}$  is negative (cf. Columns 2-6). In the one case where the estimated coefficient is positive (Column 1), the associated  $t$ -statistic is

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<sup>20</sup> Note that the  $p$ -values for the  $(-1,1)$  and  $(-2,2)$  windows are less than 0.50 even though the estimated coefficients are positive. This is because the sandwich estimator of  $\beta_{GoGlobal}$  (not reported) is negative, in contrast to the positive GLS estimate. Recall that the former only weights for heteroskedasticity, while the latter also weights for cross-sectional correlation.

0.56. Thus there is no evidence to indicate that the negative impact of Go Global is being disguised by an improvement in the ability of Chinese acquiring firms to target OMA candidates.

*VI.5. Does Go Global cause Chinese acquiring firms to sacrifice shareholders interests in pursuit of national strategic interests? Evidence from targeted firms.*

The third and last hypothesis compares stock market reactions for target firms from announcements of OMAs before and after Go Global. If Chinese firms under Go Global are especially motivated by political considerations to undertake OMAs, then they may pay more for target firms after Go Global than before.

To test this hypothesis, we estimate  $y = \mathbf{XB} + \varepsilon$  for target firms, where now  $\mathbf{X} = [\mathbf{i} \quad \mathbf{D}_{GoGlobal}]$ ,  $\mathbf{B} = [\beta \quad \beta_{GoGlobal}]$ . If the Go Global policy resulted in acquiring firms paying “too much” for targets, the coefficient for the Go Global dummy variable should be positive. The corresponding null hypothesis is  $H_0 : \beta_{GoGlobal} \leq 0$ .

TABLE 8 repeats the analysis of TABLE 6, but this time for target firms. It reports estimates of  $\beta_{GoGlobal}$ , without and with control variables, along with  $p$ -values associated with testing the hypothesis  $H_0 : \beta_{GoGlobal} \leq 0$ . Regression results are reported for three different intervals during the test period:  $(-1,1)$ ,  $(-2,2)$ , and  $(-3,3)$ .

In almost every case, the null hypothesis is rejected. This provides broad evidence that abnormal returns are higher for target firms during the Go Global period. This is consistent with Chinese firms paying “too much” to acquire overseas targets. However, while interesting, these findings do not overturn the conclusions of TABLE 6. Namely, OMA activity during the Go Global period does not appear to have harmed shareholders of acquiring firms in an absolute sense. The most that can be said is that shareholders may have been harmed in an opportunity cost sense: abnormal returns would have been higher for shareholders of acquiring firms if the acquiring firms had paid less.

## **VII. SUMMARY.**

This study empirically addresses two questions:

1. “Has Chinese overseas mergers and acquisitions (OMAs) adversely affected shareholders of Chinese acquiring firms?”

2. “Has China’s Go Global policy sacrificed the interests of shareholders of Chinese acquiring firms in order to pursue national, strategic interests?”

The questions are of interest because it is well-known that the Chinese government plays a very influential role in the affairs of Chinese businesses. An obvious question is whether this influence has been detrimental to the interests of shareholders.

While a substantial literature examines the effect of government control on the performance of Chinese firms, there have been very few studies that specifically study OMAs. OMAs are particularly of interest, because they have been explicitly identified as an economic and political tool for achieving national strategic goals. This potentially creates a conflict between the public sector and shareholders of Chinese acquiring firms.

To address these questions, we use two samples. The main sample consists of 213 observations on 157 OMA events that took place between January 1, 1994 and December 31, 2009. We aggregate stock price data for Chinese acquiring firms across three distinct sets of markets: (i) the Chinese Mainland share markets (Shanghai and Shenzhen), (ii) the Hong Kong Stock Exchange, and (iii) the three major U.S. share markets (NYSE, AMEX, and NASDAQ). A second sample consists of analogous data for overseas targets of Chinese OMAs. These price data allow us to investigate how stock markets evaluate the impact of Chinese OMAs on the shareholders of acquiring and target firms.

Based upon an analysis using both aggregated and disaggregated samples, and of daily and cumulative abnormal returns, we find consistent evidence that (i) Chinese OMAs have not lowered the wealth of shareholders of Chinese acquiring firms, and (ii) shareholders of Chinese acquiring firms have not fared worse under Go Global than before Go Global. These findings contribute to our knowledge of the relationship between government and business in China.

The Chinese model, famously characterized by Deng Xiaoping as “socialism with Chinese characteristics,” draws much attention because of China’s unprecedented economic growth. An extensive literature investigates the role of government within this model. Our study contributes evidence to this literature by demonstrating that the visible hand of the Chinese government can be a light, and not a heavy, hand when it comes to directing the overseas activities of Chinese acquiring firms.

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**TABLE 1**  
**Distribution of Chinese OMA Deals by Year**

| <i><b>Year</b></i> | <i><b>Number of Deals</b></i> | <i><b>Deal Value Available</b></i> | <i><b>Total Value of Deals (\$mil)</b></i> | <i><b>Average Value of Deals (\$mil)</b></i> |
|--------------------|-------------------------------|------------------------------------|--------------------------------------------|----------------------------------------------|
| <b>1994</b>        | 1                             | 1                                  | 98.5                                       | 98.5                                         |
| <b>1995</b>        | 1                             | 1                                  | 1.3                                        | 1.3                                          |
| <b>1996</b>        | 2                             | 2                                  | 482.1                                      | 241.0                                        |
| <b>1997</b>        | 4                             | 3                                  | 360.6                                      | 120.2                                        |
| <b>1998</b>        | 7                             | 6                                  | 262.5                                      | 43.7                                         |
| <b>1999</b>        | 4                             | 3                                  | 45.9                                       | 15.3                                         |
| <b>2000</b>        | 6                             | 4                                  | 75.5                                       | 18.9                                         |
| <b>2001</b>        | 6                             | 4                                  | 50.5                                       | 12.6                                         |
| <b>2002</b>        | 11                            | 10                                 | 2,098.9                                    | 209.9                                        |
| <b>2003</b>        | 9                             | 7                                  | 2,048.6                                    | 292.7                                        |
| <b>2004</b>        | 16                            | 9                                  | 2,367.5                                    | 263.1                                        |
| <b>2005</b>        | 8                             | 6                                  | 4,243.6                                    | 707.3                                        |
| <b>2006</b>        | 12                            | 9                                  | 10,282.2                                   | 1,142.5                                      |
| <b>2007</b>        | 21                            | 15                                 | 2,437.8                                    | 162.5                                        |
| <b>2008</b>        | 20                            | 12                                 | 2,346.3                                    | 195.5                                        |
| <b>2009</b>        | 29                            | 21                                 | 5,794.6                                    | 275.9                                        |
| <b>Total</b>       | 157                           | 113                                | 32,996.3                                   | 292.0                                        |

Source: See section IV of the text.

**TABLE 2**  
**Distribution of Chinese OMA Deals by Region and Country**

| <i>Country</i>              | <i>Number of Deals</i> | <i>Deal Value Available</i> | <i>Total Value of Deals (\$mil)</i> | <i>Average Value of Deals (\$mil)</i> |
|-----------------------------|------------------------|-----------------------------|-------------------------------------|---------------------------------------|
| <b>Developed nations</b>    |                        |                             |                                     |                                       |
| Hong Kong <sup>1</sup>      | 58                     | 45                          | 5,174.6                             | 115.0                                 |
| United States               | 17                     | 10                          | 2,476.8                             | 247.7                                 |
| Australia                   | 12                     | 10                          | 3,690.4                             | 369.0                                 |
| Canada                      | 6                      | 6                           | 2,553.2                             | 425.5                                 |
| Japan                       | 4                      | 3                           | 169.9                               | 56.6                                  |
| United Kingdom <sup>2</sup> | 4                      | 3                           | 6,886.5                             | 2,295.5                               |
| Germany                     | 3                      | 0                           | 0.0                                 | 0.0                                   |
| Italy                       | 3                      | 1                           | 0.1                                 | 0.1                                   |
| Netherlands                 | 2                      | 1                           | 148.5                               | 148.5                                 |
| France                      | 1                      | 1                           | 8.7                                 | 8.7                                   |
| New Zealand                 | 1                      | 1                           | 26.2                                | 26.2                                  |
| <i>Sum</i>                  | <i>111</i>             | <i>81</i>                   | <i>21,134.9</i>                     | <i>260.9</i>                          |
| <b>Asia</b>                 |                        |                             |                                     |                                       |
| Singapore                   | 6                      | 4                           | 1,879.9                             | 470.0                                 |
| Indonesia                   | 5                      | 4                           | 1,129.5                             | 282.4                                 |
| South Korea                 | 3                      | 3                           | 473.6                               | 157.9                                 |
| Azerbaijan                  | 2                      | 2                           | 70.0                                | 35.0                                  |
| India                       | 2                      | 2                           | 9.5                                 | 4.8                                   |
| Kazakhstan                  | 2                      | 1                           | 200.0                               | 200.0                                 |
| Pakistan                    | 2                      | 2                           | 744.0                               | 372.0                                 |
| Russian Fed                 | 2                      | 2                           | 3,600.0                             | 1,800.0                               |
| Taiwan                      | 2                      | 1                           | 2.2                                 | 2.2                                   |
| Malaysia                    | 1                      | 1                           | 11.5                                | 11.5                                  |
| Mongolia                    | 1                      | 0                           | 0.0                                 | 0.0                                   |
| Philippines                 | 1                      | 1                           | 70.0                                | 70.0                                  |
| Thailand                    | 1                      | 1                           | 0.6                                 | 0.6                                   |
| Vietnam                     | 1                      | 0                           | 0.0                                 | 0.0                                   |
| <i>Sum</i>                  | <i>31</i>              | <i>24</i>                   | <i>8,190.7</i>                      | <i>341.3</i>                          |

| <i>Country</i>       | <i>Number of Deals</i> | <i>Deal Value Available</i> | <i>Total Value of Deals (\$mil)</i> | <i>Average Value of Deals (\$mil)</i> |
|----------------------|------------------------|-----------------------------|-------------------------------------|---------------------------------------|
| <b>Africa</b>        |                        |                             |                                     |                                       |
| Nigeria              | 2                      | 1                           | 2,692.0                             | 2,692.0                               |
| Zambia               | 2                      | 0                           | 0.0                                 | 0.0                                   |
| Chad                 | 1                      | 1                           | 202.5                               | 202.5                                 |
| Tunisia              | 1                      | 0                           | 0.0                                 | 0.0                                   |
| <i>Sum</i>           | 6                      | 2                           | 2,894.5                             | 1,447.3                               |
| <b>South America</b> |                        |                             |                                     |                                       |
| British Virgin       | 3                      | 2                           | 33.2                                | 16.6                                  |
| Brazil               | 2                      | 2                           | 520.0                               | 260.0                                 |
| Peru                 | 2                      | 1                           | 200.0                               | 200.0                                 |
| Cayman Islands       | 1                      | 1                           | 23.0                                | 23.0                                  |
| Mexico               | 1                      | 0                           | 0.0                                 | 0.0                                   |
| <i>Sum</i>           | 9                      | 6                           | 776.2                               | 129.4                                 |
| <b>Total</b>         | 157                    | 113                         | 32,996.32                           | 292.00                                |

*Source:* See section IV of the text.

**TABLE 3**  
**Distribution of Chinese OMA Deals by Target Industries (1994-2001 versus 2002-2009)**

| <u>1994-2001</u>                                                     |                                          |                                           | <u>2002-2009</u>                                        |                                          |                                           |
|----------------------------------------------------------------------|------------------------------------------|-------------------------------------------|---------------------------------------------------------|------------------------------------------|-------------------------------------------|
| <i>Target Industry Sector</i>                                        | <i>Number<br/>(Percent)<br/>of Deals</i> | <i>Average Value<br/>of Deals (\$mil)</i> | <i>Target Industry Sector</i>                           | <i>Number<br/>(Percent)<br/>of Deals</i> | <i>Average Value<br/>of Deals (\$mil)</i> |
| Telecommunication and Electronics, Prepackaged Software <sup>a</sup> | 11<br>(35.5%)                            | 16.0                                      | Energy and Natural Resources                            | 41<br>(32.5%)                            | 670.4                                     |
| Miscellaneous Manufacturing Products <sup>b</sup>                    | 5<br>(16.1%)                             | 10.3                                      | Telecommunication and Electronics, Prepackaged Software | 34<br>(27.0%)                            | 204.7                                     |
| Electric, Gas, and Water Distribution, Construction                  | 4<br>(12.9%)                             | 13.3                                      | Miscellaneous Manufacturing Products                    | 15<br>(11.9%)                            | 43.3                                      |
| Transportation <sup>c</sup>                                          | 4<br>(12.9%)                             | 81.6                                      | Wholesale, Retail, Trade                                | 12<br>(9.5%)                             | 69.2                                      |
| Miscellaneous Business Services <sup>d</sup>                         | 3<br>(9.7%)                              | 279.2                                     | Miscellaneous Business Services                         | 8<br>(6.3%)                              | 202.7                                     |
| Wholesale, Retail, Trade <sup>e</sup>                                | 2<br>(6.5%)                              | 9.2                                       | Transportation                                          | 7<br>(5.6%)                              | 35.2                                      |
| Energy and Natural Resources <sup>f</sup>                            | 1<br>(3.2%)                              | n.a.                                      | Electric, Gas, and Water Distribution, Construction     | 5<br>(4.0%)                              | 680.2                                     |
| Chemicals and Drugs <sup>g</sup>                                     | 1<br>(3.2%)                              | 1.3                                       | Chemicals and Drugs                                     | 4<br>(3.2%)                              | 46.0                                      |

<sup>a</sup> “Telecommunication and Electronics, Prepackaged Software Industry” consists of the following SDC categories: “Computer and Office Equipment;” “Telecommunications;” “Electronic and Electrical Equipment;” “Communications Equipment;” and “Prepackaged Software.”

<sup>b</sup> “Miscellaneous Manufacturing Products” consists of the following SDC categories: “Measuring, Medical, Photo Equipment;” “Clocks;” “Food and Kindred Products;” “Stone, Clay, Glass, and Concrete Products;” “Textile and Apparel Products;” “Wood Products, Furniture, and Fixtures;” “Machinery;” “Miscellaneous Manufacturing;” and “Transportation Equipment.”

<sup>c</sup> “Transportation” consists of the following SDC categories: “Transportation and Shipping (except Air);” and “Air Transportation and Shipping.”

<sup>d</sup> “Miscellaneous Business Services” consists of the following SDC categories: “Business Services;” “Health Services;” “Investment and Commodity Firms, Dealers, Exchanges;” and “Radio and Television Broadcasting Stations.”

<sup>e</sup> “Wholesale, Retail, Trade” consists of the following SDC categories: “Wholesale Trade-Nondurable Goods;” “Wholesale Trade-Durable Goods;” and “Miscellaneous Retail Trade.”

<sup>f</sup> “Energy and Natural Resources” consists of the following SDC categories: “Oil and Gas;” “Petroleum Refining;” “Mining;” “Metal and Metal Products;” and “Agriculture, Forestry, and Fishing.”

<sup>g</sup> “Chemicals and Drugs” consists of the following SDC categories: “Drugs;” and “Chemicals and Allied Products.”

**TABLE 4**  
**Abnormal Returns for Acquiring Firms**

**A. Daily Responses**

|            | <u><i>Aggregated</i></u> |                        | <u><i>Mainland</i></u> |                        | <u><i>Hong Kong</i></u> |                        | <u><i>U.S.</i></u> |                        |
|------------|--------------------------|------------------------|------------------------|------------------------|-------------------------|------------------------|--------------------|------------------------|
| <i>Day</i> | $\beta$<br>(1a)          | <i>p-value</i><br>(1b) | $\beta$<br>(2a)        | <i>p-value</i><br>(2b) | $\beta$<br>(3a)         | <i>p-value</i><br>(3b) | $\beta$<br>(4a)    | <i>p-value</i><br>(4b) |
| -10        | 0.0019                   | 0.88                   | 0.0007                 | 0.63                   | 0.0027                  | 0.89                   | 0.0024             | 0.79                   |
| -9         | 0.0019                   | 0.91                   | 0.0023                 | 0.86                   | 0.0020                  | 0.82                   | 0.0019             | 0.73                   |
| -8         | -0.0001                  | 0.42                   | 0.0016                 | 0.78                   | -0.0029                 | 0.10                   | 0.0006             | 0.57                   |
| -7         | -0.0010                  | 0.17                   | -0.0004                | 0.43                   | 0.0004                  | 0.57                   | -0.0071            | 0.01                   |
| -6         | -0.0021                  | 0.07                   | -0.0015                | 0.25                   | -0.0036                 | 0.05                   | -0.0017            | 0.29                   |
| -5         | 0.0011                   | 0.65                   | 0.0013                 | 0.72                   | -0.0009                 | 0.34                   | 0.0020             | 0.75                   |
| -4         | 0.0013                   | 0.80                   | 0.0040                 | 0.97                   | 0.0016                  | 0.77                   | -0.0047            | 0.06                   |
| -3         | 0.0010                   | 0.59                   | 0.0000                 | 0.50                   | 0.0027                  | 0.89                   | -0.0035            | 0.12                   |
| -2         | -0.0007                  | 0.25                   | 0.0016                 | 0.77                   | -0.0016                 | 0.23                   | -0.0052            | 0.04                   |
| -1         | 0.0028                   | 0.92                   | 0.0060                 | 0.99                   | 0.0006                  | 0.60                   | -0.0023            | 0.22                   |
| 0          | 0.0016                   | 0.79                   | 0.0028                 | 0.90                   | 0.0013                  | 0.72                   | -0.0019            | 0.27                   |
| 1          | 0.0022                   | 0.98                   | -0.0026                | 0.11                   | 0.0055                  | 0.99                   | 0.0101             | 0.99                   |
| 2          | -0.0011                  | 0.20                   | -0.0032                | 0.07                   | 0.0016                  | 0.77                   | -0.0031            | 0.15                   |
| 3          | -0.0018                  | 0.10                   | 0.0005                 | 0.59                   | -0.0055                 | 0.01                   | -0.0002            | 0.48                   |
| 4          | -0.0014                  | 0.30                   | -0.0025                | 0.12                   | 0.0009                  | 0.65                   | -0.0007            | 0.41                   |
| 5          | 0.0015                   | 0.88                   | 0.0022                 | 0.85                   | -0.0001                 | 0.47                   | 0.0047             | 0.94                   |
| 6          | -0.0003                  | 0.42                   | 0.0012                 | 0.72                   | -0.0024                 | 0.13                   | 0.0007             | 0.59                   |
| 7          | 0.0007                   | 0.62                   | 0.0012                 | 0.71                   | 0.0005                  | 0.58                   | -0.0008            | 0.39                   |
| 8          | 0.0014                   | 0.78                   | 0.0023                 | 0.86                   | -0.0015                 | 0.25                   | 0.0039             | 0.90                   |
| 9          | -0.0013                  | 0.21                   | -0.0033                | 0.06                   | 0.0019                  | 0.81                   | -0.0031            | 0.16                   |
| 10         | -0.0016                  | 0.15                   | -0.0034                | 0.06                   | 0.0002                  | 0.54                   | -0.0016            | 0.29                   |
| <i>N</i>   | 213                      |                        | 66                     |                        | 74                      |                        | 73                 |                        |

NOTE: The *p*-value corresponds to a test of the one-sided hypothesis that mean abnormal return is greater than or equal to zero (i.e., is not negative).

### B. Cumulative Responses

|                 | <u>Aggregated</u> |                        | <u>Mainland</u> |                        | <u>Hong Kong</u> |                        | <u>U.S.</u>     |                        |
|-----------------|-------------------|------------------------|-----------------|------------------------|------------------|------------------------|-----------------|------------------------|
| <i>Days</i>     | $\beta$<br>(1a)   | <i>p-value</i><br>(1b) | $\beta$<br>(2a) | <i>p-value</i><br>(2b) | $\beta$<br>(3a)  | <i>p-value</i><br>(3b) | $\beta$<br>(4a) | <i>p-value</i><br>(4b) |
| <i>(-10,-6)</i> | 0.0001            | 0.48                   | 0.0006          | 0.72                   | -0.0003          | 0.40                   | -0.0008         | 0.28                   |
| <i>(-5,-2)</i>  | 0.0007            | 0.65                   | 0.0017          | 0.95                   | 0.0005           | 0.66                   | -0.0028         | 0.03                   |
| <i>(-1,1)</i>   | 0.0022            | 0.99                   | 0.0021          | 0.95                   | 0.0024           | 0.97                   | 0.0020          | 0.87                   |
| <i>(2,5)</i>    | -0.0007           | 0.23                   | -0.0007         | 0.25                   | -0.0008          | 0.24                   | 0.0002          | 0.55                   |
| <i>(6,10)</i>   | -0.0002           | 0.33                   | -0.0004         | 0.34                   | -0.0003          | 0.40                   | -0.0002         | 0.44                   |
| <i>(-2,2)</i>   | 0.0009            | 0.89                   | 0.0009          | 0.83                   | 0.0015           | 0.93                   | -0.0005         | 0.36                   |
| <i>(-3,3)</i>   | 0.0006            | 0.74                   | 0.0007          | 0.81                   | 0.0006           | 0.78                   | -0.0009         | 0.22                   |
| <i>N</i>        | 213               |                        | 66              |                        | 74               |                        | 73              |                        |

NOTE: The *p*-value corresponds to a test of the one-sided hypothesis that mean abnormal return is greater than or equal to zero (i.e., is not negative).

**TABLE 5**  
**Estimates of the Effect of Government Ownership on Mean Abnormal Returns: Aggregated Sample**

|                             | <u><i>(-1,1) Window</i></u> |                    | <u><i>(-2,2) Window</i></u> |                    | <u><i>(-3,3) Window</i></u> |                    |
|-----------------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|
| <i>Variables</i>            | <i>(1a)</i>                 | <i>(1b)</i>        | <i>(2a)</i>                 | <i>(2b)</i>        | <i>(3a)</i>                 | <i>(3b)</i>        |
| <i>Intercept</i>            | 0.0037<br>(2.43)            | 0.0048<br>(1.85)   | 0.0015<br>(1.26)            | 0.0010<br>(0.51)   | 0.0009<br>(0.92)            | 0.0016<br>(0.94)   |
| <i>Government Owned</i>     | -0.0022<br>(-1.21)          | -0.0019<br>(-0.96) | -0.0008<br>(-0.56)          | -0.0013<br>(-0.87) | -0.0005<br>(-0.44)          | -0.0009<br>(-0.71) |
| <i>Cultural Distance</i>    | ----                        | -0.0010<br>(-0.83) | ----                        | 0.0010<br>(1.08)   | ----                        | -0.0005<br>(-0.61) |
| <i>Industry Relatedness</i> | ----                        | -0.0019<br>(-1.03) | ----                        | 0.0006<br>(0.44)   | ----                        | 0.0002<br>(0.21)   |
| <i>Target_HK</i>            | ----                        | 0.0003<br>(0.11)   | ----                        | 0.0013<br>(0.75)   | ----                        | 0.0007<br>(0.50)   |
| <i>Target_DEV</i>           | ----                        | 0.0029<br>(0.84)   | ----                        | -0.0034<br>(-1.29) | ----                        | -0.0005<br>(-0.22) |
| <i>Observations</i>         | 213                         |                    | 213                         |                    | 213                         |                    |

NOTE: The dependent variable is abnormal returns. Values in parenthesis are Z-statistics. Coefficients and standard errors (and associated Z-statistics) are calculated from Equations (11) and (13) in the text.

**TABLE 6**  
**Analysis of the Effect of “Go Global” on Acquirers: Aggregated Sample**

|                                                                                                                             | <u><i>(-1,1) Window</i></u>       |                               | <u><i>(-2,2) Window</i></u>       |                               | <u><i>(-3,3) Window</i></u>       |                               |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| <i>Control Variables</i>                                                                                                    | $\beta_{GoGlobal}$<br><i>(1a)</i> | <i>p-value</i><br><i>(1b)</i> | $\beta_{GoGlobal}$<br><i>(2a)</i> | <i>p-value</i><br><i>(2b)</i> | $\beta_{GoGlobal}$<br><i>(3a)</i> | <i>p-value</i><br><i>(3b)</i> |
| <i>None</i>                                                                                                                 | 0.0013                            | 0.44                          | 0.0000                            | 0.30                          | -0.0004                           | 0.31                          |
| <i>Government Owned</i>                                                                                                     | 0.0011                            | 0.43                          | -0.0001                           | 0.30                          | -0.0004                           | 0.30                          |
| <i>Cultural Distance</i>                                                                                                    | 0.0015                            | 0.47                          | 0.0001                            | 0.34                          | 0.0001                            | 0.42                          |
| <i>Industry Relatedness</i>                                                                                                 | 0.0019                            | 0.55                          | -0.0002                           | 0.27                          | -0.0004                           | 0.29                          |
| <i>Target_HK</i><br><i>Target_DEV</i>                                                                                       | 0.0017                            | 0.50                          | 0.0007                            | 0.46                          | 0.0004                            | 0.50                          |
| <i>Government Owned</i><br><i>Cultural Distance</i><br><i>Industry Relatedness</i><br><i>Target_HK</i><br><i>Target_DEV</i> | 0.0021                            | 0.57                          | 0.0005                            | 0.41                          | 0.0003                            | 0.45                          |
| <i>Observations</i>                                                                                                         | 213                               |                               | 213                               |                               | 213                               |                               |

NOTE: The dependent variable is abnormal returns. The respective specifications include a constant term, a dummy variable for whether the event occurred during the Go Global period ( $D_{GoGlobal}$ ) and, in some cases, one or more control variables (cf. TABLE A.2 in the Appendix). The coefficient estimate reported in the table is for the variable  $D_{GoGlobal}$ , and the associated  $p$ -value corresponds to a test of the one-sided hypothesis that  $\beta_{GoGlobal}$  is greater than or equal to zero (i.e., is not negative).

**TABLE 7**  
**BHARs Before and After Go Global**

|                     | <i>BHAR Regressions</i> |                          |                        |                          |                        |                          |
|---------------------|-------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
|                     | <i>1 year<br/>(1)</i>   | <i>1.5 years<br/>(2)</i> | <i>2 years<br/>(3)</i> | <i>2.5 years<br/>(4)</i> | <i>3 years<br/>(5)</i> | <i>3.5 years<br/>(6)</i> |
| $\beta$             | -0.1393<br>(-1.21)      | -0.0606<br>(-0.28)       | 0.4323<br>(0.71)       | 0.2632<br>(0.46)         | 0.0762<br>(0.23)       | 0.1963<br>(0.51)         |
| $\beta_{GoGlobal}$  | 0.0696<br>(0.56)        | -0.0216<br>(-0.10)       | -0.6212<br>(-1.02)     | -0.4457<br>(-0.78)       | -0.1686<br>(-0.48)     | -0.2230<br>(-0.55)       |
| <i>R-squared</i>    | 0.004                   | 0.000                    | 0.023                  | 0.013                    | 0.004                  | 0.005                    |
| <i>Observations</i> | 119                     | 119                      | 120 <sup>a</sup>       | 106                      | 94                     | 89                       |

NOTE: The coefficients in the table consist of OLS estimates of the following regression equation:  $BHAR_t = \beta + \beta_{GoGlobal} D_{GoGlobal}$ , where  $D_{GoGlobal}$  is a dummy variable that takes the value 1 for years in which the Go Global policy is in place. The sample is a single-listing sample comprised of highest-volume listings (when there is more than one listing). *t*-statistics are calculated from White, heteroskedasticity-robust standard errors.

<sup>a</sup> In general, one should expect the sample to diminish in size as the length of the interval gets longer (because data is available for fewer firms). The 2-year sample has more observations (120) than the 1 or 1.5 year samples (119) because the longer period had a higher percentage of non-zero return days for one of the firms, causing the number of zero-return days to fall below the 50% threshold.

**TABLE 8**  
**Analysis of the Effect of “Go Global” on Targets: Aggregated Sample**

|                                                                                                                             | <u><i>(-1,1) Window</i></u>       |                               | <u><i>(-2,2) Window</i></u>       |                               | <u><i>(-3,3) Window</i></u>       |                               |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| <i>Control Variables</i>                                                                                                    | $\beta_{GoGlobal}$<br><i>(1a)</i> | <i>p-value</i><br><i>(1b)</i> | $\beta_{GoGlobal}$<br><i>(2a)</i> | <i>p-value</i><br><i>(2b)</i> | $\beta_{GoGlobal}$<br><i>(3a)</i> | <i>p-value</i><br><i>(3b)</i> |
| <i>None</i>                                                                                                                 | 0.0118                            | 0.00                          | 0.0058                            | 0.01                          | 0.0034                            | 0.06                          |
| <i>Government Owned</i>                                                                                                     | 0.0120                            | 0.00                          | 0.0059                            | 0.01                          | 0.0036                            | 0.05                          |
| <i>Cultural Distance</i>                                                                                                    | 0.0104                            | 0.00                          | 0.0068                            | 0.01                          | 0.0047                            | 0.02                          |
| <i>Industry Relatedness</i>                                                                                                 | 0.0152                            | 0.00                          | 0.0071                            | 0.00                          | 0.0046                            | 0.02                          |
| <i>Target_HK</i><br><i>Target_DEV</i>                                                                                       | 0.0101                            | 0.00                          | 0.0068                            | 0.01                          | 0.0048                            | 0.02                          |
| <i>Government Owned</i><br><i>Cultural Distance</i><br><i>Industry Relatedness</i><br><i>Target_HK</i><br><i>Target_DEV</i> | 0.0140                            | 0.00                          | 0.0087                            | 0.00                          | 0.0065                            | 0.00                          |
| <i>Observations</i>                                                                                                         | 159                               |                               | 159                               |                               | 159                               |                               |

NOTE: The dependent variable is abnormal returns. The respective specifications include a constant term, a dummy variable for whether the event occurred during the Go Global period ( $D_{GoGlobal}$ ) and, in some cases, one or more control variables. The coefficient estimate reported in the table is for the variable  $D_{GoGlobal}$ , and the associated  $p$ -value corresponds to a test of the one-sided hypothesis

that  $\beta_{GoGlobal}$  is less than or equal to zero (i.e., is not positive). As discussed in the text, most of the firms in the target sample are new observations. Only 15 are target matches of the 157 acquiring firms represented in TABLE 6. This stems from the fact that data for most of the target firms for the TABLE 6 acquirers are not available in Datastream. The inability to match results from acquirers in TABLE 6 with results for targets in TABLE 8 inhibits our ability to reconcile these results.

**APPENDIX: TABLE A.1**  
**Statistical Description of Variables**

|                                          | <i>Mean</i> | <i>Minimum</i> | <i>Maximum</i> | <i>Std. Dev.</i> |
|------------------------------------------|-------------|----------------|----------------|------------------|
| <b>A. ACQUIRERS (Observations = 213)</b> |             |                |                |                  |
| <i>Cultural Distance<sup>a</sup></i>     | 1.365       | 0              | 4.59           | 1.39             |
| <i>Government Owned<sup>b</sup></i>      | 0.577       | 0              | 1              | 0.495            |
| <i>Industry Relatedness<sup>c</sup></i>  | 0.554       | 0              | 1              | 0.498            |
| <i>Go Global<sup>d</sup></i>             | 0.836       | 0              | 1              | 0.371            |
| <i>Target_DEV<sup>e</sup></i>            | 0.394       | 0              | 1              | 0.490            |
| <i>Target_HK<sup>f</sup></i>             | 0.324       | 0              | 1              | 0.469            |
| <b>B. TARGETS (Observations = 159)</b>   |             |                |                |                  |
| <i>Cultural Distance<sup>a</sup></i>     | 1.70        | 0.14           | 4.59           | 1.47             |
| <i>Government Owned<sup>b</sup></i>      | 0.151       | 0              | 1              | 0.359            |
| <i>Industry Relatedness<sup>c</sup></i>  | 0.283       | 0              | 1              | 0.452            |
| <i>Go Global<sup>d</sup></i>             | 0.660       | 0              | 1              | 0.475            |
| <i>Target_DEV<sup>e</sup></i>            | 0.063       | 0              | 1              | 0.244            |
| <i>Target_HK<sup>f</sup></i>             | 0.428       | 0              | 1              | 0.496            |

NOTE: The Acquirers sample consists of the 213 observations included in the “Aggregated Sample” reported above. The Targets sample consists of 159 observations of target firm. As discussed in the text, the companies in the target sample are not, for the most part, targets of the firms in the Acquirers sample.

<sup>a</sup> **Cultural Distance** is a quantitative measure of the difference in cultural values between the acquiring and target company countries. It is computed from individual cultural dimension scores as reported from <http://www.geert-hofstede.com>. The individual cultural dimension scores are combined to produce a single measure of cultural distance using the formula (Kogut and Sing, 1998):

$$CD_j = \sum_{i=1}^4 \frac{\{(I_{iT} - I_{iA})^2 / V_i\}}{4}$$
, where  $CD_j$  is the measure of cultural distance between the country of the target company,  $T$ , and the country of the acquiring company,  $A$ ;  $I_{iT}$  ( $I_{iA}$ ) is the score of the  $i^{th}$  cultural dimension for the country of the target (acquiring) company; and  $V_i$  is the variance of the  $i^{th}$  cultural dimension score.

<sup>b</sup> **Government Owned** is a dummy variable that takes the value 1 if the respective company is classified as being “government owned” by the SDC Platinum – Mergers and Acquisition database.

<sup>c</sup> **Industry Relatedness** is a dummy variable that takes the value 1 if the acquirer and target companies both have the same, 2-digit SIC code.

<sup>d</sup> **Go Global** is a dummy variable that takes the value 1 if the merger and acquisition was announced when the Go Global policy was in effect (defined as occurring in calendar year 2002 and following).

<sup>e</sup> **Target\_DEV** is a dummy variable that takes the value 1 if the target company is located in a developing country (other than Hong Kong).

<sup>f</sup> **Target\_HK** is a dummy variable that takes the value 1 if the target company is located in Hong Kong.

**APPENDIX TABLE A.2**  
**Analysis of the Effect of “Go Global” on Acquirers: Aggregated Sample**

**A. (-1,1) Window**

| <i>Variables</i>            | <i>(1)</i>       | <i>(2)</i>         | <i>(3)</i>         | <i>(4)</i>         | <i>(5)</i>         | <i>(6)</i>         |
|-----------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <i>Intercept</i>            | 0.0011<br>(0.45) | 0.0027<br>(0.98)   | 0.0013<br>(0.52)   | 0.0020<br>(0.79)   | -0.0003<br>(-0.09) | 0.0029<br>(0.80)   |
| <i>Go Global</i>            | 0.0013<br>(0.49) | 0.0011<br>(0.44)   | 0.0015<br>(0.56)   | 0.0019<br>(0.73)   | 0.0017<br>(0.62)   | 0.0021<br>(0.76)   |
| <i>Government Owned</i>     | ----             | -0.0022<br>(-1.19) | ----               | ----               | ----               | -0.0018<br>(-0.93) |
| <i>Cultural Distance</i>    | ----             | ----               | -0.0003<br>(-0.43) | ----               | ----               | -0.0010<br>(-0.81) |
| <i>Industry Relatedness</i> | ----             | ----               | ----               | -0.0023<br>(-1.27) | ----               | -0.0021<br>(-1.15) |
| <i>Target_HK</i>            | ----             | ----               | ----               | ----               | 0.0016<br>(0.72)   | 0.0007<br>(0.32)   |
| <i>Target_DEV</i>           | ----             | ----               | ----               | ----               | 0.0013<br>(0.61)   | 0.0029<br>(0.84)   |
| <i>Observations</i>         | 213              | 213                | 213                | 213                | 213                | 213                |

**B. (-2,2) Window**

| <b>Variables</b>                   | <b>(1)</b>       | <b>(2)</b>         | <b>(3)</b>         | <b>(4)</b>         | <b>(5)</b>         | <b>(6)</b>         |
|------------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b><i>Intercept</i></b>            | 0.0010<br>(0.51) | 0.0015<br>(0.72)   | 0.0011<br>(0.56)   | 0.0007<br>(0.37)   | 0.0002<br>(0.11)   | 0.0006<br>(0.20)   |
| <b><i>Go Global</i></b>            | 0.0000<br>(0.00) | -0.0001<br>(-0.03) | 0.0001<br>(0.05)   | -0.0002<br>(-0.08) | 0.0007<br>(0.32)   | 0.0005<br>(0.24)   |
| <b><i>Government Owned</i></b>     | ----             | -0.0008<br>(-0.56) | ----               | ----               | ----               | -0.0013<br>(-0.85) |
| <b><i>Cultural Distance</i></b>    | ----             | ----               | -0.0002<br>(-0.31) | ----               | ----               | 0.0010<br>(1.09)   |
| <b><i>Industry Relatedness</i></b> | ----             | ----               | ----               | 0.0006<br>(0.42)   | ----               | 0.0006<br>(0.39)   |
| <b><i>Target_HK</i></b>            | ----             | ----               | ----               | ----               | 0.0012<br>(0.68)   | 0.0014<br>(0.78)   |
| <b><i>Target_DEV</i></b>           | ----             | ----               | ----               | ----               | -0.0007<br>(-0.45) | -0.0034<br>(-1.29) |
| <b><i>Observations</i></b>         | 213              | 213                | 213                | 213                | 213                | 213                |

**C. (-3,3) Window**

| <b>Variables</b>                   | <b>(1)</b>         | <b>(2)</b>         | <b>(3)</b>         | <b>(4)</b>         | <b>(5)</b>         | <b>(6)</b>         |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b><i>Intercept</i></b>            | 0.0009<br>(0.57)   | 0.0013<br>(0.72)   | 0.0014<br>(0.88)   | 0.0009<br>(0.57)   | 0.0002<br>(0.11)   | 0.0013<br>(0.56)   |
| <b><i>Go Global</i></b>            | -0.0004<br>(-0.23) | -0.0004<br>(-0.25) | 0.0001<br>(0.06)   | -0.0004<br>(-0.21) | 0.0004<br>(0.25)   | 0.0003<br>(0.17)   |
| <b><i>Government Owned</i></b>     | ----               | -0.0005<br>(-0.45) | ----               | ----               | ----               | -0.0009<br>(-0.70) |
| <b><i>Cultural Distance</i></b>    | ----               | ----               | -0.0007<br>(-1.74) | ----               | ----               | -0.0005<br>(-0.61) |
| <b><i>Industry Relatedness</i></b> | ----               | ----               | ----               | -0.0001<br>(-0.08) | ----               | 0.0002<br>(0.17)   |
| <b><i>Target_HK</i></b>            | ----               | ----               | ----               | ----               | 0.0013<br>(0.85)   | 0.0008<br>(0.53)   |
| <b><i>Target_DEV</i></b>           | ----               | ----               | ----               | ----               | -0.0012<br>(-0.87) | -0.0005<br>(-0.22) |
| <b><i>Observations</i></b>         | 213                | 213                | 213                | 213                | 213                | 213                |

NOTE: Panels A-C report estimated regression equations upon which the results of TABLE 6 are based. The dependent variable is abnormal returns. The respective specifications include a constant term, a dummy variable for whether the event occurred during the Go Global period ( $D_{GoGlobal}$ ) and, in some cases, one or more control variables. Values in parenthesis are Z-statistics. Coefficients and standard errors (and associated Z-statistics) are calculated from Equations (11) and (13) in the text.



**APPENDIX TABLE A.3**  
**Analysis of the Effect of “Go Global” on Targets: Aggregated Sample**

**A. (-1,1) Window**

| <i>Variables</i>            | <i>(1)</i>       | <i>(2)</i>         | <i>(3)</i>       | <i>(4)</i>         | <i>(5)</i>         | <i>(6)</i>         |
|-----------------------------|------------------|--------------------|------------------|--------------------|--------------------|--------------------|
| <i>Intercept</i>            | 0.0106<br>(4.20) | 0.0111<br>(4.29)   | 0.0096<br>(3.57) | 0.0141<br>(5.31)   | 0.0164<br>(4.34)   | 0.0595<br>(4.46)   |
| <i>Go Global</i>            | 0.0118<br>(3.53) | 0.0120<br>(3.57)   | 0.0104<br>(2.89) | 0.0152<br>(4.44)   | 0.0101<br>(2.79)   | 0.0140<br>(3.78)   |
| <i>Government Owned</i>     | ----             | -0.0045<br>(-0.91) | ----             | ----               | ----               | -0.0065<br>(-1.28) |
| <i>Cultural Distance</i>    | ----             | ----               | 0.0012<br>(1.06) | ----               | ----               | -0.0113<br>(-2.73) |
| <i>Industry Relatedness</i> | ----             | ----               | ----             | -0.0157<br>(-4.39) | ----               | -0.0166<br>(-4.34) |
| <i>Target_HK</i>            | ----             | ----               | ----             | ----               | -0.0072<br>(-1.94) | -0.0457<br>(-3.53) |
| <i>Target_DEV</i>           | ----             | ----               | ----             | ----               | -0.0176<br>(-2.48) | -0.0488<br>(-4.12) |
| <i>Observations</i>         | 159              | 159                | 159              | 159                | 159                | 159                |

**B. (-2,2) Window**

| <i>Variables</i>            | <i>(1)</i>       | <i>(2)</i>         | <i>(3)</i>         | <i>(4)</i>         | <i>(5)</i>         | <i>(6)</i>         |
|-----------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <i>Intercept</i>            | 0.0116<br>(5.91) | 0.0121<br>(6.04)   | 0.0123<br>(5.89)   | 0.0129<br>(6.30)   | 0.0109<br>(3.72)   | 0.0392<br>(3.80)   |
| <i>Go Global</i>            | 0.0058<br>(2.24) | 0.0059<br>(2.29)   | 0.0068<br>(2.44)   | 0.0071<br>(2.68)   | 0.0068<br>(2.40)   | 0.0087<br>(3.04)   |
| <i>Government Owned</i>     | ----             | -0.0047<br>(-1.22) | ----               | ----               | ----               | -0.0068<br>(-1.73) |
| <i>Cultural Distance</i>    | ----             | ----               | -0.0009<br>(-0.98) | ----               | ----               | -0.0082<br>(-2.56) |
| <i>Industry Relatedness</i> | ----             | ----               | ----               | -0.0061<br>(-2.20) | ----               | -0.0046<br>(-1.55) |
| <i>Target_HK</i>            | ----             | ----               | ----               | ----               | 0.0012<br>(0.42)   | -0.0247<br>(-2.47) |
| <i>Target_DEV</i>           | ----             | ----               | ----               | ----               | -0.0077<br>(-1.39) | -0.0287<br>(-3.13) |
| <i>Observations</i>         | 159              | 159                | 159                | 159                | 159                | 159                |

**C. (-3,3) Window**

| <b>Variables</b>                   | <b>(1)</b>       | <b>(2)</b>         | <b>(3)</b>         | <b>(4)</b>         | <b>(5)</b>         | <b>(6)</b>         |
|------------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b><i>Intercept</i></b>            | 0.0095<br>(5.70) | 0.0101<br>(5.98)   | 0.0103<br>(5.86)   | 0.0106<br>(6.13)   | 0.0077<br>(3.12)   | 0.0299<br>(3.42)   |
| <b><i>Go Global</i></b>            | 0.0034<br>(1.57) | 0.0036<br>(1.66)   | 0.0047<br>(2.00)   | 0.0046<br>(2.05)   | 0.0048<br>(2.01)   | 0.0065<br>(2.68)   |
| <b><i>Government Owned</i></b>     | ----             | -0.0063<br>(-1.93) | ----               | ----               | ----               | -0.0081<br>(-2.44) |
| <b><i>Cultural Distance</i></b>    | ----             | ----               | -0.0011<br>(-1.47) | ----               | ----               | -0.0063<br>(-2.33) |
| <b><i>Industry Relatedness</i></b> | ----             | ----               | ----               | -0.0054<br>(-2.31) | ----               | -0.0039<br>(-1.55) |
| <b><i>Target_HK</i></b>            | ----             | ----               | ----               | ----               | 0.0025<br>(1.03)   | -0.0174<br>(-2.05) |
| <b><i>Target_DEV</i></b>           | ----             | ----               | ----               | ----               | -0.0055<br>(-1.19) | -0.0222<br>(-2.85) |
| <b><i>Observations</i></b>         | 159              | 159                | 159                | 159                | 159                | 159                |

NOTE: Panels A-C report estimated regression equations upon which the results of TABLE 8 are based. The dependent variable is abnormal returns. The respective specifications include a constant term, a dummy variable for whether the event occurred during the Go Global period ( $D_{GoGlobal}$ ) and, in some cases, one or more control variables. Values in parenthesis are Z-statistics. Coefficients and standard errors (and associated Z-statistics) are calculated from Equations (11) and (13) in the text.